

2022 New Jersey M&A Trends Report

Spring 2023

The **DAK** Group
Investment Bankers to the Middle Market



Welcome

Jersey Strong

New Jersey M&A Activity 2022

“Jersey Strong” is a phrase coined back in 2012 when Superstorm Sandy hit and became a mantra for New Jerseyans to live by as we confronted very challenging times.

2022 was another one of those years, emerging from the Covid-19 pandemic, in the face of labor shortages, supply chain challenges and a questionable economic future – and yet the New Jersey Mergers & Acquisitions (“M&A”) marketplace showed incredible strength and resilience.

What may surprise many is that 2021 delivered a 10-year peak in M&A activity in the Garden State, with few expecting it to continue at the same trajectory. Following our review of the 2022 New Jersey M&A data, it became abundantly clear that M&A activity in the state has been incredibly resilient, keeping in line with the “Jersey Strong” mantra.

We are pleased to share our insights and a data-driven analysis¹ of the state’s M&A trends, with a focus on both strategic and private equity activity, an overview of the sectors driving the activity, cross-boarder deals as well as a geographic allocation of activity on a regional basis.

We look forward to your thoughts on this information.

All the best,



Ari Fuchs

Ari Fuchs
Managing Director



Josh Andermarch

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Associate

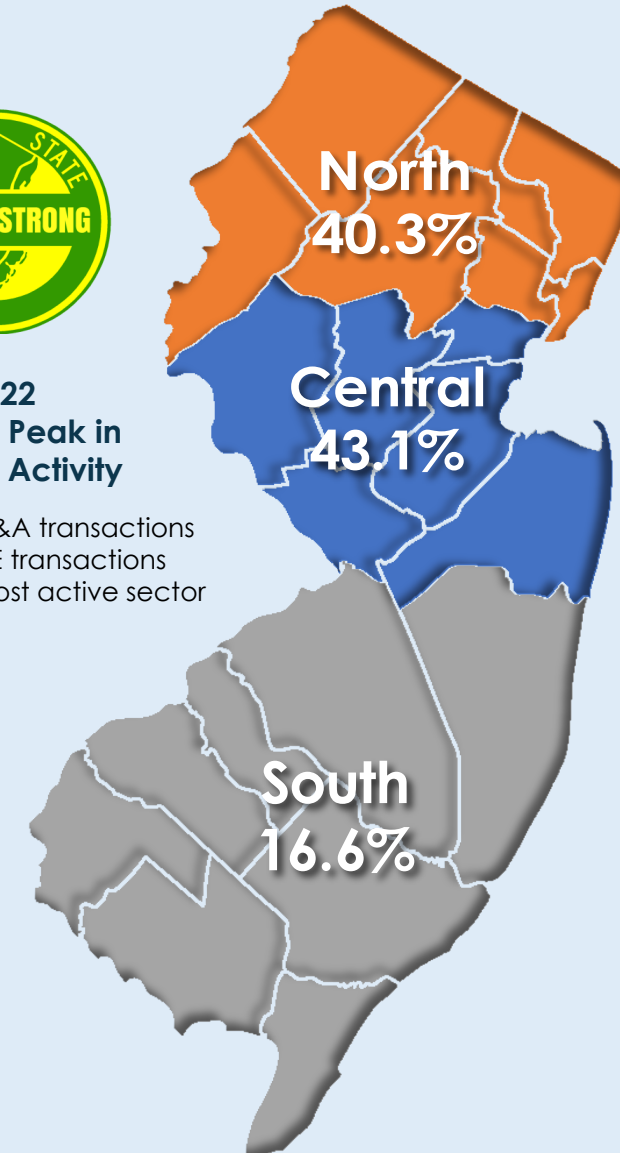
Deal Activity By Region 2022



2022

10-Year Peak in
NJ M&A Activity

- ❖ 563 M&A transactions
- ❖ 54% PE transactions
- ❖ B2B most active sector



¹ The infographics, report and all associated charts covering the years 2013-2022 have been prepared by The DAK Group with data from PitchBook as of Dec. 31, 2022.

