Mergers and Acquisitions Forecast | 2021

M&A Leads the Economic Recovery!

PRIVATE EQUITY | WHITE PAPER

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M&A Leads the Economic Recovery!

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OVERVIEW

Even the M&A recovery that began in the 2nd half of 2020 will rise in 2021, because corporate and private shareholders have access to capital and will pursue deals to create scale and expand scope.

For some, growth can come within businesses, with economy leaders strengthening their standing as the market continues to recuperate. The others, seeing with their business models upended by the COVID-19 pandemic, will research how small or medium-sized stakes in adjoining businesses can help induce conversion. And M&A aims will come in an increasing pool of seller's businesses who've slipped into distress during the recession, private investors that always consider holding exits and periods, and businesses which are reassessing strategies and may part with non-core assets, notably since valuations continue to be high.

WHAT'S THE DRIVING FORCE BEHIND M&A IN 2021?

55% of C-Suite Leaders said that their companies plan to increase M&A activity in 2021.

The arrival of a new president to federal government will bring US policy fluctuations which affect deal decisions by and large to differing degrees, especially when control of the Senate also transitions. New regulations and laws will impact tax, trade, healthcare and the environment. These impacts will likely require alterations by many diverse varieties of companies, and industries such as financial services and high-tech that could face certain new rules introduced. But the transition from President Trump to President Biden and the prioritization of pandemic outbreak coverage -- plus a continuing partisan divide in Congress and the uncertain pace of cabinet fittings -- could confine immediate broad regulatory activities. Instead, we view mergers and acquisitions deal activity, which is leading the general financial recovery, being influenced by brand new dynamics who have arose through "new deal" dynamics and may play a substantial part in acquisition prices in 2021.

M&A DEAL TRENDS IN 2021 ACROSS 5 AREAS

What do mergers and acquisitions deal trends look like across the following areas:

- Megadeals
- Cross-sector
- Divestitures
- Private Equity
- SPACs and M&A

MEGADEALS

Expect more megadeals -- transactions of $5 billion in value in 2021, from pharma companies acquiring early-phase or pre-commercial products in hot healing areas to bank consolidation as reduced interest rates persist, along with private equity (PE) acquisitions. This activity will come even as company valuations have risen from their COVID-19 highs -- together using the bigger business multiples directing the way -- compared with the declines observed in prior recessions.

This raises the matter of just how fast, if ever, these deals may deliver returns, and also how much those returns may be. Companies could have the capital to make major profits, but extracting the value for deals will call for different considering the present environment, particularly with bigger deals that typically have higher valuations.

The surge in megadeals from the next half of 2020 has helped total US deal worth bounce back strongly going into 2021. Of the 39 megadeals announced through mid-November, 29 occurred after July 1. Corporate megadeals are occurring in many industries, and many call buyers and vendors within precisely exactly the same industry, reflecting efforts to increase scale throughout the recession. In terms of total US deal quantity, the roughly 13,000 US prices at the 12-month period ending Nov. 15, 2020, were just marginally less than in 2019, in spite of a large lull at Q2 2020.

CROSS-SECTOR

While larger deals happen largely within industries, more moderately priced transactions frequently involve companies from various sectors and can signify bold motions for mid-sized or small companies. Many demand non-tech companies purchasing tech firms, which can help advance electronic transformation. With COVID-19 changing consumer behaviors and expectations, tech acquisitions can provide an avenue to boost customer experience. Financial services firms are building online payments capacities through technology imports, and they'll continue to reevaluate the financial relationship with consumers in 2021. Meanwhile, the popularity of internet gambling is driving deals between media and telecom businesses and tech companies.

Consistent with previous years, approximately one-third of US corporate prices in 2020 were cross-sector deals, frequently for technology which can improve efficiency and enhance operations. As both sellers and buyers, consumer businesses and tech firms drive much of the cross-sector deal action. Look at a multinational food conglomerate's purchase of a biotech firm, along with also a fitness-wear firm purchasing a producer of high-tech mirrors which enable individuals to combine workouts.

