

Cautious Optimism: 2024 M&A Landscape

Q1 2024

2024 M&A Outlook: Calmer credit markets, slowing inflation and election-year considerations look to bring about a resurgence in dealmaking.

2023 was relatively quiet for middle-market transactions, especially in comparison to 2021-2022. A significant jump in interest rates over the past 24 months put downward pressure on valuation multiples at a time when acquirers were already becoming cautious due to the possibility of the economy slipping into a recession as the Fed aggressively sought to taper inflation.

As it stands early in 2024, there is reason to believe that many of these headwinds are beginning to subside. Inflation has, as of the most recent readings, dropped to levels closer to the Fed target range, increasing the likelihood that we will see short-term rates begin to drop sooner rather than later. Additionally, after raising capital at record levels over the past few years, with 2023 being a light year for new investments, private equity (PE) firms are left sitting on an unprecedented amount of uninvested capital commitments (commonly referred to as “dry powder”). We anticipate that, if borrowing costs fall and a recession is avoided, these firms will become more aggressive in pursuing deals in 2024.

While the macroeconomic conditions look to be turning more supportive of M&A activity in the near term, we would also encourage business owners to consider the potential impact of the upcoming elections, as well as the risk of some escalation in geopolitical tensions due to the ongoing conflicts in Ukraine and the Middle East. These risks add a level of urgency for those seeking to complete a transaction in 2024, as closing a deal in the first half of the year takes some of that uncertainty off the table.

Key Takeaways

- M&A environment is improving as rates stabilize and inflation returns to a more manageable level
- Strong PE fundraising and lighter deal activity in 2023 have driven the level of dry powder held by U.S. PE funds to record levels
- Uncertainty around the upcoming U.S. elections, as well as geopolitical risks, support a sense of urgency for those looking to complete a deal this year

Key Contacts



Todd McMahon
Senior Managing Director
617.603.8962
todd.mcmahon@griffinfinngroup.com



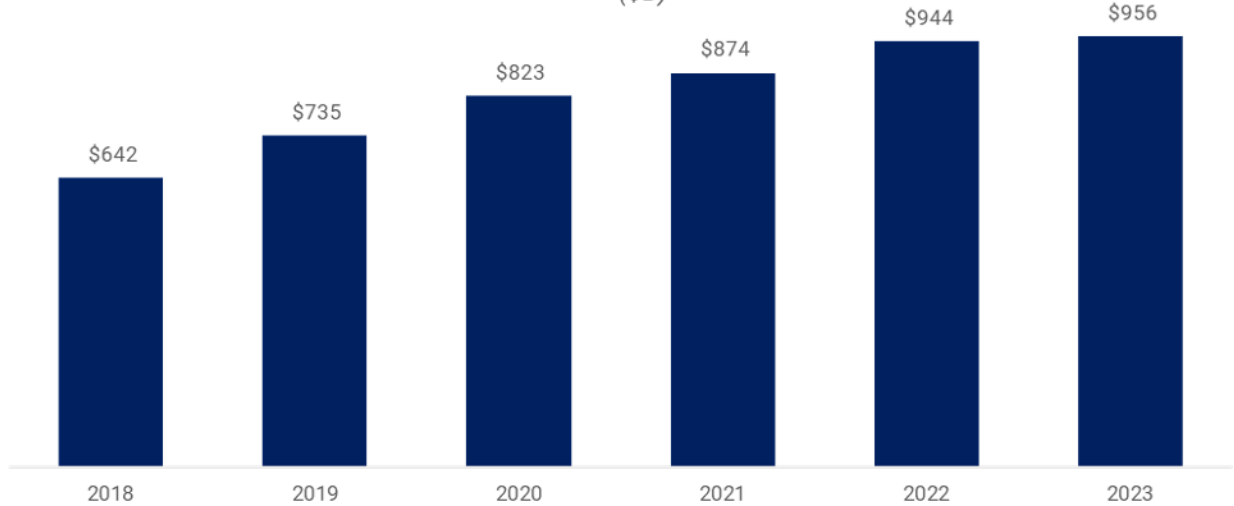
Sophea Chau
Senior Managing Director
617.603.8963
sophea.chau@griffinfinngroup.com

M&A Market Insights: 2024 Outlook

Private Equity Sponsors Have Record Levels of Capital to Deploy

- As mentioned, PE firms were relatively quiet throughout 2023, with deal activity falling slightly below pre-pandemic levels. At the same time, the level of new capital commitments raised by these firms was only slightly down from the high-flying years of 2021 and 2022, resulting in record levels of dry powder.

