QUARTERLY M&A MARKET UPDATE

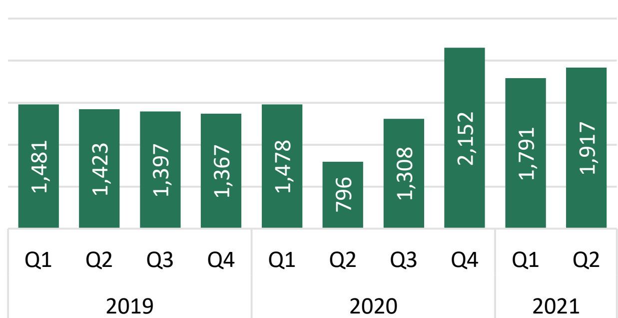
CBIZ Private Equity Advisory

Q2 2021 BY THE NUMBERS

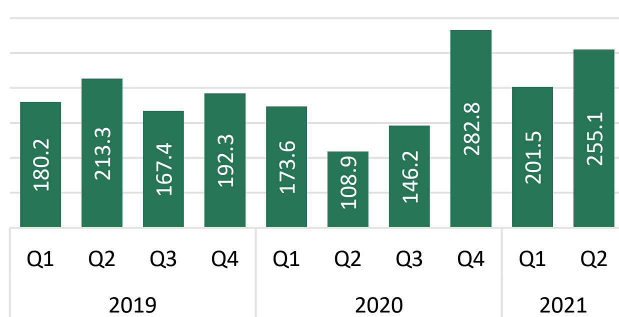
Q2 2021 deal activity continued at the feverish pace seen in the previous two quarters. As a result, deal activity through Q2 2021 is on track for a record-breaking year driven by continued economic recovery, low-cost debt, high levels of dry powder, and the possibility of a higher capital gains tax rate. Deal activity is bolstered by growing add-on/middle-market activity, with middle-market deals accounting for 64.8% of overall deal count in the first half of 2021— the highest annual proportion on record. Add-ons hit an all-time high of 74.5% of total middle-market deal volume in the first two quarters of 2021.

Deals Closed: 1,917 (QOQ ↑ 7%) Deals Closed Value: $255.1B (QOQ ↑ 27%) Fundraising: $91.1B (QOQ ↑ 3%)

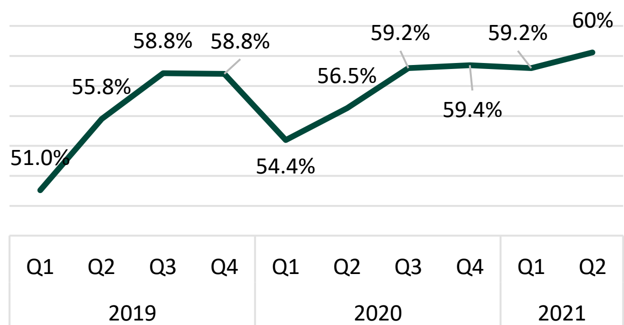
PE Deal Activity: Deal Count (#)



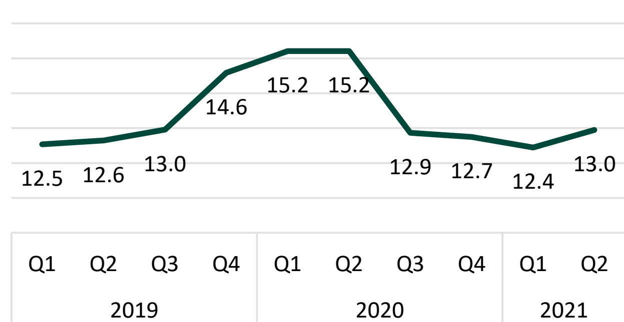
PE Deal Activity: Deal Value ($B)



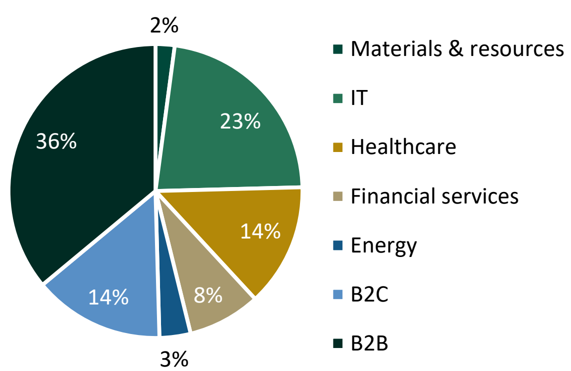
PE Add-On Activity (% of Deal Count)



