CPA Practice Advisor

slowed substantially as inflation and interest rates soared throughout 2022.

Isaac M. O'Bannon • Aug. 31, 2023

A new Grant Thornton LLP survey of merger and acquisition (M&A) professionals shows that after a lengthy period of respite, M&A activity is expected to rebound in the second half of this year.

The survey, which polled 150 U.S.-based M&A professionals including investment bankers, M&A attorneys, private equity (PE) investors and chief financial officers (CFOs), found that respondents predict an uptick in deals. Those surveyed also said they were mitigating interest rate hikes by exploring alternative financing, while PE firms are planning to hold assets longer in hopes that valuations will rise over time.

Deal volume is expected to rise

are getting more comfortable with buying in the current climate.

"You have inflation plateauing, and if you think back to six months ago, many buyers were waiting to see what was going to happen," said Burgess. "I think we're finally getting back to normal."

That sense of normalcy comes with some caveats. According to Burgess, PE leaders have increased the number of deals they're closing, but the transactions are smaller and include many portfolio company add-ons that PE firms are bundling in hopes of driving higher valuations in the future.

Larger deals are less common, but thanks to strong fundraising with limited purchases over the past 15 months, buyers have opportunities to initiate smaller transactions at better valuations.

"Valuations are down, and corporations are sitting on a lot of cash," said Elliot Findlay, Transaction Advisory Services national managing principal at Grant Thornton. "Corporations have the cash on the balance sheet, and ultimately they are ready to buy companies at low or depressed values."

The survey also indicated the top industries for transaction activity over the next six months, which include technology, media, entertainment and communications; banking; and healthcare.

As interest rates rise, investors get creative

After the Federal Reserve paused interest rate increases in July, the benchmark rate had risen a total of 525 basis points over 17 months, making financing for deals a more complex proposition. In fact, 30% of M&A professionals said they had executed fewer deals because of increased interest rates.

In response to those rate increases, buyers found new financing strategies. Nearly

well as secondary debt being utilized."

Meanwhile, PE firms are pursuing new tactics related to their current portfolios. They're seeking alternative financing arrangements and holding on to assets longer in hopes of a bigger payday down the road when the valuation environment is more attractive.

What's next? Overdue exits

Data from Grant Thornton's latest M&A survey also suggest that M&A professionals are still unsure about when the valuation environment might get more attractive. With nearly 60% of PE firms holding onto assets longer because of the constraints in the current lending environment, the sector is likely to experience a glut of overdue exits.

In addition to the over-supply of companies looking to exit, the forecast of these companies' performance does not reflect the levels of growth that usually attract new investors. So, despite steadier inflation and unbridled optimism over the pace of deals as well as the stock market inching higher, there still may be tough times ahead in terms of valuation until that aggressive growth returns.

"Growth drives valuations," Findlay said. "And I just don't know anyone that's coming out with really aggressive growth forecasts right now across a whole variety of industries."

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