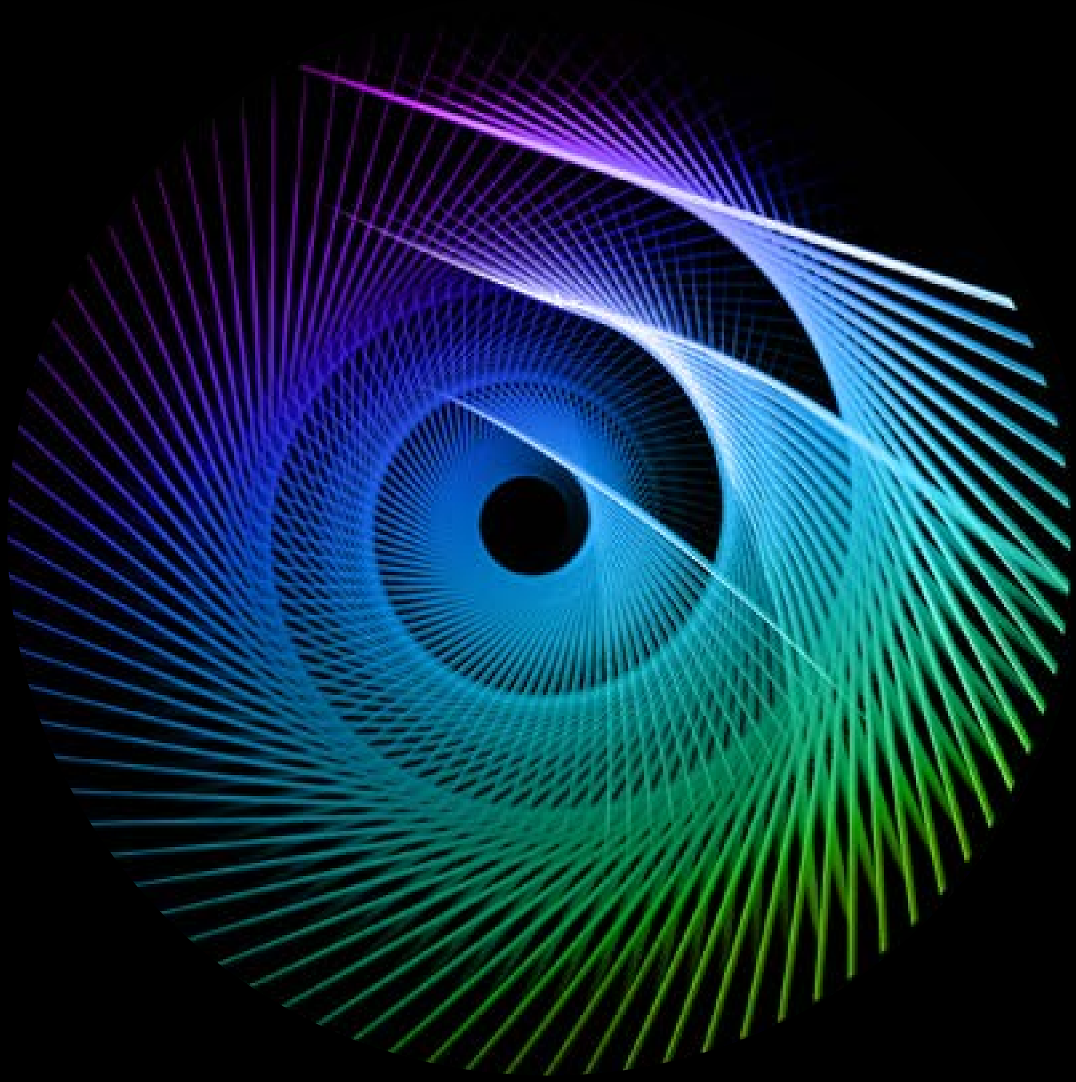
Deloitte.



