INVESTMENT EXECUTIVE

M&A Deal Activity Retreats in Q3: Crosbie

Economic uncertainty, tight finances weighing on deal flow

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November 8, 2023

Merger and acquisition activity dropped in the third quarter, amid growing economic uncertainty and tight financial conditions, Crosbie & Co. Inc. reports.

The Toronto-based firm said deal volume dropped by more than 20% in Q3, with 579 transactions announced in the quarter, down from 736 in the previous quarter.

"Across the board, tight credit and equity markets are limiting buyers' access to leverage and financing, and uncertainty is limiting vendors' inclination to sell," the report said.

At the same time, deal value was down by 40%, which Crosbie & Co. said indicated that current conditions are leading to smaller deals, with potentially some more significant transactions likely on hold until markets improve.

Indeed, the number of so-called "mega deals" — transactions worth at least $1 billion — declined in the third quarter. There were 10 of these deals in Q3, down by four from the previous quarter, representing a combined $32 billion.

"Additionally, there are indications that many transactions are moving more slowly due to enhanced due diligence requirements and financing delays," the firm said.

Deal flow deteriorated across most sectors in the third quarter, Crosbie & Co. reported. The industrial sector dropped the most, with 52 fewer deals, following robust activity in the first half of 2023. The number of deals was also down in the real estate sector, which faces "operating challenges and sensitivity to interest rates," the firm noted.

On the bright side, the energy sector saw deal activity tick up (with 13 more deals), as did the communication services sector (up by eight).

"The third quarter of 2023 saw the M&A market continue to absorb pressure from ongoing economic uncertainty, the impact of sustained higher interest rates, and renewed geopolitical risks resulting in a more cautious stance from both buyers and sellers," said Stephen Ng, managing director of Crosbie & Co., in a release.

"Despite these conditions, high-quality companies continue to attract strong interest and valuations," he added.

Looking ahead, the prerequisites for a recovery in deal activity appear to be in place, the report said.

For instance, it said there is US$1.4 trillion in private equity on the sidelines, globally. And corporations have built up their cash hoards too.

"There are reasons to be optimistic as we look to [the fourth quarter] and into 2024 with interest rates likely levelling, pressure to deploy private equity funds that were recently raised, and the possibility of attractive opportunistic situations to transact," Ng said.