

FIRMEX

Deal Flow Bulletin

Q2 2021





Bulletin Highlights

- In tracking new Q1 data room activity, **Firmex forecasts a 5% increase in deal announcements over the next 90 days compared to the previous quarter.**
- **48% of M&A advisors think that the pandemic's impact has been negative,** while 35% stated that the impact was neutral.
- When surveyed, **68% of M&A advisors anticipate an increase in deal volume,** while 28% expect no change.
- **71% of M&A advisors are expecting to see an increase in the number of active sellers** on the market, with only 7% expecting a decrease.
- **Buyer and seller valuation expectations remain as the primary challenge (49%) for M&A advisors,** with the inability to meet face-to-face (22%) identified as the second-most challenging obstacle to completing deals.

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Overview

As the most widely used virtual data room for deals—with more than 15,000 rooms opened per year—Firmex holds unique insight into data room creation and its relation to deal volumes. This insight is shared in *The Firmex Deal Flow Bulletin*, which uses the rate of virtual data room openings to forecast future deal announcements. This bulletin brings together Firmex's unique quantitative insights on deal flow with current market sentiment among dealmakers, based on what they're actually seeing in the field.

Predicting deal flow can be challenging at the best of times and it's made all the more challenging by the COVID-19 pandemic. Despite the lingering macroeconomic uncertainty, our data shows there's reason for optimism. We predict a steady deal recovery in Q2, with many dealmakers indicating a bullish outlook for upcoming deal flows.

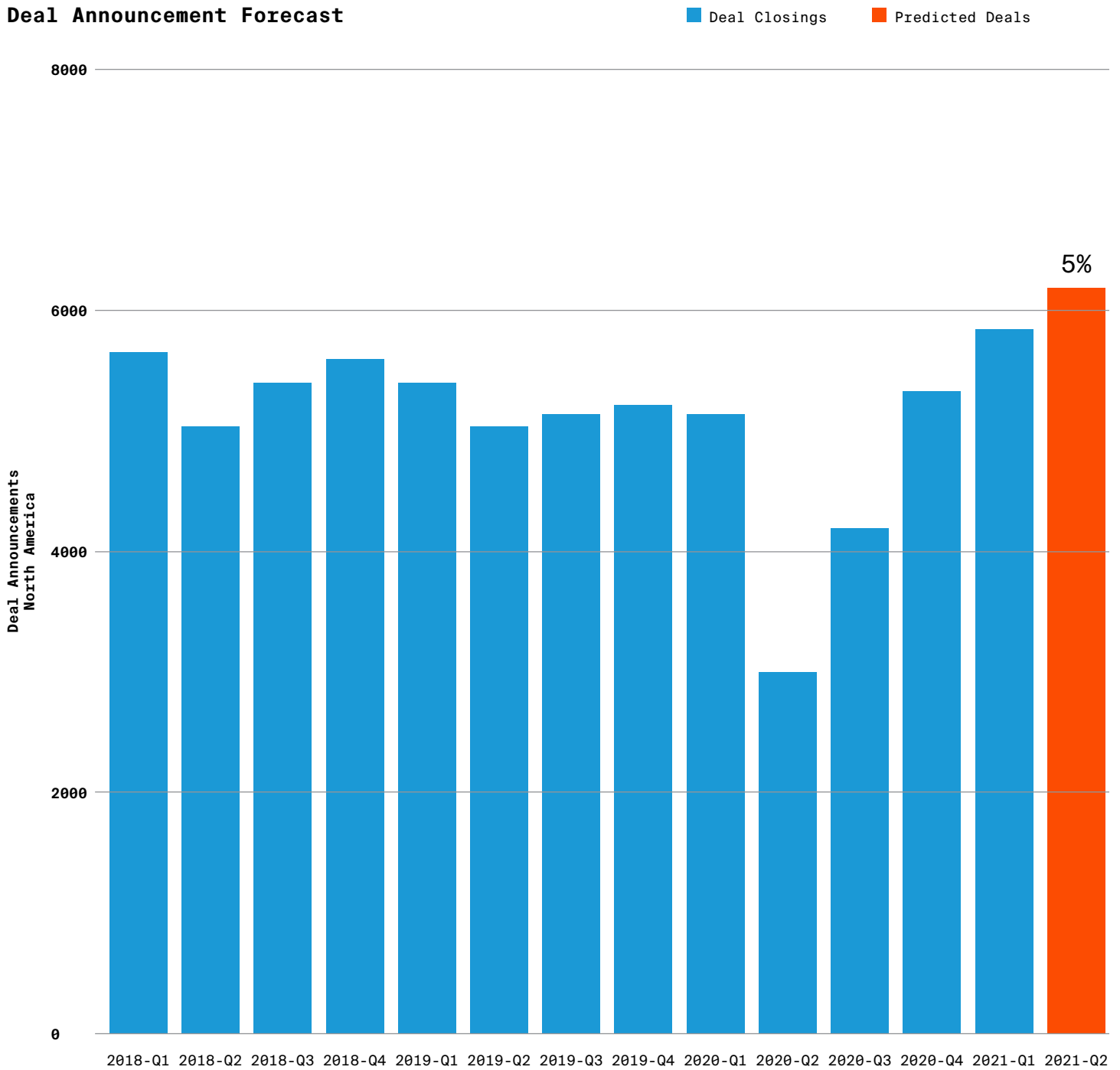
About the Survey

The Firmex Deal Flow Survey received responses from M&A experts worldwide, with responses narrowed down to participants from the United States, Canada, and Mexico. The survey ran from November to December 2020, with a total of 132 respondents. Of the total number of respondents, 79% identified as either investment bankers or M&A advisors, with the remaining 21% of respondents identifying with M&A related roles. We believe the current survey sample size is of sufficient size and breadth to capture the sentiment among M&A advisors regarding deal volumes for North America as a whole.

The Firmex Deal Flow Forecast

As the most widely used virtual data room provider for deals, at over 15,000 new data rooms opened per year, Firmex has unique insight into data room creation as it relates to deal volume trends, seasonal patterns, and for projecting deal activity into the future. In tracking new Q1 data room activity, Firmex forecasts a 5% increase in deal announcements over the next 90 days compared to the previous quarter.¹

Deal Announcement Forecast



Source: Thomson Financial, Institute for Mergers, Acquisitions and Alliances (IMAA) Analysis and Firmex Model Analysis

¹ This Q2 forecast is based on an estimate of Q1 2021 by Firmex, using historical data as reported by IMAA.

