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Lead Left Presents: M&A Outlook for 2022 (Second of a Series)

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Over five hundred registrants tuned in this week to our first "Lead Left Presents" webinar. The topic, M&A Outlook for 2022, featured four top middle market investment bankers discussing what happened in the deal market in 2021, and what's to come for 2022.

Those who missed it can watch our replay [link]. There's a lot to unpack from the incredibly informative conversations. First let's highlight some of our panelist's observations about the year just ended.

Review of 2021. Last year was an "acceleration" of what we saw in 4Q 2020. This was not just in sheer volume, but across a wide breadth of sectors (unlike early 2020). Some slowdown in new deal launches occurred at the end of 2021, but likely because of record deal closings. Capacity to execute was maxed out. And so much of it done remotely!

Tailwinds. The Fed's massive injection of capital boosted equities in 2020 which "brought courage" to private capital investors. Significant dollars on corporate balance sheets and piles of private equity dry powder then continued to fuel growth via M&A. The supply/demand imbalance of capital outweighing investment opportunities is expected to continue from 2021.

Auction Processes. Buyers were "choosing their spots," but those remaining had "high conviction." Two paths for processes were identified. First was to allow "curated and early access" to management teams and due diligence. Second, "broader entrance to the buyer funnel" when a business was more bespoke or valuation less obvious, adding check-in bids along the way.

Valuations. There's a new dynamic on prices because buyers were "either committed or getting out of the way." Harder to gain buyer attention, but those who did could pay the higher multiples. The year featured more substantive conversations between bankers and sponsors "to keep buyers engaged." Not just price, but "what it would cost to make sure they bought it."

Competition. Real premium placed on relationships between sponsor and banker. Sponsors need an edge, an angle, typically with a relationship, "otherwise you're flying blind." Key is for bankers to help guide bidders successfully, with a high degree of transparency and a "high conviction to transact." Or you end up with less optimal execution.

Role of the Banker. This changed a lot during Covid. "This was a market where businesses were sold, not bought." You must be very thoughtful up-front to provide "best messaging and process" to give selected buyers confidence or lose control later. Early due-diligence on the buyer is also critical to ensuring a successful transaction. Finally, incumbency matters more than ever; hard to peel away existing solid relationships when so much else around you is changing.

Next week we conclude our series with highlighted commentary on the 2022 M&A outlook