MANAGEMENT
CONSULTANTS

# INVESTMENT 360 INDEX 2021

# WELCOME TO THE INVESTMENT 360 INDEX 2021

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**Managing Partner**

Welcome to CIL's fifth Investment 360 Index (I360). The I360 is based on a survey of business and investment professionals which took place in September 2021. The Index provides a snapshot of sentiment on several topics each year. Thank you to the 201 respondents who took part. It is building into a very interesting tracker through what has been an extraordinary few years.

Before discussing the survey, a quick update on CIL. We have had, along with many others it seems, as busy a year as ever. We are therefore very pleased to welcome 35 new joiners across all our offices since August.

As well as building our UK sector teams, this summer we opened a new office in Munich. We have also continued to build our team in Chicago and we are investing in a dedicated Advanced Analytics capability. This enables us to run the sort of deep analysis of large datasets that the digital and tech-enabled era we are now in demands.

Thank you to all our clients that have reached out to us this year. We look forward to supporting you over the next 12 months and beyond.

So, what did the I360 Index reveal this year?

- A sharp swing to the positive when it comes to short-term sentiment...
- ...and continued (indeed slightly increased) confidence for the medium- to long-term outlook and in the investment environment
- A busy M&A market, caveated with the belief that it should calm down a bit in the coming months
- A strong seller's market linked to the availability of investment capital, credit and pent-up demand
- Support for the Bank of England and an increase in confidence towards the Government
- Acknowledgement that taxes have to rise to help repair government finances - eventually
- On balance, there is an appetite for fiscal policy to remain supportive in the short term
- There is greater appetite for monetary policy to tighten in order to control credit markets which are viewed as too loose now.

All in all, a positive set of results. It seems as if the pandemic has accelerated change and opportunity for quality businesses; government support has provided a safety net; and the economy generally has surprised us all with how adaptable it is. A modern economy in which demand outstrips supply is (currently) a better place to be than the opposite, notwithstanding the consequent frustrations and inflationary risks.

It feels as if the unwinding of almost two years of sub-par activity is driving growth. Whilst levels of activity may calm down a little, they are expected to remain strong.

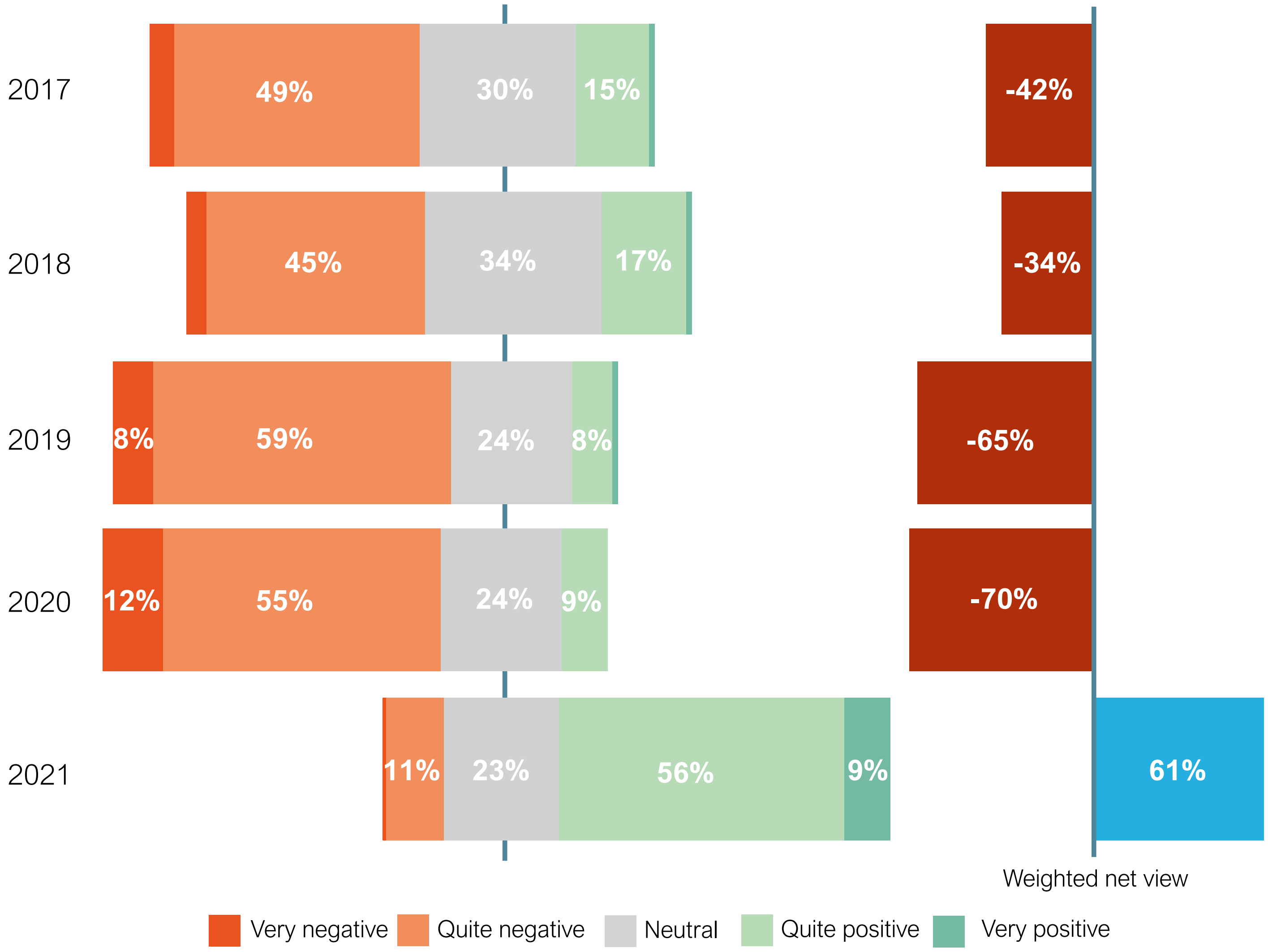
We hope you find the results of interest. Please do contact us with any observations, suggestions or questions.

### Methodology

This year, we have implemented a weighted net result. This calculates overall sentiment year-on-year, with "very negative" or "very positive" weighted + or - 2 and a "quite negative" or "quite positive" response scoring + or - 1.

# SHARP POSITIVE SWING

## How do you feel about the economic outlook for the UK in the short term (next 18-24 months)?




Following four years of negative sentiment, this year's survey shows an extraordinary swing to the positive when it comes to the short-term economic outlook.

