Q4 2024

FIRMEX

# Forecast

## Middle Market M&A Deal Trends

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## Introduction

Welcome to the new Firmex Forecast, part of our reimagined research project to serve middle-market M&A advisors. We've been in an ongoing conversation with investment bankers and business brokers since 2017 when we launched our annual look at the structure and terms of advisory fees. In 2021, we added a quarterly monitor of M&A trends based on a survey of advisors and our proprietary data on virtual deal room activity. That project has grown to incorporate research into many topics of interest to the leaders of firms that serve the middle market. Along the way, a vibrant community has joined us, regularly contributing insights and ideas.

This year, we paused the quarterly studies briefly to explore how we could be even more helpful to advisors coping with the complexity of today's markets. We decided to replace a single quarterly report with two more focused publications.

- **Firmex Forecast** will be a quarterly measure of the pulse of the middle market M&A world, looking at deal volume, valuations, and other market forces.
- **Firmex Focus** will be a close-up look at one topic of interest to advisory firms. In the first edition, we are looking at buyers in the market, which kinds are active, and what types of deals they are looking for.

We are excited about this new format and hope that offering two streamlined reports will be a more straightforward, useful resource in today's hectic world. We have also restructured our quarterly survey to make it faster to complete.

Please let us know what you think of our new formats and what topics you would like us to look into next. Reach out to us at content@firmex.com.

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## Highlights

- Merger advisors serving the middle market expect a strong rebound in activity next year. 35% say deal volume in the first half of 2025 will be above average. For the last half of 2024, only 20% of advisors said volume was above average, and 38% said it was below average.
- Dealmaking is still tough. Deals take longer to negotiate, and more fall apart before completion than usual. Few advisors see the process getting smoother next year.
- 39% of advisors say valuations are below average, a less optimistic view than in our survey last year.
- Sellers have outnumbered buyers in the market in 2024, but advisors expect a more even balance in the coming year as the number of participants on both sides of the deal increases.

# Overview

As we surveyed middle market advisors towards the end of 2024, there were signs that the environment depressing M&A business just might be lifting. The phrase "new normal" kept popping up as we asked advisors about the trends they observed.

Many saw signs of increasing confidence among the private equity funds and large corporations that had scaled back their acquisitions over the last few years in the face of rising borrowing costs and economic uncertainty.

In recent months, central banks in most developed economies have started cutting interest rates.  In the United States, economic growth has been strong, and the presidential election has somewhat clarified the political environment.

Indeed, as we close out the year, the Firmex Forecast indicates that overall M&A volume for 2024 in North America will be up 9% from the previous year.

Europe, however, is still coping with a sluggish economy and is facing the prospect of increased tariffs on exports and the need for increased defense spending. Our forecast suggests that dealmaking will wind up unchanged from 2023.

Nonetheless, advisors on both sides of the Atlantic are optimistic about 2025. Many see buyers returning to the market and volume increasing. (There is a distinct minority, especially in Germany, who worry that weak corporate profits will sap the will of buyers while making sellers less attractive.)

To be sure, the new normal is hardly going to be a return to the dealmaking frenzy of 2021. Rigorous due diligence and conservative lenders are still slowing down negotiations and increasing the likelihood that deals will be abandoned. And the hopes of greater activity are largely based on the assumption that owners will ultimately agree to sell their companies at significantly lower valuations than they saw others receive several years ago.

# Expectations for deal volume

Merger advisors are preparing to get busy in 2025 after a quiet year.

Looking back, 38% of advisors said volume was below average in the last six months, compared to only 20% who said volume was above average.

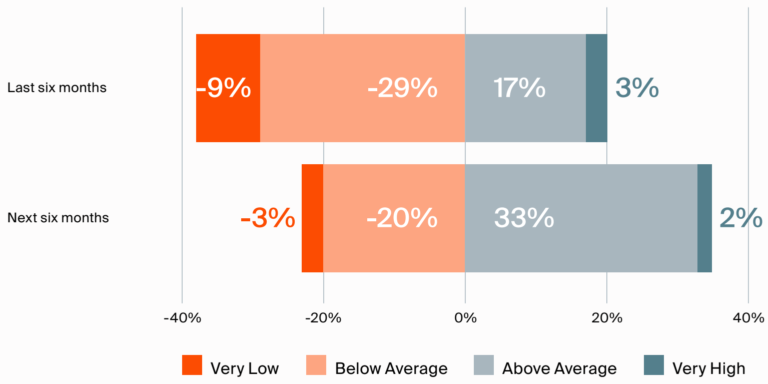
The view changed significantly when we asked for predictions for the coming six months, with 35% saying volume would be above average and 23% predicting it would stay below average.

