

A look at Q2 M&A and beyond: Are conditions ripe for a strong 2024 M&A rebound?

By Louis Lehot, Esq., Foley & Lardner LLP*

AUGUST 28, 2023

Much has been said about the return of M&A in 2023, and while there are deals happening, it is not the boom that many expected. But could all that change in 2024? Is this year setting the stage for a return to more deals getting done?

Acquirers are focusing on smaller-scale deals right now as interest rates remain high, and they are sitting on very large amounts of dry powder.

Pitchbook has released its Q2 2023 M&A Report,¹ and the findings are quite interesting, showing that deal volume and deal value are diverging. The report shows price multiples in correction mode, with an approximate 20% drop since peak levels in 2021.

Even though firms have enormous amounts of dry powder in reserve, they are still faced with tight credit conditions at the same time.

This is coupled with the fact that acquirers are focusing on smaller-scale deals right now as interest rates remain high, and they are sitting on very large amounts of dry powder. Pitchbook notes that this has led to a 33.7% drop in deal value, but the deal count remains steady.

Dry powder is the cash reserves and liquid securities that private equity or venture capital firms have on hand to deploy when the conditions are right. According to Crunchbase, global PE dry powder is estimated to be \$1.3 trillion and venture capital is

estimated to be sitting on about \$580 billion.² So, even though firms have enormous amounts of dry powder in reserve, they are still faced with tight credit conditions at the same time.

Reuters reports there are signs of a revival in investment banking, with Morgan Stanley recently predicting an uptick in spots of M&A.

Tight credit markets can create challenges for PE firms looking to execute mergers and acquisitions, even with large amounts of dry powder. They can lead to increased financing costs, limited funding options, reduced valuations, longer deal timelines, and a more cautious investment approach. These factors can collectively impact the ability of PE firms to pursue and execute M&A transactions successfully.

But there may be some light at the end of the tunnel. Reuters reports there are signs of a revival in investment banking, with Morgan Stanley recently predicting an uptick in spots of M&A. Pitchbook also points out that Goldman Sachs showed an increase in investment banking backlog, something that can “open the liquidity floodgates.” When you look at this in combination with the dry powder on hand, we might see that spike in M&A we have been waiting for next year.

Only time will tell if 2024 will be the return to M&A activity we have been waiting for, but it seems that the right conditions might be falling into place as the economy stabilizes and interest rate hikes slow down. We will be watching closely for more signs of an M&A boom possibly in the near future.

Notes

¹ <https://bit.ly/47RAcx3>

² <https://bit.ly/44v8KTd>

About the author



Louis Lehot is a partner with **Foley & Lardner LLP**, where he is a member of the private equity and venture capital, mergers and acquisitions, and transactions practices as well as the technology sector team. He advises entrepreneurs and their management teams, investors, and financial advisers at all stages of growth, from garage to global, and helps them navigate liquidity. He is based in the firm's Silicon Valley and San Francisco offices and can be reached at llehot@foley.com. This article was originally published Aug. 15, 2023, on the firm's website. Republished with permission.

This article was published on Westlaw Today on August 28, 2023.

* © 2023 Louis Lehot, Esq., Foley & Lardner LLP

This publication was created to provide you with accurate and authoritative information concerning the subject matter covered, however it may not necessarily have been prepared by persons licensed to practice law in a particular jurisdiction. The publisher is not engaged in rendering legal or other professional advice, and this publication is not a substitute for the advice of an attorney. If you require legal or other expert advice, you should seek the services of a competent attorney or other professional. For subscription information, please visit legalsolutions.thomsonreuters.com.