

New Jersey M&A Trends Report

Q1-Q3 2023



Welcome

Jersey Strong Continues – Normalization Phase

New Jersey M&A Activity Q1-Q3 2023

As fellow New Jerseyans, we are all proud of the strength and resilience our state continues to demonstrate across many domains, including in the mergers and acquisition space a key component to the health of our state's economy.

The first three quarters of 2023 proved to be a period of normalization for mergers and acquisitions following two consecutive years of record activity. Despite the headwinds brought about by increases in interest rates, overall activity in NJ during the period remained above the previous 5-year average.

Data for the rest of 2023 and the first half of 2024 is likely to reflect a continued trend of normalization. However, with interest rate cuts on the future horizon, sellers will feel more comfortable with valuation and buyers will be more eager to seek out new acquisition opportunities in the latter half of 2024.

We are excited to share a comprehensive analysis of M&A trends in the Garden State, delving into strategic and private equity activity, key industry drivers, cross-border deals, and a regional breakdown of transactions. Take a few minutes to review this report as you might be surprised by some of the trends in our state's M&A landscape.

We look forward to your questions or ideas on this information.

All the best,



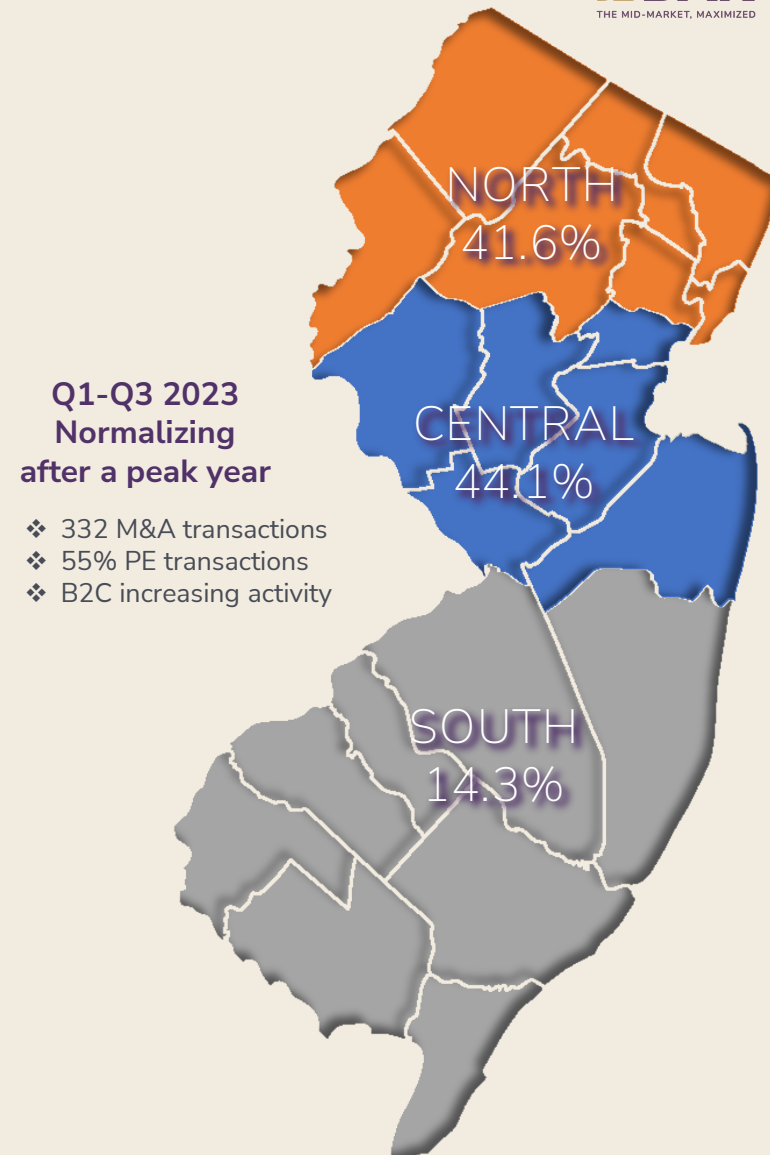
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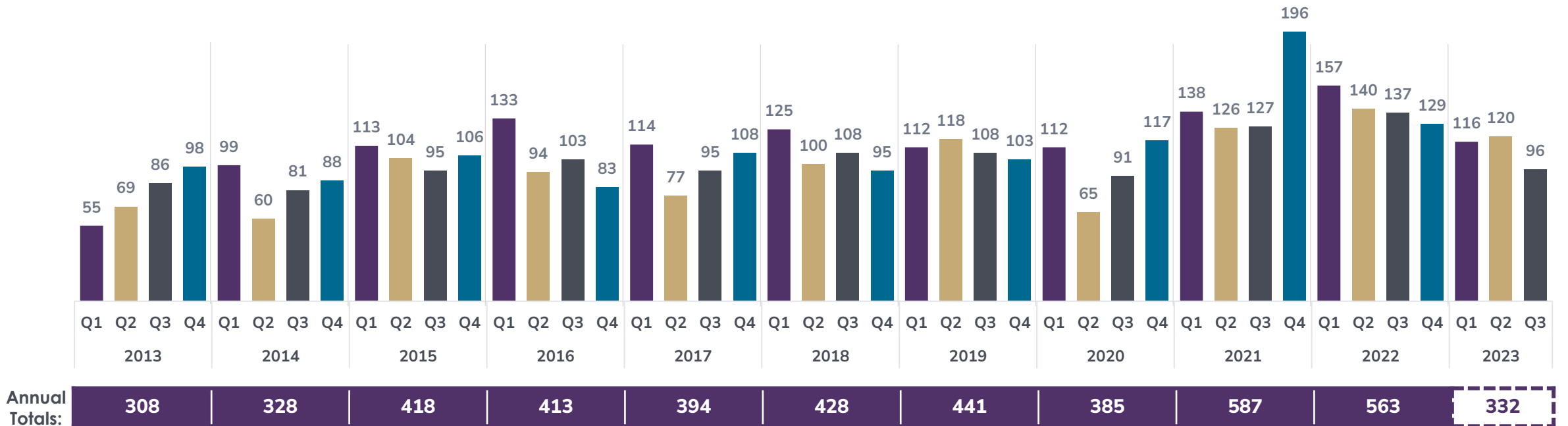


