



CHARTER

Capital Partners



Q1
2024

M&A Insights

Middle Market Private Equity

MIDDLE MARKET PRIVATE EQUITY MARKET UPDATE

Despite a decline in deal volume and value in Q1 2024, there remains optimism amongst dealmakers, fueled by a clearer macroeconomic outlook.

Middle Market Summary

The turbulent deal environment persisted from 2023 into Q1 2024, with both volume and value sustaining a downward trajectory, decreasing by 21.7% and 24.6% QoQ, respectively. While the outlook for rate decreases appears optimistic for the latter half of 2024, the higher costs of financing have contributed to a notable decline in LBO platform acquisitions, dwindling from 19.6% of all PE deals in 2023 to 19.0% of the share in Q1. This trend manifests in diminished leverage ratios, evident in the decline of the Debt/EV ratio to 45.1% in Q1 from the 45.7% recorded for the FY 2023, alongside a decrease in Debt/EBITDA ratio from the 10-year average of 5.6x to 5.1x in Q1. The perceived valuation gap further constrains PE firms' capacity to liquidate capital and pursue fresh platform acquisitions, as evidenced by the sequential decrease in exits from 207 to 171 QoQ.

Add-on acquisitions continue to serve as a focal point in the contemporary M&A market, constituting 75.9% of all buyout acquisitions during Q1. With the tight lending environment constraining PE sponsors' ability to engage in larger platform buyouts, add-on acquisitions emerged as manageable and cost-effective opportunities. In addition to add-ons, carveouts rose to represent 12.6% of all PE buyouts in Q1, presenting enticing opportunities for PE sponsors to utilize expertise in turnaround strategies to unlock value. Furthermore, an excess of major corporations endeavoring to divest underperforming assets has led to a profusion of opportunities for sponsors.

Middle Market Insights

While the middle market PE environment has witnessed consistent decreases in volume and value QoQ, the outlook for 2024 offers promising prospects for sponsor-backed M&A. Although Debt/EBITDA margins have declined from its 10-year average, the Q1 ratio of 5.1x represents an increase from the 4.9x observed in FY 2023. This trend indicates that PE firms are gradually aiming to return leverage ratios to more stable levels, which will ultimately increase the demand for typical LBOs and boost exit activity as the valuation gap decreases.

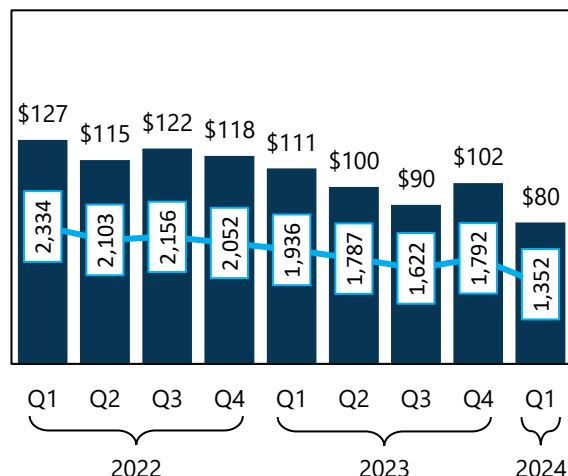
Source: Pitchbook

Note: PE Deal Volume and Deal Value data only includes private equity transactions and estimates closed prior to 3/31/24, middle market ("MM") defined as deal value \$500M and below, all figures are subject to change in future quarters.

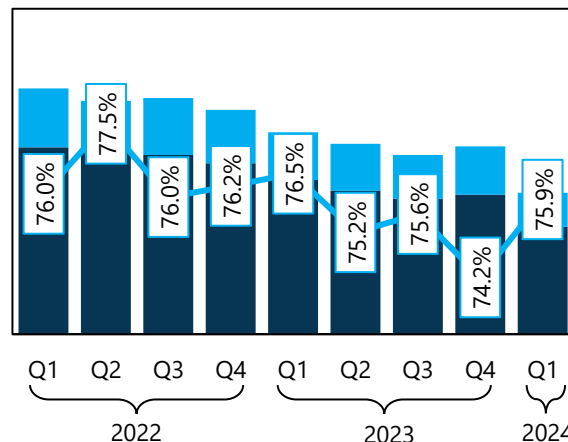
Q1 2024 Deal Activity

Volume:	1,352	-21.7%
Value:	\$80.1B	-24.6%

MM PE Deal Volume and Value (\$B)

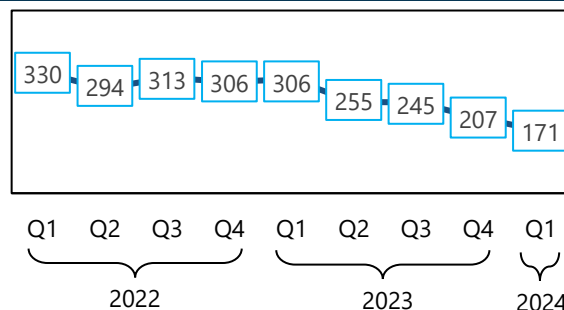


Add-Ons as Share of Buyouts (%)



■ Add-on ■ Non add-on — Add-on share of buyouts

MM PE Exits Count (#)





About Charter

Founded in 1989, Charter Capital Partners is a premier investment banking firm headquartered in Grand Rapids, Michigan. We offer a comprehensive range of investment banking advisory services, including buy-side and sell-side M&A, succession planning, business valuation, and capital raise.

Charter was named one of the top 100 most referred middle-market advisory firms in the US, according to a survey of 1,000 private equity firms, strategic acquirers, and family offices compiled by Axial, a network of middle market investors, advisors, and CEOs. Our mission is to deliver superior professional guidance throughout the complete business lifecycle.

Advisory Services Snapshot

Type	Expertise
M&A Advisory	<ul style="list-style-type: none">Go-to-market sell-side advisoryBuy-side growth strategiesExit planningFairness opinions
Capital Raise	<ul style="list-style-type: none">Equity or debt capital raiseDividend recapitalizationSolvency opinionsMinority investors
Valuation Opinions	<ul style="list-style-type: none">Buy-sell agreementsGift, estate, and income tax mattersShareholder disputesPurchase price allocations
Capital Management	<ul style="list-style-type: none">Licensed Fund ManagementRegistered Investment Advisers

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