With interest rates starting to fall, many advisors said they expect pent-up demand, especially from private equity firms, to outweigh the caution that has restrained activity in recent years.

A year ago, advisors were also quite optimistic, with three-fifths predicting an increase in volume at the end of 2023. That was the most upbeat response we had received in the survey since the start of 2022. Indeed, volume did spike in the fourth quarter of 2023, but it stagnated for most of 2024, falling in Europe and rising only slightly in North America.

## A Busy 2025 for M&A

The volume of deals over the last six months and predicted for the next six




**Source:** *Firmex survey of merger advisors. Responses of "Average" omitted from chart.*

OBSERVATIONS

**The climate for deals is improving**

"Volume will increase as the economy stabilizes, interest rates fall, and companies restructure. Private equity firms are sitting on dry powder and may become more active as valuations become more attractive to them."

NADJA LANGLEZ, ASSOCIATE, WALTER FRIES CORPORATE FINANCE, GERMANY

**Uncertainty will depress deal volume**

"I expect very low activity because of volatility in interest rates and economic uncertainty due to geopolitical and government debt. PE funds will have a hard time exiting their investments."

ALEXIS CHEVALIER, PARTNER, BLUE REEF INVESTMENT ADVISORS, SWITZERLAND

**Dealmaking will increase in the second half of 2025**

"I don't see any significant changes in the next 6 months, after which confidence in economic development should grow again and, in very small steps, the motivation to make investments."

MICHAEL FEIER, MAG.(FH), MF CONSULTING GMBH, AUSTRIA

# The challenge of completing deals

Even as they prepare for increased volume, advisors expect to continue working harder than usual to get deals done. Too many deals are failing to close, and the ones that do take too long.

At the end of 2023, more than two-thirds of advisors said the time required to close deals was above average, and three-fifths of them expect this sluggish pace to continue into 2025.

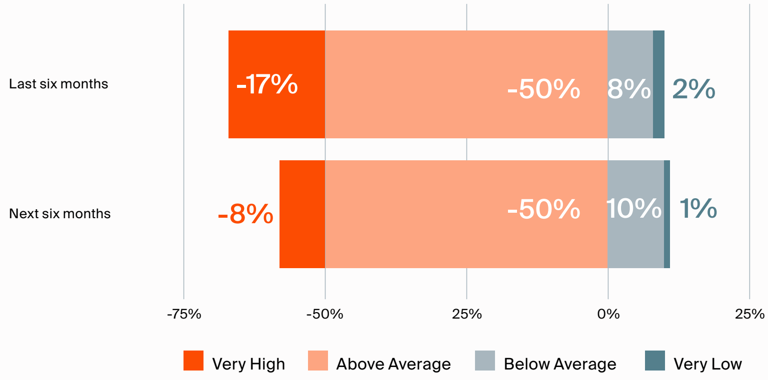
Buyers, they said, are conducting due diligence in excruciating detail, and many can get cold feet.

Nearly half of the advisors said that their success rate — the percentage of deals that actually close — has been below average. Again, they see only a modest improvement next year, with 37% still predicting a lower-than-average close rate.

Yet, even a tiny hint of improvement in closing deals is a good sign. Last year, nearly seven out of ten advisors said that the time to close was getting longer. They also reported their success rates had been declining since 2022.

