

Despite hopes for a late surge, 2023 ended with a significant decline in middle market deal activity, according to a recently published report by GF Data, a database of private mergers and acquisitions transactions. The total number of deals completed by contributors to their database, at 269, fell nearly 19% compared to 2022 and a staggering 46% compared to the record-breaking year of 2021. This drop reflects the challenging economic climate and its impact on buyer and seller expectations.

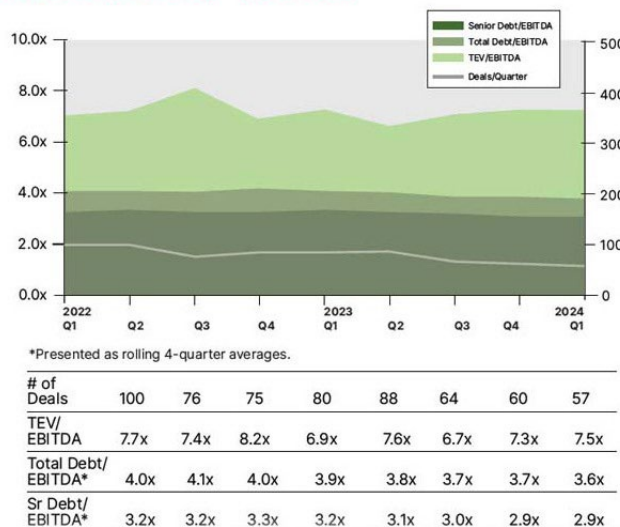
However, a silver lining exists in the form of improving valuations, particularly for smaller deals. While the average multiple for all deals in 2023 dipped slightly from previous years, smaller transactions between \$10 million and \$25 million saw a significant increase in valuation, reaching 6.6x in the fourth quarter. This trend suggests potential resilience in specific market segments.

Interestingly, the market also displayed a sense of balance in terms of valuations. Larger deals, typically attracting higher multiples, experienced a decline in the later part of the year. Conversely, valuations for businesses with strong financial performance remained high, indicating a continued premium placed on quality assets. This suggests that even in a challenging environment, investors are willing to pay a higher price for companies with clear potential.

Overall, 2023 presents a picture of a middle market M&A landscape in flux. While the overall deal flow declined, positive signs like improving valuations and a focus on quality suggest a potential rebound in the coming year. Additionally, the increased use of rollover equity hints at a market adapting to changing financial conditions and potentially paving the way for future deals.

Tale of the Tape

2022-2023 by Quarter



Source: GF Data

NOTICE:

Published multiples should only be used as a general guide to market conditions. Many factors will cause multiples to vary for a particular company including; industry, size, customer concentrations, management, brand and various other characteristics. Talk with your CFAW representative for guidance. Information provided by Pitchbook may not be used or re-published in any form without written permission of Pitchbook or Corporate Finance Associates.

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