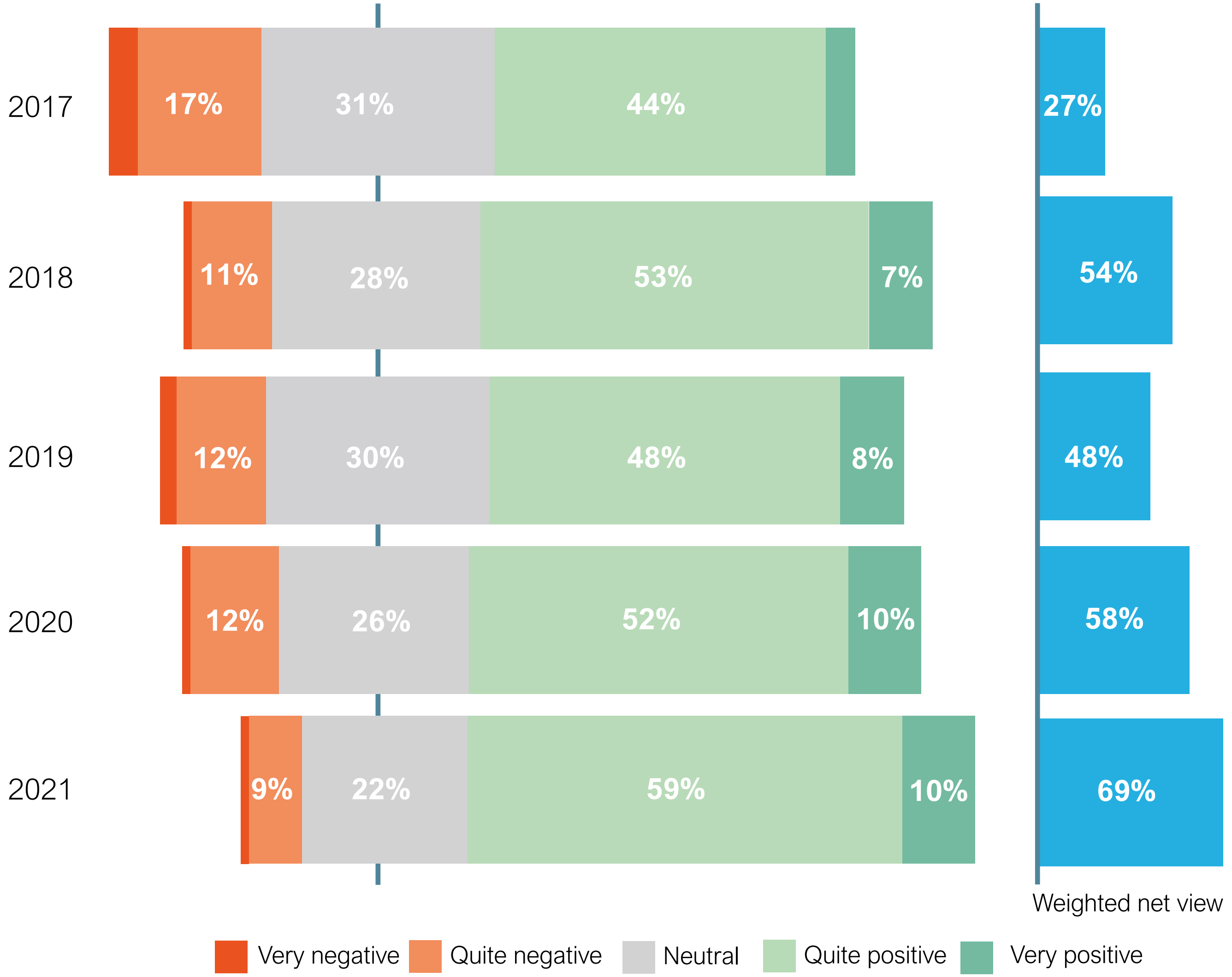
While previous years have been marred by concerns over Brexit and COVID, our respondents are now reporting significant pent-up demand across multiple sectors, which can now be released as the UK economy reopens and restrictions are loosened.

There is, however, a note of caution in some of the responses – uncertainty remains around how COVID will continue to play out into the winter; ongoing issues linked to Brexit; and the risk of inflation. For now, however, respondents see plenty of opportunity.

**"WHILST THERE ARE A GROWING NUMBER OF GLOBAL STRATEGIC CHALLENGES, THIS, ALONG WITH BREXIT, BRINGS SIGNIFICANT OPPORTUNITIES FOR ONSHORING AND VALUE CREATION IN HOME AND NEAR MARKETS."**

# LONG-TERM CONFIDENCE GROWS

## How do you feel about the economic outlook for the UK in the long term (5-10 years)?



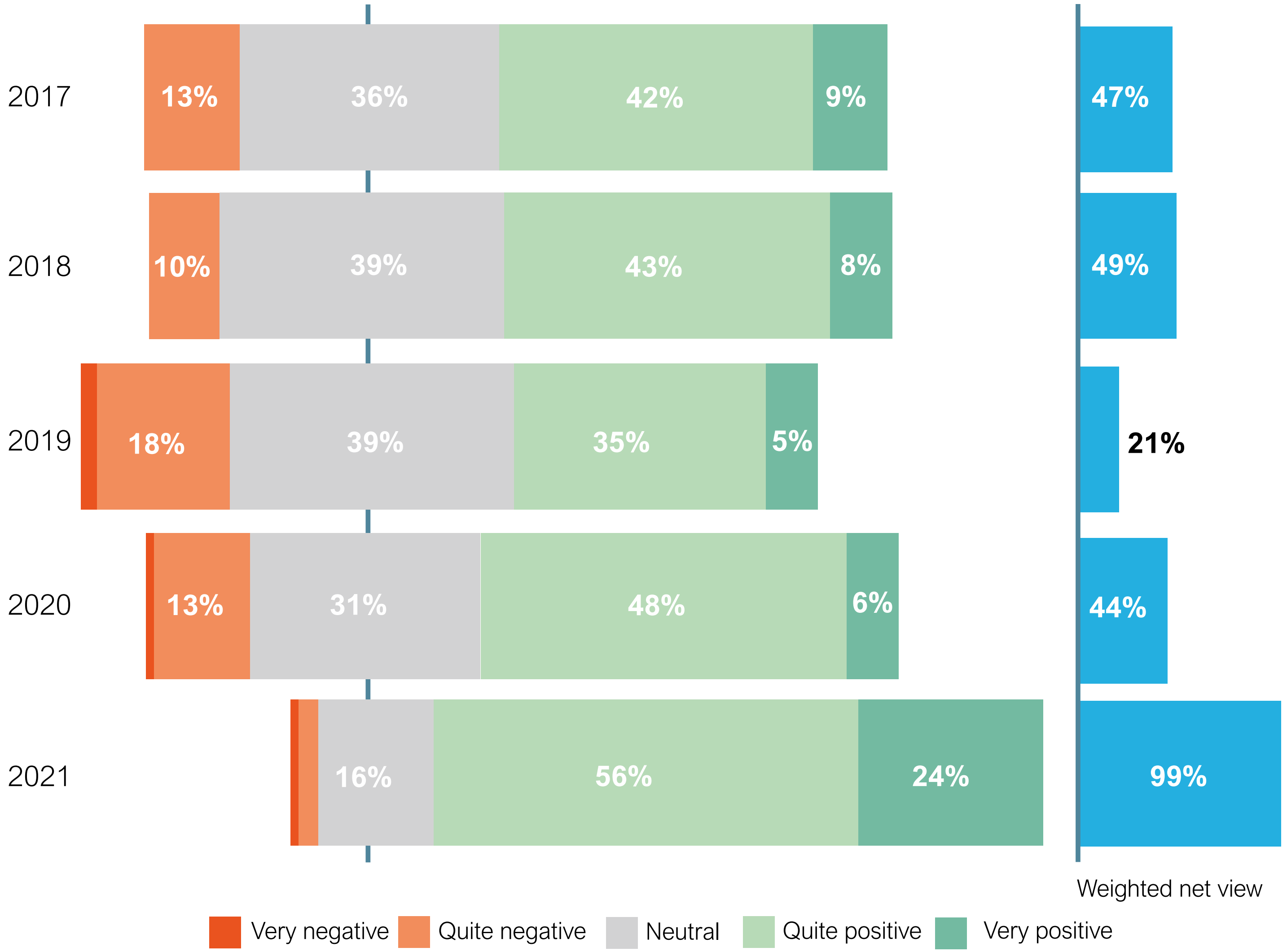

Long-term sentiment has remained positive over the last few years – with the 2021 results being no different. With a record 69% weighted net positive, our respondents are firming up their belief that the UK is fundamentally an attractive place to invest, innovate and to work in the long term.

