

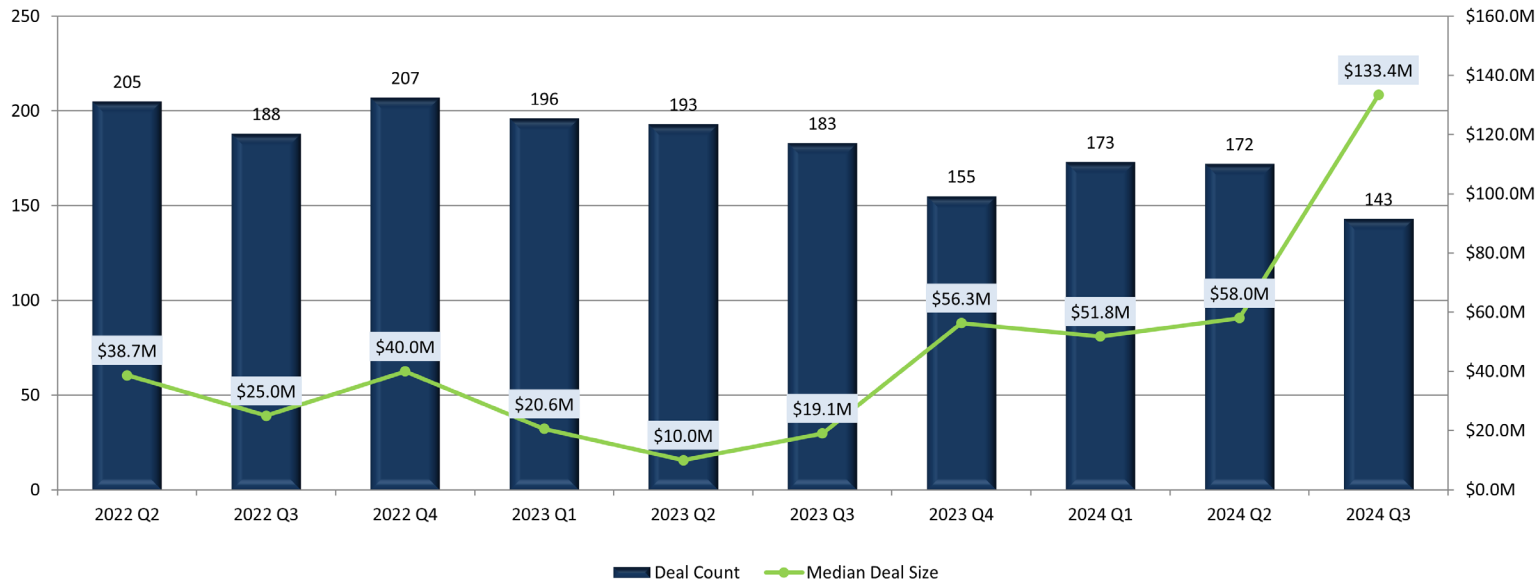
# Northwest Market Update

2024 | Quarter 3



# NW Market Overview

## The State of the NW Market in Q3 2024



In the third quarter of 2024, the Northwest (WA, OR, ID, MT, WY & AK) M&A market saw a slight decrease in deal volume with 143 deals closed (down from 172 in Q2 2024). The decrease can be attributed to macroeconomic trends and seasonality. The third quarter typically sees a reduction in deal volume due to the summer months, as sellers and buyers spend more time away from the office. Additionally, buyers and sellers were anticipating a rate cut during Q3 of 2024, leading many to wait on the sidelines until the cost of debt fell. This rate cut eventually came in September, with the fed lowering interest rates by 50 bp. Economic uncertainty has started to dissipate, and there are many signs that persistent inflation is beginning to show signs of weakening.

### Cost of Debt Reduced

In our Q2 market overview, we highlighted that PE funds are facing increased pressure to exit existing investments. Due to the high cost of debt, exiting portfolio companies has proven to be more difficult than anticipated. Over the past year, investors and business owners have been patient, waiting out periods of economic uncertainty, and conservatively allocating capital. With a 50 bp rate cut, and more to come as indicated by the Fed, we are expecting to see significant growth in deal volume over the next 12 months, as sellers and buyers start to decide to transact.

Concurrently, there has been ample activity in the private lending sector. Demand for private debt issuances has skyrocketed, leading investment banks scrambling to find ways to securitize these offerings and allow everyday investors to participate through a stock exchange. According to an article in the Wall Street Journal, investment giants such as Apollo, BlackRock, Capital Group, KKR and State Street are working to launch private credit ETFs which would allow anyone to tap into the \$1.7T market of lending to corporations and consumers. This level of activity in the private lending space indicates there is more optimism from both borrowers and lenders about the direction of the economy.