¹ The infographics, report and all associated charts covering the years 2013-2023 have been prepared by The DAK Group with data from PitchBook as of Dec. 31, 2023.

New Jersey Transaction Activity Normalizing in Q3

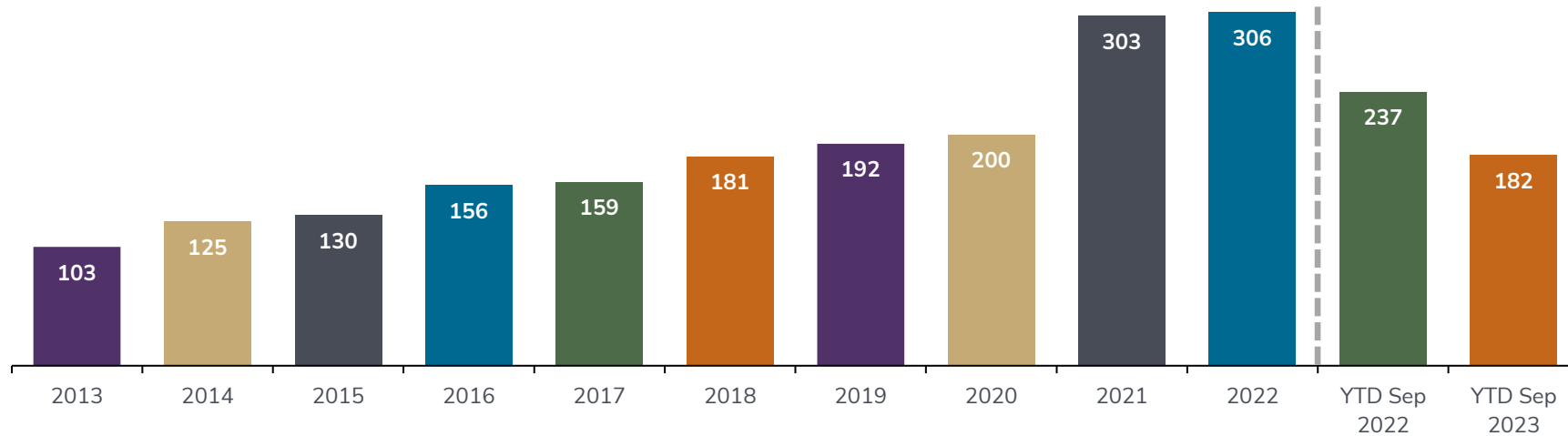
Despite a relatively challenging macroeconomic backdrop, transaction activity in New Jersey remains near historical norms. 332 M&A transactions took place during the first three quarters of 2023. While volume has decelerated from 2022, overall volume remained 2% above the previous 5-year average. Located within two of the largest metropolitan areas in the country and neighboring the financial capital of the world, NJ retains advantages in entrepreneurship, education, and the desirability to attract some of the country’s most intelligent and skilled talent, making it an attractive geography for M&A activity.