Interestingly, for the first time the short-term (+61%) and long-term response (+69%) in sentiment have shown a similar result – an indication of just how robust our respondents believe the post-COVID and post-Brexit recovery will continue to be.

**"IT WILL TAKE A WHILE TO OVERCOME THE EFFECTS OF BREXIT, LACK OF EMPLOYEES FROM ABROAD AND COVID BEING AROUND FOR THE FORESEEABLE FUTURE. HOWEVER, POST-FIVE YEARS, THE ECONOMY WILL RECOVER."**

# INVESTOR OPTIMISM IS HIGH

## How do you feel about the investment environment for your business (or your portfolio if an investor)?




Sentiment towards the investment environment has increased significantly since last year. Disruptions brought about by the pandemic have opened up growth opportunities for innovative businesses across multiple sectors. Record levels of dry powder combined with the pent-up demand from a period of caution has meant there is surplus capital to be invested.

Several of our respondents noted that valuations are very high at the moment which may, in time, cause investors to pause.

**"ASSET PRICES WILL REMAIN HIGH IN A LOW INTEREST ENVIRONMENT AND, DESPITE THE ADVERSE IMPACTS OF BREXIT, THE UK WILL STILL BE A LARGE, OPEN ECONOMY WITH OPPORTUNITIES FOR INVESTMENT."**

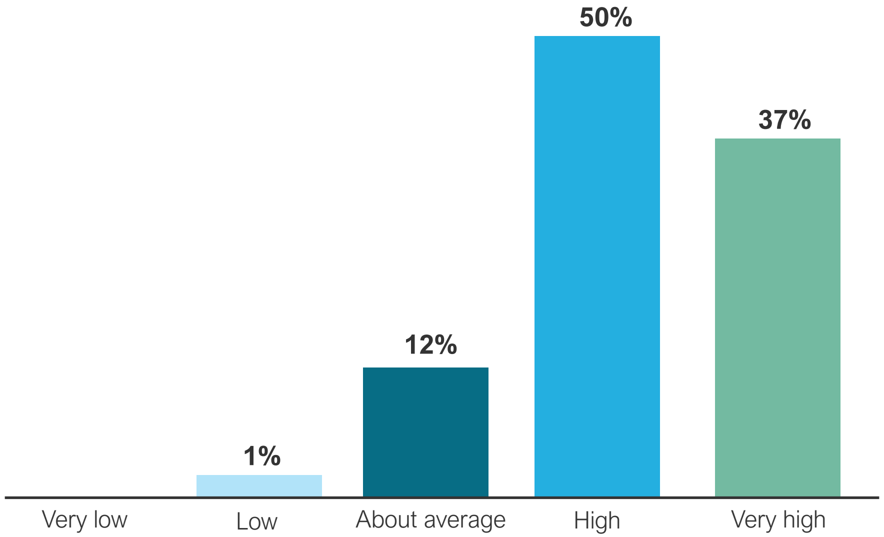
# A BUSY MARKET

## ...expected to soften a little but remain busy.

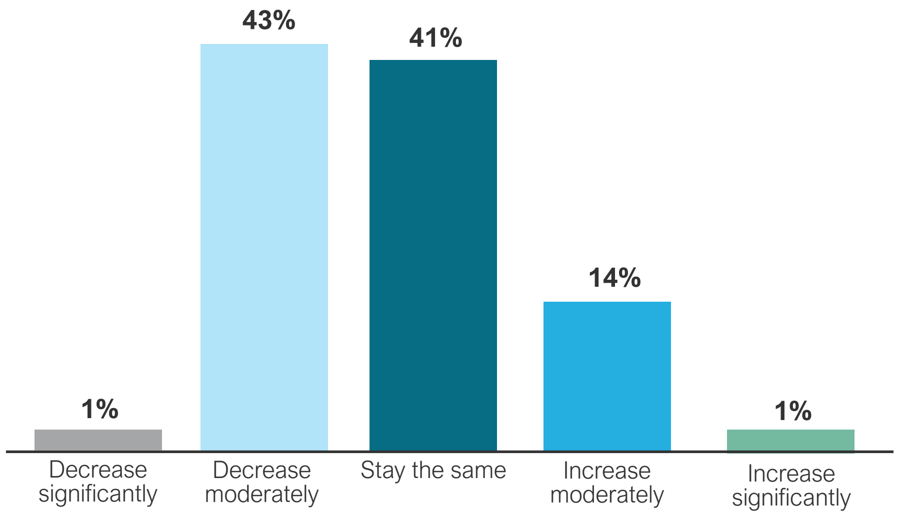
87% of respondents report seeing high or very high levels of deal activity – with only 1% of respondents reporting very low or low levels of activity.

Yet, when looking ahead to the next 12 months, the view becomes more nuanced with 43% of respondents believing there will be a moderate decrease in activity. Equally, there is plenty of optimism with 56% believing activity levels will stay the same as now or increase.

