M&A INSIGHT
MERGERS, ACQUISITIONS, DIVESTITURES AND VALUATIONS FOR MIDDLE-MARKET COMPANIES

IN THIS EDITION
- Global M&A Commentary 3
- U.S. Private Equity Commentary 4
- U.S. Corporate Finance Commentary 5
- M&A Market Statistics 6
- Economic Commentary 8
- About Raymond James 9
- Raymond James Investment Banking Transactions 10
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Global M&A Market Commentary

HISTORICAL ANNUAL M&A ACTIVITY

Coming off a record year for M&A activity, total year-over-year ("Y-o-Y") M&A deal counts involving targets based in the U.S., Europe and Asia Pacific in 2022 decreased by approximately 18% when compared to the first quarter of 2021(1). M&A transaction volume and deal value to begin the year were both tempered by evolving economic circumstances, such as continued geopolitical conflict and contractionary monetary policy to address persistent inflation. Despite macroeconomic challenges, the current global M&A backlog remains active as various underlying market dynamics, such as corporate cash balances and private equity dry powder, remain above 2019 pre-pandemic levels(2).

HISTORICAL QUARTERLY M&A ACTIVITY

After concluding the best year on record when measured by both total deal value and volume, M&A activity declined sequentially in the first quarter of 2022. Across the U.S., Europe and Asia Pacific, sequential quarter-over-quarter announced M&A deal volume and value decreased by approximately 13% and 24%, respectively. Despite the dip from 2021, the first quarter of 2022 represented the third most active quarter to begin the year, when measured by total volume and value.

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(1) FactSet; number of transactions includes those with undisclosed values; includes transactions with disclosed values over $10MM; Data as of 03/31/22.
(2) Reuters.
U.S. PRIVATE EQUITY
COMMENTARY

U.S. private equity deal volume in the first quarter of 2022 decreased approximately 24% when compared to the same period a year ago. However, when measured by deal value during the same period, U.S. private equity activity observed an increase of approximately 1%. Despite an unfavorable Y-o-Y comparison when measured by deal count, Q1 2022 deal value and volume remained above historical quarterly averages – approximately 45% and 16%, respectively, since 2011[1]. Compositioally, deal sizes from $100M – $500M comprised 32% of total deal volume, representing a sequential quarter-over-quarter increase of approximately 2%. The same size range represented approximately 49% of total deal value, representing a sequential quarter-over-quarter increase of approximately 1%.

Median private equity buyout multiples in the first quarter of 2022 were unchanged at 14.6x when compared to 2021, but increased 1.9x from the first quarter of 2021. Median equity multiples increased 1.6x Y-o-Y, while median debt multiples increased only 0.3x during the same period, as plateauing leverage levels drove buyout firms to fund increased purchase prices with incremental equity. Notwithstanding the present market conditions, buyout multiples remained higher, as a large number of “mega-funds” continue to deploy dry powder. Prevailing market sentiment also suggests funds will continue to raise capital at an accelerated rate, invariably leading to increased M&A activity for both add-ons and new platforms[1].

(1) PitchBook, “US PE Breakdown”. Data as of 03/31/22.
U.S. CORPORATE FINANCE COMMENTARY

The U.S. fixed income markets experienced the worst first quarter performance in the past 40 years, as the Fed attempted to balance a dual mandate of price stability and maximum sustainable employment(4). Investor focus has been predominantly concerned with the former (price stability), as the Fed’s hawkish messaging suggests the Committee will continue to raise rates throughout the course of the year (and beyond), despite volatility observed in both capital and fixed income markets. Towards the end of the quarter, market confidence continued to wane as investors evaluated the prospect of a market slowdown; the U.S. two-year to 10-year yields briefly inverted, indicating a higher “risk-off” environment in the near term. Empirically, an inverted yield curve has been a strong leading indicator for a recession, with the U.S. yield curve inverting prior to every recession since 1955(5).

U.S. real GDP growth, historically an indicator of M&A activity and a barometer for overall economic health, is estimated to have decreased at an annualized pace of 1.4% in Q1 2022, which represents a decrease Y-o-Y as GDP expanded 6.3% in Q1 2021. The decrease in Q1 2022 GDP reflected decreases in private inventory investment, exports, federal government spending and state and local government spending. Real personal spending, which accounts for approximately 70% of GDP, had a positive impact on growth, increasing 2.7% in the first quarter of 2022. However, the consumer price index for gross domestic purchases increased 7.8%. The real GDP decline in Q1 2022 is the first time GDP has not registered positive growth since the onset of the pandemic, when Q1 2020 real GDP contracted 5.1%.