New Jersey M&A Activity Resilient in 2022, Q4 was the Kicker

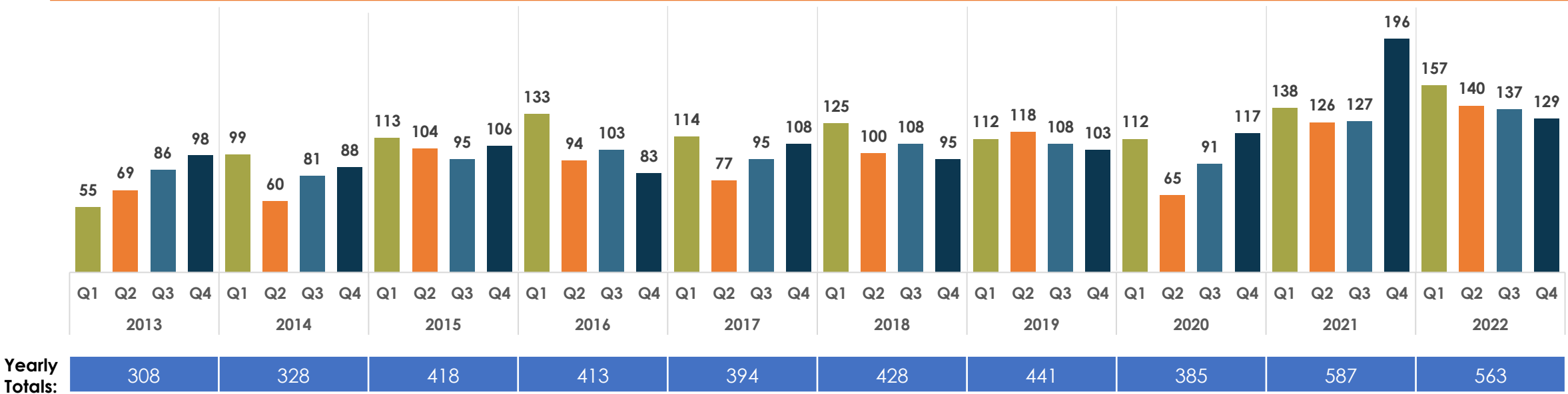
Transaction activity in the Garden State has remained consistently strong the past several years (as has been the nationwide trend). In 2021 there were 587 M&A transactions in NJ, reaching the **highest volume seen in the prior 9-year period, and 33% over the peak of 441 transactions in 2019.**

During the first nine months of 2022, we experienced a similar level of strong deal activity. However, it was the exceptional fourth quarter of 2021, which achieved record-breaking numbers, that marked a notable difference between the two-year period. Specifically, in the final quarter of 2022, only 129 deals were concluded as opposed to the 196 that were completed during the same period of 2021.

Overall, this led to a deal volume that was about 4% lower than 2021, decreasing to 563 transactions in 2022, yet still the second highest volume in the prior 10-year period.

During the early months of 2023, the marketplace continues to demonstrate great resilience, with add-on acquisitions continuing to be an active component of the thriving marketplace.

New Jersey M&A Deal Activity by Quarter (2013 – 2022)



Private Equity Pivots in 2020 Driving the Lion’s Share of Transactions, Reversal Expected in 2023

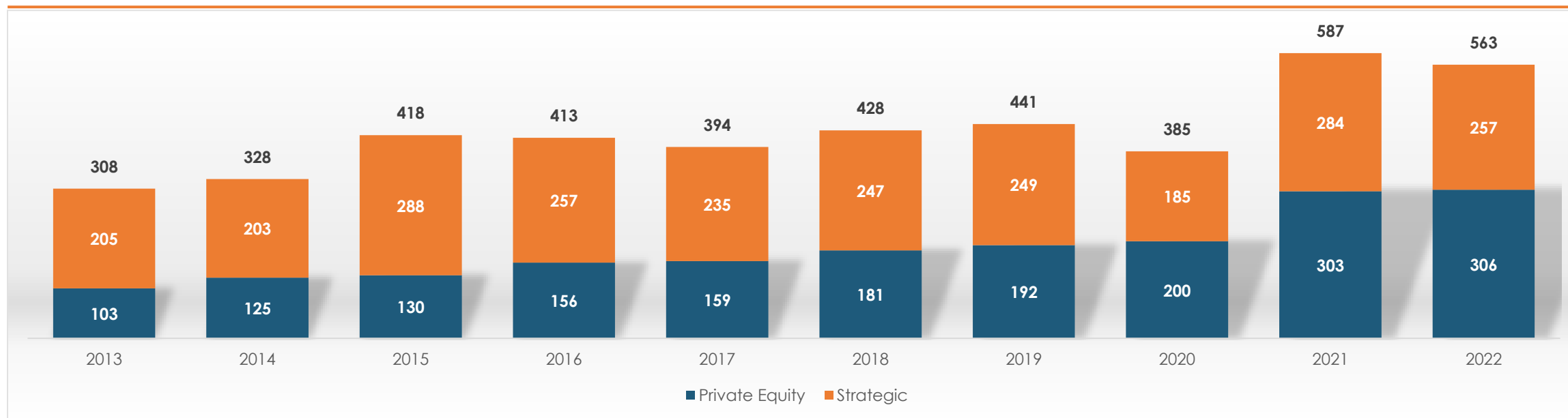
Deal activity in the state has grown at a CAGR of 6.2% over the last 10 years, from 308 transactions in 2013 to 563 in 2022.

The share of PE-led transactions has been steadily increasing, particularly over the last 7 years, driven by downward pressure on interest rates and significant amounts of PE dry powder, driving up both deal activity and valuations. This combination led 2020 to be a pivotal year, with PE buyers acquiring more New Jersey businesses than their strategic buyer counterparts, for the first time in this 10-year period.

Offset by often aggressive PE-buyers driving frothy valuations, strategic buyers accounted for less than 50% of all transactions in 2022, meaningfully down from 67%, or 2 out of every 3 of transactions in 2013.

PE and strategic buyer trends are expected to reverse in 2023 amid a dislocation in the financing markets and an increasingly uncertain macroeconomic picture, creating a more favorable environment for strategic acquirors.

