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PE Firms to Play a 'Much Bigger Role' in Dealflow Following Rate Cuts

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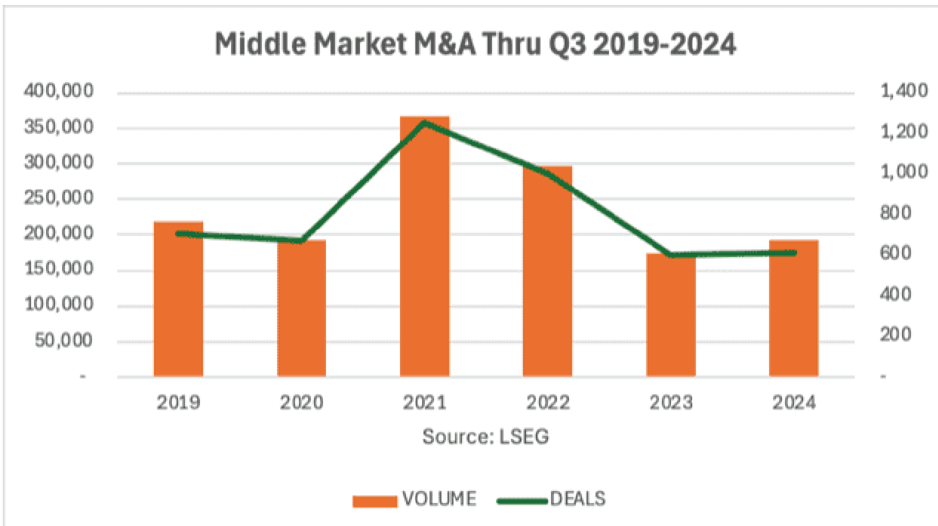
It should come as no shock to how abysmal September deals were, as dealmakers were waiting for the Fed rate cut announcement and want to see the results of November elections. Investment bankers say now that there's a clearer economic picture following the rate cuts, conditions will improve. Here's our monthly deal analysis.



There were just 38 mid-market deals valued at around $13.9 billion in September, according to LSEG. Those are by far the lowest deal count and value numbers year-to-date. The third quarter wasn't as bad, but bad still. There were 173 mid-market deals in the quarter compared to 190 deals in the third quarter last year, while deal value improved to about $59 billion compared to $54.9 billion from the previous third quarter.

There have been 614 deals through the first nine months of the year valued close to $193 billion, compared to 603 deals valued at around $173.5 billion through the same time period last year.

On a more positive note, bankers say with the Fed rate cuts under way, it will be easier for buyers to get financing. This could help narrow the valuation gap between buyers and sellers, they say.

"M&A valuations will be positively impacted by the Fed's recently initiated easing cycle and rate cut trajectory," says Josh Benn, the global head of Kroll's investment banking practice. He says returns are driven primarily by three factors: transaction purchase price, capital structure and company growth projections.

"Given that it is becoming easier to predict a decline in the cost of financing as base rates are being reduced and spreads have narrowed due to capital markets liquidity, coupled with increasing conviction in underwriting companies' future projections, this will naturally result in valuations and transaction closing rates increasing," he adds.

In specific sectors, deal counts in the top two stalwarts, technology and healthcare, are down slightly, while industrials has seen the biggest jump thanks to the rise of domestic automation. For example, last month Idex Corp. (NYSE: IEX) completed its acquisition of Mott Corp., a manufacturer of flow control services. Also, KBR (NYSE: KBR) completed its purchase of LinQuest, a provider of engineering, data analytics and digital integration.

Other sectors on the move: energy, financials, materials, media and entertainment, retail, consumer staples and telecommunications are up, while real estate and consumer products and services are down. One notable deal in financials that closed last month is Blue Owl Capital (NYSE: OWL)'s $800 million acquisition of alternative credit manager Atalaya Capital.

In the league tables, Goldman Sachs (NYSE: GS), JP Morgan (NYSE: JPM), and Morgan Stanley hold the top three spots year to date in terms of deal volume (about $18.9 billion, $18.8 billion and $14.1 billion, respectively). JP Morgan has closed the most deals so far this year at 38.

"You're going to see PE play a much bigger role," says David Shiffman, head of consumer retail at Solomon Partners. "You're going to see private equity starting to sell businesses now as a result of price rationalization between buyer and seller. You can afford to put more leverage on these businesses. So PE firms are going to be buyers."