New Jersey M&A Deal Activity by Quarter (2013 – Q3 2023)

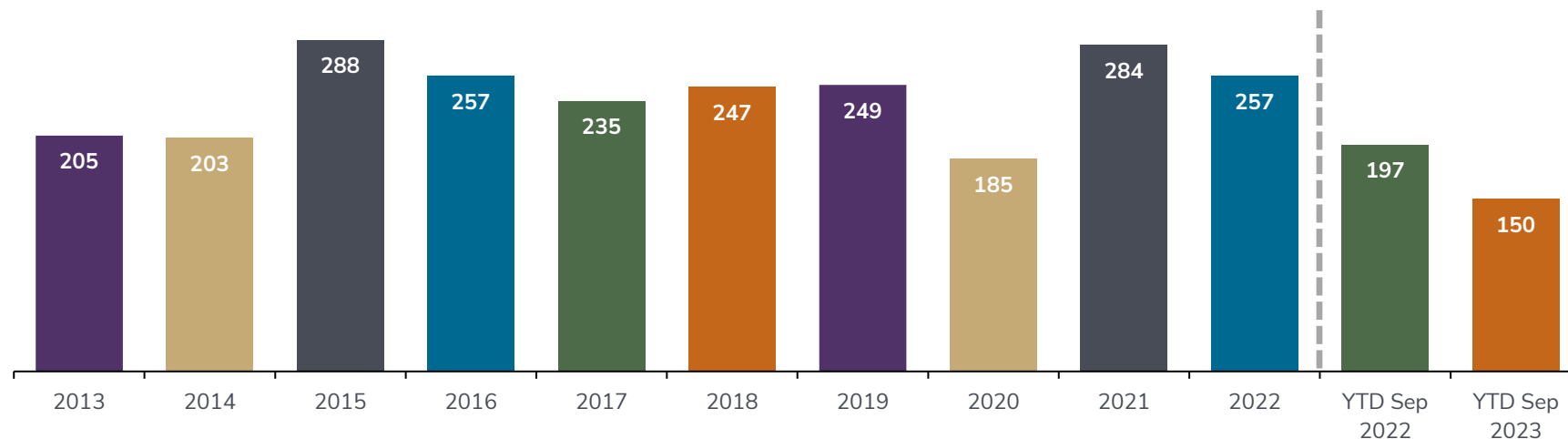


Private Equity and Strategic M&A Deal Trends

New Jersey Private Equity M&A Deal Activity (2013 – YTD Sep 2023)



New Jersey Strategic M&A Deal Activity (2013 – YTD Sep 2023)



Commentary

Strategic buyers were represented in 150 transactions, or ~45% of overall New Jersey M&A. Deal activity among both financial and strategic acquirers declined in roughly the same proportions.

While strategic acquirers are less susceptible to interest rate increases given existing lending relationships and relatively strong balance sheets, companies voluntarily pulled back from deal activity due to economic uncertainty and pressure from equity holders to improve margins. These headwinds will eventually turn around after the next several quarters and lead to an increased appetite for acquisitions.

