M&A Outlook for 2023 (Part One)

THE LEAD | January 10, 2023

The beauty of good vacations, aside from their restorative powers, is the opportunity to reflect on the big picture. On the work front, that meant we moved beyond 2022 rates and recessions to a thoughtful consideration of what comes next.

Part of that appraisal is how dealmakers will find ways, as they always do, to be commercial. Indeed, the urgency of putting LP money to work will be a factor for private equity sponsors. The question is, as we'll hear in next Wednesday's exclusive *"Lead Left Presents"* M&A webinar, how the developing economic themes in 2023 impact auctions, valuations and deal activity?

2022 was a story of two halves. The first half began with a Dow over 36,000 and a Fed funds rate of zero. It ended with the Dow down over 7,000 points and Fed funds still less than 2%. But then the Fed kicked in with its 75 bps per hike program. The rest is history.

This resulted in a M&A market bifurcated between winners and losers. But who were they, and how did rates, the economy, and capital markets drive activity and valuations? How did buyers and sellers adjust expectations? And how did processes adapt to the new reality of market conditions?

Today, after one of the fastest lifts in history, rates are closing in on the Fed's 5% target. They could pause mid-year there for a while, perhaps the rest of 2023. How will that change auctions and prices? What is the current activity level and is that a holdover from 2022 or a different set of dynamics? Which deals are getting done and which are not?

Each of our webinar panelists are with firms owning unique sector strengths and strategies. How are various industries responding in the current environment? What has changed with higher rates and inflation and what do our bankers expect for the rest of the year?

For M&A participants these issues affect not only valuations and outcomes, but also processes. Double-digit interest rates for senior debt can't be sustained without lowering leverage and valuations. Bankers report that financing has replaced speed of execution as the number one deal issue. How open will the credit market be in 2023?

If financing is under pressure for private equity buyers, larger corporate strategics might be better positioned competitively this year. There's also concern about the fundraising environment for sponsors. With 2021 and 2022 being such strong investing years, might 2023 be the year that PE dry powder starts to shrink for the first time in memory?

Finally, public markets are super-focused on the outlook for corporate earnings, given the potential for a slowing economy. Will the private M&A market see a lagging effect from inflation and rates? Tune in next Wednesday for some answers!