



30 Second M&A Newsletter Good Businesses are Selling

If you own a business and are ready to exit, don't let the global M&A headlines color your outlook for the year ahead. Talk to specialists on the ground and find out what's happening in your market.

Market dynamics: The lower middle market remains active with lenders willing to provide financing. Buyers are increasingly shifting their focus to downstream opportunities where the lenders are still able to support dealmaking.

It is true that new deal volume experienced a slowdown in late 2022, persisting into Q1 2023. Now, sellers who had been hesitant to enter the market for the past six months have returned. This resurgence is particularly welcome as the industry was experiencing a shortage of available inventory.

Flight to quality: In an uncertain market, we see a flight to quality. This means buyers are increasingly hesitant to take big risks and are focusing their efforts on stable, proven acquisition opportunities. This also means that the sellers who properly prepare their company for sale are seeing bigger benefits. In other words, good businesses are selling.

Shifts in deal structure: While valuations have remained relatively stable, there has been a slight shift in deal structure. Buyers are increasingly seeking to transfer some risk to sellers. This takes the form of seller notes, earnouts, or equity rollovers - options which provide friendly debt or performance-based payment plans to bridge any valuation gaps.

Sellers, in turn, appear more willing to take on additional risk to achieve higher valuations. These adjustments reflect trending negotiation strategies in the current market climate.

Reshoring: The manufacturing sector is gaining momentum, driven by an increasing interest in reshoring. With the supply chain lessons of COVID-19 (mostly) behind us, businesses are recognizing the benefits of localized production and supply chains. While "Made in America" has always held a certain appeal, "Made in North America" is increasingly gaining prominence.

While global M&A headlines may convey a sense of uncertainty, the lower middle market continues to exhibit strength and resilience. By staying attuned to market dynamics, emphasizing quality, adapting deal structures, and staying nimble, business owners can maintain business value and maximize their exit options.



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