

# M&A Executive Sentiment on The 2024 Deal Space

March 20, 2024



# Dealmakers in the Creo survey are cautiously optimistic about 2024, envisioning a modestly better M&A environment

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- Creo fielded an M&A survey in mid-February to understand sentiment amongst dealmakers
- The survey consists of 150+ responses from executives in Private Equity, Banking, PortCos, and Service Providers
- Dealmakers see revenue up ~9% in 2024 for their companies/companies they are associated with. They see the chance of a recession as moderate from 2024-2026
- Respondents report economic uncertainty as their largest concern
- In the deal space, M&A activity is expected to increase ~12% at relatively flat business valuation multiples ...
- ... however, executives responding with a “wait and see” approach to economic uncertainty are delaying their deals in the 1H of 2024
- As M&A activity is slated to increase, potential acquisitions will require greater alignment between buyers and sellers

# Pent up demand will lead to more deals, but an uncertain election will have an impact. Leading companies will have a 'bias for action'

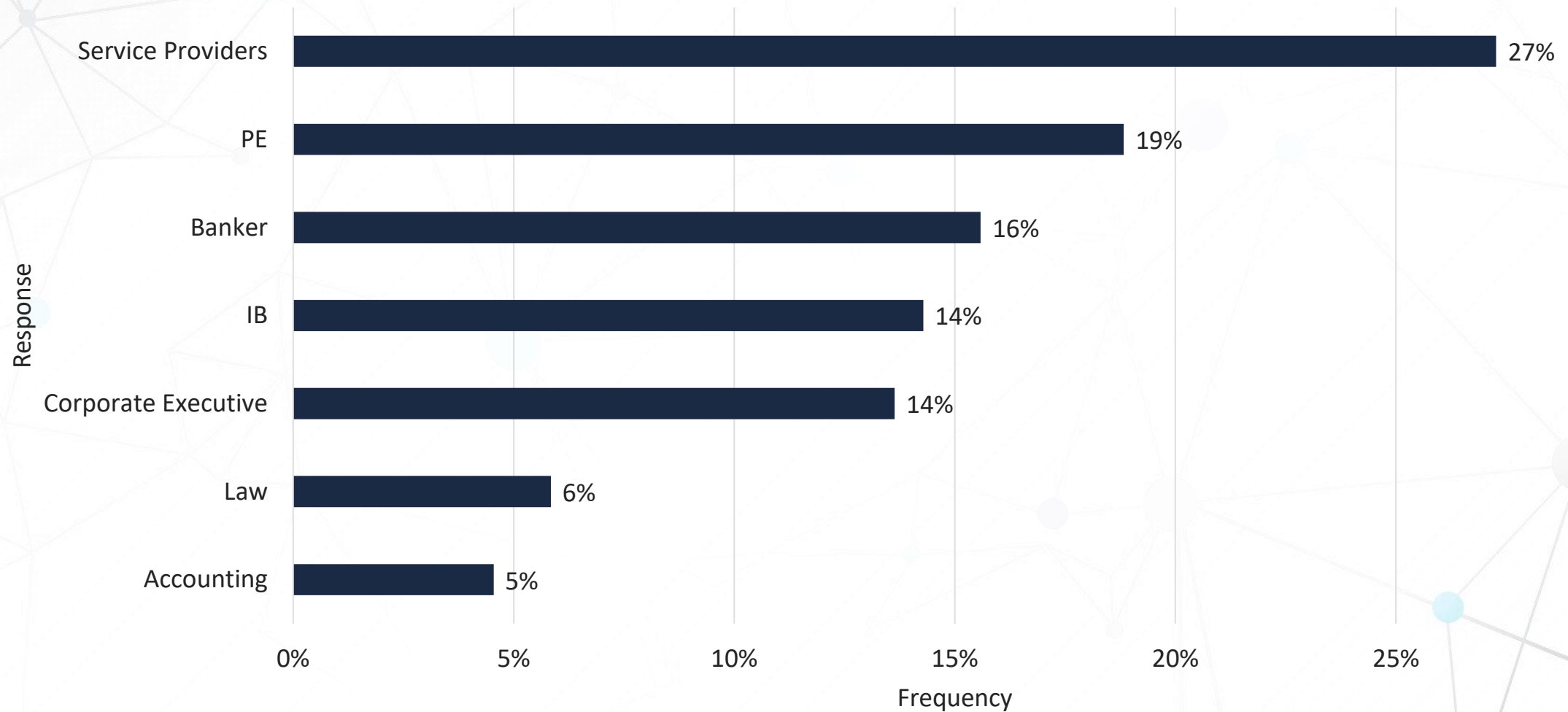
- 1 A confluence of factors has hampered deals over the past 12-18 months such as higher interest rates, economic uncertainty, flat/declining EBITDA in many sectors, misaligned expectations, and a reversion back to 'normal'
- 2 Concurrently, a set of factors should lead to more deals, such as the need for LP distributions, maintaining PE returns, and generational ownership factors. There is a ticking clock for movement
- 3 The election will affect deal flow likely in the 4<sup>th</sup> quarter. Deal flow often slows in the months before an election and 70% of dealmakers believe the election will have an impact on deals, especially on certain sectors
- 4 What can companies and PE firms affect and control?
  - Buy-side: Additional deal evaluation/pursuit and greater due diligence to capture winning deals
  - Sell-side: Performance (sell side preparation also matters). Elevating and accelerating EBITDA is the singular action owners can take to increase company attractiveness and valuation
- 5 Leading companies and PE firm will have a bias for action in upcoming months, leading to a likely surge in deals after the election. Do the work now to realize opportunities in 2H 2024 and 2025



