

MID-MARKET M&A PULSE CHECK 2021



EXECUTIVE SUMMARY

Welcome to CIL's inaugural Mid-market M&A Pulse Check. A survey designed to measure the heartbeat of M&A in the US and identify trends in deal-activity and value creation over time.

2020 provided the global M&A community with a once in a lifetime shock, with many processes put on hold at the beginning of March. Investors have since regrouped and our findings paint a much more optimistic picture, with an M&A market in hyperdrive. While some economic uncertainty remains, our findings show a fiercely competitive market, with no signs of slowing down.

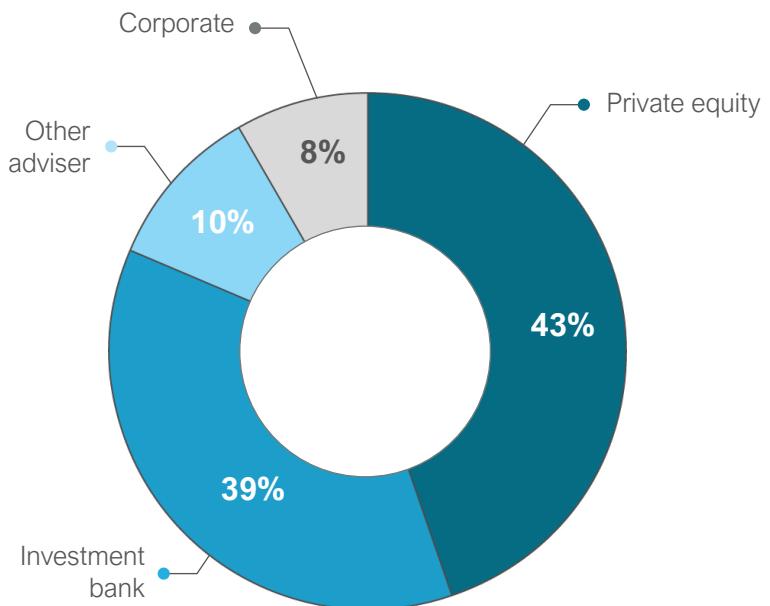
Our results reveal:

- A modest boost to the confidence of the M&A community resulting from Biden's presidency
- High levels of M&A activity, with this only expected to increase over the next 12 months
- Strong quality of assets which is driving a seller's advantage in valuations
- High competition for assets
- Excessively high valuations a building concern for investors

Thank you to the private equity firms, investment banks and management teams who took the time to share their views with us. We had 51 respondents throughout February 2021. 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 US M&A market, do get in touch.

What type of organization do you work for?



CAUTIOUS OPTIMISM

Respondents expect a Biden presidency to increase M&A activity, but the results also show a need for stability in monetary policy and diverging opinions on how to proceed with government spending.

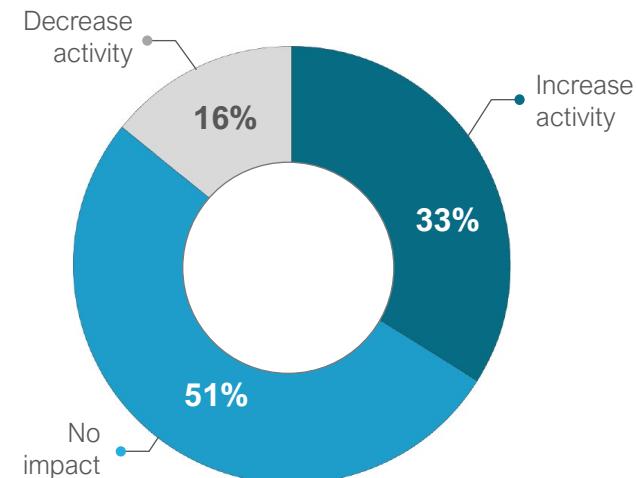
Biden's presidency seems to have had a modest effect on the confidence of the M&A community, with 33% expecting it to accelerate activity in the market. Indeed, the stability provided by a new administration seems to have been well-received, but this increased activity may also be linked to potential tax increases for owners which may make them more eager to sell now.

