

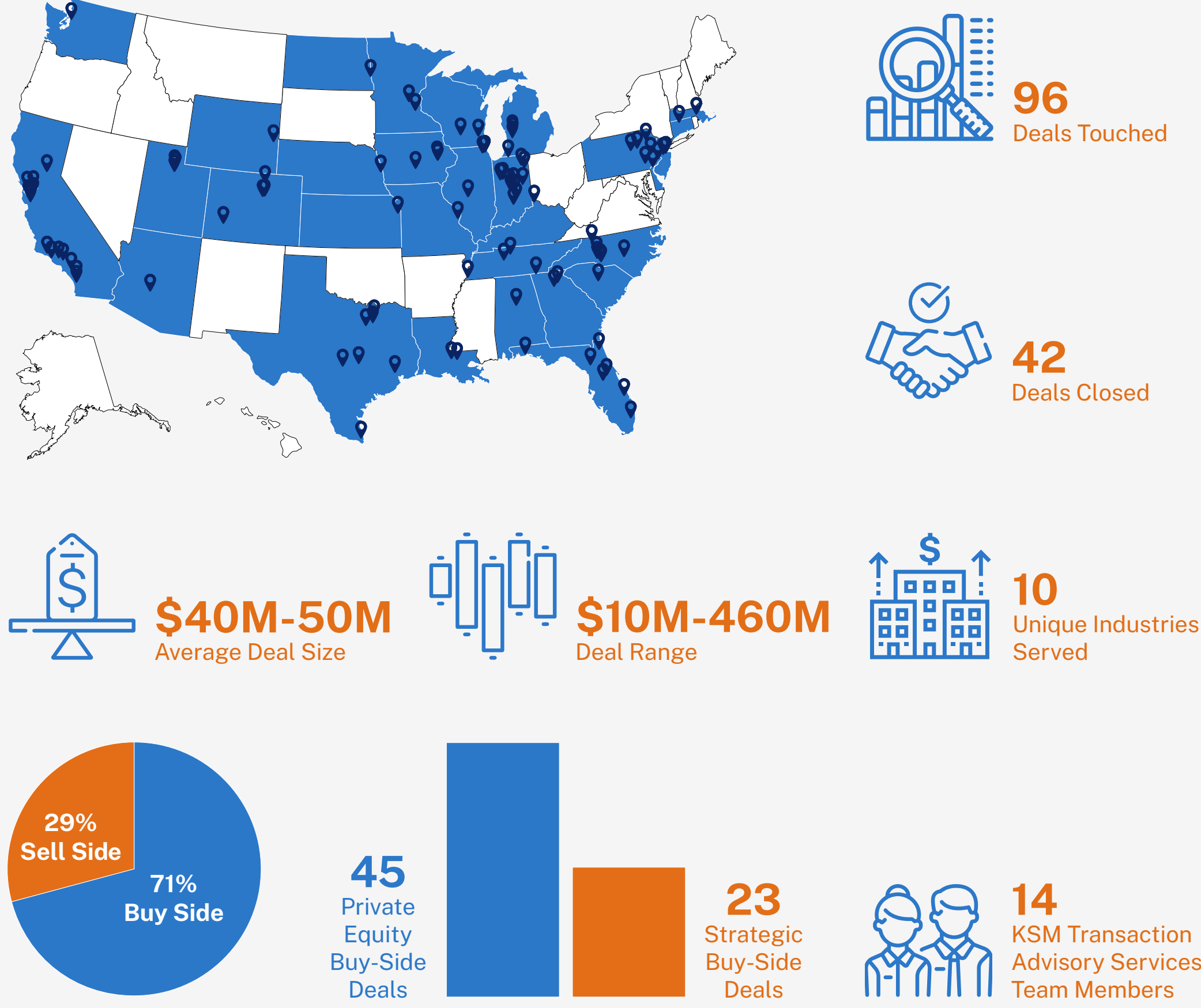
## Deal Environment

At the beginning of 2022, the federal funds rate was near zero, but by the end of the year, the federal funds rate had climbed to 4.5%, a result of the fastest monetary tightening policies in over 40 years. Despite this, the deal environment remained relatively robust, with U.S. private equity dealmaking declining by only 19.5% from the record-setting levels of 2021.