New Jersey M&A Deal Activity by Buyer Type (2013 – 2022)



Strategic Buyers – Corporations seeking to acquire other companies for their technology, geographic footprint, products or services.

Private Equity – Private investment funds designated for equity investment in private companies.

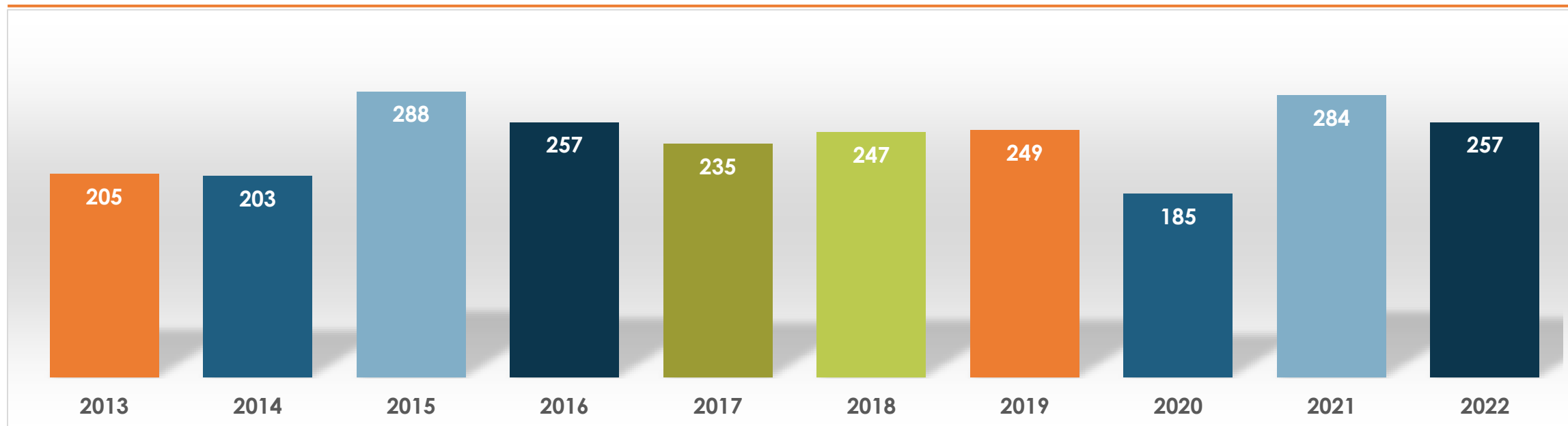
Strategic Buyers Expected to Play a Larger Part - Changing the 2023 M&A Landscape

Strategic buyers were represented in 257 transactions in 2022, or 46% of overall New Jersey M&A activity, consistent with 2021 (48%) and 2020 (48%).

In absolute numbers, 2022 strategic buyer activity was down 9.5% when compared to 2021, an unusually strong year; but still at the second highest level in the last 6 years.

Given rising interest rates and an uncertain financing marketplace, DAK expects the proportion of strategic buyer activity to increase in 2023 to over 50% as strategic buyers are generally less susceptible to macroeconomic headwinds than their PE counterparts and are more likely to deploy capital to drive inorganic growth in periods of perceived uncertainty.

New Jersey Strategic M&A Deal Activity (2013 – 2022)



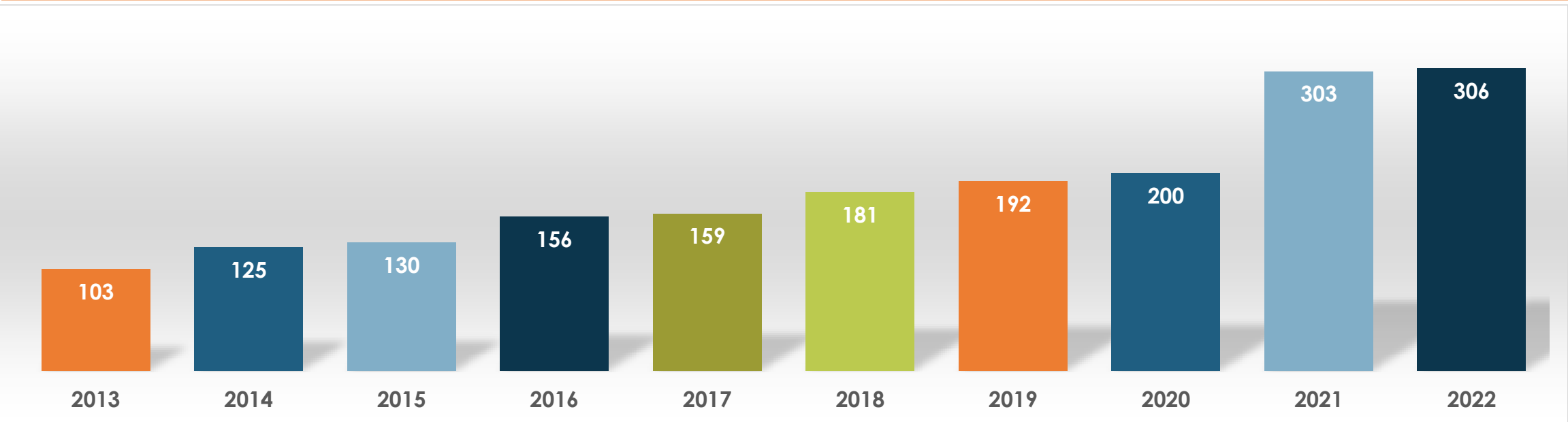
Private Equity M&A Activity Hits 10th Consecutive Year of Growth

Buoyed by historically low interest rates for most of 2022, private equity activity saw its 10th consecutive year of deal growth in New Jersey, totaling 306 transactions, a modest YoY increase of nearly 1%. Overall, PE-driven deal volume has expanded at a CAGR of 11.5% over the last 10 years.

