

# M&A

17TH ANNUAL MERGERS & ACQUISITIONS OUTLOOK SURVEY

DyKEMA







17th Annual  
Mergers & Acquisitions  
Outlook Survey

DyKEMA



In our 17th annual survey, we polled senior executives and professional advisors across the nation—CEOs, CFOs, owners, managing directors and other professionals who engage in M&A-related activity at their respective firms—to measure their experiences and outlook on mergers and acquisitions in the coming year. We hope and trust you will find the following report and its insights valuable as you navigate the M&A environment in the coming months. We would like to thank all survey respondents for their time and insights.

**Sincerely,**

**The Dykema Mergers & Acquisitions Annual Survey Team**



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# COVID-19, Biden Agenda Won't Slow Down Record Pace of M&A

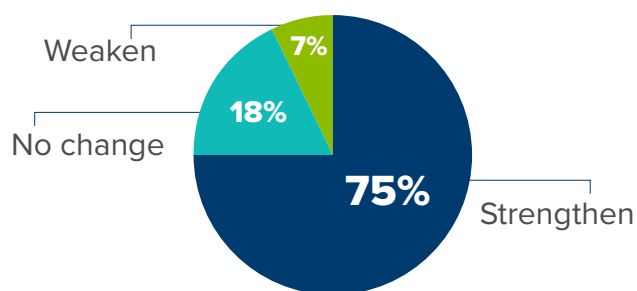
The jury is in: In the year to come, it looks like nothing—not the latest surge in COVID-19 cases, the Biden administration's legislative agenda or economic uncertainties—will be able to break the stride of M&A dealmakers.

In Dykema's 17th Annual M&A Outlook Survey, a resounding 75 percent of respondents expect the U.S. M&A market will strengthen in the next 12 months, while only 7 percent anticipate it will weaken. In fact, respondents anticipate deal volumes will be up across the board, from small to midmarket to megadeals of \$1 billion and more. What's more: 9 out of 10 respondents expect M&A activity among privately owned businesses to increase.

These findings reflect a rosier outlook than our 2020 survey; they also coincide with recent data showing this year's M&A activity—\$3.6 trillion through Q2—on pace to be the biggest in history.

For us, the optimism comes as no surprise: Balance sheets and liquidity are strong, equity and debts are balanced and the looming retirement of baby boomer owners continues to generate opportunities. The top three factors cited as fueling current M&A activity—availability of capital, financial markets and general economic conditions—support the notion that all the fundamentals needed for an M&A bull market are there.

## How will the U.S. M&A market for the next 12 months compare to the last 12 months?



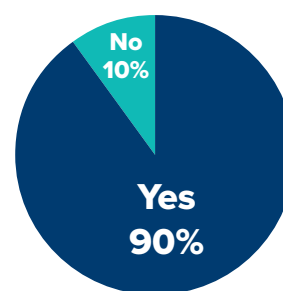
Meanwhile, the sentiment around two key factors—COVID-19 and the Biden administration—seen as having a negative impact on dealmaking in our 2020 survey has completely changed course.

Last year, 58 percent said COVID-19 had delayed negotiations, 16 percent said it would have a significant negative impact on the U.S. M&A market and 63 percent said its continued spread would be the greatest challenge to M&A (beyond the economy). Now—and even after the surge in cases brought on by the delta variant—it appears as though dealmakers have learned how to manage COVID-19-related uncertainties. When asked about the most common obstacles to dealmaking from the past 12 months, respondents ranked COVID-19-related delays sixth, while only 5 percent predicted it would have a significant negative impact on the U.S. M&A market in the year to come.

This upbeat sentiment was shared among dealmakers with regard to the Biden administration, too. When asked about the greatest challenge to M&A outside of the economy, nearly half of respondents (48 percent) in 2020 said Biden winning the presidency was their top concern, and 47 percent said that a Biden win would have a negative impact on M&A activity. In 2021, the new presidential administration is seen as broadly beneficial for M&A, or at the very least unlikely to impede the bustling momentum.

The reversal may come as a surprise, given the sentiment expressed by respondents in our prior surveys that a Republican administration is better for dealmaking. But

## Do you expect there to be an increase in M&A activity involving privately owned businesses in the next 12 months?



respondents believe that Biden's current legislative agenda is good for M&A, with more than 7 out of 10 respondents saying the administration will have at least a somewhat positive impact on M&A.

All this positivity doesn't mean there are no potential obstacles around the corner. COVID-19, Biden's tax policies, trade tensions with China, and inflation concerns were cited as possible challenges to M&A by a significant percentage of respondents—though all were selected by less than half. The lack of concern may be due to the positive outlook for the U.S. economy over the next 12 months shared by 70 percent of respondents. Furthermore, dealmakers are not troubled by the fact that we have been in a bullish M&A market for quite some time: According to S&P Global Market Intelligence, the second quarter of 2021 was the third straight quarter where total global M&A value surpassed \$1 trillion—the first time this has ever happened in three consecutive quarters.