## Slow Going

The required time to close a deal over the last six months and predicted for the next six




*Source: Firmex survey of merger advisors. Responses of "Average" omitted from chart.*

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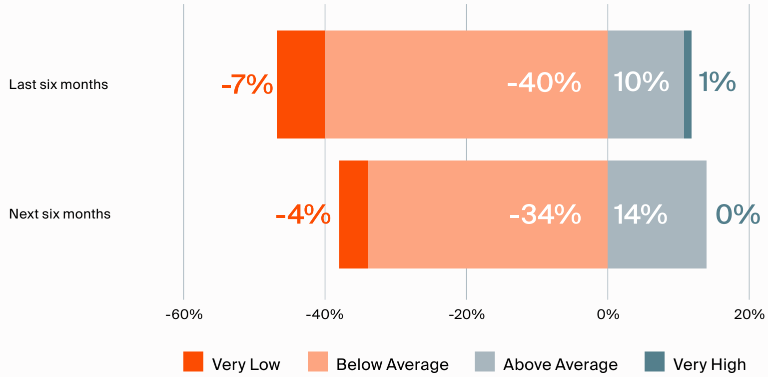
## Abandoned Deals

The percentage of deals that closed over the last six months and predicted for the next six




*Source: Firmex survey of merger advisors. Responses of "Average" omitted from chart.*

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**OBSERVATIONS**

### Buyers remain skittish

"Buyers are spending more time in due diligence, negotiating harder, and taking longer to decide. Nobody knows how long this unfortunate phase will last."

MANAGING DIRECTOR, GERMANY

### Private equity investors are keeping standards high

"With the challenging macroeconomic conditions, private equity buyers are extremely focused on quality."

INVESTMENT BANKER, FRANCE

### Strategic buyers are distracted by internal problems

"The willingness to take risks is decreasing due to internal issues and sales difficulties."

BODO MAXEINER, CEO, MAXEINER & CIE. GMBH, GERMANY

### Conservative lenders will still slow dealmaking

"We expect third-party financing to be an ongoing challenge for buyers."

BRYAN LIVINGSTON, MANAGING PARTNER, OAKLINS CAPITAL ALLIANCE, UNITED STATES

# Multiples remain depressed

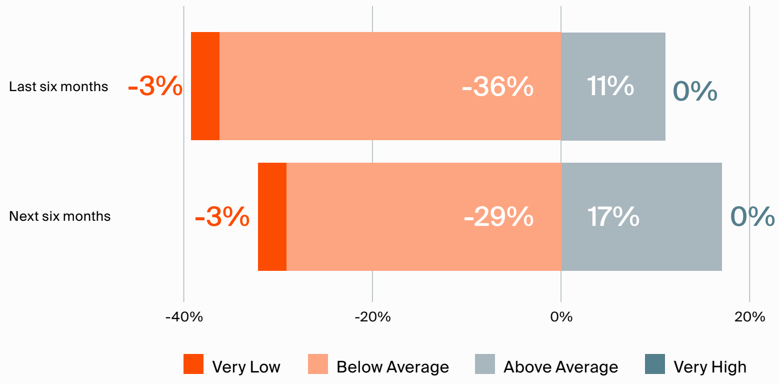
Even as public company stock prices soar to record heights, the value of private middle-market companies remains depressed.

Nearly half of advisors say the valuations of their deals have been average, with another 39% calling them below average. This suggests valuations are somewhat lower than a year ago when only 32% of advisors said they were below average. (In our previous surveys, valuations were generally considered above average in 2022 and the first half of 2023.)

Looking ahead, the consensus is slightly more optimistic. 17% of advisors expect above-average valuations next year, compared to 11% who said valuations were above average in the last six months.

## A Buyers' Market

Deal valuations over the last six months and predicted for the next six




**Source:** *Firmex survey of merger advisors. Responses of "Average" omitted from chart.*

OBSERVATIONS

**Improving results may increase values and volume**

"The post-COVID hangover is still impacting how buyers view sellers' financial results. Hopefully, the sellers' 2024 year-end financials will demonstrate the "new normal," and we can return to more deal activity."

STEPHEN JAKOB, MANAGING PARTNER AND FOUNDER, OSPREY CAPITAL PARTNERS INC., CANADA

**Sellers haven't adjusted to the new reality**

"Many sellers are still coming to market expecting the high prices of the past. The buyers are uncertain about the valuation of their targets and often won't match what the sellers want."

HEAD OF M&A, GERMANY

**Values can be high, but only for the best deals**

"The private equity players are being very selective, but they will pay high prices when they find a quality company."

MANAGING DIRECTOR, EUROPA ISLAND

**Uncertainty will drive multiples lower**

"It's going to be even more of a buyers' market. The poor economic outlook in Germany, along with high political uncertainty in the U.S. and Germany, will drive multiples down."