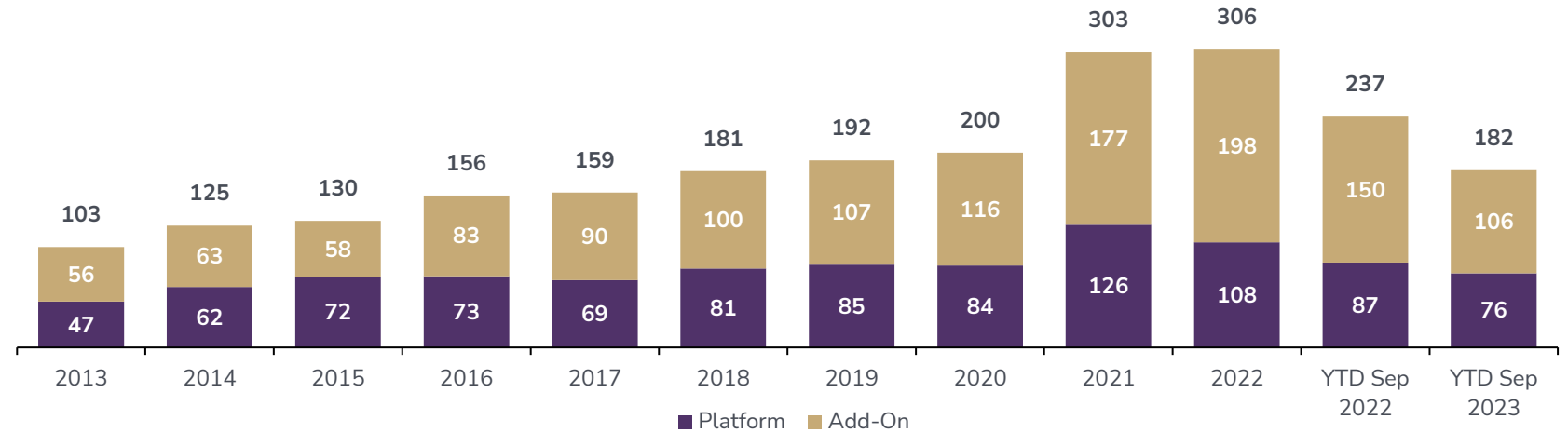
Likewise, private equity firm activity will increase in the latter half of 2024 as the gap between buyer and seller valuation expectations narrows.

Private Equity Deal Type Activity

Commentary

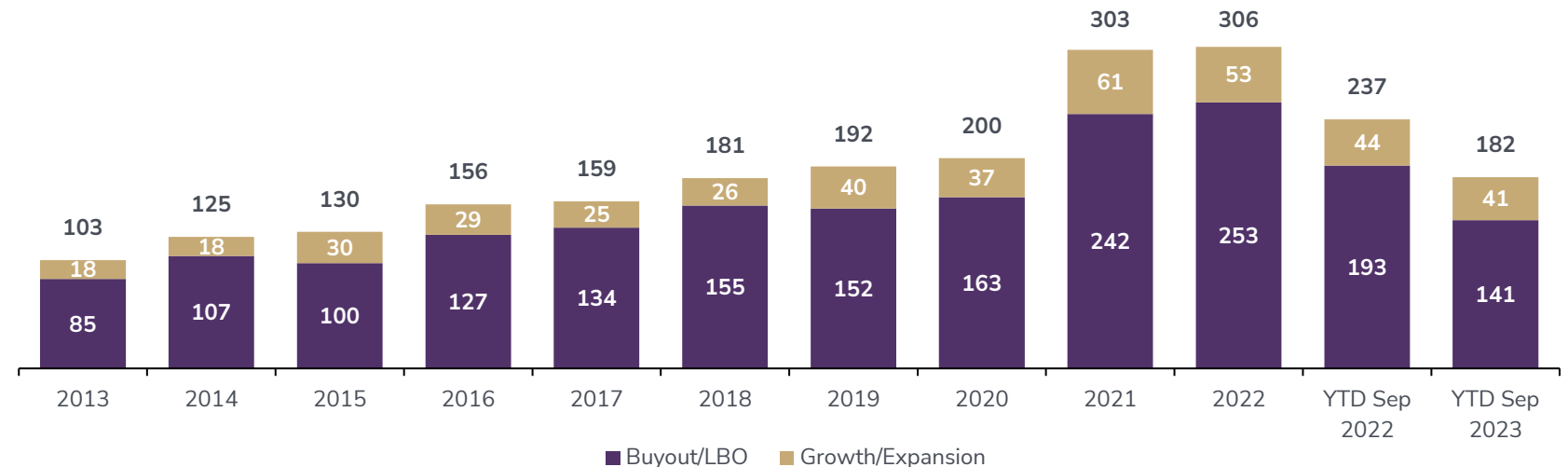
After significant growth in 2022, sponsor add-ons normalized as a percentage of deal activity, back to 2020-2021 levels of 58% from a peak of 65% in 2022. This proportion remains elevated compared to the pre-pandemic environment.