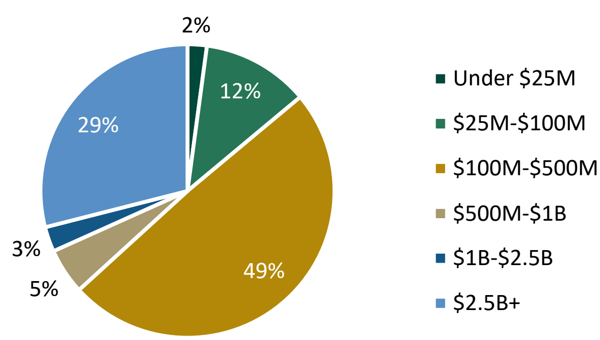
Median PE Buyout EV/EBITDA Multiples



PE Deals By Sector (#)



PE Deals By Size ($)



Source: PitchBook Data, Inc. US PE Breakdown

Spotlight: Supply Chains

The COVID-19 pandemic has highlighted many long-standing underlying vulnerabilities and risks of supply chains. Early in the pandemic, as countries closed their borders, shipments ground to a halt. As economies are reopening, bottlenecks within supply chains are driving up lead times and costs for critical raw materials. Business leaders are learning to deal with these ever-evolving challenges and the associated budget pressures, including cost-cutting and managing their working capital needs to maintain short-term efficiency and boost liquidity.

Companies are turning to outside experts to support supply chains in several ways:

- Establish and incorporate new key performance indicators (KPIs) to track real-time results and take corrective actions to moderate risk and optimize the operations of the business
- Attain cost visibility by establishing cost baselines (i.e., cost benchmarking and optimization recommendations)
- Update standard costs and implementing policies & procedures to address swings raw material costs
- Implement a supplier diversification programs

Private Equity & Deal Market Update

Q2 2021 represents the third consecutive quarter of both deal activity count and value at 10+ year highs. The increased activity and the outlook for the remainder of FY 2021 reportedly have investment bankers and other M&A service providers operating above capacity, resulting in bankers and service providers passing on opportunities that they would typically take on and extending the execution timelines on accepted projects.

IT and healthcare sectors continue to produce extremely strong deal activity. Both are poised for continued growth as IT sector opportunities include new remote work environment solutions, and investors continue to pursue healthcare consolidation plays.

Earnouts: Earnouts or variable consideration appear to have gained in popularity in recent periods. This trend seems to be, in part, to help mitigate exposure related to uncertainties created by the pandemic. Earnouts also help bridge valuation gaps by decreasing upfront cash consideration while providing for overall higher total valuations if companies can meet targeted growth objectives. However, in many cases, an inherent condition of the earnout is the continued involvement of the seller. Earnouts not only impact the timing of cash flows, but can also have material tax implications depending on the structure and their classification as purchase price consideration or post-close compensation.

PE Fundraising: Fundraising continued its positive trend in Q2 2021 with 207 funds raised totaling approximately $180 billion. This trend would put fundraising on pace for a 10+ year high. PE mega-funds ($5 billion+) continue to represent the largest group at 47% of total fundraising to value during year-to-date 2021, despite representing only 3% of new funds raised. Recent fundraising trends signal a potentially broader positive outlook for FY 2022, despite industry expectations of a slight downturn in deal activity in Q1 2022.

Tax Considerations: The current administration has proposed increasing the marginal capital gains tax rate from 20% to 39.6%. Although the proposal is still in negotiations, the proposed change has significantly contributed to the accelerated deal activity in 2021 as sellers race to close transactions before year-end. Even if the tax rate increase is postponed, abandoned, or applied retroactively, it is expected that much of the deal activity already underway will continue to conclusion given the time and effort investments being made to processes.

CBIZ PRIVATE EQUITY ADVISORY *BY THE NUMBERS*

250+
Deal Advisory Projects*

200+
Performance Management & Improvement Projects*

100+
Professionals

300+
Private Equity Fund Clients

1,500+
Portfolio Companies Served

*average on annual basis

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