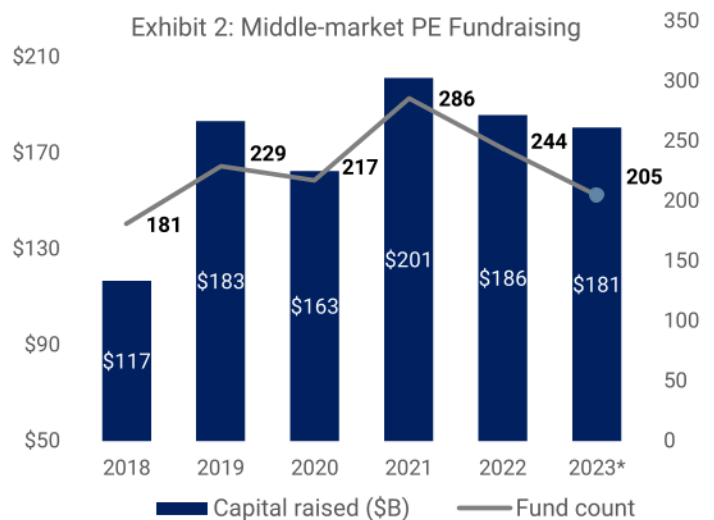
Exhibit 1: U.S. Private Equity Dry Powder (\$B)



Lower Middle-Market Fundraising Activity Remains Robust

- While aggregate fundraising marginally decreased for middle-market funds (defined as those between \$100M and \$5B), sponsors nonetheless secured over \$180B of new commitments in 2023.
- This level of interest suggests that, despite historically high levels of dry powder and slowing deal activity, institutional investors and other capital allocators still see middle-market buyout as an attractive strategy for the intermediate and long-term.
- With capital continuing to flow into PE, we anticipate that sponsors will feel increasing pressure to put money to work, particularly as the macro-economic environment stabilizes.

Exhibit 2: Middle-market PE Fundraising

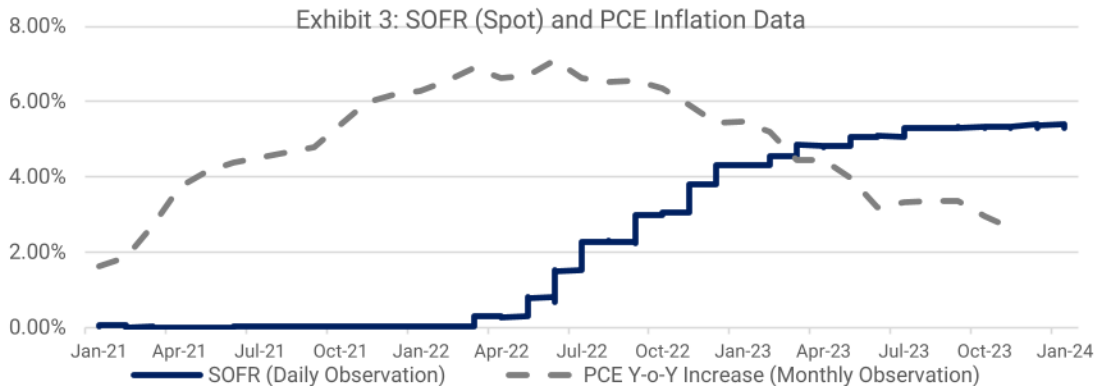


Sources: S&P Capital IQ, Pitchbook, Griffin Financial Group Research

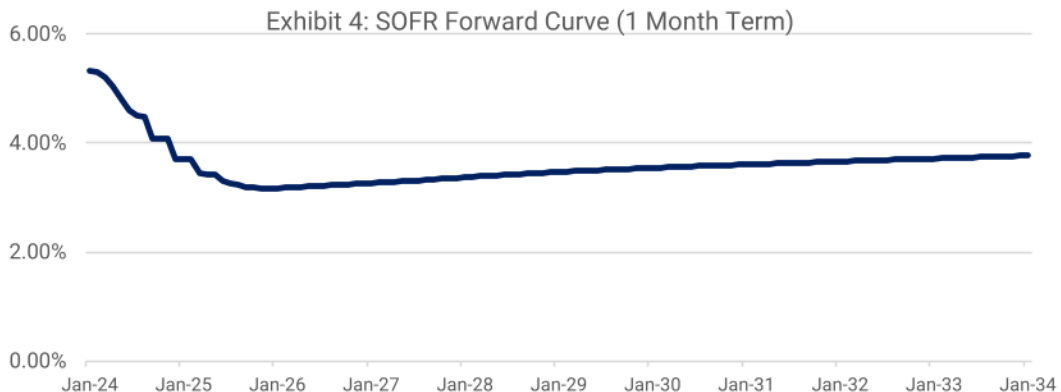
M&A Market Insights: 2024 Outlook

Return to (Relative) Normality for Interest Rates and Inflation Lessens M&A Headwinds