# Dealmaker Survey Findings

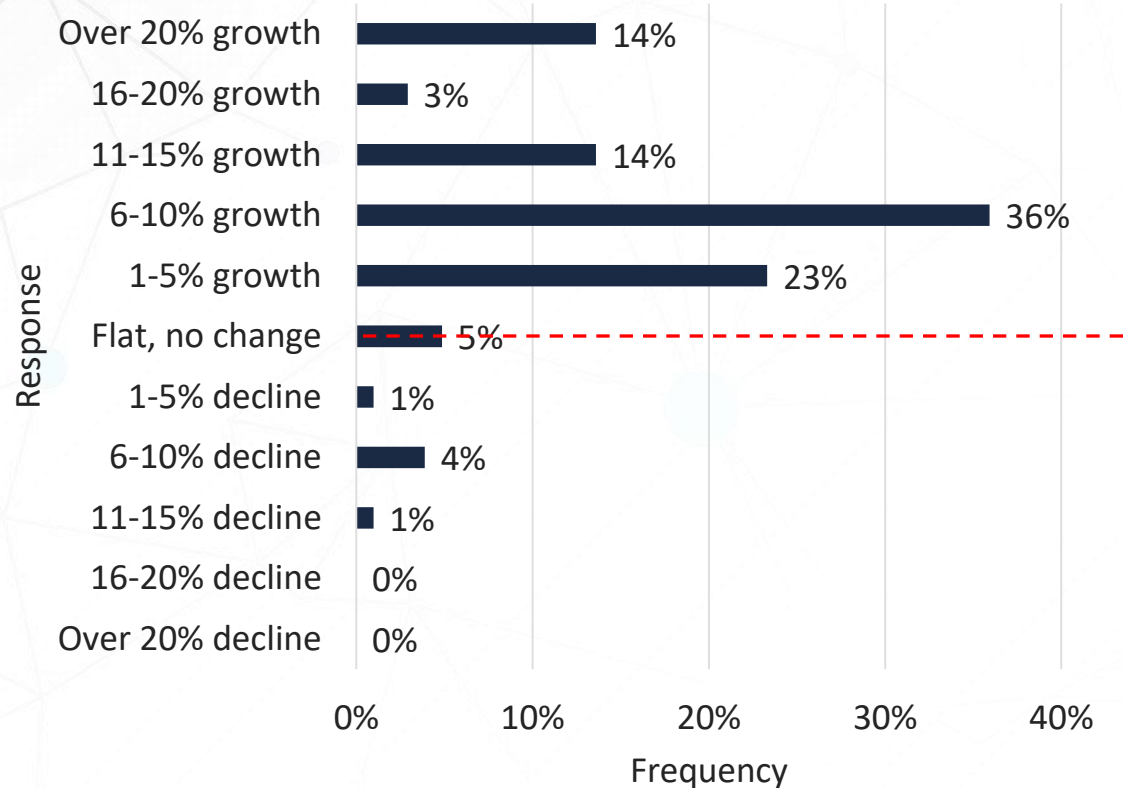
# Creo's survey draws from industry expertise from across the deal space

What is your industry?