As the rest of CIL's M&A Pulse Check demonstrates, Biden's inaugural months have coincided with what is an already highly competitive market, which has further runway for growth. Respondents

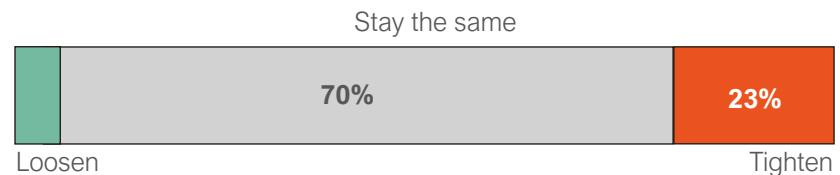
are optimistic – and Biden's presidency supports this, but it is certainly not the driving force behind it.

When examining monetary and fiscal policy we see a desire for a stable economic backdrop, with little change wanted in monetary policy. Yet, when it comes to fiscal spending we see a very different picture with diverging opinions on the best way forward, as we slowly emerge from various levels of restrictions.

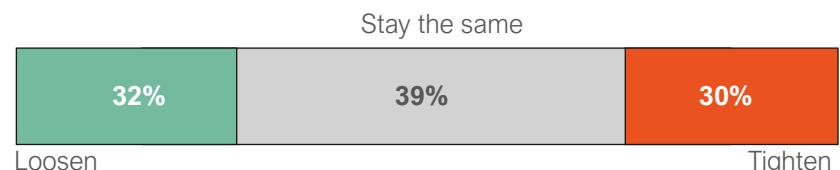
What impact do you expect the Joe Biden administration to have on M&A activity?



Do you think that monetary policy (implemented by the Federal Reserve) should loosen, stay the same or tighten?



Do you think fiscal policy (government spending) should loosen, stay the same or tighten?



BUSY AND ABOUT TO GET BUSIER

Respondents report a somewhat mixed picture when it came to deal activity, likely reflective of the COVID-resilience different sectors have shown over the last 12 months.

While 63% of respondents are seeing high or very high levels of deal activity there was a clear divergence between the experiences of private equity and investment banks. Our results reveal that 54% of private equity respondents are seeing deal activity to be high or very high. Yet, 72% of investment banking respondents report experiencing high or very high levels of deal activity. This may demonstrate how deal activity is playing out across sectors with investment banks likely to cover a broader spectrum than private equity, who more likely favor a sector-focused strategy.

Despite elevated levels of activity respondents do, however, expect growth, with 58% of respondents indicating that activity will increase over the next 12 months as other sectors, such as hospitality, leisure and industrials, start their post-COVID recovery.

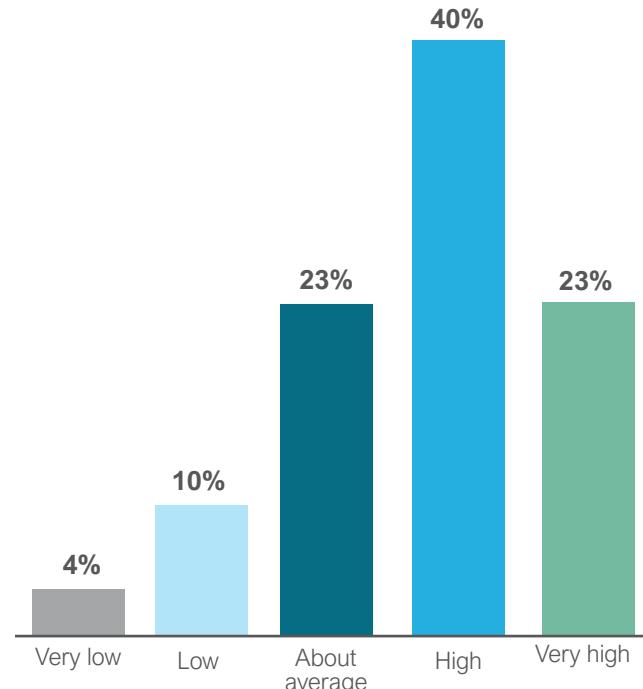
Over the next few pages, we will examine what is driving these activity levels.

How do you feel about the investment environment for your business over the next 18-24 months?

