FIRMEX

# Deal Flow Bulletin

Q4 2022

*Partnered with:*

divestopedia

# Contents

# Bulletin Highlights

- In North America, the pace of announced deals will be up 11% in the fourth quarter of 2022 from the third quarter, according to a Firmex analysis of virtual deal room formation. In Europe, Firmex projects deal activity will increase by 6% in the quarter.
- Despite apparent challenges, overall, **56% of middle-market merger advisors said they are feeling positive about the M&A market,** the first increase in optimism in a year. Only 14% had negative feelings.
- Advisors report that **deal volume over the last three months has mostly stayed constant,** with the number saying their business increased (36%), down slightly from the previous survey in June 2020.
- **Forecasts for volume in the coming three months increased for the first time all year** to 43%. Only 19% expect deal flow will decline.
- **Pessimism about the economy is increasing,** with more than half of advisors predicting a recession over the next year.
- The uncertain economy is complicating negotiations as buyers conduct more detailed due diligence and lower the prices they are willing to pay.
- **Well over half of the advisors say it's taking longer to close deals,** and nearly as many say **the gap in prices asked by sellers and prices offered by buyers has widened** in the last three months.
- To bridge the price gap between buyers and sellers, **four in ten advisors say that earnouts are becoming more common** in deal agreements.
- More than half of advisors say company valuations are average, the **first time in the two years of the survey that most advisors didn't call valuations high or very high.**

# Bulletin Highlights *CONTINUED*

- A slim majority predict **values will continue to fall over the next three months.**
- **Financing deals is getting harder.** Half of the respondents say that debt financing is less available. Three in ten say it's more difficult to raise equity.
- **The pace of cross-border transactions is largely staying constant,** although more than a third of advisors in Europe see an increase in foreign buyers doing deals in their country.
- **The flood of new buyers into the market has slowed,** with advisors split evenly on whether the number of buyers is increasing or decreasing. **In Europe, the predominant view is that there is a decline in buyers.**
- The share of buyers that are private equity firms or companies owned by private equity continues to increase.
- **The number of companies putting themselves up for sale is seen as staying constant or increasing,** not declining.
- The top reason that companies put themselves up for sale is **"Fear of difficult future conditions."**
- **The sharp decline in public markets weighs heavily on middle-market dealmaking,** depressing valuations. There are many fewer deals involving SPACs or meant to prepare a company to go public.

# Introduction

When we surveyed advisors in September, their responses showed a notable optimism for what the close of the year might look like, with the first increase in positive sentiment from advisors since September 2021. They report that there are still plenty of deals to be done, and they anticipate being able to do them this quarter. Along with this optimism though, it's clear that this year's challenges for mergers and acquisitions in the middle market have persisted, with plenty of forces working against the easy closing of deals. Advisors are reminding us, however, that after the record highs of last year, current volumes and valuations reflect a return towards the kind of regular levels that characterized the market pre-pandemic. The fourth quarter is looking like one of recalibration. We are able to capture this picture of the market and share it with the global M&A community thanks to the advisors who spent the time to relay their experience and opinions to us, as well as John Carvalho and the Divestopedia network, who provided us with their knowledgeable observations and analysis.

***—Mark Wright, General Manager at Firmex***

'May we live in interesting times', seems to be an appropriate truism describing the current M&A environment. Uncertainty abounds with the threat of a recession looming, yet deal volumes seem to be holding steady in Q4. This is likely still a function of the abundance of equity capital seeking acquisitions and an aging baby boomer demographic seeking exits from their businesses. The one variable to be affected by this uncertainty is valuations. Increasing interest rates and tightening debt capital markets will undoubtedly materialize to lower purchase prices for deals. Although the appetite for acquisitions from buyers and the need for transition from sellers will still be present, transactions will need to be consummated at lower valuation multiples. Furthermore, creative deal structures, such as earnouts, will be used to share the risk of market uncertainty. It seems as though we are moving into a buyers' M&A market. Strategic and financial acquirers that can navigate these interesting times by sourcing transactions, securing capital, and structuring winning deals, will find success.

***—John Carvalho, Founder of Divestopedia and President of Stone Oak Capital***

# Overview

**Heading into the end of a challenging year, the market for mergers and acquisitions of mid-sized companies is adjusting to a new reality.**

Company valuations have fallen to a normal range from the high levels of last year. While deal volume fell in the third quarter, our quarterly survey of advisors who serve middle market companies shows they are starting to see things looking up. For the first time in a year, there is a rise in the number of advisors who expect deal volume to increase. Not surprisingly, overall sentiment has turned positive from neutral.

There are certainly many challenges. With inflation surging and the prospect of a recession looming, buyers are becoming much more rigorous in their due diligence. Bankers, for the same reasons, are more reluctant to make loans for acquisitions. When they do, they demand deals that have more equity and less leverage.

Business owners see the clouds on the horizon as well, merger advisors say, prompting many of them to try to sell their companies before things get worse. But often, they are reluctant to accept that the price they will receive is significantly lower than it would have been a year ago. Company valuations, in the assessment of the advisors, have fallen to a normal range from the high levels of last year.

All this adds up to longer and more complex negotiations.

**"Everything is being delayed,"** says David Gandara, a Strategic Partnerships Advisor with Covenantz in Seattle. **"It appears to take longer to get things done."**

Still, as the froth of recent years gets cleared away, most of the advisors in the market see a solid core of profitable companies that can be matched with smart buyers with cash to spend.

**"I think the market is still ripe for those who are legitimately looking to grow by acquisition or get into a new business,"** says Jamer Odney, an associate at Crescenda Merger and Acquisition Advisors in Kansas City. **"Those on the fence have many excuses for why they don't think this is the right time to buy a business. But the active buyers are still active."**

# Observations

We are going into a period of reduced activity. Sellers' profitability is down. The future risk is up. And the banks are more cautious. This is leading to lower valuations and causing inventory to be pulled from the market. ***—Troy Ternowetsky, Managing Partner, Osprey Capital, Canada***

Valuations for growth-at-all-costs companies are down massively. Growth-with-profitability companies have been impacted much less. ***—Ed Bryant, CEO, Stampford Advisors, Canada***

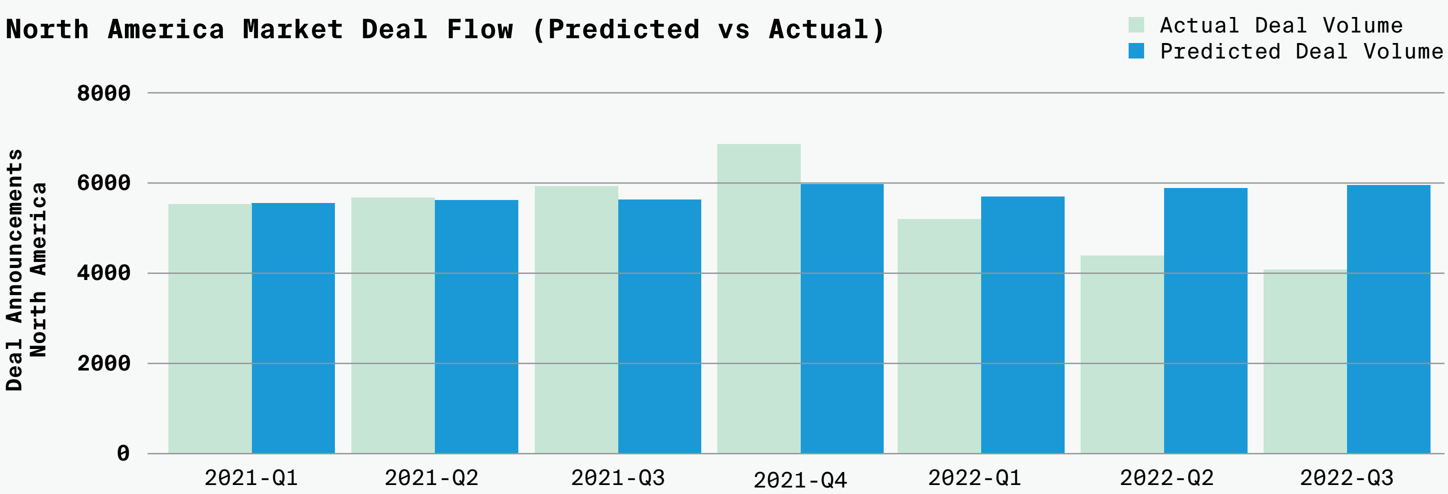
Buyers continue to see opportunities. But it is clear they also expect a potentially challenging period upcoming. They are more focused on value creation than ever. ***—James Pugh, Co-Founder and Partner, CapEQ, United Kingdom***

Sellers of quality companies are demanding more from their advisors. They expect detailed selling strategies and advisor competency to carry out these plans. ***—Gary Weinman, President, American Business Intermediaries, United States***

In 2022, M&A predictions require a crystal ball more than ever. Certain factors are increasing risks. Others create opportunities for consolidation.
***—Guidalberto Gagliardi, CEO, Equity Factory, Italy***

# About the Deal Projections

The forecasts of fourth-quarter 2022 deal volume are based on activity on the Firmex Platform, one of the most widely used virtual data room providers. Each year, more than 20,000 rooms are created on Firmex for prospective buyers and sellers to exchange confidential information during due diligence. The level of deal room creation has proven to be a reliable indicator of future M&A activity. In times of economic uncertainty, however, the measure becomes more of a trailing indicator because the time it takes for deals to close extends. Accordingly, starting in the fourth quarter of 2022, the methodology has been adjusted to take these conditions into account. Our count of actual deals is provided by S&P Capital IQ.




# About the Survey

The insights about market dynamics are drawn from an online survey in September 2022 of 123 investment bankers, business brokers, and other professionals involved in middle-market mergers and acquisitions. Firmex has conducted quarterly surveys with similar methodologies since 2021.

### About the Respondents:

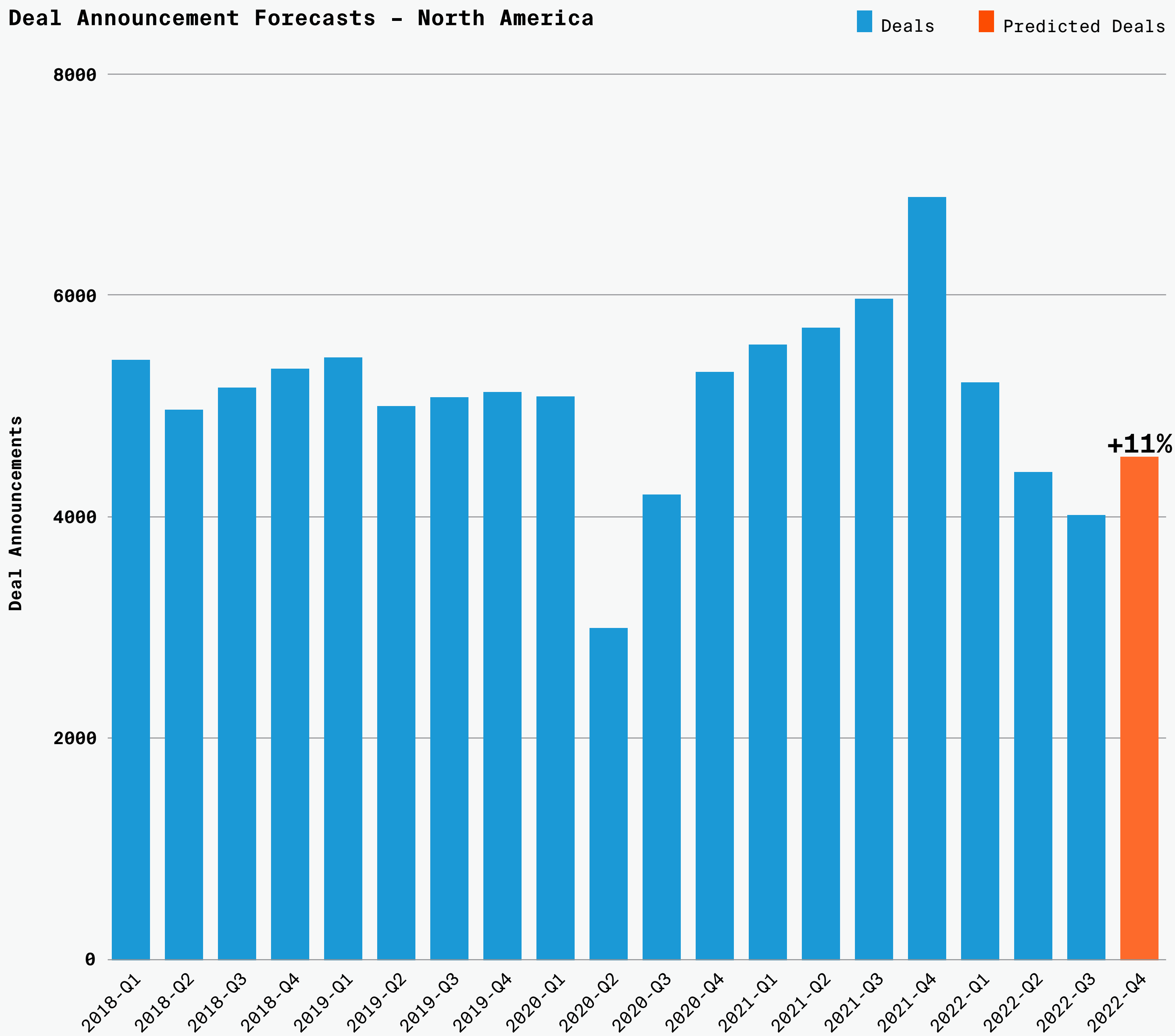
- The most common respondent was an investment banker working in the United States who is the head of a firm with five or fewer employees that typically handles deals between $6 million and $50 million, mostly for sellers.
- Half the respondents described themselves as generalists. The most common industry specialty was “manufacturing, construction, and transportation,” followed by “business services.”
- Two out of three respondents were based in North America, with another quarter in Europe.
- There was quite a diversity of job functions among the respondents. Lawyers, business development executives, and others not directly doing deals made up 23% of respondents.
- Four-fifths of them work in firms with 20 or fewer employees. Their firms typically complete fewer than ten deals a year.
- Advisors at firms with more than 100 people made up 12% of respondents. And 18% regularly handle deals valued at $100 million and up.

**See the appendix for detailed information on respondents.**

# **The Firmex Deal Flow Forecast:** North America

Dealmaking in North America has fallen sharply this year from last year, but volume will increase in the last quarter of the year from the third quarter.

Firmex projects the number of North American deal announcements in the fourth quarter of 2022 will increase from the third quarter by 11%. In comparison to the same period in 2021, the highest deal volume on record, that is a 35% decline, representing a return to more normal pre-pandemic deal levels.