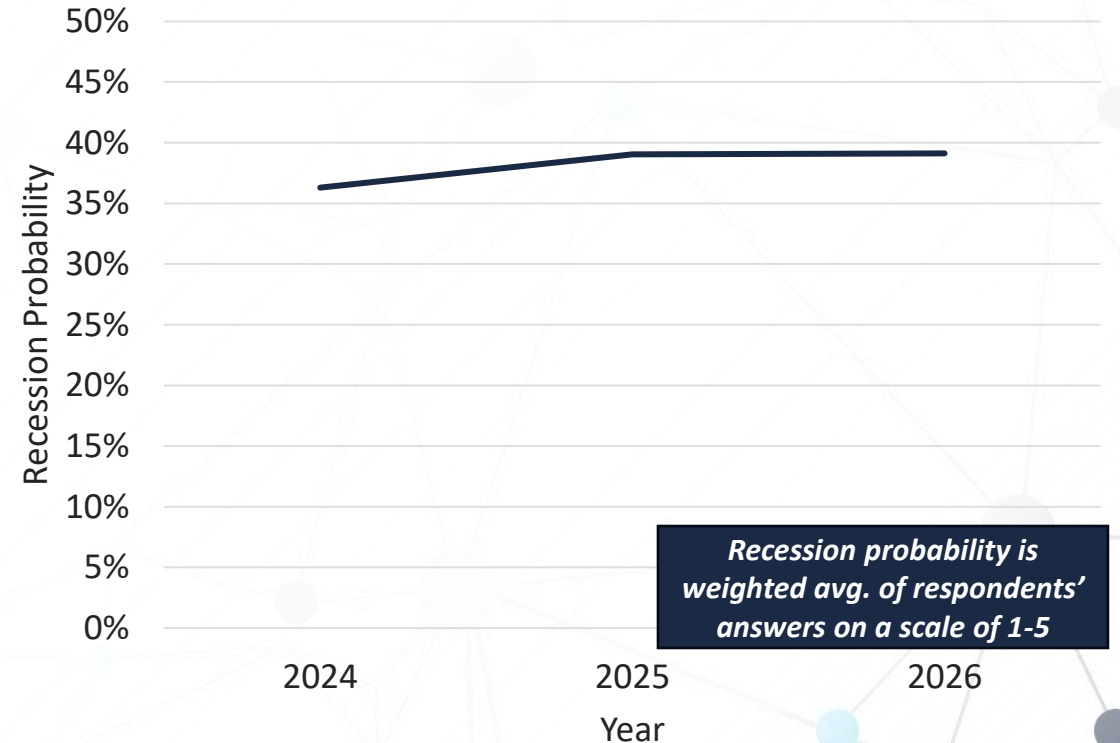


# Respondents are optimistic about the future – revenue is expected to rise ~9% and perceived recession risk is lower than 40% from 2024-26

What is your expected revenue growth for 2024 vs. 2023? (self, clients, portfolio companies)



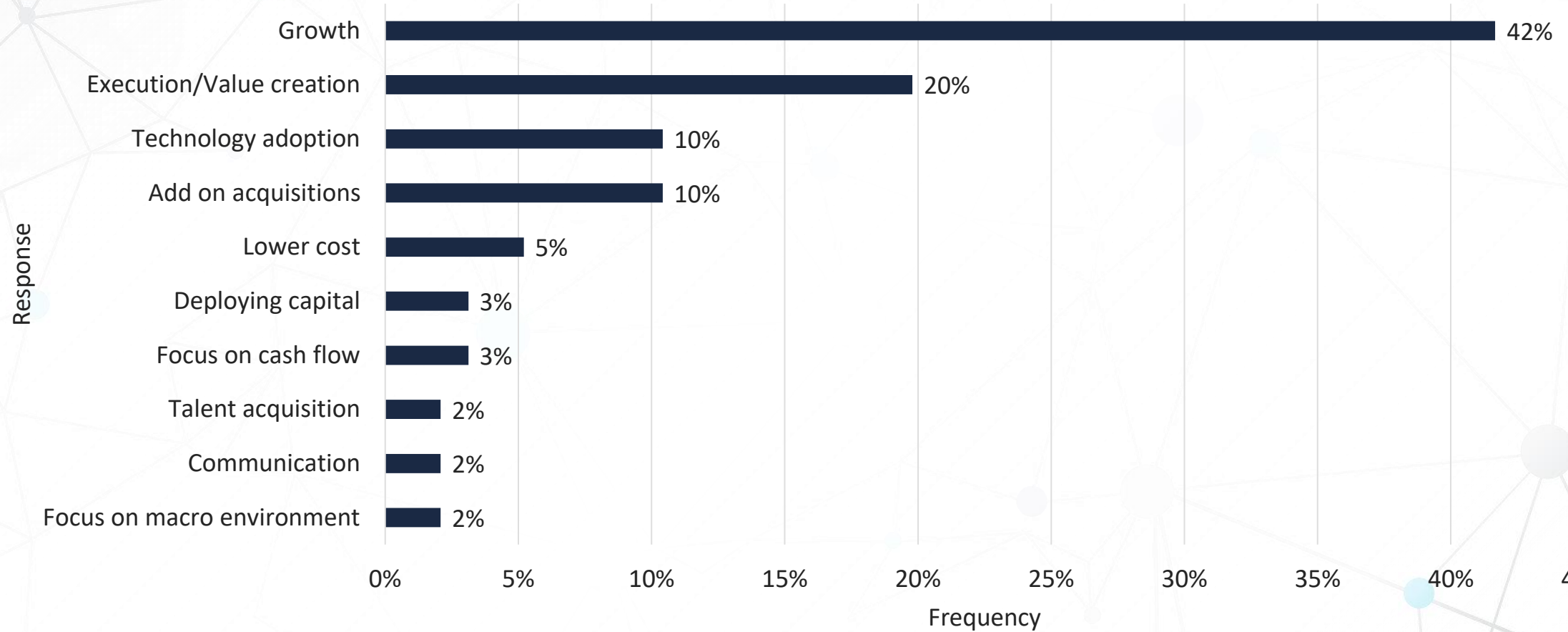
In your opinion, what is the likelihood there will be a recession/slowdown over the next 3 years? (1 being the least likely and 5 being the most likely)



**While revenue is projected to grow based on the survey, we see a wide variation in company specific growth and many with flat to declining volumes**

# Growth is the most popular theme for 2024 followed by execution/value creation. Technology and acquisitions are also important themes