Private equity share of deal volume in New Jersey hit 54% in 2022, its highest level in the last 10 years.

Rising interest rates, combined with an uncertain financing market are expected to cause private equity deal volume to contract in 2023, along with private equity's share of overall deal activity.

New Jersey Private Equity M&A Deal Activity (2013 – 2022)



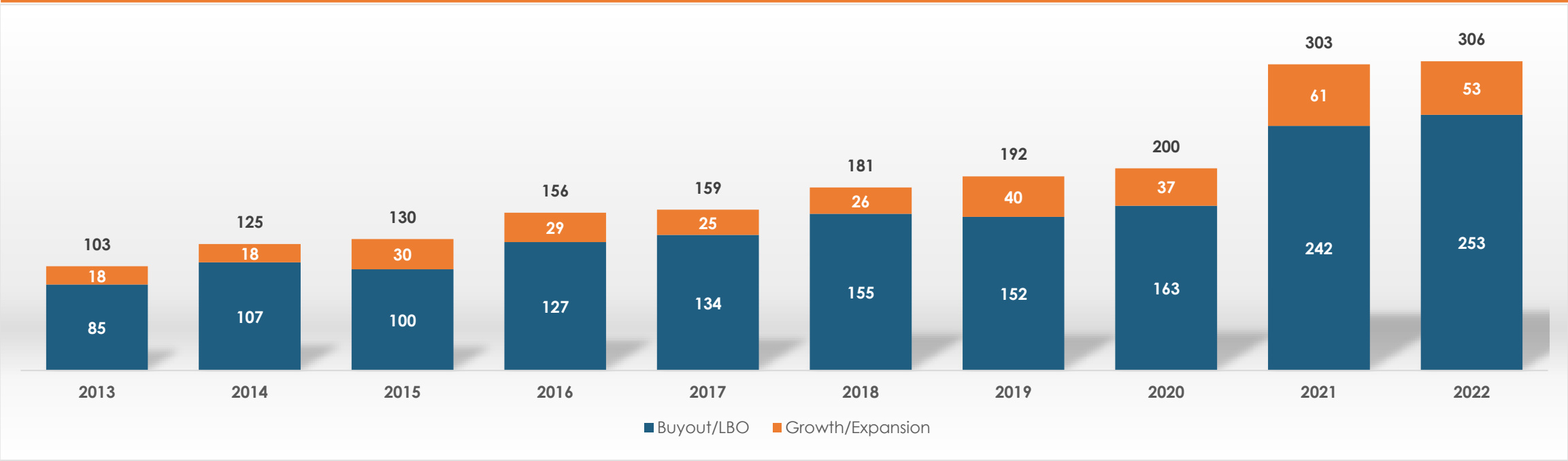
Private Equity Demand for Buyout Transactions Propels Record-Breaking Activity

Private equity buyers in New Jersey continue to drive buyout activity to new heights in 2022, reaching its highest level in 10 years with 253 transactions, or 83% of total private equity deal activity in the state.

While significant levels of private equity dry powder will continue to drive demand for buyout transactions, short-term, broader challenges in the financing markets may offset some PE demand in 2022.

On a percentage basis, growth equity/expansion transactions continue to keep pace, representing 17% of overall private equity activity in the state.

New Jersey PE Buyout/LBO v. Growth/Expansion M&A Activity (2013 – 2022)



Buyout/LBO – Buyout/LBO transactions are generally defined as deals in which PE investors acquire a controlling interest in their target companies.
Growth/Expansion – Growth/Expansion transactions are generally defined as minority PE investments in target companies.