Reactions

SPAC activity will likely cause this number to be significantly higher, as the number of companies going public through SPACs will become a popular alternative to traditional IPO routes. Although, this may eat into traditional M&A flows as PE and strategic buyers find it tougher to pay similar multiples. – **Mitch Lang, Colliers Securities**



The quick rise from the Q2 2020 trough was a surprise to many M&A professionals. It is reasonable to expect a solid number of deals, now that companies have a better understanding of the path forward. – **Federico R. Cuevas Delint, ONEtoONE Corporate Finance**



M&A activity continued to accelerate as 2020 came to a close and shows no signs of stopping in the first quarter of 2021. This level of activity combined with the COVID-19 vaccination rate, strongly suggest brisk deal flow to continue for 2021. Barring any unforeseen geopolitical or significant economic events, 5% is conservative. – **Charles Morningstar, Sound Business Brokers**



With the second half of 2020 seeing improved market conditions, favorable vaccination news, positive investor sentiment, and record levels of dry powder, Q2 2021 will continue to build momentum on a hopefully very prosperous year. – **Douglas Palmer, Ascend Capital Group**

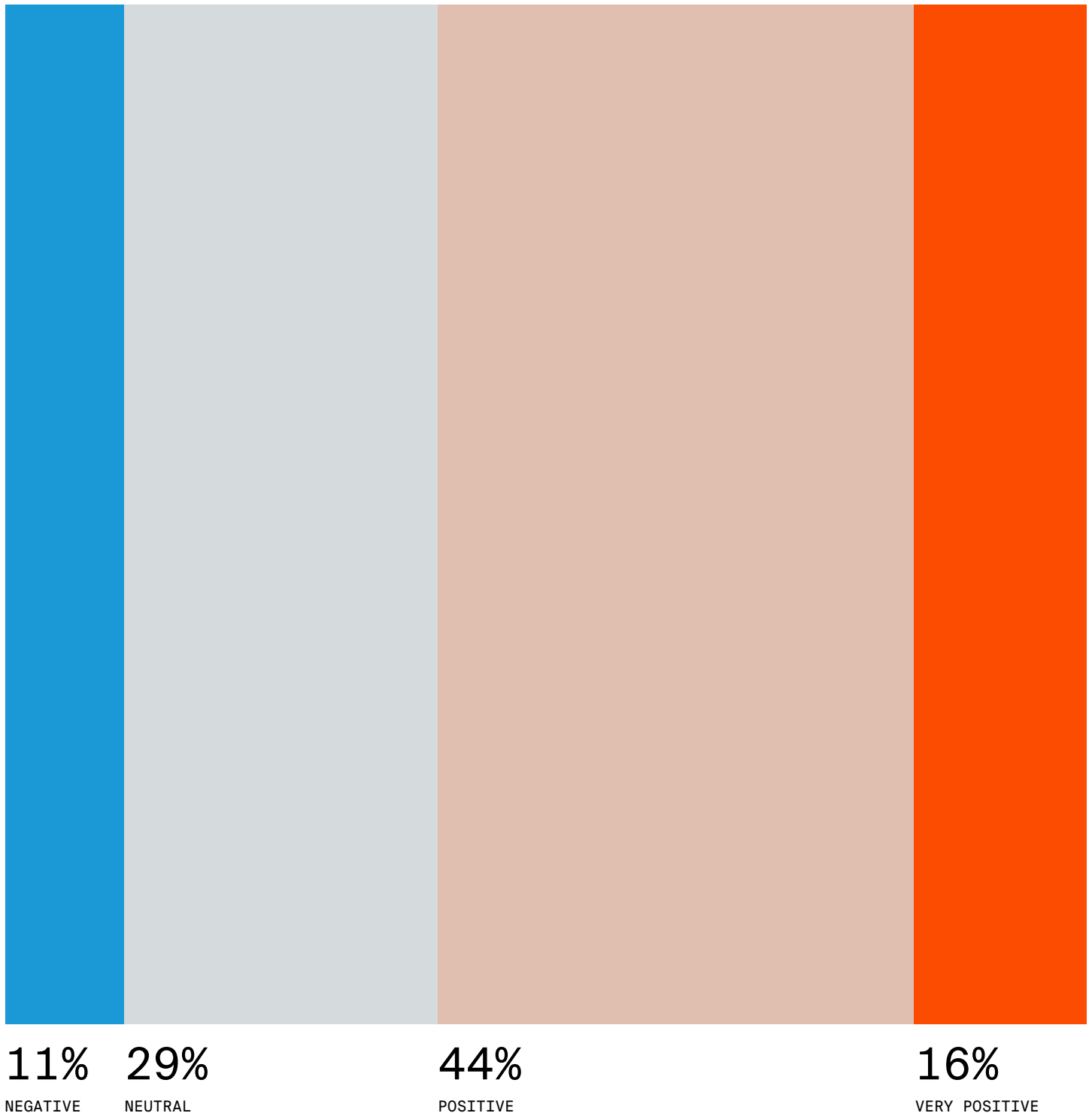


Q2 2020 saw a contraction in deal closings. Judging from our experience, this was primarily due to constraints on lenders, given the pace of government-backed loan programs. Q2 2021 likely will see a year-over-year surge, but this may be anomalous due to the Q2 2020 bottleneck. It will be difficult to predict future deal closing volume until the impact of the vaccines is known. – **Clint Whitaker, Austin Dale Group**

M&A Market Sentiment

In looking ahead for the near term, when asked how they feel about the M&A market, most M&A advisors (44%) hold a positive view of the M&A market, with 16% even stating that they feel very positive. About one-third or 29% remain neutral, while 11% hold a negative view of the M&A market.

As a whole, how are you feeling about the M&A market?



