



MANAGEMENT
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MID-MARKET M&A PULSE CHECK 2022



WELCOME TO THE MID-MARKET M&A PULSE CHECK

THIS SURVEY IS DESIGNED TO MEASURE THE HEARTBEAT OF M&A IN NORTH AMERICA AND IDENTIFY TRENDS IN DEAL-ACTIVITY AND VALUE CREATION OVER TIME.

There's no doubt that 2021 was a record year for private equity, with investors charging out of the gate off the back of COVID. To date, this year seems to be trading in the same direction, with most of our respondents reporting a busy market, and expecting it to stay relatively busy throughout the next 12 months.

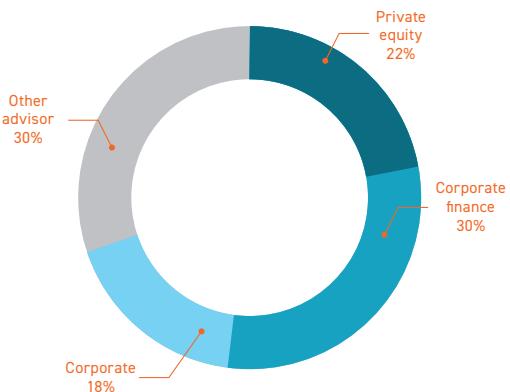
Our results reveal:

- High levels of M&A activity that are expected to continue throughout 2022, but hints of a slight softening are beginning to show
- Strong quality of assets which is supporting a seller's advantage in valuations
- Economic uncertainty and inflationary pressures are a building concern for investors

Thank you to everyone who took the time to share their views with us. We had 87 respondents throughout March 2022.

We hope you find the results of interest. If you would like to discuss any of the points raised in this report or discuss the trends we are seeing in the North American M&A market, do get in touch.

WHAT TYPE OF ORGANIZATION DO YOU WORK FOR?



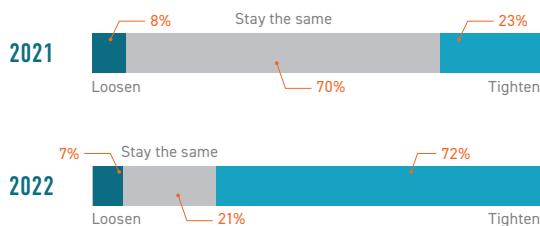
INFLATION HITS

IN DECEMBER 2021, CONSUMER PRICES JUMPED -7% COMPARED WITH 12 MONTHS EARLIER – THE FASTEST RATE OF INCREASE SINCE 1982.

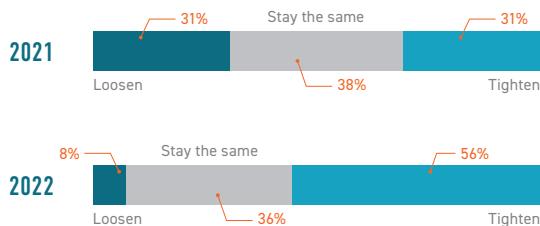
Supply chain disruption and a shortage of labor, linked to COVID's impact on global trade, have resulted in substantial inflationary pressures. It is no surprise, therefore, that this year's results show respondents moving sharply towards a desire for tighter monetary and fiscal policy.

For many investors, this will be the first time they have had to contend with such an inflationary spike. Whether this is a temporary phenomenon or a wholesale shift remains to be seen but its potential effect on valuations and the operational costs for private equity portfolio companies is clearly front of mind – a theme we see repeated throughout our survey.

DO YOU THINK MONETARY POLICY SHOULD LOOSEN, STAY THE SAME OR TIGHTEN?



DO YOU THINK FISCAL POLICY SHOULD LOOSEN, STAY THE SAME OR TIGHTEN?





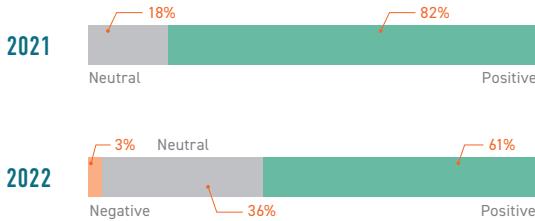
A MARKET IN TRANSITION

LAST YEAR'S DATA SHOWED A MARKET IN HYPERDRIVE – WITH RESPONDENTS REPORTING AN ALREADY BUSY MARKET WITH A FOOT ON THE PEDAL. THIS YEAR, WE BEGIN TO SEE HINTS OF A REBALANCING.

