

2021 M&A Outlook

The year 2020 will likely be remembered for the historic health and economic toll of the pandemic, but the promise of a brighter 2021 may be on the horizon, thanks to newly developed vaccines and federal stimulus' that could help cure what has been ailing the nation physically, psychologically, and economically. While not a prognostication, we thought we'd reflect on what we have witnessed firsthand from the pillars of industry, Entrepreneurs!

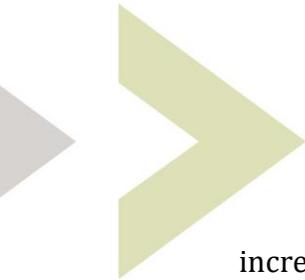
The economy started off very strong in 2020. The pandemic hit, shutdowns began, and uncertainty ensued. After the shock of the pandemic passed an unexpected rebound happened for many but not all sectors. A bifurcated market arose as the economy began to strengthen. While certain industries were prepared for these uncharted waters and others pivoted with the prevailing winds, clear damage had been done to many sectors of the economy.

As 2021 begins we expect to see continued improvement in economic conditions as 2020 becomes "*Hindsight*". How quickly that occurs depends on control of the virus and whether or not a 'next shoe' drops? Will leaders learn from 2020 how to more effectively address 'future pandemics' or will they repeat 2020 mistakes? The inevitable downturn we foresaw one year ago hit the economy hard in 2020. While the rebound is still playing out, it is going somewhat nicely if your sector withstood the pressures. As we sit here today, we do not foresee an imminent recession and remain optimistic for a gradual return to strengthening economic conditions in 2021, albeit at a slower pace due to lingering uncertainty.

The multiple of earnings, which is how many companies are valued, reacted to the economic disruption. In the 2nd quarter, a decline in the multiple of earnings was combined with a sharp decline in the number of deals completed. However, as the stimulus package provided short-term liquidity, strengthening economic demand pulled activity up by its bootstraps in sectors that were not shut down. By the 3rd quarter (we suspect the 4th quarter as well) multiples of earnings began to return to pre-pandemic levels as deals completed also began to rebound. The combination of low-cost money and the availability of liquidity supported the return of pre-pandemic multiples, for well-run companies.

We expect completed deals will continue at its own-paced rebound. With tax increases on the horizon 'the early bird will get the worm' in 2021! Looking back to tax increases because of the Affordable Care Act, we expect the same script will play out in 2021 and beyond. Deal volume will soar as tax increases loom, and multiples will decline as a flood of opportunities approach the marketplace to beat the tax





increase. In our opinion if you're ready to take chips off the table, you should get started early in 2021 before tax increase talk becomes tax law. Strong, well-run companies will have increased buyer competition in 2021 as multiples continue to be strong. Take action before tax legislation reduces your after-tax proceeds. Entrepreneurs remain positive on the 2020 economic rebound but have lingering uncertainty to the long-term future.

Fundraising for Private Equity has remained strong through 2020 setting an all-time high. This fundraising level is beyond expectations as were the previous robust fundraising in 2019 and leading up to the recession of 2007. A number of Private Equity-backed companies have increasingly turned to Special Purpose Acquisition Companies (SPAC) as an exit option. SPAC's have grown in popularity over recent years and continue to provide liquidity to Private Equity.

M&A activity continues its shift to a greater percentage of add-on acquisitions. We expect this trend to continue as the number of available platform companies declines. Private Equity has so much 'dry powder' that it must deploy and provide a return on. We expect roll-up strategies and the arbitrage for add-on opportunities will continue the growth trajectory of add-on acquisitions.

Strategic Exit Advisors continues to grow as we enter our 15th year. In 2020 we continued our high rate of closing company sales in the price range that we provide before our clients engage us. We focus on this key metric to measure our client's satisfaction. With this momentum, we anticipate another prosperous year for our current clients. Stay tuned for several announcements over the coming weeks and months as the 4th quarter blitz refocuses on new opportunities for 2021.

We hope 2021 turns out to be better than last year. It certainly should be another exciting year! We look forward to Strategic Exit Advisors continuing to be your trusted partner. We're available for a call anytime (215) 489-8881 or visit us at www.se-adv.com.

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