M&A Global Predictions: Accelerating into 2021

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Contents

Considering the difficulties brought forth by the pandemic, improving data access and analysis has never been more pertinent.

As an M&A technology innovator with a 15-year track record, we have seen our fair share of M&A rallies and lulls. The year 2020, however, was something different altogether. Deal activity shut down and sprung back in direct correlation with government responses to containing the coronavirus pandemic. Although the second wave of the pandemic continues in many key territories in early 2021, challenges can be overcome with an intelligent dealmaking approach. One of the most dominant themes of recent months has been the advantage that technological savviness has afforded companies facing distancing measures. This equally applies to M&A. It is our conviction that thorough preparation and sound information governance is what makes transactions successful, and that the greater the insight a bidder has into the inner workings of an acquisition target, the greater the chance of their bidding point being realistic and successful.

To more fully understand investor sentiment towards not only current market conditions but the digital tools that can empower better deal decisions, we have conducted Q&A style interviews with leading dealmakers in the Americas and APAC, and partnered with research firm Acuris in a survey of 50 PE firms, M&A law advisors and investment banking firms across Europe to round out a truly global perspective on what lies ahead.

The following report seeks to demonstrate what market participants and service providers across the globe are predicting for 2021 following what has been both an exceptional and exceptionally volatile year, and how they can use technology to overcome unprecedented obstacles.

Sam Riley, CEO Ansarada

"The spirit that will define 2021: Top global dealmakers will cultivate resilience, readiness and transformation. They will double down on M&A technology, insights, AI, preparation and virtual working."

1.

Americas M&A market: Adapting to change

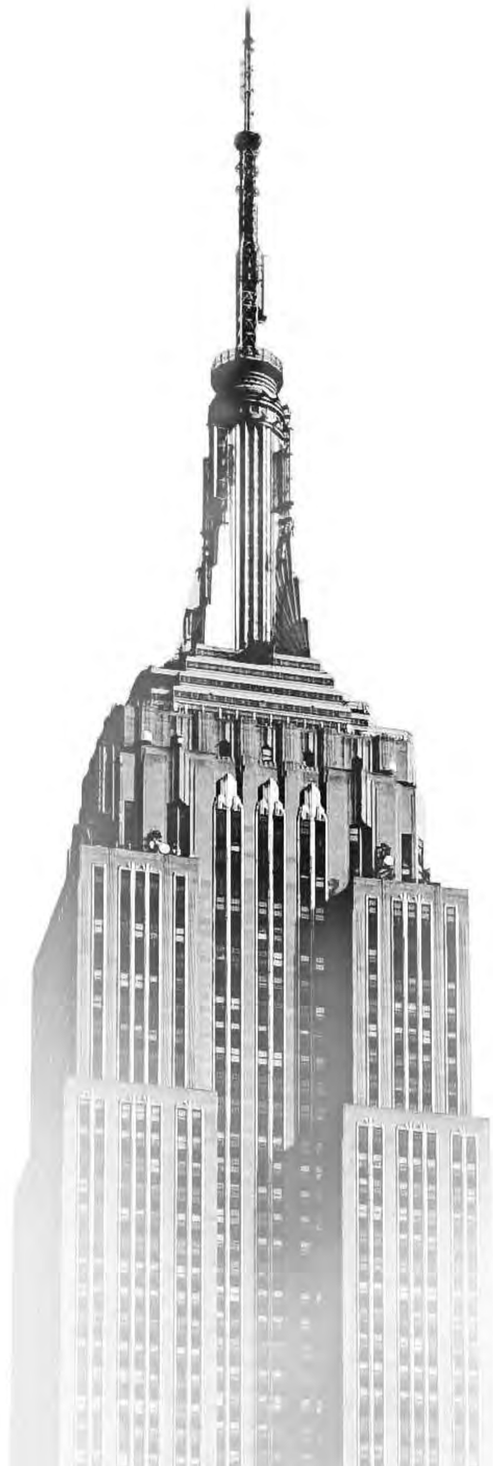
The Americas M&A market, the largest in the world, is contending with many of the same challenges facing global M&A. After activity ground to a halt in early 2020 during the first lockdown, investors and advisors adapted to the new reality and by the fourth quarter, deals ramped up once again. This would not have been possible without technology, which has not only allowed deals to proceed, but is transforming the depth of insight and level of due diligence that investors are able to achieve.

The Americas market has been marked by a period of heightened political uncertainty, which is rarely conducive to dealmaking. But with a new presidential administration in place, the foundations have been laid and with restrictions expected to ease over the course of 2021, everything is pointing to sustained levels of deal activity in coming months.

The recovery may not be even, of course. Sectors have not been impacted equally by recent events. The technology and software industry has clearly sped ahead, making these assets highly attractive to acquirers, including both private equity and corporates seeking to accelerate their digitalization via M&A. Two other winners have been logistics and healthcare and their adoption of tech has been a strong motivator of deal activity.

Against this context, experts from M&A law and corporate advisory share their views on what 2021 is likely to hold in store for these sectors and how technology is helping deliver efficiencies, improve data insights and bridge the gap between deal parties forced to operate at arm's length during this period of upheaval.

The stop-start momentum of the Americas M&A market in 2020 was a first for everyone. Having learned from that unprecedented experience and adjusted to the unique demands of the pandemic environment, investors are seeking to put significant sums of capital to work.



How has the pandemic shaped the M&A market and what do you anticipate for 2021?

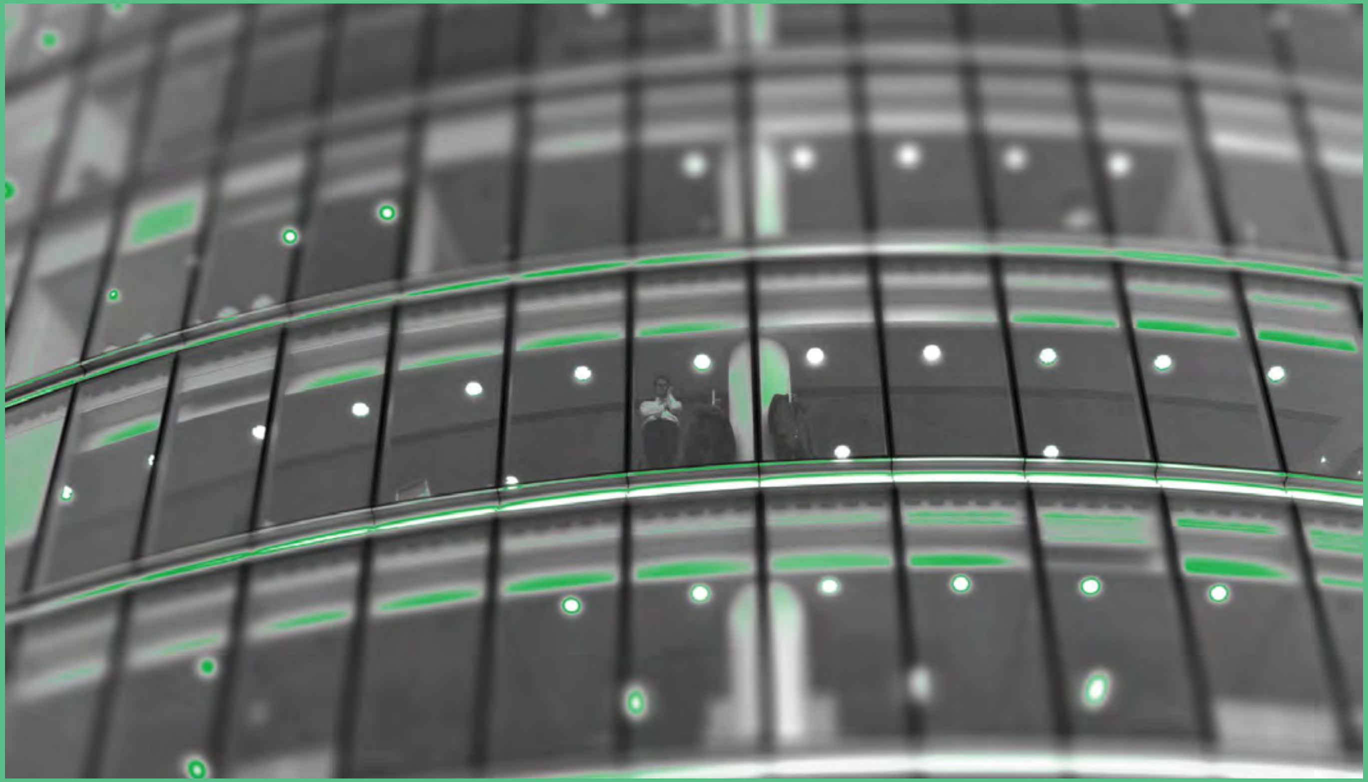
Kerri Murphy
Ansarada

Last year, when the pandemic hit, we thought the numbers were going to dramatically decrease in terms of deal volume, but instead it was the types of deals—and the ways that deals were being done—where we saw the biggest shift. Previously there were a lot of auction-based processes, but bilateral transactions were more common last year. We're expecting to see the same again this year. We have found that once people have actually gone to market and made the decision to raise funds and transact, that process is completed quickly.

It's more the decision-making to reach that point and picking the right moment to get the deal done that has been a major challenge for our customers. With so many moving parts, you have to be ready to act and then move quickly. Investors need confidence in the outcome of the deal actually coming to fruition. They don't necessarily have the luxury of making decisions based on business growth. A lot of decisions are now based on business certainty, business confidence and consolidating operations.

Tatjana Paterno
Bass, Berry & Sims

The pandemic had a dramatic effect on the M&A market. In the early days of the pandemic last year, dealmaking activity came to a screeching halt, for several reasons. First, investors retracted as they were not sure about the duration or the magnitude of the pandemic in general and the impact on businesses and industries that they were considering investing in particular. Second, sellers who were about to go to the market pulled out of processes or did not launch sell-side processes because they could not afford the distraction and had to focus all of their attention and energy on making sure that their businesses survived in such unprecedented times. Finally, many M&A players had to put their business development efforts on hold for the foregoing reasons and also because travel and in-person meetings were not an option anymore. Despite all these challenges, the M&A community adapted, and 2020 ended up a great year for M&A overall.



Ron Lentz
Logisyn Advisors

A major challenge is that very few companies are operating the way they were pre-pandemic. Some are seeing a hockey-stick effect, where they had been producing EBITDA of US$4m-US$5m over the last three years and then all of a sudden, they're now at US$10m. No one is going to agree to a valuation based on those earnings. The other side of the coin is those companies that are not doing so well. We have a truck brokerage client that was performing extremely well over the last three or four years. They were delivering a ton of produce into New York's restaurant sector and when COVID hit, that market went from their single biggest segment to zero overnight. Maintaining EBITDA with some type of predictable growth or consistency is a major challenge and very few businesses are in the middle of the road right now.

What do you think the main driver of M&A will be in the Americas in 2021?

Tatjana Paterno
Bass, Berry & Sims

Billions of dollars are waiting to be deployed and that is still the case. Private equity is still raising capital from private investors and now you also have SPACs that are raising money on the public markets. In the early days of the pandemic, we were thinking that the seller's market would shift into a buyer's market with distressed opportunities, but that hasn't happened. There has been a huge amount of stimulus which has supported businesses that needed capital and lenders have generally been pretty flexible so far.

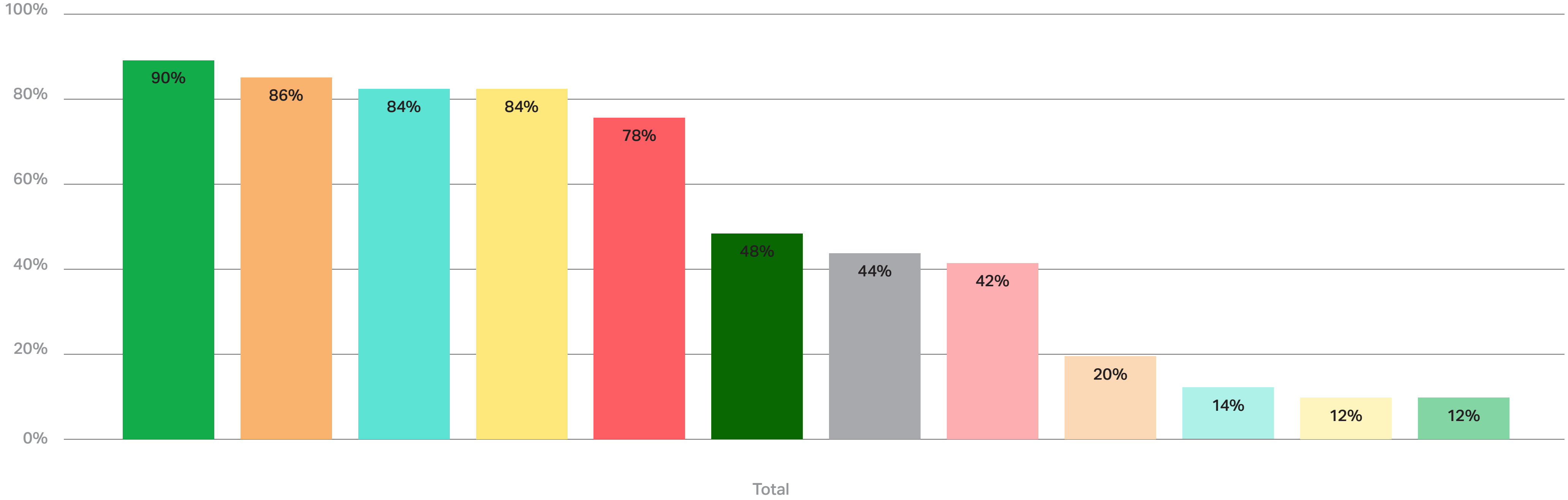
Ron Lentz
Logisyn Advisors

There's so much dry powder, not only in PE but VC too. Up until about two or three years ago, venture capital stayed away from the logistics market and now they're dropping hundreds of millions of dollars into related technologies. That has made for a very robust M&A market in that space. There's also a lot of what I would call "entrepreneurial fatigue" among baby boomer business owners that are thinking about cashing out. Couple that with the fact there's over a trillion dollars of dry powder in private equity alone and they're raising more funds every day. There are not enough deals to go around. So, valuations will stay high and may even go higher. All of that makes for a perfect M&A market in 2021 when things start to stabilize a little bit.

Kerri Murphy
Ansarada

A lot of deals that many hoped to complete in 2020 have been put on ice and people seem to be waiting for the flood gates to open, both from a buying and selling standpoint. There's no lack of desire to transact, it's a case of when it is going to happen—the pandemic is obviously part of that. Everyone is just ready to get back to the business that they wanted to conduct in 2020. We certainly haven't seen of a huge number of deals falling through. It's more just around decision-making slowing down because the environment isn't right for transacting. Business owners want to get deals done on their terms and their timelines and the pandemic has frustrated that. If a company has the luxury of being able to wait, if they are not in a state of financial distress, then they do not need to transact and may wait until the springtime, when I think we'll see an influx of activity.

Which of the following will be the main drivers for M&A? (Select all that apply)



Industrial consolidation	Distressed deals/turnaround opportunities
Customer growth	Cash rich corporates
Acquisition of new technology/digitalization	Product expansion
Private equity buyouts	Marketing & differentiation
Defensive deals	
Talent acquisition	
Geographic expansion	
Advanced M&A technology tools	

This data was compiled from a survey of 50 leading European dealmakers conducted in December 2020

Respondents in our research flagged trade protectionism as an ongoing concern. Is that still the case from where you're sitting?

Ron Lentz
Logisyn Advisors

It's been a big concern in logistics and has had a major impact on the flow of trade and on supply chains. With the new administration in the US and full Democratic control of Congress, I think you're going to see a move away from "America First" trade policies and toward the US being part of a global alliance. You're also likely to see companies becoming less and less dependent upon their China supply chains as it really hurt them through this pandemic. Countries like Vietnam, India and Sri Lanka are building out their manufacturing capacity to support North America. Then of course you have Brexit. I can't tell what the net effect of Brexit is going to be throughout EMEA but there will be an effect. So, there are major changes afoot because of trade policies.

Kerri Murphy
Ansarada

The pandemic has certainly accelerated the national protectionist trend, as countries have sought to protect their economies. That's really brought about a need to understand the rules and regulations of how businesses operate internationally. There has been a heavier reliance on organizations utilizing advisors and consultants to ensure that they are operating in a space that works for them. That's driven the need for visibility and certainty of information.

Flagged trade protectionism as the number 1 ongoing concern

22%

Are there any sectors or themes that you think will define M&A in the coming months?

Tatjana Paterno
Bass, Berry & Sims

The technology sector of course will continue to be highly active and we're also very bullish on healthcare. It's such a diverse sector and the pandemic has highlighted its vital importance and resilience. It seems like a decade of innovation has been compressed into this past year. It's been phenomenal to see how many healthcare businesses adapted, tried new ideas, and prospered as a result. We've seen businesses on the verge of bankruptcy in the early days of the pandemic turning themselves around and thriving. The innovation that was spurred by the pandemic is going to deliver dividends in the future. My prediction is that technology and healthcare will be some of the hottest sectors for M&A and within the economy. There is also a lot of disruption coming within the healthcare ecosystem from outsiders. For example, some retailers are now trying out models of healthcare delivery that are different from the traditional doctor's office delivery. That disruption is likely to be a big driver of M&A in the sector.