(1) U.S. Bureau of Economic Analysis. Data as of 03/31/22.
(2) Factset.
(3) GDP growth based on 2012 dollars.
(4) BNY Mellon.
(5) Reuters.
M&A Market Statistics

Consideration Offered in U.S. M&A Transactions\(^{(1)(2)}\)

<table>
<thead>
<tr>
<th></th>
<th>Cash</th>
<th>Combination</th>
<th>Stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>1Q'20</td>
<td>76%</td>
<td>15%</td>
<td>9%</td>
</tr>
<tr>
<td>2Q'20</td>
<td>65%</td>
<td>23%</td>
<td>12%</td>
</tr>
<tr>
<td>3Q'20</td>
<td>68%</td>
<td>19%</td>
<td>13%</td>
</tr>
<tr>
<td>4Q'20</td>
<td>67%</td>
<td>21%</td>
<td>13%</td>
</tr>
<tr>
<td>1Q'21</td>
<td>54%</td>
<td>28%</td>
<td>15%</td>
</tr>
<tr>
<td>2Q'20</td>
<td>63%</td>
<td>22%</td>
<td>15%</td>
</tr>
<tr>
<td>3Q'21</td>
<td>76%</td>
<td>18%</td>
<td>9%</td>
</tr>
<tr>
<td>4Q'21</td>
<td>73%</td>
<td>14%</td>
<td>8%</td>
</tr>
<tr>
<td>1Q'22</td>
<td>78%</td>
<td>14%</td>
<td>15%</td>
</tr>
</tbody>
</table>

U.S. Median Quarterly EBITDA Multiples\(^{(1)}\)

<table>
<thead>
<tr>
<th></th>
<th>Median EBITDA Multiples</th>
</tr>
</thead>
<tbody>
<tr>
<td>1Q'20</td>
<td>10.8x</td>
</tr>
<tr>
<td>2Q'20</td>
<td>12.6x</td>
</tr>
<tr>
<td>3Q'20</td>
<td>11.5x</td>
</tr>
<tr>
<td>4Q'20</td>
<td>12.4x</td>
</tr>
<tr>
<td>1Q'21</td>
<td>13.2x</td>
</tr>
<tr>
<td>2Q'21</td>
<td>14.9x</td>
</tr>
<tr>
<td>3Q'21</td>
<td>14.2x</td>
</tr>
<tr>
<td>4Q'21</td>
<td>14.0x</td>
</tr>
<tr>
<td>1Q'22</td>
<td>12.2x</td>
</tr>
</tbody>
</table>

Average Size of U.S. M&A Transactions\(^{(1)(2)}\)

<table>
<thead>
<tr>
<th></th>
<th>Average Disclosed Value ($MM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$600</td>
</tr>
<tr>
<td>2018</td>
<td>$785</td>
</tr>
<tr>
<td>2019</td>
<td>$914</td>
</tr>
<tr>
<td>2020</td>
<td>$831</td>
</tr>
<tr>
<td>2021</td>
<td>$859</td>
</tr>
<tr>
<td>1Q'20</td>
<td>$1,221</td>
</tr>
<tr>
<td>1Q'22</td>
<td>$869</td>
</tr>
</tbody>
</table>

U.S. Private Equity Fundraising\(^{(3)}\)

<table>
<thead>
<tr>
<th></th>
<th>Capital raised ($B)</th>
<th>Fund count</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$507</td>
<td>1Q'21</td>
</tr>
<tr>
<td>2018</td>
<td>$463</td>
<td>97</td>
</tr>
<tr>
<td>2019</td>
<td>$522</td>
<td>98</td>
</tr>
<tr>
<td>2020</td>
<td>$541</td>
<td>541</td>
</tr>
<tr>
<td>2021</td>
<td>$313</td>
<td>507</td>
</tr>
<tr>
<td>1Q'22</td>
<td>$88</td>
<td>$65</td>
</tr>
</tbody>
</table>

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\(^{(1)}\) FactSet; data as of 03/31/22.  
\(^{(2)}\) Includes transactions with disclosed values over $10MM.  
\(^{(3)}\) PitchBook, “US PE Breakdown”. Data as of 03/31/22.
1Q’22 Cross Border M&A Deal Activity(1)

(1) Source: FactSet; number of transactions includes those with undisclosed values; includes transactions with disclosed values over $10MM. Data from 01/01/22 – 03/31/22.
Economic Commentary

Eugenio J. Alemán, Ph.D. June 10th, 2022
Chief Economist, Private Client Group

It's All About Inflation

The consumer price index report published on June 10th was not a good one for Americans, for the stock market, and for the Federal Reserve (“Fed”). This report will increase the pressure on the Fed to do what is needed to bring inflation down at (any?) cost. However, the increase in the consumer price index (“CPI”) on a year-over-year basis was also accompanied by a decline in the year-over-year number for the core CPI number, that is, the number that excludes items like food and energy, which are very volatile. The core CPI number is the one that the Fed looks at closely to gauge what is happening to overall inflation and that number was just a bit better than in April.