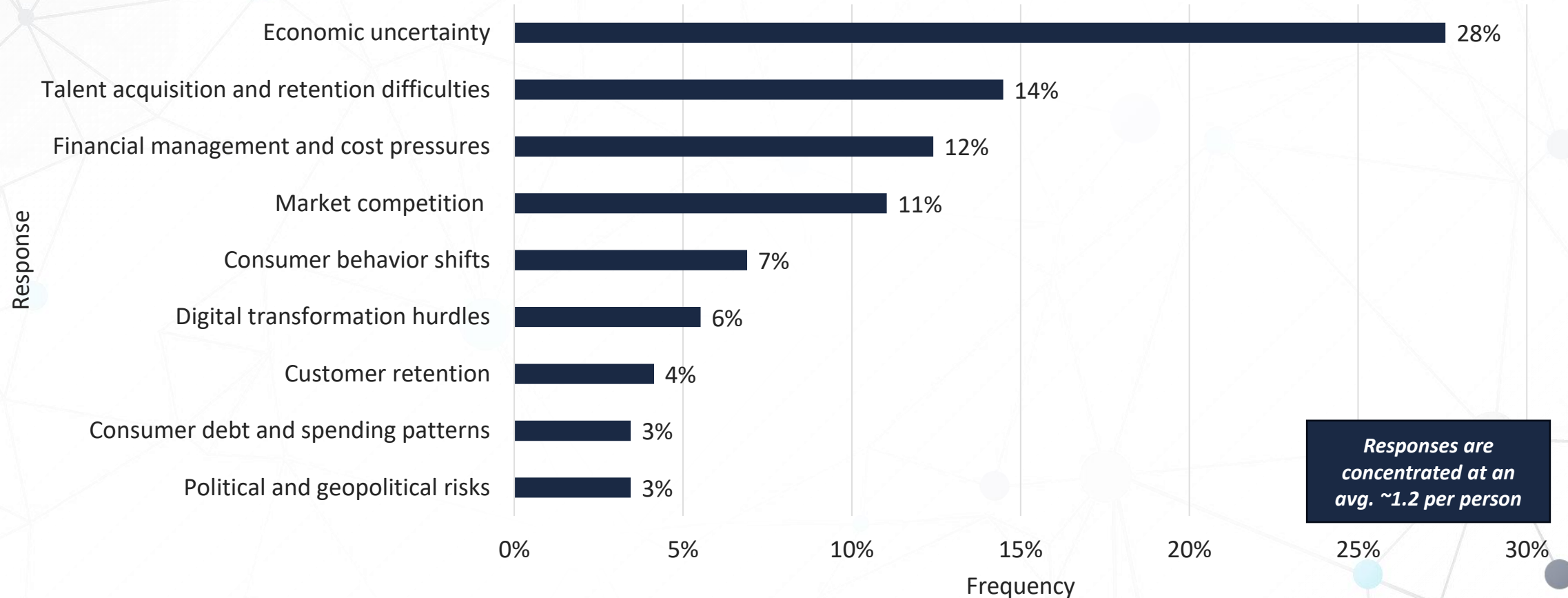
What will be the dominant business theme for your firm in 2024? [Open response]



*However, executives may wait for greater visibility before committing to more transformative initiatives*

# The greatest challenge respondents see is economic uncertainty (28%) – with few electing to choose more than one option

What are your highest priority issue or challenges for 2024? [Select up to 2]