Reactions



There is pent up demand for M&A following the initial uncertainty regarding COVID-19 and the U.S. election. There is now more clarity on the short-term and long-term financial performance, as well as recognition of who are the “winners” and “losers” in a post-COVID-19 economy. – **Brett Carmel, Seale & Associates**



Sellers’ expectations remain high on valuations. Banks have reduced the relative amount of debt being provided to acquire. Buyers’ due diligence is more rigorous due to the economy and slower due to the inability to meet in person. – **Alan Crossley, A. Crossley & Associates**



We are currently experiencing an important M&A wave. I would expect that current trends, although slowing over time, hold for the rest of the year.
– **Federico Cuevas Delint, ONEtoONE Corporate Finance Group**



The private markets are still volatile. There are latent macro effects that have yet to play out in the private markets and the economy at large. While markets have fully re-opened, many lenders and sponsors are still significantly affected by their portfolio exposure in certain industries. The underwriting process for businesses affected by COVID-19 can be difficult, due to uncertainty about the post-COVID environment. Now more than ever, experience and expertise play a key role in navigating the private capital markets.
– **Jared Earles, Caddo Lake Capital**



The market is strong, and with buyers and investors leveraging technology rather than travel to conduct their diligence, productivity is at an all-time high. There is a ton of dry powder and the interest in doing deals is robust. Plus, after a challenging 2020, investment committees are increasingly comfortable with how an acquisition will perform in a less-than-ideal environment. The upside for technology and technology-driven companies is huge.
– **Chad Harding, PEAK Technology Partners**

Reactions



The economic effects of the pandemic have reduced the number of attractive companies available, so it appears valuations for good companies are being bid up by buyers. Older potential sellers have received one more body blow and are ready to get out. Lastly, fear of increased capital gain tax rates in the U.S. will tip more owners into sell mode.

– **Robert Rough, Telos Capital Advisors**



The number of business owners contemplating a sale has increased due to the COVID-19 impact. Buyers' interest remains strong. For these reasons, our M&A firm is busy with interested vendors. The biggest challenge is business valuation and its impact on sale price and terms. The effective use of an earn out term is allowing seller and buyer to share risk and transactions to be completed. – **Tom Schmidt, Norton McMullen Corporate Finance**



Middlemarket M&A is booming. There are lots of reasons, including the massive overhang of private equity funds ready to do deals, uncertainties resulting from the pandemic, etc. However, digital transformation has now jumped to the top of the list for many entrepreneurs. This transition presents tremendous opportunities to return production to North America, but for many owners it also presents challenges outside their historical experience and their team's existing skill sets. For an increasing number of owners the answer is to team up with a larger organization with the financial backing and skills to navigate these treacherous waters.

– **John Slater, FOCUS Investment Banking**

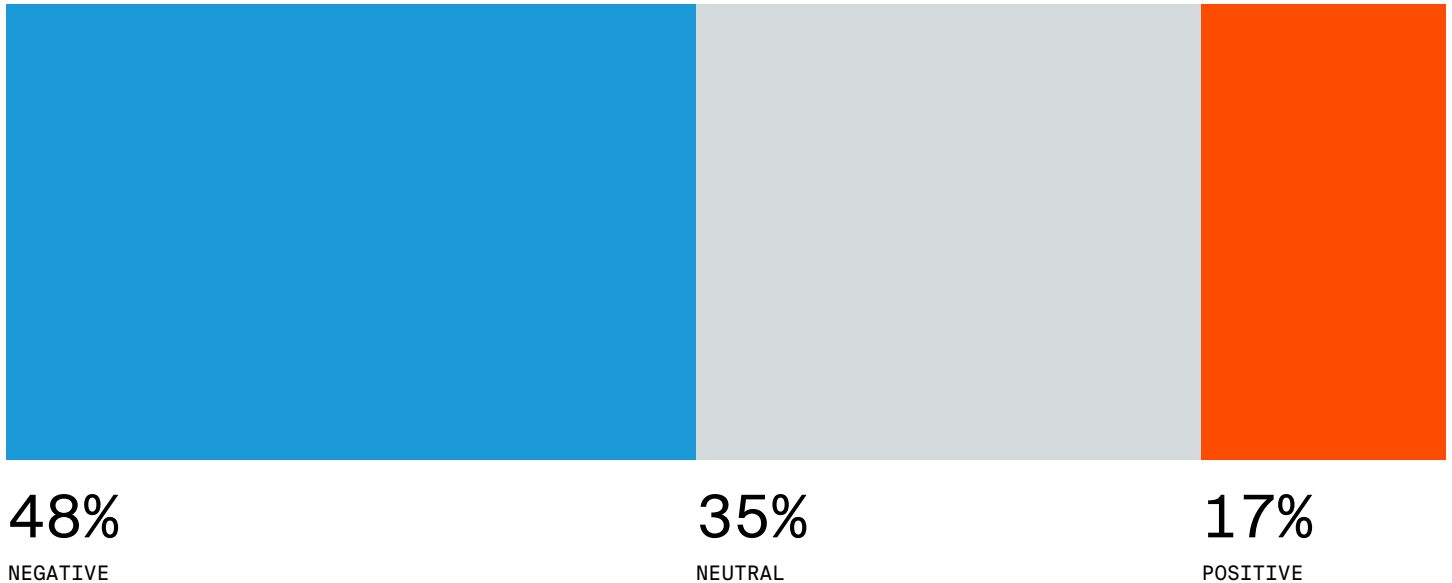


Buyers went into hibernation from March through August 2020 and came back into the market aggressively after Labor Day. The M&A market in early 2021 continues to show significant strength, surpassing activity levels from the pre-COVID period. The market is very active now with buyers and sellers, particularly PE/FO buyers. Our firm is seeing more buy-side advisory support requests than we have seen in over a decade. – **Karl Wohler, PSMJ**

COVID-19's Overall Impact on M&A Practices

The unprecedented emergence of the COVID-19 pandemic undoubtedly affected M&A activity and financial markets, with many M&A advisors shifting to remote work to get deals done. When asked about the impact of COVID-19 on their M&A practice, the majority of respondents (48%) replied that the pandemic's impact has been negative, while 35% stated that the impact was neutral. The remaining respondents (17%) said that the pandemic's impact had a positive impact on their M&A practice.