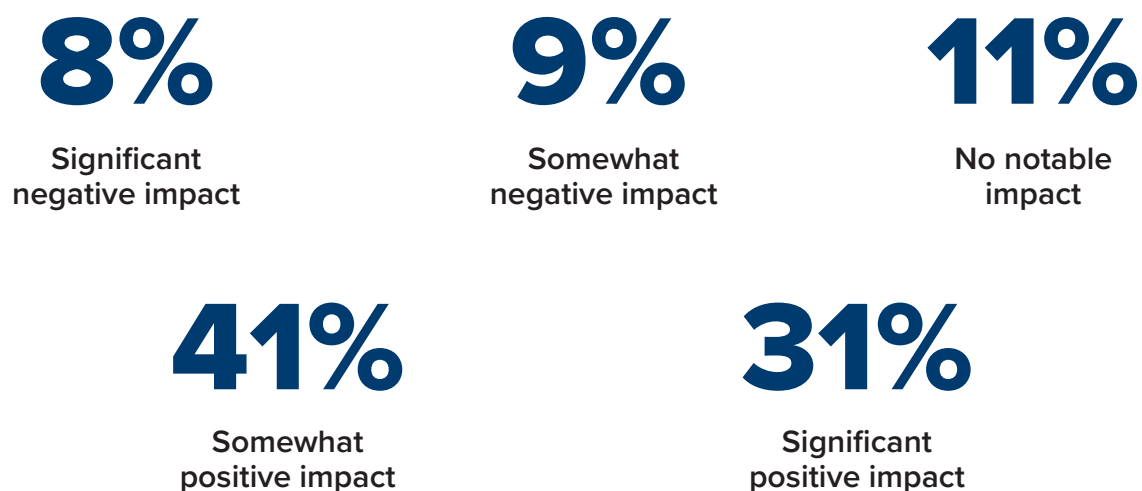
For now, though, even many of respondents' leading concerns about M&A in the past year—availability of quality targets (40 percent), financing (40 percent), buyer competition (39 percent), and valuation (39 percent)—were deal-scale bottlenecks more characteristic of a lively market than any significant obstacles to overall activity. Dealmakers' financing concerns may be focused, at least in part, on year-end challenges—for instance, lenders overwhelmed with completing due diligence and negotiation of documents in order to get all their pending deals closed in a timely fashion. Still, even these challenges represent a positive indicator for M&A activity.

What are the three most common obstacles you have experienced in deals in the past 12 months?

2020		2021
Availability of quality targets	1	Economic uncertainty
Economic uncertainty	2	Availability of quality targets
Financing	3	Financing
Buyer competition	4	Buyer competition
Valuation	5	Valuation

Biden Administration Expected to Positively Impact U.S. M&A

What impact do you expect the Biden administration to have on U.S. M&A activity over the next 12 months?



While COVID-19 ravaged the U.S. economy last year, just 35 percent of dealmakers cited it as a common hurdle to dealmaking over the past 12 months. Many dealmakers actually anticipate a positive lift from COVID-19, suggesting that certain industries and businesses—such as automotive, health care and technology—may actually be benefiting from the pandemic.

# M&A Outlook Stays Bullish Across the Board

Before the onset of the COVID-19 pandemic, respondents were more clearly divided on what the future of the M&A market could look like. Bullish, bearish, and neutral predictions in our 2019 Annual Survey each comprised roughly a third of survey responses. But by the third quarter of 2020, survey data reflected a feeling that the worst had come to pass, with 71 percent of respondents expecting the M&A market to strengthen; this sentiment continued in our April 2021 Flash Survey, in which 73 percent of respondents expected the M&A market to strengthen over the next year.

The results of our annual 2021 survey continue to signal an upward trajectory. Three-quarters of respondents expect the M&A market to strengthen in the next 12 months, while only 7 percent predict it will weaken. This trajectory is broadly aligned with the U.S.'s overall economic recovery: The top factors fueling current U.S. M&A activity include general U.S. economic conditions (27 percent), availability of capital (24 percent) and financial markets (23 percent).