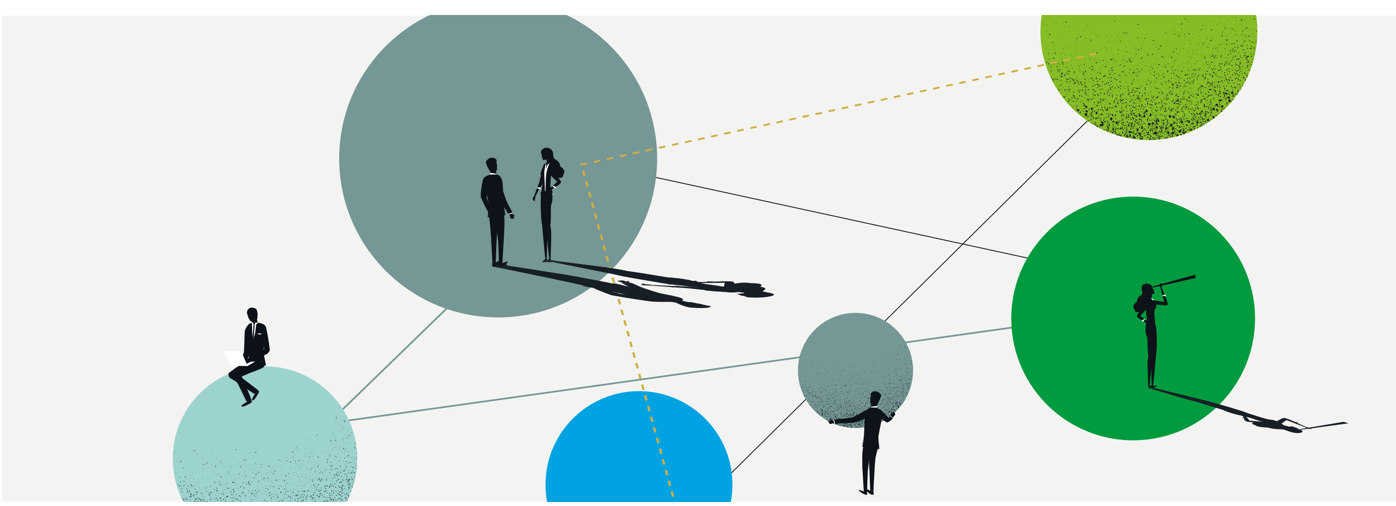
2022 year in review / 2023 industry outlook

2022 year in review

Following a year of record-breaking mergers and acquisitions (M&A) activity, the M&A market declined in 2022, more closely reverting to pre-pandemic historical levels. In the first half of the year, despite year-over-year declines in deal closings and a number of emerging headwinds, the US M&A market remained robust. For Deloitte Corporate Finance LLC (DCF), 2022 began promisingly, with a strong pipeline of private and family-owned clients who were eager to explore their options for liquidity as growth prospects and financial performance continued at record levels. However, as the year progressed, the market's outlook became less clear due to a myriad of factors. Inflation surged to levels not seen since the 1980s, prompting the Federal Reserve to increase the federal funds rate seven different times over the course of the year by a collective 425 basis points.[1] This, alongside other factors, led to tightened lending standards, more limited access to affordable financing from banks, and widespread public stock market volatility as companies' earnings were discounted at higher rates. Additionally, geopolitical tensions (the Russia-Ukraine conflict, US-China relations, regulatory deal scrutiny, etc.) continued to intensify and disrupt both the public and private markets. Further, forecasting and supply chain planning remained elusive amid the uncertainty, exacerbating supply chain issues and leading to difficult inventory and sales planning.

Despite this uncertainty, many of DCF's clients and prospects performed well throughout 2022, with a number of them achieving compelling liquidity events. Successful outcomes were largely driven by the fact that quality, recession-resistant, high-cash-flow assets continued to attract attention and premium valuations, as well as the prevalence of private equity (PE) groups focusing on scaling existing platforms via add-on acquisitions that typically commanded lower valuations. This is in contrast to sponsors acquiring new platforms at market-clearing prices, with deals declining 42.4% year over year through Q3.[2] Coming off a year of all-time highs for PE deal activity in 2021 (in terms of deal count and deal value), investors were still well equipped with $1.6 trillion in dry powder to execute deals,[3] helping to propel a healthy and competitive M&A market in the face of the shifting macroeconomic environment.

As we reflect on the past year and look forward to the future of M&A deal activity in 2023, it is important to recognize that our outlook remains cautiously optimistic. Despite the numerous macroeconomic- and company-specific headwinds that posed challenges to deal activity in 2022, through the Deloitte Touche Tohmatsu Limited network of member firms, Deloitte's global practices of more than 1,330 bankers across 120 offices completed more than 704 transactions. Many of our clients are continuing to find ways to innovate and adapt in this market landscape, and there continues to be a significant cash balance and alternative capital allocation dedicated to middle-market M&A. Moving forward, DCF will continue to provide insights into how leveraging a variety of M&A methods can help clients navigate uncertainty and adapt to this ever-changing world.