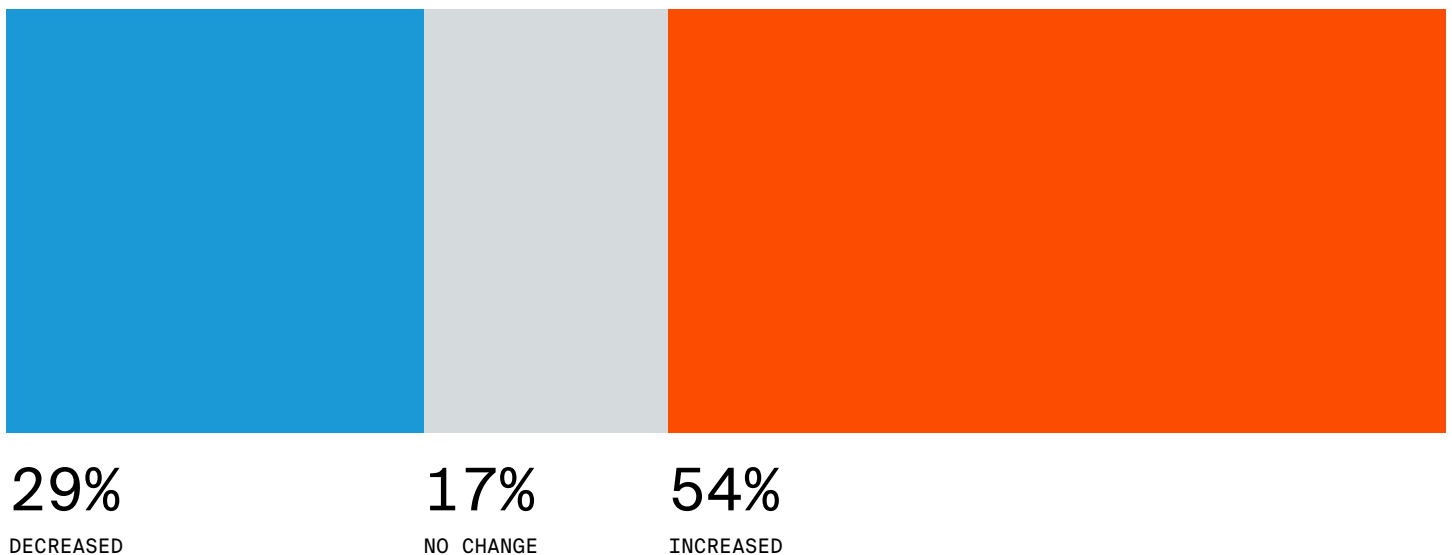
Overall, what impact has COVID-19 had on your M&A practice?



Experience in Deal Volume Changes

In drawing upon recent experience, when asked about deal volume changes, a majority of M&A advisors (54%) reported an increase in their deal volume, while approximately one-third (29%) indicated a decrease in deal volume, with 17% reporting no change.

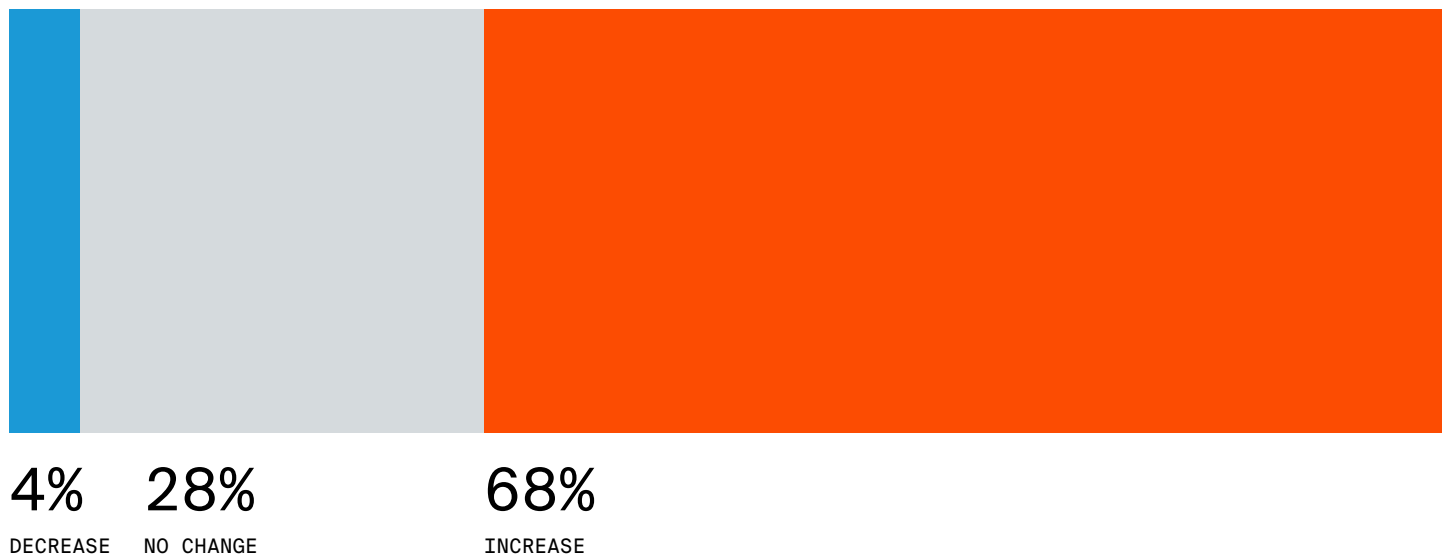
How has your deal volume changed?



Anticipated Deal Volumes Changes

Looking to the future, when asked how they anticipate deal volumes to change, a strong majority of M&A advisors (68%) anticipated an increase in deal volume, while 28% expected no change. Only 4% of respondents expected a decrease in deal volume.

