

2023 Annual Arizona Deal Review

The Annual Arizona Deal Review is prepared as a courtesy to the Arizona business community based on our research and analysis of data from various sources on disclosed deals for Arizona-based companies.

Early 2023 began with uncertainty regarding interest rates, inflation, continued supply chain challenges, and an inconsistent softening of demand, resulting in a weak first half of 2023. Despite back half improvement, the total 2023 U.S. M&A market dropped 15%, to \$3.2 trillion, the lowest level in a decade. Strategic M&A declined 6% as buyers and sellers struggled to close the gap on valuations, and strategic deal multiples were the lowest they've been in a decade. Concerning developments in 2023 included regional bank failures and solvency issues due to struggling cryptocurrency and commercial real estate sectors, higher housing prices, and dramatically higher interest rates.

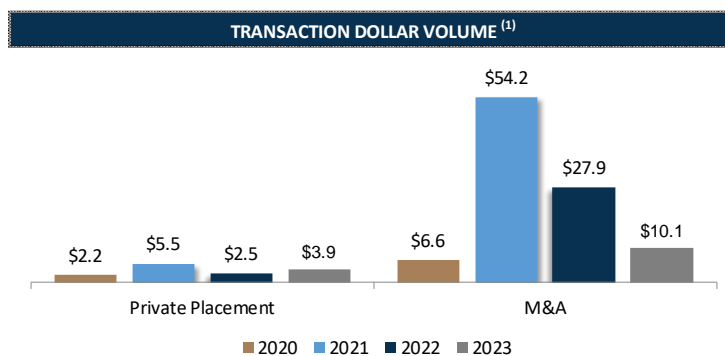
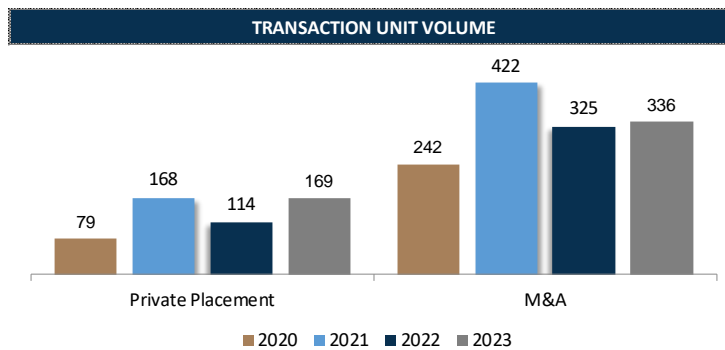
AZ M&A transaction dollar volume in 2023 decreased an extraordinary 63.8% from \$27.9 billion to \$10.1 billion, due to volume declines in every sector except Consumer/Retail, Manufacturing, and Energy/Utilities. By unit volume, AZ saw a 3.4% increase to 336 total M&A transactions. Real Estate Services, Business Services, and Medical/Healthcare represented many of the largest transactions in the state.

Admittedly we gave 2022 credit for Store Capital, whose acquisition was announced in 2022 but technically closed 2023 and could have made the year look rosier. However the allocation, the takeaway remains that recent M&A activity is substantially off the 2021 high of \$54.2 billion.

Removing the top five M&A transactions from 2023 and 2022, the dollar volume decreased only 11.3%, highlighting the fact that results were not merely skewed by a few large transactions. That said, 2023 greatly outperformed the pre-COVID years of 2017-2019 in terms of transaction and dollar unit volume. The median M&A deal size on disclosed transactions was \$78.5 million, compared to 2022's median of \$50.0 million.

Private placement dollar volume experienced an increase of 56.0% to approximately \$3.9 billion in 2023, compared to \$2.5 billion in 2022. Arizona also saw 48.2% more transactions at 169 compared to 114 in 2022. The top ten 2023 private placement transactions accounted for 70.8% of private placement total dollar volume, compared to 48.2% in 2022. The median private placement on disclosed transactions above \$5.0 million slightly increased to \$16.0 million from 2022's \$15.5 million.

Consumer/Retail led Arizona's deal activity at 26.1% of total dollar volume including Altria's \$3.2 billion acquisition of NJOY. The five other most active industries by unit volume over the past year were Medical/Healthcare/Biotech, Business Services, Consumer/Retail, Technology/Software, and Manufacturing. Of the 13 industries analyzed, 10 had declines in combined M&A and private transaction volume. Only three segments saw a decrease in transaction unit volume, reversing last year's negative trend.



(1) \$ in billions. Excludes Real Estate, Mining, Energy Exploration, Project Finance, 144a placements and transactions under \$5 million. Transaction dollar volume includes only disclosed transactions. Private Placements include Arizona targets and Arizona investor transactions.



Nationally, Business Development Companies and other non-bank lenders were the winners in 2023, as the Silicon Valley Bank-fueled commercial bank retraction left them as the only M&A financing source. In the near term, acquirers are hoping to see a calming of commercial bank credit committees and the avoidance of self-inflicted policy mistakes regarding the debt ceiling. Supply chain challenges are dissipating, the stock market is performing, and private equity is willing to invest, albeit cautiously. We continue to experience rigorous due diligence efforts and attempts to structure downside protection, but as usual, sellers with consistent, stable earnings growth will do very well in 2024.