The US has enjoyed low and relatively stable inflation for so many years that we seem to take low inflation for granted. In fact, many economists argued for many years that, because of our aging population and the slowdown in population growth, the US economy would follow the path of the Japanese economy with very low inflation and very low rates of economic growth. Many even argued that high inflation was something we would never see again.

Others argued that our rate of inflation was too low for comfort, approaching zero or even negative rates, i.e., deflation, during some periods. In fact, monetary policy over the last several decades had to be retooled for the new normal of very low inflation and very low interest rates with what has been called the ‘zero-lower-bound.’ As ex-chairman of the Federal Reserve Ben Bernanke indicated in a 2017 Brookings Institution article “…the scope for rate cuts is limited by the fact that interest rates cannot fall (much) below zero, as people always have the option of holding cash, which pays zero interest, rather than negative-yielding assets. When short-term interest rates reach zero, further monetary easing becomes difficult and may require unconventional monetary policy, such as large-scale asset purchases (quantitative easing).”

What About Stagflation?

We have also heard a lot about stagflation lately. We even heard a presumed ‘expert investor’ saying that we are in a ‘hyperinflationary’ scenario, something that is ludicrous. Talking about hyperinflation makes no sense, not only because inflation today is ‘just’ 8% but also because hyperinflation is a very particular event and the conditions for it to become a reality are such that it is almost impossible for it to happen in the US.

But what about stagflation? Stagflation is what happened during the 1970s and early 1980s. The US economy beat stagflation during the tenure of Fed Chairman Paul Volcker by raising interest rates very high and sending the US economy into a severe recession. Stagflation is the combination of stagnant economic growth plus high inflation, thus the term ‘stagflation.’ How close are we to stagflation today? Not close at all.

On this call we politely disagree with the ex-Chairman of the Federal Reserve, Ben Bernanke, who has been doing the ‘new book’ selling round and has been saying that a stagflation environment is possible. For stagflation to be an alternative, inflation needs to become entrenched.

That is, future or long-term inflationary expectations need to become unanchored. And this is not happening today. We are not saying that this may not happen in the future, but it is not true today. What we are saying is that under current conditions, stagflation is not a feasible outcome today.

Summary of the week

Initial Jobless Claims: Initial jobless claims is one of the most watched employment numbers and is the only employment number that comes out on a weekly basis. Thus, this is a good gauge of what is happening in the US economy in real time. The seasonally adjusted number of initial jobless claims was 229,000 for the week ending June 4, an increase of 27,000 from the previous week's revised number of 202,000. The four-week moving average was 215,000, up 8,000 from the previous week's revised number of 207,000. The insured unemployment rate, that is, the current number of people receiving unemployment insurance as a percentage of the labor force, was 0.9% for the week ending on May 28, 2022, unchanged from the previous week. Initial jobless claims give, perhaps, the most up-to-date view of the conditions of the labor market. Although this measure has been slowly trending up, it is still close to record low levels.

Consumer Sentiment: The preliminary consumer sentiment number was at a record low in May and could point to potentially slower consumer demand (which is what the Fed is trying to accomplish) coming into focus for the US economy. The preliminary University of Michigan Consumer Sentiment number decreased to 50.2, a 14% decline from May. This number was the lowest recorded value, even lower than the level reached during the 1980 recession. All of the components of the Index were lower in May, with the year ahead outlook in business conditions worsening, down 20% with 46% of consumers attributing their negative views to inflation. Consumer sentiment continued its downward trajectory, reflecting a strongly negative view of higher prices. The Consumer Sentiment Index dropped below the level achieved during the 1980 recession and is a reminder of how inflation is impacting consumers’ view of the future.

Source: Raymond James Weekly Economics, “Thoughts of the Week” Link.
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Raymond James Recent Advisory Transactions (01/01/22 – 03/31/22)

March 2022

**XPO Logistics Intermodal Division**
- Has been acquired by STG Logistics
- A portfolio company of Webpoint Partners
- $170,000,000

March 2022

**C3 Financial**
- Has entered into a definitive agreement to acquire certain assets of Eaton Vance WaterOak Advisors, formerly Eaton Vance Investment Counsel ("EVIC") Division from Morgan Stanley Investment Management

March 2022

**KNEIP**
- Has entered into a definitive agreement to be acquired by Deutscher Börse Group

March 2022

**Home Bancorp Inc.**
- Has acquired Friendswood Capital Corporation, a parent company of Texan Bank

March 2022

**BROAD SKY**
- Has acquired a minority stake in Fair Harbor

March 2022

**CIH**
- Has been acquired by Falfurrias Capital

March 2022

**Seeligson**
- A portfolio company of Lerner Capital
- Has been acquired by Ares Management
- A portfolio company of Oaktree