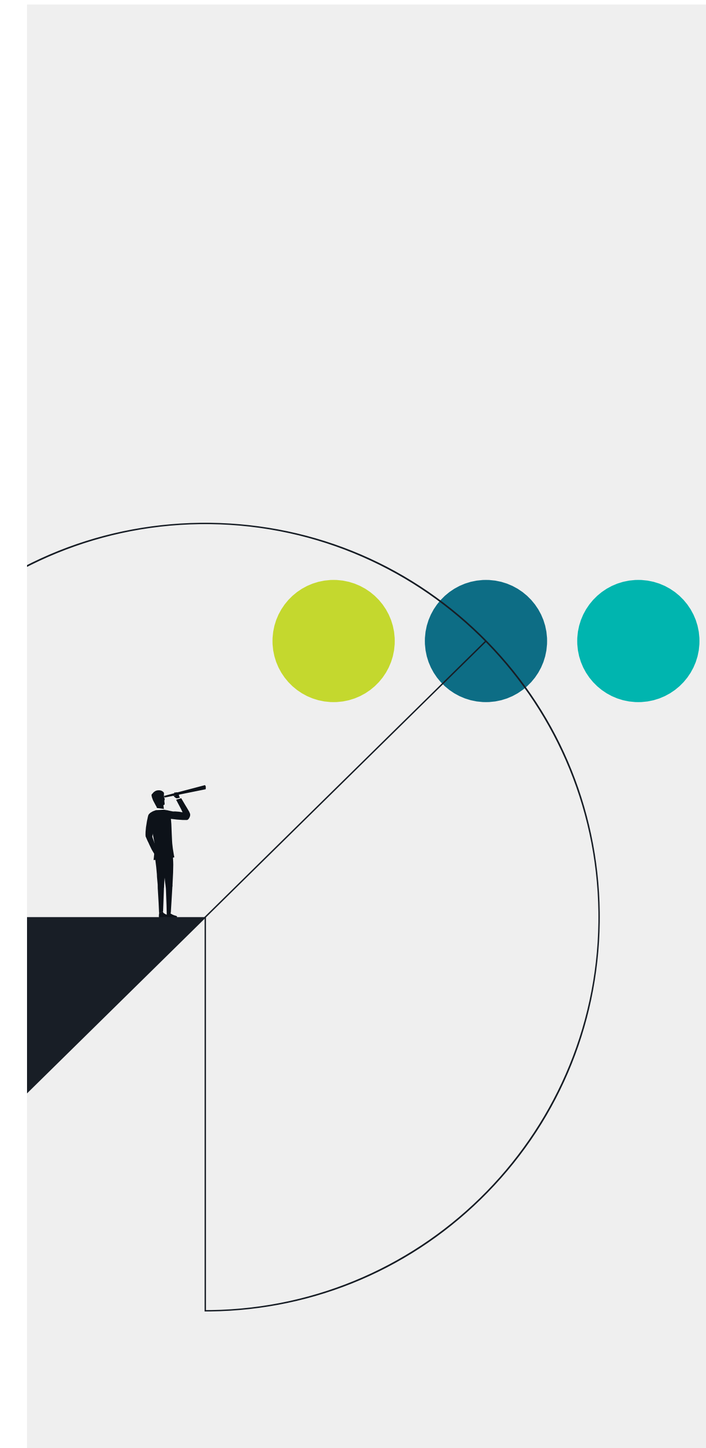
1. Board of Governors of the Federal Reserve System (FRB), "Open market operations," last updated February 1, 2023.
2. PitchBook, US PE breakdown: Q3 2022, October 2022.
3. Dylan Thomas, "Global private equity dry powder approaches $2 trillion," S&P Global Market Intelligence, December 21, 2022.

2023 outlook

As we look forward to the 2023 M&A outlook, we would be remiss not to reflect on DCF's recent performance. According to Mergermarket, DCF was recognized as the No. 1 financial advisor to global M&A activity in 2022 (as measured by deal count), completing 704 deals.[4] Despite having a near record-breaking year of deal activity, 2022 wasn't without trial, as it brought with it a large shift in market dynamics through which DCF had to quickly adapt. While 2021 M&A activity benefitted from low interest rates, a rebound from early pandemic-related turbulence, and high valuations, deal activity declined in 2022, driven by spiking inflation, rising interest rates, stock market volatility, and other macroeconomic uncertainty.

