Three Dynamics of Today's M & A Market

In today's uncertain markets, buyers and sellers need to adjust to change in real time. Here are three trends that will help guide your M&A strategy.

Public equities markets in recent months have experienced notable volatility, leading some to weigh the chances of economic trouble ahead. Yet, availability of capital in private markets remains robust, with a significant supply-demand imbalance between actionable, investable businesses and the amount of dry powder waiting to be deployed.

In turn, dealmakers are adjusting their strategies, finding creativity and confidence to take advantage of the capital available today, while navigating the uncertainties that lie ahead and positioning themselves to pivot as unforeseen factors arise.

Below is an inside look at three of our observations on the dynamics of today's M&A market:

1. Fast-moving buyers are prevailing; speed & certainty to close holds value.

In today's unpredictable economic landscape, sellers are aiming to successfully close on all critical dynamics with speed and certainty, increasing overall value. While securing a premium valuation is certainly still a top priority for sellers, they're also investing more time with buyers who can get the deal done quickly. At times, sellers are foregoing broad auctions for a much smaller group of serious buyers who are a fitting match for the management team and can ensure a quick sale completion.

Buyers are also increasingly selective about where they commit resources. Knowing that to win a process they must prevail on both value and speed; buyers must choose which targets are worth the monetary investment that comes along with speedy diligence processes.

2. Sellers are expediting due diligence.

As investors evaluate the market conditions and seller enthusiasm for compressed deal processes, they're seeking to streamline diligence on the company's financial performance and operations to clear risks earlier on in the process. In some cases, third-party diligence workstreams (legal, accounting, tax and others) are run simultaneously to further tighten timelines as much as possible. In light of this dynamic, management teams and their advisors are normalizing new levels of information sharing—enabling buyers to leverage that information to create a more compelling investment case faster. In a market where deals are quick to close, both buyers and sellers are exhibiting a greater willingness to share early and often in the spirit of reaching a mutually beneficial outcome, faster.

3. Management teams must be prepared for the unexpected.

Though it has been years since buyers actively incorporated this question into due diligence, management teams are once again beginning to be asked to explain their "recession case." Potential acquirers want to understand the company's plan should an economic downturn arrive and how they will manage operations with clouds looming on the horizon. At times, buyers will look back at a company's strategy and ability to pivot through the pandemic as an indicator for future success in difficult economic conditions.

At the same time, uncertainty in the current environment can mean buyers and sellers are reacting to market developments in real time. In some cases, it is more likely that potential buyers drop out of an in-progress process. Whether it is a buyer strategically abandoning a bid to focus fully on to a struggling arm of their business or a private equity firm electing to pursue more tailored capital allocations, it can be unusual territory for management teams that haven't sold a business in an unpredictable market. In these moments, seasoned advisors can be the key to unlocking additional buyer relationships and seeing the deal through to close.

(Source: CFOLC)