The last half of the year was markedly slower than the first half. However, the year overall still outpaced the pre-COVID markets, marking a return to a more normalized pace after a period of stimulus-fueled growth. The lower middle-market remained resilient, with many large players coming down market. Dealmakers also turned to add-ons, which offered accretion through various synergies.

As a middle and lower middle-market deal advisor, Katz, Sapper & Miller's Transaction Advisory Services Group had a robust year, with 96 deals touched and 42 deals closed. The team also expanded its size, adding new members to better serve both buyers and sellers in a wide variety of industries.

## KSM by the Numbers



## Deal Environment

### Manufacturing & Distribution

The manufacturing and distribution industry is one of KSM's largest segments served, giving us deep expertise in the space. We saw a high volume of manufacturing and distribution deals in 2022, especially add-ons, which accounted for 47% of our deals in this vertical. Because many manufacturing and distribution subverticals are highly fragmented markets, private equity firms sought add-on acquisitions for accretive growth and geographic expansion opportunities. Further, with the reshoring of manufacturing, we saw a strong demand for manufacturing deals throughout the year.

### Transportation & Logistics

KSM serves over 200 transportation and logistics clients, providing accounting, tax, assurance, and a full suite of advisory services. Despite the 2022 headwinds in the spot freight markets, we worked on 10 transportation and logistics deals throughout the year. M&A volume was driven by the need to acquire more drivers and personnel, expand geographically, and expand brokerage and freight hauling service.

### Business Services

Like other industry segments, add-on activity was strong in the business services sector in 2022. Our team worked on 16 business services deals throughout the year, fueled in part by strategic buyers and private equity-backed platforms seeking market expansion. We worked on deals in the investigation services, professional and financial services, insurance services, staffing services, environmental services, and call center services subverticals. The business services sector is poised

for continued growth in 2023, as baby boomers continue to seek attractive exit multiples and as cash-rich strategics continue to seek quality growth targets.

### Industrial

Leveraging our deep expertise in the industrial sector, our transaction advisory team worked on 36 industrial deals throughout 2022. Much of this volume was driven by intense add-on activity in the crane, heavy equipment, and building product subverticals. Although the housing market was stung by nearly unprecedented interest rate hikes, first-time home buyers and demand for home improvement, particularly in outdoor living settings, fueled growth for building product suppliers. Strategic buyers continued seeking geographic expansion opportunities throughout 2022 and early 2023, seeking to increase market share.

### Consumer

Despite consumer markets experiencing valuation recalibration due to concerns around inflationary pressures on discretionary consumer spending, we worked on four consumer deals throughout 2022. Consumer staples such as pet food products, food and beverage, and consumer health businesses were still able to realize strong valuations and successful M&A transactions throughout the year. We expect investor uncertainty to lift gradually during 2023. Long-term trends, such as the need for growth and margin, will likely continue to drive consumer deals. We also expect consumer trends like e-commerce, which evolved during the COVID-19 pandemic, to be attractive M&A targets, particularly for cash-rich corporations and private equity sponsors.

## 2023 Outlook

What will 2023 hold for dealmakers? It can be challenging to predict given the number of macroeconomic and political factors to consider, but we expect 2023 to be another respectable year. As the year begins, private equity firms are coming off a strong fundraising year, and deal activity remains steady. The KSM team continues to see strong M&A volumes with over 30 active deal engagements, including strong sell-side activity.

Following recent encouraging reports on the inflation rate and jobs data, we expect the middle and lower middle-markets to show resiliency throughout the remainder of the year.

In 2023, KSM's Transaction Advisory Services Group is building on its growth with a move into newly remodeled office space. The fresh space design allows for more collaboration and provides more room for our growing team of transactions professionals.

## Our Newly Remodeled Office Space