As 2023 begins, many of the drivers of uncertainty that presented themselves in the second half of 2022 are still present. However, there are also reasons to be optimistic about the opportunities for deal-making over the next year. While borrowing money is considerably more expensive today than it was a year ago, PE groups continue to sit on an unprecedented amount of dry powder that needs to be deployed. As valuations become increasingly attractive, PE deal activity is likely to grow. On top of this, the positioning of the United States relative to other countries could present an opportunity for US deal-makers in 2023. While macroeconomic uncertainty and inflation are currently present across the globe, the United States is believed to be better positioned than other industrialized countries, especially when it comes to the strength of the US dollar against other currencies. The relative strength of the US dollar could make cross-border transactions more attractive to US-based public and privately held companies with strong balance sheets, giving them more purchasing power to acquire attractive overseas targets. Additionally, recently introduced US legislation, such as the Inflation Reduction Act and Bipartisan Infrastructure Law, as well as record levels of foreign direct investment (FDI) that is flowing into the country (much of which is fueled by nearshoring initiatives), are likely to further stimulate economic growth, bolstering the need for companies to be nimble in their abilities to adapt and innovate.

While companies could face more hurdles in closing deals in 2023 than they may have during the surge of post-pandemic deal activity (i.e., less frothy valuations, increased scrutiny in due diligence, more cautious buyers, etc.), many private equity groups and strategic acquirors will still be looking for creative ways to deploy capital and execute upon their strategic plans. Therefore, in spite of the macroeconomic uncertainty, plenty of M&A opportunities are likely to exist for savvy buyers and sellers in 2023 and beyond.



4. ION Analytics, "M&A league tables 2022: Financial advisors," January 4, 2023.

Industry outlooks

Private equity

After record volume in 2021, private equity faced greater headwinds in 2022. We believe this shift was driven by interest rate spikes freezing the leveraged finance market, volatile debt and equity markets limiting exits, and significant geopolitical and operating uncertainty affecting existing investments and potential new investments. PE activity declined by 20% in 2022,[5] with value declining 35%.[6] Many of DCF's PE conversations in the second half of 2022 revolved around firms noting significantly less investment inventory availability.

In fact, secondary sales (the sale of a portfolio company to another private equity group), a frequently used exit route for private equity, totaled just $51.97 billion in 2022 (according to Preqin).[7] That was the lowest annual figure for PE-backed secondary sales since at least 2018.[8] According to PitchBook,[9] this was only the second time in 14 years that exit values failed to keep up with fundraising and new platform investments.

Despite declines in deal volume and activity, many private equity groups have started to adapt their investment strategies to better deploy capital until the financing market becomes more accommodative for large platform buyouts. In 2022, add-ons as a percentage of total buyouts increased nearly five percentage points from 72.8% in 2021 to 77.7%. In addition, growth equity investments increased, with these deals typically requiring limited to no debt.[10]

In a difficult and uncertain market environment, the valuation equilibrium between buyers and sellers necessary to consummate deals became much more elusive. We expect the beginning of 2023 to be a continuation of 2022 given the continued cloud of uncertainty. Until there is more clarity from the Federal Reserve on its continued battle to fight inflation and companies adjust to a new world in terms of costs and employee management, we expect deal inventory to remain tight while seller and buyer expectations remain divergent. That being said, we believe many companies that have been waiting on the sidelines will decide to pursue strategic alternatives in the latter part of the year, with private equity remaining a highly attractive option.

Debt markets

For private debt markets, 2022 was a year of transition. Despite a strong amount of activity in the first half of the year and another strong year of fundraising in the private debt markets, the second half of the year resulted in a slowdown as M&A wavered, underlying interest rates continued to rise, and market participants began to try to assess broader economic uncertainty. Despite the uncertainty, a significant amount of dry powder in the private debt market remains available to sustain an active market in 2023, should broader economic uncertainty subside.

In 2023, we expect private debt markets at the upper end of the market to remain active and continue to siphon opportunities from the broadly syndicated loan market. We also expect private lenders to continue to be active in the middle market, providing certainty of close and flexible solutions. Specifically, we anticipate private debt markets will likely be a ready solution for M&A activity. Platform acquisitions and add-on acquisitions are expected to be a continued feature of the market and will likely drive the lion's share of financing activity.