- A significant factor in the drop off in deal activity over the prior 18-24 months has been an increase in the cost of borrowing to finance transactions as the Federal Open Market Committee (FOMC) aggressively raised rates to combat inflation.
 - Starting in March of 2022, the FOMC has increased the policy rate 11 times, a cumulative increase of 525bps.
 - As a result, the Secured Overnight Offered Rate (SOFR), the key benchmark used to price much of the debt which fuels M&A markets, rose from effectively 0% to 5.3% over that timeframe.
- The increase in monthly Y-o-Y Personal Consumption Expenditures (PCE) inflation fell below 3% in October 2023, the lowest observations in more than two years.



- Barring a significant change to the macroeconomic outlook, the Fed is expected to begin cutting rates in early/mid 2024.
- Market consensus, as defined by observable pricing data from future contracts and other rates-based derivatives (see Exhibit 4), expects the Fed to cut by as much as 150 basis points over the next 12 months.
 - Should the benchmark rate drop 3-4% over the next 24 months as expected, we would anticipate acquirers to become more aggressive in pursuing (and pricing) deals.



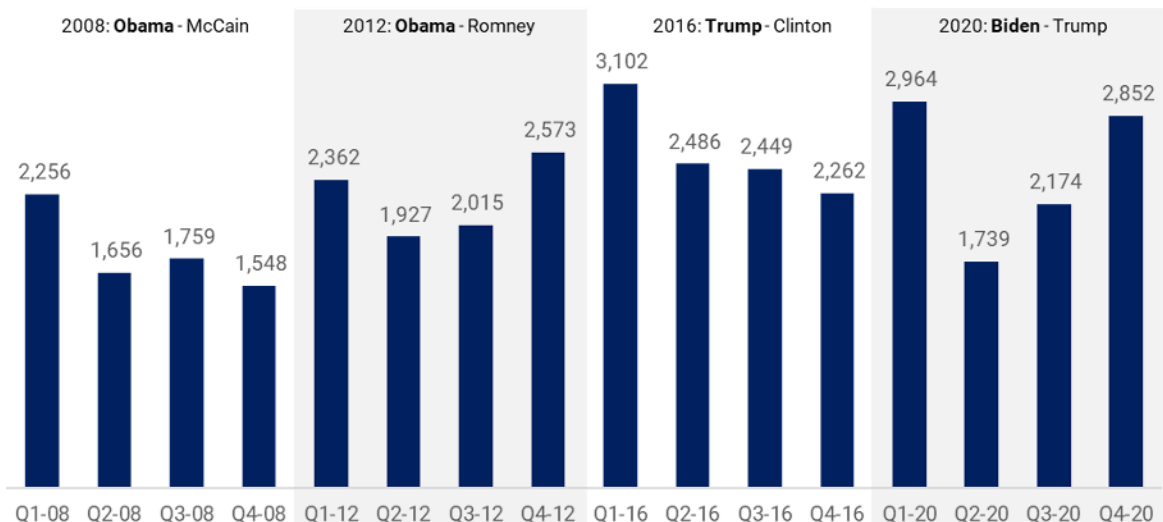
Sources: S&P Capital IQ, Federal Reserve Data, Griffin Financial Group Research

M&A Market Insights: 2024 Outlook

2024 U.S. Elections: Potential for Disruption

- Uncertainty regarding the outcome of the upcoming 2024 Presidential Election should support increased dealmaking in the first half of the year.
 - 41% of middle-market companies surveyed reported that the pending elections make them more likely to pursue M&A in 2024, especially in the first two quarters.
- However, this doesn't necessarily mean M&A activity will abruptly stop or pause after Nov. 5, 2024. The winning candidate's platform and overall general market response will dictate M&A conditions in Q4 and beyond.
- Regulatory policies, tax implications and election integrity concerns could create uncertainty in the M&A market depending on the election's outcome.
 - It's too early to speculate on who the final ballot will include, let alone election results. However, Trump's decisive win in Iowa creates momentum for a 2020 rematch with Joe Biden.
 - While the Presidential race understandably consumes most of the election-related attention, the results of the congressional races in both houses are equally impactful for policy outcomes. In particular, should the Democrats flip the House and keep control of the Senate, we could see increased corporate and long-term capital gains taxes back on the table. It should be remembered that this was a significant factor in driving deal activity in 2021.
 - In addition to the policy implications, which are material for many businesses, there is also a risk that the result, or uncertainty about the result, may temporarily cause a level of instability that could disrupt an active M&A process.
- Q1 has been the most active M&A quarter in three out of the last four election years, fueling strong M&A results in the first half of all of them. We anticipate a similar result in Q1 and Q2 of this year, especially against a backdrop of record levels of dry powder and falling interest rates.