### Positive Outlook

The reduced cost of debt, coupled with anticipated rate cuts, has elicited a more positive outlook from business owners and capital allocators. According to an EY CEO Outlook Pulse survey of 1,200 executives, seven in ten of the CEOs surveyed shared an optimistic outlook for the economy. In Q3 of 2024, the U.S. economy in particular experienced wage growth, lower unemployment, resilient retail sales, rising business investment and increased consumer confidence. With these tailwinds, businesses will choose to be more aggressive with growth strategies which include increased investment and M&A. As investors become more confident about the state of the economy, the willingness to put capital to work and pay higher prices for quality companies will continue to rise.

# AH Commentary

## Building to Sell

At Alexander Hutton we are a boutique, generalist M&A advisory firm run by former operators that have all built and sold companies ourselves. We have formulated the strategy, raised the capital, set the budget and executed the tactics. To varying degrees of success, we have operated the companies, bought add-on companies, executed divestitures and lived with the consequences of those decisions. I think this understanding helps us offer a more informed view on what happens after the deal for both buyer and seller.

Over the past five years, we continue to find ourselves serving clients in the “readiness” phase well in advance of going to market. With 60-70% of our clients ultimately partnering with private equity firms (or PE-backed strategics), why not apply our operating backgrounds and help our clients make the needed changes that build enterprise value? PE buyers are looking for durable businesses that can be doubled or tripled over a three-to-five-year period with a strong management team augmented by a strong balance sheet. In essence, if there are 10 levers to pull to accelerate growth, let's identify the easiest (and cheapest) three and build value ahead of a transaction.

Several recent examples include:

- **Enterprise Software:** We helped recruit a new VP of marketing who then re-positioned the company and product, which accelerated growth from enterprise licenses to scalable ARR.

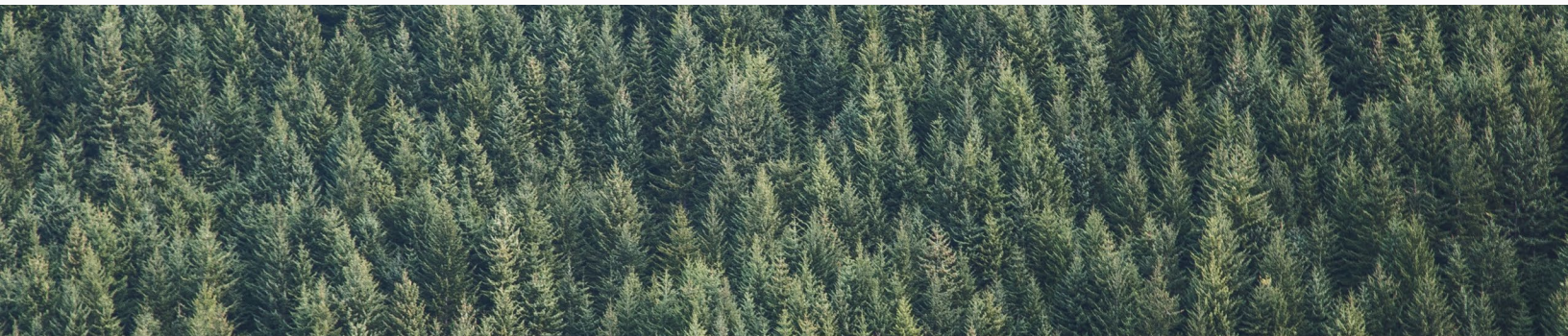
- **Home Restoration:** We encouraged the sole owner to in-source all that he currently outsourced knowing that PE-backed strategic buyers prefer a “full-stack” offering. This led to a significantly better outcome upon sale.
- **Marketing Agency:** We encouraged the ownership who preferred immediate retirement to delay the sale process and recruit a proper CEO that would lead the current team and be the key leader to the incoming owners.

In investment banking it's not all about tombstones, EBITDA and valuation multiples, its often guiding our clients on what makes the business bullet-proof. Risk and value have an inverse relationship, and the prudent moves made well ahead of a transaction can pay huge dividends down the road.

Let us know if we can offer a perspective on what makes your business more durable.



**James Thompson**  
Managing Director



# The Alexander Hutton Team

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# Who We Are

Led by a team of former business operators and executives, we are advocates to the capital markets for entrepreneurs and successful private businesses.

We offer a unique understanding of what it takes to run a business, an accessible team dedicated to client service and expertise in the M&A markets gained over 228 successful transactions.



# What We Do

## Operators

Business owners,  
Entrepreneurs,  
CEOs

## Buyers

Private Equity, Growth  
Capital, Debt Providers,  
Corporations

Your M&A  
Advisor



In our role as M&A advisors, we bridge the gap between business owners and capital providers. We serve our clients by creating a competitive process that drives the best outcome.

# Contact Us

Connect with the business leaders at Alexander Hutton and talk to us about the future of your company.

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