While we anticipate an active year for commercial banks and private lenders in the middle market, we also note that the current market dynamics have shifted the balance of power from borrowers to lenders as they have started to benefit from increased spreads, lower leverage, higher discounts (closing fees), and tightening credit terms. Specifically, relative to early 2021, credit spreads have increased in excess of 100 basis points (in addition to the base rate increases), leverage has decreased by approximately 1.0x–1.5x, average discounts (or closing fees) have more than doubled, and the average number of financial covenants has increased from one to two.[11] Many lenders have also managed risk by reducing hold sizes on deals, and we would anticipate seeing more club deals in the market in the near term.

Interest rates combined with economic uncertainty quickly surpassed the pandemic as the most relevant risk to the credit markets in 2022. These risks are expected to remain as long as inflationary pressures remain strong. Interest rates will continue to impact near-term cost of capital in 2023 as well as future refinancing transactions. While the economic uncertainty is expected to extend well into 2023, default rates remained subdued through 2022, and most lenders are actively monitoring portfolios, proactively addressing credit risks, and trying to be a good partner to their borrowers as they work through any challenges.

5. PitchBook, *2022 Annual US PE breakdown*, January 12, 2023.
6. Refinitiv, *Deal makers sentiment survey 2022*, accessed January 2023.
7. Dylan Thomas and Annie Sabater, "Private equity exits plummet in 2022," S&P Global Market Intelligence, January 10, 2023.
8. Ibid.
9. PitchBook, *2022 Annual US PE breakdown*.
10. Ibid.
11. KBRA Direct Lending Deals, "4Q 2022 insights and outlook," accessed February 2023.

2022 year in review / 2023 industry outlook

Life sciences and health care

US health care deal value declined 43.0% in 2022 relative to a record-breaking 2021, and average EV/EBITDA multiples declined 11.0%, from 15.2x in 2021 to 13.5x, as volatile capital markets and macroeconomic uncertainty reduced activity.[12]

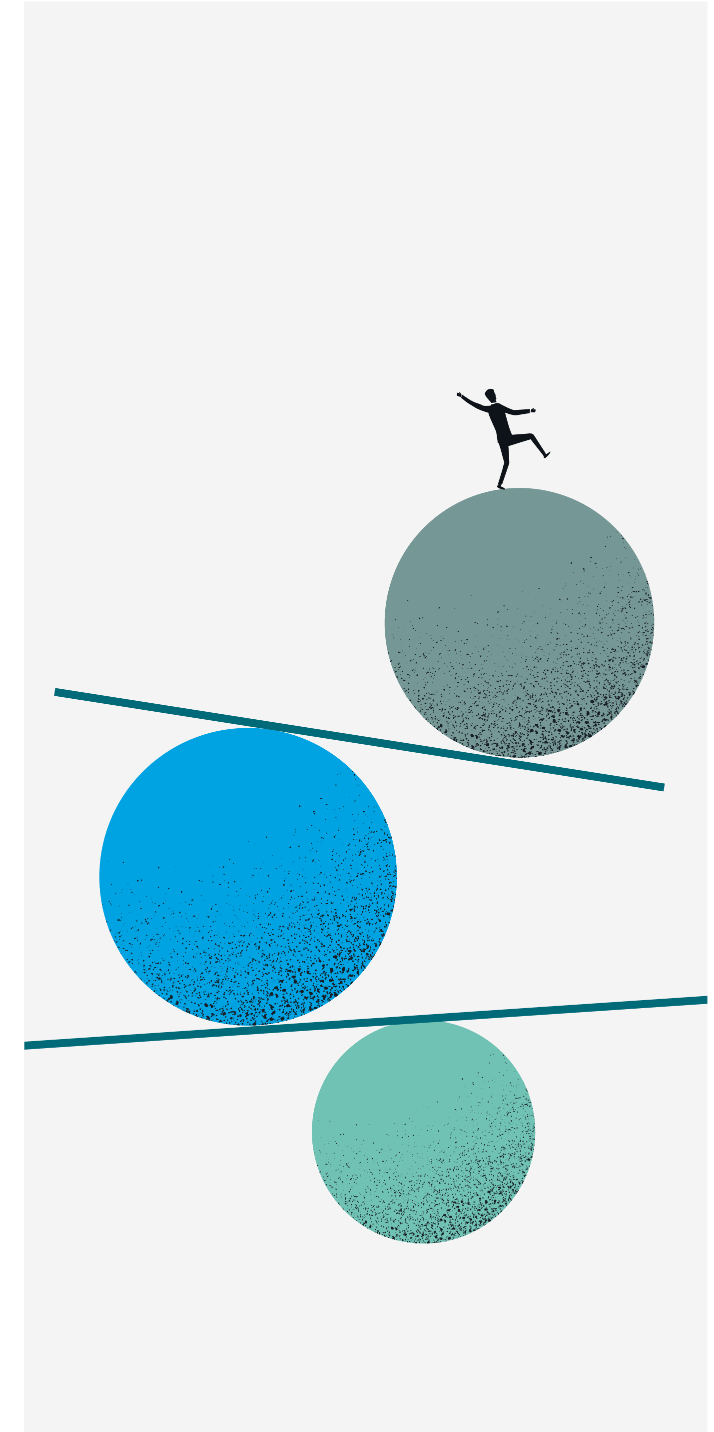
While many health care companies remain recession-resistant and continue to perform well, inflationary pressures and a tight labor market are creating some pressure on operating performance.

