COVID-19, Biden Agenda Won't Slow Down Record Pace of M&A

Respondents to Dykema's 17th annual M&A Outlook Survey believe nothing will break the stride of U.S. M&A dealmakers over the year to come, with most viewing the Biden administration's legislative agenda as positively impacting activity.

A resounding 75 percent of respondents expect the U.S. M&A market will strengthen in the next 12 months, while only 7 percent anticipate it will weaken. Respondents not only predict deal volumes will be up across the board, from small to midmarket to megadeals of $1 billion and more, but 9 out of 10 also expect M&A activity among privately owned businesses to increase over the next year.

"For us, the optimism comes as no surprise," said Thomas Vaughn, co-leader of Dykema's Mergers & Acquisitions practice. "The top three factors cited as fueling current M&A activity – availability of capital, financial markets and general economic conditions – support the notion that all the fundamentals needed for a bull market are there. All of this coincides with recent data showing this year's M&A activity is on pace to be the biggest in history."

The survey polled senior executives and advisors across the nation: CEOs, CFOs, owners, managing directors and other professionals involved in M&A activity. When asked about leading concerns regarding M&A in the next year, respondents said the pandemic still ranks as a top challenge, with 49 percent citing it as a significant obstacle to M&A in the next 12 months.

"This might stem from ongoing supply chain and labor shortage issues associated with the pandemic as well as the general, but persistent, uncertainty it brings," said Jeff Gifford, leader of Dykema’s Corporate Finance practice group. “That said, now even after the surge in cases, dealmakers have learned how to manage COVID-19-related uncertainties, with respondents ranking COVID-19-related delays sixth in order of the most common obstacles they experienced in dealmaking last year.”

In a departure from Dykema’s 2020 M&A Outlook Survey, the vast majority of respondents believe the implementation of Biden’s policies will have a positive impact on the U.S. M&A market in 2022. Respondents do not believe that even issues such as heightened antitrust scrutiny and corporate tax increases, generally considered hostile to the M&A market, can slow down the U.S. M&A market in the next year.

The survey yielded several additional significant findings, including:

Sixty-five percent of respondents said they were more likely to be involved in joint ventures – the biggest increase over 2020 (14 percent) out of the three deal types surveyed (acquisition, sale, joint venture) – though all categories saw reasonable gains.

Respondents embraced an increase in the SEC’s scrutiny of SPAC IPOs in both the near term (58 percent) and long term (67 percent) and expect the SPAC boom to continue.

A majority of respondents (55 percent) have worked on a deal in which the target company or buyer was screened for ESG risk within the last 12 months, while three-quarters of respondents expect to work on a deal that includes screening for ESG risk over the next 12 months.

Technology and health care, both prominent economic players in 2020, dropped down to fourth and fifth places when asked what sectors were expected to be the most active in the next year, while energy soared from eighth to second place. For the fourth year in a row, on the other hand, the automotive industry has topped the list.

The full report is available here, and results will be further discussed at Dykema’s exclusive annual M&A Outlook events on November 11 and November 16.

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