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

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Last week we held our first "Lead Left Presents" webinar attended by over 500 registrants. 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]. In our previous commentary we highlighted our panelists' observations about the year just ended. This week we encapsulate their thoughts on the year ahead.

Industry Outlook. "No slowing of activity for 2022." From a sector perspective, industrials were challenged in 2020, then bounced back sharply last year. Backlogs were "very strong" going into this year. Covid highlighted increased labor costs and motivated businesses to ramp up automation. Other pandemic winners included water filtration and air purification.

Covid "spiked" growth in some areas by a factor of ten. Which ones will come back to earth and which ones are sustainable? Technology and software are "eating the world" by creating "digitization of everything." Typical commercial and industrial buyers are being more aggressive in tech and software "just to stay where they are."

The balance sheet of the consumer is "much healthier," as dollars shifted early from travel and hospitality to home, pet, outdoor sports, and healthy living. Other industries with momentum are third-party logistics, transportation, after-market auto parts, and healthcare.

Some of the "haves," though, may also be the first to encounter inflationary headwinds. Pre-Covid value creation by sponsors often came from cost containment and margin improvement; post-Covid that enhancement has emerged from better revenue generation.

Headwinds? Omicron has not slowed activity much, but supply chain issues persist. "We're making everything we can, but we can't get it to the customer." Will sustained high freight costs, for example, put longer term profitability at risk? Regardless supply chain fundamentals are likely to change, in some cases, permanently, calling "add-backs" into question.

Very little impact seen short-term from higher interest rates on deal activity. We are still solidly in an economic recovery. Generally optimistic for "high-performing" companies with "seasoned" management teams. "B-level" assets could struggle to find optimal valuations.

Role of PE. Ownership matters. "The argument for which companies should be owned by sponsors shifts in times like this. The private equity governance model is unusually well equipped to manage change," compared to both family-owned and public companies. "It's a difficult M&A driver to spot, but somewhere in the background, that M&A driver will lurk."