### What is your view on the current level of M&A deal activity?



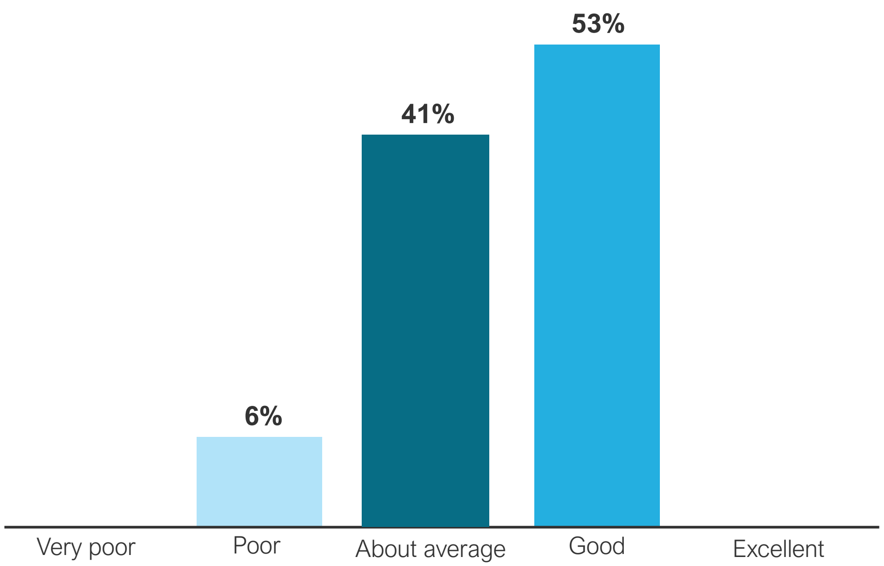

### By comparison, how do you see M&A deal activity changing over the next 12 months?



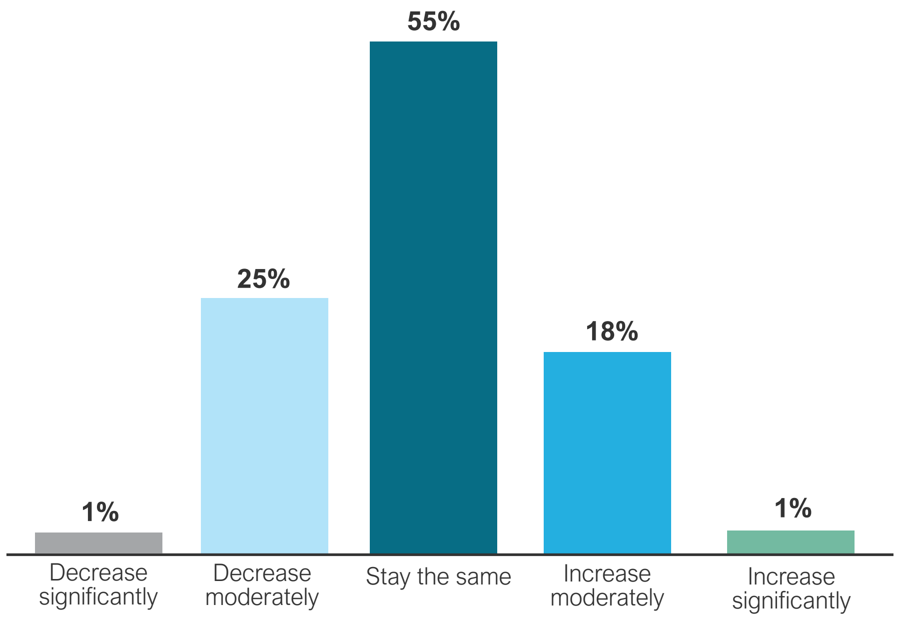
# ASSET QUALITY

Our respondents believe that the M&A assets on the market now are mostly high-quality and that they are likely to largely remain high-quality over the next 12 months.

On average, what is the current quality of assets in the market?

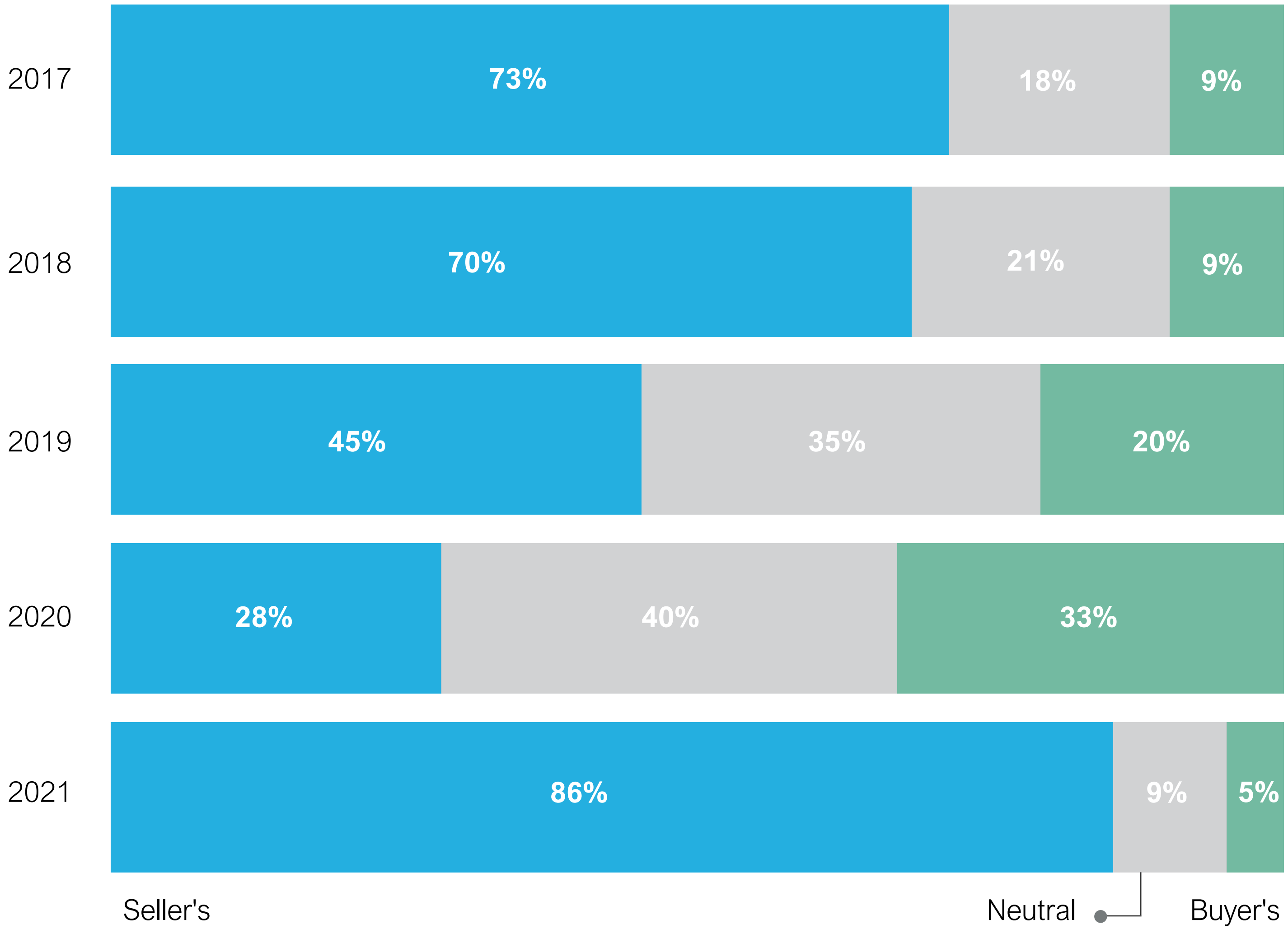



By comparison, how do you see the quality of assets changing over the next 12 months?