FUND MANAGER, GERMANY

# Buyers and sellers come back into balance

In 2024, there was a surplus of companies for sale compared to buyers who were interested in acquiring them. Advisors see this imbalance somewhat evening out next year.

When asked about buyers, 40% of advisors said the number in the market was below average, while only 25% said there was an above-average number.

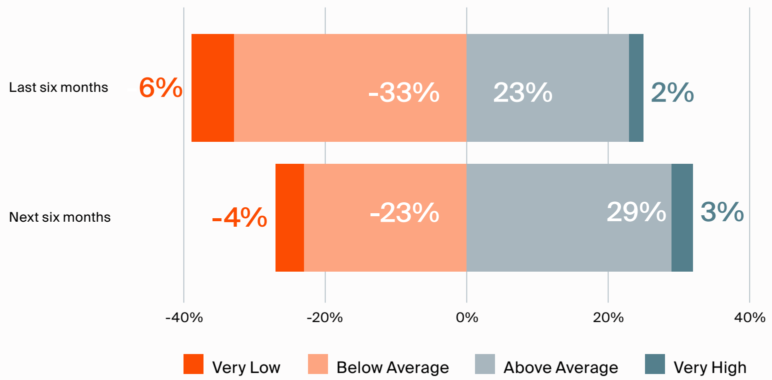
In contrast, 37% of advisors said there have been more sellers than average, and only 27% said there were fewer than average.

Looking forward, advisors expect the number of both buyers and sellers to increase. In the next six months, more advisors predict an above-average number of buyers (32%) than below-average (27%). Meanwhile, 47% predict an unusually large number of sellers compared to only 17% who expect a seller shortage.

Advisors say the most common buyers in the market are private equity funds seeking both platform companies and fill-in acquisitions. They expect PE players to increase activity as rates fall but also see a resurgence of strategic buyers looking for efficiencies and new technology capabilities, especially around artificial intelligence. For a detailed look at these trends, see the recent **Firmex Focus on Buyers**.

## Buyers Are Coming Back

The number of buyers in the market over the last six months and predicted over the next six




*Source: Firmex survey of merger advisors. Responses of "Average" omitted from chart.*

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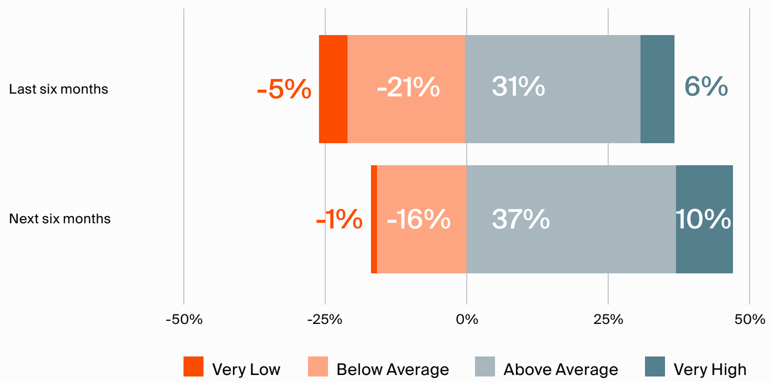
## Owners Prepare to Cash In

The number of sellers in the market over the last six months and predicted for the next six




*Source: Firmex survey of merger advisors. Responses of "Average" omitted from chart.*

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**OBSERVATIONS**

**Both buyers and sellers are more active**

"We're seeing deals pick up because a larger number of buyers and sellers are in the market at the right price."

PIERRE MOREAULT, PRESIDENT, MOREAULT CONSEILLERS, UNITED STATES

**Sellers need financial help**

"Businesses are looking to sell because their shareholders need strong partners to finance their restructuring."

INVESTMENT BANKER, AUSTRIA

**Buyers are turned off by the poor performance of prospective sellers**

"When buyers see the reduced profitability and slow adoption of technology of potential targets, they decide there is too much risk for them to capture a genuine upside."

INVESTMENT BANKER, CANADA

# The Firmex Forecast

As the year closes, according to the Firmex Forecast, merger and acquisition deal volume is set to rebound modestly in the last quarter of 2024 after dipping slightly in the third quarter. It is predicted to increase by 4.6% in North America and 7.8% in Europe in the quarter.