New Jersey PE Platform v. Add-On M&A Activity (2013 – YTD Sep 2023)



New Jersey PE Buyout/LBO v. Growth/Expansion M&A Activity (2013 – YTD Sep 2023)

The proportion of growth equity/expansion transactions grew to 23% through the first three quarters of 2023, up from 17% in 2022. Current financial conditions have made it increasingly difficult to raise equity to support platform acquisitions, effectively moderating buyout activity.



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

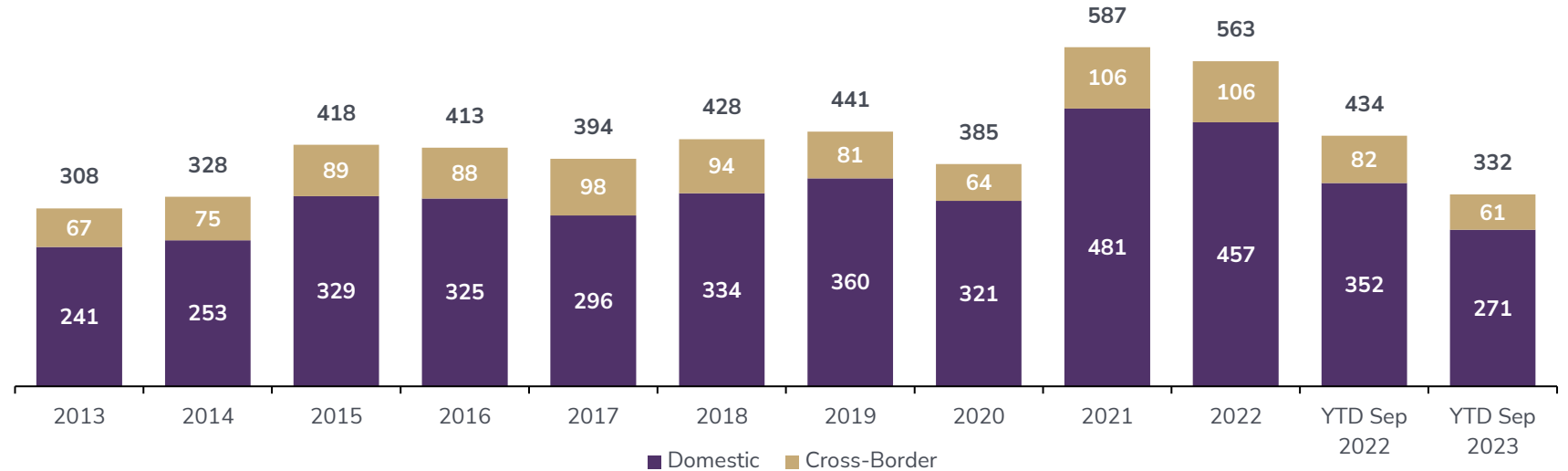
Growth/Expansion – Growth/Expansion transactions are generally defined as minority PE investments in target companies.