# STRONGLY A SELLER'S MARKET

## In terms of M&A, do you think it is a seller's or buyer's market?



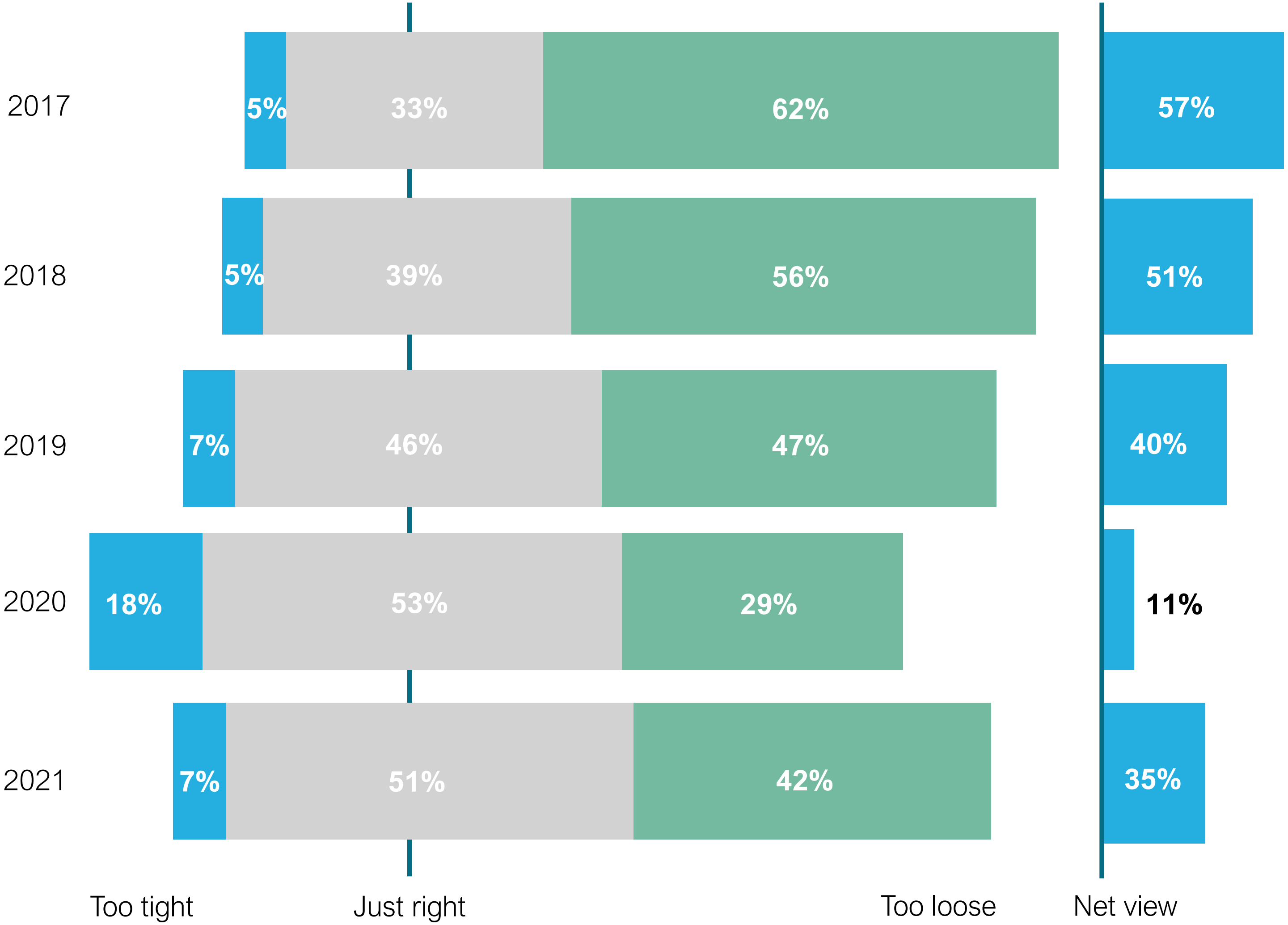

Our results show just how competitive the past year has been for M&A. The availability of debt and capital, combined with pent-up demand from 2019/20 has boosted valuations and led to a market heavily weighted in favour of sellers.

**“CAPITAL AVAILABLE SIGNIFICANTLY OUTWEIGHS OPPORTUNITIES AND WILL DO SO FOR THE FORESEEABLE FUTURE.”**

**“HIGH ASSET PRICES AND MASSIVE DESIRE TO INVEST CASH (‘CREATED’ THROUGH A DECADE OF QUANTITATIVE EASING, AUGMENTED BY PANDEMIC SPENDING) FOR FUTURE CASH FLOWS HAVE DRIVEN UP PRICES.”**

# CREDIT MARKETS A BIT TOO LOOSE

## Do you think credit markets are too loose, just right or too tight?

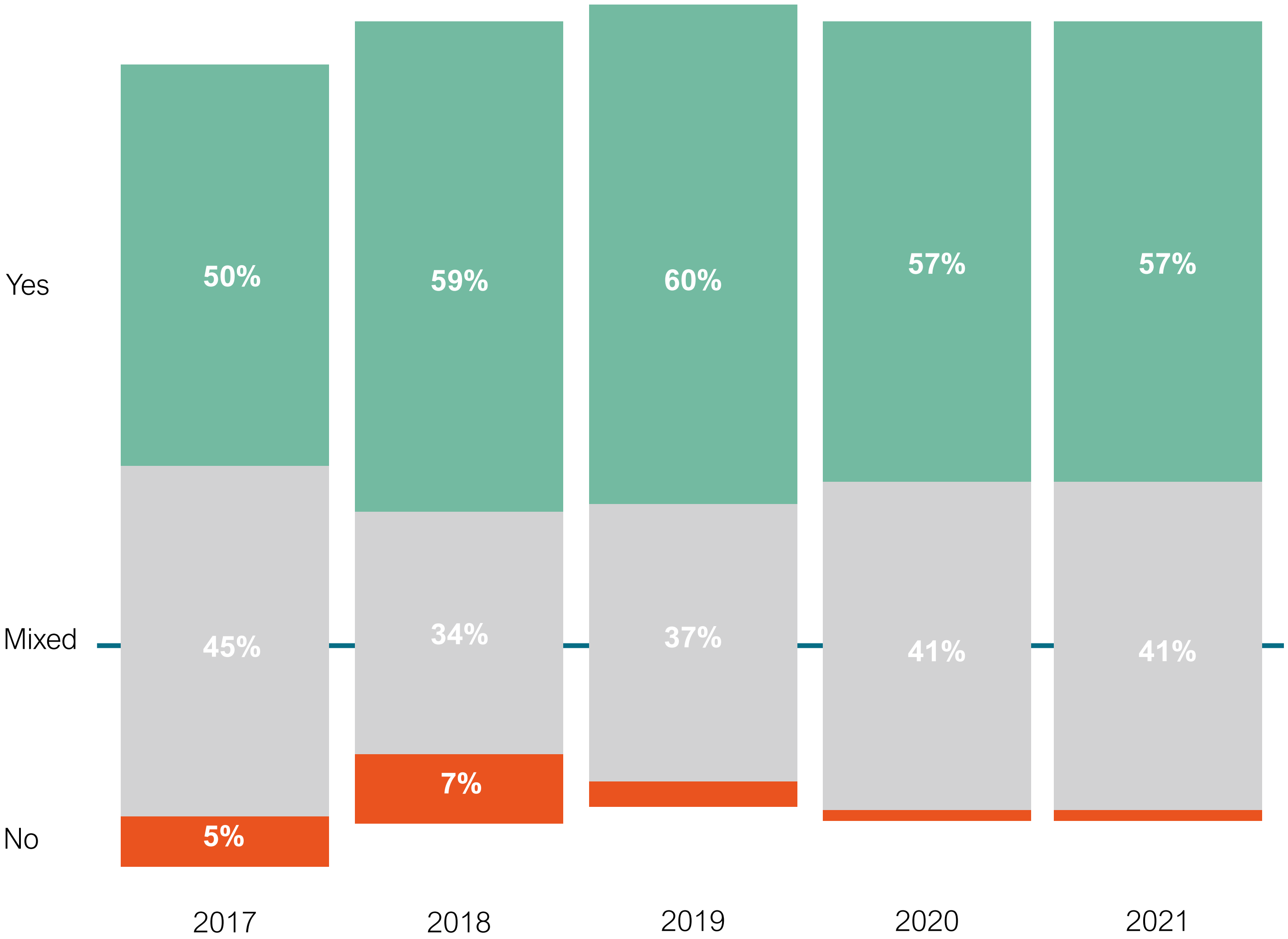



Last year we saw a shift in sentiment towards tightened credit markets, with lenders being more selective due to the uncertainty caused by the pandemic. This year, however, we have seen a rebalance towards the recent norm. The majority of respondents (51%) believe credit markets are 'just right' but increasing numbers believe it is 'too loose'.

