

# ORANGE COUNTY BUSINESS JOURNAL

Vol. 45, No. 14

THE COMMUNITY OF BUSINESS™

April 4-10, 2022

## Holland & Knight

### M&A Market Headwinds and Tailwinds

Following a record-breaking year for M&A transactions throughout multiple sectors that saw global deal volume increase 64% over 2020 to nearly \$6 trillion in aggregate value and an 82% increase in U.S. targets to over \$2.5 trillion in aggregate value (source: Refinitiv), 2022 may not reach similar heights, but many dealmakers expect a higher-than-average volume of M&A activity despite the impact of potential headwinds. As governments and companies continue to navigate a reopening and reimagining of business activity during the COVID-19 pandemic, industry experts are seeing that many of the significant market conditions behind the frenzy of 2021 activity have continued to drive U.S. M&A in the first three months of 2022.

Strategic acquirers experienced elevated competition from private equity in 2021, who increased their share of overall M&A deal volume to 32% in 2021 from the previous record of 26% in 2020 (source: Refinitiv). High valuations of U.S. assets propelled many private equity sellers into the market and resulted in strong returns on investments, which then contributed to increased fundraising success. Sellers are expected to continue to take advantage of favorable conditions by bringing new assets to market while multiples remain high. Although the Federal Reserve has started to raise interest rates and signaled that it will continue to do so in 2022, the existing level of capital waiting to be deployed is expected to keep private equity buyers competitive in auction processes amid a rise in the cost of borrowing. However, any increase in the cost of capital should be expected to turn financial sponsors into more discerning buyers.

Technology companies dominated deal flow in 2021 and strategic M&A saw enterprise values with median multiples of 25 times EBITDA (source: Bain & Company), a trend expected to continue in 2022 as companies seek to bolster their technological capabilities and embrace cloud computing. Healthcare companies also earned high median multiples of 20 times EBITDA, while the

median multiple for companies outside of technology and healthcare was 14 times EBITDA (source: Bain & Company).

There are, however, growing challenges to existing business strategies. Companies are faced with supply chain and workforce disruptions, rising raw material and transportation costs, inflation in the U.S., war in Ukraine, increased global regulatory scrutiny, and lingering uncertainty tied to COVID-19. Many companies are expected to turn to M&A as a potential solution to lessen the negative impact of these factors. On the buy side, companies seeking to lock up growth opportunities and fill gaps in employee capabilities may turn to add-on or roll-up acquisitions. While deal market headwinds are increasing, the M&A frenzy is poised to continue through 2022, pushing executives and deal teams, together with their outside advisors, to think creatively about prospective transactions.

Bryan Gadol, Head of California Corporate, M&A and Private Equity, and Scott Syverson, Partner, both advise business owners, corporations, private equity firms and other investors in connection with M&A matters and in all stages of the corporate lifecycle across a wide variety of sectors, including consumer products, beauty, health and wellness, technology and business services.



Holland & Knight congratulates **Bryan Gadol**, head of the firm's California Corporate, M&A and Private Equity practice, and his team on recently closing 10 deals.

We also welcome attorneys **Wendy Kottmeier**, **Scott Syverson** and **Jose Manalo** as new members of our Southern California team.

<p>Swyft Filings in connection with a recapitalization with Grey Lion Capital</p>	<p>El-Com Systems in connection with the sale of the company to Aptiv Technologies Ltd.</p>	<p>Street Media in its acquisition of <i>The Laker/Lutz News</i> from Manatee Media</p>	<p>Ellipse Global, a portfolio company of Alpine Pacific Capital, in connection with its sale to GardaWorld Federal Services</p>	<p>Troy Lee Designs management team in its sale to ZRide Group</p>
<p>Solis Capital Partners in its platform acquisition of Premier Auto Supplies LLC</p>	<p>Endeavour Capital in its platform acquisition of Forrest Machining Inc.</p>	<p>Lugano Diamonds and Jewelry Inc. in the platform acquisition by Compass Diversified</p>	<p>Systema Technologies Inc. in its sale to Karman Missile &amp; Space Systems</p>	<p>NextCar Holding Company in its acquisition of the Autonomy brand from Micro Focus</p>

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