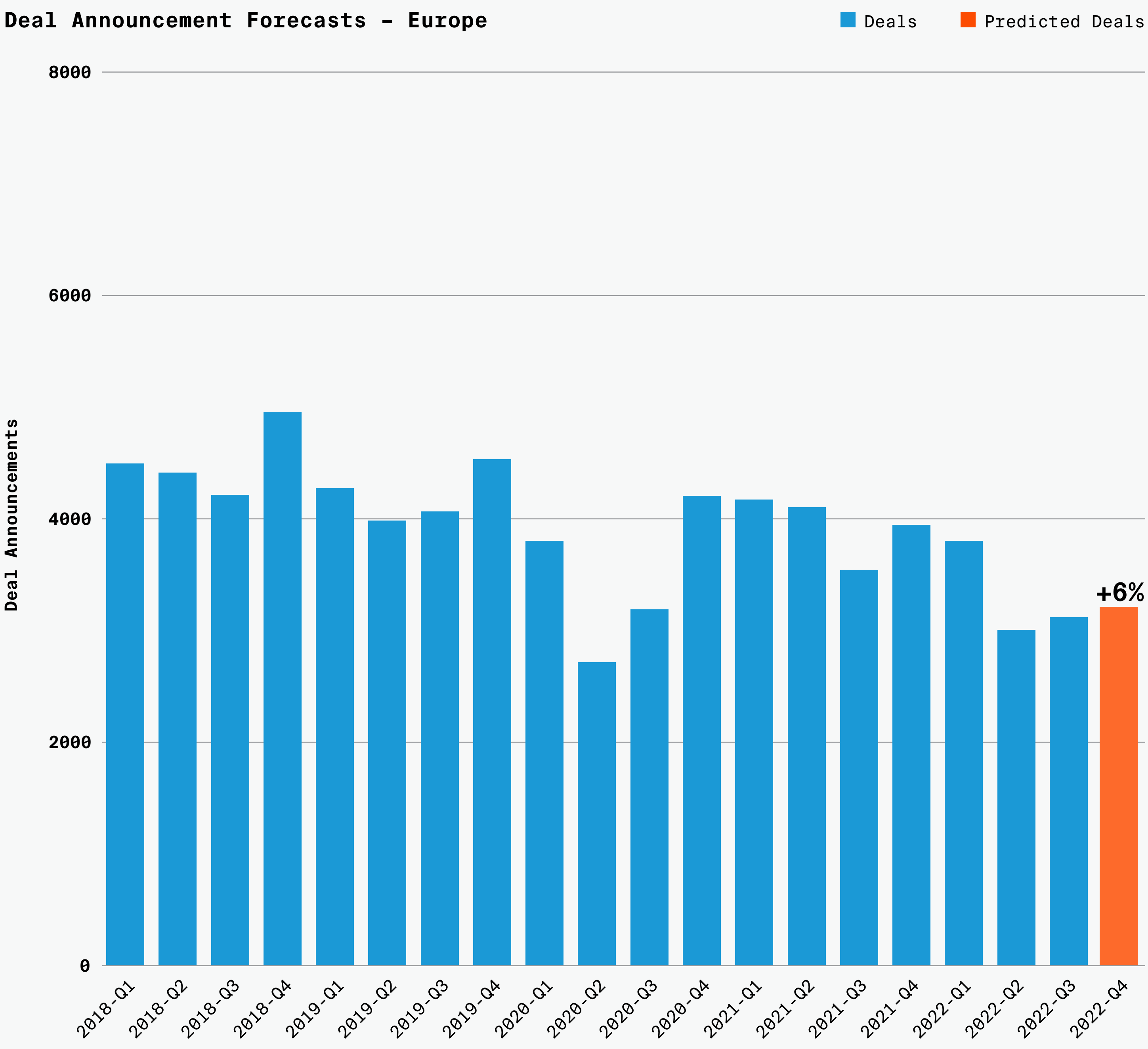



*Source: S&P Capital IQ (2018 - 2022 Q2), Firmex analysis Q3 2022*

# **The Firmex Deal Flow Forecast:** Europe

So far this year, dealmaking in Europe has fallen, but not quite as much as it did in North America, despite the many disruptions caused by the war in Ukraine. The difference may be because Europe didn't have the surge in deal activity in 2021 that North America saw.

Firmex projects the number of European deal announcements in the fourth quarter of 2022 will increase by 6% from the third quarter. That is a 20% decline from the same period in 2021, again, reflecting a return from record-highs to more regular pre-pandemic volumes.




*Source: S&P Capital IQ (2018 - 2022 Q2), Firmex analysis Q3 2022*

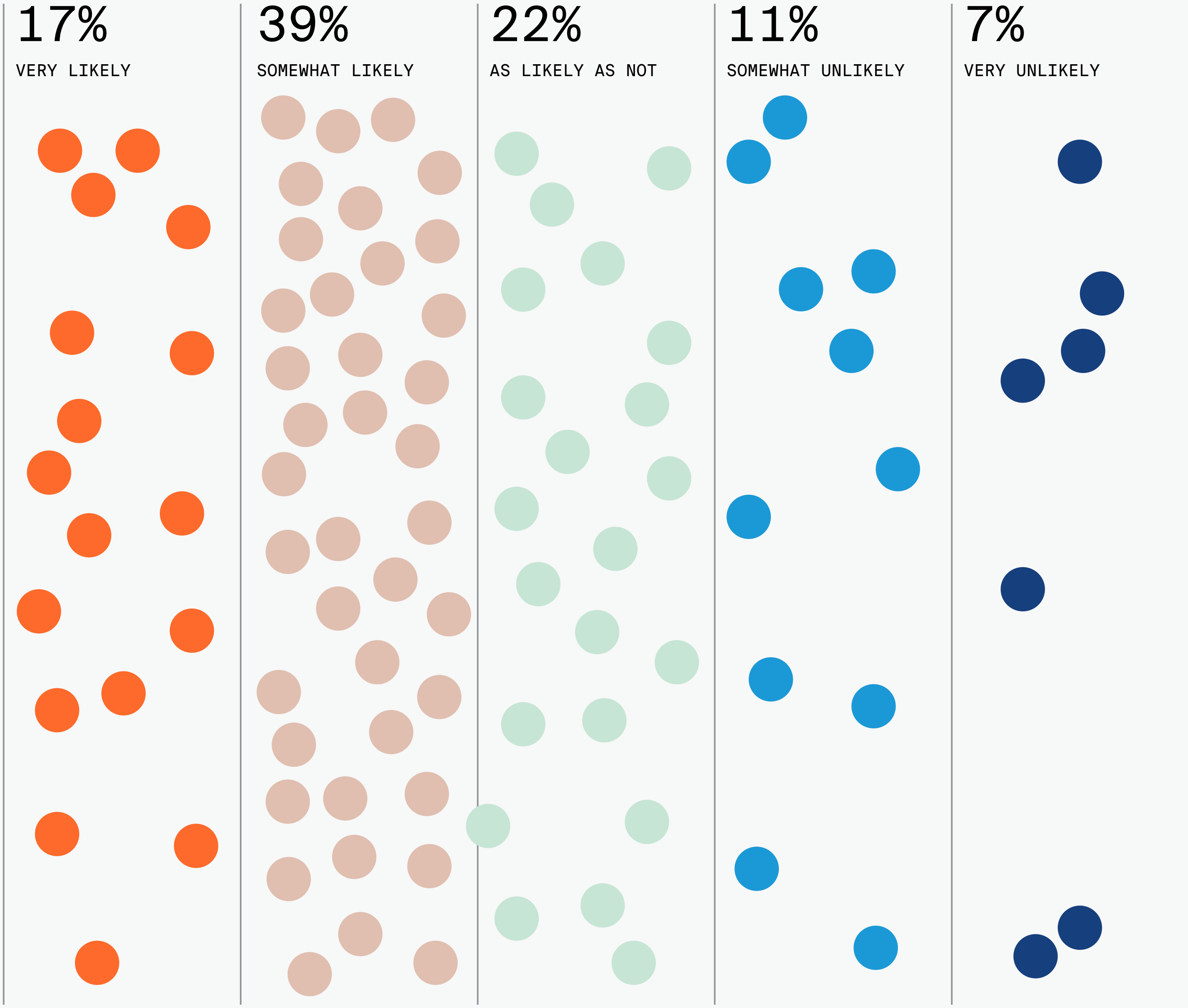
# Likelihood of Recession

Over the last three months, merger advisors have grown a bit more pessimistic about the economy, or to be more precise, somewhat less optimistic. The number predicting that a recession is likely over the next year increased to 56% in September from 53% in June. The number who thought a recession is unlikely dropped to 18% from 26%

Put crisply, the ratio of pessimists to optimists increased from 2:1 to 3:1.

**"I believe we are already in a recession and still probably have 6-12 months before the pain begins to ease,"** said Brent Elsass, a principal with C Squared Advisors. **"The Fed will continue to fight inflation, which will only make the market that much more difficult."**

**What is the likelihood of a recession in the industries you serve over the next year?**



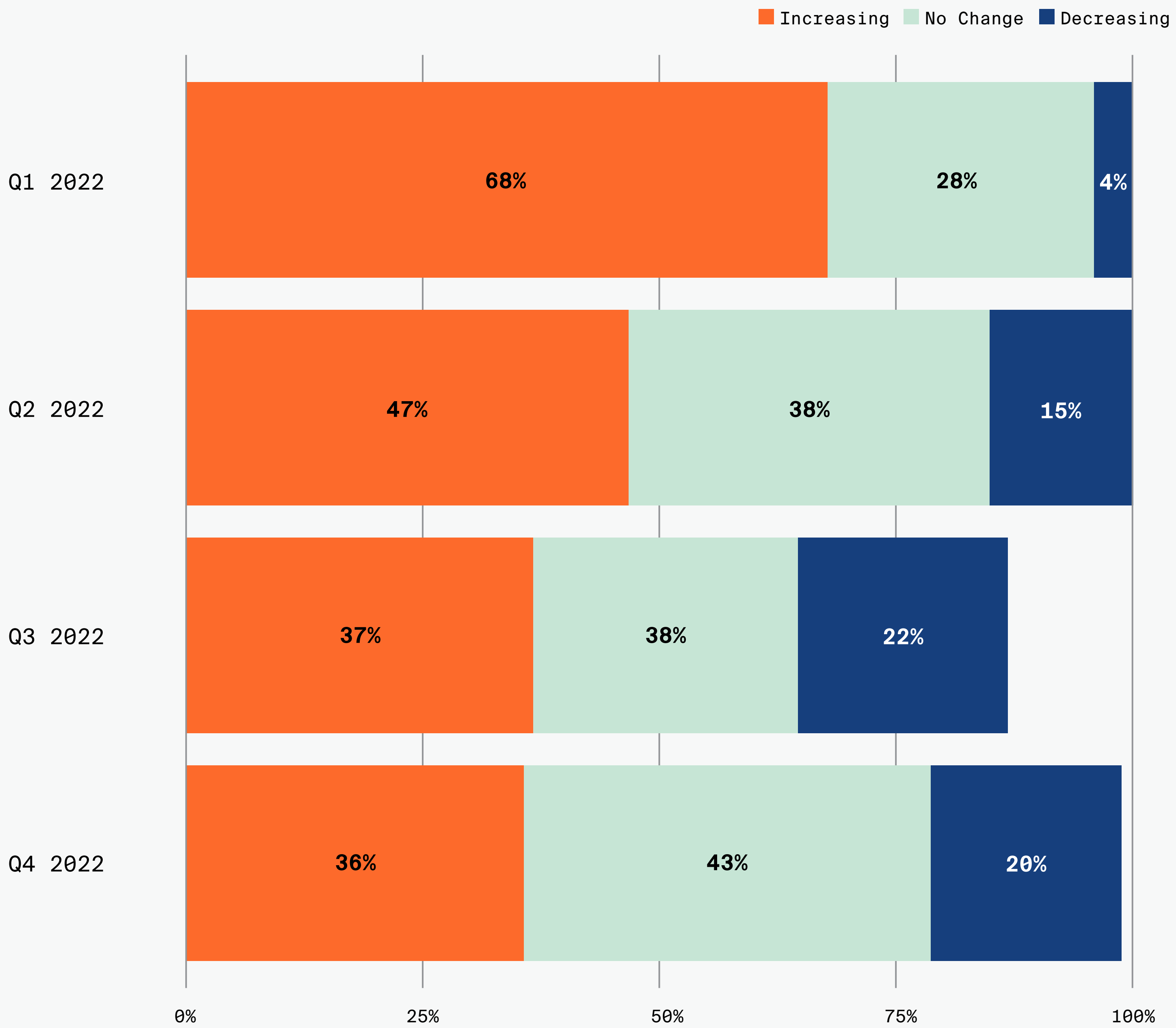
# Deal Volume

For the first time all year, there's an increase in the number of advisors who think the deal business is getting better. In September, 43% of the advisors said deal volume would increase over the next three months, and only 19% said it would decrease. In January, 68% of advisors expected volume to go up. That share fell by more than half to 32% in June before the September rebound.

**"Normally, we're swamped with deals trying to close by year-end,"** says Chris Anderson, managing director at EMA Partners. **"This year, we are down 60% compared to 2021."**

When asked to look backward at the last three months, the most common response (43%) remains that deal volume hasn't changed.

**Over the past three months, how has your deal volume changed?**



# Deal Volume *CONTINUED*

In September, 36% of them said their deal volume had increased over the last three months, down slightly from the previous survey but sharply less than in the January survey when 68% said their business had increased.

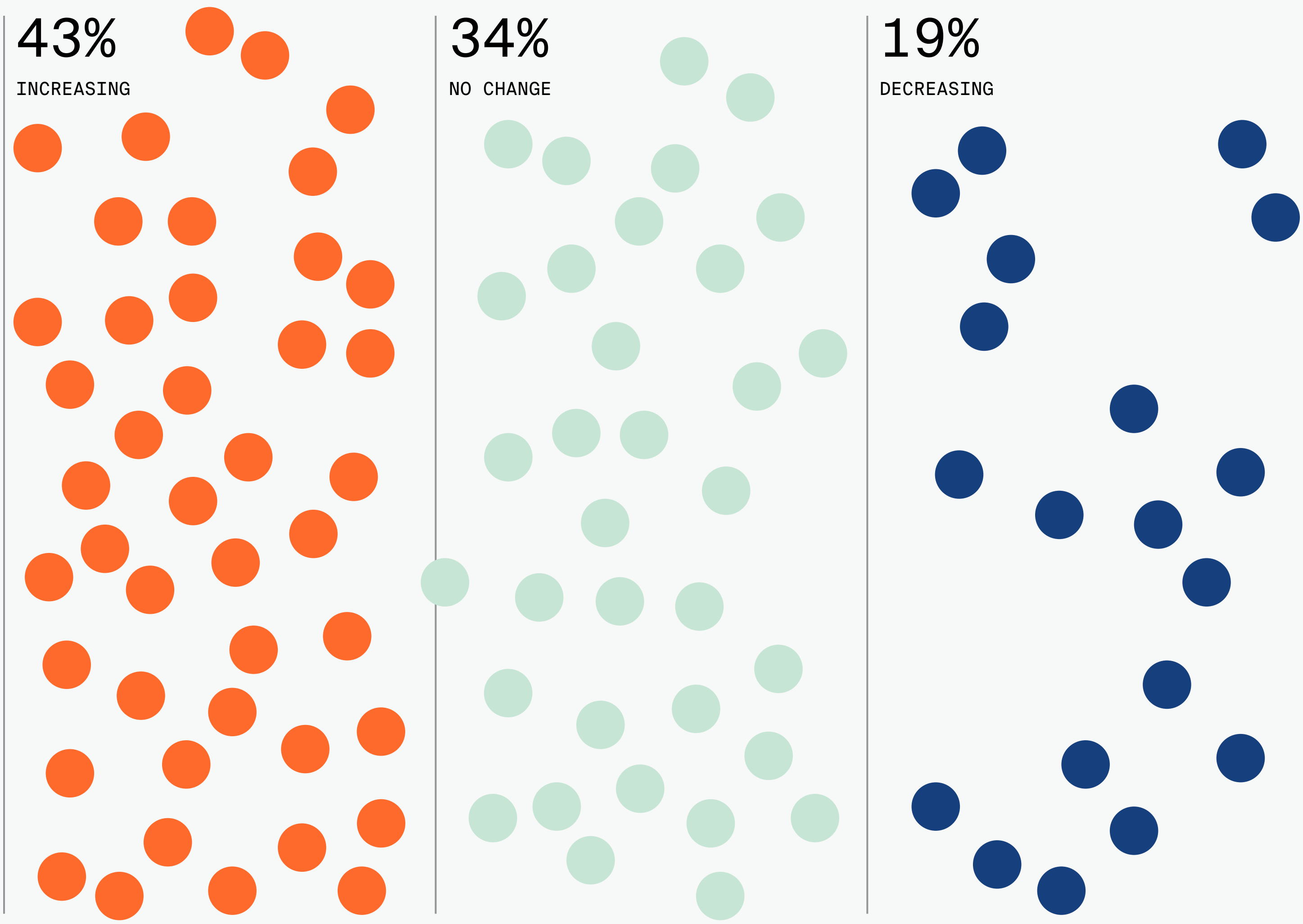
In the most recent survey, 20% of advisors said their volume had declined, a bit less than the number three months ago. In the buoyant times of January, only 4% said they thought business would slow down. Now, the most common response is that volume has not changed recently.