**"PLENTY OF DRY POWDER, LOW INTEREST RATES, VERY BORROWER-FRIENDLY DEBT AGREEMENTS."**

# A SAFE PAIR OF HANDS

## Do you think the Bank of England is doing a good job?



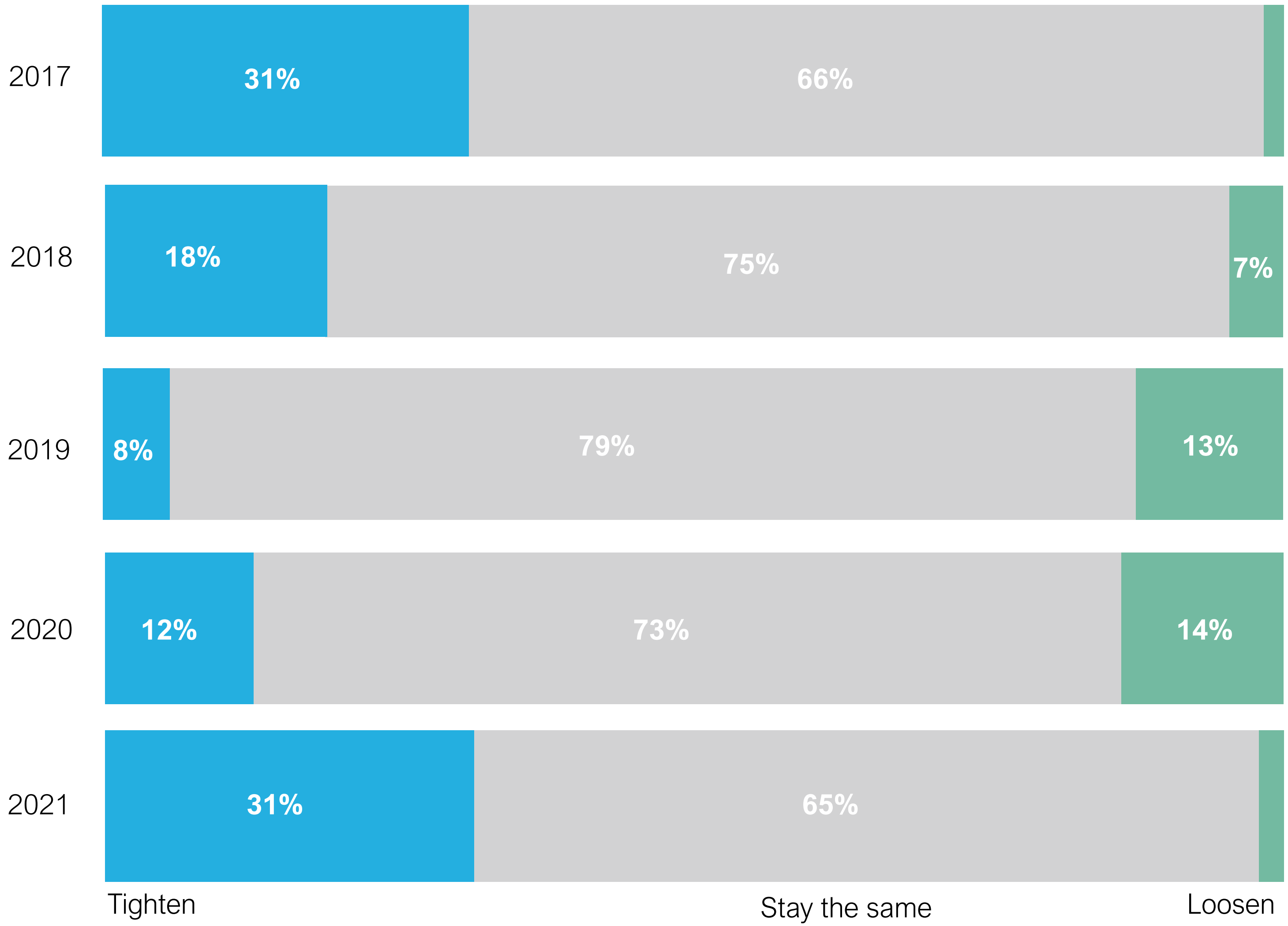

Respondents' view of the Bank of England's performance remains unchanged – it is viewed as having managed a tricky period well so far. The combination of quantitative easing (QE) and keeping interest rates low has been well received by respondents.

However, the next few years will provide a challenging environment for the Bank as it supports economic recovery while balancing inflation and scaling back / unwinding QE.