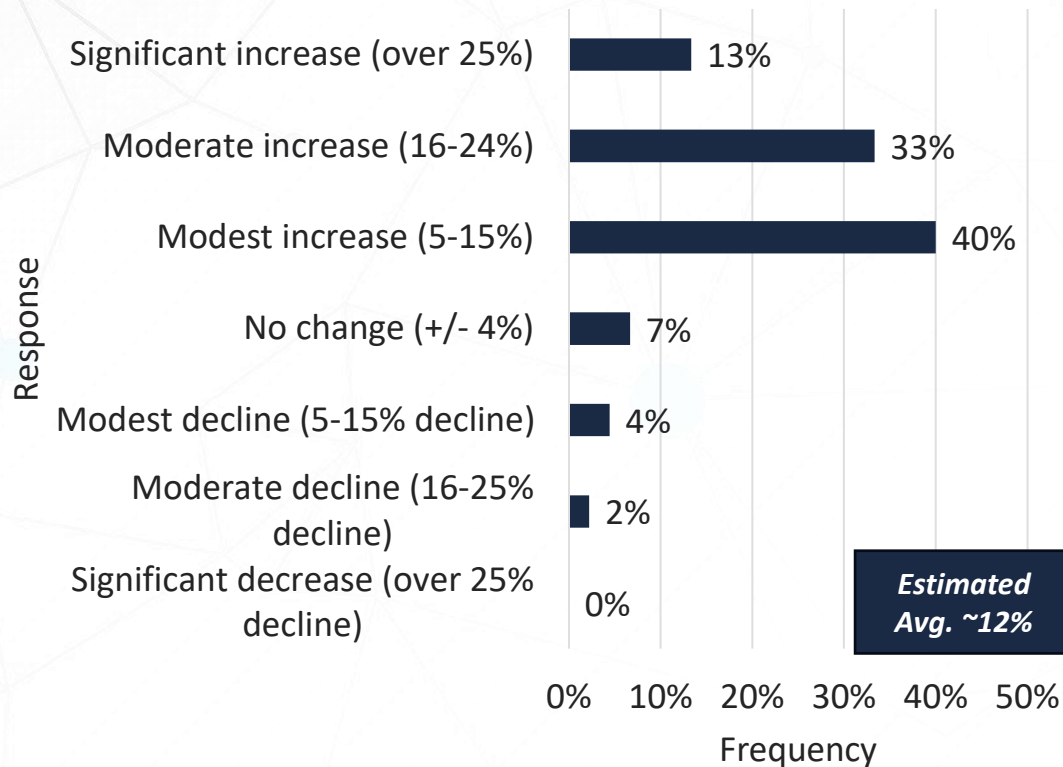


**Interest rates and the CPI are the most tracked Early Warning Signals (55%) – EBITDA and cash flow are the most tracked financial metrics (84%)**

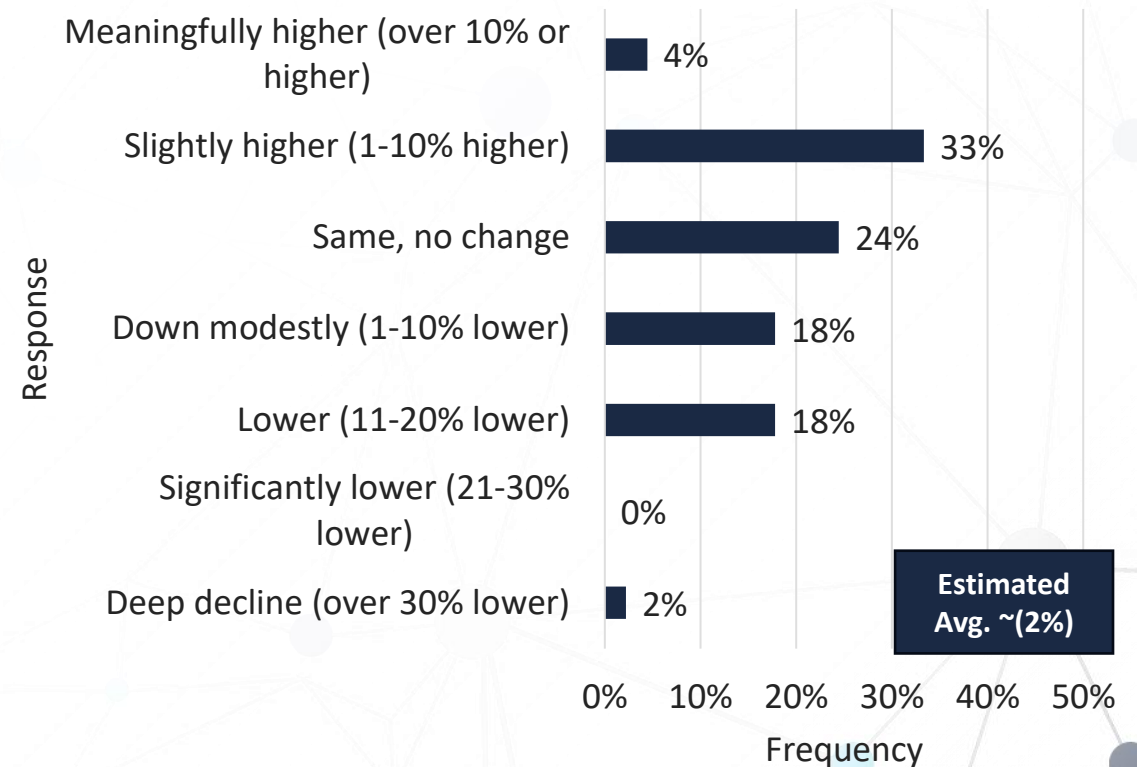


# The deal community is expecting a ~12% increase in M&A activity at relatively flat business valuation multiples

How do you expect the volume of M&A to change in 2024 vs. 2023?



