

What's ahead for mergers and acquisitions in 2024?

By CAURIE PUTNAM

Mergers and acquisitions outlooks for 2024 have begun to trickle out from legal and financial firms nationwide, and early reports look positive, especially on the heels of 2023's total global M&A deal volume through Q3 being almost \$1 trillion lower than the same span in 2022.

Dykema Gossett PLLC and S&P Global are forecasting a solid year for M&A activity in 2024, driven by increases in the middle and lower markets especially.

And Boston Consulting Group projects increased M&A activity in 2024 despite ongoing macro-economic, geopolitical and regulatory headwinds and driven in part by abundant dry powder and narrowing gaps between seller and buyer expectations.

The Rochester Business Journal spoke to legal and investment banking professionals in the M&A space to gauge their thoughts on the M&A outlook for 2024 and to reflect upon the industry in 2023.

For the small to middle market that attorney Jeffrey B. Schwartz



Jeffrey B. Schwartz

works in as a partner with Phillips Lytle LLP, 2023 was a strong year, despite overall global M&A numbers being down.

"There's so much dry powder out there," said Schwartz about idle cash sitting in reserves. "Deals don't even have a finance contingency; buyers are paying cash on hand with strong balance sheets. That's what splits the big versus the little markets and why although it may have been a down year for M&A overall, it was a good year for my M&A practice."

Schwartz, who concentrates his legal practice mostly on the sell side of M&A, said pent-up demand following COVID-19 also drove deals in the middle market this year. He anticipates 2024 also being a strong year in the middle market and will outperform 2023.

"I think when the economics start to turn a little more favorable, there's going to be a rush,"

said Schwartz, who notes he's seeing more companies recently doing what he calls 'pre-diligence-ing' so they're ready to go. "They're making introductions, they're having preliminary conversations, so when the wind picks up, they're not starting to just unfurl the sails."

For companies interested in buying or selling, Schwartz says it's never too soon to reach out to an experienced M&A attorney for strategic advice and guidance. In an ideal world, an M&A transaction has a multi-year horizon.

"I think there's going to be an even greater flight to quality as M&A moves forward," Schwartz said. "By having somebody knowledgeable you can get ahead of the process."



Andrea T. Feine

Andrea T. Feine is the vice president, of Paramax Corporation, a FINRA-licensed boutique investment banking firm headquartered in Western

New York, with offices in Rochester and Buffalo.

After seeing the M&A market go “pencils down” upon COVID-19’s arrival in the spring of 2020, followed by brisk activity, and then a more stable cadence especially in the lower to middle market space, “Where we are today is that we’re still seeing in that same lower and middle market space, an incredible number of deals,” Feine said.

Drivers of this activity, Feine said, include a shift in thinking by some business owners who, after making it through the pandemic are now ready to pass the torch to the new generation of family members, who don’t always want to take it on.



Sam A. Messina

“To Andrea’s point, there’s not that second-generation necessarily interested in acquiring the family business and those who have acquired the family business appear to be more interested in selling it in an earlier stage,” said Sam A. Messina, director of business development at Paramax. “So, we’re seeing clients of all ages. It’s a different demographic.”

From a quantity standpoint, Paramax’s deal flow has been

very strong in Q4 of 2023, Feine said, and she expects at least Q1 to continue at a similar level. In September the firm closed on the acquisition of the retail tire and automotive maintenance operations of Buffalo-based Dunn Tire by Discount Tire – the largest family-owned tire retail business in the U.S.

Messina says that if business owners are considering selling, one of the most important questions they need to be able to answer is: “What does your next chapter look like?” He stresses the importance of working with an experienced and professional M&A advisory team that isn’t just there to broker a deal but to help guide a successful transition for all parties involved.

Brendan Rich, an attorney who is a partner and team leader of the corporate and mergers and acquisitions practice teams at Lippes Mathias LLP says the higher interest rate environment in 2023 has made the structuring of M&A transactions more challenging, forcing buyers and sellers to get more creative in structuring transactions.

Looking ahead to 2024 he expects the first and second quarter of 2024 to be largely a continuation of 2023.

“The M&A outlook for the second half of 2024 will large-



Brendan Rich

ly depend on the interest rate environment and if the Fed stays true to the pledge of ‘higher for longer’ or if instead they will start to cut interest rates as inflation and the economy cools,” Rich said.

He explained that if interest rates come down and the economy averts a hard landing, heightened activity in the M&A market toward the back half of 2024 is anticipated. However, if interest rates remain elevated or if the Fed cuts rates due to stronger economic headwinds than are currently anticipated buyers and sellers will have to continue to be creative to get deals done.

“As a buyer in 2024 the cost of capital will remain a very important factor in structuring any deal,” Rich said. “Unless the debt markets ease up due to lower interest rates buyers will need to continue to look to more non-traditional financing sources.”

As a seller in 2024, Rich says a key factor to consider will be the valuation your business can obtain in the current interest rate and economic environment. Valuations have come down in 2023 and whether this continues in 2024 will in large part depend on the macro-economic environment.