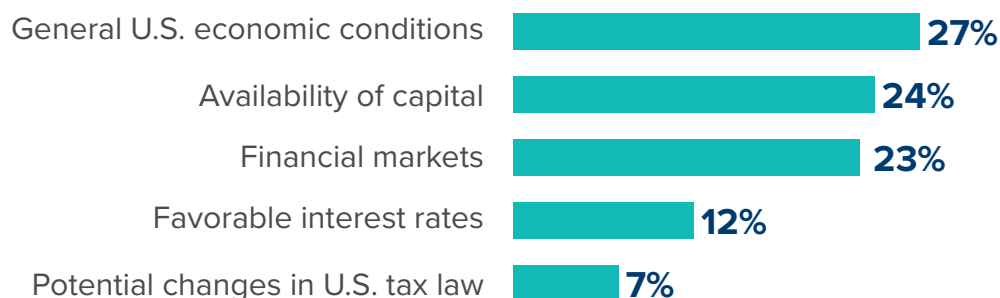
The bullish outlook is particularly strong for privately owned businesses, a space in which 90 percent of respondents expect to see an increase in activity over the next year. Dealmakers cited two primary drivers for their optimism: the rise in current earnings (34 percent) and improving valuations (22 percent). This data tells us companies are in a better financial position than last year, driving better valuations and more attractive M&A opportunities overall.

The buyers influencing these largely improving U.S. deal valuations are primarily domestic financial (44 percent) and strategic (39 percent) buyers, which tracks with historic deal numbers put up by private equity and other financial buyers this year. As for international players, far fewer respondents saw foreign financial (11 percent) and foreign strategic buyers (just 6 percent) as impacting valuations. Not surprisingly, dealmakers saw buyers from Europe, Canada and Mexico as dominating inbound international M&A activity, and U.S. buyers looking first to Europe (then Canada and Mexico) for their international acquisitions in the next 12 months.

To round out this increasingly bright picture of the U.S. M&A market, over the next 12 months dealmakers are bullish on acquisitions, joint ventures, and sales in which they or one of their portfolio companies will be involved. Sixty-five percent of respondents said they were likely to be involved in joint ventures—the biggest increase over 2020 (14 percentage points) out of the three deal types—though all categories saw reasonable gains.

## Increasing Earnings and General U.S. Economic Conditions Fuel M&A Activity

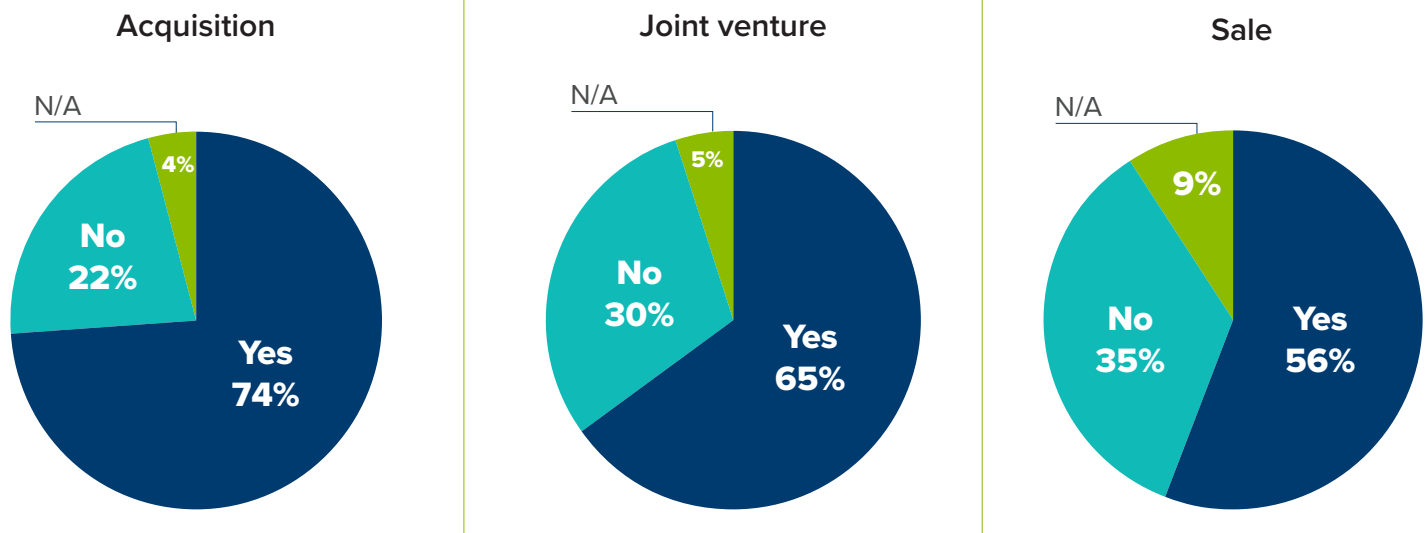
### Which of the following is most responsible for fueling current U.S. M&A activity?



### Which of the following types of buyers has most influenced U.S. deal valuation over the past 12 months?



In the next 12 months, do you believe your company, one of your portfolio companies or a company you advise will be involved in any of the following transactions?



## Dealmakers Are Successfully Adapting to COVID-19 and Other Key Obstacles



When we surveyed M&A professionals in the fall of 2020, the majority of respondents said they anticipated COVID-19 to have a negative impact on dealmaking, reflecting broad uncertainty about the pandemic's impact on M&A and beyond. This year, with the economy rebounding, we're seeing a radically different picture emerge. Despite the surge of infections driven by the delta variant, 44 percent of respondents said COVID-19 would have a significant (19 percent) or somewhat (25 percent) positive impact on U.S. M&A activity; 21 percent said it would have no impact, while 35 percent said it would have a somewhat (30 percent) or significant (5 percent) negative impact.