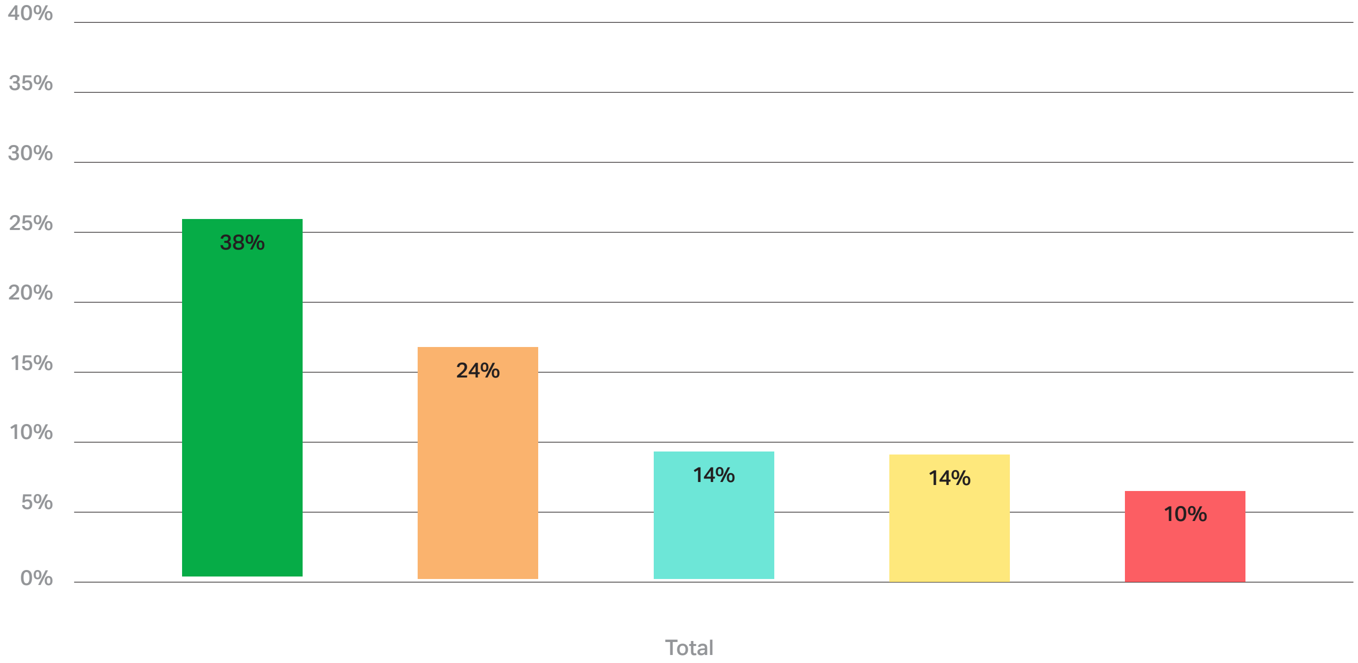
Kerri Murphy
Ansarada

Organizations are taking this time to assess their strategies and whether there are ways they can transform to be more relevant in this new environment, particularly when it comes to technology. They are thinking about how to adapt their processes and communication, not only to better connect with customers but internally as well. Digital transformation is driving a lot of that core deal activity for larger companies that have cash to invest.

Ron Lentz
Logisyn Advisors

A tremendous amount of money in logistics is being spent on what I would call "global visibility". These are typically platforms that use data analytics and AI that through APIs can combine all of these disparate technologies to give businesses a clear line of sight and visibility into their entire supply chain. People have been talking about that for years. Now, when you see all the supply chain disruptions that we've had in 2020, that's become critical. That can enable businesses to use more of a predictive model and manage their inventory more effectively.

In which sector do you expect to see the most M&A activity in 2021?



Technology, Media and Telecommunications	Pharmaceuticals, Medical and Biotech
Consumer and Leisure	Business and Financial Services (Including Computer Services)
Industrials and Chemicals (Including Automotive)	

38% say TMT sector will see the most M&A activity in 2021

38%

This data was compiled from a survey of 50 leading European dealmakers conducted in December 2020

If you had to make a bold prediction about the deal market in 2021, what would it be?

Kerri Murphy
Ansarada

A lot of businesses have been put on hold and are ready to act but are waiting for the right time. Last summer there was a huge boost in deal numbers and I think the same will happen again this year in the spring and summer months, and long may that continue for the rest of the year and into 2022. Some of that will tie in with the start of the financial year—we're going to see a culmination of decision-making all happening around March and April time. That should create a flywheel effect for deal-flow momentum.

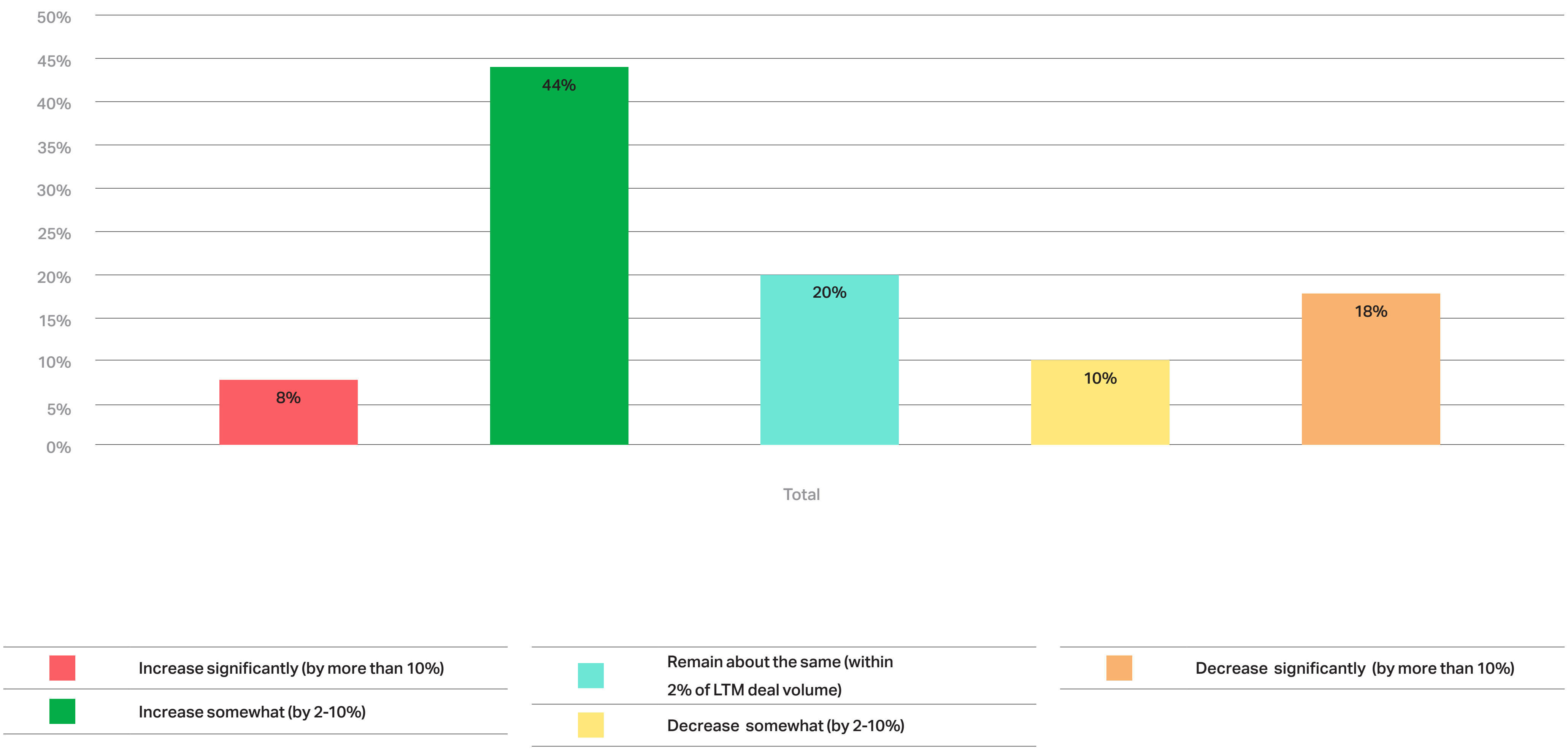
Tatjana Paterno
Bass, Berry & Sims

A lot of businesses during the early days of the pandemic were just focused on surviving. Now that many of them have found their footing, they're setting their sights on growth and it is not just PE that have the capital—many strategics have a lot of cash and are ready to accelerate their growth through M&A. Companies and investors have a little more visibility than they did 12 months ago, and understand the implications and outlook for their business models, their earnings and what action they need to take in order to adapt their strategy. Quality companies with sound strategies will continue to attract top dollars and high valuations from investors.

Ron Lentz
Logisyn Advisors

The second quarter of last year was the lowest point for M&A activity in the States for the last 10 or more years, but by the end of the year, that had reversed to the point that some of the highest valuations ever were achieved in Q4 2020. I think that's going to continue because of the amount of capital that's out there. Good companies are going to be in such demand that it's going to be a very good year for M&A value. I am not as sure about the number of deals, but valuations are going to stay strong and may even rise.

What do you think will happen to the number of M&A deals in 2021?



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Bridging the divide with technology

The M&A community has been forced to adapt to the new dealmaking reality since the outbreak of COVID-19. Technology has played an invaluable role in ensuring that buyers and sellers can communicate remotely, enabling due diligence at a time when deal scrutiny has never been more critical and giving parties the confidence required to put ink to paper.

How have M&A processes had to adapt in light of the restrictions imposed in recent months?

Kerri Murphy
Ansarada

So much emphasis was placed on the need for inperson face-to-face interaction and relationships in the past. We've had to adapt over the past few months not just with communication, but also on the due diligence front. You can't get a group of people in a room sifting through documents, which is why tools that enable document redaction, for example, are now in such high demand. Some of that change may be here to stay because people are going to be a lot more selective with their time from now on.

At the beginning of the pandemic, it was a huge culture shock for individuals to be working from home, but there are huge benefits that have come from that. It has caused people to look at the way that they were doing things previously and reflect on whether there is a better, more efficient approach. People don't need to spend hours traveling somewhere when inspections can be done using virtual reality tools and video conferencing. There has been a real paradigm shift and the timeframe of the pandemic has now become so extended that these changes have become the norm.

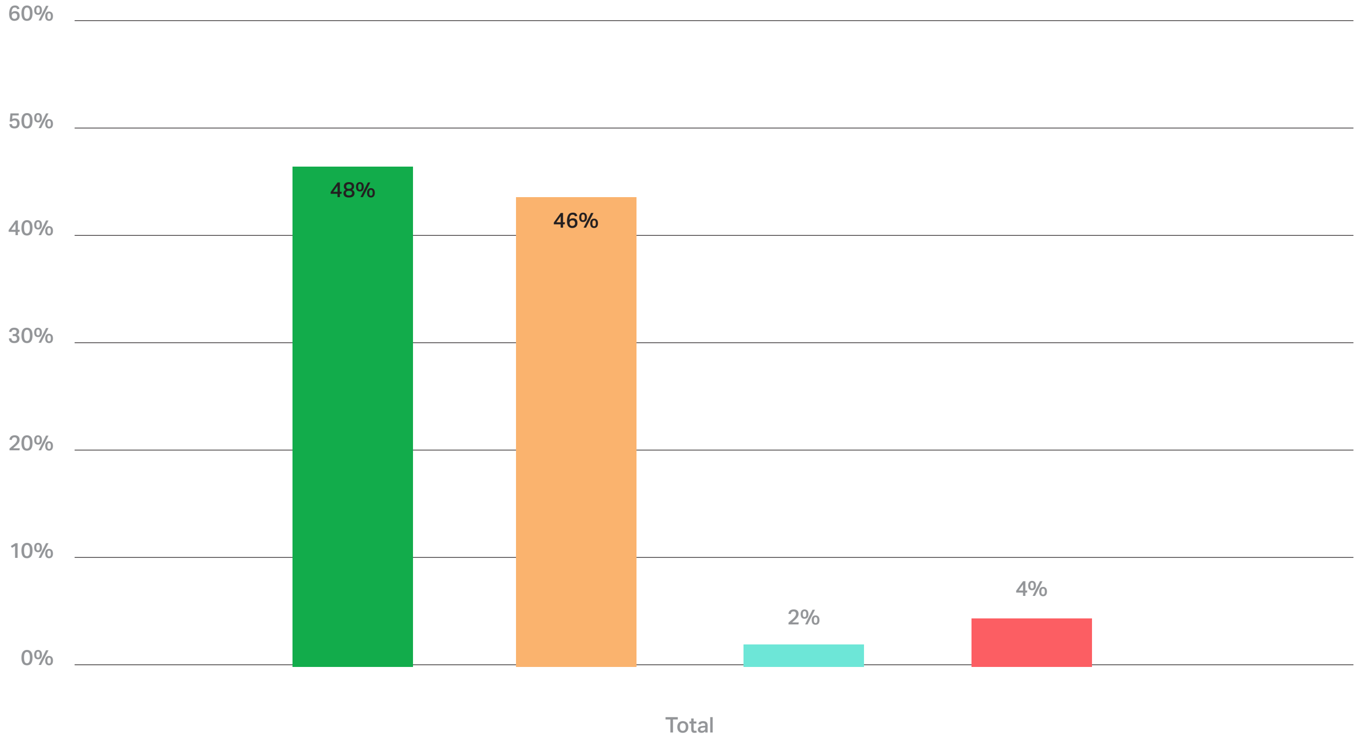
Tatjana Paterno
Bass, Berry & Sims

Back in March and April 2020, investment banks and private equity expected dealmaking to stop entirely because people could not meet. But people quickly adapted and now it seems totally normal for a deal to go from start to finish with the principals never actually meeting in person. Some firms are still hesitant about that and they still have a final meeting where everybody meets before signing the documents.

Timelines have definitely been affected. Earlier last year there was a lot of uncertainty around financing and buyers had to scramble around as many of their regular financing sources weren't available.

That has certainly affected the timing of deals in the past although currently, financing is much more widely available. A lot more time is also being spent on financial diligence and understanding the impact the pandemic has had on the fundamentals of the business and, where the effect has been positive, how sustainable that is likely to be. But in some cases deals have been done much faster. Last year, we closed a transaction that went from the letter of intent (LOI) to closing in less than three weeks. That was because both parties were motivated and they had developed a high level of trust .

Due to the COVID -19 pandemic, how long will M&A processes be taking in 2021?



Substantially longer to complete than before the outbreak	Similar length of time to complete to before the outbreak
Longer to complete than before the outbreak	Substantially shorter to complete than before the outbreak

94% say M&A processes will take longer to complete than before coronavirus

94%

This data was compiled from a survey of 50 leading European dealmakers conducted in December 2020

In what way is technology helping to overcome this and what technologies are being used?

Ron Lentz
Logisyn Advisors

I'm a face-to-face guy, I like to meet and greet and talk to people. In the M&A process, you do a lot of site visits and handholding. I have not gotten on a plane now for a whole year and that is the longest that I've gone without flying since 1984. Obviously, tools such as Zoom and Microsoft Teams have helped with that.

And then you have the advanced M&A tools like Ansarada's platform, which we use as our virtual data room for the deals that we advise on. It allows us to be predictive with the questions that we're putting into the data room. We can see how long a party is looking at data, what data they are looking at, what data they seem to be confused about and so on. That has helped us close our deals at the end of 2020, which, to be honest with you, I would have never believed would happen given the circumstances. It's really helped with the granularity of what people are asking for because processes are taking that much longer. The platform gives a much higher certainty of deals closing. Everybody who we secured an LOI with closed last year and that was partly because we were so well-informed from looking at the data and the analytics we could apply to it.

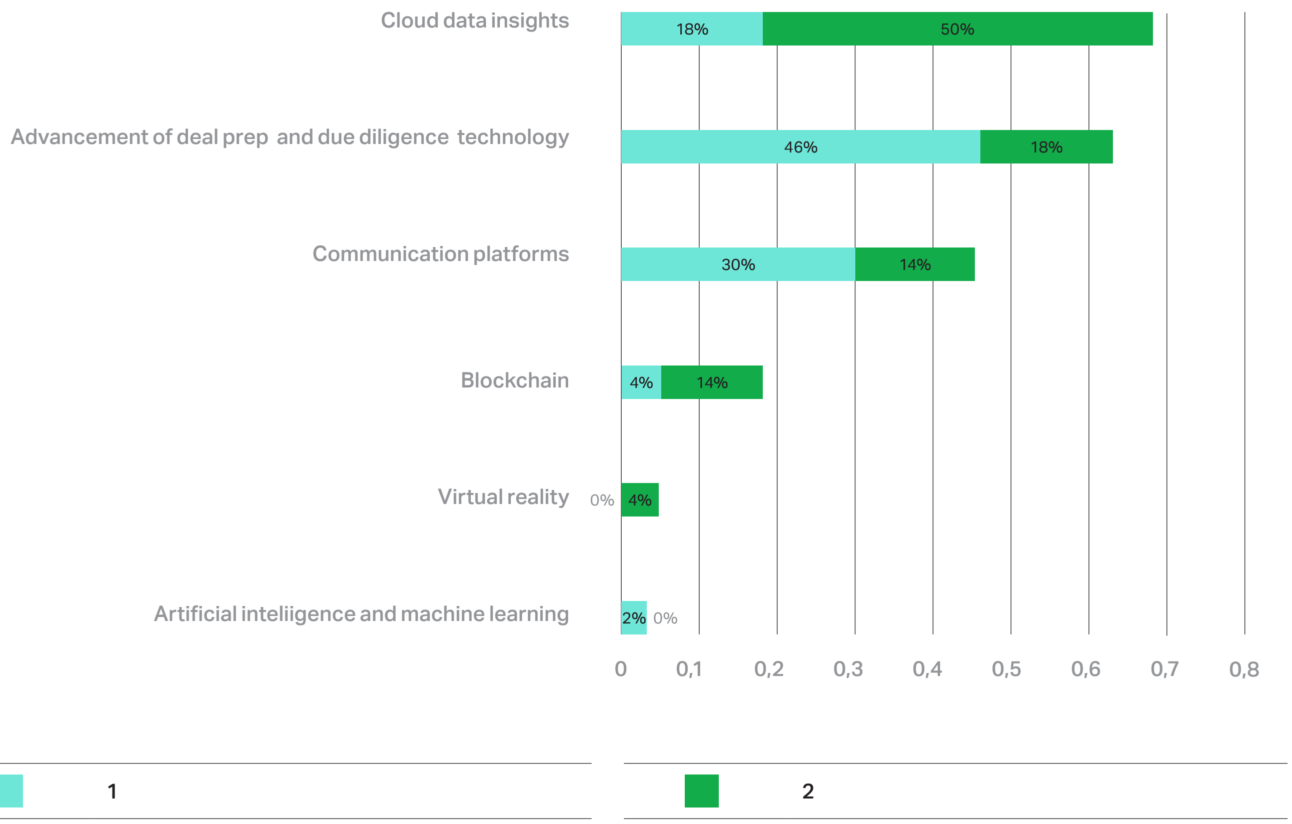
Tatjana Paterno
Bass, Berry & Sims

Before Zoom was adopted en masse, a lot of what lawyers did was over the phone. Now we're seeing each other in-person remotely and it's easier to establish rapport. We have seen a continued increase in the use of data room technology which helps get transactions complete more quickly and efficiently.

Kerri Murphy
Ansarada

The Ansarada platform exists to promote visibility and transparency. It's flexible enough to be tailored in a way that sellers can showcase information to potential buyers. Then you have the AI on top of that and the ability to assess whether deal targets that rely heavily on technology are adhering to relevant rules and regulations. The AI is applied in different ways. Part of it is to drive efficiencies in the process, for example by automating the surfacing of relevant documents rather than an individual having to do that manually. Those time savings are really important, particularly in this environment. Buyers need immediate access to information and you can't put a price on that.