Though select high-quality assets continue to be sought after, some health care PE investors are facing lower leverage multiples at higher interest rates to finance transactions, challenging models for most platform acquisitions. Additionally, many have raised relatively new funds giving them time to wait things out. Meanwhile, many are focused on smaller, bolt-on acquisitions and growth investments. Longer term, health care PE investment will likely continue to be supported by ample dry powder, higher fund allocations to health care investments, and a strong track record of health care asset returns.

For many large health care corporations, the ongoing convergence of payors and providers helps enable platforms to rapidly expand through acquisitions while effectively managing the rising costs of delivering affordable health care.

M&A conditions should improve in 2023 as uncertainty around inflation and interest rate increases abate. We expect to see a dramatic increase in new deal launches from activity that was postponed beginning in 2022 focused on themes that include:

- Rising consumerization of health-related products and services.
- Value-based models that improve health outcomes and lower system costs.
- Continued consolidation of fragmented providers and services groups.
- Sustained utilization of telehealth and home-based health care services.
- Employer- and payor-directed health care alternatives.



12. Michelle F. Davis, "What top dealmakers expect to see this year in health-care M&A," Bloomberg, January 8, 2023; S&P Capital IQ, S&P 500 Health Care Sector Index, accessed February 2023.

Business and financial services

Human capital management

Human capital management was defined by a tight labor market in 2022, creating a mixed environment for business performance and transaction dynamics. The human capital management space in North America will likely continue to see mixed pressures into 2023 and beyond. Unemployment rates remain historically low, with the US labor participation rate stuck substantially below the 2020 peak of 63.3%.[13] Even as announced layoffs have increased through 2022 and into 2023, nonfarm payrolls continue to increase, underscoring the labor supply shortage.[14] It is, therefore, no surprise that talent managers anticipate obstacles in 2023.[15] Add to the supply-demand imbalance the evolving talent needs to address supply chain challenges, potential new prohibitions on noncompete agreements, and further normalization of the workforce as the global pandemic fades further into the rearview mirror, 2023 will likely (or should) be a dynamic environment creating substantial opportunity for managed solutions and staffing/recruitment providers to deliver significant value to clients across the economy.

Insurance services

2022's high inflation was a major driver of increasing insurance carrier costs; while inflation may moderate in 2023, carriers will still need to weather claims-related cost pressures from increased litigation frequency, broader liability exposure, and more favorable dispute outcomes for plaintiffs.[16] Add in the potential for increasing losses from catastrophic weather events, and insurance carriers have plenty of motivation to seek out differentiated talent, technology, and process to enhance their cost containment solutions. We believe the result is significant opportunity for insurtechs and outsourced insurance service providers to fill the void and grow despite any continued uncertainty about the direction of the broader economy. The businesses in this ecosystem will likely be looking to scale through acquisitions and key hiring initiatives amid a war on talent, with the most successful attracting and retaining their people with careful attention to their corporate culture and proactive investments into scalable infrastructure.

Legal support services

The legal services industry continues to evolve toward greater outsourced solutions and automation. In many ways, the pandemic acted as a catalyst for many businesses in the legal support space, as law firms and court systems were forced to operate remotely. Increasing sophistication of artificial intelligence (AI) tools will add to efficiency and effectiveness of document reviews and discovery services, though the jury is still out on the future of artificial legal assistants.[17] Outside of the very active domain of LegalTech, the process of dispute resolution will likely continue to mature in new areas. Litigation consulting services continue to grow rapidly as law firms and their clients look for every edge when the stakes are highest; these capabilities exist within law firms, but outsourced specialists are effectively competing for the confidence of senior law partners and general counsels. The continued growth in legal actions and the constrained capacity of court systems should also yield increased growth in the alternative dispute resolution market.

