

# 2023 Mid-Year Sector Report: Specialty Distribution

## General M&A market observations

- In comparison to the strong level of activity of recent years, YTD June 2023 M&A activity and completed deal volume has slowed considerably. The decline in activity and volume can largely be attributed to the limited availability of debt capital, sharp increases in financing costs and a generally cloudy near-term economic outlook. These market conditions have had a profound impact on the number of completed sale processes as buyers continue the search for “normalized EBITDA” and assess the sustainability of corporate earnings given the price vs. volume growth dynamics of the past few years.
- Overall M&A activity has slowed as many strategic and financial buyers are struggling to qualify and complete new investments in the current environment due to financing (and consequently valuation) constraints. Generally, the transactions that are trading are highly strategic transactions for very high-quality companies with strong asset bases, highly diversified customer and vendor networks, solid revenue visibility and favorable long-term industry tailwinds.
- A bright spot in the M&A market has been the overall volume of completed transactions across the middle and lower middle markets. Assets on this end of the M&A market have been less impacted by financing costs which has driven demand for smaller assets in the form of add-on acquisitions. Private equity firms are actively pursuing these smaller assets in order to deploy capital and to bolster the scale, efficiency and profitability of their existing portfolio company investments.

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