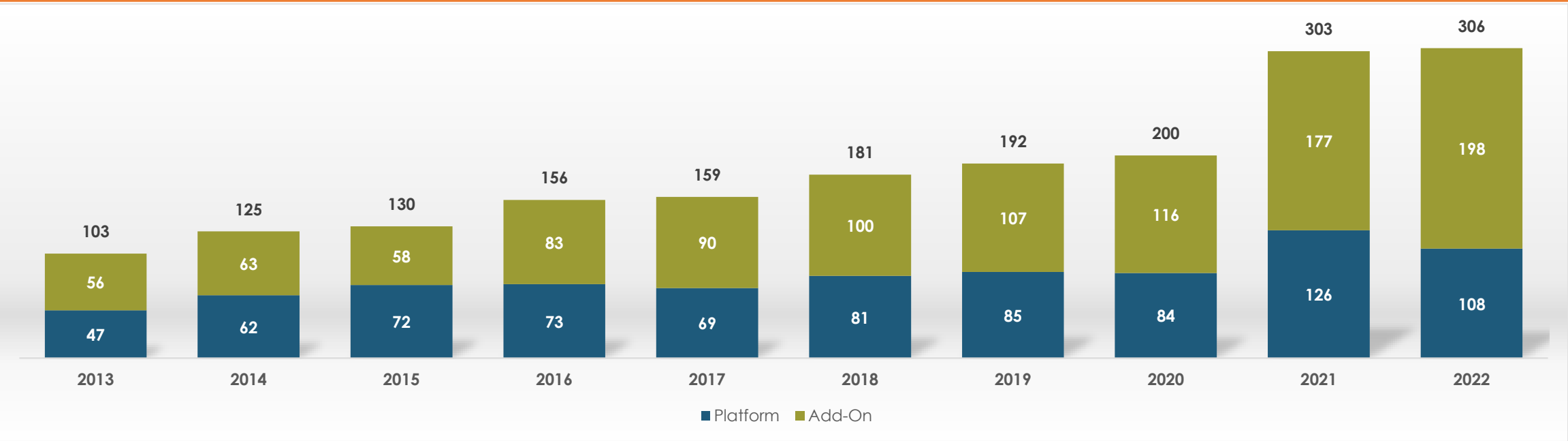
Add-On's Explosive Growth Expected to Continue

Sponsor add-ons continued to drive PE deal activity to new levels in 2022, accounting for 65%, up from 58% in 2020 and 2021 and the highest level in the last 10 years.

The proportion of add-on transactions in 2023 is expected to expand and outpace platform deals for several reasons:

- Add-ons are generally viewed as less risky since they are frequently smaller in size and involve expanding an existing portfolio company with a proven track record
- Add-ons can generate significant cost savings and synergies by leveraging the existing infrastructure and resources of a portfolio company
- Financing add-on transactions is frequently easier to obtain since a portfolio company may have an established credit history and track record

New Jersey PE Platform v. Add-On M&A Activity (2013 – 2022)

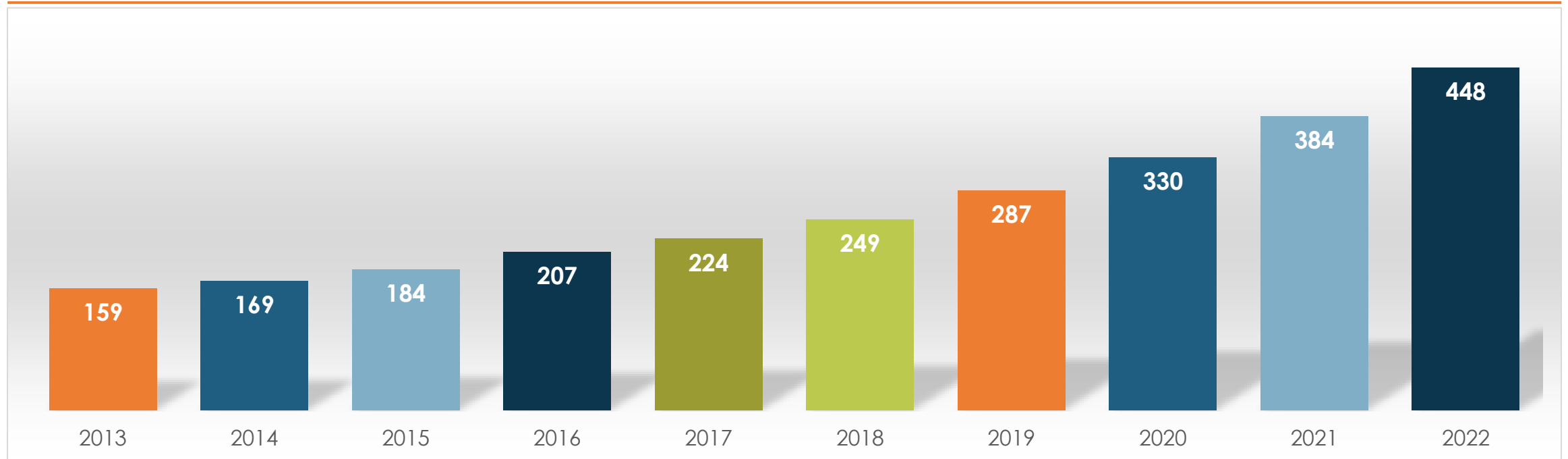


Sponsor-Backed Company Inventory Levels Catapulted to a Record-Breaking Year

Supported by historically low interest rates and significant amounts of private equity dry powder, the population of PE-backed businesses in New Jersey grew at the fastest clip in the last ten years in 2022, expanding by 64 (net new), or 16.7% over 2021.

Overall, the 10-year CAGR for PE-backed businesses in the state was nearly 11%.