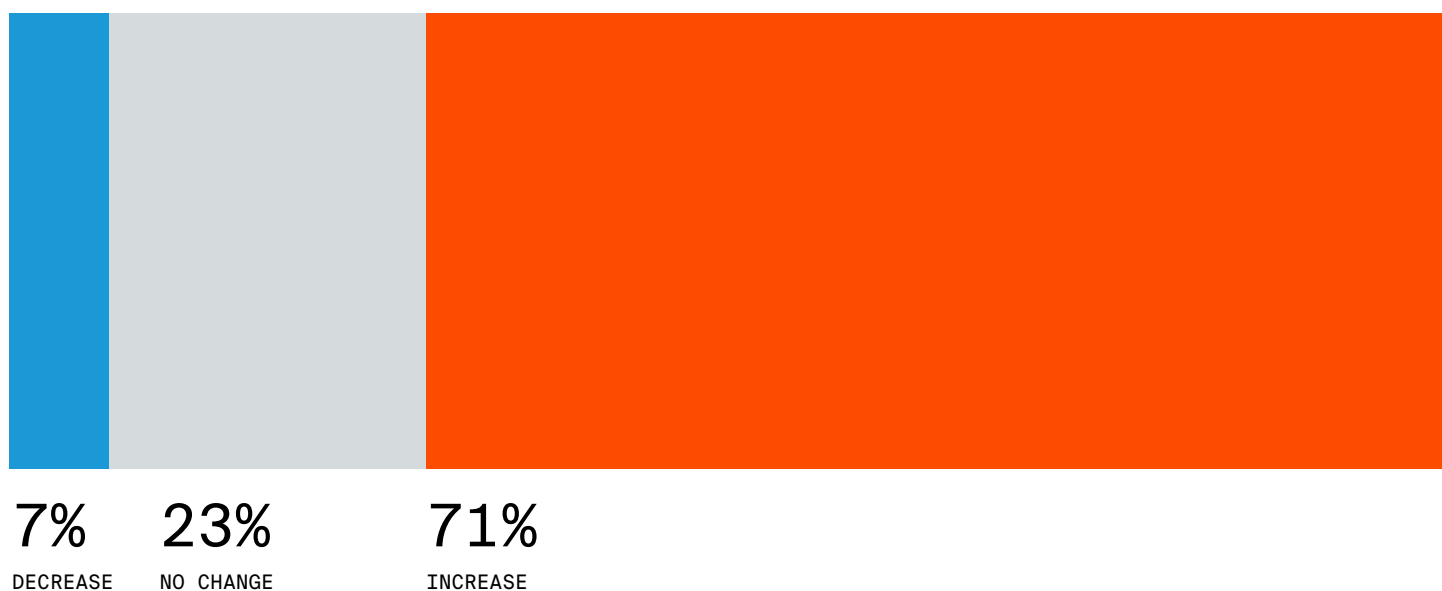
How do you anticipate your deal volume to change?



Expectations on Active Sellers

The vast majority of M&A advisors (71%) are expecting to see an increase in the number of active sellers on the market. Only 7% expect a decrease, while 23% expect no change for the number of active sellers.

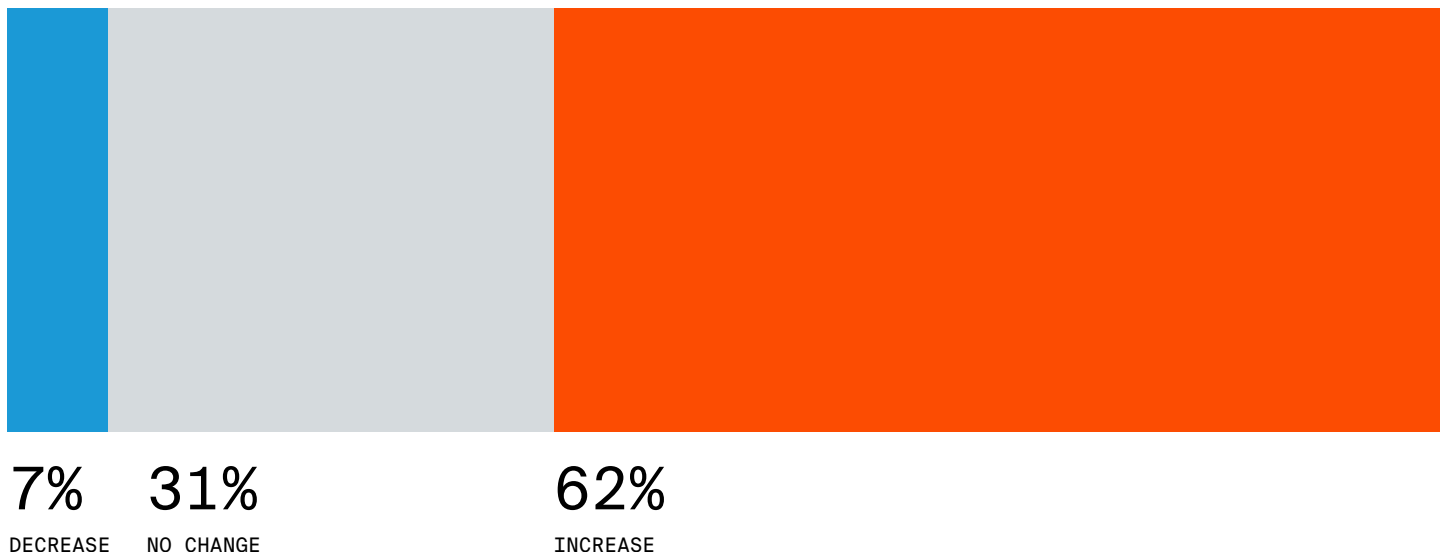
Do you expect to see the number of active sellers on the market to increase or decrease?



Expectations on Deals Closing

When asked to consider the average number of deals closing over the near term, roughly one-third (31%) expect to see no change in the number of deals closed, while most M&A advisors (62%) anticipate an increase in deals closing. Only a small minority of advisors (7%) expect a decrease in closed deals.