Domestic Activity Leads the Way while PE Inventory Growth Remains Stable

Commentary

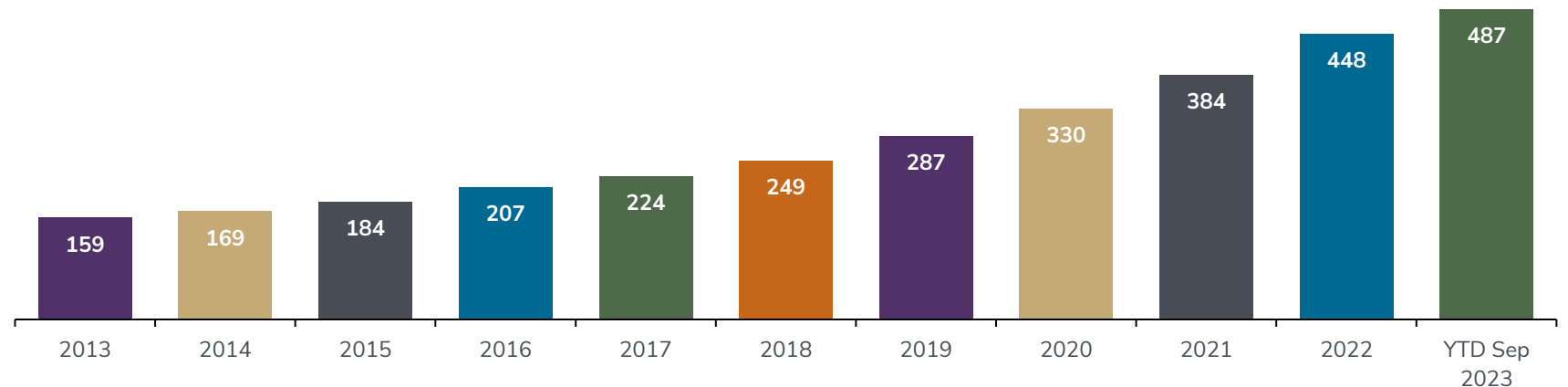
Domestic buyers continue to account for the vast majority of transactions in New Jersey. This represents 82% of deal volume in the first three quarters of 2023, little changed from 2022. Financial conditions tightened across the globe which depressed both domestic and foreign deal activity relatively evenly. However, given the relative strength of the U.S. economy, domestic deal activity is likely to rebound ahead of cross-border activity.

New Jersey Domestic v. Cross Border M&A Activity (2013 – YTD Sep 2023)



New Jersey PE Inventory by Year (2013 – YTD Sep 2023)

Despite moderating exit activity, platform deals continued to grow overall private equity inventory at an average pace. Overall inventory increased at an annualized rate of 12% during the first three quarters of 2023, nearly on par with the CAGR between 2013 and 2022.

