

2021 M&A Recap – and a Look Ahead

By Gabe Lengua, CPA, Partner

The M&A market just finished a record setting year. Compared to 2020, both the number of deals and deal value were up significantly. This robust growth was across all deal sizes but was especially pronounced for deals over \$1 billion. Tech and healthcare continue to be hot areas but 2021 saw significant deal growth in many industry verticals including logistics, entertainment and consumer products.

Overall, 2021 continued the trend we saw in the fourth quarter of 2020. While M&A activity went off a cliff in the second quarter of 2020 due to the pandemic, the rebound was quick and significant. As we closed 2021, there was a record amount of PE dry powder as well as all time high levels of cash on corporate balance sheets. It was a record year for IPOs as well as SPACs, although the latter showed signs of weakness toward the end of the year. The debt markets were accommodating and economic growth was the highest we have seen in some time. Interestingly, sponsor backed transactions comprised a record 32% of global M&A volume. Divestitures were also up in 2021 and we expect that trend to continue.

There are headwinds, though, as we start 2022. Economic growth appears to be slowing and interest rates are rising. Additionally, signs point to elevated inflation through 2022. The stock market showed some weakness late in the year and into January 2022, with the Nasdaq entering correction territory (numerous individual stocks are trading in bear territory) and many companies that went public in 2021 are now trading below their IPO price. So where is the M&A market headed?

While these headwinds are concerning, many of the elements that drove a robust M&A market in 2021 should continue in 2022. Private equity funds will look to build on their platform companies, looking for additional growth avenues, and strategic buyers will look to acquisitions to gain scale, capabilities and access to new markets. Companies will also look for deals that can help mitigate supply chain disruptions and labor shortages. And as the pandemic eases, we could see a pick up in cross border activity. Overall, while it may be a choppy ride, 2022 should be another strong year for dealmaking.

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