**"LIMITED NUMBER OF LEVERS TO PULL - BUT BROADLY KEEPING INTEREST RATES LOW IS THE ONLY THING THAT CAN BE DONE."**

# SHIFT TOWARDS TIGHTENING MONETARY POLICY

## Do you think that monetary policy (implemented by the Bank of England) should loosen, stay the same or tighten?

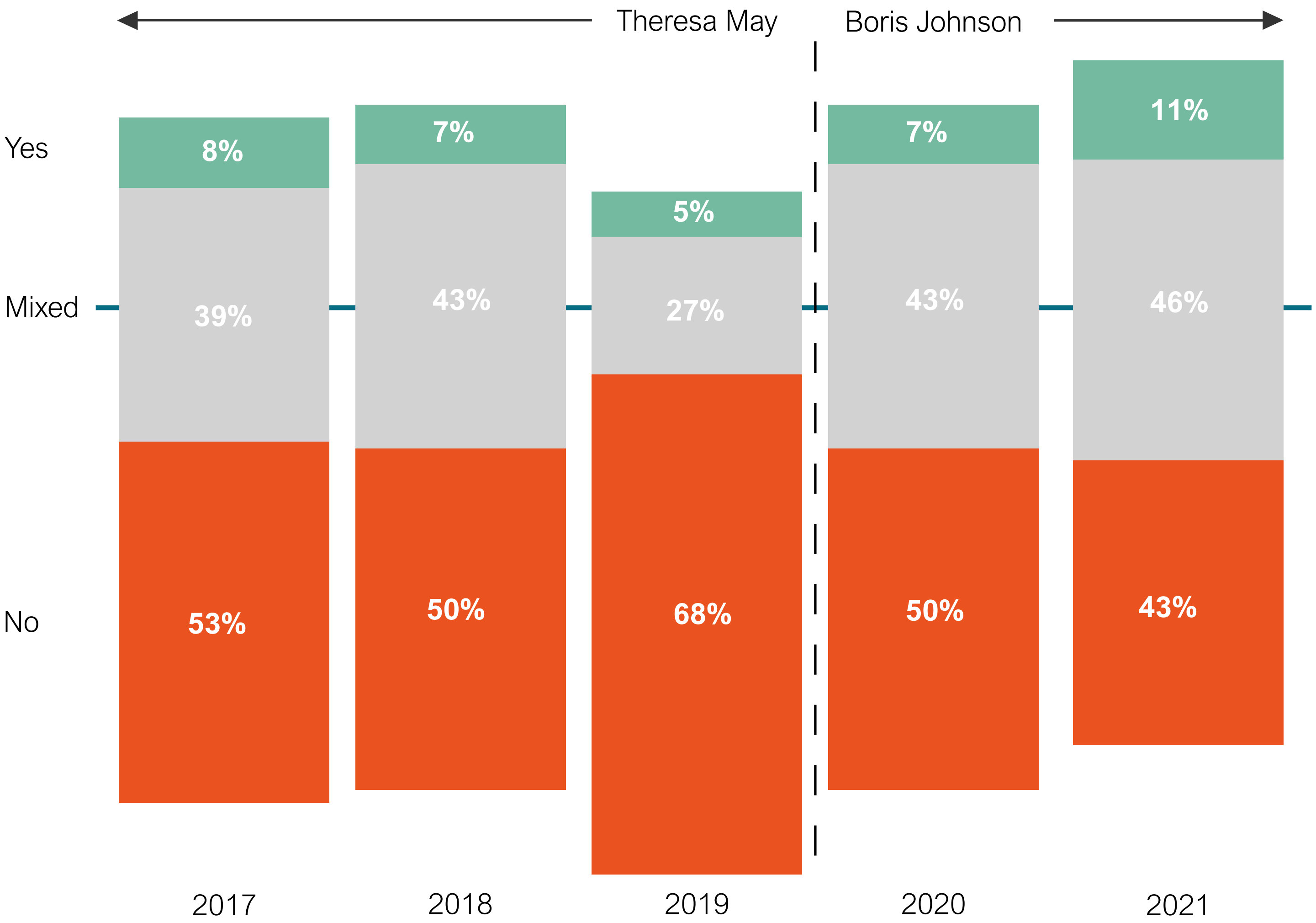



For the fifth year running, the majority of respondents have little appetite for movement in monetary policy. However, there is a growing appetite for a gradual tightening of monetary policy to control credit markets and inflation.

**"WHILST INFLATIONARY PRESSURES WOULD SUGGEST TIGHTENING, THIS NEEDS TO BE BALANCED WITH WEAKER ECONOMIC OUTLOOK POST-BREXIT."**

# BORIS NET NEGATIVE – BUT ON THE UP

## Do you think the Government is doing a good job?



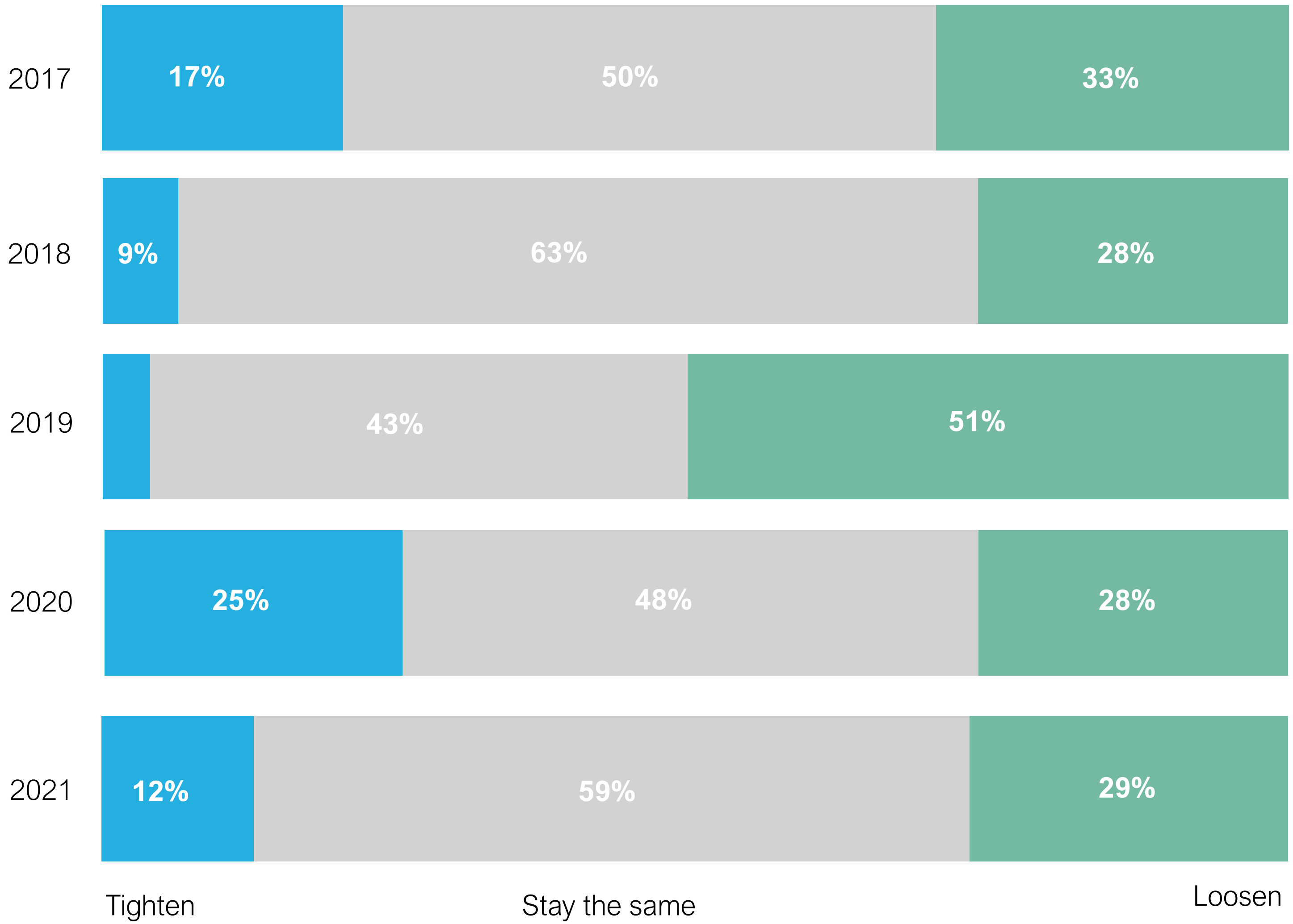

It is traditionally tough for the Government to get a net positive score in our survey. The exception to this is the results to surveys we conducted during the first lockdown - a period during which respondents effectively rallied round the Government during extraordinary times.

This year's I360 Index does show Boris Johnson's Government getting as good a score as any during the last five years. No mean feat! However there is still a sense that it could do better.

**"DESPITE RECORD DEBT LEVELS EMPLOYMENT IS STRONG, A TAX TO FUND THE NHS BACKLOG SEEMS APPROPRIATE, AND THE EMPHASIS ON ADDRESSING THE NORTH/SOUTH IMBALANCE IS POSITIVE."**

