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Michigan M&A deals fell sharply in 2022. What's next for 2023?

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France-based Faurecia's acquisition of Hella, which will operate under the new name Forviak, was the largest acquisition among companies with major presences in Michigan last year.

For M&A deal activity in Michigan, 2022 was a tale of two extremes.

Dealmakers were drinking out of a firehose during 2021 and into 2022, but by the latter half of last year, deals dried up. In 2023, experts say they expect activity to accelerate, though

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the strength of deal flow depends on a variety of unpredictable market factors.

The top 10 transactions on Crain's list of Biggest Deals in 2022 totaled \$27.5 billion, down nearly 40 percent from 2021, which generated record deals in terms of number and valuation.

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"You almost saw deals just come to a screeching halt in the fourth quarter," said Joe DeVito, partner at Dinsmore and Shohl LLP who specializes in corporate finance and M&A. "It was kind of a welcome respite for us in a way, that we all got to enjoy our holidays for once in the last 10 years."



Last year saw the lowest thirdand fourth-quarter global deal volume in the past six years, according to a Bloomberg analysis. Overall deal volume in 2022 dropped by 30 percent year over year to \$3.5 trillion.

Rampant inflation, soaring interest rates and global economic uncertainty were to blame.

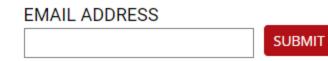
"There's now less dry powder capital out there," said Jeff Helminski, managing partner at Auxo Investment Partners, one of the largest private equity funds in Michigan. "If that trend continues, that will dramatically impact deal volume and valuations."

It was a seller's market for years leading up to the COVID-19 pandemic, DeVito said. Low interest rates coming out of the



pandemic just fueled activity even more.

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"That was driven by continued liquidity in debt markets, the extremely inexpensive capital and this big overhang of equity capital looking for investment opportunities," Helminski added.

It was the type of environment that allowed Troy-based Electric Last Mile Solutions Inc. to launch an IPO with a \$1.4 billion valuation and that catapulted Tesla Inc.'s market cap to a more than \$1 trillion peak.

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"There was more money on the street, and there was a shortage of good companies for sale relative to the mass amounts of private equity that was on the sidelines," DeVito said.

Fast forward a year – ELMS has since imploded, its pieces purchased cut-rate by another struggling mobility startup, and Tesla is now valued around \$671 billion.



In a nutshell, 2022 was a reality check.

Sellers had grown accustomed to the idea of double-digit multiples in 2021, and a paltry seven times EBITDA in 2022 didn't look so attractive, DeVito said. On the other end, buyers saw economic storm clouds approaching and hit the brakes on transaction talks.

That has caused a reset. Buyers aren't throwing money at deals like before, and sellers are forced to be more realistic about pricing.



Stryker Corp.

Kalamazoo-based Stryker Corp. made one of Michigan's largest acquisitions of 2022 with its purchase of software maker Vocera Communications for more than \$3 billion.

> M&A usually lulls in the beginning of the year due to a typical rush to close deals by the end of the year, Helminski said, but he isn't sure when deals will pick back up.

"It feels like a softer start to the year than we've had historically," Helminski said. "I do think it's a bit of a question mark at this point."

DeVito said he doesn't expect the spigot to stay off for long. He said he has 10 active deals in the pipeline, on par with volume pre-COVID. TITLE: Michigan M&A deals fell sharply in 2022. What's next for 2023? | Crain's Detroit Business

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Even though capital is substantially more expensive than a year ago, deals are stacking up and likely to land with more frequency as the year goes on, he said.

"The ones that tested the market in the fourth quarter and weren't getting valuations that they wanted, they're turning around and putting

them back on the market in Q3, is what we're hearing," DeVito said. "They refresh the books and go back out to market."

Another dynamic, especially for manufacturers, is that the smoothing of the supply chain is expected to spur more deals. The **volatility** hasn't stopped some big players from making moves – the biggest deals of 2022 are mostly in the manufacturing and auto sectors, including Faurecia's \$5.95 billion takeover of Hella, which topped the list.

But many companies are still dealing with supply chain disruptions and financial anomalies over the past couple years, making it difficult to market their company for sale. Buyers want balance sheet consistency before pulling the trigger, DeVito said, and the next few quarters could bring that.

"My read on it, starting mid-2023 into 2024, as this supply chain disruption resolves itself, you're going to see a number of automotive suppliers go to market," he said.

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