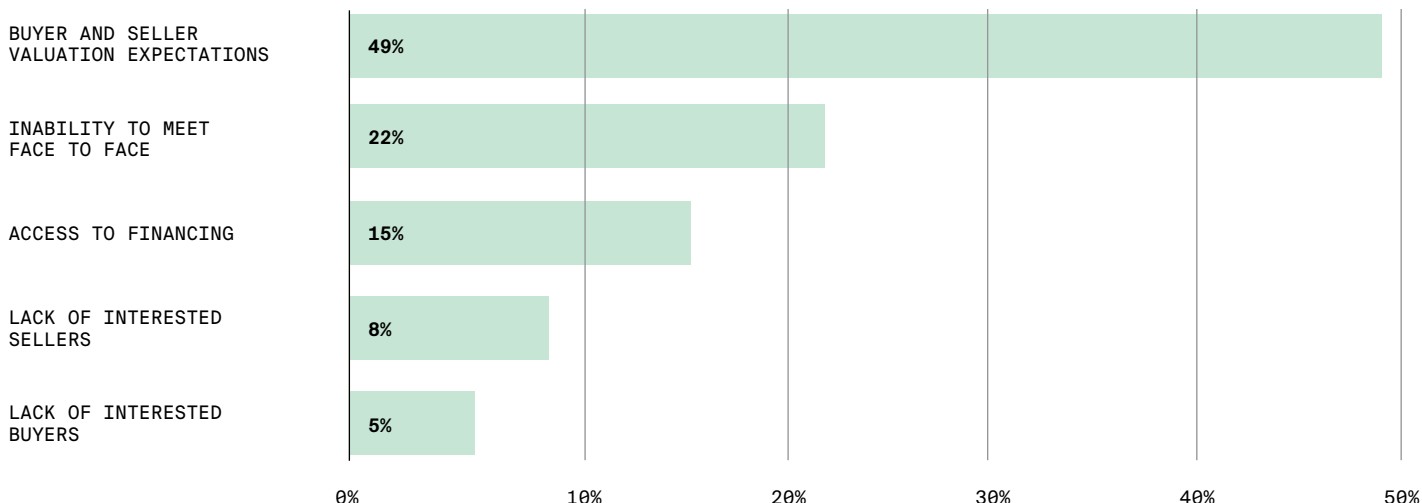
Do you expect the average number of deals that your company closes to increase or decrease?



Challenges to Completing the Deal

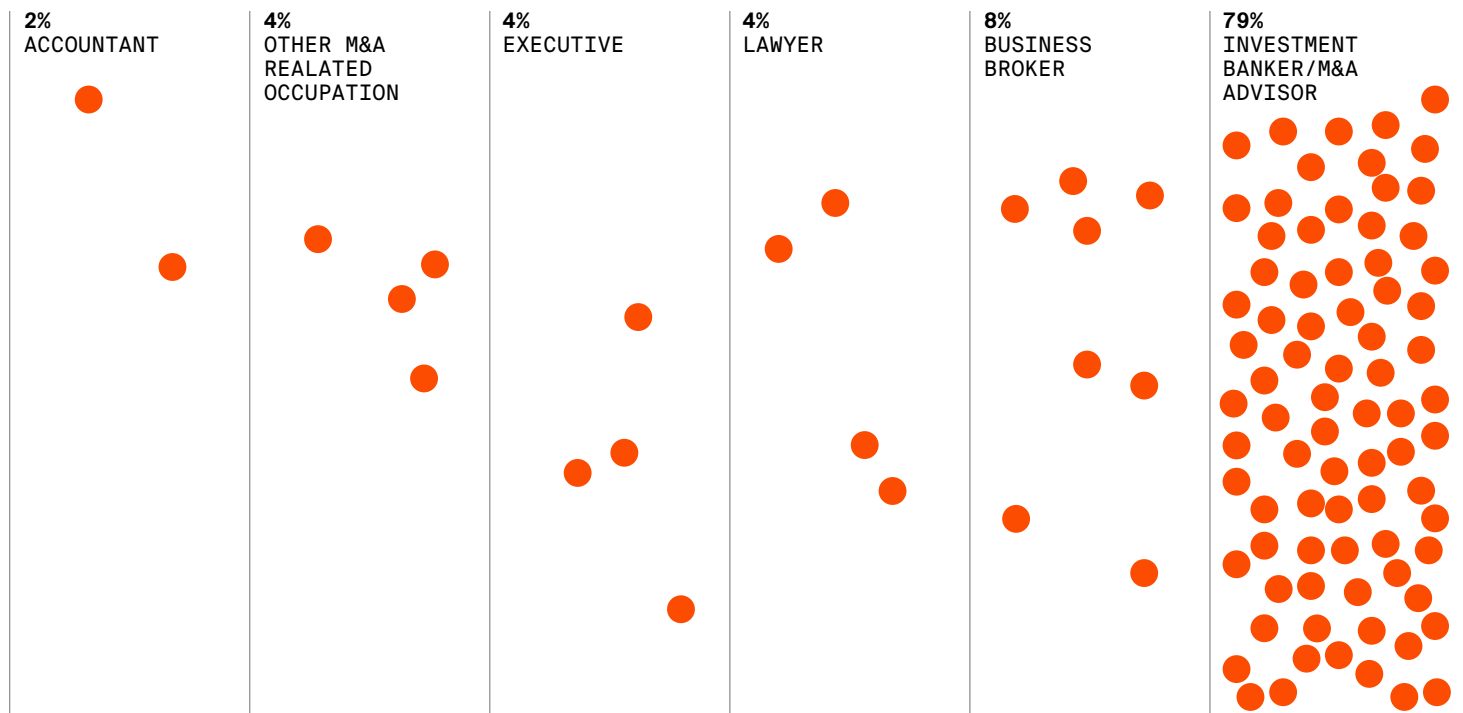
Despite the shift to remote work due to pandemic restrictions and social distancing measures, M&A advisors indicated that buyer and seller valuation expectations remain as the primary challenge (49%) for completing deals, with the inability to meet face-to-face (22%) ranking second. Access to financing (15%), lack of interested sellers (8%), and lack of interested buyers (5%) are the third, fourth, and fifth remaining challenges, respectively.

What do you see as the biggest challenge for completing deals?