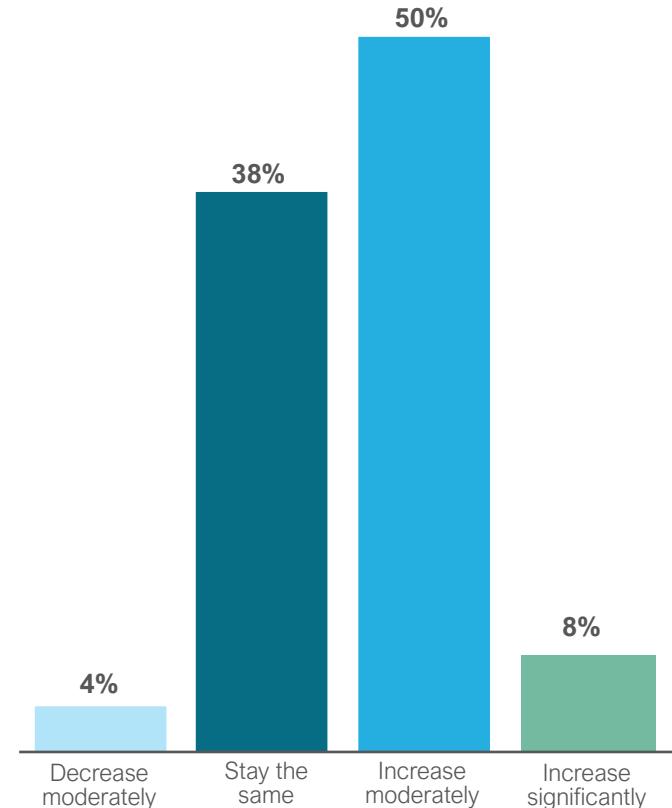


What is your view on the current level of M&A deal activity?

Last three to six months



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



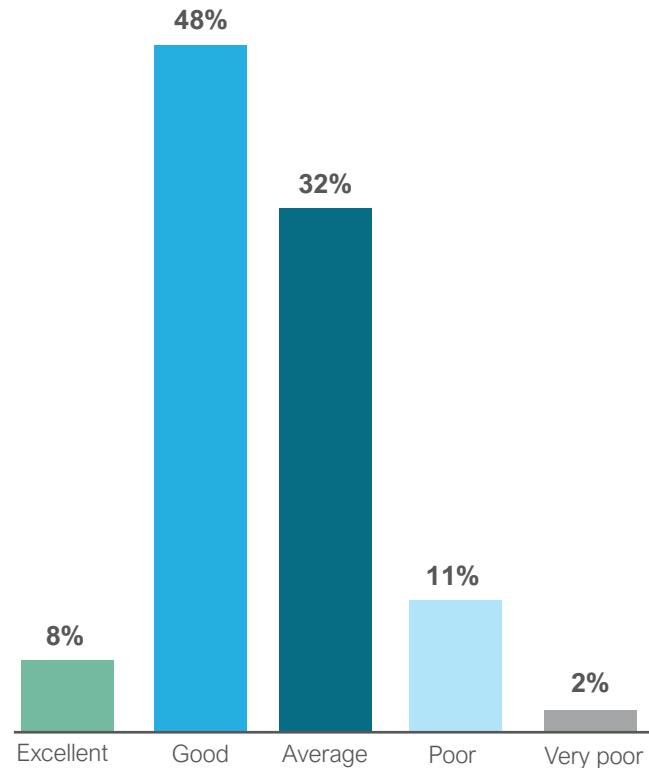
ASSET QUALITY

Our respondents believe that the assets on the market at the moment are of high quality and likely to stay that way over the next 12 months.

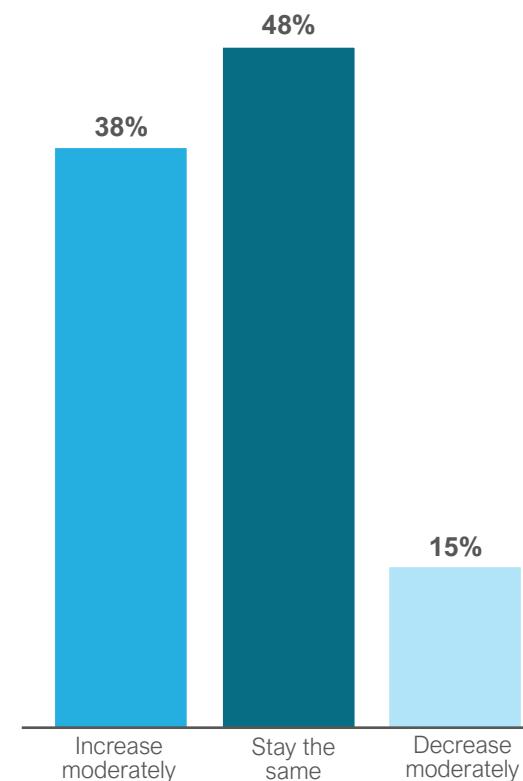
At the beginning of the pandemic a lot of processes were paused, but the businesses that we did support through the sales process had incredibly strong fundamentals. The businesses that came to market showed high levels of COVID-resilience and were extremely attractive to buyers.