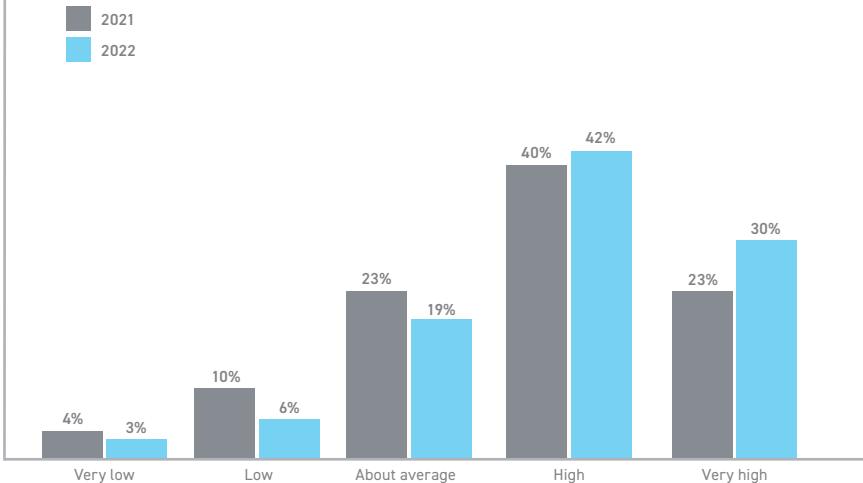
Sentiment towards the investment environment remains high, despite wider economic uncertainty, with 61% of respondents feeling positive about the outlook. This marks a slight softening of 2021's overwhelmingly positive (82%) sentiment. Yet, it seems as though last year's results provided an apt forecast, with a 9% increase in respondents reporting high or very high levels of deal activity over the last three to six months.

This year, however, respondents are less bullish with 42% believing deal activity will stay the same over the current year, and 34% predicting it may decrease. While the market remains busy, our findings do hint at a slight cooling over the next year or so. But, it is clear that the market is not quite ready to return to the norm, just yet.

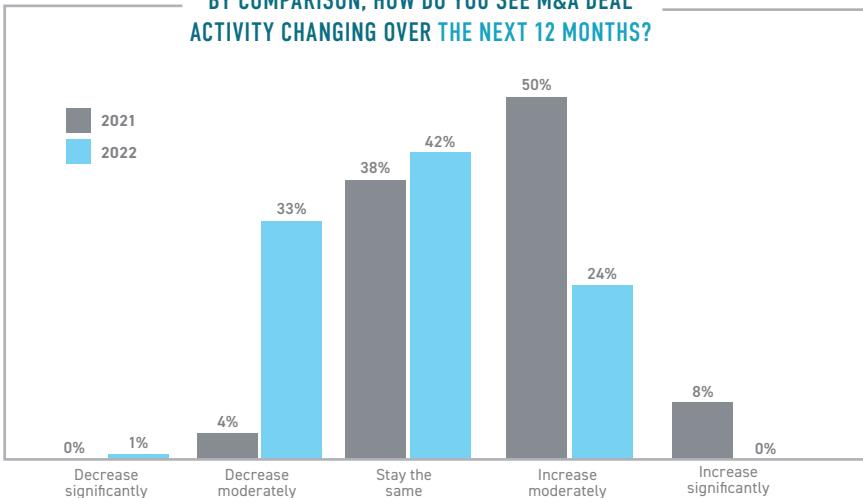
HOW DO YOU FEEL ABOUT THE INVESTMENT ENVIRONMENT FOR YOUR BUSINESS/PORTFOLIO OVER THE NEXT 18-24 MONTHS?



WHAT IS YOUR VIEW ON THE CURRENT LEVEL OF M&A DEAL ACTIVITY?



BY COMPARISON, HOW DO YOU SEE M&A DEAL ACTIVITY CHANGING OVER THE NEXT 12 MONTHS?