What will be the biggest contributor for more efficient remote dealmaking in 2021?
(Rank top two, where 1=top choice)



46% say the advancement of deal prep and due diligence will be the biggest contributor for more efficient remote dealmaking in 2021

46%

This data was compiled from a survey of 50 leading European dealmakers conducted in December 2020

2.

APAC M&A market: Insight amid uncertainty

The COVID-19 pandemic has created a valuation expectation gap in the M&A market, as well as having and made due diligence more difficult, but savvy dealmakers can take advantage of the upheaval – especially if they can leverage technology.

Technology has been a great enabler of economic activity and this applies to M&A markets too. First-class information governance, combined with the use of virtual data rooms and advanced analytics, is transforming deal processes for the better. The depth of insight that investors can now glean during their due diligence is improving transparency and benefiting both buyers and sellers.

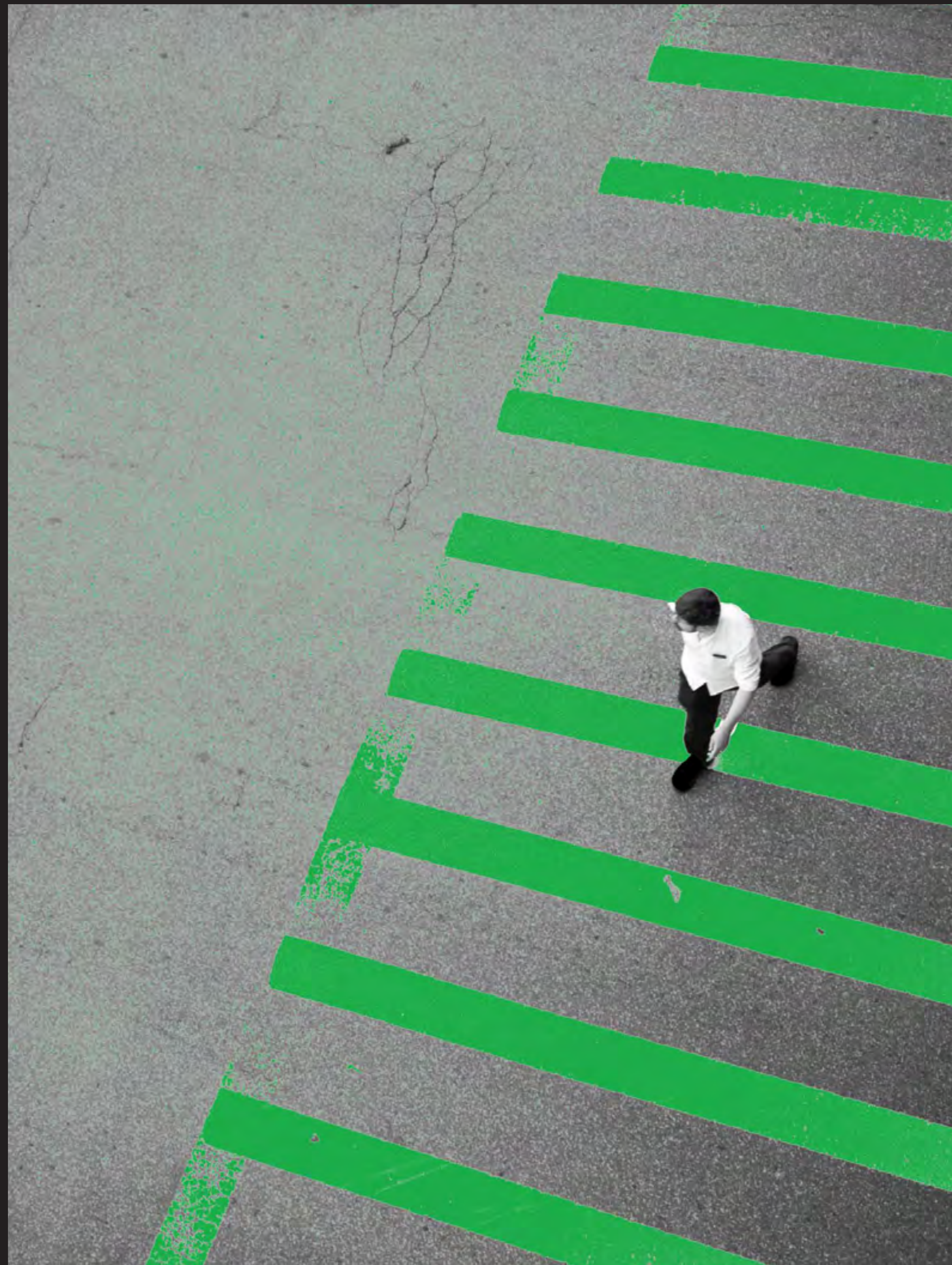
It has not always been this way. In the past, preparing information for investors was a time-consuming, analogue task. Business leaders are also coming to recognize that in addition to paving the way for an eventual exit, establishing sound data governance and management practices helps them to better steer their company and understand its strengths and weaknesses.

"I've seen first-hand the pain that CEOs, CFOs and M&A advisors have experienced in completing these manual, menial tasks," said Joel Gibbs, APAC Country Manager, Ansarada. "That gap is being bridged. By leveraging AI and big data, businesses are able to diagnose their positions instantly."

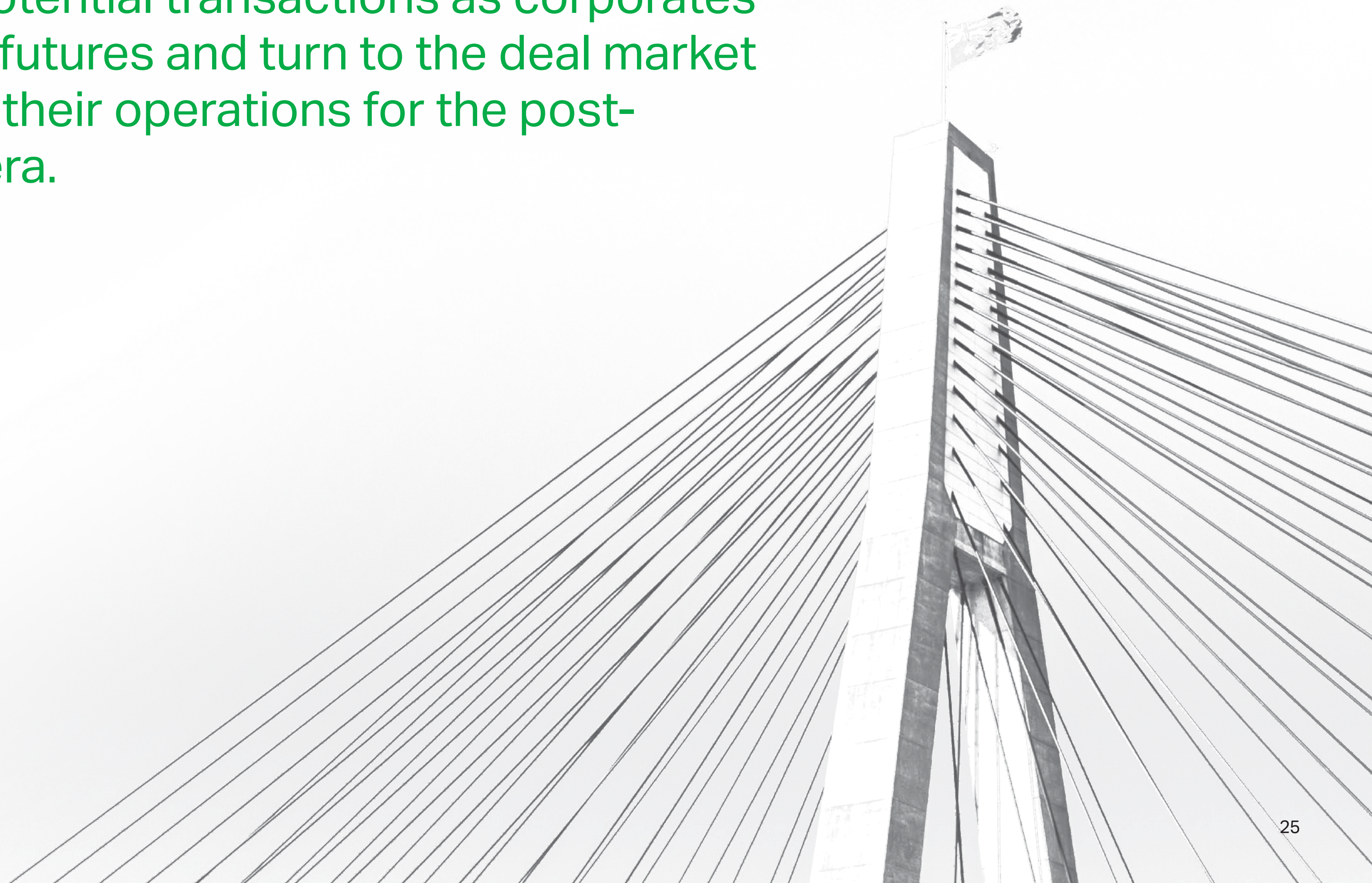
Now, amid the economic and health crisis caused by the COVID-19 pandemic, M&A technology is proving its worth by lightening the workload for all parties and expediting deal processes during a period in which there is no time for hesitation. The ability to process and analyze vast data sets has helped dealmakers to agree on valuations and given them confidence in their targets. With lingering uncertainty surrounding the pace and evenness of recovery, and the inherent challenge this poses to earnings forecasting, investors are turning to data tools to enhance diligence reviews and robustly test their assumptions and investment theses.

At this critical inflection point, we asked three experts from the fields of M&A advisory, private equity and technology to share their views on the dealmaking outlook in APAC and the role that technology is playing to facilitate dealmaking in what remains an exceptional and uncertain environment.

The state of play in M&A



The past year has been one of the most challenging in the history of M&A markets. With 2020 behind us, there is now a pent-up supply of potential transactions as corporates weigh their futures and turn to the deal market to overhaul their operations for the post-pandemic era.



What do you think will pose the biggest challenge to M&A in 2021?

Oscar Ludwigson
Houlihan Lokey

The pandemic was undoubtedly the number one challenge in 2020 and that remains the case. Despite the fact that Australia has been an outperformer from a health perspective, a lot of the restrictions and prohibitions have made the business environment as challenging as you would find in other jurisdictions. For instance, we worked on the sale of Virgin Australia to Bain Capital and the reason that business went into administration was COVID.

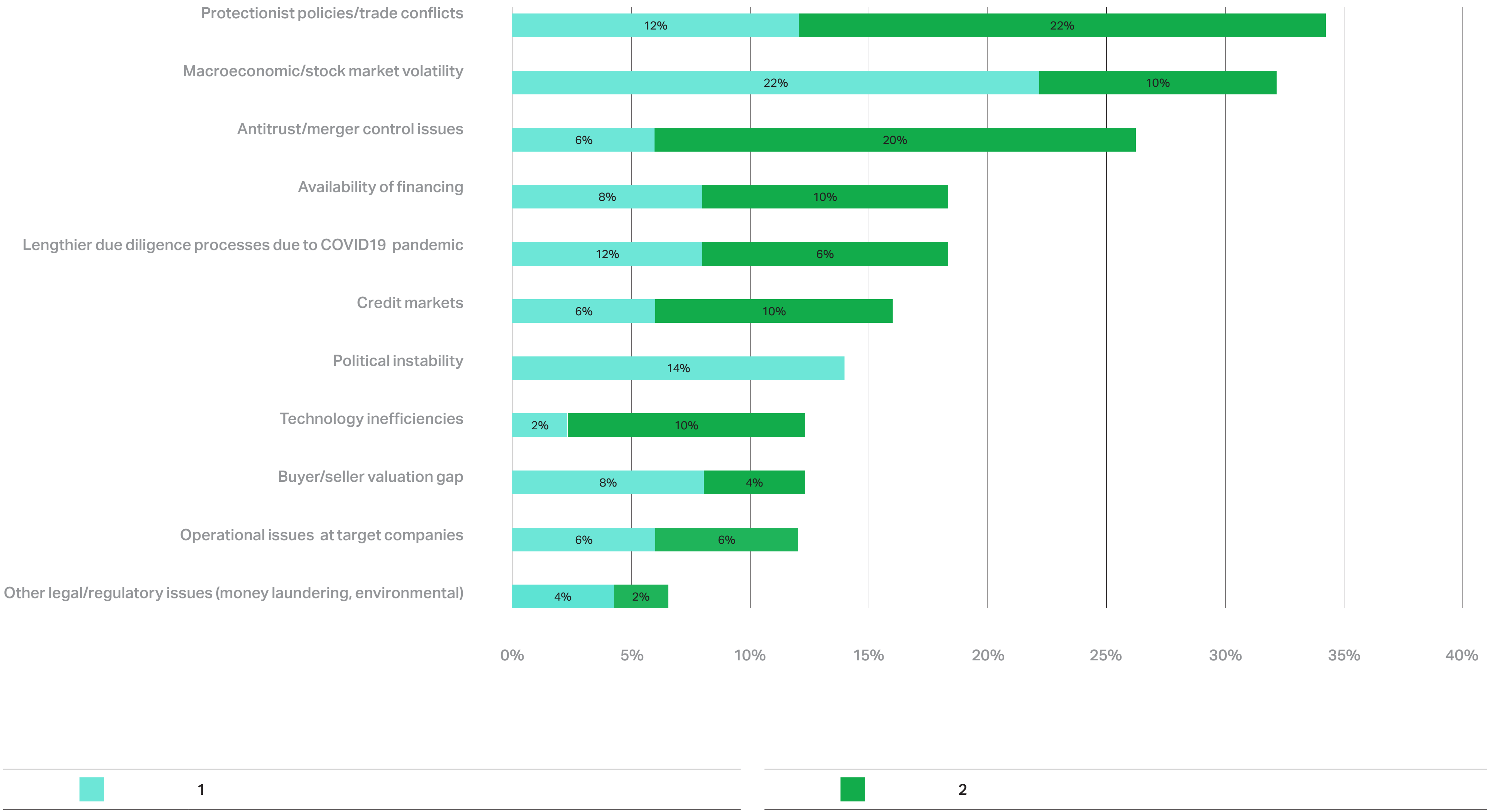
Going into 2021, the valuation gap between buyers and sellers has the potential to prevent deals from closing.

Everybody gave businesses a free pass in 2020, knowing that it was going to be tough. In most investors' modelling it was assumed that things would be getting back to some degree of normalcy in 2021. It will be really interesting to see from a valuation perspective how the market responds to the fact that COVID disruption is going to continue for an extended period, despite benign policy settings and the positive news regarding development of a number of vaccines.

Paul Foster
Pacific Equity Partners

Reaching agreement on fair value and clearing price is absolutely the greatest challenge. This is largely due to earnings noise. Some of this is positive from all the stimulus that's been injected into the economy. We've had job-keeper programs, substantial government support and fiscal stimulus, which has buttressed the earnings of many companies. But we've also had a lot of companies whose earnings have been impacted negatively by COVID-19. So, establishing a clean level on which to base pricing multiples remains a challenge. In some sectors, such as aviation, earnings are down 80%-plus year on year. Other businesses are performing better than normal due to the fiscal stimulus they've received.

What is the biggest challenges to completing a deal in 2021? (please rank top two, where 1 = top choice)



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How do you see that playing out and how can investors overcome that challenge?

Paul Foster
Pacific Equity Partners

I think you will end up seeing processes take a bit longer – they will be extended until buyers can see clean sets of earnings figures and common ground can be established between buyers and sellers. But there might be a role for more innovative transaction structuring to help bridge that gap, whether that be through use of earn-outs or preferred capital tranches.

COVID's impact has not been homogeneous by any means. So ultimately buyers are having to take a more granular, bottom-up approach to their diligence. Sellers have to be transparent by taking the time and effort to present a credible, genuine, and clear picture of earnings to potential buyers.

94% say M&A processes will take longer to complete than before coronavirus

94%

What do you think the main driver of M&A will be in APAC in 2021?

Oscar Ludwigson
Houlihan Lokey

Ultimately, companies have got to find top-line growth. Large ones especially are just not growing fast enough to satisfy their investors' expectations. M&A will bolster that growth to help companies justify the multiples that they are trading on. It will be interesting to see how large corporates find business models that are fit for purpose in a COVID world that may not be consistent with the way they have traditionally operated, then plug those acquisitions into their ecosystem. They will take a hard look at some of their existing business lines that are either considered unviable from an ESG perspective or considered not fit for purpose as business models and customer preferences shift to the current COVID-affected environment. That will drive divestments through carve-outs and on the other side corporates will be willing to pay high multiples for high-growth assets as they retool their business models.

Joel Gibbs
Ansarada

There's a lot of optimism and opportunity returning to markets specifically in Australia and New Zealand. If you look at the final quarter of 2020, not only was there increasing M&A activity compared to that deep, dark COVID period, but some businesses have seen their highest growth ever. Investors will be looking at businesses that have utilised this COVID period to transform their information governance and adopt a digital-first mentality. Traditional means of organic growth in the current market aren't there in certain industries, therefore businesses with strong balance sheets will acquire that growth through M&A.

Paul Foster
Pacific Equity Partners

There are a few key drivers in the Aussie market. One is a bifurcation of access to capital and research coverage in the public markets. There are the haves and the have-nots in terms of the ability of listed companies to access capital and gain the attention of research analysts. This is increasing the number of frustrated listed companies that are open to public-to-private approaches. We've completed two take-privates in the last six months, and we expect that to continue.

Moreover, since March last year, Australia has had a temporary measure that relaxed the obligations on directors of public companies around continuous disclosure and insolvency safe harbouring. That's all coming to an end and the reintroduction of those obligations is likely to encourage the boards of more listed companies to consider public-to-private transactions.

What is the significance of ESG as a motivating factor for dealmaking?

Oscar Ludwigson
Houlihan Lokey

Institutional investors are now insisting on it and, from a policy framework perspective, governments are going to incentivise sustainable businesses that are taking action on environmental matters. Whether you agree with that conceptually or not, it is the reality that money is going to flow into these sectors.