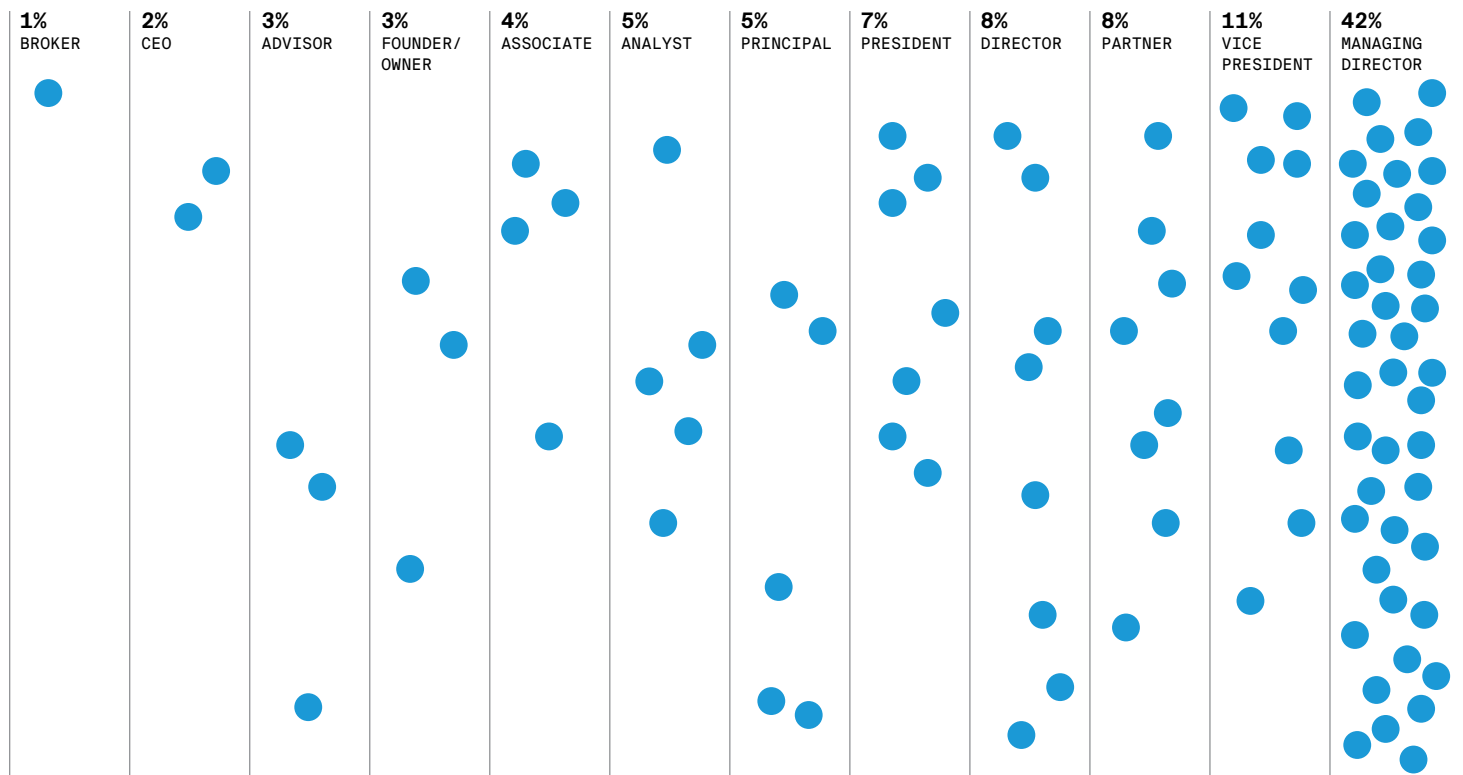


Appendix: Survey Demographics

Which of the following best describes your current occupation?

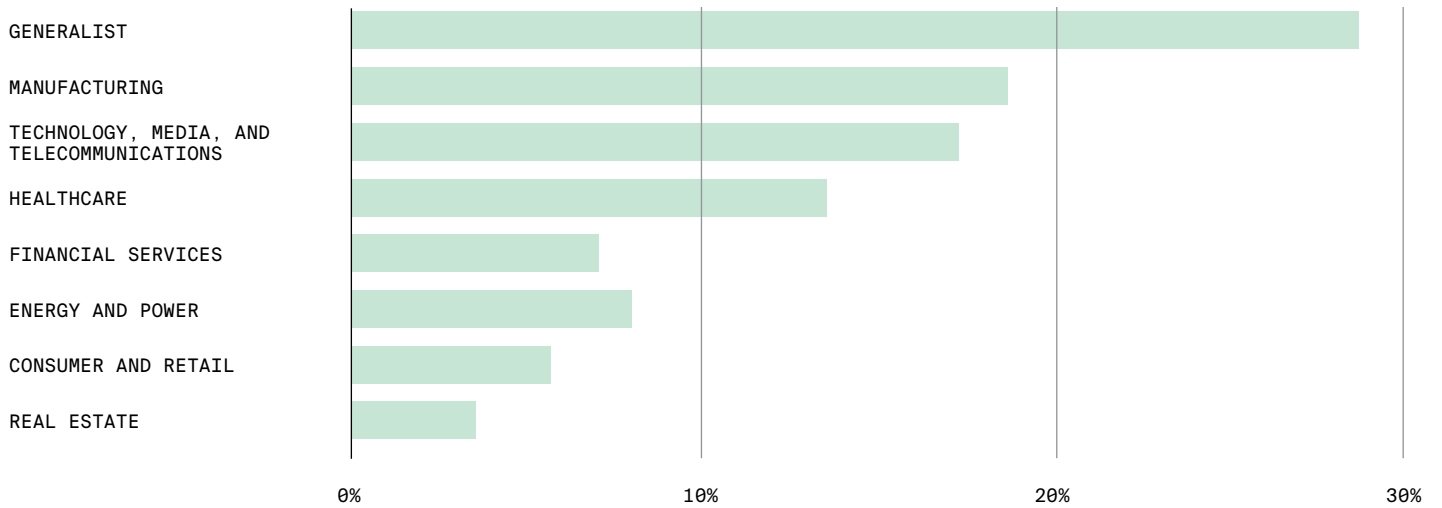


What is your official job title?