After the post-COVID frenzy of mergers, North American deal volume had fallen more than in Europe, but it's now growing faster. For all of 2024, the forecast suggests that dealmaking will increase by 9% in North America from 2023 while remaining flat in Europe. The full-year volume will be 35% below 2021 levels in North America and 28% in Europe.

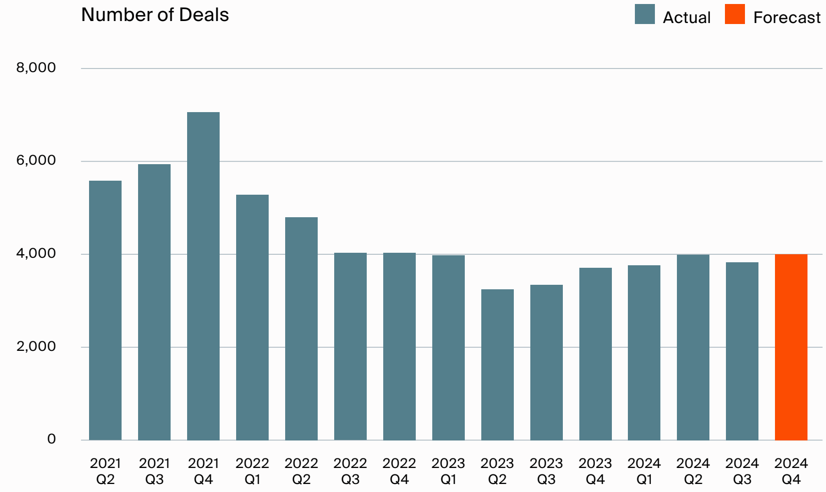
The Firmex Forecast is based on a proprietary algorithm generated from activity on the Firmex platform, one of the most widely used virtual data room providers. More than 20,000 rooms are created on Firmex annually for prospective buyers and sellers to exchange confidential information during due diligence. This level of data room creation has proven to be a reliable indicator of future M&A activity. The forecast also incorporates responses from our quarterly survey of middle-market merger advisors and economic and financial market measures.

For the fourth quarter, the projection was influenced by an uptick in data room activity in the first weeks of the fourth quarter (especially in Europe) and the optimism of merger advisors in our survey (see the next section). Other positive indicators include lower oil prices, higher stock market values, declining interest rates, and improved consumer sentiment.

The European forecast was also influenced by the weakening of the British pound compared to the U.S. dollar. A stronger dollar is correlated to increased European merger activity.

## North American Deal Volume Edging Up

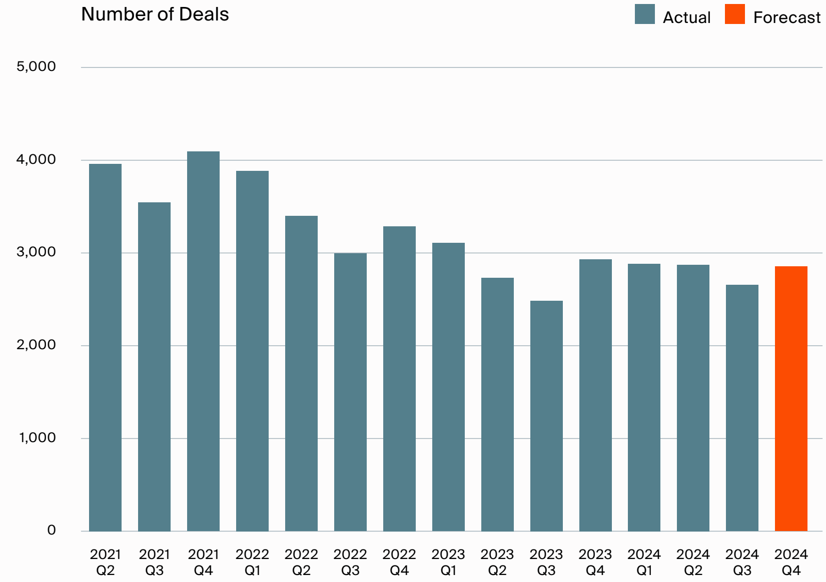
Firmex forecast for North American M&A Deals in Q4 2024 compared to actual deals




*Source*
*Actual volume from S&P Capital IQ.; Forecast from Firmex based on proprietary data and macroeconomic indicators.*