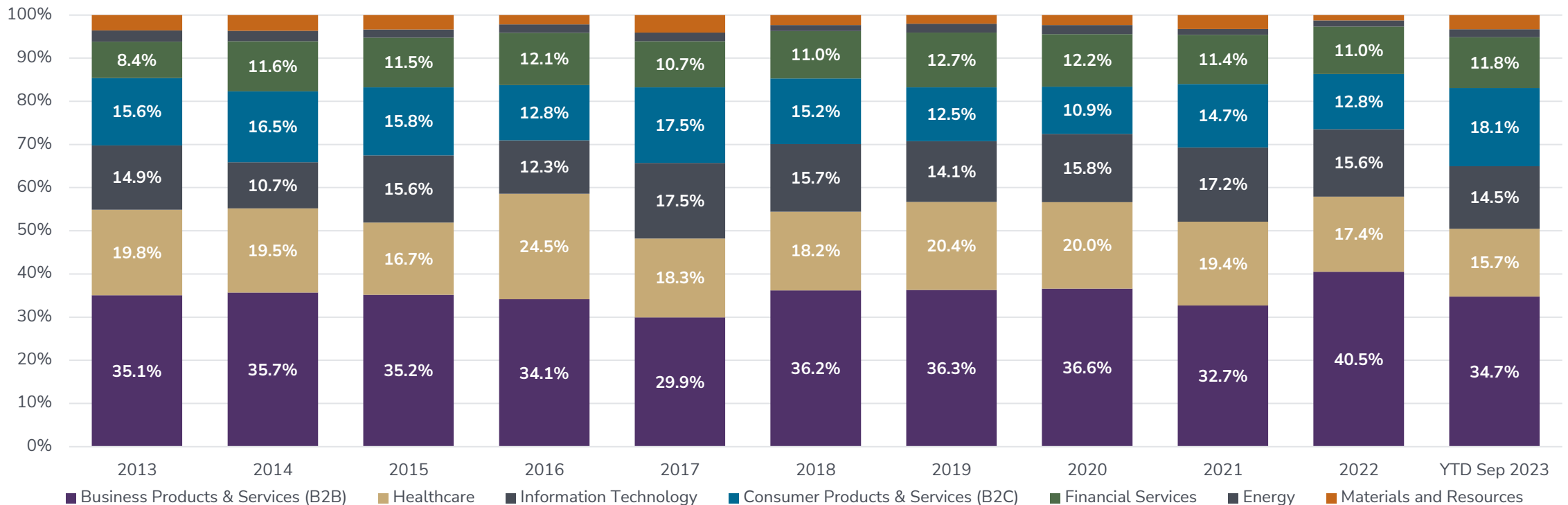


B2C Industry Sector Defies Slowdown

While still the largest category of New Jersey deal activity, the share of Business-to-Business sector transactions fell during the first three quarters of 2023 to under 35% from a peak of over 40% in 2022. This is primarily a result of normalization back to historical norms after an atypically strong year for deals in the Business-to-Business sector.

Meanwhile, Business-to-Consumer deal activity rose both as a proportion of overall activity and as an absolute annualized level during the first three quarters of 2023. The number of transactions involving Business-to-Consumer firms rose to 60 during the first three quarters of 2023 compared to 52 during the same period of 2022. This strength likely reflects the persistent strength of consumer spending on services.

New Jersey M&A Deal Activity by Industry Sector (2013 – YTD Sep 2023)



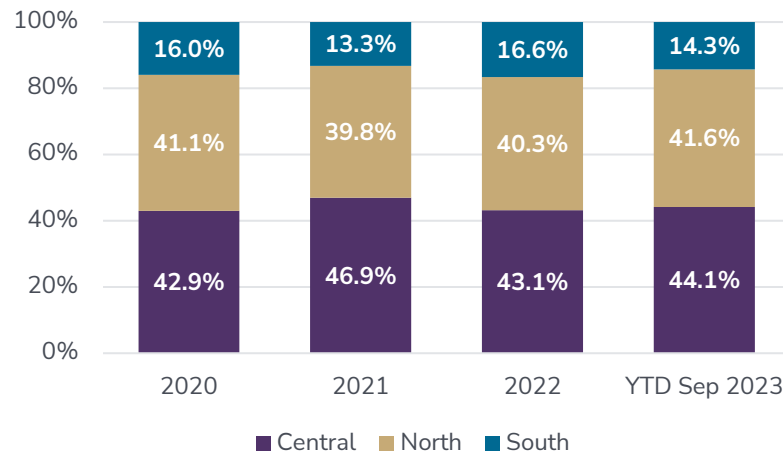
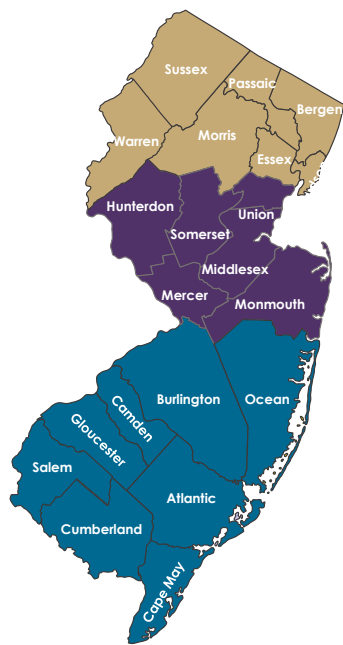
¹ See Appendix for sector definitions