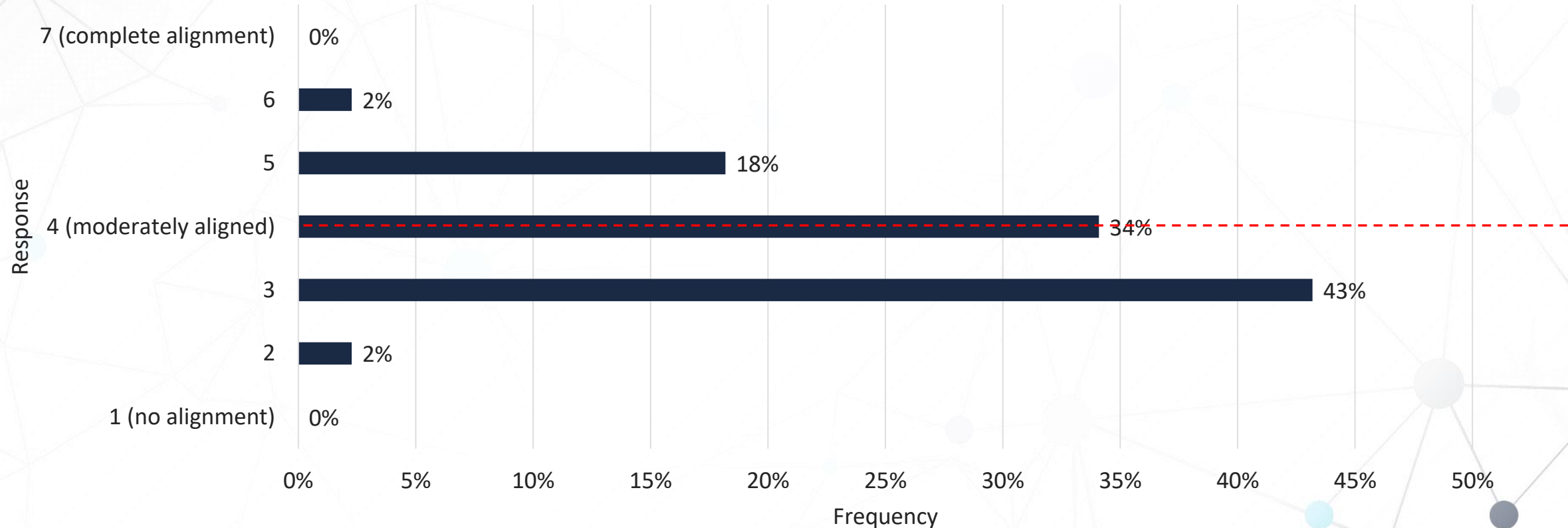
How have your expectations on business valuation multiples changed for 2024 vs. 2023?



*However, increased volume may not be uniform – some middle market/lower-middle market sectors may have more conservative outlooks on transaction growth. Election may have some impact on volume in Q3 - Q4*

# A gap remains between buyers and sellers in the current environment – only 20% of dealmakers see good alignment

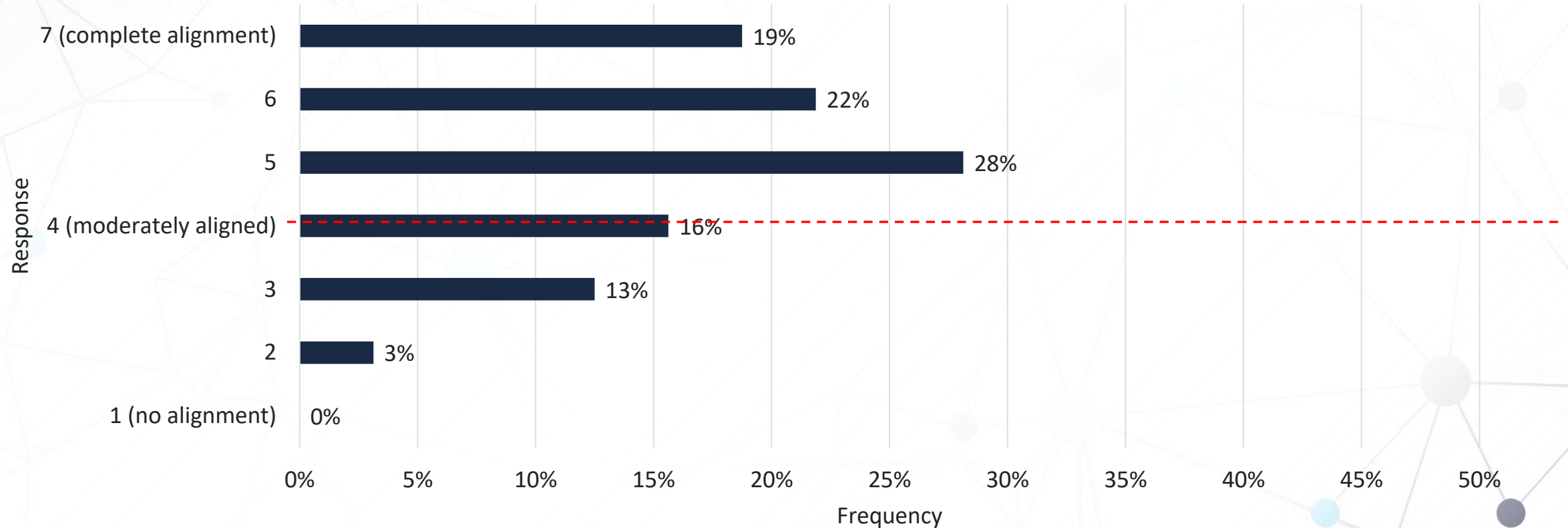
How would you rate the alignment between buyers and sellers in this market? [1-7, where 7 is complete alignment]



*PE and Bankers have similar view on alignment between buyers and sellers (3.7 vs. 3.8, respectively)*

# While PE firms and their PortCos express more overall alignment (5.1) – PE believes there is more alignment than PortCo (avg. 5.3 vs 4.8)