At the same time, M&A professionals, having weathered the ups and downs and uncertainties of COVID-19 since the beginning of 2020, seem to have found a degree of predictability in getting deals done. Today, the widespread adoption of virtual work may increasingly be facilitating deals rather than hindering them. For instance, videoconferencing platforms can personalize negotiations and bring more stakeholders into the conversation—ultimately speeding up the process—when compared with traditional conference calls.

It follows, then, that only 35 percent of respondents cited COVID-19-related delays as one of the three most common obstacles in getting deals done during the

past 12 months. The top obstacle in the past year was reserved for economic uncertainty (55 percent). At first this may seem at odds with the 70 percent of respondents who foresee a positive economic outlook in the year to come—but it could suggest dealmakers are simply holding their breaths on the economy, cautiously optimistic the recovery will continue while knowing that if it does not, it will not bode well for M&A activity. Additionally, financing, valuations, availability of quality targets and buyer competition were all selected by about 40 percent of respondents as top obstacles, reflecting the burgeoning—and thereby increasingly competitive—M&A market. When asked to cite the biggest concerns they're keeping an eye on in the year ahead, the pandemic still ranks as a top challenge, with 49 percent citing it as a significant obstacle to M&A in the next 12 months.

This might stem from ongoing supply chain and labor shortage issues associated with the pandemic, as well as persistent uncertainty ushered in by the delta variant. Other top challenges moving forward include the Biden administration's tax policy (32 percent), inflation concerns (26 percent), China trade tensions (26 percent), increased delay or scrutiny of cross-border deals by CFIUS or other regulatory bodies (21 percent) and heightened antitrust scrutiny under a Biden administration (20 percent).

