

M&A Middle Market Q4 2021 Update

M&A Deal Activity Reached Historical Highs in 2021

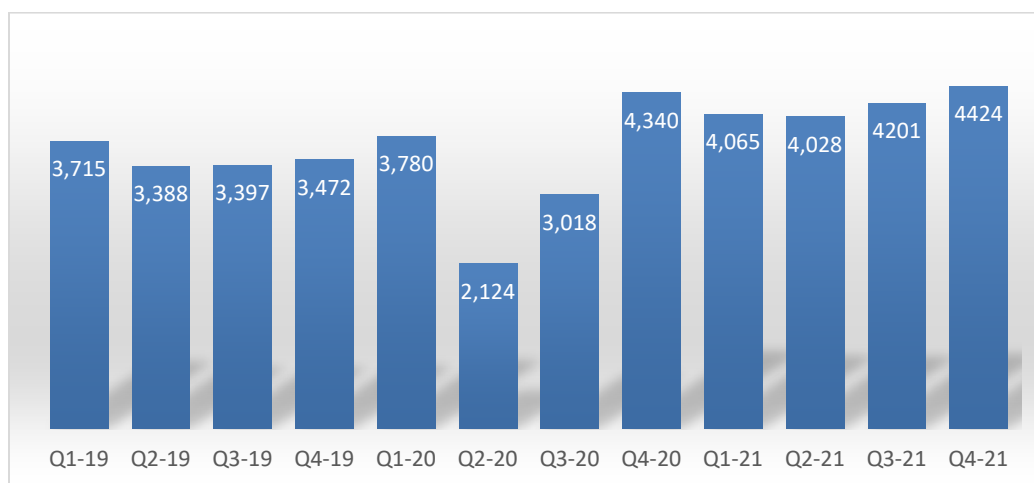
By Robert Murphy, Senior Managing Director

North American mergers and acquisitions (M&A) deal volume hit a record high in Q4 2021 reaching over 4,400 transactions. Total 2021 deal volume of 16,718 was also a record high and a 25% increase over 2020. With easy access to capital, low interest rates, and a recovering economy, M&A globally set a new record with over \$5 trillion in transaction value. The U.S. deal market's performance was particularly prominent, accounting for \$2.9 trillion in transaction value in 2021, up 55% from \$1.9 trillion in 2020. The U.S. deal activity was also bolstered with sellers concerned over potential increases in capital gain tax rates and 2020 deals pushed into 2021 due to COVID.

2021 was also a banner year for the private equity (PE) industry. U.S. PEs closed 8,624 deals for a combined value of \$1.2 trillion, over 50% above the previous annual record for deal value. In 2021, U.S. PEs raised over \$300 billion in new capital, as institutional investors increased their alternative asset class investment percentage. 2021 was also a record year for PE-backed exits. PEs exited U.S. companies with a total enterprise value in excess of \$800 billion.

The venture capital (VC) market continued at a break-neck pace throughout Q4 2021. Globally, venture capital financings set a record in 2021 with \$621 billion in combined deals, more than double the \$294 billion recorded in 2020. Venture capital dealmaking in the United States reached an all-time high in 2021 at nearly \$330 billion, buoyed by excess liquidity and an accommodative monetary policy. It was also the best year on record for U.S. VC fundraising, which hit \$128.3 billion across 730 funds. U.S. VC-backed companies going public or being bought out led to exits worth \$774.1 billion in 2021, nearly 88% of which was realized through public listings. In addition to the U.S. IPO market, special purpose acquisition companies (SPAC) offered a viable alternative to traditional IPOs despite tightening regulatory scrutiny.

Closed M&A Deals in North America (Q1 2019 – Q4 2021)

