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PRIVATE EQUITY
Transactional
2024 Market Outlook

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State of the Transactional Market

2023 was a tough year for dealmakers and 2024 is not expected to improve unless the Federal Reserve begins to lower interest rates. Merger and Acquisitions ("M&A") deal volume decreased significantly year over year as a result of high interest rates. The majority of acquisitions in 2023/2024 have been add-ons to current portfolio companies in lieu of platform investments. The depressed deal flow in 2022/2023 coupled with the increase in Representation and Warranties Insurance ("R&W") market capacity has put pressure on carriers to decrease pricing and retentions. It has also expanded the appetite of some of the carriers for both the nature of operations (i.e. healthcare) and deal size (< $25 million enterprise value). Unless there is a significant increase in M&A activity over the next few months we expect R&W retentions and premiums to remain steady in 2024.

Market Trends

Premium:

- Due to the competitive landscape and lower M&A activity we expect premiums in 2024 to hold steady. Premiums were at an all-time high in 2021 ($50,000 to $75,000 per million of limit) and started to come down in the first quarter of 2022 and continued to decline in 2023 ($21,000 to $27,000 per million of limit). It should be noted the increase in claim activity from deals bound in 2021 could put some pressure on pricing.

Retentions:

- Similar to premium we expect retentions to remain steady. Most carriers' starting retentions are well below the 1% of enterprise value ("EV") average in 2021. Prior to 2022 carriers would only offer a starting retention below 1% of EV for transactions greater than $250 million. Presently carriers will offer starting retentions below 1% of EV for transactions with an enterprise value of $25 million or less with a drop down to .5% of EV and some as low as .4% of EV.

Claims:

- There has been an increase in claims activity. This can be contributed to the record volume of deals in 2021. How carriers are managing and paying claims has been a popular topic amongst insureds.
- The most frequent types of breaches being reported as claims consist of Financial Statements (21%), Tax (19%) and Compliance with Laws (16%).
- Many claims have been limit losses, some expected to be as much as $1 billion in payment. These large losses could put pressure on the carriers to increase premium.

Purchase Agreement Comments:

- In 2021 it was not unusual for carriers to have several comments on the Purchase Agreement. In today's market underwriters have become much more flexible on their approach to the Purchase Agreement and try to limit their proposed changes.

Trends:

- Secondary deals- Because of market conditions there has been an increase in secondary transactions. More carriers are willing to quote and cover provisions such as excluded obligations which previously had been excluded.
- Smaller transactions- Carriers are creating streamlined work streams for smaller transactions. In the past, most carriers would not quote a transaction that was less than a $50 million enterprise value. Now some carriers will offer limits as low as $1 million and quote transactions with an enterprise value as low as $10 million.
- Add-on acquisitions- Were the primary driver of PE M&A activity in 2023. Add-on acquisitions represented 76% of overall deal count during the first three quarters of 2023 and this trend is expected to remain consistent in 2024.

Insured Capacity:

- New carriers- Thus far there have not been any R&W carriers exiting the market and the field continues to grow although not at a pace of 2021/2022. Some recent entrants to the US market include Fusion, Volante Transaction Services and Sand Point Risk.

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