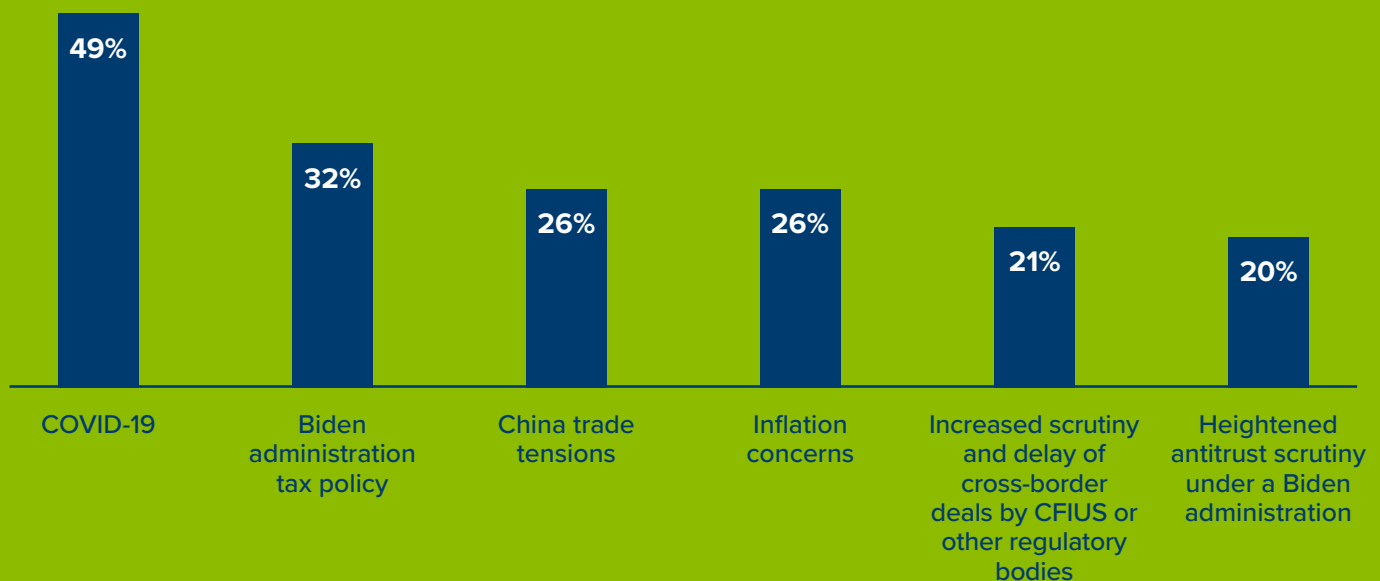


## Acknowledging the Threat of COVID-19, Dealmakers Remain Hopeful

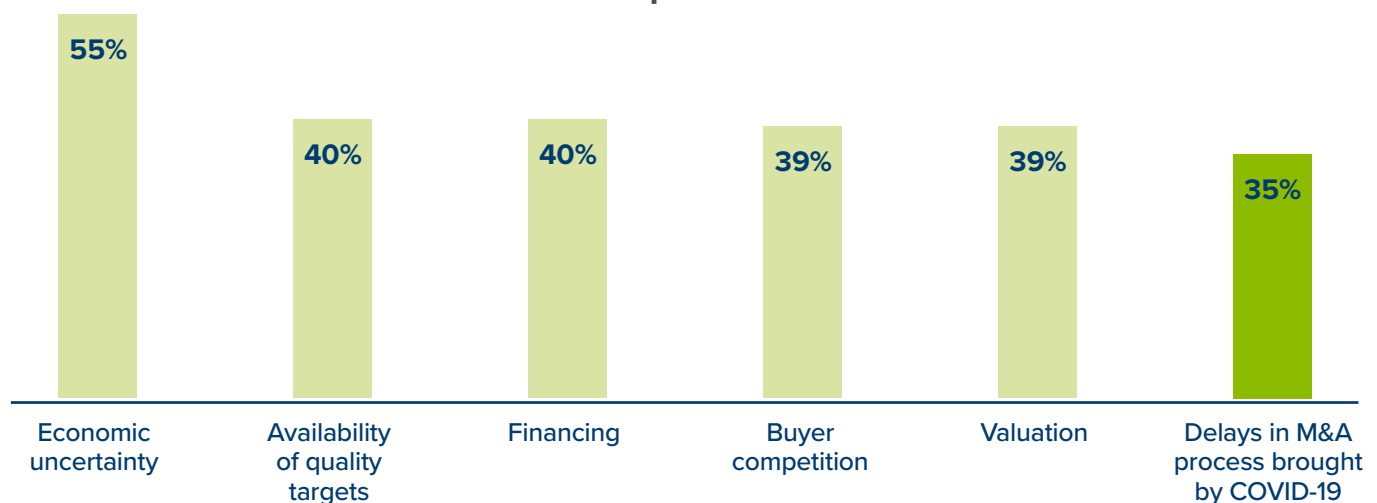
What impact do you expect COVID-19 to have on U.S. M&A activity over the next 12 months?



Which of the following pose the top challenges to M&A over the next 12 months?



What are the most common obstacles you have experienced in deals in the past 12 months?



# Dealmakers Change Their Tune on Biden Administration

Despite concerns over tax policy and antitrust enforcement noted above, respondents no longer overwhelmingly view the Biden administration as an impediment to future M&A activity. In fact, 72 percent believe Biden will have a positive impact on the M&A market.

This is a rather drastic turnaround from our 2020 survey, fielded in the runup to the November 3 election. Dealmakers then knew what to expect from a Trump administration—favorable corporate tax policies and an ethos of deregulation—whereas Biden represented heightened regulatory scrutiny and higher corporate taxes, not to mention a range of other unknowns. So it tracks that last year, little more than a third of respondents believed Joe Biden’s presidency would be a positive for the M&A market, compared to the 61 percent who thought Donald Trump’s reelection would be.

This year’s reversal goes beyond the bird’s-eye view. When asked to consider the key legislative reforms that make up Biden’s agenda, the majority of respondents (56 percent) believe their implementation will have at least a somewhat positive impact on the U.S. M&A market in 2022. Dealmakers did not believe that even issues such as heightened antitrust scrutiny, corporate tax increases, and other regulations generally considered hostile to M&A could dampen the bullish M&A market in the U.S.

Respondents saw the infrastructure bill, immigration reform and a minimum wage increase, as the issues that will most positively impact M&A next year. Investing in infrastructure is an obvious boon to multiple sectors, including construction, automotive and industrial/manufacturing. Since the plan is largely stimulative and

lacks a commensurate tax hike, it’s no surprise that almost 9 in 10 dealmakers do not anticipate any negative impact. Half of dealmakers even believe an increase in deficit spending will be positive for U.S. M&A.

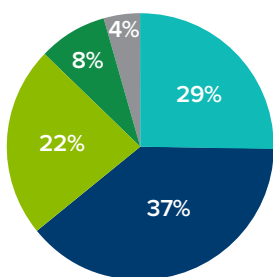
Despite its reputation as a hot-button issue, immigration reform is seen as a positive step forward for 58 percent of dealmakers. The Trump administration was defined by restrictions on foreign trade, in addition to rising arrests and deportations of undocumented workers. It is possible dealmakers could see the benefit of bringing in foreign labor from outside the U.S., particularly at a time in which many sectors are experiencing a shortage of workers.

Biden’s policies have boosted dealmakers’ expectations of activity in sectors related to his agenda as well. Energy leaptfrogged to the second-ranked sector (versus eighth in 2020), no doubt a result of the administration’s focus on a transition to renewable energy sources. And for the fourth year in a row, the automotive industry topped the list—perhaps a predictable result given President Biden’s recent executive order, which aims for 50% of new car sales to be electric vehicles by 2030.

