

M&A Activity Update - H1 2023



Middle Market Observations

M&A activity across the US middle market is reflected in the broader Irish environment

Capstone Partners; US Observations



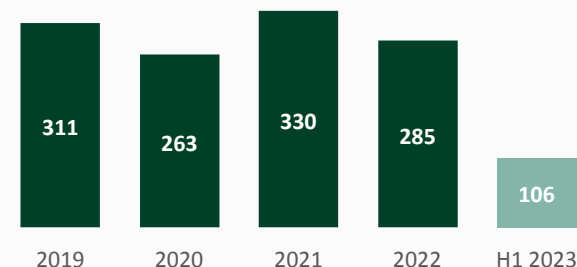
- Middle market M&A volumes declined in Q1 of 2023 as macroeconomic headwinds and a challenging economic environment facilitated caution amongst buyers and sellers
- While buyers have demonstrated increased selectivity, quality companies with strong margin profiles have continued to command premium valuations
- Buyers have increasingly moved down market, targeting lower and core middle market businesses to conserve cash and maximise return on investment
- Elevated private equity fundraising is expected to support heightened sponsor activity throughout 2023

Key Capital; Ireland Observations

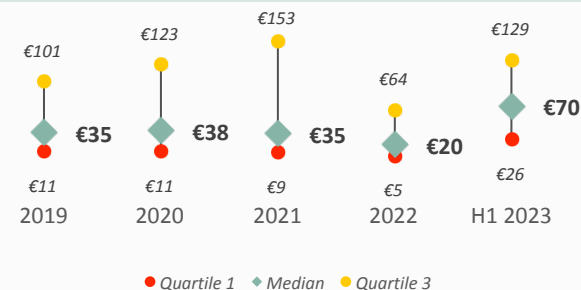


- M&A activity levels through H1 of 2023 totalled 106 completed transactions at a combined reported transaction value of €2.5bn, representing a 45% fall off YoY and down an average of 40% when compared to the same period across each of the trailing 4-years. This is a result of caution from buyers and sellers given the current economic environment
- A flight to quality and focused deal making reflects the current appetite of buyers. However, Ireland remains a strong and robust M&A environment, illustrated by high levels of activity in recent years and an uptick in cross-border transactions (71% of all deals in 2022 and H1 of 2023 compared to 63% in 2019). A continued focus on attractive business models with strong margins and growth potential is expected to continue
- Transactions in Ireland have historically been concentrated in the lower end of the middle market as a result of Ireland's economic dynamics, which is illustrated by 70% of completed deals falling below deal values of €50m and median valuations ranging from €20m to €70m between 2019 and H1 2023. This trend is expected to continue
- Strategic consolidators have been the most prominent buyers in the market, however financial buyers have remained consistently active accounting for an average of 18% between 2019 and H1 2023. High levels of buyout dry powder across European private equity funds (over €220bn) and increasing is likely to further elevate activity from financial acquirers

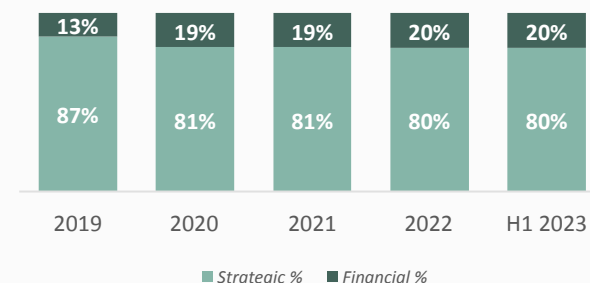
Irish M&A: Transaction Volumes



Irish M&A: Median Transaction Size (€'m)



Irish M&A: Transaction Volume by Buyer Type



Source: Cap IQ



M&A Middle Market Comparisons US vs. Ireland

Key factors driving M&A in Ireland have sustained activity levels despite the presence of economic headwinds

Factor	Current Status	Takeaways for Business Owners
Dry Powder	   Abundant	<ul style="list-style-type: none"> Private equity firms remain armed with vast resources of dry powder to deploy toward platform and add-on acquisitions. Prioritisation of add-on deals bodes well for mid-market business owners seeking a liquidity event, especially as sponsors have replenished dry power through elevated fundraising
	   Abundant	<ul style="list-style-type: none"> Like US, EU and UK private equity houses, Irish funds raised significant war chests in the trailing 3-to-4-year period. While private equity has been significantly more cautious as of late, there continues to be a strong appetite for bolt on opportunities and it is only a matter of time before platform deal volumes rises
Buyer Appetite	   Selective	<ul style="list-style-type: none"> Strategic buyers have become increasingly selective in their acquisition targets, focusing on quality, profitable business with strong margin profiles. The current M&A market has predominantly consisted of smaller transaction, evidenced by a decline in average deal value through Q1 of 2023
	   Cautious	<ul style="list-style-type: none"> Buyers are focusing their efforts on specific opportunities rather than chasing multiple targets at once, and there has been flight to quality amongst investors and consolidators. The drive for growth in a challenging economic environment has also been a catalyst for transactions
Debt Markets	   Tightening	<ul style="list-style-type: none"> Debt capital remains available despite a difficult lending environment. However, middle market businesses looking to secure debt capital may need to engage a broader universe consisting of multiple lenders as the elevated cost of credit has complicated debt placements
	   Remain Open	<ul style="list-style-type: none"> The cost of debt has increased resulting in a knock-on effect that has depressed valuations; however, banks and debt-funds remain open for business and are keen to engage with borrowers. We have seen positive momentum across both trade and sponsor-backed transactions
Valuations	   Compressed	<ul style="list-style-type: none"> Although M&A valuation have compressed in Q1 of 2023, quality business have continued to garner healthy multiples. The quarter-on-quarter rise in average EBITDA multiples may support price momentum in future quarters as sellers capitalise on the current transaction window ahead of a potential downturn
	 Return to Average	<ul style="list-style-type: none"> Buyers and sellers became accustomed to strong valuations in recent years, with the softening in 2022 suggesting a weaker market. In fact, the realignment in 2022 has seen valuation multiples return to long-term averages, with premium valuations continuing to be achievable for high-quality and well-bid assets

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+450

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\$2bn+

Value of transactions in Q1 2023

47

Volume of transactions in Q1 2023

32%

Cross-border transactions