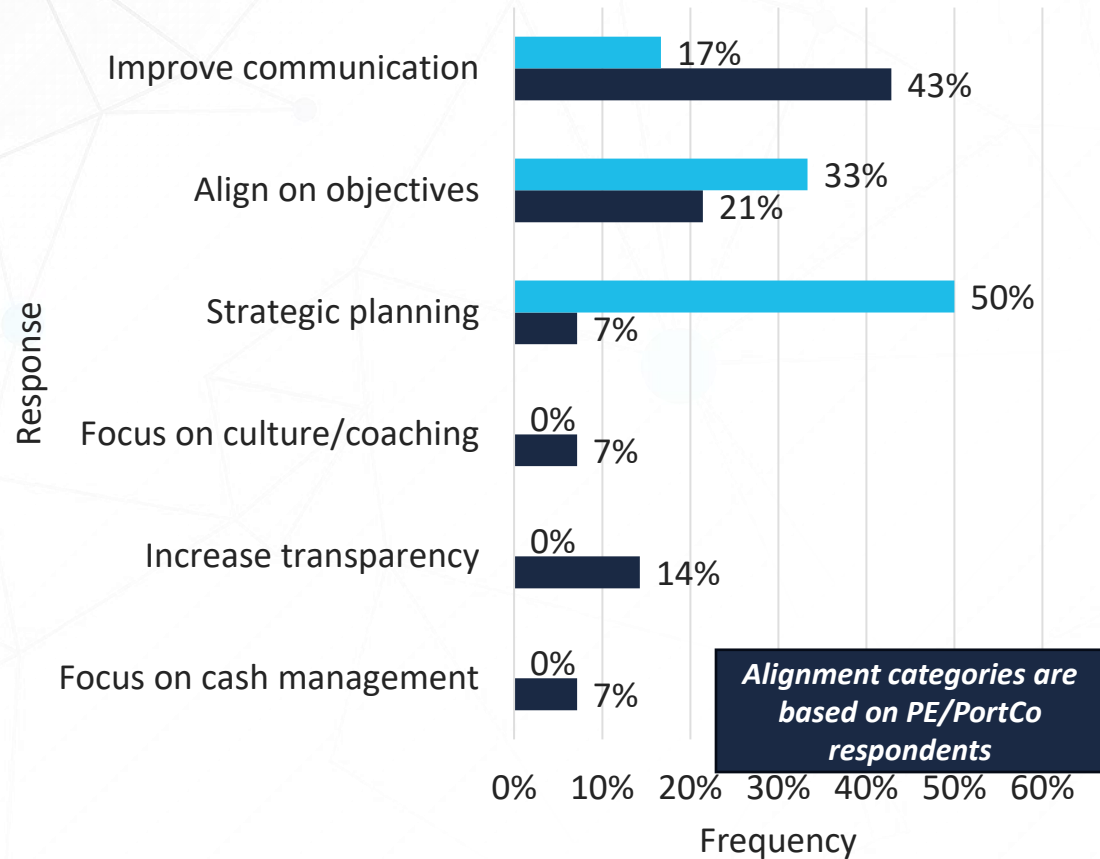
How would you rate the level of alignment with your PE Firm/Portfolio Company? [1-7 where 7 is complete alignment]



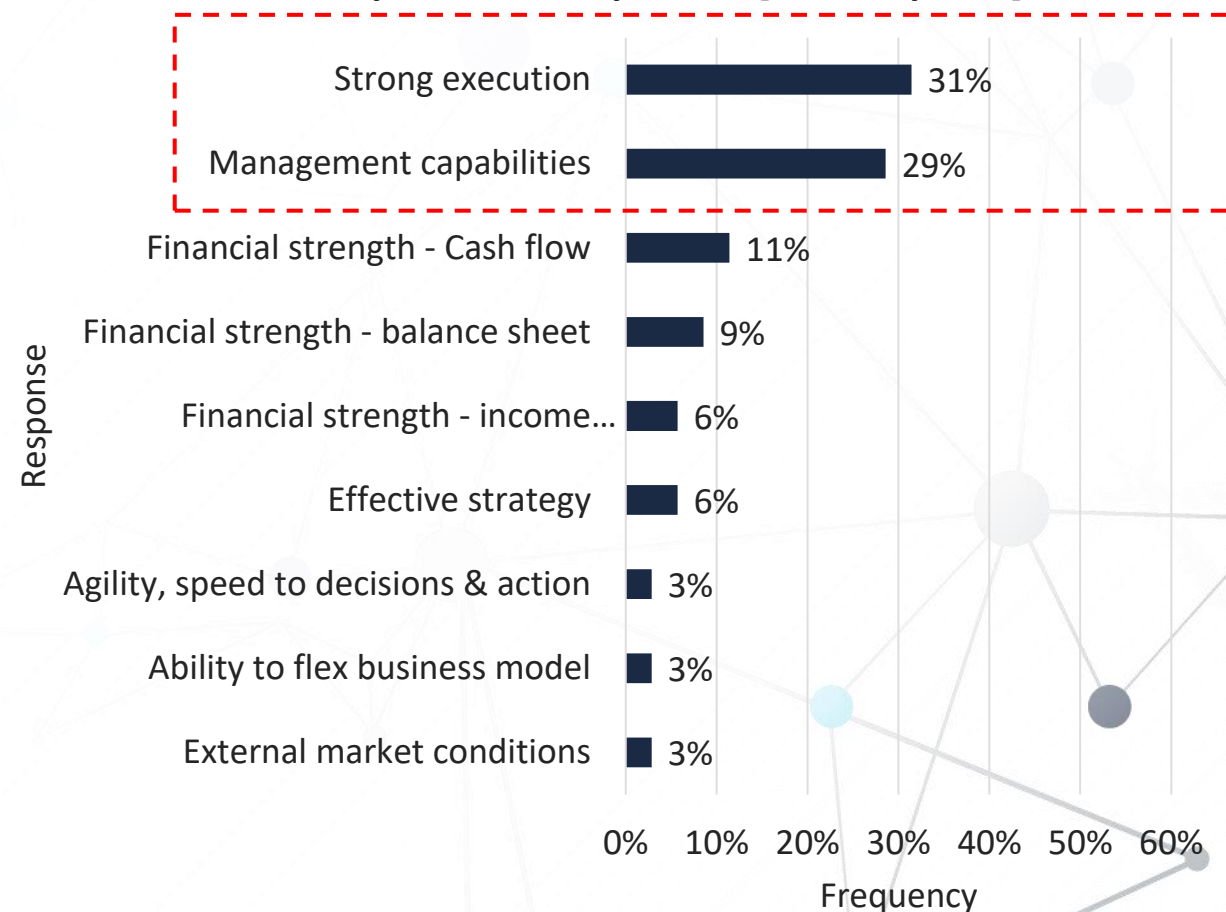
**80% of PE respondents report alignment greater than 4 vs. only 50% of PortCo executives**