## European Dealmaking Bouncing Back

The Firmex Forecast for European M&A deals in Q4 2024 compared to actual deals

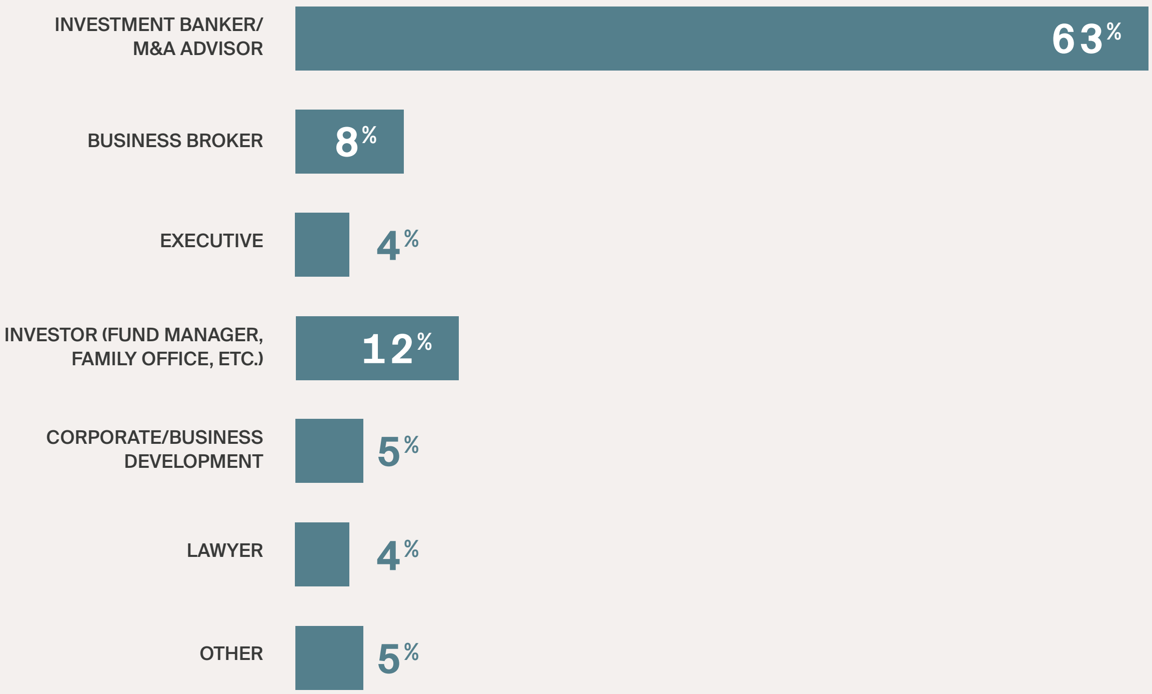



*Source*
*Actual volume from S&P Capital IQ.; Forecast from Firmex based on proprietary data and macroeconomic indicators.*

# Methodology

This report is based on a global online survey conducted in October 2024. The 219 respondents were investment bankers, business brokers, and other professionals involved in middle-market mergers and acquisitions. Firmex has conducted quarterly surveys with similar methodologies since 2021. The demographics of the respondents are below.