13. FRED, Civilian Labor Force Participation Rate, January 2023.
14. US Bureau of Labor Statistics, Employment Situation Summary, January 6, 2023.
15. Staffing Industry Analyst, "85% of hiring managers anticipate obstacles to hiring in 2023," January 3, 2023.
16. Karl Hersch et al., *2023 insurance outlook*, Deloitte Insights, 2023.
17. Matthew Sparkes, "AI legal assistant will help defendant fight a speeding case in court," *New Scientist*, January 4, 2023.

Technology, media, and telecommunications

Following a record-breaking year for M&A in the technology, media, and telecommunications (TMT) sector, overall deal-making activity slightly decreased as the sector battled macroeconomic inflationary and recessionary pressures. However, the market response across TMT has been unequal, driven by the ubiquity of mission-critical applications and an overall change in user behaviors. For example, it has become imperative that enterprises reevaluate which solutions and services are mission critical versus those that are disposable in leaner times, and providers who have demonstrated this distinction have generally been rewarded.[18] Even so, many platform providers have faced pressure to "unbundle" features that are now being viewed as add-ons.

In the year ahead, large enterprises and small-size businesses alike will likely continue scrutinizing new investments that do not provide easily discernable economic benefits. However, while budgets may be tighter this year than in recent periods, pockets of TMT industries should remain highly resilient in the face of uncertainty. For instance, enterprises remain highly incentivized to invest in automation, AI/machine learning, hybrid cloud networking, and other initiatives for long-term cost efficiencies and scalability. By nature, this necessitates CFOs and CIOs to reevaluate the internal systems and channels that they are currently running – ensuring the best fit in terms of need and cost.[19]

Overall, we believe investor interest remains high within the sector both in volume and value and should remain near recent highs. Many new buyers entered the sector in earnest during the past few years' market acceleration, and we expect that activity will remain strong accordingly, despite some near-term headwinds.

Consumer

Consistent with other industries, the consumer sector was broadly affected by rising inflation throughout 2022 and the tightening of consumer spending. As inflation eased in Q4 2022, consumer spending intentions rebounded and consumers became less concerned about rising prices and delaying discretionary purchases.[20] In 2022, consumer staples companies outperformed in the face of economic headwinds, due to their recession resiliency and pricing power, and demand for essentials is expected to continue. Consumer discretionary spending will be dependent on inflation, employment trends, and broader economic conditions. The consumer industry is expected to follow general M&A trends, with significant capital available for high-quality acquisition opportunities, particularly those generating consistent cash flow.

Specifically for food and beverage producers, an increasingly congested retail shelf is rewarding differentiation and effective marketing. Clean label and traceability continue to be of importance, with innovative operators utilizing technology to build connections with consumers from the ingredient label. Retailers are expanding their private-label offerings as consumers search for value—operators should be strategic in utilizing private label as a growth opportunity while protecting brand equity.[21] The proliferation of AI will likely enable technological disruption, particularly in the fields of agricultural planning and supply chain management.

For the restaurant and retail sector, 2023 is expected to bring the continued digitization of the consumer shopping experience, with increased implementation of mobile ordering, self-service kiosks, and integrated delivery services. The consumer experience will be front of mind, and retailers will look to make the checkout experience as seamless as possible.

Industrials

We expect deal activity in 2023 to remain moderated in the first half of the year as buyers and investors remain cautious on the broader economic outlook, and to pick up in the second half of the year assuming there is clarity on the risk of a recession and the Federal Reserve's actions on interest rates. Inflation, volatile raw material costs, increased energy costs, skilled labor shortages, and supply chain disruptions are continuing to impact many businesses in the industrials sector, creating challenges for investors to underwrite an outlook with high confidence.

We expect investors and corporates to focus on key themes in 2023, some resulting from the aforementioned stressors, including:

- The clean energy transition, which we expect to be further bolstered by support from the Inflation Reduction Act.
- Automotive ecosystem consolidation, especially in the areas of alternative fuels, autonomy, and emerging technologies.
- The automation sector as demand remains strong driven by labor shortages and increased costs.
- Recession-resistant segments, such as consumer staples product packaging.
- Vertical integration and reshoring efforts to build supply chain resilience.