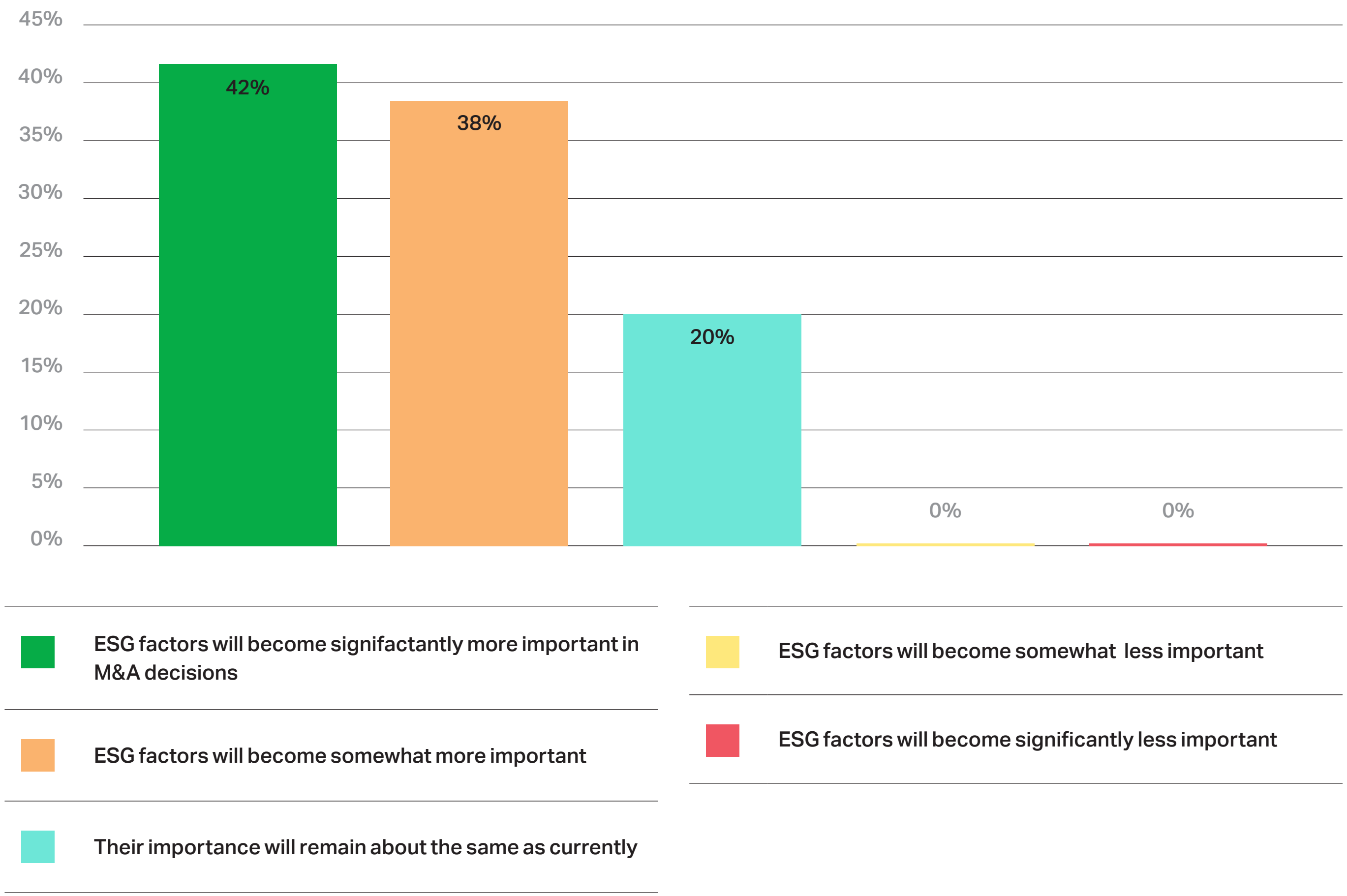
With the change of the administration in the United States, that's going to be a big theme coming into investment in this next year.

Joel Gibbs
Ansarada

More and more businesses will place an emphasis on their environmental and social impacts. In Australia, certain specialist funds are selecting businesses that have sound ESG governance and, especially in the energy, mining and utilities sector and the industrials sector, businesses are shifting to more sustainable methods of production. Buyers want to see how well businesses understand their governance and their sensitivity to and compliance with regulatory obligations.

Any inability to give an investor confidence will increase the risk in potential investment. Businesses that have this focus will see an increase in potential investment when compared to their industry peers that do not have the same endeavour.

How will the role of ESG factors change in acquirers' M&A decisions in 2021? (Select all that apply)



This data was compiled from a survey of 50 leading European dealmakers conducted in December 2020

42% say ESG will be increasingly central to M&A decisions in 2021

42%

Climate change, COVID-19 and a demand for greater social responsibility have pushed environmental, social and corporate governance (ESG) issues up the M&A agenda. With ESG increasingly front of mind, technological solutions to make identifying ESG issues in M&A processes easier have emerged.

"The process historically has been to try to take documents from a data room and then attempt to analyze it with an ESG tool. Usually those documents are encrypted or have digital rights management, so contract analysis tools can't read them," says Riley. "That can now be offered within the data room environment. For example, our platform connects with Kira Systems, Luminance and other machine learning systems that can analyze ESG and any other data an acquirer might choose to look at."

Are there any sectors or themes that you think will define M&A in the coming months?

Oscar Ludwigson
Houlihan Lokey

Data and analytics, technology, healthcare tech and consumer will be very active. Those are fundamental themes that are going to continue to be compelling. We've had a pretty quiet year in Australia on the M&A side, but there's been a tremendous amount of equity market activity. The IPO market has been very strong and there's been a lot of capital raised to repair balance sheets.

The simple fact of the matter is that there remains a bid-ask gap between buyer and seller on a lot of deals because sellers want investors to look at a post-COVID run rate for the business and be paid for that. Buyers do not want to pay for that future growth unless they can see signs of it being demonstrated today. For businesses that are attuned to the new operating environment, buyers are identifying those opportunities and are paying up for them. A lot of that has been taking place in the public markets because private equity hasn't wanted to lean in as hard on what are pretty elevated valuations. Within private equity, there's a ton of sell-sides that are parked right now, and vendors are biding their time. If the fund does not need to do the deal right away, they will wait or weigh their options. One of the deals I worked on last year involved the sale of a minority stake in one of these private equity portfolio companies to take some money off the table. The fund was able to make a great return for its investors but retain control so that it can further monetize the asset at a later date when it makes sense to do so after the COVID-affected period. I believe we'll see more of that structured deal activity on the private equity front. Pre-pandemic, t sponsor might have opted for a dividend recap. But private equity will be less inclined to pump up the leverage in their assets because they recognize the value of having flexibility in the capital structure in this current operating environment.

52% believe the number of M&A deals will increase in 2021

52%

Paul Foster
Pacific Equity Partners

I think there are four key themes, the first being the public-to-private opportunity. The second is the increased focus from multinational conglomerates and large Australian corporates on defining their core and non-core activities and buttressing their balance sheets by carving off non-core divisions. The third one is we're seeing multinationals looking to push into the Australian market through corporate-partnership transactions, where a PE fund partners up with them to pursue opportunities here in Australia. That helps them mitigate some of the capital and political risks associated with moving into a new market. Then in the infrastructure space we believe there's going to be a renewed focus on privatizations. State government and federal government balance sheets are under stress and a lot of money has been borrowed for COVID stimulus. High public debt and deficits are likely to result in greater number of privatizations and the government will look to procure new infrastructure through a renewed use of private capital partnerships.

If you had to make a bold prediction about the deal market in 2021, what would it be?

Joel Gibbs
Ansarada

When looking at 2021 I'm interested to see the role private equity will play in stimulating M&A. If you look back at 2020, there was a reluctance to burn investment and funds generally sat and waited to see what would happen, which applied to both acquisitions and exits. Activity was minimal. If you consider the fundraising that's been completed and the sheer amount of dry powder that's sitting out there right now, private equity is really well positioned. Funds can take advantage of businesses that are looking for an exit, transform the businesses really quickly by putting in place great governance fundamentals and flip that asset for a significant multiple in a short period of time. Corporates will need to rethink their operating models and growth strategies. Buy and build strategies for businesses with strong balance sheets and continued economic stimulus will see deal activity potentially bounce back to levels pre-COVID.

Oscar Ludwigson
Houlihan Lokey

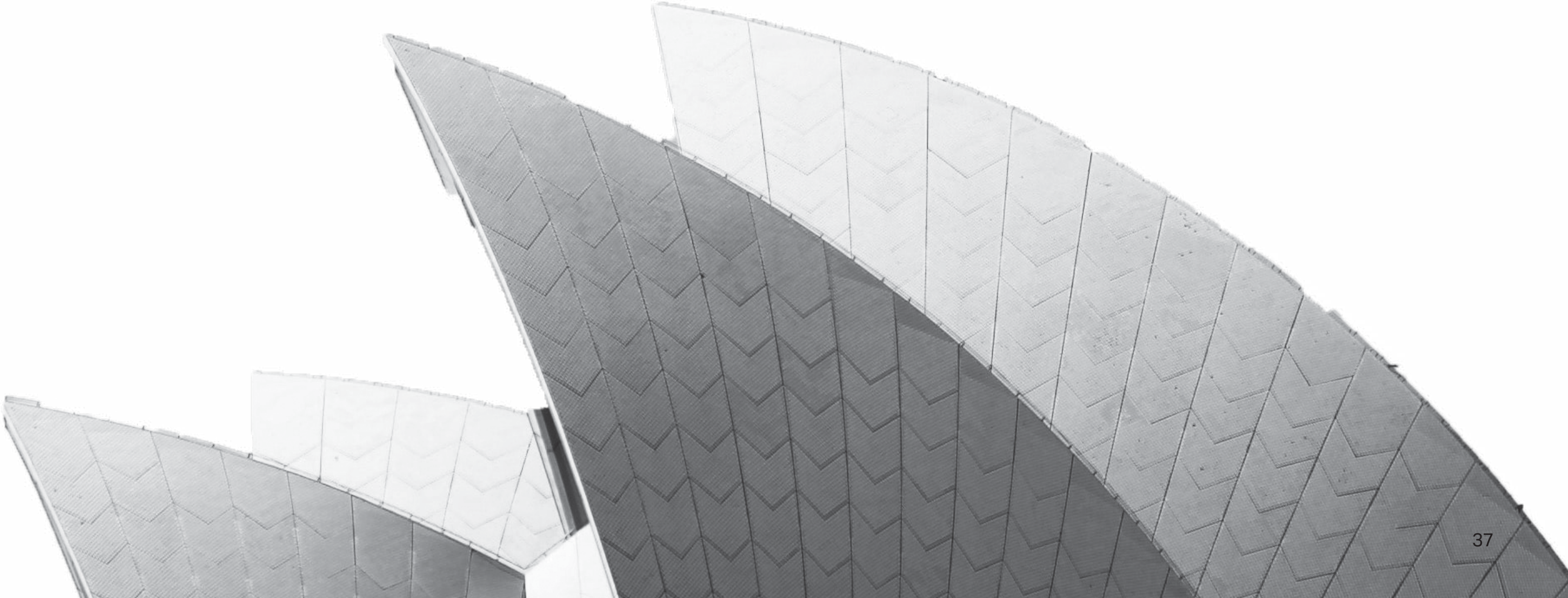
The big question for 2021 is how corporates reassess their business models. That is going to yield some interesting strategic decisions by boards who are going to be forced to act. The M&A ecosystem, the lawyers and advisors and so on, are going to be put to work by custodians of capital to find the winners and losers out of this pandemic. It's going to be interesting to see how the M&A ecosystem helps realign that capital into those winners and losers. Where the money is going to be made for advisors is in helping the titans of industry effect that change. That's where we add our value in the broader scheme of things. It will be really interesting to see how we do that coming out of this pandemic.

Paul Foster
Pacific Equity Partners

I'm probably on the more optimistic side of the fence, sitting in this part of the world. I expect that with widespread vaccine rollouts in countries like Australia and New Zealand and an associated return to more normal levels of mobility, we'll see confidence, economic activity and deal consummation return to more robust levels faster than the consensus expectation today. By the second half of the year, we will see the return to some form of new normal, particularly if monetary policy remains accommodating for an extended period, as I expect it to.

Overcoming M&A hurdles with technology

The pandemic has not only created a gap between buyer and seller expectations and dampened deal activity, it has impacted the inner workings of the deal process. Now more than ever, technology is facilitating information flows and giving buyers and sellers the confidence they need to justify valuations and improve the chances of a deal completing.

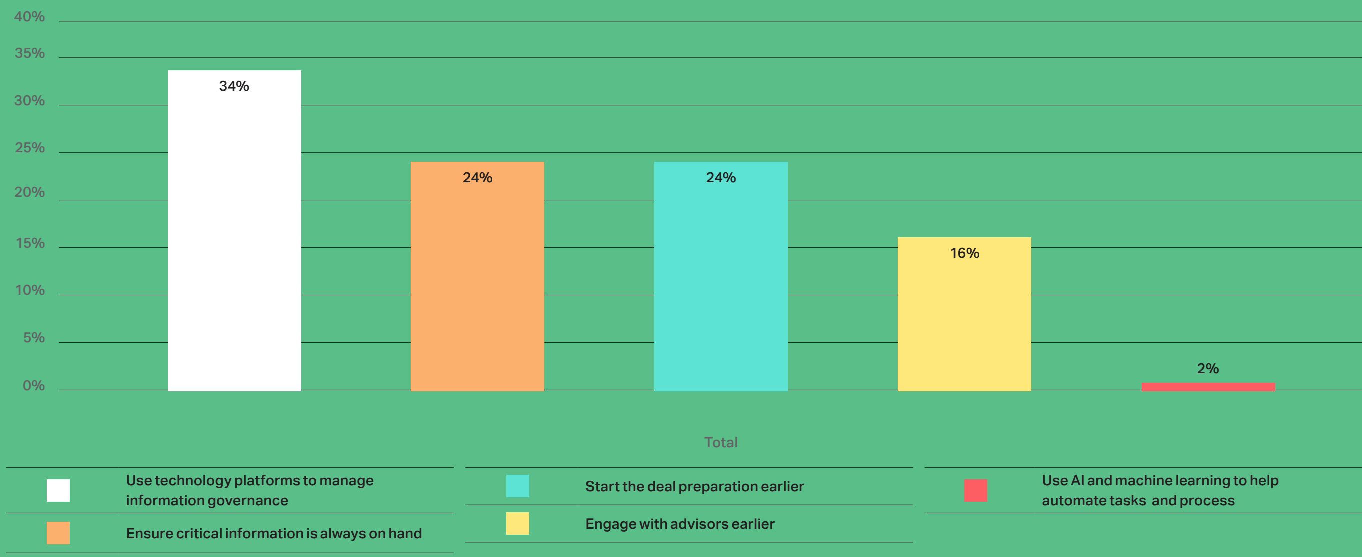


How have current conditions affected the practical workings of the M&A process?

Paul Foster
Pacific Equity Partners

The pandemic has largely made diligence more complex and, at times, it now takes longer. We're ultimately in the business of partnering with great management teams and it takes time building familiarity with the people we want to back. That's clearly a more challenging process when you can't travel to spend time with them and work through business and strategic plans with them. So, going through the normal diligence that is necessary before deciding on a deal has typically been taking longer.

Which of the following will be the most important to help companies better prepare for M&A in 2021?



This data was compiled from a survey of 50 leading European dealmakers conducted in December 2020

In what way is technology being used to overcome COVID-related challenges?

Oscar Ludwigson
Houlihan Lokey

I'll give you a perfect example. We signed binding transaction documents for the sale of Virgin Australia in the space of 60 days and did not have a single physical meeting. We had to do everything virtually. Technology allowed that to happen by making the whole process more efficient. The number of virtual meetings we could set up rather than having to organize the logistics of physical face-to-face meetings meant that we could cover much more ground with buyers much more quickly. It really helped us to build competitive tension in the auction.

If a deal has to get done, where there is no choice and the survival of the business depends on it, the ability to use technology really helps to move quickly. You wouldn't have imagined doing a deal the size and complexity of Virgin Australia without technology. The number of stakeholders involved – state and federal governments, regulators, aircraft lessors, labour unions and management – doing that deal virtually was unprecedented.

Generally, deals right now are taking longer because of the bid-ask spread between buyer and seller. However, the tools are there to make the process quicker – it is going to be an interesting model when conditions return to something like normal.

Outside of being able to communicate more quickly and efficiently during due diligence, what role is tech playing in the process?

Paul Foster
Pacific Equity Partners

We're seeing the use of different types of technology in some of the technical and engineering diligence that we would usually do. Technology is really facilitating some of the more technical diligence that we would normally expect to conduct in a face-to-face manner when looking at businesses that are located in another part of the country to us. If, for example, we were looking at a port or terminal asset and had a business plan premised on developing that land site, drones can be used for the technical analysis to assess the feasibility of that development. That might include checking all of the necessary water and power infrastructure connections are available or simply looking to see whether there is sufficient physical capacity to expand the asset's footprint.

Oscar Ludwigson
Houlihan Lokey

The power of data analytics available on some due diligence platforms now is truly remarkable. You can see a lot of feedback on what buyers are doing, what documents they are looking at and how often they're looking at them. The ability to control the information flow and security is really powerful, especially when you're on the sell side. Our ability to see buyer engagement and genuinely understand who's doing the work is invaluable. It helps to drive competitive tension. If the buy side tells me they are super keen on the deal and are leaning in, but I can see that they've barely done any work, I know it is time for a direct conversation. In addition, there is more control from a confidentiality and security perspective. If I know that one group is going to buy and there are sensitive documents that others have downloaded and might intend to use post-transaction, the security settings allow for that to be shut down.