When asked about the factors that encourage and inhibit deals, more advisors (66%) said that the decreasing availability of financing was a drag on business. Nearly as many (65%) cited rising interest rates. About half of the advisors say inflation is inhibiting deals; the same number say recession fears are slowing down business.

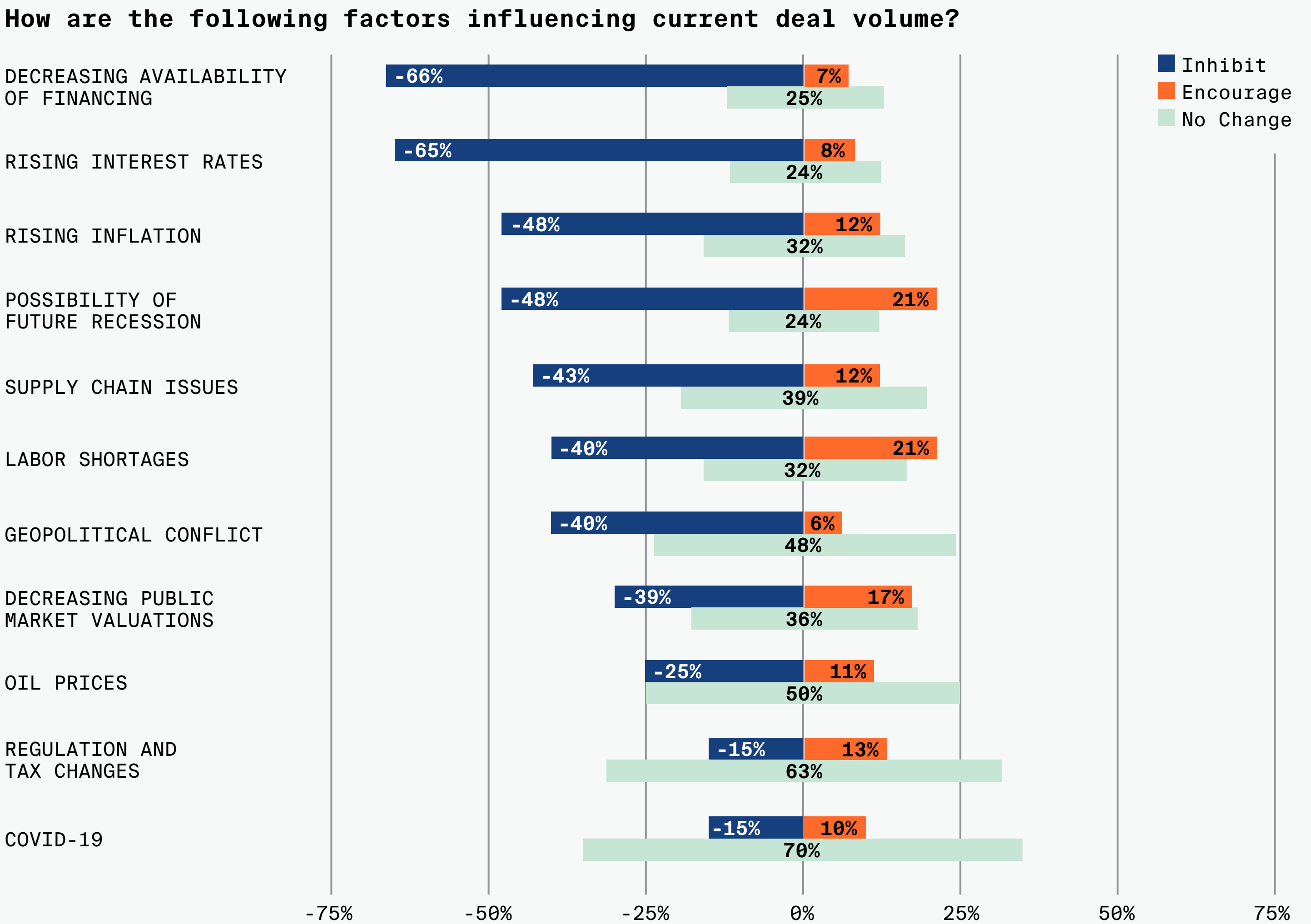
Recession concerns were also the No. 1 factor encouraging deals, cited by 21% of respondents. The same number says labor shortages spur dealmaking.

The biggest change since the survey three months ago was a significant increase in the number of advisors saying that inflation, interest rates, and labor shortages are inhibiting deals. As the war in Ukraine drags on, the number of advisors saying that geopolitical conflict is inhibiting deals increased to 40% in September from 32% in June.

**How do you anticipate your deal volume to change over the next three months?**



# Deal Volume *CONTINUED*




# Observations

I expect to see fewer deals being made due to lower valuations, market risks, and higher interest rates. ***—Colin Marson, Managing Partner, Lisergy Consulting, United Kingdom***

Smart money is scared to make a bet unless there are such compelling reasons to do so. Public companies that need a strong Quarter will overspend on acquisitions for a short-term gain. Private companies may buy a technology company to avoid investing in building what they need. ***—Joseph M. Natoli, EVP of Mergers & Acquisitions, Payroc, United States***

Rising interest rates are lowering multiples being offered by buyers. Seller expectations, however, have stayed stagnant. ***—Gerry Robitaille, President, Assurgo Enterprises, Canada***

The deal volume is the same. It's reasons for deals and types of deals that are changing. ***—Brent Elsass, Principal, C Squared Advisors, United States***

Increasing energy costs are impacting sellers' margins and capacity. The receding valuations are reducing the exit's appeal for PE and entrepreneurs. ***—Guidalberto Gagliardi, CEO, Equity Factory, Italy***

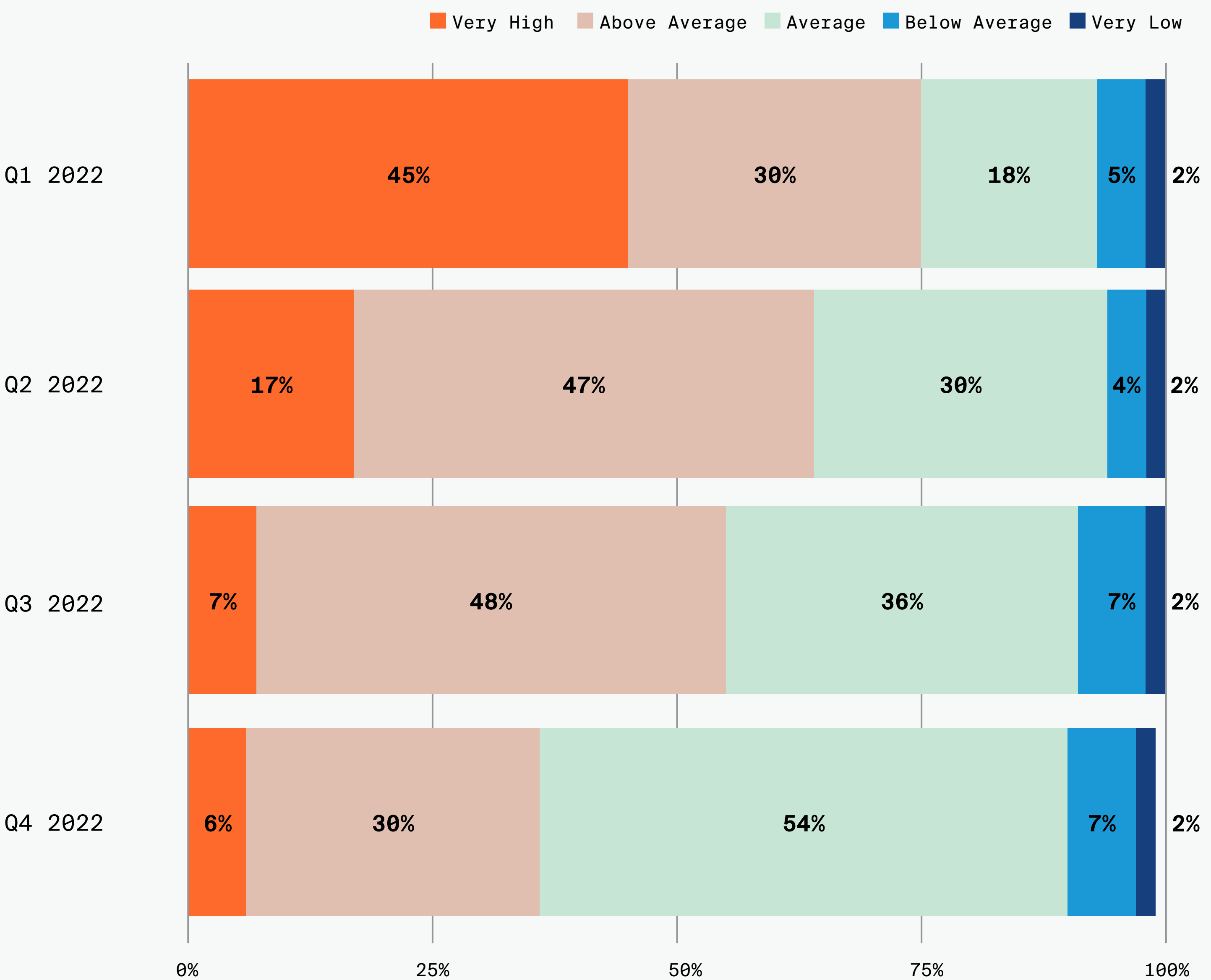
# Valuations

For the first time in the two years that we've been doing this survey, a majority of advisors didn't call deal valuations above average. In September, a bit more than half (54%) said valuations were average. About one-third (36%) said they were above average or high. Only 9% said valuations are below average or low.

That's quite a change from January when 45% of advisors called valuations very high, and another 30% said they were above average.

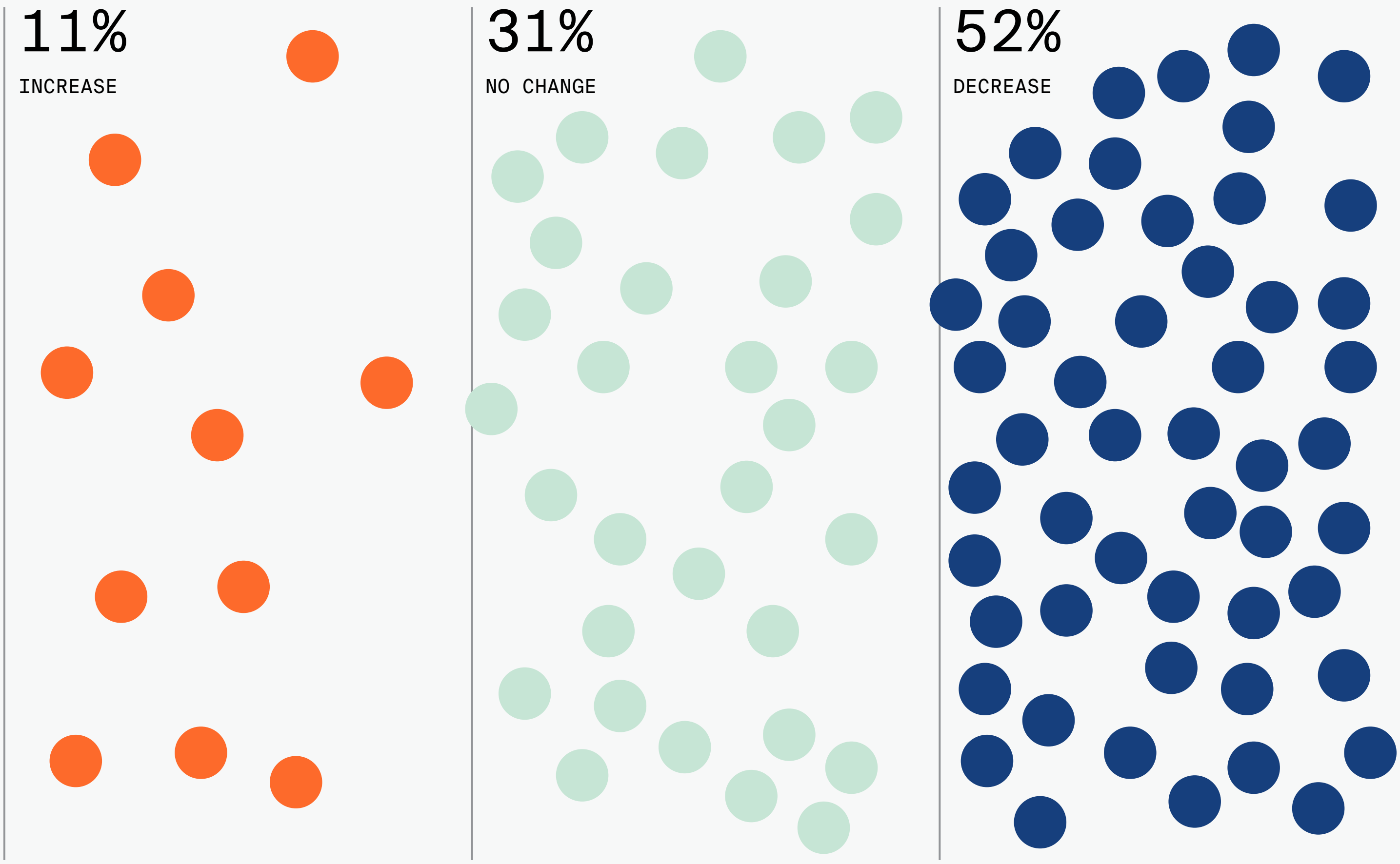
Looking forward, a slim majority (52%) said values would fall further in the next three months. Only 11% said they expect values to head up. That is slightly more bullish than the survey three months ago, when only 5% of respondents said they expected values to rise.