New Jersey PE Inventory by Year (2013 – 2022)

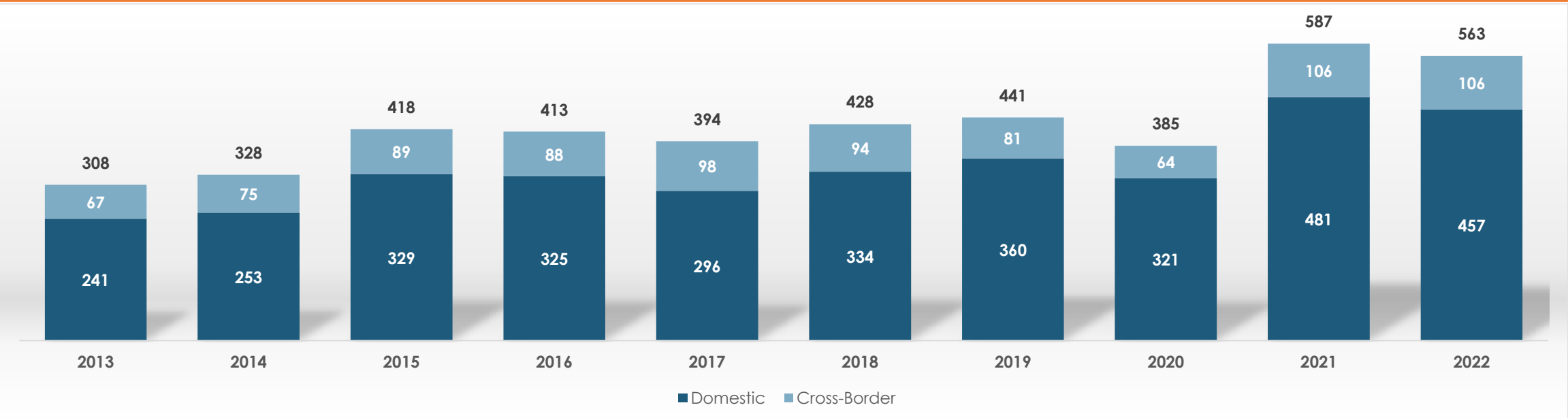


Domestic Activity Leads the Way with Cross-Border Activity Gaining Steam

While domestic buyers continue to dominate transaction activity in New Jersey, representing 457 deals, or over 80% of deal volume, cross-border activity as a percent of volume has staged a comeback, rising from 16% of deal volume in 2020 to nearly 19% of volume in 2022. Cross border activity totaled 106 deals in each of 2021 and 2022, the highest levels in 10 years.

Driven by global macroeconomic challenges and geopolitical instability, broader cross-border activity is likely to increase in 2023 as the U.S. economy continues to be viewed as a safe-haven for foreign investment dollars.

New Jersey Domestic v. Cross Border M&A Activity (2013 – 2022)

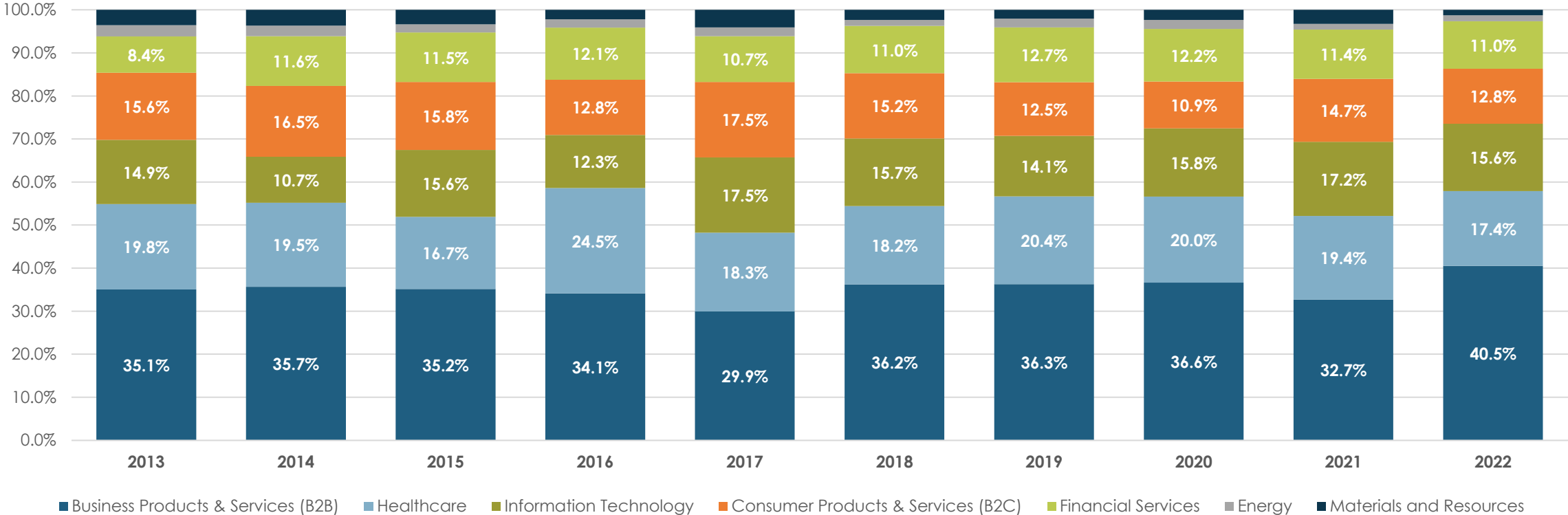


B2B Industry Sector Growth Drives the Lion Share of NJ M&A Activity

Transactions in the Business-to-Business sector continue to dominate in New Jersey, driving over 40% of overall M&A activity in 2022, up from 32% in 2021. The rising proportion of B2B activity in 2022 came at the expense of lower levels of activity in each of the healthcare (17.4%), information technology (15.6%), B2C (12.8%) and financial services (11.0%) sectors .