46% say the advancement of deal prep and due diligence will be the biggest contributor for more efficient remote dealmaking in 2021

46%

Joel Gibbs
Ansarada

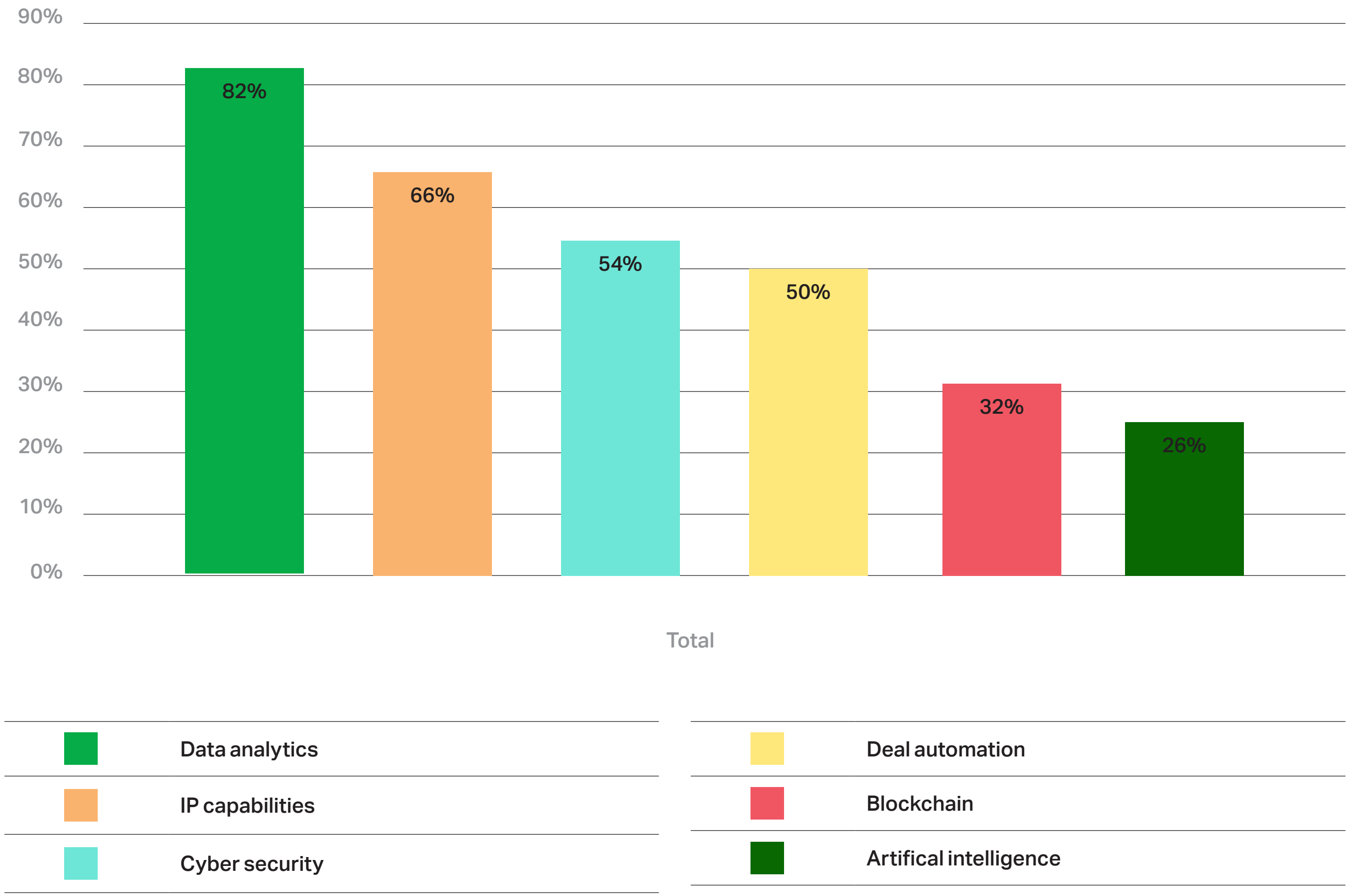
Technology partners like Ansarada are quickly disrupting the traditional means of executing M&A. You only have to see the role virtual data rooms played throughout the early 2000's in reshaping how people could gain access to information. The next evolution for disruption is already here and you're seeing buzz words like "Digital M&A" increasingly being spoken about in the industry. The old-fashioned notion of getting information in a room for people to review has now evolved into digital readiness. Businesses are looking for technology to unlock, aggregate, diagnose, and automate their most critical information.

This is what most excites me about the space. Deal insights for advisors to best maximize the assets value by creating competitive tension, AI predicting Bidder engagement and automation to expedite deal timelines are critical for corporates and advisors who are looking to secure a successful outcome. Furthermore, point solutions are no longer the tool of choice. Platforms that can integrate and aggregate a business and advisor's relationship is now a priority. Those who don't adopt this type of technology will add huge risk to not only their information governance but any M&A outcome.

Data holds the key

82% believe data analytics is the most disruptive trend that will most affect the M&A process in 2021

What disruptive trends will most affect the M&A process in 2021? (Select all that apply)



82%

Data analytics (82%) and IP capabilities (66%) are considered the disruptive trends that will most affect M&A processes in 2021. There is no limit to the potential of data analytics and AI in deal situations and negotiations. One of the most effective insights is knowing the level of engagement shown by bidders in an auction, which can tell sell-side advisors who is genuinely serious about the transaction and who is therefore likely to submit a bid. This can dramatically expedite a sale process.

This data was compiled from a survey of 50 leading European dealmakers conducted in December 2020

3.

50 European Dealmakers' perspectives

At a glance

50 European dealmakers interviewed

50

Majority of respondents (52%) believe that the number of M&A deals will rise in 2021.

52%

84% of respondents expect the number of distressed deals to rise in 2021.

84%

46% of respondents believe the advancement of deal prep and due diligence technology will be the number one biggest contributor to more efficient remote deal making in 2021.

46%

94% expect deals to take longer to complete in 2021.

94%

M&A outlook: Hope on the horizon

Signs of a recovery: The pandemic brought dealmaking to a halt for much of 2020. But there are signs of a recovery and our exclusive report reveals optimism is growing for 2021

M&A activity floundered in 2020, contracting in the second quarter as governments sought to curb the spread of infections with lockdown measures. The total number of M&A transactions in the first three quarters fell by 24% compared with the same period in 2019 to 11,643 deals. Total value over this period dropped at a similar rate, by 26% to US$1.9 trillion. Both were the lowest figures for the Q1-Q3 period since 2013.

M&A transactions dropped by 24% in the first three quarters compared with the same period in 2019.

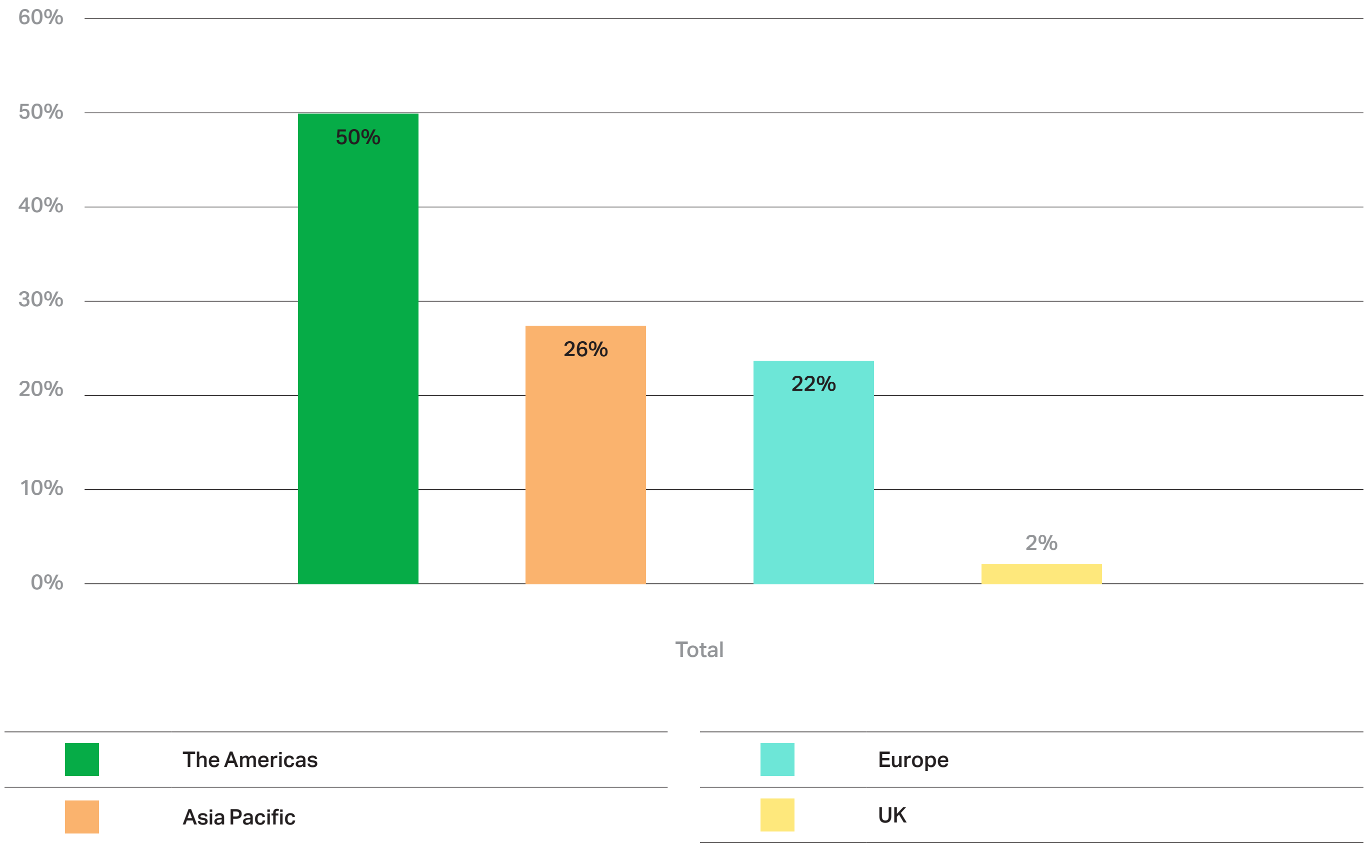
24%

M&A Trends 2016-2020 YTD

"Debt is cheap and it's going to stay that way. Because of the impacts of COVID on the economy, organic growth is now harder to achieve for a lot of mature companies. Those factors are a big driver for M&A. A lot of potential deal targets will be struggling and so we expect to see a lot of bargains popping up. Any acquirer that's got a reasonably good balance sheet or access to capital markets will have lots of opportunities to choose from."
Sam Riley, CEO of Ansarada.

Regional rationales

In what region do you expect to see the most M&A activity in 2021?



Despite ongoing disruption, the winter months bringing a second surge of infections, or perhaps because of the drag on M&A markets witnessed in 2020, a 52% majority of respondents believe that the number of M&A deals will increase in 2021. Of this majority, 44% believe that activity will increase somewhat (by 2-10%), while a further 8% believe there will be a more significant rebound in deal numbers (by more than 10%). (Refer to page 15).

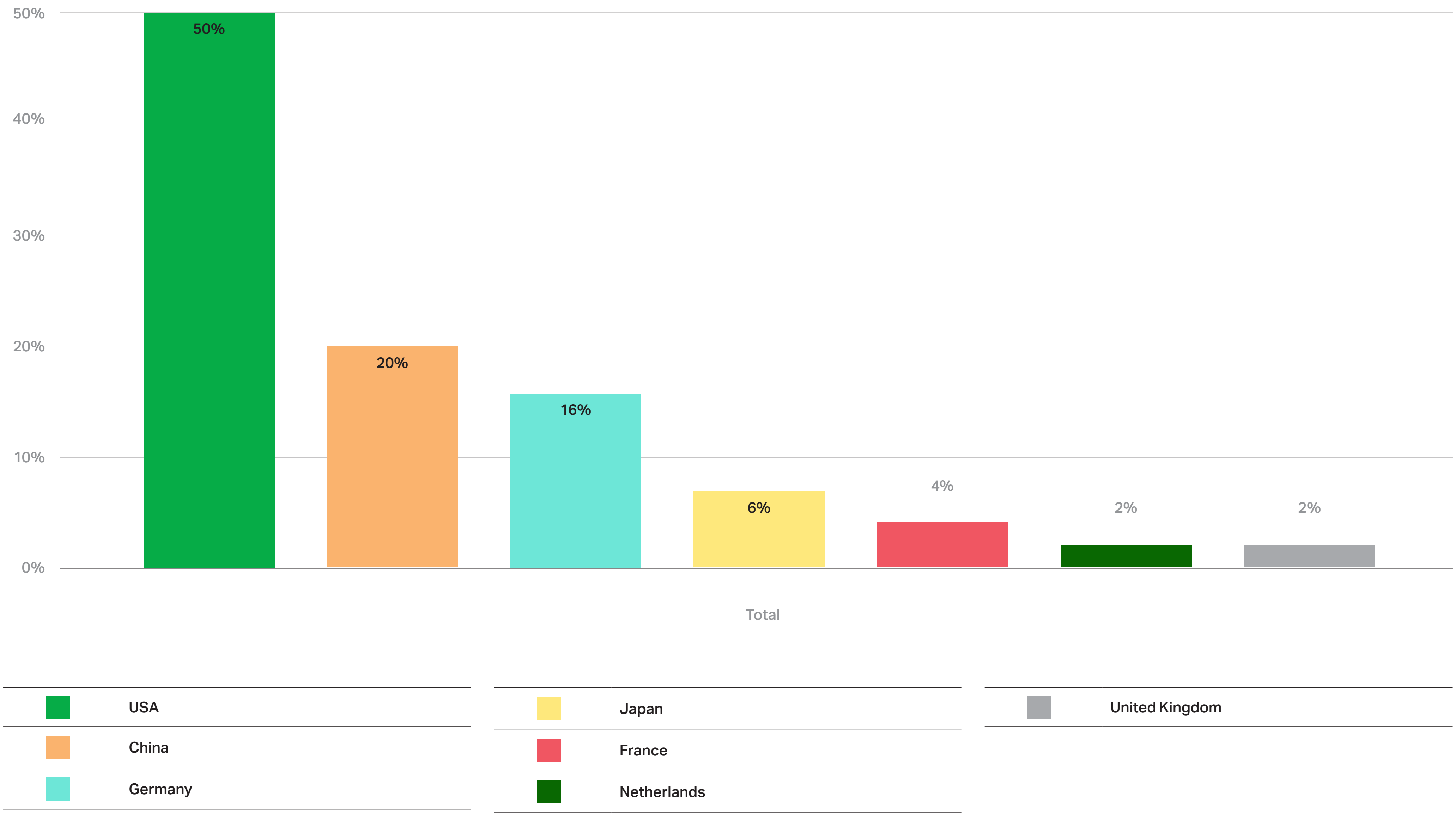
Most of this activity is expected to be centered on the Americas, according to 50% of the survey sample, with the focal point within the region naturally being the USA (also 50%). This should be expected given that the country is the world's largest economy. It offers the deepest and most liquid capital markets and is home to the highest number of deals year after year.

With a small lead over Europe (22%) is Asia Pacific (26%). Of these two regions it is their two dominant economies China (20%) and Germany (16%) that are expected to see the most deal activity. Incidentally, China is the only major economy in the world that will grow in 2020, with the likes of the USA and Germany on course to spring back to positive growth in 2021, which will support M&A confidence and should help to narrow the buy-sell valuation gap.

50% believe the Americas will see the most M&A activity in 2021

50%

Within the region specified above, which country do you expect to see the most M&A activity in 2021?



Economic rebound

While 2021 is expected to deliver an economic rebound following one of the most challenging years on record, continued pressure on cash flows and earnings for many companies will motivate them to seek deals. For those in a strong financial and strategic position, the coming months represent an opportunity to use M&A to take market share and equip themselves for the start of the next business cycle. In terms of the top drivers of M&A activity in 2021, a full 90% of our survey sample pointed to industry consolidation, followed by 86% who see customer growth as the primary rationale for dealmaking.

86% see customer growth as the primary rationale for dealmaking.

86%

"For industries that have faced operational issues due to travel limitations and distancing, industry consolidation is an ideal solution. It might be difficult to manage operations without a merger and companies within the same sector will have already started discussions on this."

Partner of a boutique investment bank in the UK

Divestments

52% expect acquisitions to increase in 2021

52%

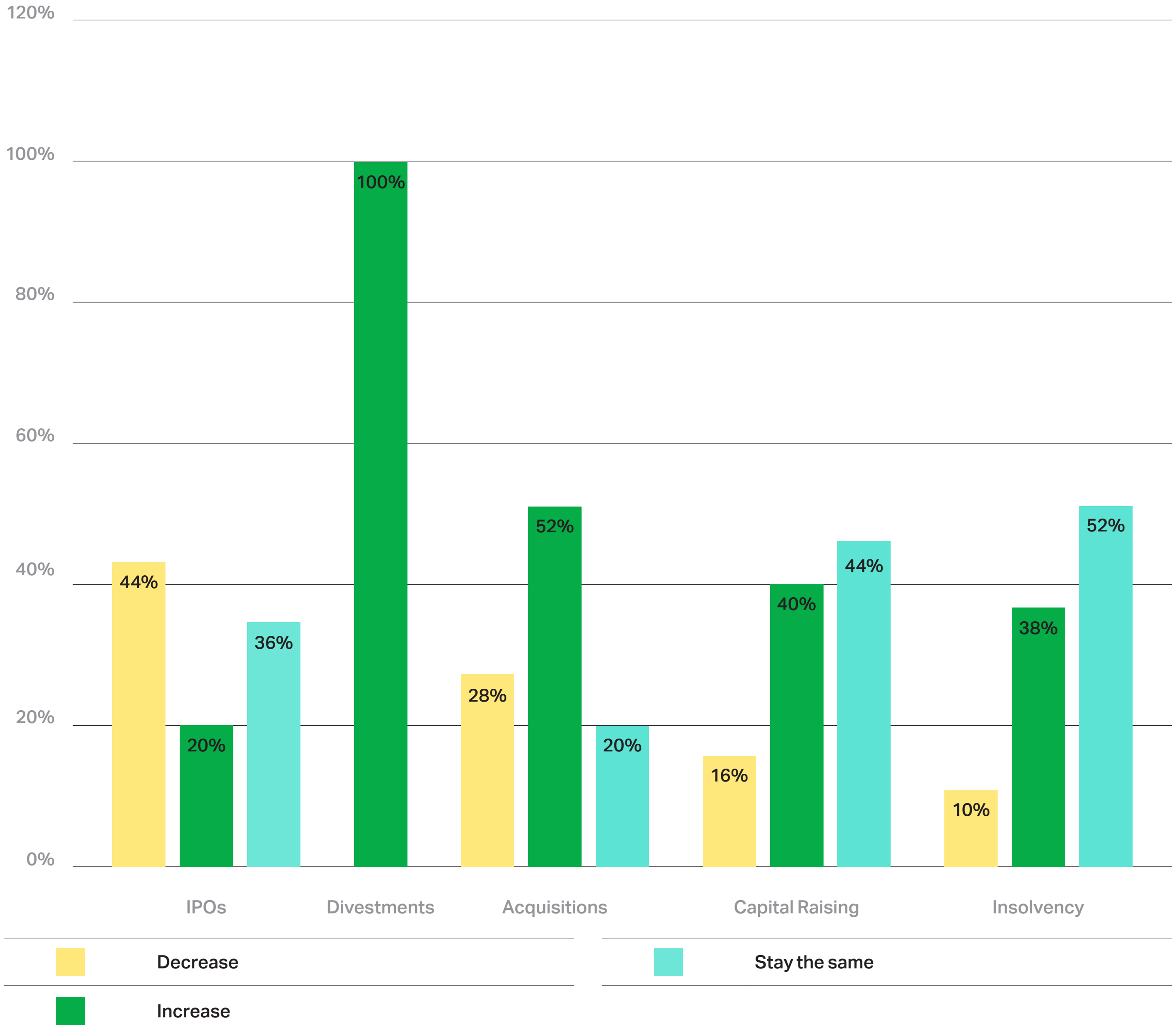
All respondents in our research agree that divestments will increase in the next 12 months. This will be motivated by the need for efficiency and the act of businesses reappraising their strategies.