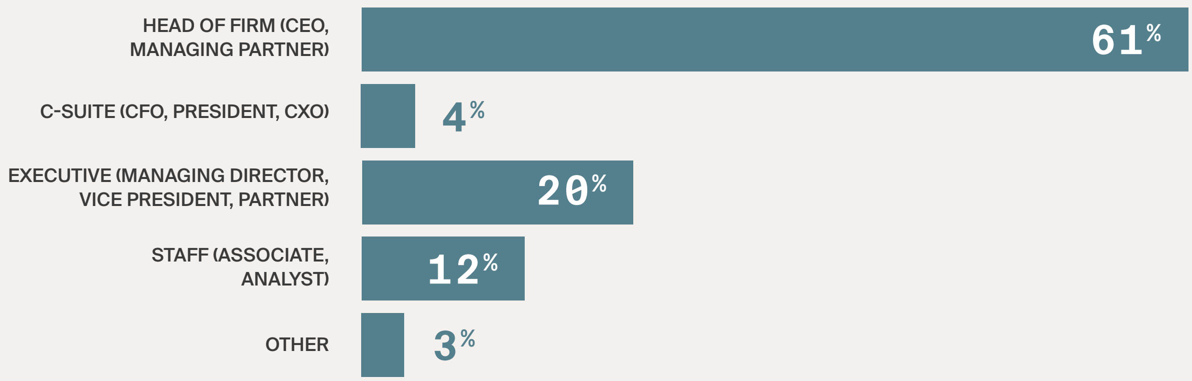
## Occupation



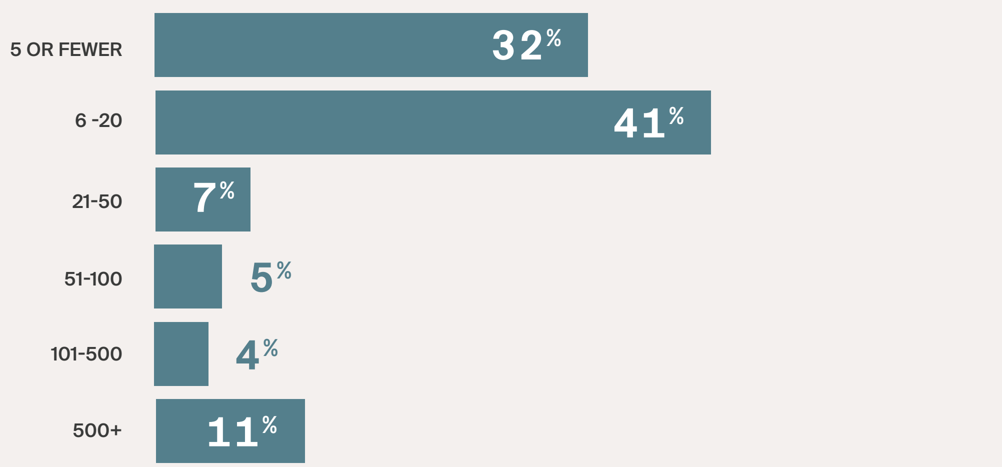

## Region

# Methodology

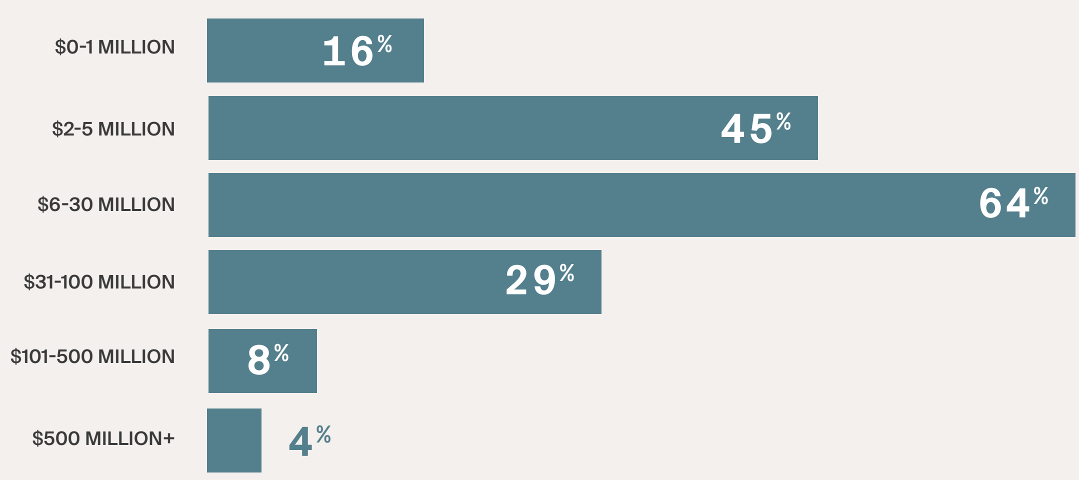
## Job Title




## Number of Employees in Firm




## Deal Sizes Firm is Typically Involved in



# About FIRMEX

Firmex is a global provider of virtual data rooms where more deals, diligence, and compliance get done. As one of the world's most widely used virtual data rooms, Firmex supports complex processes for organizations of all sizes, including diligence, compliance, and litigation. Whenever professionals need to share sensitive documents beyond the firewall, Firmex is their trusted partner.

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