

MARKET MINUTE

Investment Banking

Our preliminary conversations with business owners are on an upward trend, with more pitch meetings in Q3 than in the past two years. Notably, we are seeing a shift in these discussions. Owners are exploring a wider range of options beyond the traditional sale or majority recap, reflecting an increased desire for strategic partnerships. Many are looking to increase valuations before transitioning out of the business. Currently, we are in the market with four deals: three sell-side mandates and a capital raise, with another of each expected over the next couple of months. Additionally, we have three off-market deals progressing through various stages, from initial IOIs to anticipated closings by the end of the year.

Attached is our current deal sheet. Please reach out if you have interest in any of these deals.

Quality of Earnings

The QoE team completed a record quarter in Q3, suggesting a notable increase in deal activity. Much of that activity is starting to move closer to platform activity than the add-on activity we've seen for much of the last 18 months. We've also seen an increase in sell-side projects, suggesting more activity coming to market over the next several months and into 2025. While processes remain slow, we are witnessing a steady uptick in the number of deals reaching the closing table, signaling that market momentum is building.

Lender Services

Our work with lenders reveals a divided landscape. Large banks have been adding new clients, a shift from last year's emphasis on portfolio management. Regional banks, however, remain cautious. They are hesitant to take on new logos and are focused on managing existing portfolios. We have also heard stories of regional banks looking to work out clients that may pose future risks, indicating a trend toward tighter portfolio management strategies by these lenders as they look to keep their ratios in check.

IT/Cyber Consulting & Due Diligence

Clients are increasingly investing in technologies that automate and streamline operations to facilitate seamless integration post-acquisition. The high volume of add-on activities has kept our IT/cyber due diligence and post-acquisition integration teams busy, highlighting the critical role of technology in achieving operational efficiencies and realizing investment theses.

Strategic Financial Consulting

We're seeing a resurgence in projects geared towards transaction preparation. These engagements range from pre-sale planning and cleanup for businesses to assisting with accounting and finance setup and integration post acquisition. Furthermore, there has been an uptick in turnaround and restructuring activity as inflation continues to constrain businesses and "free money" has run out.



Q4 2024: Market Update & Outlook

As we transition into the last quarter of 2024, the market remains dynamic, showing both challenges and opportunities for everyone in the deal community. This update reflects what we're hearing and seeing across our service lines, highlighting trends and developments from our work with private equity, businesses, and lenders.

Overview of What We're Hearing

Deal Flow & Market Quality

Compared to last year, deal flow is up; however, broadly speaking, quality remains weaker. As a result, A-grade assets continue to draw a lot of attention, maintaining higher multiples consistent with the market at its peak from late 2020 through early 2022. Add-on acquisitions continue to drive much of the current market activity. As some attractive, larger deals began to emerge in the market over the summer, there are early signs of renewed platform activity.

Outlook for 2025

Optimism for 2025 is building. With interest rates starting to decline, there's a sense that this could begin to loosen the shackles, bringing more opportunities into the market. Additionally, the upcoming election—regardless of its outcome—should remove a level of uncertainty and variability we've seen in the timidity of 2024, hopefully accelerating deal flow as businesses and investors move forward, looking to expend pent-up energy on both sides of the table.

Events LCG Will Be At

- ACG Chicago Midwest Capital Connection - 10/29-10/30
- ACG Arizona "Taste of PE" Wine Tasting and DealLink - 11/12
- ACG Florida Capital Connection - 11/13-11/15

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