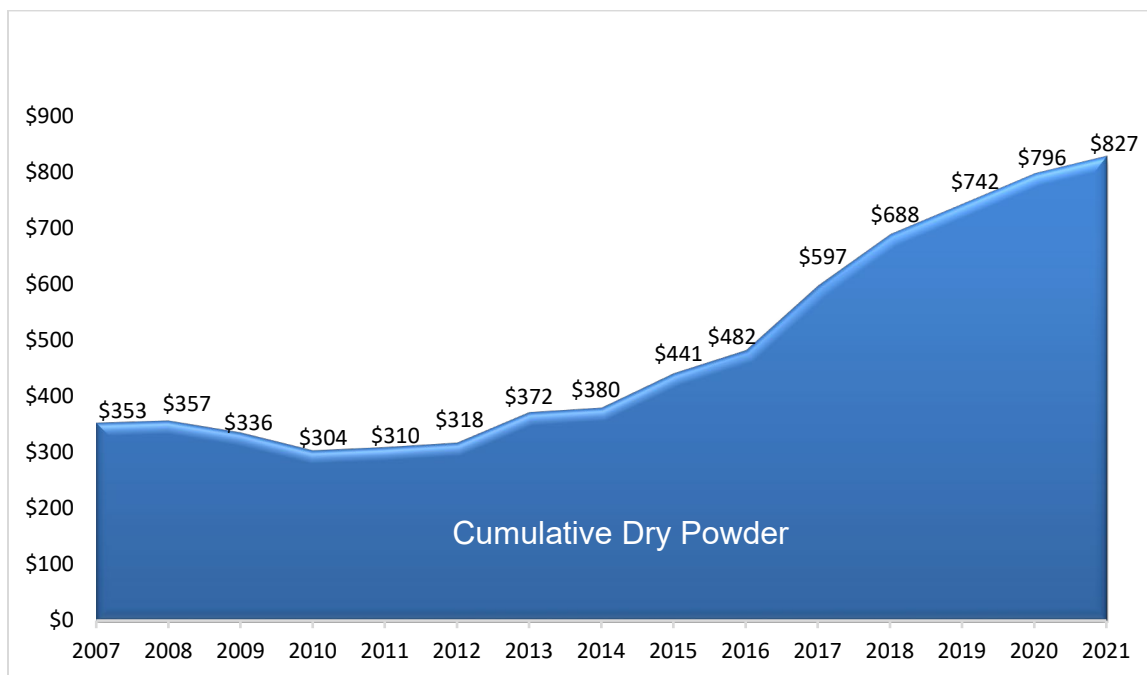


Source: Pitchbook and PKF Investment Banking research.

Record Dry Powder and Corporate Cash Continue to Drive M&A Activity

In addition to 2021 being a record year for PE fundraising and capital deployment, global PE dry powder ended 2021 at \$2.3 trillion, 14% higher than the start of the year, signaling another favorable year for M&A in 2022. As of June 30, 2021, U.S. PE had an all-time high in capital overhang of \$827 billion.

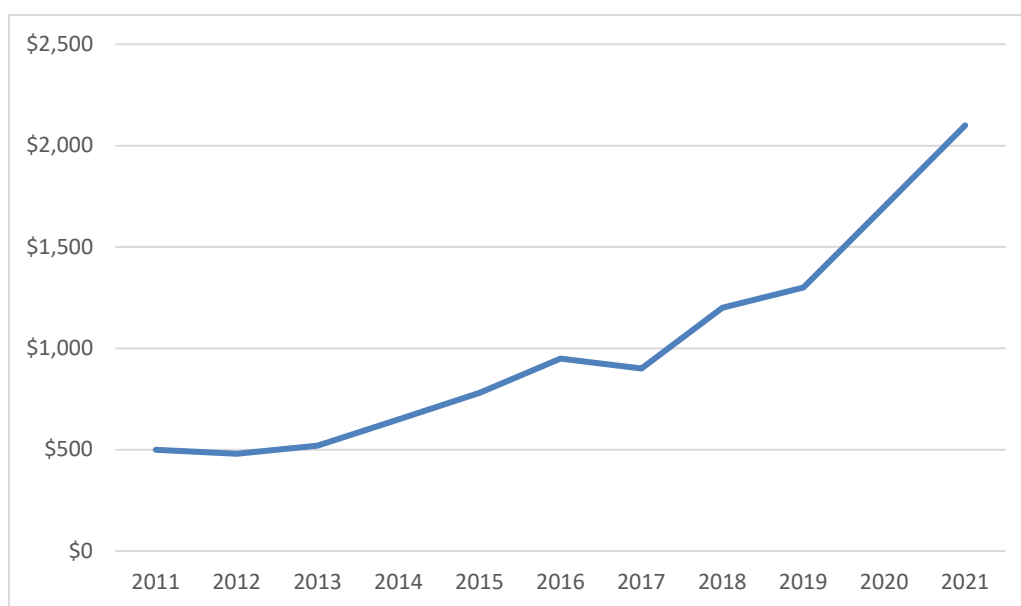
US PE Capital Overhand (\$B)



Source: Pitchbook as of 6/30/21

Cash on the balance sheets of nonfinancial companies in the S&P500 swelled to over \$2.0 trillion, compared to \$1.5 trillion before the pandemic crisis in early 2020. Just 13 non-financial companies in the S&P 500, including tech giants such as Apple (AAPL) and Google-parent Alphabet (GOOGL), are sitting on cash and investments of more than \$1 trillion, according to S&P Global Market Intelligence and MarketSmith. Cash-rich companies will continue their spending in 2022.

US Nonfinancial Corporate Balance Sheet Cash (\$B)



Source: Pitchbook

2022 Outlook

After a record year for M&A, dealmaking will continue to be robust in 2022. The factors that contributed to the record M&A market in 2021 will remain influential for dealmaking in 2022. Unprecedented dry powder, record levels of cash on corporate balance sheets, low cost of debt, a strong macroeconomic climate, and intense demand for technology disruption and innovation. The fierce competition among corporates and PEs will keep multiples high for sought-after assets. However, increasing interest rates during the year may soften valuation multiples.

Some headwinds such as persistent inflation, rising interest rates, supply chain and labor shortage challenges, as well as softening equity markets, may have a moderating impact on M&A transaction volume. As the market continues to be driven by these macro trends, we are bullish on M&A activity in 2022, especially in the middle and lower middle market.

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