18. Grace Noto, "ROI focus ensures high-value tech stack: LearnUpon CFO," CFO Dive, December 15, 2022.
19. Sean McBride, "CFOs must face tech stack inflation by balancing priorities," CFO, August 11, 2022.
20. Anthony Waelter and Stephen Rogers, "State of the US consumer," Deloitte, January 30, 2023.
21. NACS, "Grocery stores up their private-label offerings," December 16, 2022.

Representative Deloitte Corporate Finance transactions in 2022

US Digital Designs, Inc.
has been acquired by the Building Technologies division of a publicly traded Industrial Conglomerate
The undersigned is acting as financial advisor to US Digital Designs, Inc.
Deloitte. Deloitte Corporate Finance LLC

ATI Studios A.P.P.S. SRL (d/b/a Mondly)
has been acquired by
Pearson plc
The undersigned acted as exclusive financial advisor to Mondly
Deloitte. Deloitte Corporate Finance LLC

Exigo, LLC
has completed a majority recapitalization
The undersigned acted as exclusive financial advisor to Exigo, LLC
Deloitte. Deloitte Corporate Finance LLC

iland Internet Solutions Corporation
has been acquired by
11:11 Systems, Inc.
a portfolio company of
Tiger Infrastructure Partners
The undersigned acted as exclusive financial advisor to iland Internet Solutions Corporation
Deloitte. Deloitte Corporate Finance LLC

NEC Corporation
has acquired
Blue Danube Systems, Inc.
The undersigned acted as exclusive financial advisor to NEC Corporation
Deloitte. Deloitte Corporate Finance LLC

Midwest Paper Group
a portfolio company of
Industrial Opportunity Partners
has been acquired by
McKinley Paper Company
The undersigned acted as exclusive financial advisor to Midwest Paper Group
Deloitte. Deloitte Corporate Finance LLC

S&S Truck Parts, LLC
has been acquired by
Investcorp Investment Advisors, LLC
The undersigned acted as exclusive financial advisor to S&S Truck Parts, LLC
Deloitte. Deloitte Corporate Finance LLC

ICM Controls, Inc.
has been acquired by
Lorraine Capital LLC
The undersigned acted as exclusive financial advisor to ICM Controls, Inc.
Deloitte. Deloitte Corporate Finance LLC

ATCO Industries, Inc.
has been acquired by
Aterian Investment Partners
The undersigned acted as exclusive financial advisor to ATCO Industries, Inc.
Deloitte. Deloitte Corporate Finance LLC

Catapult Print and Packaging, LLC
has sold a majority stake to
Quad-C Management, Inc.
The undersigned acted as exclusive financial advisor to Catapult Print and Packaging, LLC
Deloitte. Deloitte Corporate Finance LLC

Lafayette Steel Erector, Inc.
has been acquired by
Allegiance Crane & Equipment
a portfolio company of
WAFRA Capital Partners
The undersigned acted as exclusive financial advisor to Lafayette Steel Erector, Inc.
Deloitte. Deloitte Corporate Finance LLC

OTR Transportation, Inc.
has been acquired by
CIVC Partners, L.P.
The undersigned acted as exclusive financial advisor to OTR Transportation, Inc.
Deloitte. Deloitte Corporate Finance LLC

Cherry Street Energy, LLC
has completed a majority recapitalization with
EBSCO Capital, LLC
The undersigned acted as exclusive financial advisor to Cherry Street Holding Company, LLC
Deloitte. Deloitte Corporate Finance LLC

Interstate Wire Company, Inc. and Agave Wire Ltd.
have been acquired by
Copperweld Bimetallics, LLC
The undersigned acted as exclusive financial advisor to Interstate Wire Company, Inc. and Agave Wire Ltd.
Deloitte. Deloitte Corporate Finance LLC

Langmuir Systems LLC
has been acquired by
ShopSabre
a portfolio company of
LFM Capital
The undersigned acted as exclusive financial advisor to Langmuir Systems LLC
Deloitte. Deloitte Corporate Finance LLC

GSI Outdoors, Inc.
has been acquired by
Pelican International, Inc
The undersigned acted as exclusive financial advisor to GSI Outdoors, Inc.
Deloitte. Deloitte Corporate Finance LLC

Blue Bucket Group and Eco Thrift Companies
has been recapitalized by a middle-market private equity firm
The undersigned acted as exclusive financial advisor to Blue Bucket Group and Eco Thrift Companies
Deloitte. Deloitte Corporate Finance LLC

Ascension Health
has entered into a partnership with a Laboratory Services Company
The undersigned acted as exclusive financial advisor to Ascension Health
Deloitte. Deloitte Corporate Finance LLC