Exhibit 5: M&A Deal Count – Quarterly (Presidential Election Years)



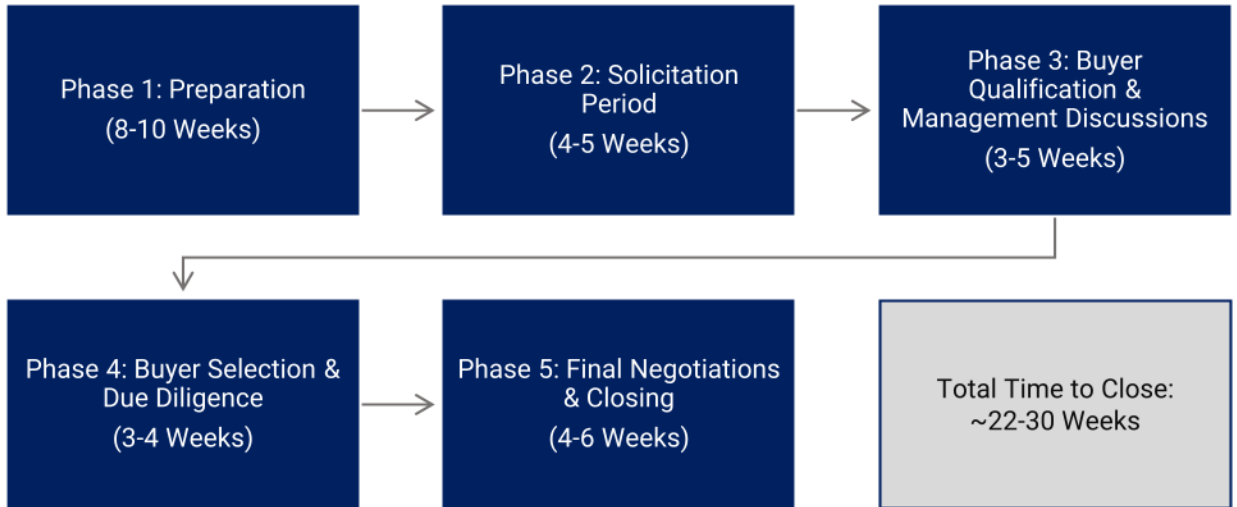
Sources: S&P Capital IQ, Pitchbook, Griffin Financial Group Research

M&A Market Insights: 2024 Outlook

Bottom Line: Conditions Are Improving, but Risks Remain on the Horizon

- We typically tell clients to allow for roughly 5-8 months for a process to be completed from start to finish. The time it takes to close can vary depending on the complexity of the deal and the level of preparedness of the company.

Exhibit 6: Illustrative Transaction Timeline



- With this in mind, business owners who are thinking about selling or raising capital this year, should consider preparing to **launch in early Q2, positioning themselves to close prior to the election and any accompanying fallout.**

About Griffin Financial Group

About Griffin

- Griffin Financial Group is a leading investment bank focused on the needs of lower middle-market companies.
- We provide M&A advisory, capital advisory and strategic board advisory services to the financial institutions, consumer, commercial and industrial, services, technology and private equity sectors.
- Part of The Stevens & Lee Companies, a multidisciplinary professional services Platform of 250+ professionals providing a full range of investment banking, legal, business and government consulting services to assist clients in solving their most complicated problems.
- We specialize in working with closely held private and small-cap public companies, with particular expertise regarding family-owned and owner-operated businesses.

M&A Advisory Services

- Griffin manages the process of selling or buying a business and analyzing the company and the industry in which it competes. We work closely with clients to identify goals and objectives and in planning an optimal sale or buy strategy. When selling a business, Griffin works with clients to manage an extensive, customized competitive sale process, including:
 - Identifying potential strategic and financial buyers that best meet our client’s objectives
 - Developing and assisting in the preparation of management presentations
 - Preparing a confidential, descriptive selling memorandum that highlights the unique aspects of the business customized for different potential buyers
 - Evaluating offers and assisting in negotiations with prospective buyers
 - Managing multiple bidding rounds, including data room management
 - Managing the closing process

What We Offer

