Navigating the 2024 M&A Landscape: A Lower-Middle-Market M&A Outlook



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The landscape of deal-making has experienced considerable turbulence in recent years, marked by fluctuations in macroeconomic conditions, geopolitical shifts, and capital market dynamics. Following the unprecedented heights of M&A volume in 2021, the subsequent years witnessed steep declines. In 2023, global M&A deal values amounted to $3 trillion, representing a 16% decrease from the prior year, with the deal count witnessing an 18% decline to 33,920. While 2023 appears subdued when compared to the preceding years, a deeper analysis reveals a more nuanced picture, as illustrated by a comparison to the pre-COVID five-year average (2015 – 2019). Despite 2023 showing a 12% decrease in deal value vs. the five-year average, the number of closed deals was actually 4.9% higher, indicating that 2023 may not be as dire as initial impressions suggest.

What Lies Ahead in the 2024 M&A Landscape?

The burning question for stakeholders is whether 2024 will witness a return to the record-setting year of 2021 or mirror the subdued activity of 2023. Dean Dorton M&A cautions against anticipating a resurgence to the levels of 2021, as that year represented a unique convergence of favorable conditions: abundant and easy borrowing, near-zero interest rates, substantial stimulus funds for strategic buyers, record committed capital flowing into private equity, and the unfreezing of deals that had been put on hold in 2020 that returned in 2021. It was a confluence of factors that may not be replicated in the foreseeable future.

However, a measured rebound is plausible. The variables influencing M&A are showing positive trends, hinting at the potential for increased activity in 2024. Both the supply of deals from sellers and the demand for deals from buyers play crucial roles, with each cohort influenced by distinct yet interconnected factors.

Supply Side Dynamics (Sellers)

- **Valuation Multiples:** Business owners in the lower-middle market, while not exclusively fixated on EV / EBITDA trends, closely monitor them as catalysts for decision-making. Deals under $100 million concluded 2023 with a valuation multiple of 7.6x EBITDA, showcasing a rebound from 7.0x in 2022 but still falling short of the 9.0x recorded in 2021. The ten-year average from 2010 to 2019 was 7.9x. With valuations stabilizing and approaching the decade-long average, sellers may find ample motivation to bring their businesses to market.

- **Earnings / EBITDA:** Corporate earnings across various industries have rebounded after the challenges of 2020 – 2022. This, combined with improved valuation multiples, creates an opportune time for sellers to contemplate a sale, particularly given lingering concerns about economic contractions in the future.
- **Aging Ownership:** The average age of a lower-middle-market business owner in the U.S. is 53, indicating a growing pool of potential sellers as owners seek to exit their businesses and enjoy retirement. This demographic factor is expected to drive M&A supply in the coming years.
- **Election Year:** Election years typically introduce concerns about changing regulations and tax codes. As campaigns intensify and candidates make promises, the fear of regulatory shifts becomes a motivating factor for sellers to enter the market.
- **Summary for Supply:** With healthy and growing valuations, stable earnings, an aging ownership demographic, and concerns about regulatory changes, 2024 could witness a meaningful increase in willing sellers entering the market.

Demand Side Dynamics (Buyers)

- **Valuation:** Despite a general upward trend in valuations, they remain significantly lower than recent highs. This discrepancy should prompt motivated buyers to engage actively in M&A activities in 2024.
- **Balance Sheet Liquidity:** Corporate M&A activity was subdued in 2022 and 2023, allowing companies to replenish their war chests. Despite private equity fundraising slowdowns, committed capital remains substantial and needs deployment. Strategic With the ‘shot clocks’ that private equity has to deploy added to itchy trigger fingers at strategic buyers, we anticipate both of these factors to contribute to increased buyer demand.
- **Credit Costs:** Credit costs experienced a surge throughout 2022 and 2023 due to the Federal Reserve’s efforts to curb inflation. However, these costs are anticipated to stabilize or decrease in 2024, offering downside assurance to return-driven investors and motivating participation.
- **Credit Capacity:** Banks have exhibited a fluctuating credit appetite in the last 12-24 months, influenced by economic and asset class uncertainties. As stability returns to the market (which is improving), buyer motivation and confidence are likely to increase.

The 2024 outlook for Lower-Middle-Market M&A activity appears poised for a measured rebound, with both supply and demand dynamics showing positive trends. While a return to the heights of 2021 may be highly unlikely, a careful analysis of the market drivers suggests that 2024 holds promise for increased deal-making activity.