**Over the past three months, how would you describe the valuation of companies in deals your firm was involved in?**



# Valuations *CONTINUED*

**Over the next three months, how do you expect company valuations to change for deals your firm is involved in?**




## Observations

Higher borrowing costs and depressed public company valuations are bound to impact valuations for the smaller companies we represent. ***—Bryan Ducharme, Co-Founder, Venture 7 Advisors, United States***

Valuations will definitely decrease as more owners try to exit, creating a buyer's market. ***—A. Raoul Nembhard, CEO, A. Raoul Nembhard Ltd., United Kingdom***

Fewer deals occurring means more scrutiny. When high-quality deals trade, the value should reflect the resiliency of the business. ***—Thomas Bevilacqua, VP, Portage M&A Advisory, Canada***

Fluctuations in interest rates and general uncertainty are squashing valuations. ***—Emily Maier, Partner, Woodruff Sawyer, United States***

While public comparables are down generally, the lack of quality deals means that those that do get done will be at a higher price. ***—Matt Montague, SVP, Schwartz Heslin Group, United States***

# Negotiation

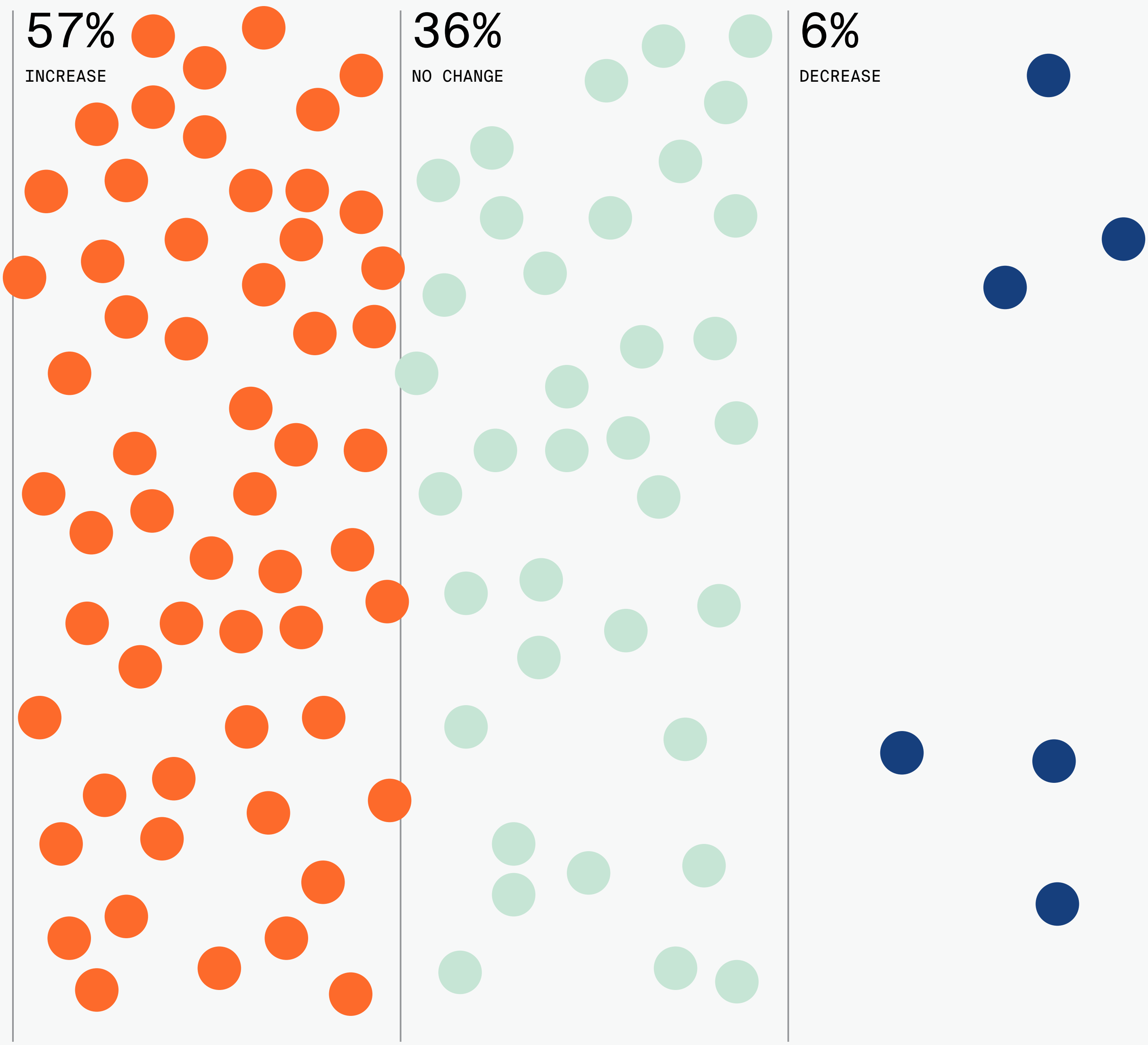
Over half (57%) of advisors say it's taking longer to close deals. Only 6% said they are closing deals faster.

What's the hold-up? The top reason is due diligence, which was cited by more than one-quarter of the advisors on an open-ended question. Other common responses were issues with financing and valuation.

With public markets falling, we asked about the difference between the price expectations of buyers and sellers.

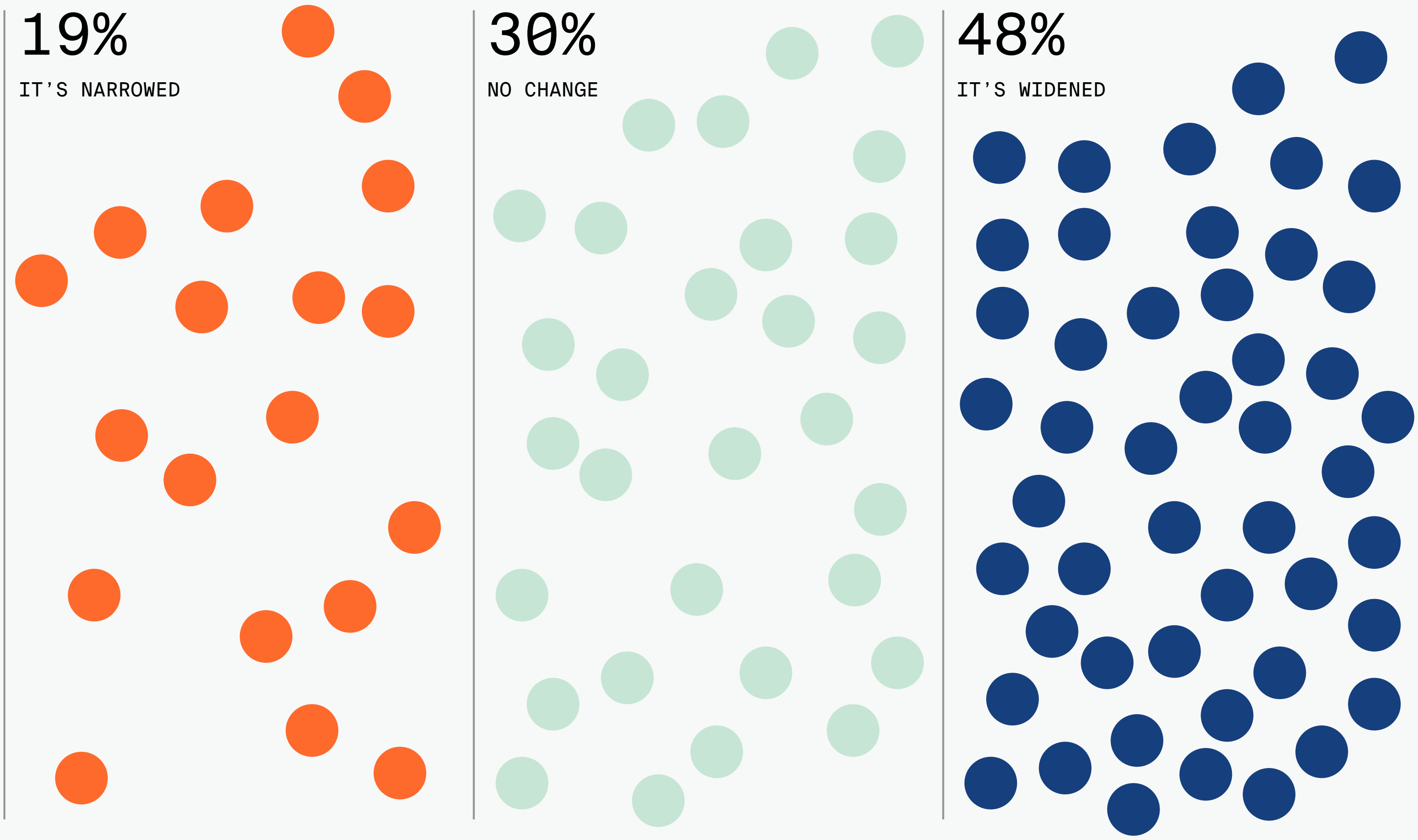
Nearly half of the advisors (48%) said the gap in prices asked by sellers and prices offered by buyers has widened in the last three months. Only 19% said it has narrowed.

**How is the time it takes to close a deal changing?**



# Negotiation *CONTINUED*

**Over the last three months, how has the gap between the prices asked by sellers and the prices offered by buyers changed?**




## Observations

Buyers are more eager to look, less eager to close, and more afraid to fail. ***—Matt Montague, SVP, Schwartz Heslin Group, United States***

Uncertainty doesn't help when buyers are trying to feel out the future. This leads to slow responses and requests for updated numbers. Folks are very busy, so due diligence is taking a lot of time. ***—Jamer Odney, Associate Banker, Crescenda Merger & Acquisition Advisors, United States***

Sellers are holding out to see if they will get a better offer. ***—A. Raoul Nembhard, CEO, A. Raoul Nembhard Ltd., United Kingdom***

Strategic buyers are faster; financial buyers are taking longer as they are dependent on diligence service providers. ***—Robert Levin, Managing Member, The Oasis Strategy Group, United States***

Private equity buyers are using microscopic due diligence examinations followed by another audit for the quality of earnings. That's too much detail; they ought to justify the deal with broader criteria. ***—Greg Carpenter, Managing Partner, M&A Business Advisors, United States***

# Deal Terms

Bankers are increasingly trying to bridge the gap between buyers and sellers using earnouts, where some of the consideration paid to acquire a company is contingent on its performance after the deal.

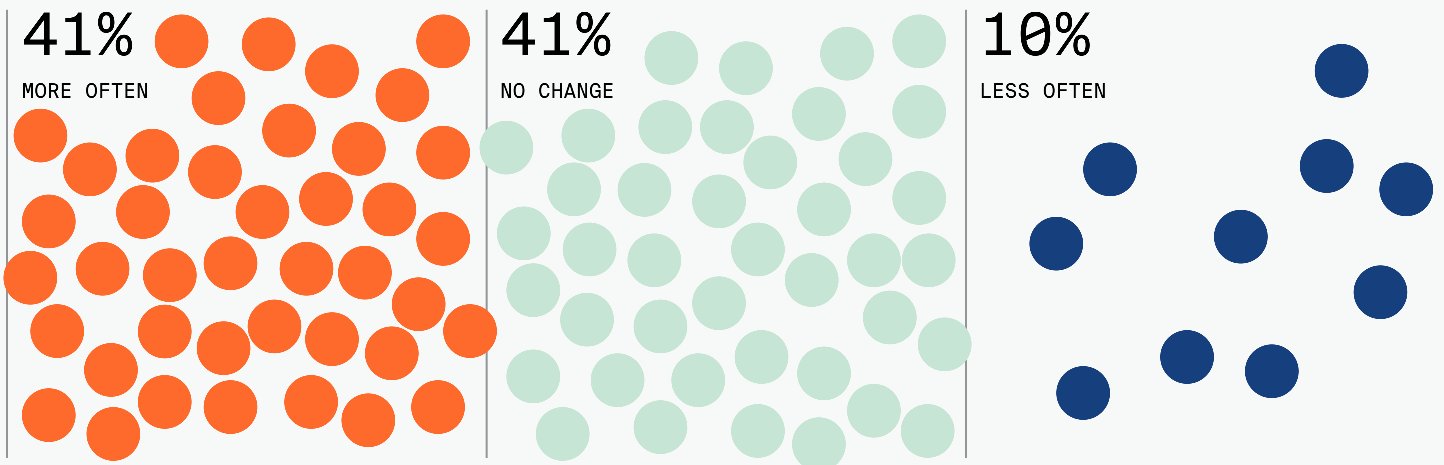
About four in ten of our respondents said that earnouts are becoming more common. Only one in ten said they are being used less often.

Buyers are also asking sellers to finance part of the purchase through vendor take-backs (VTBs). **"There are more VTBs now to satisfy bank financing requirements,"** said Michael Cormack, the president of Corbana Holding in Toronto.

While buyers are requesting these concessions, some advisors say that sellers don't have to comply.

**"We're seeing more attempts at doing less cash down and tying more to performance,"** Odney says. **"But we quickly shut most of those down and don't get much pushback."**

**Over the last three months, have deals you've been involved in used earn-outs or other contingent consideration more or less often?**




## Observations

Buyers want to spread the risk between them and the seller, so they are introducing earnouts and equity rolls as a way to achieve this. ***—Ed Bryant, CEO, Stampford Advisors, Canada***

Sellers want more certainty of being paid, so we are seeing fewer deals with vendor take-backs. In return, they are looking for more flexibility in the price. ***—Advisor, United States***

Buyers are offering less cash upfront and more cross-ties into alternate forms of deferred comp or hold-backs. ***—Chris Anderson, Managing Director, EMA Partners, United States***

Earnouts became common when Covid colored companies' financial performance over the past three years. ***—Kevin Berson, President Kinected Advisors, United States***

Financial buyers are attempting to place more risk on sellers with 50% earnouts. ***—Paul Massel, Director, Oleum Energy Advisors, Canada***

# Financing Availability

It's getting harder to borrow money to finance deals. In September, more than half of the advisors said debt financing is getting more difficult (54%), compared to 34% in June.

Raising equity isn't quite as bad, with 29% saying that's getting harder in September, up from 19% in June.

When we asked the advisors about the factors affecting financing, rising interest rates were the most common answer.

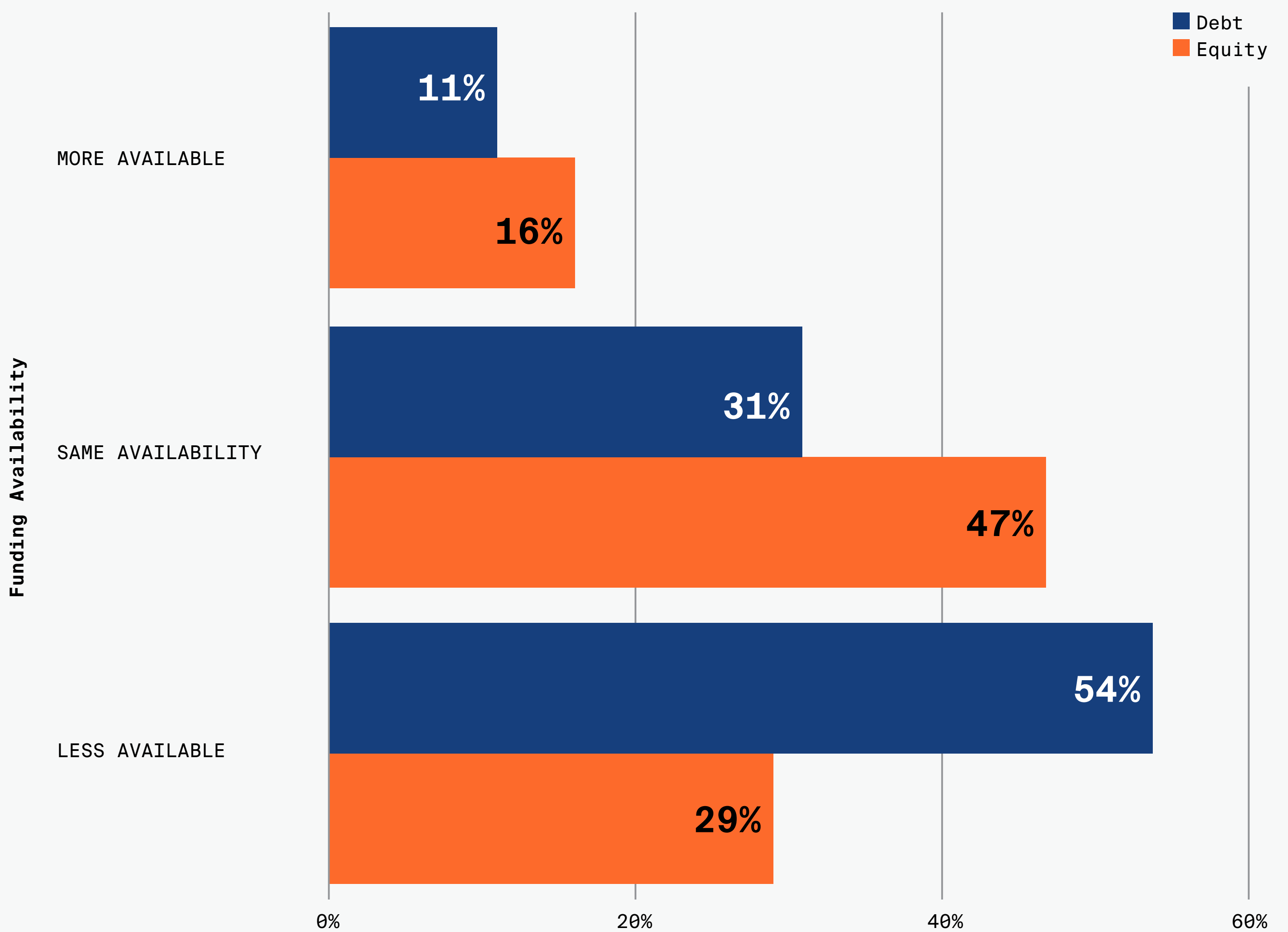
They also said that it's harder to meet bank lending requirements for many companies facing slowing growth and thinner margins.