M&A activity in New Jersey’s B2B marketplace has historically been driven by a deep bench of industrial and light manufacturing companies and distributors of a wide range of commercial products, as well as a large ecosystem of professional and business service firms.

New Jersey M&A Deal Activity by Industry Sector (2013 – 2022)



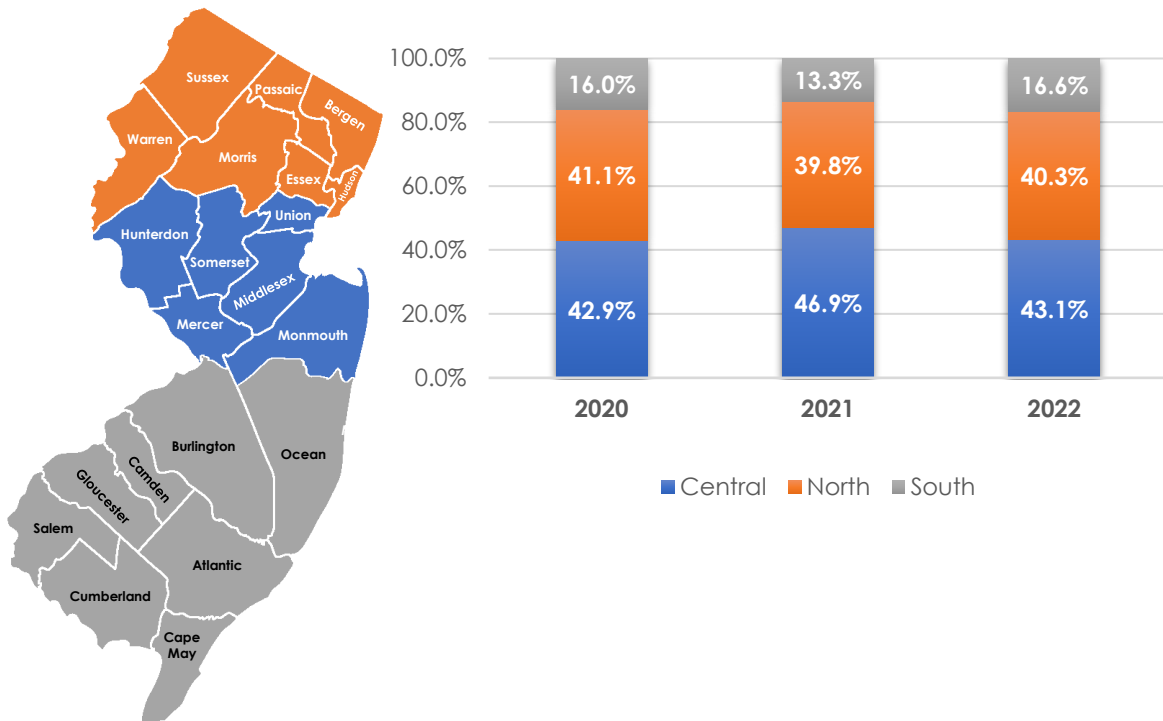
¹ See Appendix for sector definitions

Central and Northern New Jersey Represent 85% of New Jersey M&A Activity¹

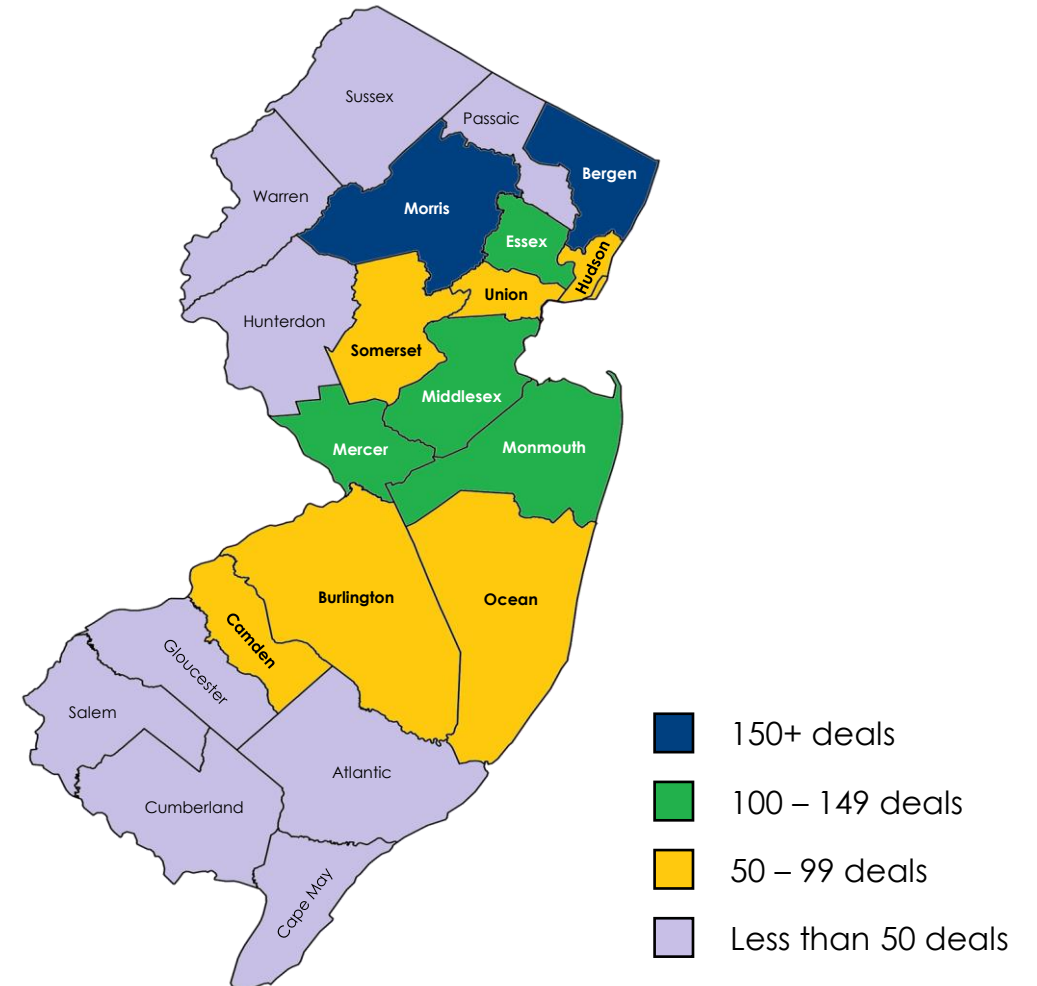
New Jersey M&A activity by region has seen little change over the last several years, with Central and Northern New Jersey averaging 44% and 41% of all M&A activity, respectively, led by Monmouth, Middlesex and Mercer Counties representing a total of 27% of aggregate activity in the state over the last three years (or 417 transactions out of 1,535).

Bergen and Morris Counties represented 22% of M&A activity in the state, or 342 transactions during the same period.

NJ M&A Deal Activity by Region (2020 – 2022)



NJ M&A Deal Activity by County, Cumulative (2020 – 2022)



¹ See Appendix for region composition

Glossary and Definitions

Private Equity Deals:

- Private equity deals include all investments (Buyout/LBO and Growth/Expansion; Platform and Add-On) made into target companies with headquarters in New Jersey. Only investments made directly by PE firms, or their portfolio companies are counted. Buyout/LBO deals are defined as transactions in which the PE investors receive controlling ownership stakes in the target companies. Growth/Expansion deals are defined as minority investments in target companies. Add-On deals are defined as acquisitions by private equity-backed companies.

PE-Backed New Jersey Based Companies:

- Companies headquartered in New Jersey that are in part or in whole backed by PE firms.

Regional Composition:

- **North:** Bergen, Essex, Hudson, Morris, Passaic, Sussex, Warren
- **Central:** Hunterdon, Mercer, Middlesex, Monmouth, Ocean, Somerset, Union
- **South:** Atlantic, Burlington, Camden, Cape May, Cumberland, Gloucester, Salem

Industry Sector:

- **Business Products & Services (B2B)** – Business-to-business refers to product or service transactions that are conducted between companies, rather than between a company and individual consumer or an individual consumer and another consumer.

- **Consumer Products & Services (B2C)** – Business-to-consumer refers to product or service transactions that are conducted between a business and a consumer, rather than between a company and a business or an individual consumer and another consumer.
- **Information Technology** – The information technology sector includes all companies whose primary focus is the development of software, hardware, or related computer peripherals and all companies whose primary focus is on IT consulting, outsourcing or database management. This includes both business facing companies and consumer facing companies.
- **Energy** – The energy sector refers to all companies engaged in the exploration, production and distribution of energy and the companies that supply products and services specifically to those who operate within the energy sector. This includes private and public utilities.
- **Financial Services** – Professional services involving the investment, lending, and management of money and assets for both businesses and individual customers.
- **Healthcare** – The healthcare sector refers to all companies providing medical products or services. This includes consumer facing organizations such as hospitals, health insurance companies and business-facing organizations who provide specific healthcare services, enterprise products or research and development.
- **Materials and Resources** – All companies engaged in the production, development, discovery and wholesale of raw materials

Questions or Comments?



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How We Can Help You

The DAK Group helps middle market; privately held businesses, sponsor backed companies and PE firms garner the greatest value for their companies.

As owners looking to grow, exit or just “take some chips off the table” by reducing risk our team provides operational advice, pre-transaction planning and expertise leading buy side and sell side transactions that create exceptional value.

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