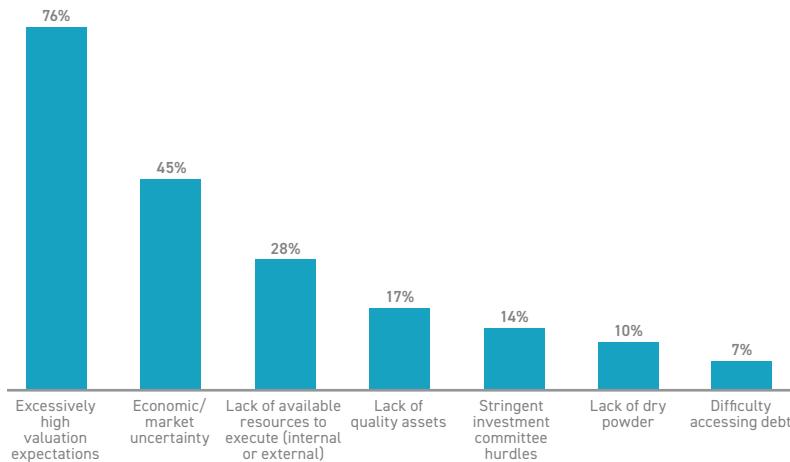


A MEASURED MARKET VIEW

HIGH VALUATIONS, MARKET UNCERTAINTY AND A LACK OF AVAILABLE RESOURCE TO EXECUTE ARE WEIGHING ON THE MINDS OF OUR RESPONDENTS AND MAY BEGIN TO AFFECT DEAL FLOW OVER THE REMAINDER OF THE YEAR.

Last year, excessively high valuations were the biggest challenge faced by our respondents when successfully executing deals in a thriving M&A market. Valuations remain high, but we are beginning to see a more measured view, largely due to the uncertainty caused by inflationary pressures, rising interest rates and the unknown economic fall-out of the war in Ukraine.

WHAT DO YOU SEE AS THE TWO BIGGEST CHALLENGES TO YOUR ORGANIZATION BEING ABLE TO GET DEALS DONE OVER THE NEXT 12 MONTHS?



GOOD ASSET QUALITY

OUR RESPONDENTS REPORT A HIGH CALIBER OF ASSET, WITH LITTLE CHANGE EXPECTED OVER THE NEXT 12 MONTHS.

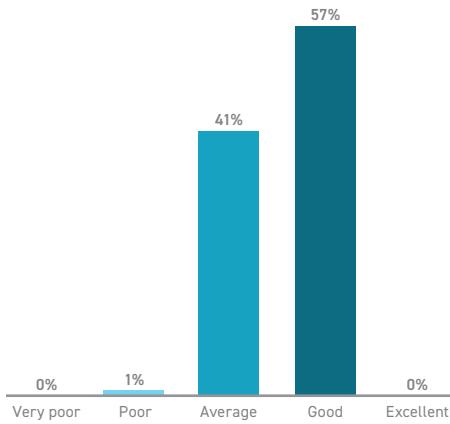
Since last year's survey, we have seen the reported quality of assets settle towards the average (41%) and good (57%) mark. Looking forward, respondents predict little change with 64% believing asset quality will stay the same over the next 12 months.

The businesses that we saw coming to market during the heights of the COVID pandemic had extremely strong fundamentals. This trend continued as we entered the second half of 2021 and the world began to return to a new kind of normal – a finding forecasted by last year's respondents. In fact, respondents report a +4% net positive in asset quality in 2022.

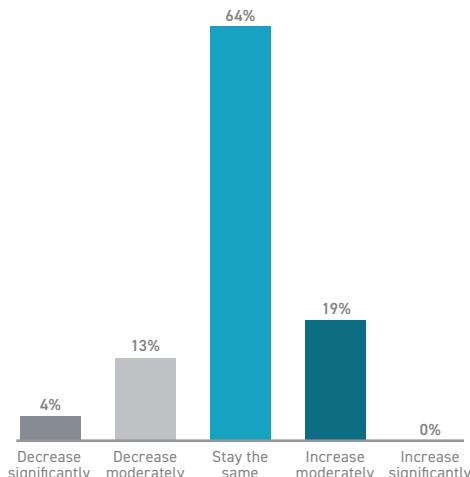
This was largely because assets looking to sell during this time had high COVID-resilience and were therefore extremely attractive to buyers.

However, more recently, we have been seeing the quality of business coming to market dilute slightly. This may be for a few reasons: as the market has reopened, assets that were taken off the market during COVID may have returned, as well as businesses that have experienced bumper (and perhaps temporarily inflated) revenues during 2021. Buyers would do well to stringently test future revenue predictions.

WHAT IS THE CURRENT QUALITY OF ASSETS IN THE MARKET?



HOW DO YOU SEE THE QUALITY OF ASSETS CHANGING OVER THE NEXT 12 MONTHS?





SELLER'S ADVANTAGE WANING?

WITH ASSET QUALITY HIGH AND RECORD LEVELS OF DRY POWDER TO DEPLOY, IT IS NO SURPRISE THAT OUR RESPONDENTS REPORT THE CONTINUATION OF A MARKET WEIGHTED IN FAVOR OF THE SELLER.

These findings indicate a slight cooling year-on-year from 2021, where 90% of respondents reported a seller's market.