**"The interest rate increases for some have put a strain on some covenants that either prohibit or lessen the amount they can borrow,"** said Joseph M. Natoli, executive Vice President for Mergers and Acquisitions at Payroc.

Some said they have been able to continue doing deals by reducing the amount of leverage.

**"More buyers are willing to invest more equity with intentions to hold the investment for a much longer period of time,"** said Gary Weinman, the president of American Business Intermediaries in San Antonio.

**How is the availability of financing changing for companies in your market currently?**



# Cross-Border Transactions

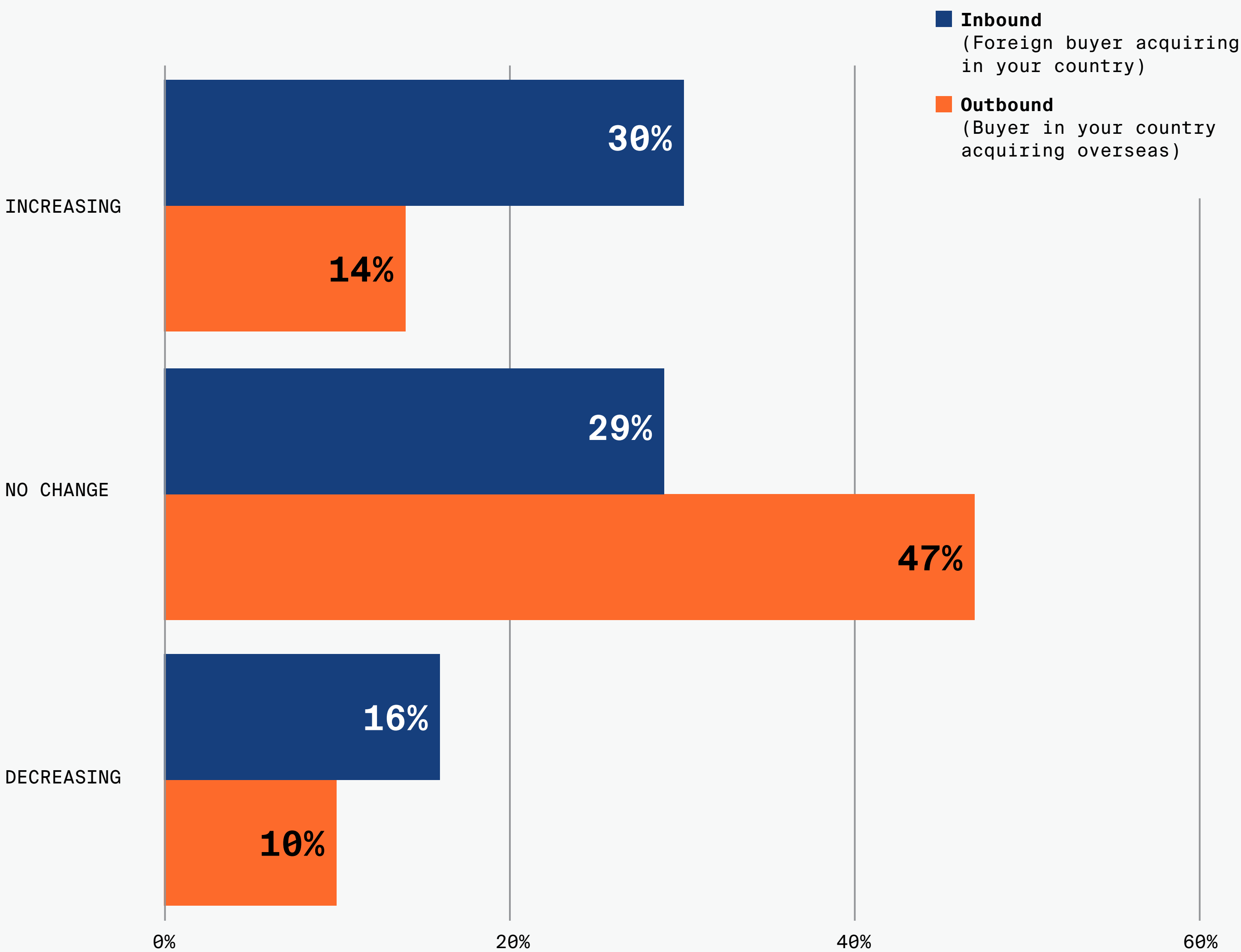
We asked about cross-border transactions, and the most common response is the volume hasn't changed much over the last three months.

For Inbound transactions—where foreign buyers acquire a company in their country—many more advisors in Europe see an increase (37%) than a decrease (7%). Advisors in North America have a more mixed opinion, with 26% seeing an increase in inbound transactions and 16% seeing a decrease.

As for outbound transactions—where a buyer in the advisor's country acquires a foreign company—there was little difference between Europe and North America. Overall, 14% of advisors see outbound transactions increasing, and 10% see them decreasing.

As for the countries where there is the most cross-border trade, the United States was the most commonly mentioned (42%), followed by Canada (18%) and Europe overall (16%).

**How do you see cross-border transactions changing in the markets you work in?**

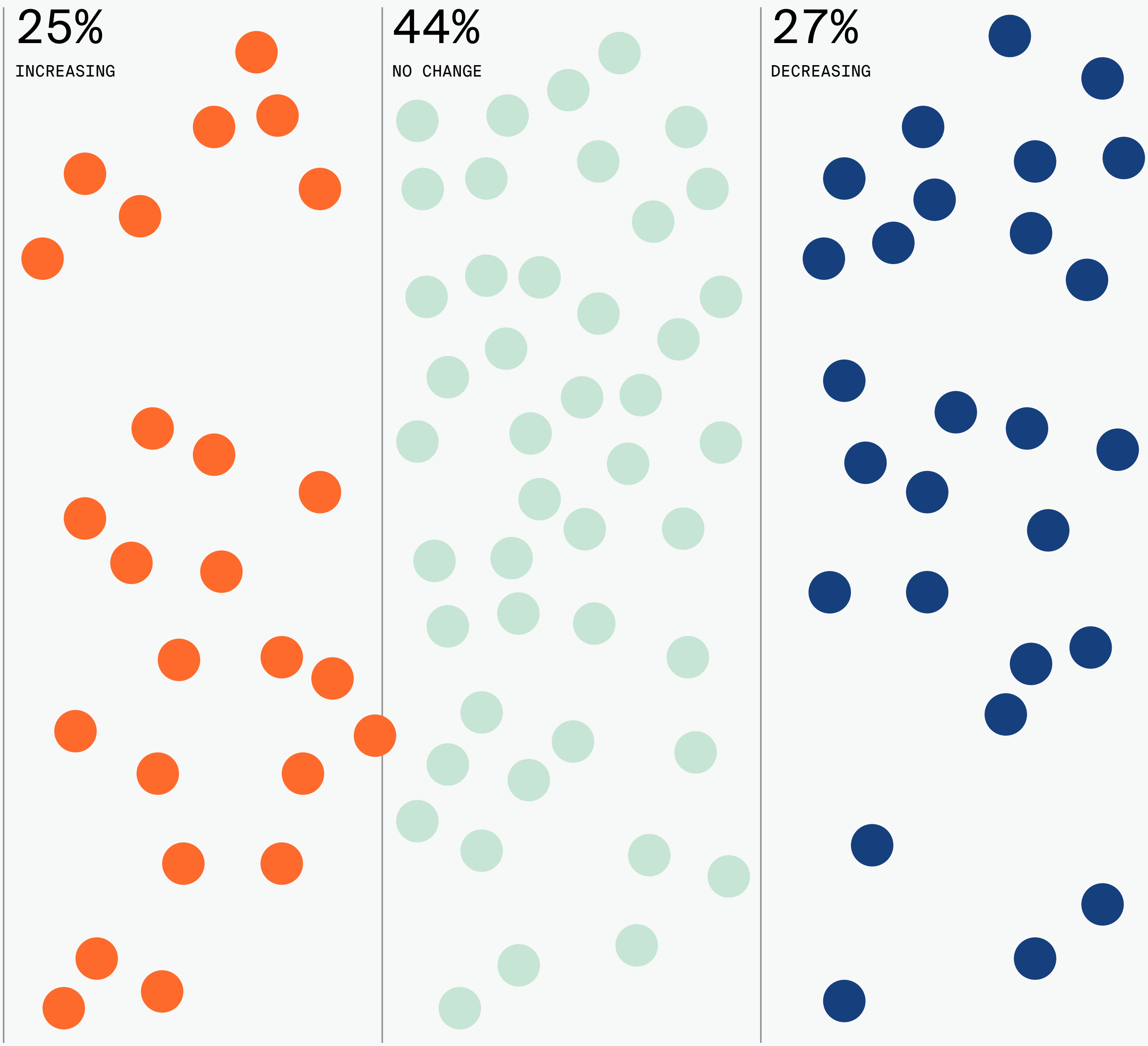


# Buyers

The flood of new buyers into the market has slowed. Slightly more advisors said the number of active buyers is decreasing (27%) than increasing (25%). When we asked this question in April, nearly half of the respondents said there were more buyers (49%), and many fewer said buyers were decreasing (12%).

In Europe, the shift was most significant, with 41% of respondents saying there are fewer buyers. In North America, only 23% say buyers are declining.

**How is the number of active buyers in the market changing?**



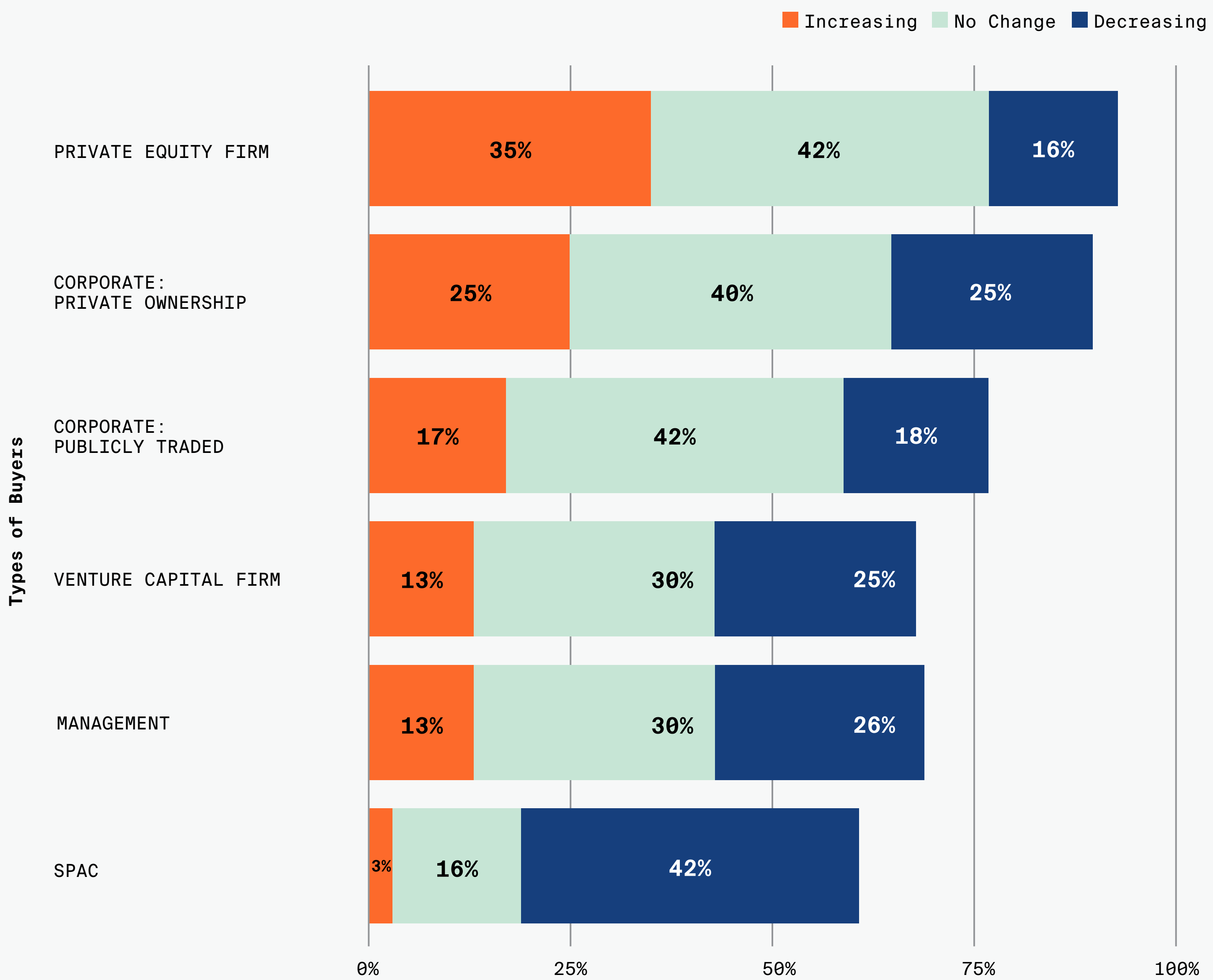
# Buyers *CONTINUED*

Private capital continues to increase its importance as buyers of lower middle market companies. When asked about types of buyers, the ones most seen as increasing were corporations owned by private equity (36%), private equity firms (35%), and other privately held companies (25%). Most commonly named as having less activity were SPACs (42%), management (26%), and venture capital firms (25%).

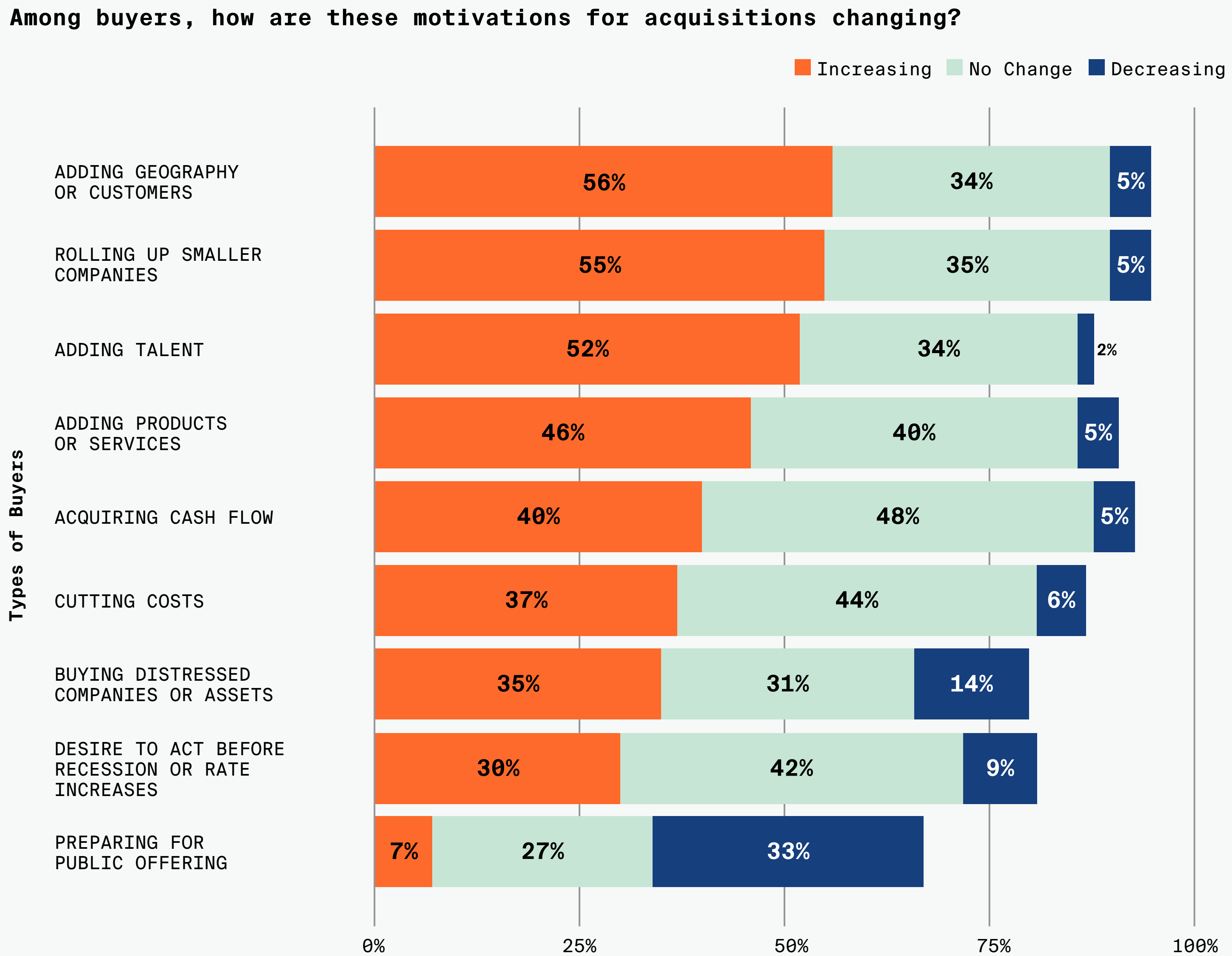
**"The private equity funds are calling me more often looking for prospects,"** says Matt Montague, a Senior Vice President of Schwartz Heslin Group. **"They have a lot of dry powder. But they also seem leery of making a mistake that will echo when they raise their next fund."**

As for what motivates buyers, advisors saw the most increases for adding new geography or customers (56%), rolling up smaller companies (55%), and adding talent (52%). The only category seen by more advisors as a declining motivation, was doing deals to prepare for a public offering.