We were surprised, however, by the next finding. Over the next few months respondents believe that asset quality will either stay the same or increase moderately. We had expected a broader range of assets to come to the market as society reopens and for those assets to potentially dilute the quality of businesses on the market. Yet, it seems that respondents expect that the businesses coming to market will have been more exposed to the pandemic, but nonetheless of excellent quality, perhaps in sectors such as hospitality and leisure. Increased clarity on revenue and EBITDA will also help to align investors on valuations.

What is the current quality of assets in the market?



How do you see the quality of assets changing over the next 12 months?



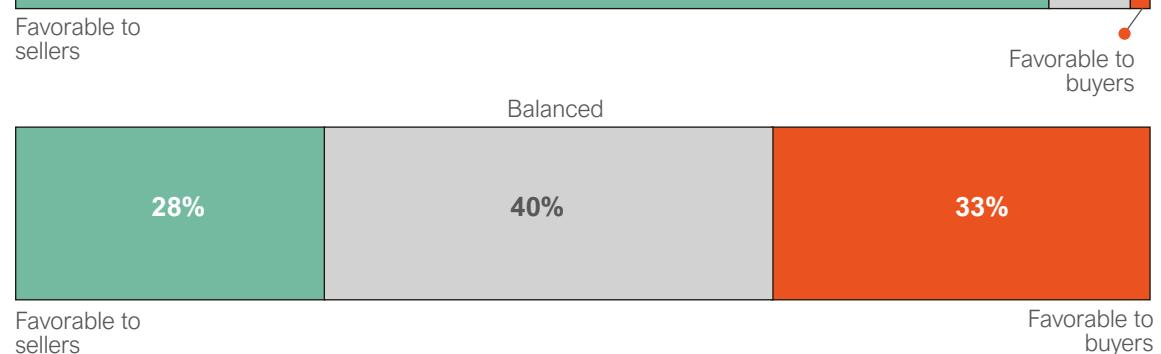
SELLER'S ADVANTAGE

Our results reveal just how competitive this year has been for the M&A community, with valuations boosted by a robust credit market and long-term positivity sentiment towards the post-COVID environment.

With a high proportion of quality assets on the market and multiples soaring, our respondents see the current M&A market-weighted heavily in favor of sellers. They do not see this advantage slipping over the next 12 months.

Conversations with CIL clients reveal that while private equity firms are eager to deploy capital after a pause, there are fewer overall assets coming to market which may be driving this dynamic.

Interestingly, a similar CIL survey that we ran with the UK M&A community found a much more balanced picture. Just 28% of respondents claimed that the advantage lay with the seller, while 33% believed the advantage lay with the buyer. These results reflected the pronounced split between COVID-resilient businesses and businesses that took the brunt of social-distancing restrictions. For the former, respondents reported a seller's market, with strong competition for sound healthcare and technology businesses which saw robust trading throughout the period. Yet for the consumer and hospitality sectors, the shift was towards a buyer's market.



Favorable to sellers

Stay the same

Becoming relatively more favorable to sellers

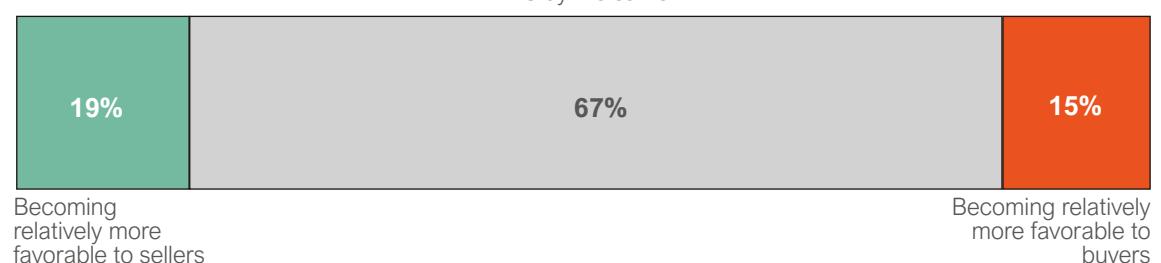
19%

67%

15%

Becoming relatively more favorable to buyers

How do you see the M&A market evolving over the next 12 months in terms of seller and buyer dynamics?



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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