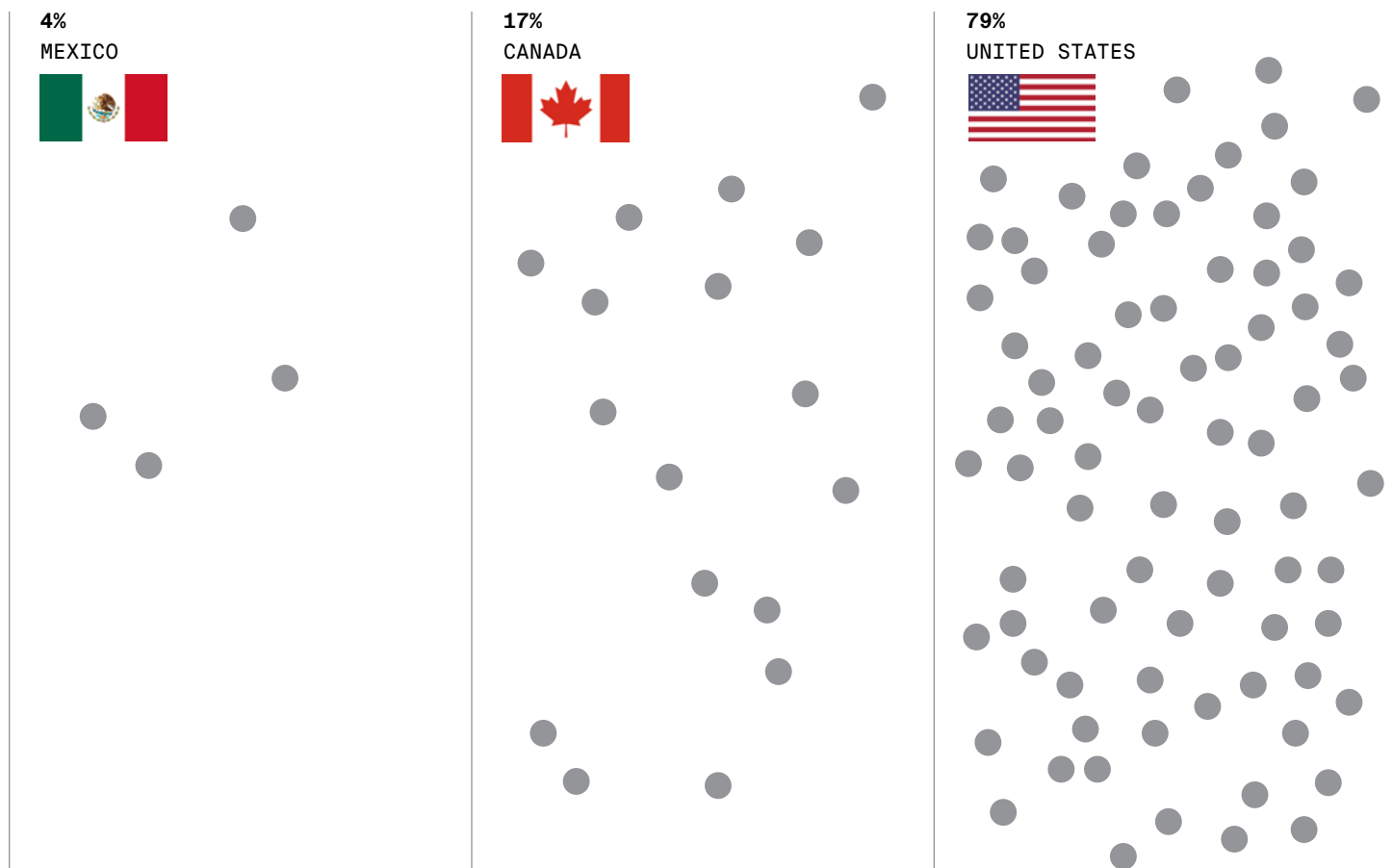


Appendix: Survey Demographics

Do you specialize in any of the following industries? Select all that apply.



What country do you primarily work in?



About Firmex

Firmex is a global provider of virtual data rooms where more deals, diligence and compliance get done. As one of the world's most widely used virtual data rooms, Firmex supports complex processes for organizations of all sizes, including diligence, compliance, and litigation. Whenever professionals need to share sensitive documents beyond the firewall, Firmex is their trusted partner.

A Firmex subscription provides simple, safe, and stress-free document sharing without hidden costs or complexity. Since 2006, Firmex has helped over 140,000 companies worldwide take control of their confidential documents.

For more information, please visit firmex.com.

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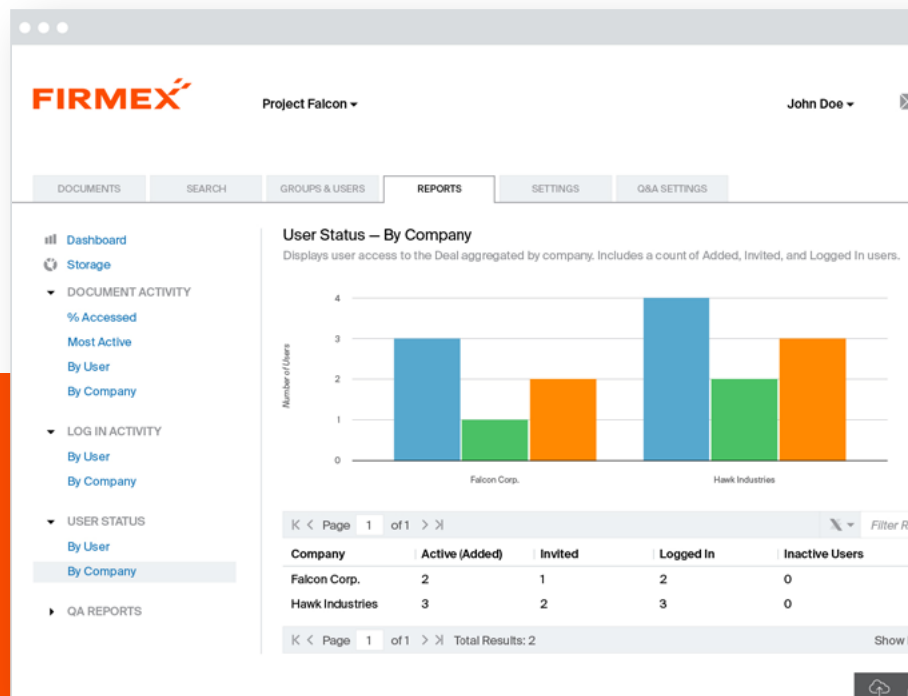
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