**How is activity changing by these types of buyers?**



# Buyers *CONTINUED*




# Observations

Groups that have performed well through Covid and have dry powder and are looking for distressed deals. *—Brent Elsass, Principal, C Squared Advisors, United States*

Buyers are looking for greater margin contribution sooner and a safer ROI projection, resulting in lower multiples. *—Joseph M. Natoli, EVP of Mergers & Acquisitions, Payroc, United States*

Generalists are falling back based on industry headlines. Industry experts are moving forward as normal. *—Sean Mirzabegian, Partner, Morgan Kingston Advisors, United States*

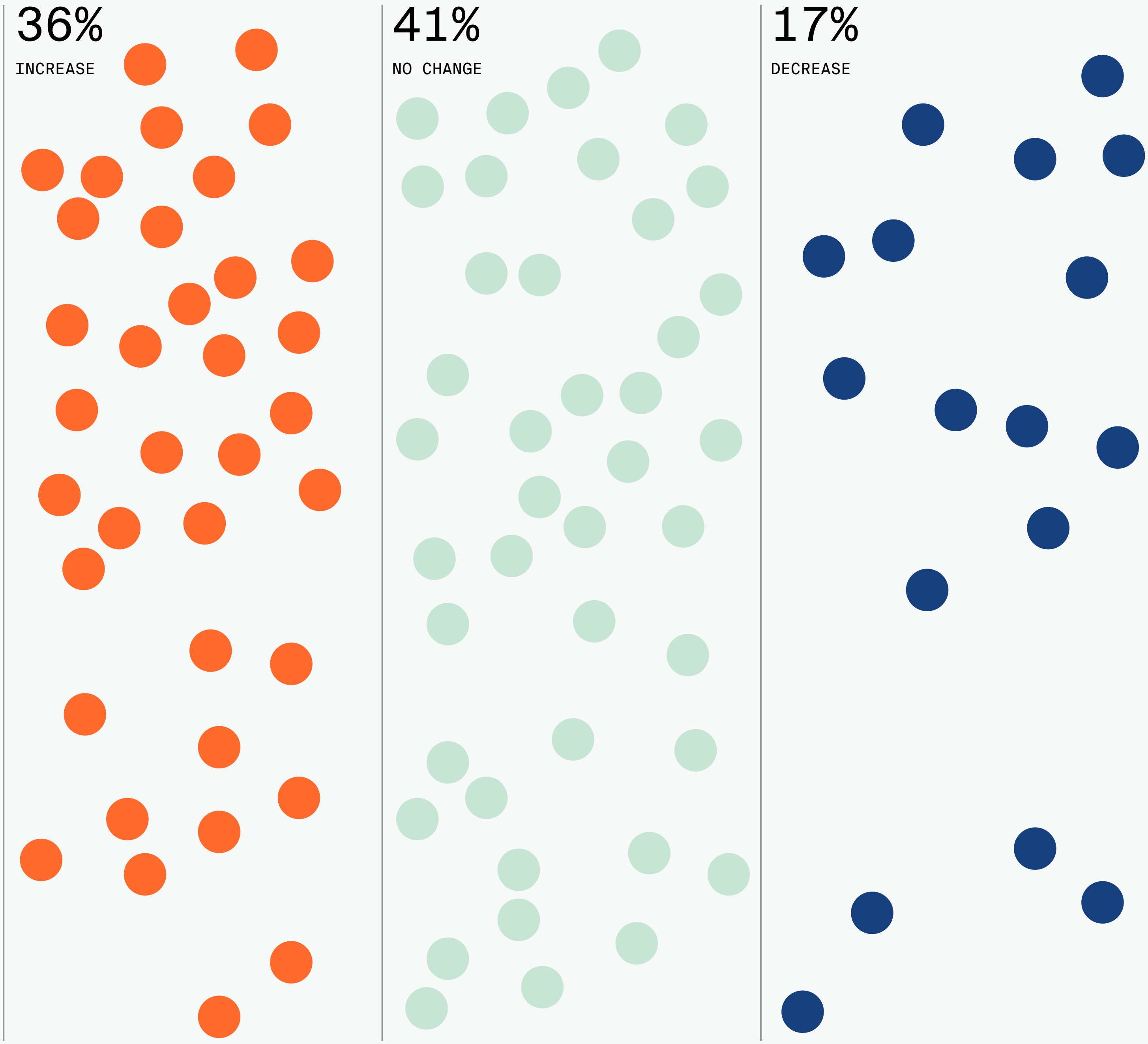
Three's more caution among buyers, more due diligence, and very difficult valuation discussions. *—David K. Clark, Managing Director, M-R Capital, United States*

# Sellers

Even as buyers are hesitating, company owners continue to put their businesses up for sale. Relatively few advisors see the number of sellers going down (17%). They are split about whether the number of advisors is staying the same (41%) or going up (36%).

Compared to April, there is a significant shift in the type of sellers in the market. In September, the category most commonly seen as increasingly active was companies owned by local investors (36%), followed by companies owned by management 33%.

**How is the number of active sellers in the market changing?**



# Sellers *CONTINUED*

In April, companies owned by private equity funds were seen as increasingly putting themselves up for sale by 51% of advisors, the most of any category. In September, only 22% said they are seeing more private equity-owned companies for sale.

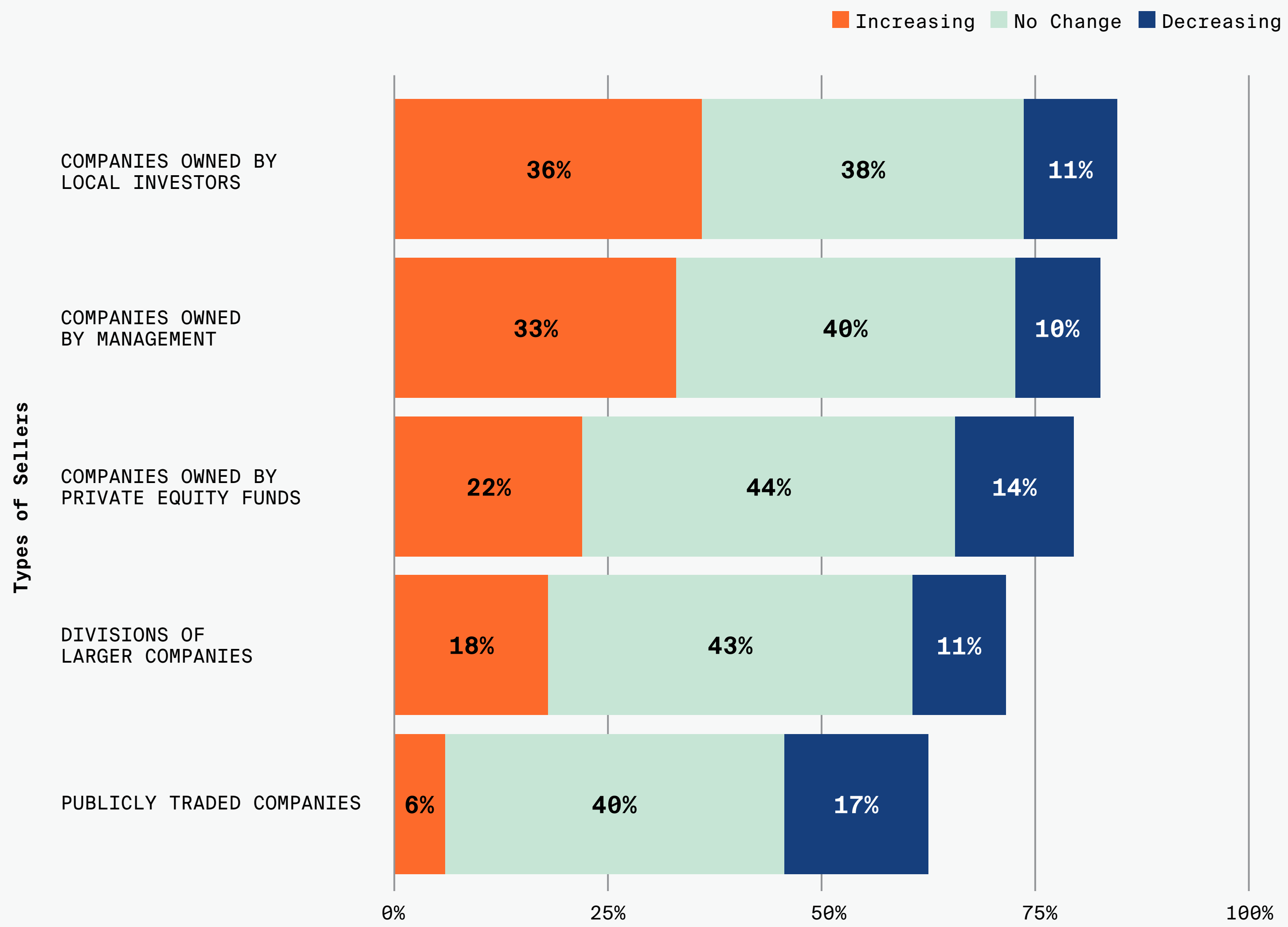
**"Fear of difficult future conditions"** is now the top reason that companies go up for sale, with 71% of advisors saying it is an increasingly common motivation. Other growing motivations are owner retirement (62%) and the desire to act before a recession or rate increases (49%).

There was a sharp drop in the advisors who see sellers that **"want to take advantage of market valuations,"** with 40% seeing this as an increasing motivation compared to 63% in April.

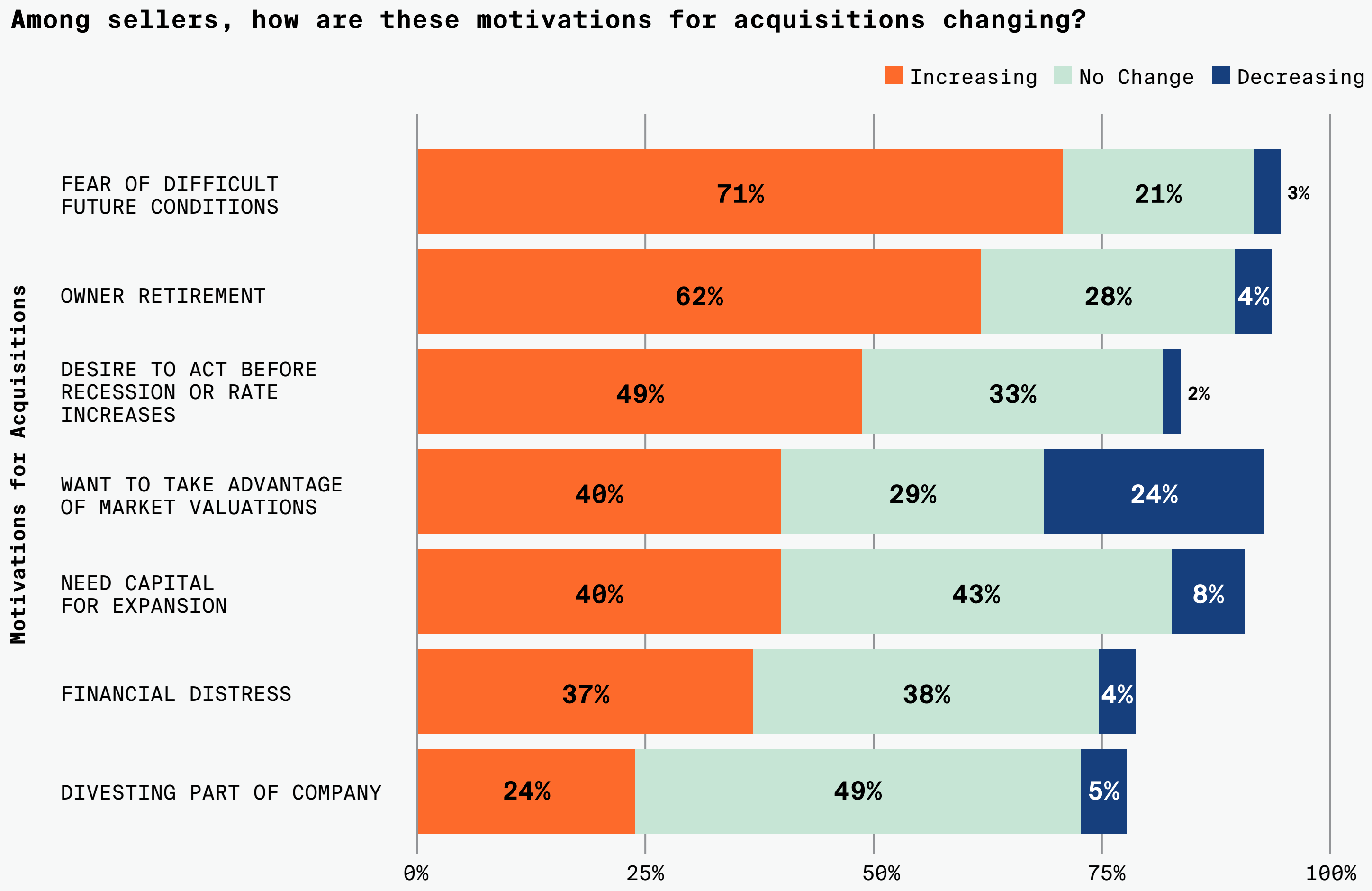
**"Financial distress,"** by contrast, is now seen as an increasing motivation by 37% of advisors, up from 29% six months ago.

**"Companies burning cash are desperate to find funding, and it is very difficult to do so,"** said Robert J. Foster, the president of Capital Canada in Toronto.

**How is activity changing by these types of sellers?**



# Sellers *CONTINUED*




# Observations

They do not understand why their companies aren't getting the multiple that others received just a year ago. ***—Joseph M. Natoli, EVP of Mergers & Acquisitions, Payroc, United States***

Sellers are getting a little greedy as market dynamics are changing, and they may miss their opportunity to sell. ***—LeAnne Foster, Managing Director, LF Advising, United States***

Some sellers are withdrawing due to low valuations currently and waiting for better market conditions. ***—Colin Marson, Managing Partner, Lisergy Consulting, United Kingdom***

Companies are selling because it's increasingly difficult to operate and remain profitable due to labor costs and shortages. ***—Joseph Anzur, Director of Mergers and Acquisitions, Martin Healthcare Advisors, United States***

Owners have realized they missed the high valuation window and delaying exit. ***—Troy Ternowetsky, Managing Partner, Osprey Capital, Canada***

# Overall Mood

Overall, 56% of the advisors say they are feeling positive about the M&A market over the next three months, up from 48% in June. Those with negative feelings decreased to 14% from 18% in June.