"The severity of lockdowns and restrictions on trade has caused some business units to become stagnant. If they do not form a part of the core operations, they will be sold eventually and in some cases at a very low price," Partner of an M&A law advisor in the UK

One impediment to divestment activity in 2020 has been the valuation gap between buyers and sellers. There is no shortage of appetite among companies to remodel their operations by divesting of business arms that no longer fit their long-term strategy. But market volatility and unpredictability has stood in the way of some deals going ahead. As the market finds a firmer footing, sell-offs are likely to follow.

Meanwhile, more than half (52%) of respondents expect acquisitions to increase and 44% believe IPOs will decrease. Public market listings will not be for the faint of heart in 2021. If the pandemic continues to wax and wane as it has in 2020, sellers will need to pick their windows wisely and build anticipation for IPOs well ahead of time if they are to push them through successfully. Given the potential for market volatility caused by further waves of the pandemic, many vendors will decide against IPOs, with their mandatory lock-in periods, in favour of cleaner exits.

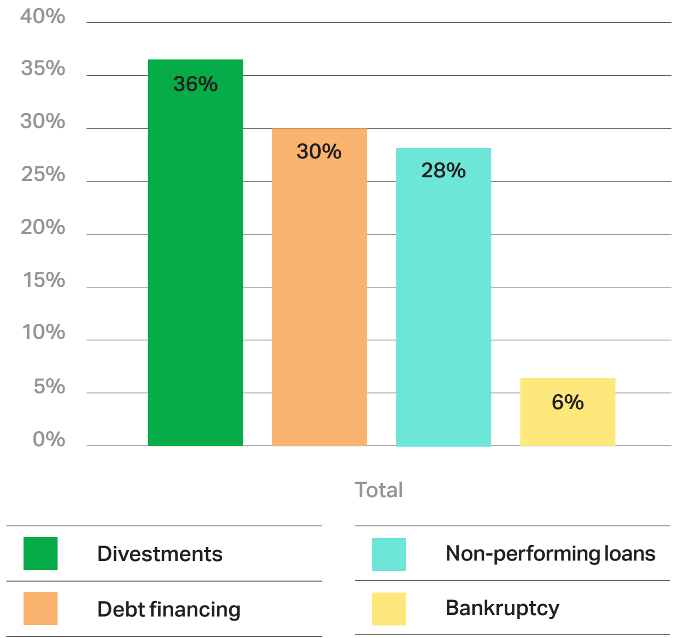
What do you think will happen to the following types of market activity in the next 12 months?



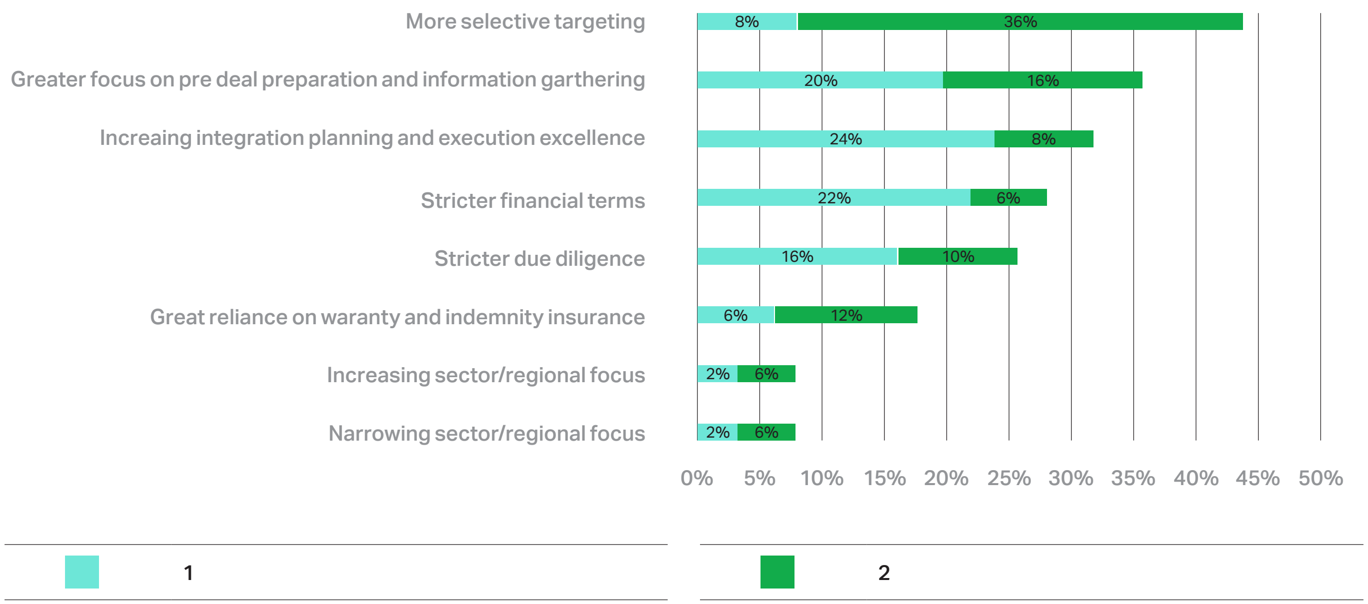
One option which sidesteps much of the burden of planning an IPO and its inherent market timing risk is a reverse takeover with a special purpose acquisition company (SPAC), whereby the private business merges with an already listed shell company. These deals have been unusually popular this year, especially in the US.

For businesses facing challenges and looking to restructure, divestments are seen as the top choice by survey respondents (36%), followed by debt financing (30%).

What type of restructuring will be most prevalent in 2021?



How will companies mitigate M&A risk in 2021? (please rank top two, where 1 = top choice)



Challenges ahead – political, protectionist, pandemic

By far the biggest challenge to completing a deal in 2021 will be macroeconomic and stock market volatility, considered the number one M&A obstacle by 22% of respondents. Ranked as the second greatest challenge by 22% is protectionist trade policies, which have been causing complications for a number of years already now. This protectionism has largely stemmed from the USA and China subjecting each other's goods to tariffs. The change in the US presidential administration may result in softer, less hostile policymaking, however given that trade protectionism has since spread to other territories including Europe, this is unlikely to be reversed completely. (Refer to page 57.)

To mitigate these and the other myriad M&A risks they face in 2021, companies are expected to increase their integration planning and execution excellence (24% among top choices), as well as be more selective in their deal targeting (36% among second choices).

Planning and executing post-merger integration can be a minefield. "People often feel that on paper a consolidation deal looks nice," says the head of corporate M&A at a Netherlands-based law firm. "But you need very strong integration planning, focus and execution to capture synergies and bring together the cultures of different companies."

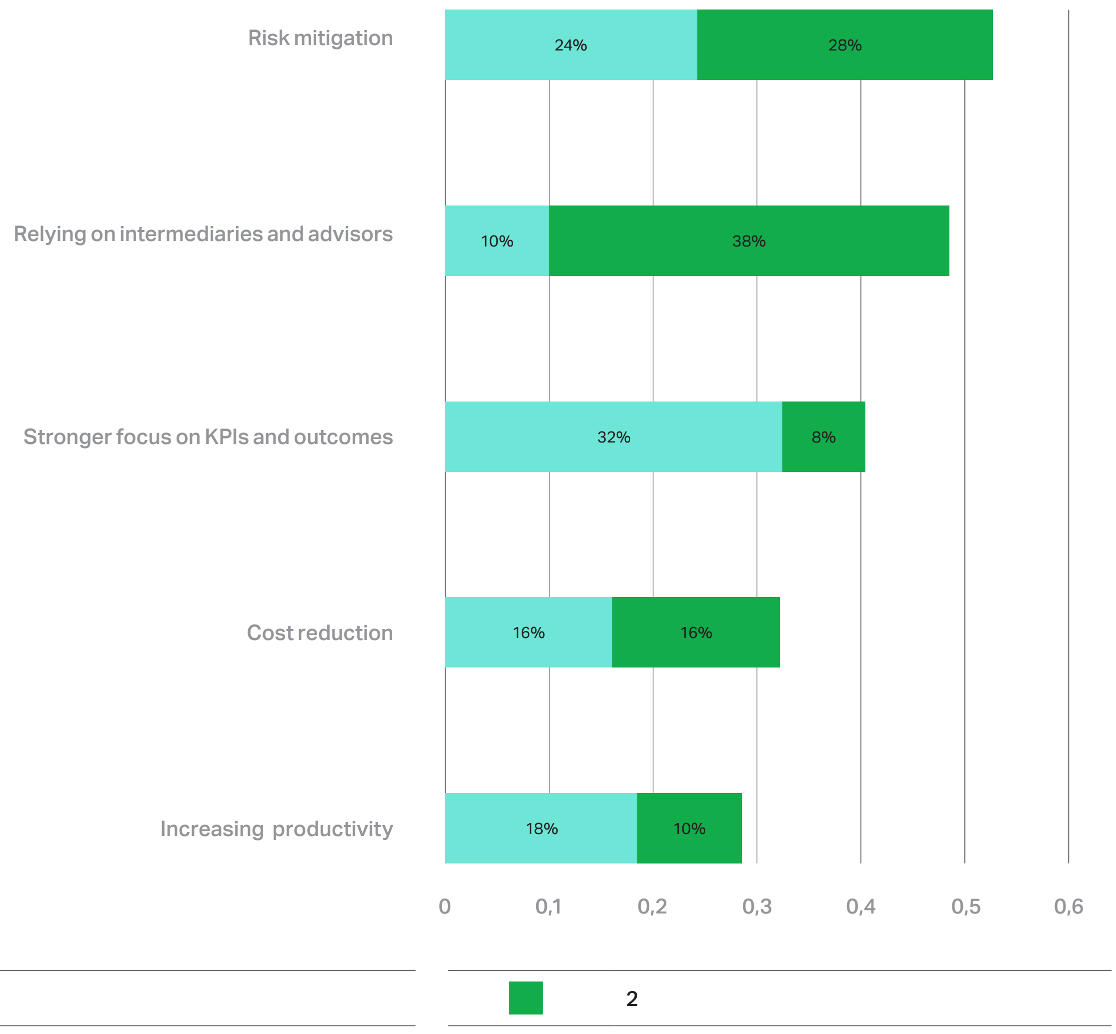
Improving the odds

"Understanding a business target and executing well on a deal is all about preparation"

Alexander Spronk
Ansarada

The potential buyers need to do a full valuation and the due diligence Q&A can sometimes can be a very extensive process. It puts a lot of pressure on the day-to-day operations of the target company, but you can minimize that pressure by preparing well and starting early. Pulling off a successful transaction that delivers the most value gains depends heavily upon understanding a deal target and its market, which requires careful analysis and sector expertise. A number of measures can be taken to improve the prospects of a deal and this is especially relevant in what remains a difficult trading environment.

What will be the biggest focus for companies in 2021? (please rank top two, where 1 = top choice)



In our research, 32% of respondents say the biggest focus for companies in 2021 will be on key performance indicators (KPIs) and outcomes. Data analytics and artificial intelligence (AI) can be applied to M&A situations to hugely beneficial effect.

These applications can deliver insights through the analysis of sometimes overlooked parts of a business's operational anatomy, such as staff turnover and productivity or the return on investment of its intellectual property or R&D function. These insights can help an acquirer understand how to harness future growth post acquisition and guide them in making a competitive but fair bid.

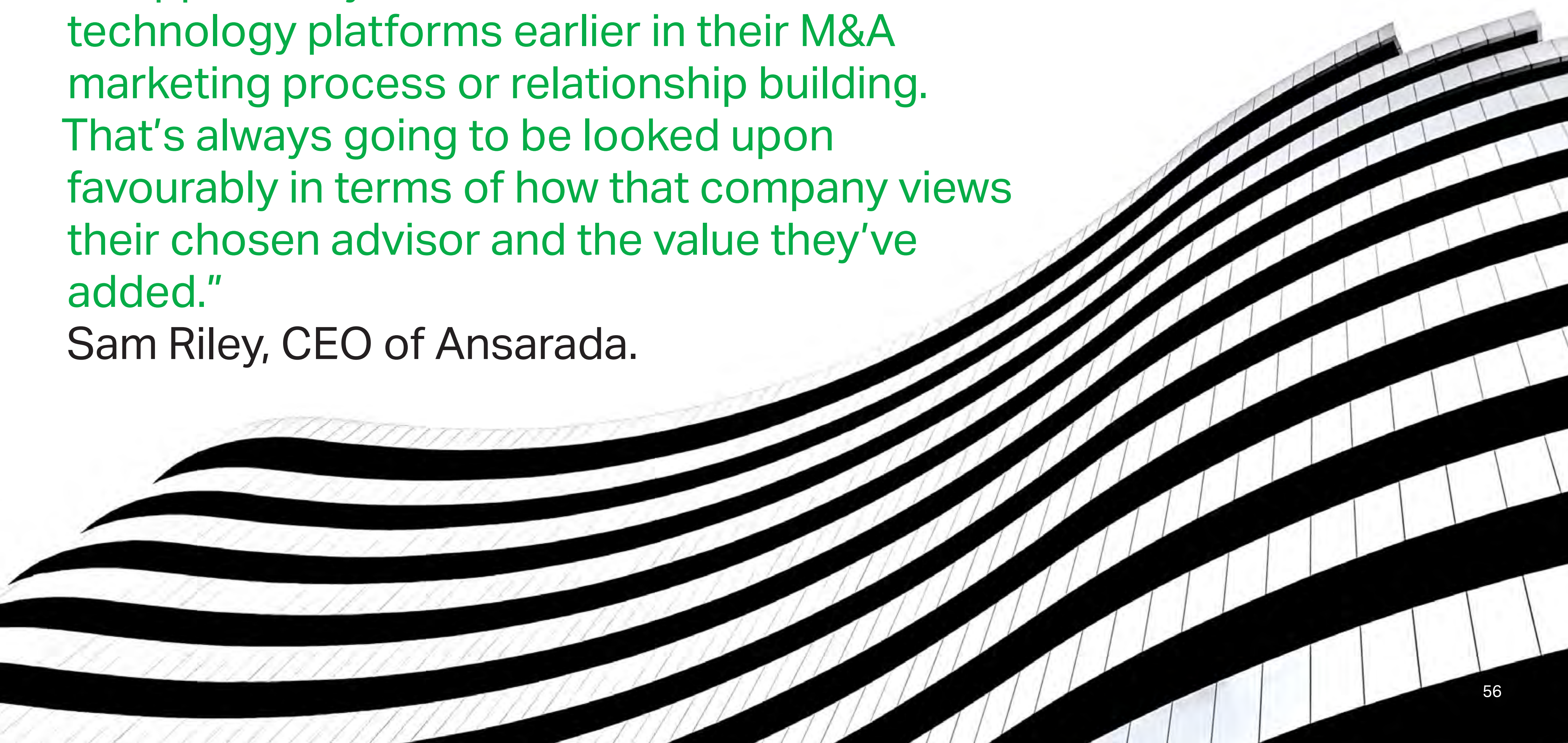
Another major area of focus for companies in 2021, according to 48% of our respondents, will be relying on intermediaries and advisors. Advisors can help to provide an objective external view of a target business and put it into the context of the wider market it operates in. The assessment of KPIs and the use of intermediaries are not mutually exclusive, of course.

The partner of a middle-market investment bank in the UK says that advisors will be more crucial when conducting deals in new markets which hold promise for future growth. "For inexperienced acquirers, preparation and research are highly important and advisors can point out the major risk factors that could stall deal progress."

Indeed, the focus on mitigating risk will be a major preoccupation for company executives in 2021 – 52% of respondents say it would be one of the biggest areas of focus, including 24% who ranked it as the top area of focus.

"Businesses really need to have their data readily available and accessible by multiple stakeholders, at all times, not just when it comes to engaging in M&A. This presents an opportunity for advisors to introduce technology platforms earlier in their M&A marketing process or relationship building. That's always going to be looked upon favourably in terms of how that company views their chosen advisor and the value they've added."

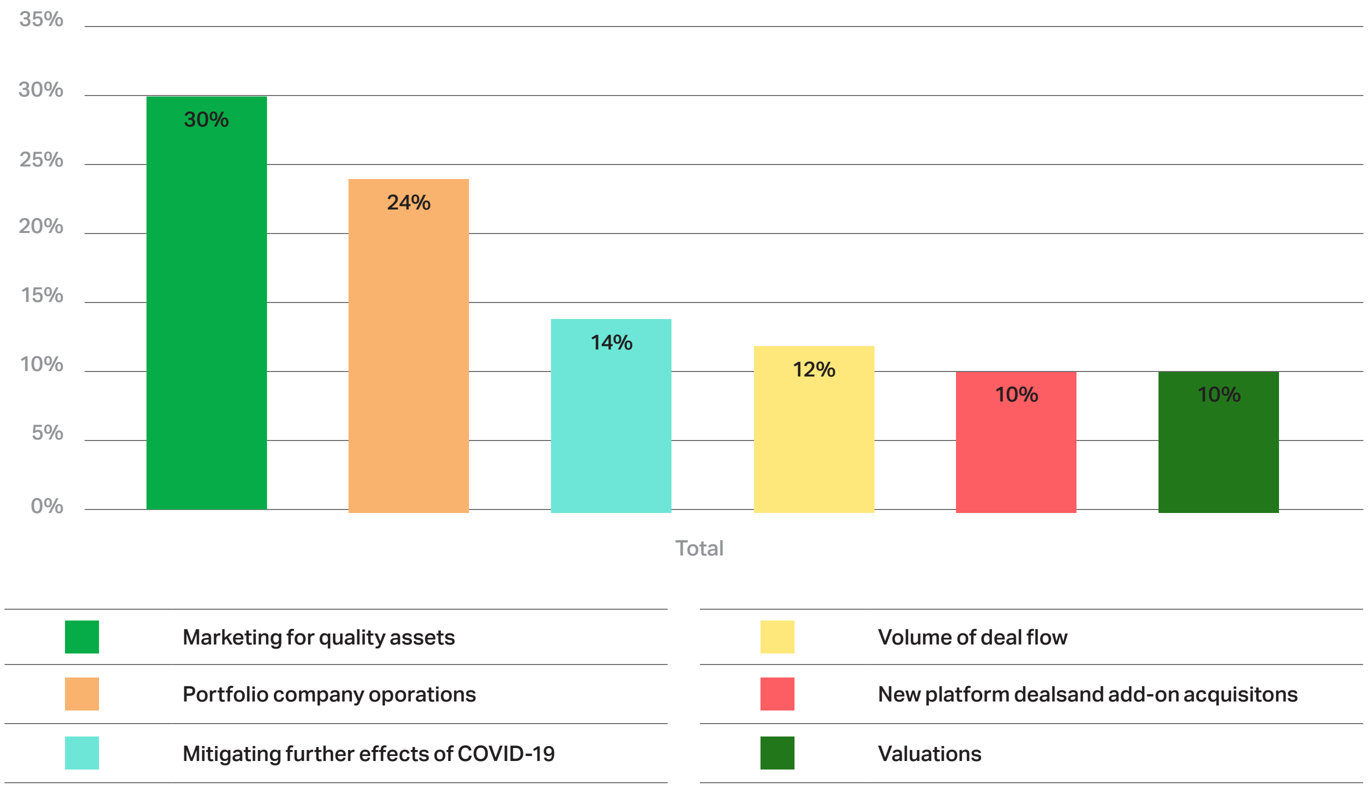
Sam Riley, CEO of Ansarada.