March 2022

**healthSavings**
- A portfolio company of BluffPoint Associates
- Has sold its HSA accounts to HealthEquity

March 2022

**Urgent Care Group**
- Has been acquired by Total Access Urgent Care, a portfolio company of KKR

March 2022

**ONEX**
- Has made a majority investment in res, a portfolio company of KKR

March 2022

**Warp Speed**
- Has acquired a minority stake in Warp Speed Interconnect, a portfolio company of BAE Systems

March 2022

**MAPCO**
- Has sold select convenience store assets to Circle K

March 2022

**SouthState**
- Has acquired Atlantic Capital

March 2022

**o.d.i.**
- A portfolio company of Fortin Capital
- Has been acquired by Apax

March 2022

**CAMELIA**
- Has acquired a majority stake in ILIA

March 2022

**Catalytic**
- Has entered into a definitive agreement to be acquired by PagerDuty

March 2022

**Epithemia Interconnect**
- A portfolio company of Riverside
- Has been acquired by LMP
- Lowell Financial Partners

February 2022

**RAPIDRATINGS**
- A portfolio company of LLR
- Has been recapitalized by Spectrum Equity
- 2C Capital

February 2022

**Globo Bioenergy**
- Has entered into a definitive agreement to receive a strategic investment from ExxonMobil

February 2022

**Pae**
- Has been acquired by amemtum, a portfolio company of LG

February 2022

**Tula Skin Care**
- A portfolio company of L Catterton
- Has been acquired by P&G

February 2022

**United Auto Credit**
- Has been acquired by Advania

February 2022

**VATTI**
- A portfolio company of Adels Equity
- Has entered into a definitive agreement to be acquired by Advania

Past performance is not indicative of future results.
Raymond James Recent Advisory Transactions (01/01/22 – 03/31/22)

February 2022
- STREETLIGHT DATA
  - Has been acquired by
    - Jacobs

February 2022
- reliant
  - Has been acquired by
    - Acumera
      - A portfolio company of
        - PEAK ROCK CAPITAL®

February 2022
- Financeit
  - Has been acquired by
    - WAFRA CAPITAL PARTNERS

January 2022
- 1st Constitution
  - Has been acquired by
    - Lakeland Bancorp, Inc.

January 2022
- Sero
  - A portfolio company of
    - Deutsche Beteiligungs AG
      - Has acquired

January 2022
- LoopMe
  - Has been acquired by

January 2022
- BIGTIME
  - A portfolio company of
    - Wavecrest
      - Has received an investment from
        - Vista

January 2022
- Network for Good
  - A portfolio company of
    - Camden Capital Partners
      - Beethoven

January 2022
- Horace Mann
  - Has acquired
    - Madison National Life Insurance Company
      - A Member of The BC Group

January 2022
- Montagu
  - Has acquired a strategic stake in
    - Waystone

January 2022
- Hunter
  - A portfolio company of
    - MidOcean Partners
      - Has been acquired by
        - Griffon

January 2022
- ANJAC
  - Health & Beauty
    - Has acquired
      - Apollo

January 2022
- Standard Security Life Insurance Company
  - A Member of the BC Group
    - Has been acquired by

January 2022
- Reliance Standard
  - A Member of the BC Group
    - United Community Banks, Inc.

Past performance is not indicative of future results.
Raymond James Recent Capital Market Transactions (01/01/22 – 03/31/22)

- **Apellis**
  - March 2022
  - Follow-on Offering
  - Lead Manager
  - $402,500,000

- **Argenx**
  - March 2022
  - Follow-on Offering
  - Co-manager
  - $805,000,000

- **ARBOR**
  - March 2022
  - Follow-on Offering
  - Active Bookrunner
  - $125,206,250

- **Veritex Community Bank**
  - March 2022
  - Follow-on Offering
  - Passive Bookrunner
  - $163,950,012

- **Safehold**
  - March 2022
  - Follow-on Offering
  - Co-manager
  - $118,000,000

- **KKR Real Estate Finance Trust**
  - March 2022
  - Follow-on Offering
  - Active Bookrunner
  - $135,273,249

- **Cohen & Steers Real Estate Opp. & Income Fund**
  - February 2022
  - Initial Public Offering
  - Active Bookrunner
  - $335,000,000

- **Zymeworks**
  - January 2022
  - Follow-on Offering
  - Lead Manager
  - $115,000,000

- **American HomesSource**
  - January 2022
  - Follow-on Offering
  - Passive Bookrunner
  - $900,450,000

- **Enviva**
  - January 2022
  - Follow-on Offering
  - Co-manager
  - $346,150,000

- **ARES Real Estate Co-Investment Program**
  - January 2022
  - Follow-on Offering
  - Passive Bookrunner
  - $239,680,000

- **VBOC**
  - January 2022
  - Initial Public Offering
  - Left Bookrunner
  - $86,250,000

Past performance is not indicative of future results.
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