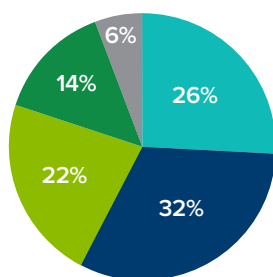
On the antitrust front, the recent spotlight on acquisitions of innovative tech companies by tech giants, and a divided Federal Trade Commission’s withdrawal of guidelines on how the government reviews vertical mergers of companies that don’t directly compete with one another, signal the end of lax, Trump-era M&A policies. It follows, perhaps, that technology has dropped to fourth (versus second in 2020) when it comes to the sectors in which respondents expect to see the most M&A activity over the next 12 months.

## Biden’s Agenda Viewed Favorably

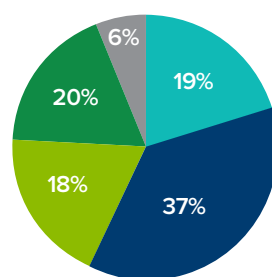
The likely impact of each of the following potential issues on the U.S. M&A market in 2022



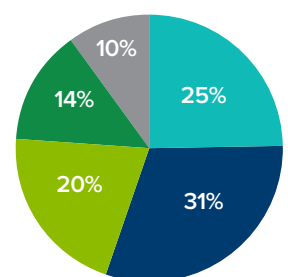
Potential passage of infrastructure bill