PE lessons

Private equity firms will not bide their time in 2021, they are ready to compete with corporate rivals on an equal footing

What will be the one biggest focus for private equity firm in 2021?

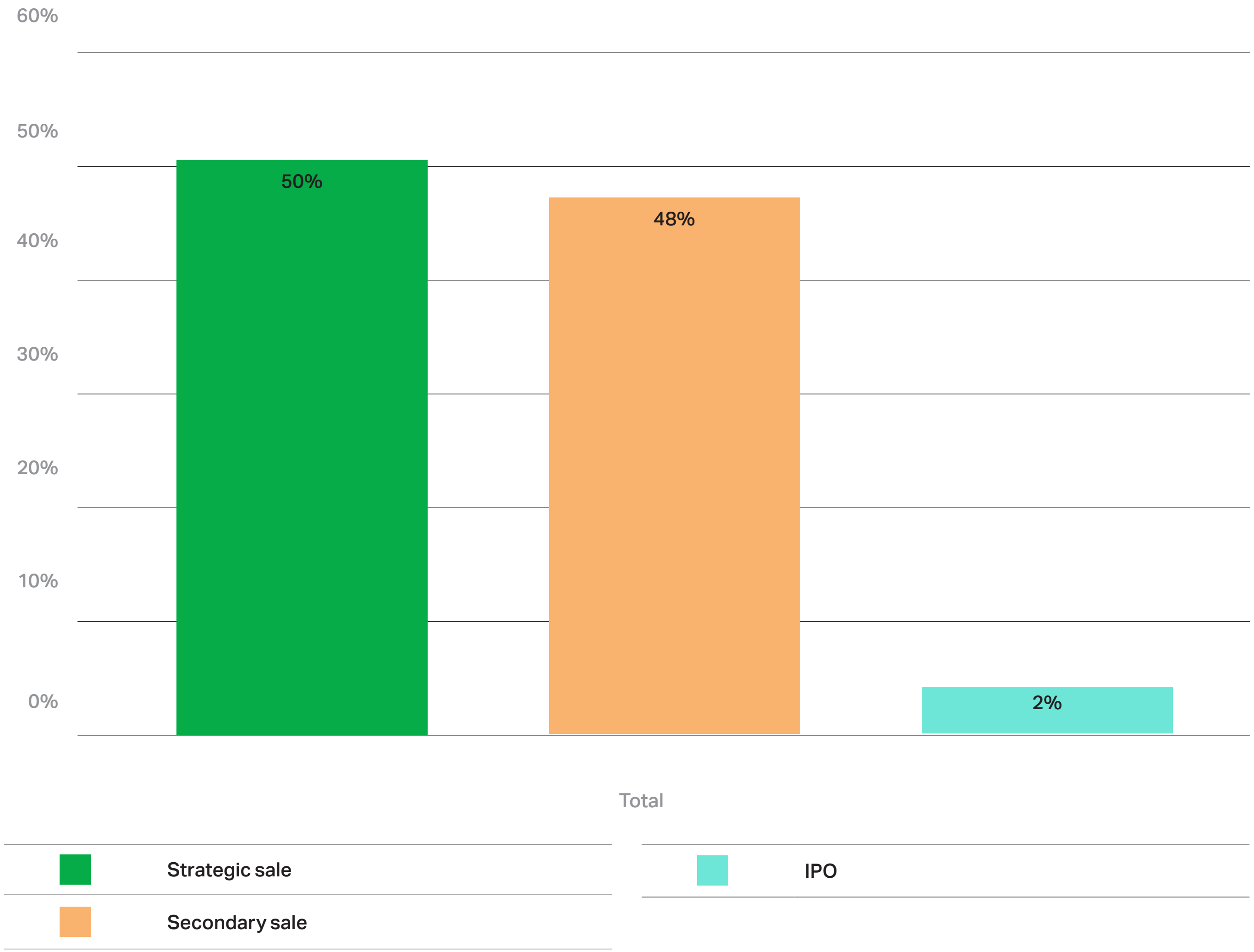


Private equity has deep pockets and is primed and ready to make outsized investment returns from the current market dislocation. Funds raised in 2016, 2017 and 2018 are likely to suffer the worst effects of the economic damage of 2020 since they will have already invested much of their capital before the outbreak. At the same time, funds raised since then will be able to capitalise on the fall in entry multiples in the acquisitions that stock more recent fund vintage portfolios.

A partner of an M&A legal advisor in Belgium told us that they expect PE funds to consider at the portfolio level "what new technology or talent investments can be made to increase productivity levels" in the year ahead.

Naturally, this will not be a free-for-all. As the pandemic has exposed, the prospects of different industries differ greatly and this calls for smart investment theses and intelligent approaches to deal sourcing. We find that marketing for and targeting quality assets (30%) will be the biggest focus for private equity firms in 2021, followed by portfolio company operations (24%). As much as PE firms' deal teams have an opportunity to secure attractive buyouts amid current conditions, operations teams will be paying careful attention to how their existing portfolio companies are coping and what steps they are taking to ensure their growth in the face of considerable obstacles. Without question, data platforms are a way for PE funds to gain greater operational insights at the portfolio level.

Which do you expect to be the primary form of private equity portfolio exit in 2021?

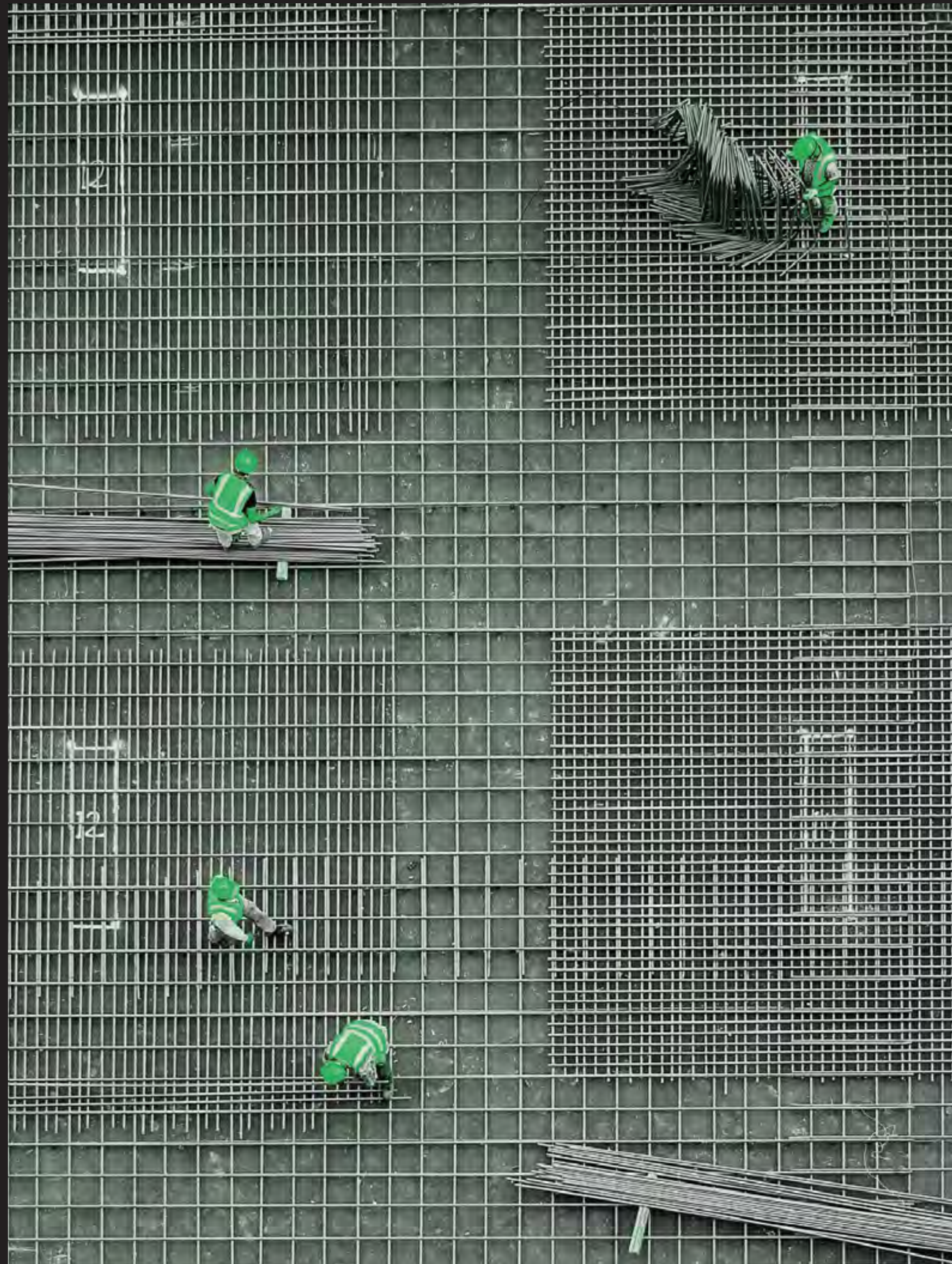


Clearly 2020 has not been the seller's market that private equity has enjoyed over the last few years. However, as conditions stabilize and the outlook becomes clearer, funds will be seeking liquidity. The preferred method for exiting is almost evenly split between strategic sales (50%) and secondary sales to fellow PE funds (48%). IPOs always represent the minority of exit volume as they are best suited to larger companies that can drum up wide investor interest. They are also highly dependent on strong market confidence, even in the most benign economic conditions. The pandemic has made this exit route especially tricky. Lock-up periods mean that PE funds have to hold significant equity positions in the companies they sell through what might be continued stock market turbulence. With this in mind, only one respondent (2%) says that IPOs will be the primary route to exit among private equity funds in 2021.

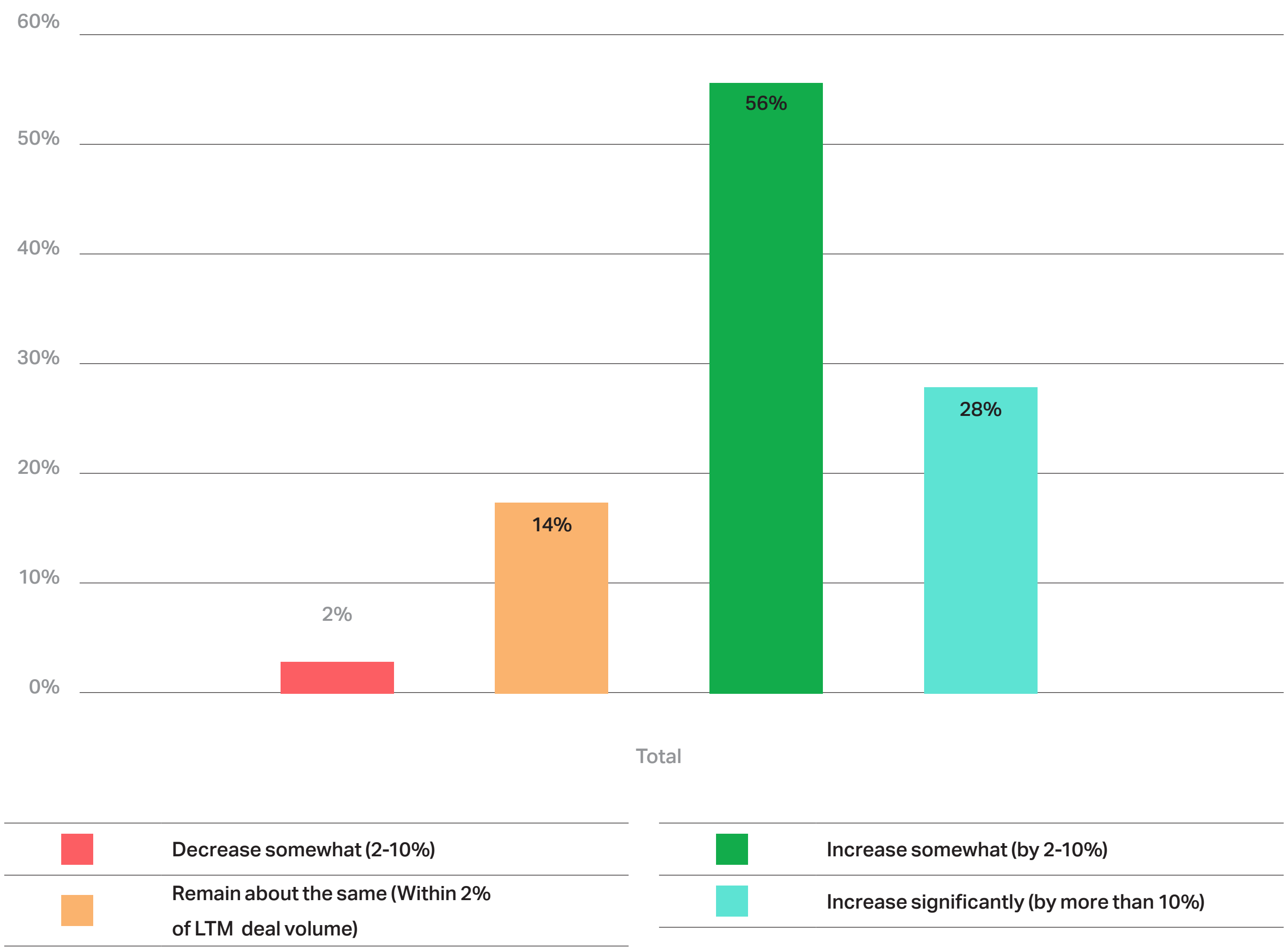
50% say strategic sale will be preferred method for exiting in 2021

50%

Distressed deals on the rise



What do you think will happen to the number of distressed M&A deals in 2021?



Our survey reveals that distressed deals are likely to rise significantly in 2021 with Europe and the energy sector most affected.

There is little doubt that distressed deal flow is going to rise in the months ahead. Much of this activity is pent up, delayed by government stimulus measures. Loan programmes to businesses worst affected by the pandemic have bought them extra time. However, stimulus is not unlimited and will be wound down at some point, which will put many businesses under financial pressure and shareholders and business owners, fatigued by 2020, may have few options but to seek distressed acquirers. No less than 84% of respondents expect such deals to increase to some extent in 2021, 56% believing they will rise by 2-10% in 2021 and 28% expecting a rise above this.

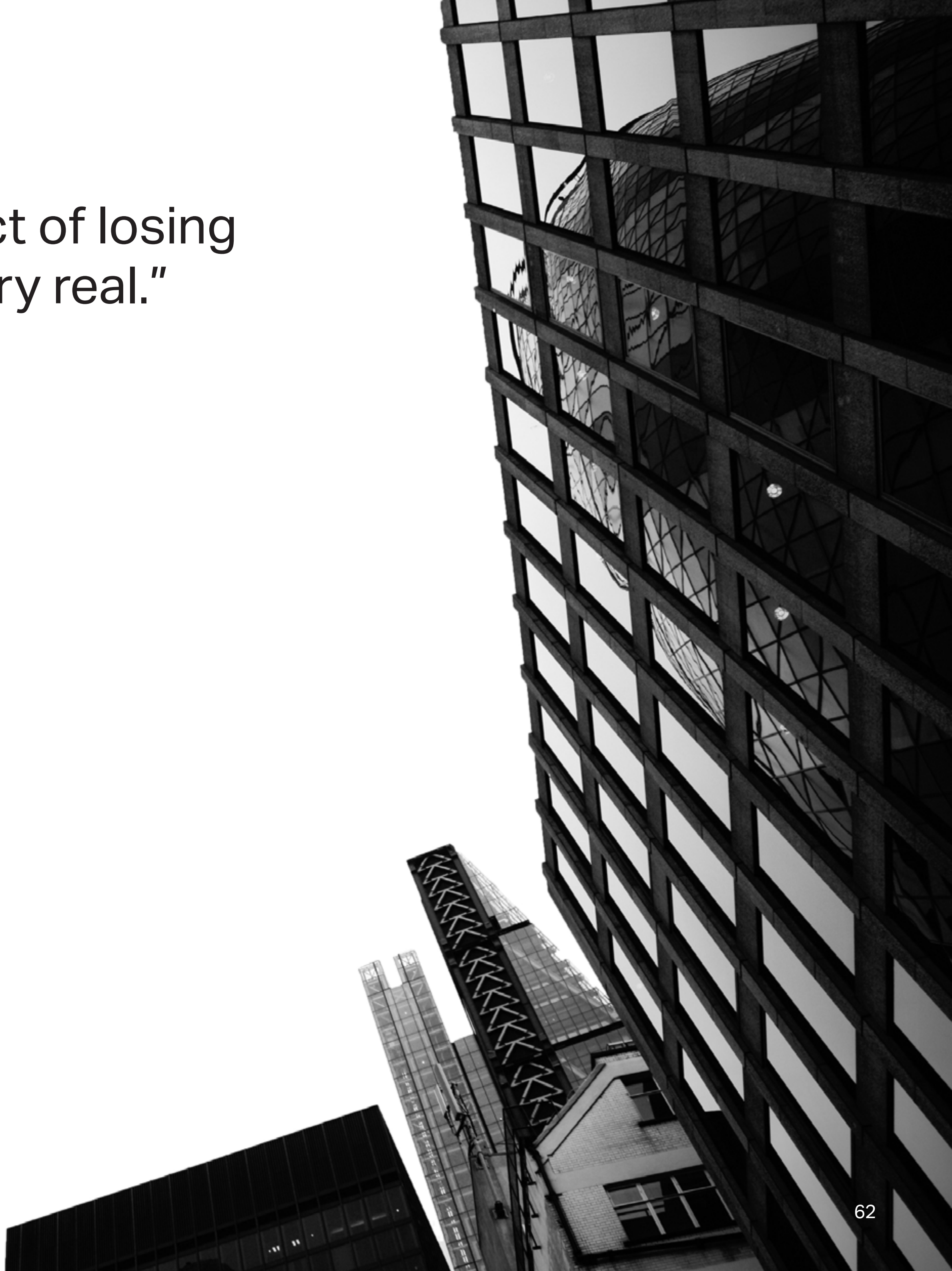
84% expect the number of distressed deals to increase in 2021