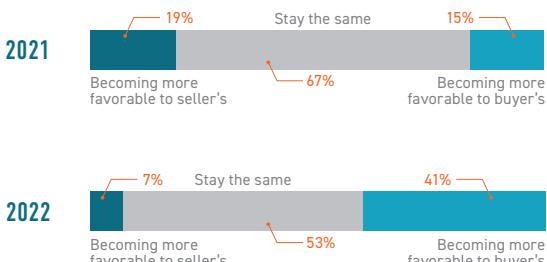
However, our next question showed that we could expect a change in these dynamics.

41% of respondents believe this advantage will shift towards the buyer over the coming year, echoing sentiments we've seen throughout this survey: while the market remains busy – and will continue to be so – it is probably becoming more balanced.

WITH REGARDS TO THE CURRENT M&A MARKET, IS THE MARKET MORE FAVORABLE TO SELLER'S OR BUYER'S?



HOW DO YOU SEE THE M&A MARKET EVOLVING OVER THE NEXT 12 MONTHS IN TERMS OF SELLER AND BUYER DYNAMICS?



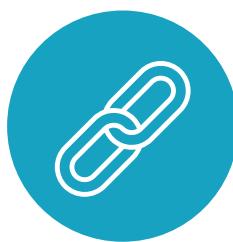
PORTFOLIO CHALLENGES

ACCESS TO LABOR, INFLATIONARY PRESSURES AND SUPPLY CHAIN DISRUPTION ARE THE BIGGEST ISSUES FACING PRIVATE EQUITY PORTFOLIOS RIGHT NOW.

WHAT DO YOU SEE AS THE TOP TWO BIGGEST CHALLENGES AFFECTING PORTFOLIOS AT THE MOMENT?



ACCESS TO LABOR
90%



SUPPLY CHAIN DISRUPTION
48%



INFLATIONARY PRESSURES
31%



LACK OF STRATEGIC FOCUS
10%



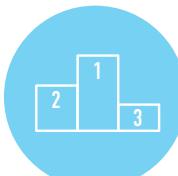
CHANGING CUSTOMER BEHAVIORS
7%



REGULATORY PRESSURES
7%



QUALITY OF MANAGEMENT TEAMS
7%



COMPETITIVE PRESSURES
7%

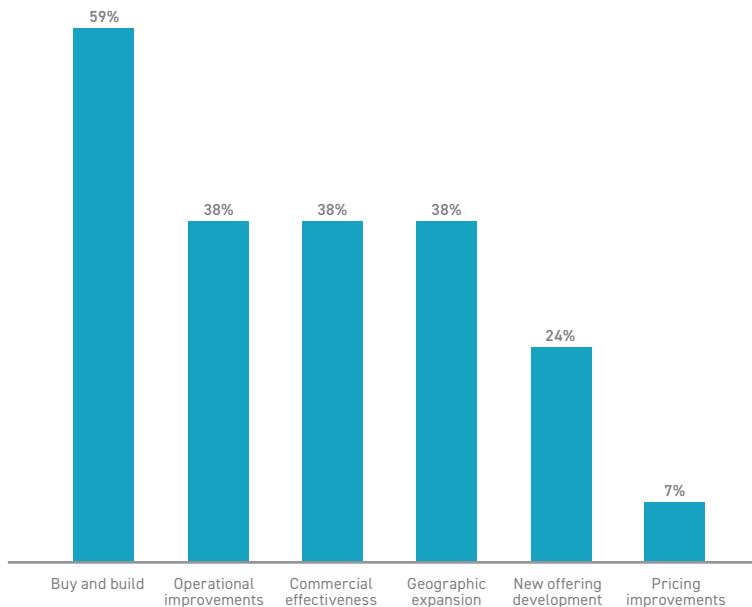


CREATING VALUE

OUR FINAL QUESTION SOUGHT TO UNDERSTAND HOW PRIVATE EQUITY FIRMS ARE CREATING VALUE IN A POST-COVID WORLD.

When it comes to value creation strategies, buy and build remains the preferred route for our respondents. Geographical expansion, commercial effectiveness and operational improvements are also highly favored.

FOR YOUR INVESTMENTS WHICH OF THE FOLLOWING TOP TWO STRATEGIES ARE YOU PRIORITIZING TO DRIVE VALUE CREATION?



GET IN TOUCH

CIL PROVIDES GROWTH STRATEGY AND DUE DILIGENCE SUPPORT TO MANAGEMENT TEAMS AND INVESTORS. WE ARE RIGOROUS IN OUR APPROACH, CONFIDENT IN OUR CONCLUSIONS AND EXPERT AT WHAT WE DO. TO DISCUSS ANY OF THE POINTS RAISED IN THIS PIECE, PLEASE GET IN TOUCH.



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