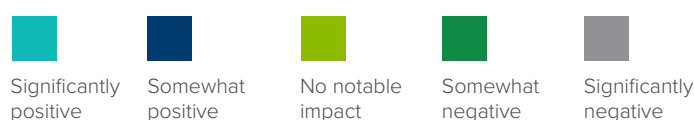
Immigration reform



Increase in the minimum wage



Current legislative agenda

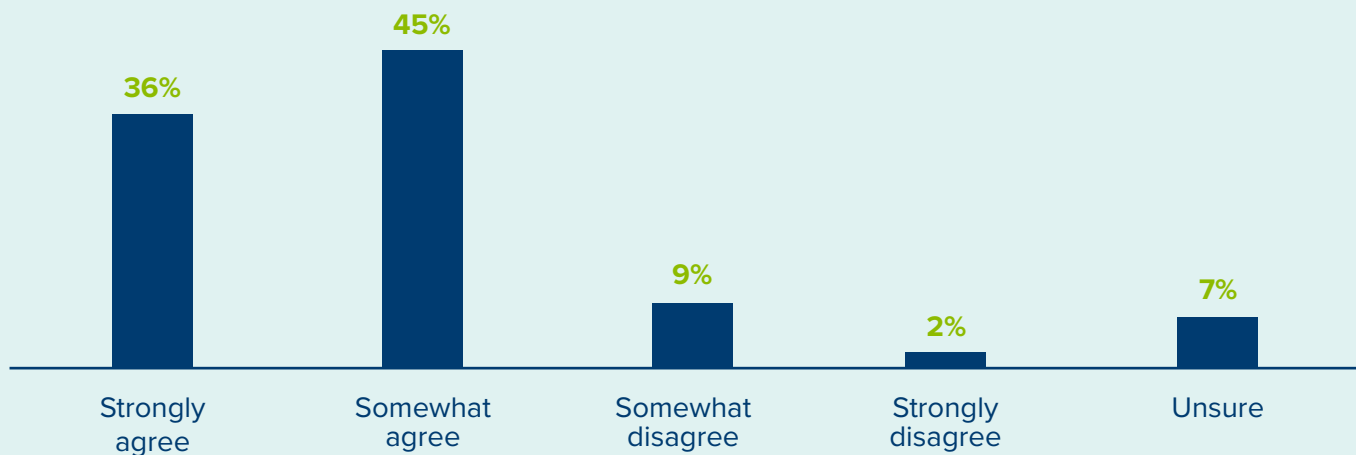


# The SPAC Boom

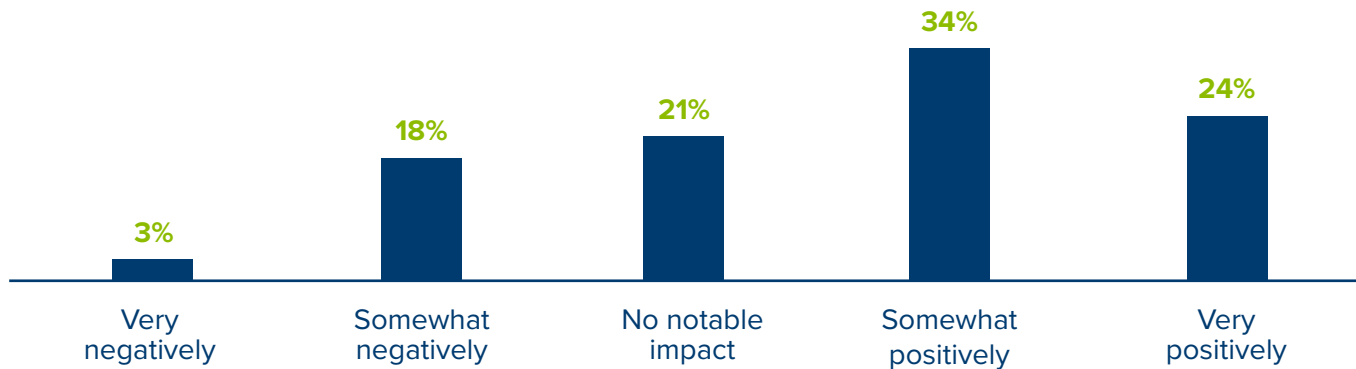
2021 has seen 419 SPAC (special-purpose acquisition company) filings as of September, already more than double the amount last year. It tracks, then, that 4 of 5 industry professionals we surveyed expect SPAC activity to stay strong in 2022. Investors likely see the opportunity SPACs afford them to gain access to emerging technologies, while sellers are taking advantage of the vehicle's ability to provide a quicker exit and route to going public than traditional IPOs.

Given some concerns in the past year around the Securities and Exchange Commission's response to the SPAC boom, it may seem odd that survey respondents embraced an increase in the SEC's scrutiny of SPAC exits in both the near term (58 percent) and long term (67 percent). But these findings aren't necessarily incongruent with earlier worries. From a dealmaker perspective, new regulations likely represent maturity for SPACs: Heightened accountability has stabilized the market up to this point, so further regulation could bring added certainty to the increasingly popular investment vehicle.

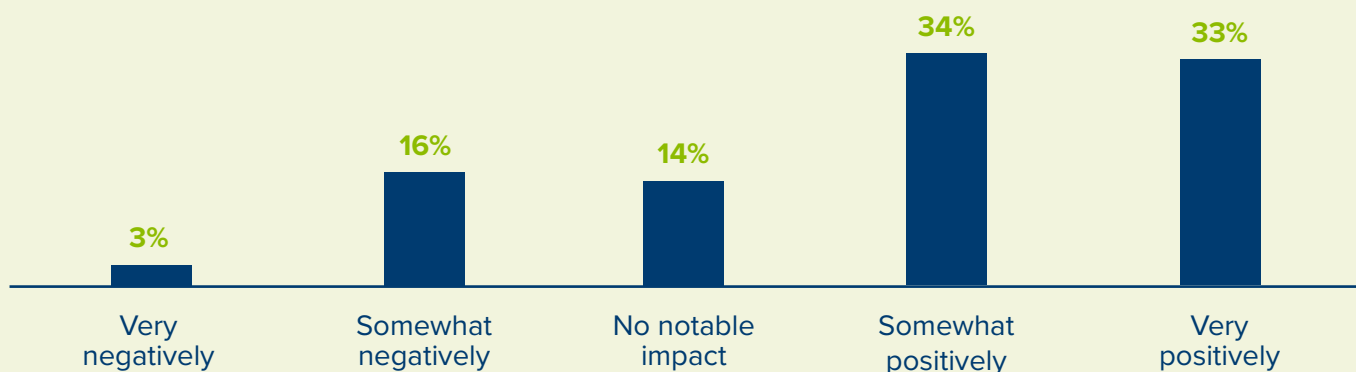
Please rate the level to which you agree with this statement: Special-purpose acquisition company (SPAC) IPO activity will be strong through 2022.



How will the Securities and Exchange Commission's enhanced scrutiny of SPAC IPOs impact activity both near term and long term?: Near term (within the next 12 months)



How will the Securities and Exchange Commission's enhanced scrutiny of SPAC IPOs impact activity both near term and long term?: Long term (after 12 months and beyond)



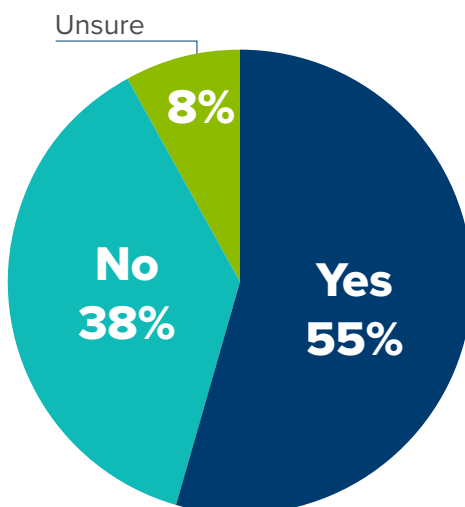
# Spotlight on ESG Considerations

Attention to environmental, social and governance (ESG) factors when making investment decisions has skyrocketed over the past few years and was accelerated by COVID-19.