84%

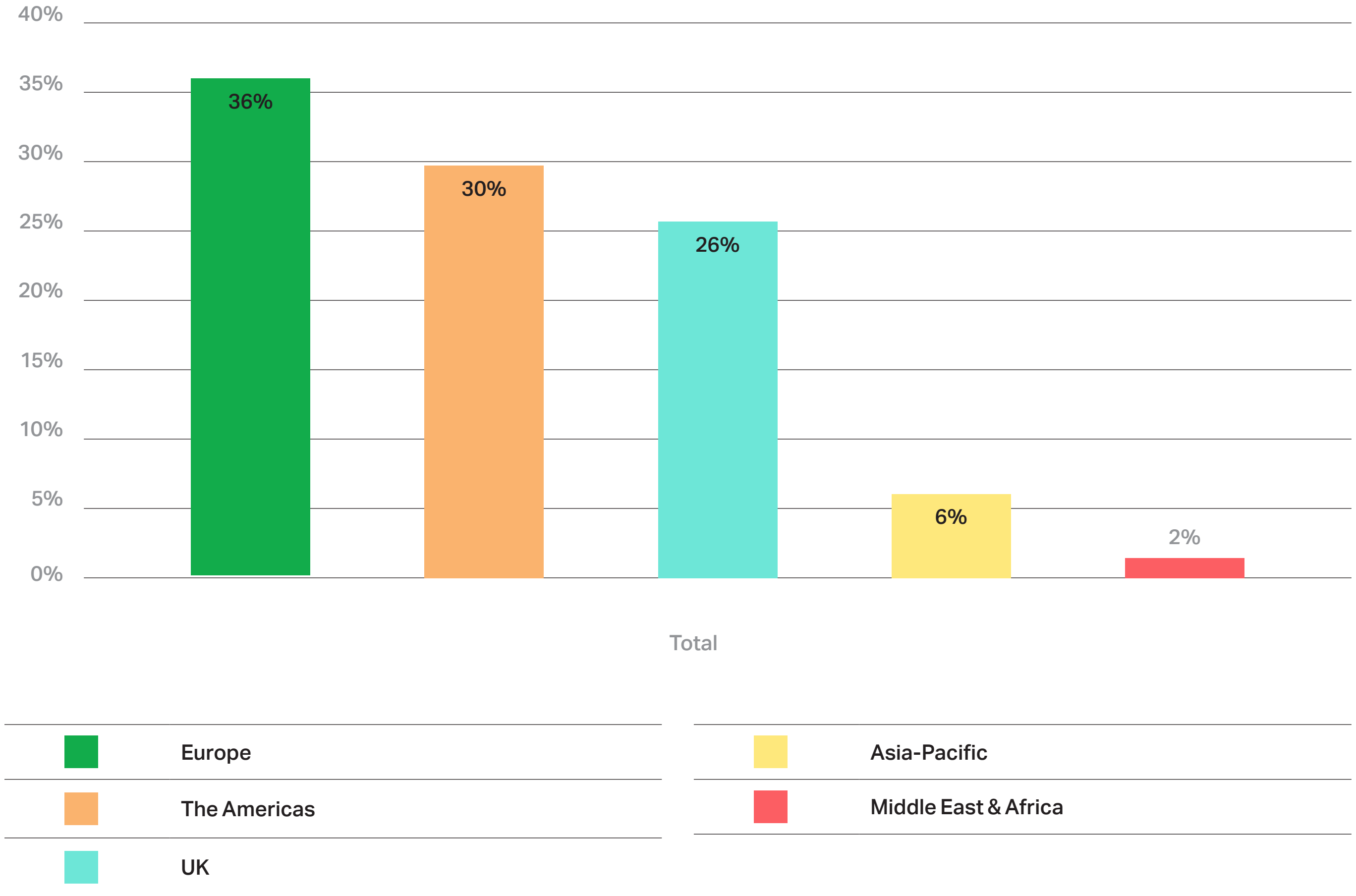
“COVID-19 has made the prospect of losing your life’s work and retirement very real.” Sam Riley, CEO of Ansarada.

“Companies that are dealing with weak organic growth are going to have a lot of choice amongst those distressed assets. Traditionally, these deals would be looked at by a narrow type of buyer, but I think that buyer group is going to become much broader. Businesses are hungry for a bargain and a lot of companies are owned by baby boomers at retirement age. They won’t be taking the same risks as they did in 2018 or 2019 because COVID-19 has made the prospect of losing your life’s work and retirement very real.” said Sam Riley, CEO of Ansarada.

A partner of a middle-market investment bank in the UK told us that, while distressed deal flow is likely to increase, synergies need to be evaluated with extreme accuracy in these special situations. “Acquirers cannot expect immediate results when investing in a distressed company. Cost-reduction strategies will be the preferred way to deal with current financial pressures.”

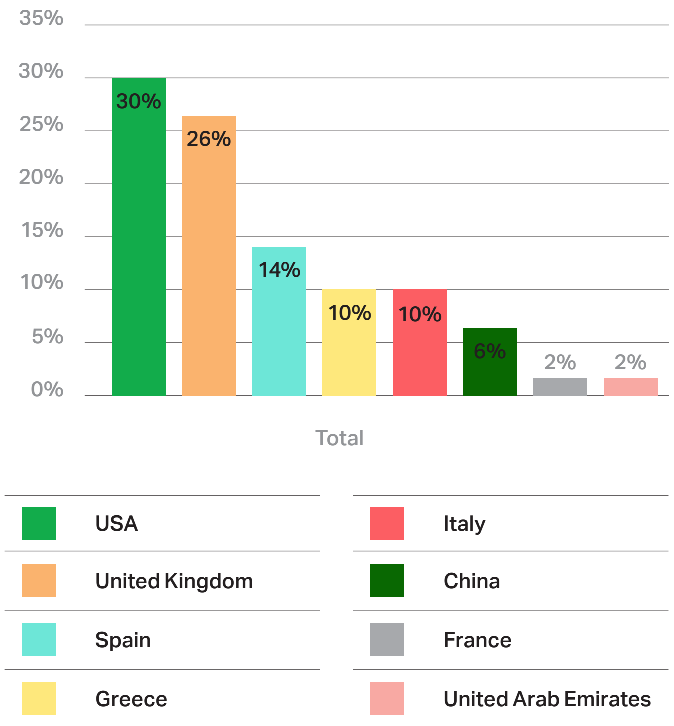


In which region do you expect to see the most distressed M&A activity in 2021?



Europe (36%), which was already experiencing weak economic growth prior to the pandemic, is expected to be the region with the most distressed M&A activity in 2021. Within the region, Spain (14%), Italy and Greece (10%) are the countries expected to see the most distressed deal volume. All three countries, beset by the pandemic, have agreed to tap the EU's €750bn recovery fund to boost their flagging economies.

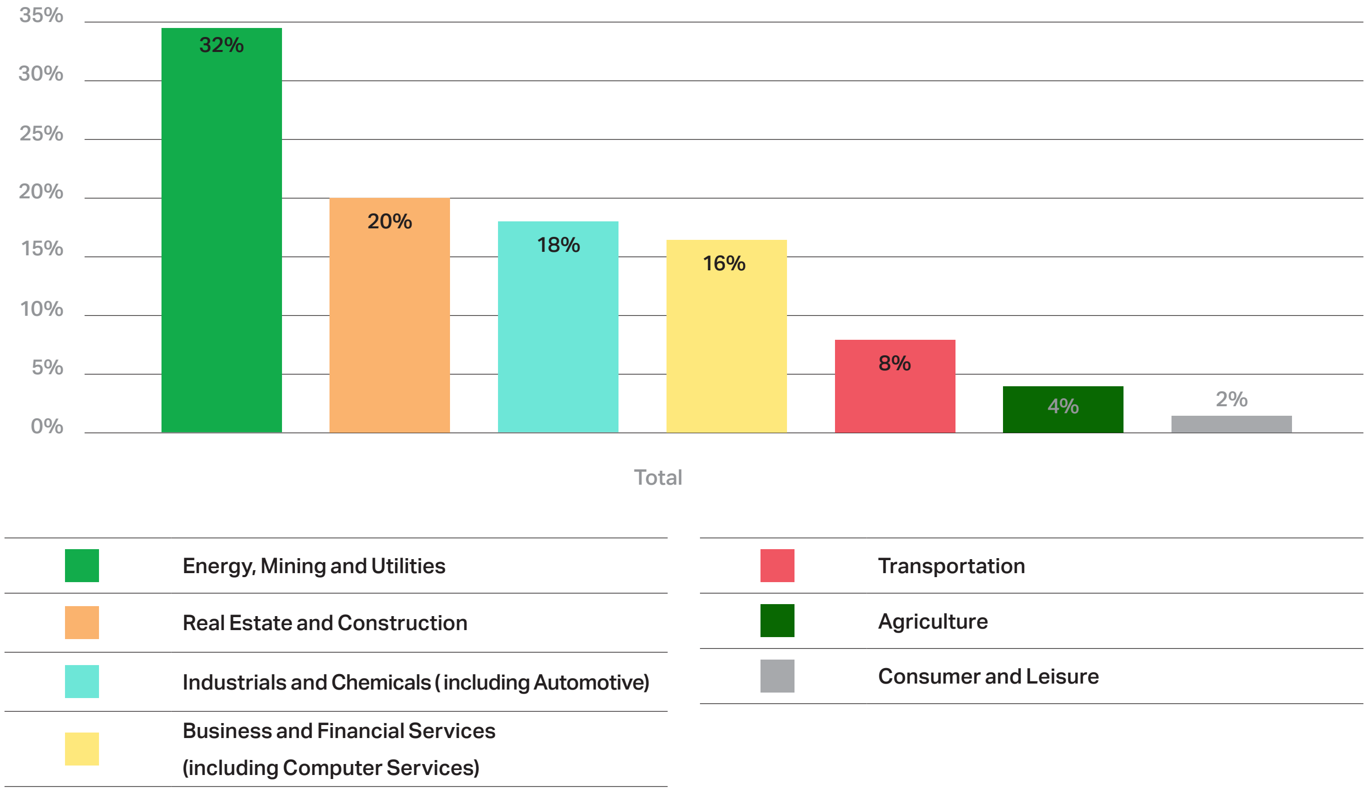
Within the region specified to the right which country do you expect to see the most distressed M&A activity in 2021?



The three sectors expected to see the most distressed activity in 2021 are energy, mining and utilities (32%), real estate and construction (20%) and industrials and chemicals (18%)

It is no coincidence that these are all highly cyclical sectors and have all succumbed to the effects of the pandemic. A weakened oil price and a fall in demand for commercial real estate has left many operators within these industries with strained cash flows and stressed balance sheets, making them prime distressed takeover targets for financial sponsors that see upside or corporates that can identify synergistic value.

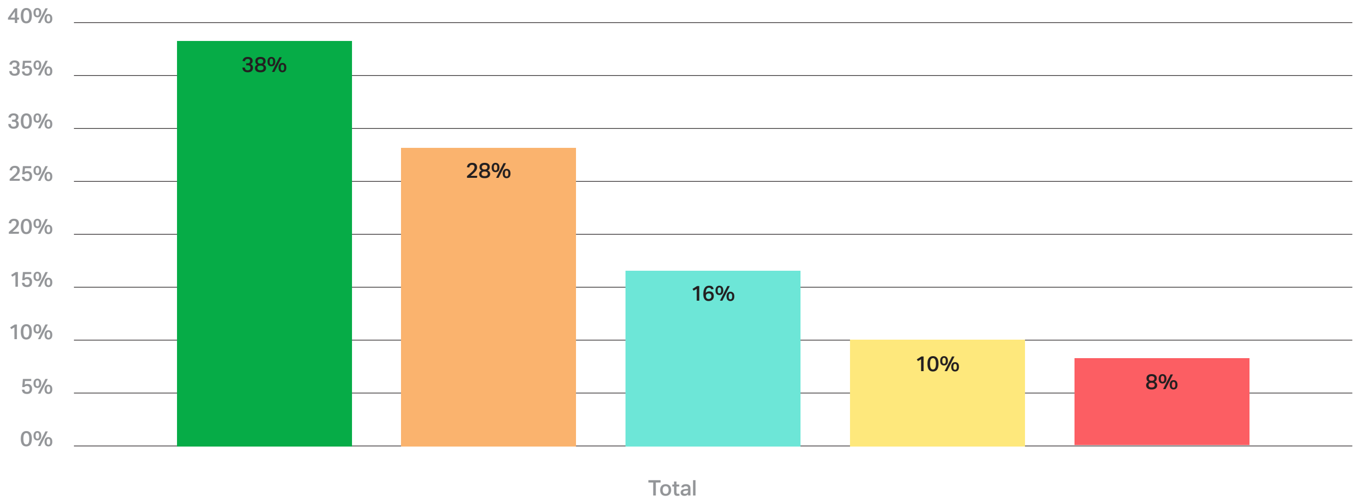
In which sector do you expect to see the most distressed M&A activity in 2021?



Getting deals done in the age of COVID-19

COVID-19 has not just devastated the deal landscape but it has also made key processes such as negotiating and due diligence far more difficult. However, dealmakers are using their initiative and technology to get transactions over the line

Which part of the M&A process will be most difficult in 2021?



Due dilligence	Deal sourcing
Financing	Integration
Agreeing on price/valuation	

The COVID-19 pandemic has clearly made dealmaking more challenging, not least because negotiations have to be conducted remotely as people continue to avoid all but absolutely necessary travel. Even so, tools such as sophisticated virtual data rooms and the application of advanced data analytics have minimized disruption to M&A, allowing in-depth due diligence and negotiations to be undertaken remotely.

Nearly all respondents (94%) in our research agree that M&A processes will take longer to complete than before the coronavirus outbreak, with 48% saying they will take substantially longer. Rather than deal sourcing or target integration, it is due diligence that is expected to be the most difficult part of the M&A process in 2021, as cited by 38% of respondents. In addition to engaging in diligence as early as possible so as not to put too much pressure on a target company, especially amid the pandemic, it is important that businesses have strong information governance embedded in the first place. In most cases companies are not in control of their data and this can cause complications and delays and frustrate strategic decision-making. (Refer to page 19.)

38% say the due diligence process will be the most difficult part of M&A in 2021

38%

“We can show in our reporting who’s looked at what to validate that they’re not just there to kick the tires. It goes very deep into who has access to what information, and who’s reviewing what documents in order to provide an engagement score,”

Alexander Spronk, Head of Europe at Ansarada

Reasons to be cheerful

The M&A community is upbeat about 2021

There is a broad expectation that activity will trend upwards. We anticipate that lockdown restrictions put in place towards the end of 2020 will be less of a dampener on confidence and deal activity than the first round of restrictions, companies now being more familiar with the measures and their revenue impact.

While 2020 has been a tough year for dealmakers, our survey shows that the tide is turning in 2021

Some businesses have met challenges that 2020 has thrown at them head on. "Some companies will come out of the crisis stronger," says the head of corporate M&A at a Netherlands-based law firm. "They will realize that some of their competitors may be weaker, and in some industries like banking, industrial and healthcare, where consolidation was already ongoing, the stronger companies will grab these opportunities in 2021."

Difficult trading conditions will push companies to seek M&A to achieve elusive growth and we are anticipating more “acqui-hires” as companies buy in talent as well as technology and IP. There should also be a steady flow of distressed opportunities when government stimulus eventually expires.

Of course, any government decisions to put in place further restrictive measures will continue to be detrimental for sectors dependent on physical interaction, and cyclical industries remain exposed. While most businesses adapted well in the previous lockdown and many thrived, it will not be an even playing field.

In any case, whether transactions involve assets that are flourishing or foundering, digital tools that support the M&A process will prove to be indispensable over the coming years. Those with the clearest view of a company and its data – and can draw unique insights from this intelligence – will have a competitive edge to profit from the forthcoming recovery.

Takeaways

1. Prepare for the M&A rebound

Much of 2020 was spent steadying the ship by seeking liquidity and cost efficiencies.

Companies should now be gearing up for an increase in appetite for M&A. Those seeking acquisitions should already be approaching senior management with deal proposals ahead of the competition. Similarly, businesses wishing to divest to hone their strategies should be prepping the marketing of these assets to build interest well ahead of time.

2. Distressed M&A to rise as stimulus expires

With the expected winding down of stimulus in the short to medium term, there will almost certainly be a rise in distressed activity in the latter half of 2021, concentrated in the leisure, travel and consumer discretionary sectors. Understanding the underlying value in these vulnerable, higher-risk companies will be especially crucial for acquirers to meet their cost of capital.

3. Expect volatility but don't be deterred by it

The biggest challenge to dealmaking will be market turbulence and a less-than-certain economic outlook. Accepting this and pre-empting it by developing robust base case scenarios based on solid KPIs can help bidders understand when to stay at the negotiating table or walk away. Data governance is critical in making these decisions.

4. Use technology to improve insights and successful outcomes

Digital tools were already being embedded in M&A processes prior to 2020. This existing trend will be accelerated by the pandemic. Data insights are making due diligence processes more incisive than ever before and buyers will be increasingly exploring the adoption of technology in the diligence of assets and negotiating processes.

5. Preparation is critical

We have long held that preparation is a fundamental ingredient of a successful sale process. Not only does early engagement demonstrate a willingness to transact and put less pressure on the deal target, it also gives bidders time to build a robust investment thesis and smart bidding limits. Ultimately deal prep affords a bidder more time to identify value. However, companies should not wait for an imminent M&A situation to get their data governance in order. Understanding the inner workings of a business ultimately improves management decisions and performance. The time to act on this is now.