ARIZONA DEAL SUMMARY BY INDUSTRY (Capital Raising & M&A)

(\$ in millions)

	2023			2022			Variance		% Growth	
	\$ ⁽¹⁾	%	#	\$ ⁽¹⁾	%	#	\$	#	\$	#
Medical / Healthcare / Biotech	\$1,709	12.2%	83	\$2,677	8.8%	71	(\$968)	12	(36.1%)	16.9%
Business Services	2,667	19.0%	112	5,384	17.7%	108	(2,717)	4	(50.5%)	3.7%
Technology / Software / Services	1,732	12.4%	54	968	3.2%	60	764	(6)	78.9%	(10.0%)
Electronics / Semiconductors	543	3.9%	25	778	2.6%	16	(235)	9	(30.2%)	56.3%
Consumer / Retail	3,655	26.1%	50	219	0.7%	45	3,436	5	1569.0%	11.1%
Manufacturing	2,553	18.2%	32	153	0.5%	34	2,400	(2)	1568.3%	(5.9%)
Construction Services / Homebuilding	140	1.0%	54	844	2.8%	42	(704)	12	(83.5%)	28.6%
Financial Services	72	0.5%	21	572	1.9%	26	(500)	(5)	(87.4%)	(19.2%)
Gaming / Leisure / Lodging	417	3.0%	28	58	0.2%	11	359	17	618.7%	154.5%
Energy / Utilities	114	0.8%	8	6	0.0%	2	108	6	1802.7%	300.0%
Telecom	36	0.3%	6	80	0.3%	5	(44)	1	(55.1%)	20.0%
Natural Resources	41	0.3%	7	50	0.2%	5	(9)	2	(18.6%)	40.0%
Real Estate Services	327	2.3%	25	18,655	61.3%	14	(18,328)	11	(98.2%)	78.6%
TOTALS	\$ 14,005	100.0%	505	\$ 30,444	100.0%	439	\$(16,439)	66	(54.0%)	15.0%

* Excludes Real Estate, Mining, Energy Exploration, Project Finance, 144a placements and transactions smaller than \$5.0 million.

(1) Only includes transactions with disclosed values.

Columbia West expects Arizona to benefit from the extraordinary investments into the region from TSMC, LG Energy Solutions, Intel, XNRGY, and others which will increase jobs, wages, and ancillary spending. Arizona is positioned to continue its leading position in manufacturing of semiconductors with TSMC, Intel, and Amkor leading the charge with large expansion efforts and new plants being built. A significant driver has been the CHIPS Act, which incentivizes domestic manufacturing with 25% tax credit for construction before 2027. After several years of interstate immigration to Arizona, the state ranked as the 10th fastest growing state by population in 2023. Arizona's population has grown 1.6% YoY, which is triple the national average of 0.5%. Arizona is still viewed as an attractive business environment for companies seeking a change to a tax-friendly, talent-rich, and livable state.

TOP 10 2023 M&A DEALS⁽¹⁾

(\$ in millions)

1	NJOY Holdings, Inc.	\$3,250
2	Atlas Technical Consultants, Inc.	\$985
3	SMS ASSIST, L.L.C.	\$950
4	SADA Systems, Inc.	\$941
5	U.S. Xpress Enterprises, Inc.	\$843
6	Magellan Specialty Health, Inc. / National Imaging Associates, Inc.	\$752
7	Two hyperscale data centers acquired by GI Real Estate Essential Tech	\$743
8	Carlisle Fluid Technologies, LLC	\$520
9	Hut 8 Mining Corp.	\$514
10	UK Storage Segment of WillScot Mobile Mini Holdings Corp.	\$415

TOTAL **\$9,913**

* Excludes Real Estate, Mining, Energy Exploration, Project Finance, PIPES, 144a placements.

(1) Only includes transactions with disclosed values.

TOP 10 2023 PRIVATE PLACEMENTS⁽¹⁾

(\$ in millions)

1	Footprint International Holdco, Inc.	\$830
2	Lessen, LLC	\$500
3	Vensure HR, Inc.	\$500
4	Alpine Racing Limited	\$218
5	Canyon Ranch, Inc.	\$150
6	Sudo Biosciences, Inc.	\$147
7	Edgio, Inc. (NasdaqCM:EGIO)	\$126
8	SOURCE Global, PBC	\$106
9	Openly LLC	\$100
10	Offerpad Solutions Inc. (NYSE:OPAD)	\$90

TOTAL **\$2,767**

* Excludes TSMC's \$3.5 billion Private Placement into its Arizona subsidiary.

(1) Only includes transactions with disclosed values.

Please contact John Farr at jfarr@columbiawestcap.com or David Barnett at dbarnett@columbiawestcap.com for additional information.