DIVESTITURES

While some companies have fallen into distress during the downturn and sold companies to create funds, we also expect more tactical divestitures in 2021. Corporate owners who proactively reassess their portfolios can develop a stronger focus on core abilities and graph the best paths to growth, which might not incorporate all recent companies. That kind of careful review can also decrease shareholder scrutiny and possible activist attempts, particularly since a strategic sale could command a healthful price in the high-valuation atmosphere.

In the energy industry, organizations are reassessing their possession of assets like natural gas pipelines, in part due to pressure by environmental groups. Some compounds companies are responding to lower oil costs with new restructuring efforts that we consider will comprise divestitures. In financial services, banks are reconsidering their participation in certain areas of business, including farm insurance and insurance brokerages, as well as in geographic markets. Meanwhile, bigger insurance companies have researched dividing their businesses through

carve-outs. Consolidation will continue, but there is growing confidence a key component to value creation includes divesting businesses that can best succeed elsewhere.

PRIVATE EQUITY

Armed with a massive quantity of capital, private equity companies are exploring opportunities in the electricity and healthcare sectors, and retail companies also likely will remain goals in 2021. Many PE buyers think they could optimize operations and improve returns from legacy retail owners because companies serve customers in diverse and new channels.

Through mid-November, PE companies did nearly 4,100 deals in 2020 -- 5% more than all 2019 and on pace to be the biggest annual volume. Nearly half of these acquisitions have been in just two sectors, with 36% in tech and 13% in customer markets. PE deal worth also is upward moving into 2021. That is a stark contrast from corporate bargain value, which observed a substantial drop-off in early weeks of this pandemic and -- despite an upward trajectory in the second half of 2020 -- probably will finish well off amounts of recent years.

With fewer distressed situations and bankruptcies compared to previous recessions, there have not been many opportunities for value buyers. But, generally speaking, PE's resilience within this recession has caused many firms remaining active and looking ahead to a post-pandemic landscape in 2021.

SPACs AND M&A

Capital is flowing in a staggering pace into special purpose acquisition companies (SPACs), "blank check" businesses that move public solely to raise funding to acquire or merge private businesses. For sellers, this explosion expands the investor's pool and provides a way to access capital that otherwise might not be available. That may be attractive compared to an outright purchase to a corporate or PE buyer, and those buyers need to adjust for that in 2021. Greater endurance and agility in deal negotiations and structures, such as contemplating joint ventures or other partnerships together with acquisitions, will be vital to closing a transaction and realizing value.

In comparison with the preceding calendar year, 2020 saw twice as many SPACs total IPOs, with overall funds raised being almost five times higher. As stock markets continue their rally in the sudden plunge in ancient 2020, interest in SPACs stays high. For some investors, it is a means to encourage technology which may have more growth potential during the coronavirus. Other people view SPACs as an opportunity to raise substantial capital in volatile markets and associate using blue-chip sponsors that have deep business expertise.

WHERE SHOULD M&A FOCUS IN THIS CLIMATE?

THINK "DIGITAL"

Companies which invest in technology and innovation during times of crisis may emerge stronger, from increased efficacy to new products and services that disrupt the market. COVID-19 has started driving transformation in many businesses, and businesses will need to find out which technology can keep them competitive in a still-uncertain market.

Within our June 2020 Pulse Survey of US financial executives, 56% stated tech investments during the pandemic could make their businesses much better in the long term, and only 17 percent said they had been considering deferring or canceling proposed investments as a result of COVID-19. More recently, 76% of business leaders surveyed from our November 2020 US Pulse study stated that their companies plan to increase investment in electronic transformation from 2021.

PRIORITIZE PURPOSE

Environmental, social and governance (ESG) issues have developed in a"nice to have" talk into a business imperative that could affect long-term achievement and value generation. From green initiatives into diversity in leadership and workforce to their dedication to equality, justice along with other societal problems, employers are more accountable to shareholders and customers than ever. PE firms also have seen COVID-19 quicken the attention on ESG.