# LITTLE APPETITE FOR FISCAL TIGHTENING YET

## Do you think fiscal policy should loosen, stay the same or tighten?

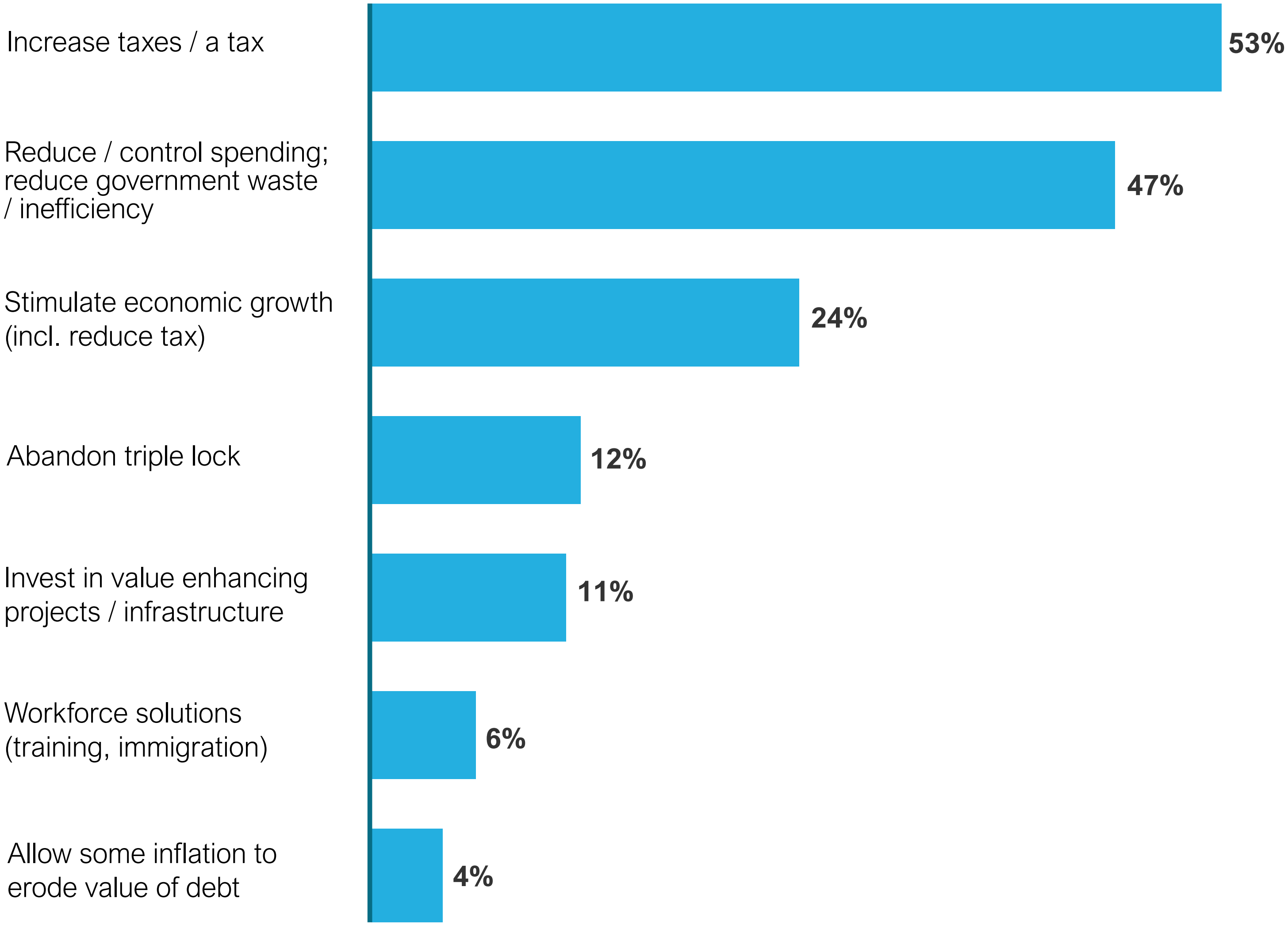



On balance, more respondents want the Government to loosen fiscal policy (increase spending / lower taxes) than tighten (29% vs 12%). However the majority think that the current balance is appropriate.

**"WE NEED TO GET THE ECONOMY INTO SUSTAINABLE, ROBUST ECONOMIC GROWTH."**

# NECESSITY OF TAX RISES ACKNOWLEDGED

## Which mechanisms (revenue and/or expenditure) do you think the Government should prioritise to **manage its debts**?[1]




Bearing in mind that there is little appetite for fiscal tightening just yet, when it is the right time to do it, respondents clearly recognise that raising taxes will be the main tool in the Government's toolbox.

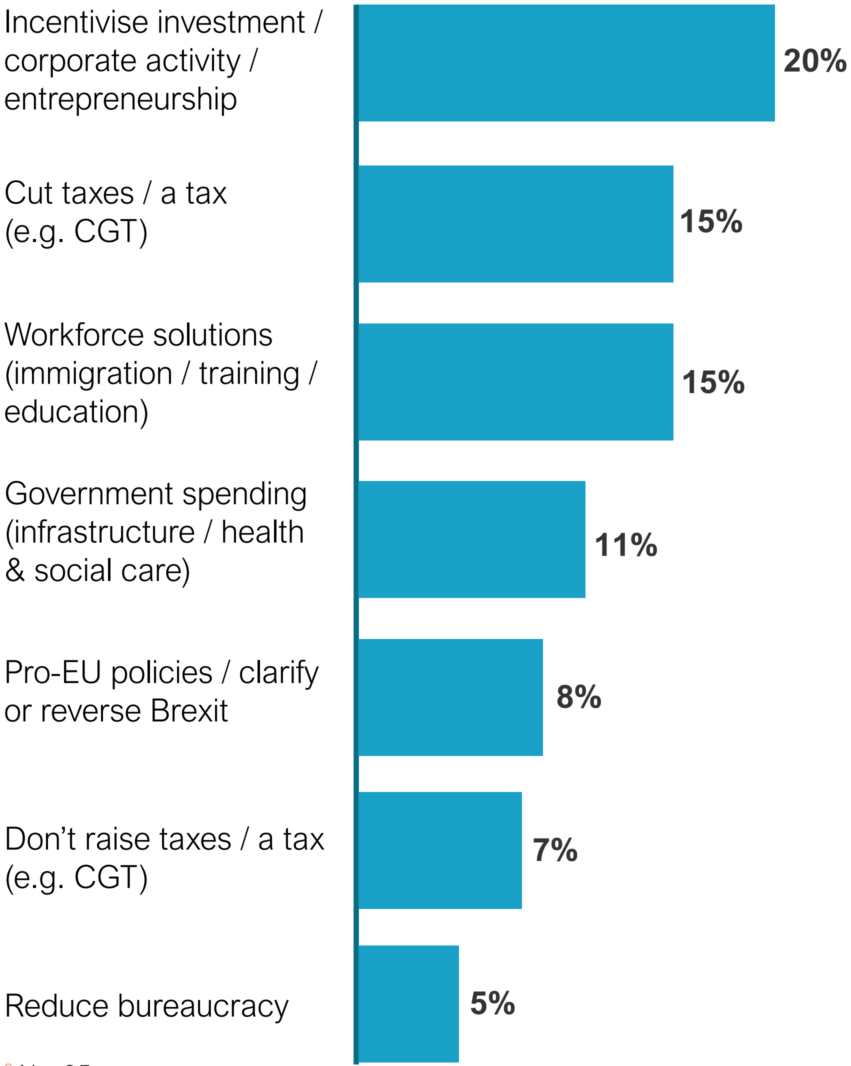
The following specific taxes were mentioned (in order of frequency):

1. Capital gains tax (23%)
2. Corporation tax / international tech conglomerates (10%)
3. Inheritance tax (10%)
4. Income tax (10%)
5. VAT (10%)
6. Wealth tax (8%)
7. Carbon tax (7%)

[1] N = 114

# SUPPORT FOR START-UPS AND INVESTORS

## If you could get the Government to launch one policy initiative that would **help your business**, what would it be?[2]




Respondents mention a range of initiatives that would help them develop and grow their businesses. However, there is little by way of clear consensus. There is also a lower response rate to this question compared to others. It seems as if businesses generally feel they are getting as much support as they could expect in the circumstances.

[2] N = 95

# GET IN TOUCH

If you would like to discuss any of these findings and what they mean for your business or sector, please get in touch.

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