# Corporate M&A Stirs up Momentum for 2024

Despite headwinds, strategics are setting up for a promising dealmaking year

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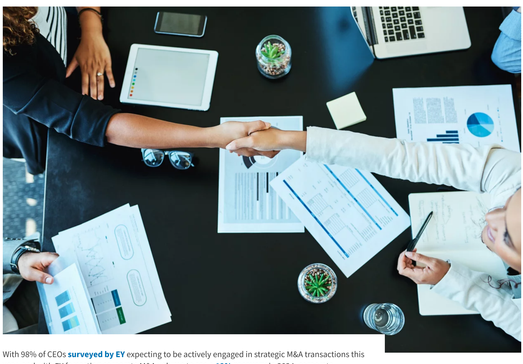

With 98% of CEOs **surveyed by EY** expecting to be actively engaged in strategic M&A transactions this year, and with EY forcasting corporate M&A volume to see a **12% recovery** in 2024, corporate dealmaking is headed for a strong year after a sluggish 2023.

Dealmaking was muted across the board last year, for strategics and private equity acquirers alike, and throughout industries.

But emerging data suggests an uptick for M&A activity, and strategics are poised to get on-board with the resurgence—particularly as corporates sit on substantial amounts of capital they are eager to deploy.

"Because many strategics have available cash and don't need to borrow, they've been able to play a more significant role in the M&A market," says Jeff Gifford, corporate finance practice group leader for law firm **Dykema Gossett**.

And in the middle market, strategic dealmaking is expected to be particularly strong as acquirers face less antitrust and other regulatory scrutiny. Still, strategics will face plenty of headwinds in 2024—including competition from PE acquirers—as the dealmaking environment looks to recover from last year's slump.

## Tailwinds for Strategics

Sources say the M&A landscape in 2024 is expected to turn in favor towards corporate acquirers as the overall environment for dealmaking improves. However, strategics will also have to face increasing competition from private equity buyers.

"Corporates with strong balance sheets will be well positioned, but there is still a record amount of PE dry powder on the sidelines awaiting deployment, so I expect a significant uptick from both strategic and financial buyers," says Jeff Giles, vice president corporate development for critical infrastructure product distributor **Core & Main**. "I believe industry consolidators and PE firms pursuing roll up strategies will be the most active acquirers in the middle market."

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Despite a slower market pace, 2023 still had significant M&A activity, including The Body Shop **selling** to PE group Aurelius for $257 million, Quad-C Management **closing the sale** of MNX Global Logistics to UPS, Campbell Soup **agreeing to buy** Sovos Brands for $2.7 billion and L3Harris Technologies is **selling** its commercial aviation solutions business to private equity firm TJC L.P. for $800 million. The latter deal will include a $700 million cash purchase price and a $100 million earnout, based on achieving financial performance targets for 2023 and 2024.

Elsewhere, U.S. middle-market private equity firm **Vestar Capital Partners** announced that it completed the sale of Edward, Don & Company, a distributor of food service equipment and supplies, to Sysco Corporation. Terms of the transaction were not disclosed.

There is also opportunity for strategics to transact in partnership with PE sponsors. For example, The Kroger Company, its consumer product investment platform **PearlRock Partners**, and **MidOcean Partners**, a New York-based alternative asset manager who specializes in middle-market private equity, have come together in a unique partnership to form MPearlRock, a strategic collaboration that will introduce emerging consumer packaged goods to new customers.

In another interesting partnership, **Monomoy Capital Partners**, a private equity firm focused on credit investing in the middle market, is selling Sportech, a designer, manufacturer, and assembler of cab components and assemblies for OEM customers, to Patrick Industries. What made this partnership so distinctive was that Monomoy worked alongside Sportech's management team on revenue growth and operational improvement initiatives. "Monomoy's experience working with founder-owned companies helped us equip the legacy Sportech management team with tools to amplify the company's success and create long term value for our team and partners," said Sportech's CEO, Jim Glomstad in a statement.

Giles believes the lower-middle market will be a particularly bright spot for corporate M&A this year as smaller buyouts can be less reliant on leverage to generate returns. "I also think the stability in the debt markets, and a likely end to rate hikes, will provide more clarity for all acquirers, which will lead to an uptick in deal activity," he said. "I don't expect corporate divestitures to spike in 2024, as corporates will likely hang onto their strong cash flowing divisions, particularly while there is still a gap in valuations between buyers and sellers."

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Sources agree that the key sectors for heavier corporate M&A activity will be healthcare, biopharma, financial services, technology, aerospace and defense, industrials, natural resources, and energy. "I think the aerospace and defense sectors will continue to be very active in the M&A market, given the geopolitical issues that are going on in and around the world," Aytan Dahukey, private equity team leader at law firm **Sheppard Mullin**, says. "And if we go from an environment of high regulatory enforcement to one that is low in enforcement, I think we could see more deals in the energy sector."

The explosion of AI and digital transformation may also drive more robust strategic M&A activity in 2024. Lehot thinks some dealmakers do recognize the need for these new technologies, but are expressing caution with implementation. "I think everybody wants digital transformation, but they are going slowly," he said. "But they realize if they don't get into this transformation, their businesses will be left behind."

Giles believes that billions of dollars will be invested by corporates in companies that are involved in AI and cybersecurity. "There will continue to be a lot of investment in startups, along with acquisitions of emerging players by the bigger tech companies that need access to their technology and capabilities, to secure their position in this rapidly evolving market landscape," he said.

## Shared Headwinds

While the M&A outlook for 2024 may be an improvement upon 2023, strategics continue to face many of the same headwinds that private equity acquirers do.

Ongoing valuation disagreements between buyer and seller are one factor continuing to plague both strategic and PE buyers. "Most owners have been hesitant to put their businesses on the market because interest rates are high, and the valuations are not aligning between what sellers want and what buyers are willing to pay," says Dahukey. "There is a lot of optimism that there can be some alignment once interest rates come down."

Interest rates remain stubbornly high, a fact that will weigh less heavily on strategic acquirers with more robust balance sheets. Elsewhere, experts say corporate M&A will face greater regulatory scrutiny in 2024.

Dealmakers acknowledge, however, that the corporate M&A market will continue to face headwinds in 2024, specifically higher interest rates and greater regulatory scrutiny.

Dahukey finds geopolitical turmoil and aggressive regulatory enforcement will always negatively impact the overall deal environment because uncertainty is a deal killer. "Buying a company is a massive investment in the future, and when the future is cloudy, it's difficult to commit," he says. He also points to antitrust issues as growing regulatory concern for the M&A landscape, with the U.S. Federal Trade Commission signaling increased scrutiny over add-on acquisitions.

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Along with amplified regulatory surveillance, corporate dealmakers also are contending with numerous geopolitical events around the world, making them more cautious. "There is a lot of uncertainty internationally with everything happening in Eastern Europe, the Middle East, and even parts of Asia and South-Central America, and dealmakers don't like uncertainty," Gifford says. "Because of the uncertainty in international politics and domestic policy changes, it's even harder for dealmakers to do deals."

Despite some of these factors, Louis Lehot, partner at Foley & Lardner, LLP, thinks 2024 should shape up to be an active and successful year for corporate M&A. "I'd like to think that there are a lot of reasons to be positive in 2024, and that M&A will be back," he says.

*__Cynthia Kincaid__ is a journalist with extensive experience writing about the financial and healthcare industries.*

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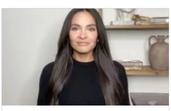

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