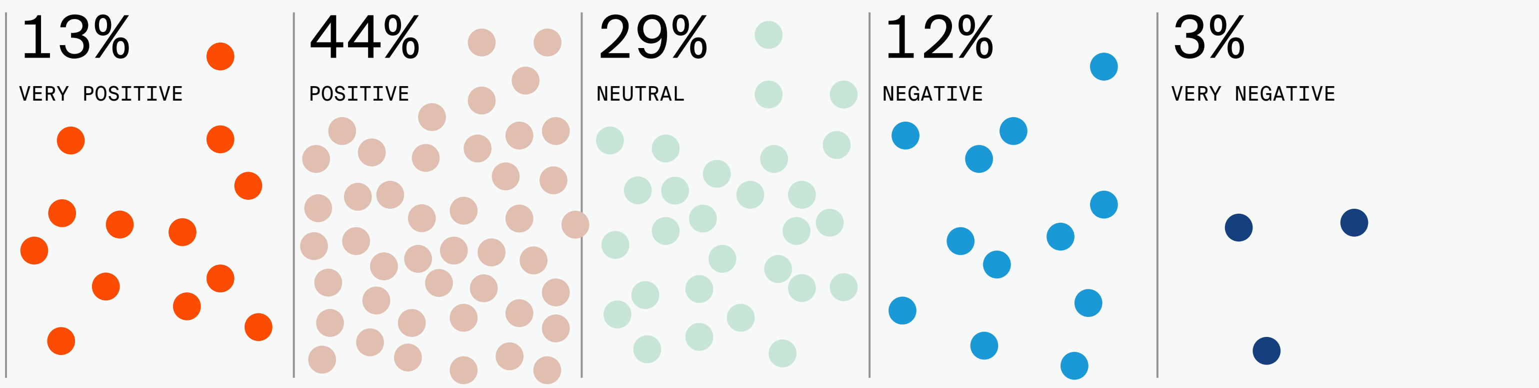
This survey marks the first increase in positive feeling since September 2021, when 79% of the advisors said they were upbeat.

Advisors who had a positive view of the market said there were a lot of deals to do, even if the pace has slowed some from last year. Some, in fact, prefer the current conditions to last year when they were straining to keep up.

**"Although the M&A market slowed down in 2022,"** points out Aaron Solganick, chief executive of Solganick & Co. in Ladera Ranch, California, **"it is still higher than it was in 2018-2019 in terms of deal volume and valuations."**

The current optimism is tempered, however. In the recent survey, only 13% of the respondents said their feeling was "very positive" (vs. 44% who were simply "positive"). A year earlier, 29% of the advisors were very positive.

**As a whole, how are you feeling about the M&A market over the next three months?**




# Observations

I believe we have had a great run, but all good things must come to an end. I think the crazy valuations we saw over the last 24 months are going to dissipate, and there will be a hangover from these overpriced deals. The M&A market should slow down, but deals will still happen at lower valuations. ***—Ian Wooden, Managing Director and CEO, IJW & Co., Canada***

I'm optimistically cautious. So long as the M&A investment model continues to outperform other asset classes, buyers will continue to make acquisitions. ***—Thomas Bevilacqua , VP, Portage M&A Advisory, Canada***

With increasing interest rates and tightening credit standards, the M&A market 6-12 months out is likely to be dampened materially due to less debt available. ***—Advisor, United States***

I believe the market will regain forward direction when the economic picture becomes clearer and plans can be made one way or another. ***—Kevin Astle , Founder and Managing Partner, MultiVisory International, Canada***

Interest rates and recession fears are taking some steam out of the market, but aging owners still need to sell, and there is still a lot of capital to be deployed. ***—Bryan Ducharme, Co-Founder, Venture 7 Advisors, United States***

# Conclusions

The new equilibrium that is forming at the end of 2022 is highlighting the differences among companies that are exploring a sale. Those that are profitable, growing, and able to cope with the challenging economy, have attractive choices: they can still attract buyers willing to pay a premium – compared to the overall market – for what they've built, or they can wait for the economic cycle to rebound. Weaker companies are finding fewer and increasingly unattractive options. Potential acquirers will conduct endless due diligence and many will shy away from the risk. The offers they do receive will be at substantial discounts to what they would have been offered in 2021. Meanwhile, the capital they may need to go it alone will become expensive if it is available at all.

**"Quality companies will continue to demand high prices as buyers compete for these deals,"** says Weinman. **"We could see significant destruction of the market for smaller lower performing companies, which will likely be relegated to near liquidation values."**

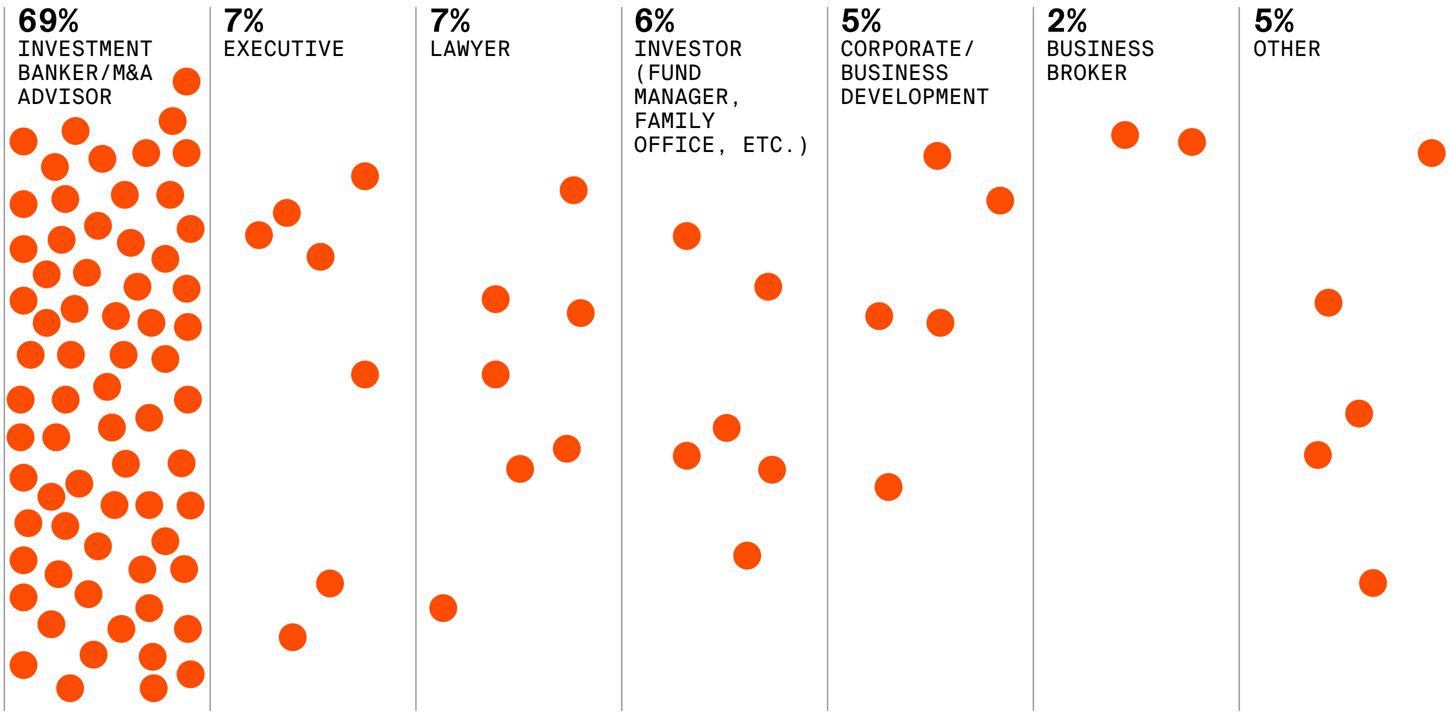
Buyers, too, are dividing into more distinct camps. The strong ones have the experience and conviction to see through the storms and find the right deals at the right prices. For some that might be bidding up for attractive small businesses. Others may be able to find weakened companies at discount prices they can revive.

Yet there are also both financial and strategic buyers who must pull back. They may need to attend to operating issues in their existing businesses. And they may be hobbled by the tighter market for capital.

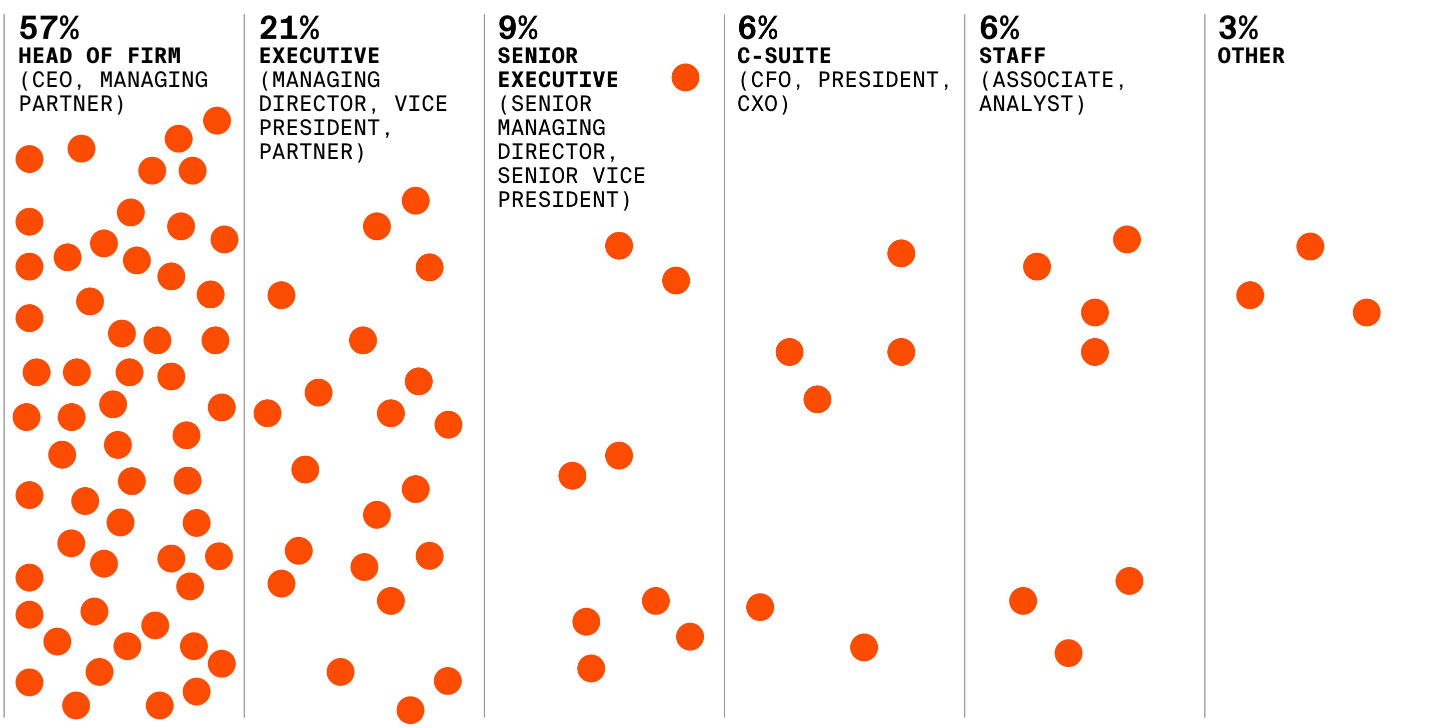
**"Smart buyers see a downturn as a good opportunity to make acquisitions,"** said Thomas Bevilacqua, vice president at Portage M&A Advisory in Toronto. **"In fact, some of the smartest buyers stay cash rich in order to deploy capital during these times."**