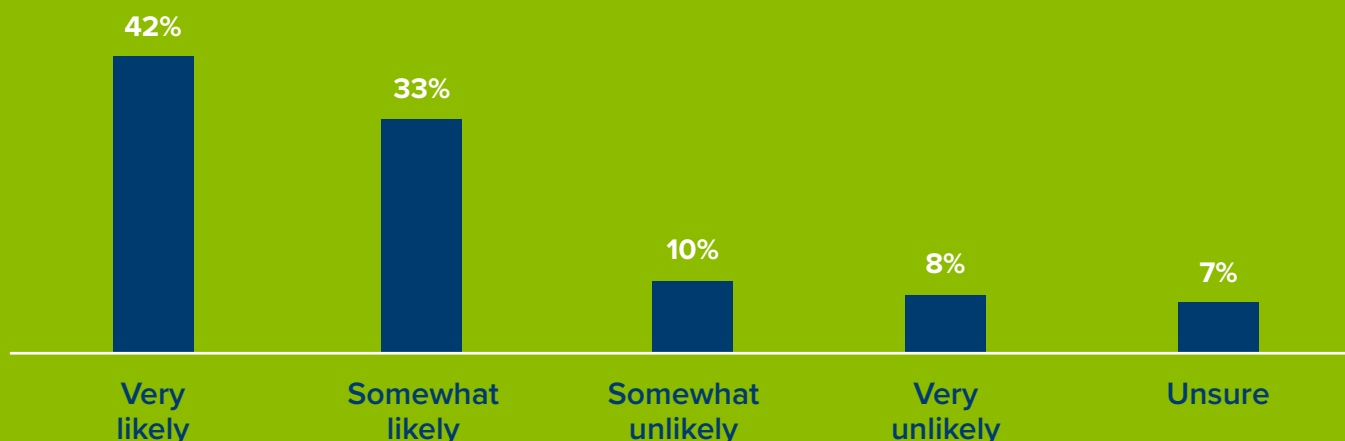
Our survey reflects this growing trend: A majority of respondents (55 percent) have worked on a deal in which the target company or buyer was screened for ESG risk within the last 12 months, while three-quarters of our respondents expect to work on a deal that includes screening for ESG risk over the next 12 months.

With public markets leading the way in ESG reporting and investing, private companies will increasingly look to follow suit. As time goes on, ESG will only become more involved in every aspect of the dealmaking process—and is therefore something every dealmaker should be familiar with.

**In the past 12 months, has your company, one of your portfolio companies or a company you advise worked on a deal in which the target company or buyer was screened for environmental, social and governance (ESG) risk?**



**In the next 12 months, what is the likelihood your company, one of your portfolio companies or a company you advise works on a deal in which the target company or buyer is screened for ESG risk?**





# M&A Activity by Sector

The top five sectors respondents expect to be most active in the next 12 months have shifted significantly in the last year. Technology and health care, both prominent economic players in 2020, dropped down to fourth and fifth places respectively, while energy has soared from eighth to second place. For the fourth year in a row, the automotive industry topped the list.

The expanding automotive industry may be supplying the energy sector with a boost, as plans for a new national grid begin to materialize in support of electric vehicles. The Biden administration has also made a transition to renewable energy a keystone of its legislative agenda. But it's not just renewable and future energies that are driving M&A activity. Following a challenging 2020, dealmakers may be pursuing greater resiliency and diversification in order to thrive during commodity price cycles (think: sudden price drops of gasoline). Portfolio optimization and consolidation are becoming even more important to industry players, particularly in oil and gas.

Although technology has been (and continues to be) a healthy industry for M&A, the drop might be a response to the possible enforcement of antitrust legislation on Big Tech. And while the health care and life sciences sectors have been and continue to be a healthy stronghold for M&A—especially in a year defined by historic vaccine developments—they have dropped to fifth and seventh in our M&A sector rankings this year. It's worth noting that, if both sectors were combined, they would top our respondents' rankings.

	2020		2021
	Automotive	1	Automotive
	Health Care	2	Energy
	Technology	3	Financial Services
	Consumer Products	4	Technology, Media and Telecoms
	Financial Services	5	Health Care

## Methodology

In September 2021, national law firm Dykema Gossett PLLC distributed its M&A Outlook Survey via email to a group of CEOs, CFOs and other senior company officers and executives, as well as professional advisors engaged in the M&A industry. The 266 survey respondents represent a cross section of executives and M&A advisors engaged in more than a dozen sectors, including technology, media, financial services, industrial/manufacturing, real estate and construction, health care, energy, automotive, and education. Respondents represent companies with annual revenues from less than \$1 million to more than \$1 billion. Due to rounding, percentages used in some questions may not add up to 100 percent.











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