More than 50% of executives at our November heartbeat survey said their companies plan to increase diversity and inclusion training for employees. Almost 60% of consumers in a different poll said a corporation's purpose or values play an important part in their buying decisions. That impact on profits means acquirers and their targets have to estimate the workforce, the composition of both the management team and board of supervisors, the total brand promise and also other factors differently when thinking of a corporation's evaluation and the potential returns on an offer. And transparency and measurement will be more significant than announcements on vision and values.

A DEALMAKER'S NEXT STEPS

We think M&A will recover in front of the US economy, but it's crucial to be prepared, especially as technology proceeds to transform sectors, and business models evolve. To successfully identify, execute and integrate bargains that help meet new customer expectations and outpace competitors, here's what you can do today.

THE CAPITAL LANDSCAPE NAVIGATION GUIDE

There's no question business leaders and leading PE firms are in a solid position to buy, but the increase of SPACs and other alternative capital structures changes the equation, and a seller's market nevertheless persists. Meanwhile, sexy startups along with other desired acquisition goals will need to guarantee they're thinking about all options to acquire access and investment capital, which could mean not only dual-tracking but maybe multi-tracking.

POLICY CHANGES REQUIRE ANTICIPATION

Yet new regulations and rules are certainly possible in 2021, and companies should create a forward-looking perspective that can help insulate them from any taxation or other fiscal impacts that could derail deal plan.

PROACTIVE RESTRUCTURING

Businesses too frequently conduct a thorough review of their companies after adverse states emerge. Even those that have held up nicely in the recession still may benefit from taking a fresh look at more reassuring expansion paths and deciding which parts of their company will lead the way and which may be fostered by a capital infusion by a strategic divestiture.

DIGITAL SKILLS BOOST PERFORMANCE (PROFITABILITY)

Transformation does not come just from getting technology. A workforce which can't fully leverage engineering will ultimately detract from your technician acquisition's value. Buyers need to guarantee they can scale an acquired technology, as well as handle workplace cultural differences that often arise in trades, particularly when non-tech buys technician.

THE OLD ESG APPROACH IS INAPPROPRIATE

Companies as a whole can perform to establish and articulate their role since the pandemic, requires justice and equality, and climate change are hard previous behaviors. PE investors also have greater expectations for how firms work in the portfolio level to help protect or increase the value of companies. Dealmakers are used to focusing on assets that are hard and specific dollar figures, but Environmental, Social, and Corporate Governance (ESG) is here to remain in M&A. Buyers and sellers have to honestly assess how their efforts will likely be viewed in the present environment and what changes are needed to become an appealing deal spouse.

EVERYTHING VIRTUAL MOVING FORWARD

When it's diligence, integration and negotiation in M&A or valuation and separation in carve-outs, you should be equally honest and creative about what you could do now and what should change to enhance the chances of deal achievement.

A wise man adapts himself to circumstances, as water shapes itself to the vessel that contains it.

- Chinese Proverb

ENTREPRENEURSHIP THROUGH ACQUISITION | BOOT CAMP

We're standing at the edge of the abyss... No, not the abyss-dumpster fire known as 2020!

Specifically, the opportunity at hand is acquiring Baby Boomer lead organizations as they head-off into retirement. Why is this an opportunity worth pursuing? This is Entrepreneurship Through Acquisition (ETA).

If you...

- Desire an alternative to a job in corporate America
- Want to start something new - But a startup seems too risky
- Can be your own boss
- Create culture that meets/exceeds your expectations
- Should profit directly from your success

Then this is the Boot Camp for you!

To find out how you can take advantage of this opportunity and architect a plan for success, see if you qualify by scheduling up to a 30-minute *No Obligation Consultation Session* with me and begin your (or your organization's) success journey today. Here's the link where you can schedule a complementary 30-minute session today:

CLICK HERE

or enter the following URL into your browser:
https://calendly.com/spalazzolo/30min

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