IN THE MEDIA

Mike Blankenship Discusses Increased Equity Contributions in M&A Market with *LevFin Insights*

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Winston & Strawn partner Mike Blankenship was quoted in a LevFin Insights article discussing how the slowed M&A environment is translating to larger transaction sizes with higher equity contributions.

“In the face of sustained higher interest rates and economic uncertainty, lenders are requiring more equity to reduce their exposure,” said Mike. The shift in equity contributions “reflects both lender caution and the increased cost of capital,” he added.

According to LevFin Insights, average equity checks are in the range of 45% to 55%, compared to 30% to 40% during the 2020-2021 cycle. In some cases, particularly with private credit deals, equity checks are reaching 60% to 70%. Mike stated that the average debt financing is now closer to 4.5x to 5.5x EBITDA, down from 6x to 7x just a couple of years ago, noting that the gap is being filled by larger equity contributions.

The higher-for-longer interest-rate environment has also directly impacted valuations.

“Higher rates increase discount rates, which compresses present values,” said Mike. “At the same time, higher debt costs are reducing buyer capacity and limiting competition. As a result, we are seeing more disciplined pricing.”

However, high-quality assets are still drawing strong multiples. For example, sponsor-backed businesses with recurring revenue and strong margins are still selling in the 12x to 15x EBITDA range, particularly in sectors like healthcare, software, and infrastructure services. Private credit has continued to take market share, now accounting for over 50 percent of sponsor-backed deal financings in the US, Mike stated.

He also noted that regulatory scrutiny is another factor impacting M&A flow, with average deal review times increasing by several months and increased litigation risks as a result.

Read the full article (subscription required).

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