

2022 M&A Economic Outlook

While not a prognostication, let's reflect on what we have witnessed firsthand in the M&A markets from the entrepreneurial business owners we work with on a daily basis regarding 2021 performance. And let's look ahead to see what 2022 might bring us.

The year 2021 will likely be remembered for headlines of the pandemic and the change in the administration in Washington. The news was filled with topics from the vaccination rollout and the emergent of virus variants, to supply chain difficulties, ending the year with inflation concerns. The concerns about inflation are: is it a short-term blip, is it due to supply & demand issues or is it greed by corporate suits? Will inflation ease in 2022, or are we returning to the 1970s?

With all the negative headlines, M&A activity in 2021 bounced back stronger than expected following a tumultuous 2020. Both the number of deals completed and the aggregate value of those deals were at their highest levels in the last decade.

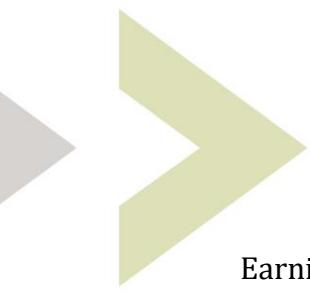
With the incoming administration's plan to enact higher tax rates, entrepreneurs who expected to sell in the future expedited their plans before tax increases substantially reduced after-tax proceeds from a business sale. By late spring owners were flocking to the private capital markets in an effort to complete a sale by the end of the year. Concerns that the rush to close by the end of the year would negatively affect valuations in the 4th quarter (mimicking the tax increase with the Affordable Care Act) were not substantiated. In November, when the House passed the Build Back Better Act, those concerns were significantly reduced as the House agreed to more modest increases.

Fundraising for Private Equity remained strong in 2021 with mega-funds dominating the market. The use of Special Purpose Acquisition Companies (SPAC) by Private Equity remained strong in 2021. However, it is expected to hit some turbulence as the administration looks to tighten SPAC regulations.

As the 2021 pandemic recovery navigated the virus variants, shutdowns, and labor shortages, entrepreneurs adjusted operations to compete in the 'new normal'. According to a survey by JP Morgan|Chase, entrepreneurs "found innovative ways to run their companies and flex their entrepreneurial muscles. As a result, many of these companies are stronger today than they were before the pandemic"¹.

¹ 2022 Business Leaders Outlook, 12th annual survey





Earnings multiples continued their strength in 2021. The private capital market continued to be a Seller's market. Competition for quality businesses, the availability of liquidity, the cost of money, and the continuing economic rebound supported strong multiples.

The market strength we foresaw last year panned out for sellers with well-run companies. As 2022 begins, we expect to see continued improvement in economic conditions tempered by rising interest rates, a tight labor market, and inflation concerns.

We also expect the number of deals and multiples will continue to be strong through 2022 and into the foreseeable future. Well-run companies will have plenty of competition for buyers in 2022 due to the expectation of strong multiples.

If you're prepared to take chips off the table, you should get started in 2022 before this favorable environment changes. If you're not sure how prepared your company is for the private capital market, Strategic Exit Advisors offers a complimentary Readiness Assessment. It takes less than an hour to complete and will illustrate where to improve your company's attractiveness to the market. Call or email us today at info@se-adv.com to schedule a video call.

Strategic Exit Advisors continues our growth as we enter our 16th year. Our historical selling successes with a high rate of closing on favorable terms are expected to continue in 2022. This is indeed good news for our entrepreneurial business owners. With this momentum, we anticipate another prosperous year for our current and prospective clients.

We believe 2022 will be a better year than last year. At the very least, it certainly should be another exciting year!

We look forward to Strategic Exit Advisors continuing to be your trusted partner. We're available for a call anytime (215) 489-8881 or visit us at www.se-adv.com.

