

2023 Year-End Sector Report: Specialty Distribution

2023 Review: Overview of M&A and private market performance

- The overall M&A market in 2023 was negatively impacted by many factors, including lingering inflation, interest rate uncertainty and cloudy economic visibility. These factors caused both strategic and financial buyers to carefully evaluate where they spent their acquisition efforts and also forced buyers to refine their views on valuation and transaction structuring. Consequently, total transaction volume in 2023 decreased moderately from 2022 levels and significantly from the highs of 2021.
- In 2023, Mesirow observed that completed deals generally required greater creativity with valuation and deal structures that utilized earnouts and other contingent payment strategies. Additionally, uncertain macroeconomic conditions and difficult financing markets created a deal environment that produced more extensive and longer lasting due diligence processes as buyers felt the pressure to justify valuations and deploy capital. In particular, buyers increasingly focused on rigorously evaluating revenue and earnings sustainability to qualify historical growth trends and long-term growth prospects (this sort of financial scrutiny intensified for all deals with a debt financing element). We attribute these valuation discrepancies and protracted diligence processes as key factors behind the decrease in overall M&A activity in 2023.
- Despite the decline in overall deal volume, it is worth noting that many deals were still completed in 2023 and high-quality businesses that experienced robust financial performance continued to receive strong buyer interest and attractive valuation multiples. Additionally, businesses showcasing a significant degree of recurring demand and revenue visibility and operating in economic cycle-resilient markets with attractive demand drivers, sustainable / defensible margins and diversified customer and supplier networks garnered the most attention across the M&A landscape (and particularly in the specialty distribution sector).
- M&A activity across the specialty distribution sector generally reflected many of the same themes as the broader US market but the specialty distribution sector still experienced comparatively strong M&A deal volumes as compared to 2022 levels.

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