



Q3
2023

MIDDLE MARKET PRIVATE EQUITY M&A TRENDS



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MARKET UPDATE

Amidst reduced PE exits, capital is being redirected to add-ons and growth investments, while a surge in middle market fundraising underscores a preference for smaller deal sizes.

Middle Market Summary

In Q3 of 2023, middle market deal flow experienced a notable slowdown, witnessing a substantial 25% decline in both volume and value. Firms continue to grapple with costly financing, limiting the amount of traditional platform acquisitions. Platform deals saw a 20.6% decline in value compared to the previous quarter. With the lack of platform acquisitions comes a loss of value in the market, reflected by the 18.1% drop in overall deal value in Q3. Such stagnate industry growth can be partly attributed to a slowdown in private equity exits, marked by a significant 21.3% decrease compared to Q2. Insufficient private equity exits have the potential to disrupt a typical fund's cash flow cycle and hurt the ability to drive value in transactions, which may deter firms from making costlier platform acquisitions. Despite the lack of return from exits, dry powder remains robust, resulting in firms continuing to deploy capital in smaller growth-centered deals and add-ons.

The middle market was a driver this quarter in fundraising efforts, contributing to 50.1% of total value of all private equity funds closed in 2023. Cumulatively, funds closed in 2023 have reached a total of \$121.2B. Investors are seeking safer investments than traditional mega funds, as smaller deals are more accessible to finance and quicker to close, such as add-ons and carveouts.

Middle Market Insights

Private credit has played a significant role funding LBOs. In support of LBOs, nonbank lenders originated an estimated \$46.8B in direct loans during the first half of 2023. This is important as firms will look to increase platform acquisitions in pursuing quarters once they liquidate current investments. Firms are also increasingly at ease with providing equity in a high-interest rate environment, with deal values reaching over approx. 50% in equity. The expectation in Q4 of 2023 and early next year is a resurgence in platform deals as traditional M&A underwriting sources rebound, firms become more comfortable in funding deals through increased equity, and private credit sources enabling increased leverage. Such a trend will hopefully encourage PE firms to liquidate positions, reinvest returns, and rebalance the cash flow cycle.

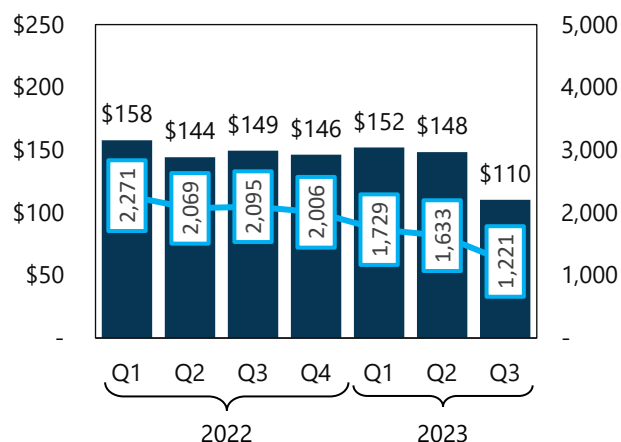
Source: Pitchbook

Note: PE Deal Volume and Deal Value data only includes private equity transactions and estimates disclosed as of 10/16/23, middle market ("MM") defined as deal value \$500M and below, all figures are subject to change in future quarters.

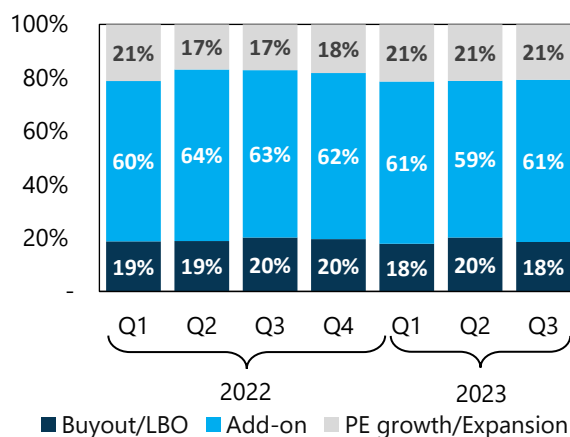
Q3 2023 MM Deal Activity

Volume:	1,221	-25.2%
Value:	\$110.2B	-25.7%

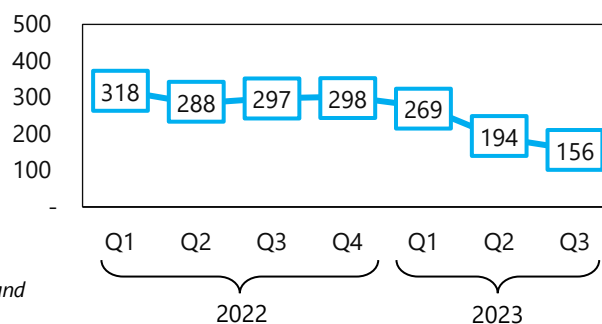
MM PE Deal Volume and Value (\$B)



PE Deal Count by Type (%)



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 advisory• Buy-side growth strategies• Exit planning• Fairness opinions
Capital Raise	<ul style="list-style-type: none">• Equity or debt capital raise• Dividend recapitalization• Solvency opinions• Minority investors
Valuation Opinions	<ul style="list-style-type: none">• Buy-sell agreements• Gift, estate, and income tax matters• Shareholder disputes• Purchase price allocations
Capital Management	<ul style="list-style-type: none">• Licensed Fund Management• Registered Investment Advisers

Broker dealer services offered through M&A Securities Group, Inc., Member FINRA/SIPC, a separate entity from Charter Capital Partners.



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