# Successful companies have greater alignment around strategic planning and objectives. Success is linked to strong execution and Management

What recommendation would you have to increase alignment? [Open Response]



Over the next 12 months, what do you feel are the most important differentiators of successful vs. less successful portfolio companies? [Select up to 2]



# Survey respondents are focused on reigniting growth in their organizations – alignment will be key to fast and effective execution

## ***Dominant business theme***

- “Managing deteriorating situations and growing the business with high-quality opportunities”
- “Near-term execution, visibility and increased mindshare”
- “Back to fundamental business principles – focus on growth [and] cost”
- “Finding good assets at reasonable valuation with stable financial performance coming out of Covid-19”

## ***Recommendations for alignment***

- “Don’t focus on too many factors or initiatives ... try not to bury the management team”
- “Align on growth plans [and] communicate with management on expectations early”
- “Make the difficult decisions that need to be done now and don’t postpone”
- “Invest in culture and coaching”

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Creo Advisors creates better outcomes for ambitious Management Teams, Private Equity and Boards ...

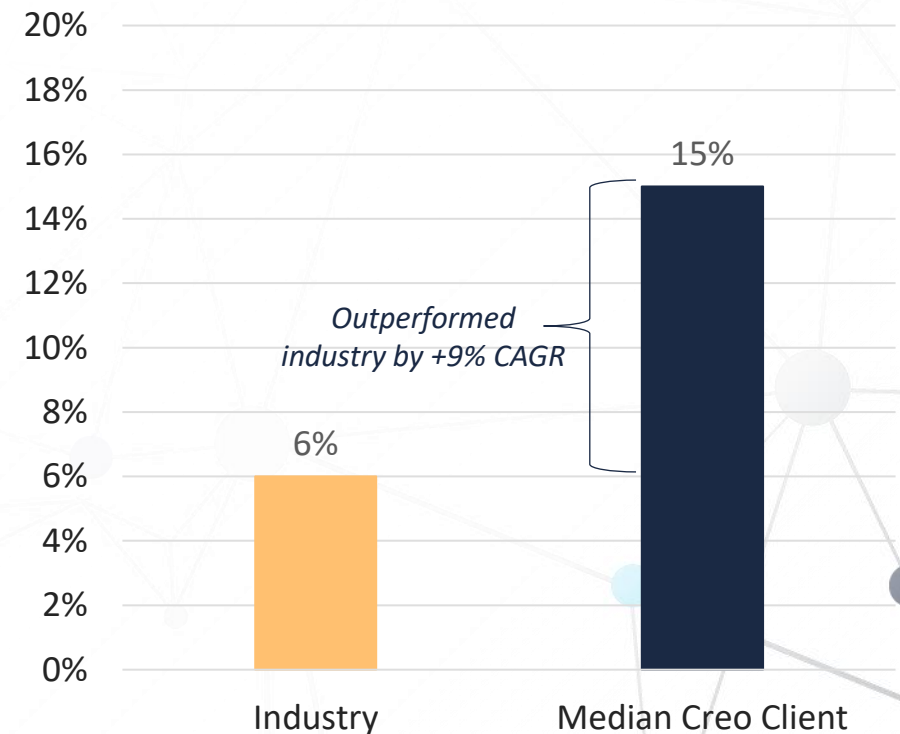
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## Client Performance

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- Creo Managing Director and Founder
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