# Appendix: Respondent Demographics

**Which of the following best describes your current occupation?**

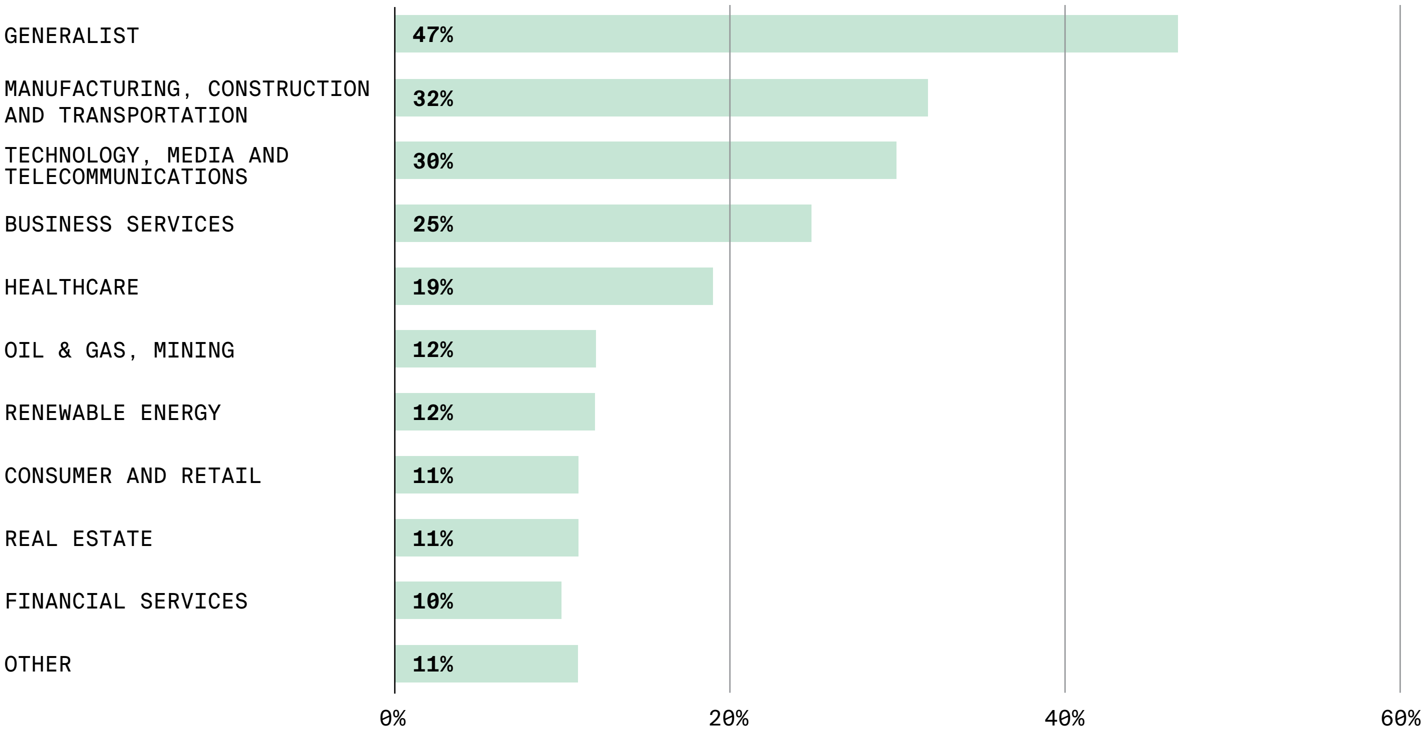



**Which of the following best describes your job title?**

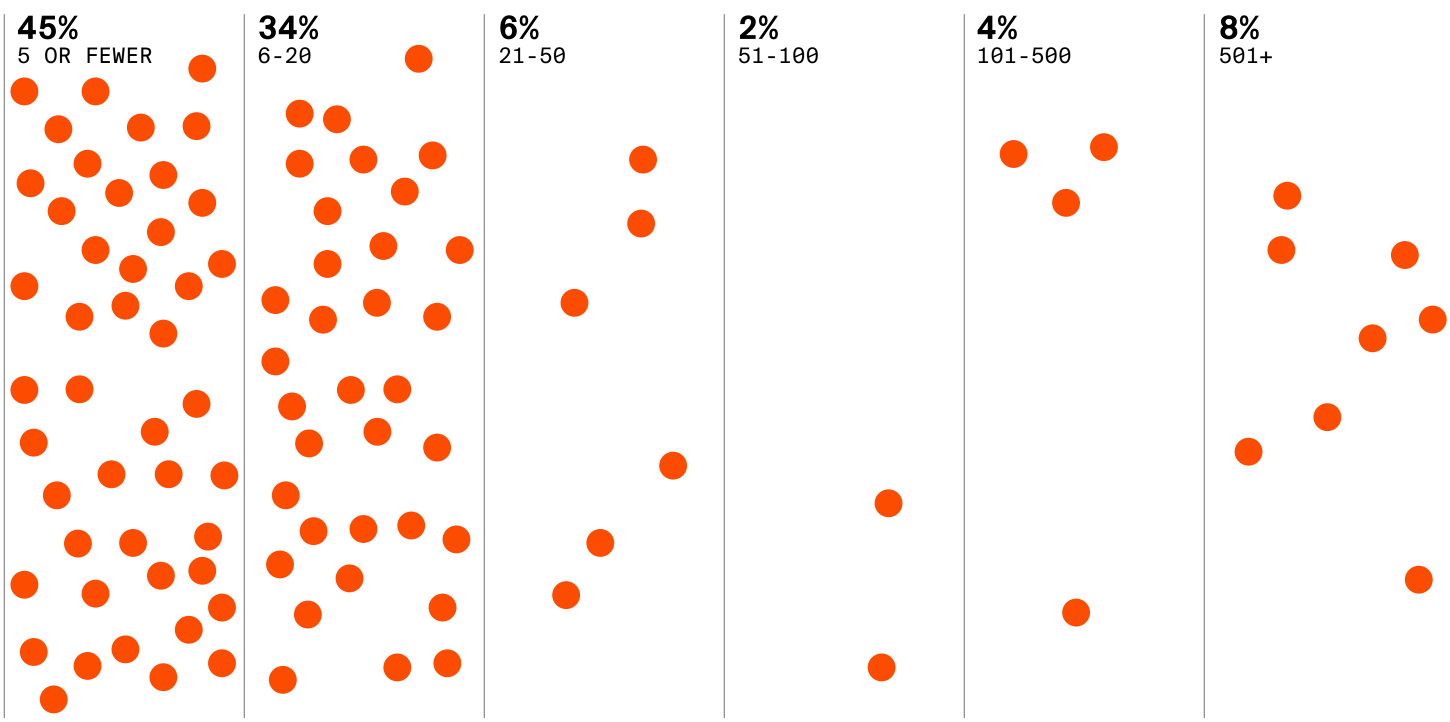


# Appendix: Respondent Demographics *CONTINUED*

**Do you specialize in any of the following industries? (Select all that apply.)**

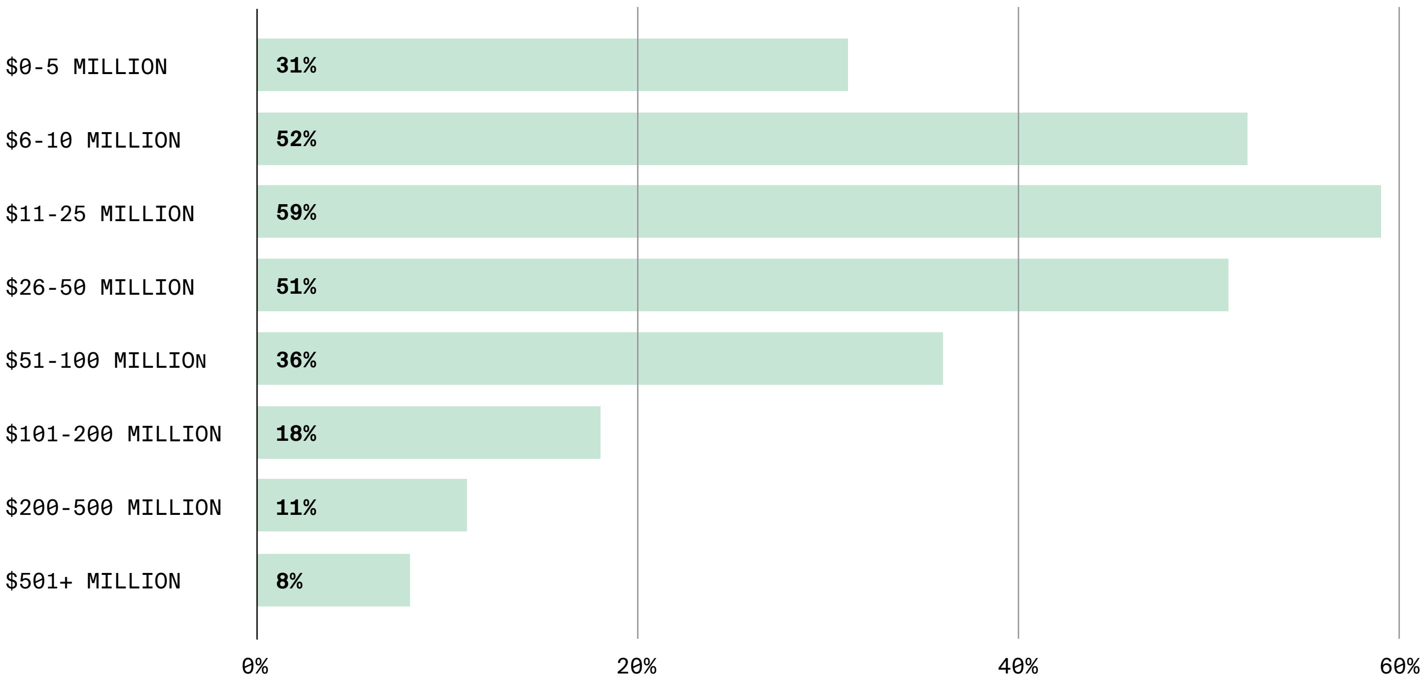



**How many total employees does your firm have?**

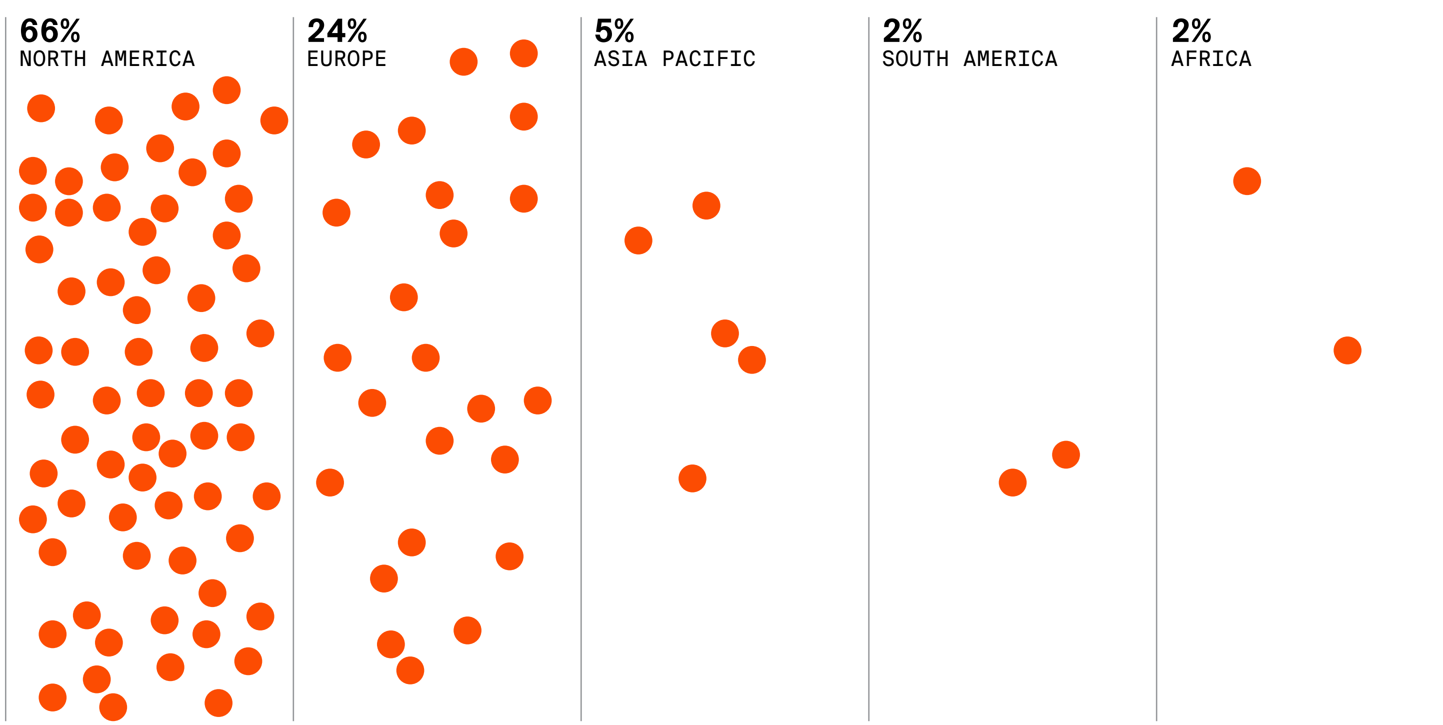


# Appendix: Respondent Demographics *CONTINUED*

**What size deals is your firm typically involved in? (Select all that apply.)**

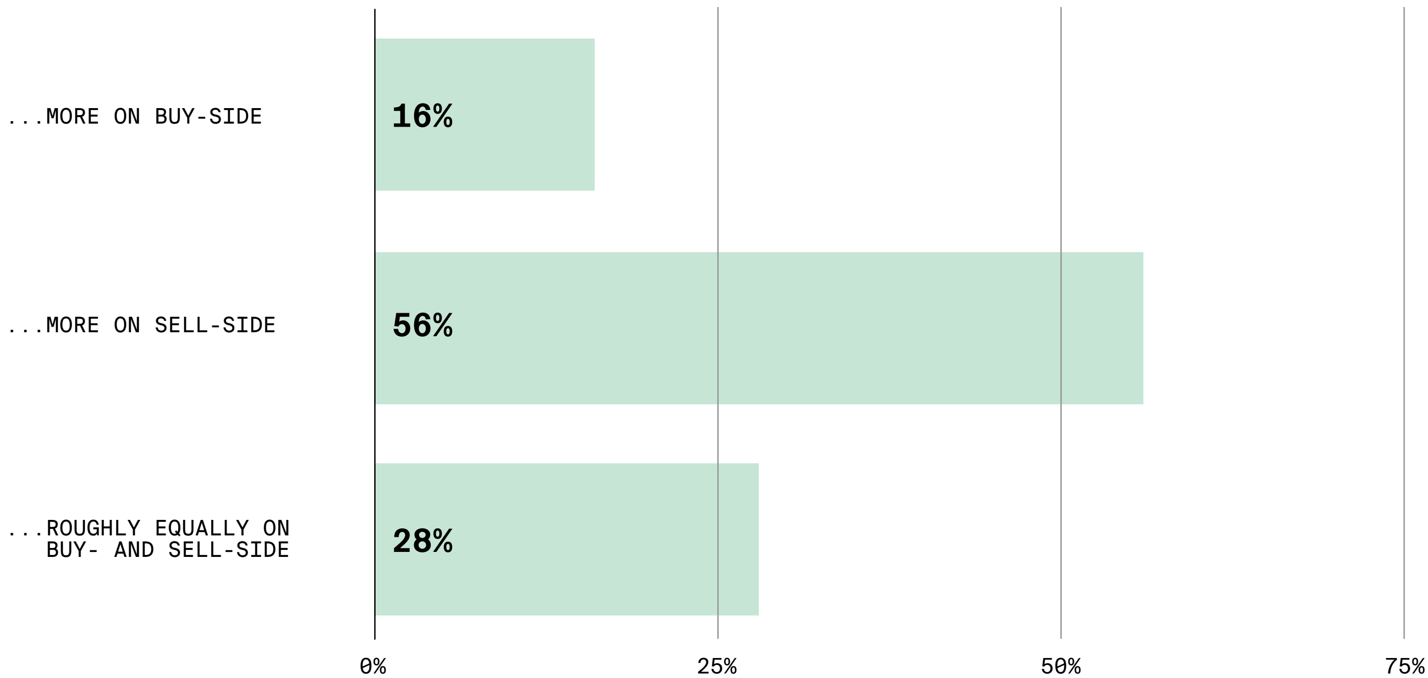



**What region do you primarily work in?**

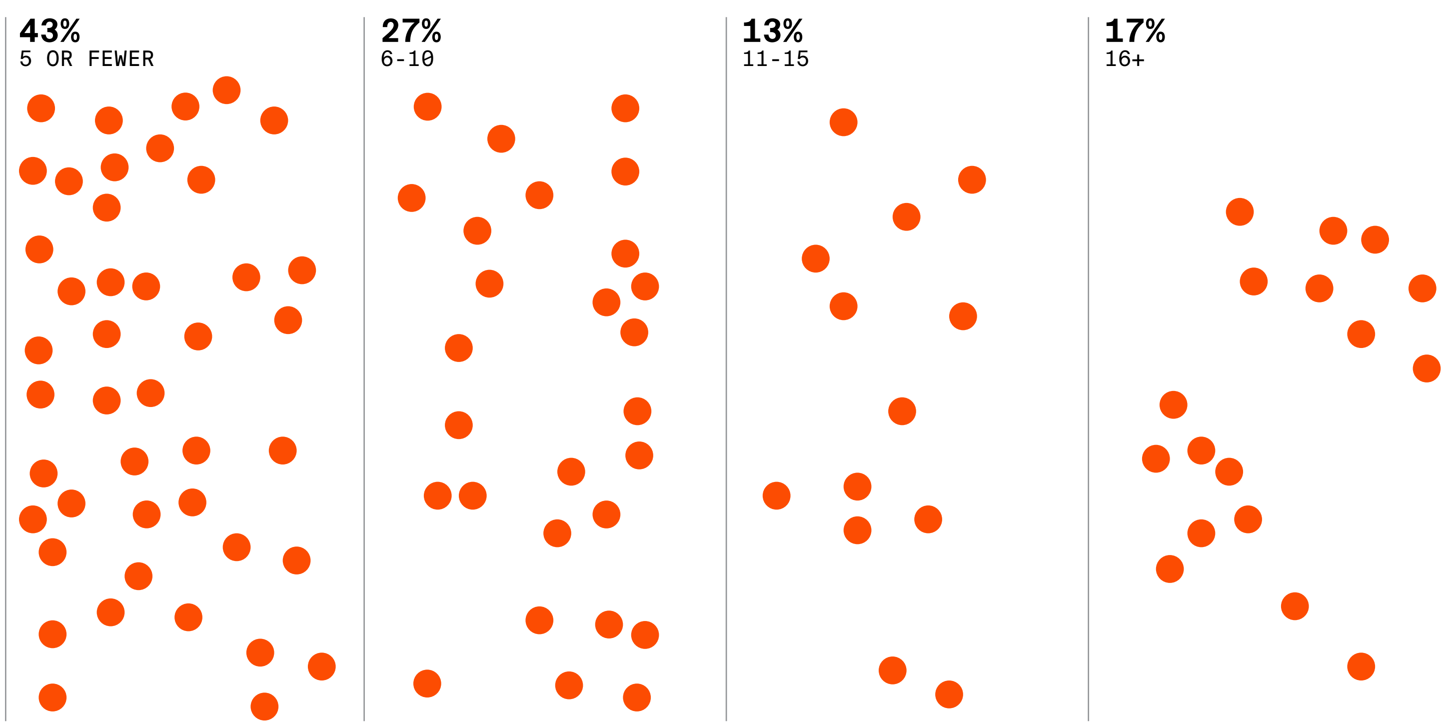


# Appendix: Respondent Demographics *CONTINUED*

**Are your clients...?**




**How many M&A engagements did your firm work on in the most recent year?**



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