86% of M&A Activity Generated in Central and Northern New Jersey

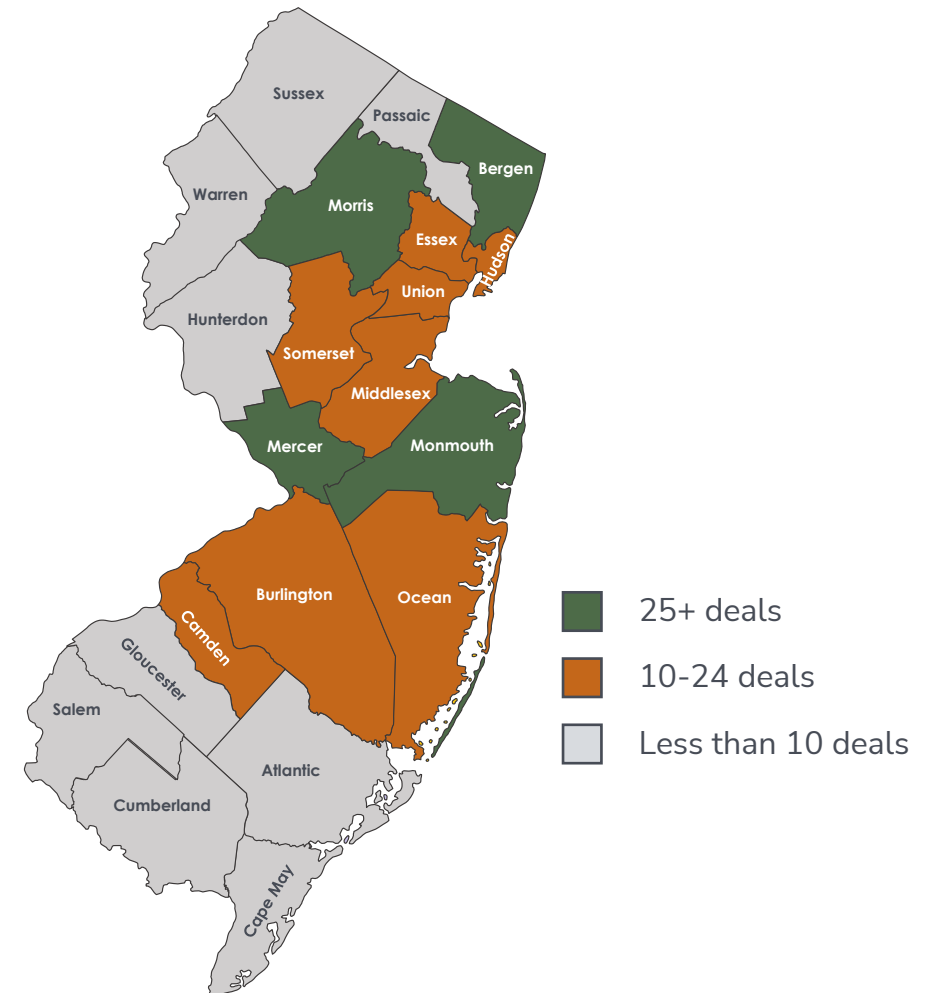
The proportions of New Jersey M&A activity by region remain relatively unchanged. Central New Jersey continues to lead overall activity in the state with approximately 44% of deal volume during the first three quarters of 2023 led by Monmouth, Middlesex, and Mercer Counties which together accounted for 25% of overall activity during the period.

Bergen County remains the most active for transaction activity with 43 deals during the first three quarters of 2023. Overall M&A activity in the state remains relatively diffuse as no county accounted for more than 14% of volume during the period.

NJ M&A Deal Activity by Region (2020 – YTD Sep 2023)



NJ M&A Deal Activity by County (YTD Sep 2023)



¹ See Appendix for region composition

Appendix

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.

Region Composition by County:

- **North Jersey:** Bergen, Essex, Hudson, Morris, Passaic, Sussex, Warren
- **Central Jersey:** Hunterdon, Mercer, Middlesex, Monmouth, Ocean, Somerset, Union
- **South Jersey:** 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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