2021 Year-in-review / 2022 Industry Outlook
Deloitte Corporate Finance LLC

2021 Year-in-review

The beginning of 2021 was a critical time for Deloitte Corporate Finance LLC (DCF), coming off a strong period of deal closings at the end of 2020, driven by a rebound in the capital markets, and looming expected changes to corporate and individual tax rates. While many prognosticated that it would be difficult to match the second half of 2020 in terms of deal volume, companies were continuing to perform well, with year-over-year metrics stabilizing as pandemic-induced demand and supply shocks were removed from last twelve-month financials. As the year progressed, the outlook became increasingly optimistic. Changes to the capital gains tax rate (which are particularly of interest to DCF’s private and family-owned clientele) kept getting extended, the availability and cost of debt capital became increasingly positive, more money was allocated to alternative investments, and companies were performing well operationally and financially. Additionally, in the first half of 2021, we saw the popularity of special purpose acquisition companies (SPACs) rise and hit all-time highs as a means of taking companies public, before subsequently fading at the end of the year as the SEC issued new reporting guidance and a number of high-profile SPACs underperformed in the public markets.

While there continued to be unprecedented challenges in navigating remote workforces, disrupted supply chains, COVID-19 uncertainty, looming inflation, and a difficult labor environment, most of DCF’s clients and prospects performed well throughout 2021. This outcome was partially driven by smaller, leaner organizations with a “tighter” culture, as well as the willingness to invest capital into working capital (or utilize customer capital via customer deposits), but also by the continued outperformance of US-centric organizations versus the balance of the developed world. These factors led to private equity firms and strategic acquirors pouring record levels of capital into M&A, looking for transactions that would broaden their offerings, adapt to the “next normal”, and/or safeguard their future.

According to Deloitte’s “2022 M&A Trends Survey”, 92% of respondents believe that deal volume will increase or stay the same over the next twelve months, and 75% of corporate executive respondents believe that the size of their organizations’ deals will increase over the same period(1). The outlook continues to remain promising, despite some storm clouds on the horizon (as discussed below). As we reflect on 2021 and look forward to the future of M&A, it is important to recognize some of the changing trends we are seeing in the marketplace. Cross-border M&A, which has historically been associated with up to 40% of DCF’s volume, dropped significantly in the first nine months of 2021, while alternatives to “traditional”

Source:
M&A are continuing to be a big factor in middle market transactions. Through the Deloitte Touche Tohmatsu Limited network of member firms, DCF global practices have more than 1,300 bankers across 120 offices, providing independent financial, M&A, and debt/equity advice which led to more than 660 completed transactions in 2021. Looking ahead, DCF will continue to provide insights into how M&A is continuing to adapt to this ever-changing world.

### Representative Deloitte Corporate Finance Transactions in 2021

<table>
<thead>
<tr>
<th>Company</th>
<th>Transaction Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soccer Shots Franchising LLC</td>
<td>Advisor to R.M. Lucas Co.</td>
</tr>
<tr>
<td>Deloitte Corporate Finance LLC</td>
<td>Transaction to provide financial advice</td>
</tr>
<tr>
<td>Accel-KKR</td>
<td>Has acquired Vets Plus, Inc.</td>
</tr>
<tr>
<td>Abstrakt Marketing Group, LLC</td>
<td>Has completed a recapitalization with Satori Capital, LLC</td>
</tr>
<tr>
<td>Vets Plus, Inc.</td>
<td>Acquired by Donan and Artemis Private Capital Partners</td>
</tr>
<tr>
<td>Biologics manufacturing</td>
<td>Blackstone</td>
</tr>
<tr>
<td>Deloitte NSE LLP</td>
<td>Has acted as exclusive financial advisor to Bruin Capital</td>
</tr>
<tr>
<td>Won-Door Corporation</td>
<td>Has been acquired by DRT Holdings, Inc.</td>
</tr>
<tr>
<td>Genuine Cable Group, LLC</td>
<td>Has completed a capital raising in order to support the acquisition of Allied Wire &amp; Cable, LLC</td>
</tr>
<tr>
<td>Allied Wire &amp; Cable, LLC</td>
<td>Has been acquired by Biologics manufacturing</td>
</tr>
<tr>
<td>House &amp; Garden, Inc., Humboldt</td>
<td>Has been acquired by Deloitte Corporate Finance LLC</td>
</tr>
<tr>
<td>Sapper Consulting</td>
<td>Advisor to House &amp; Garden, Inc., Humboldt</td>
</tr>
<tr>
<td>PropLogix, LLC</td>
<td>Financial advisor to PropLogix, LLC</td>
</tr>
<tr>
<td>DRT Holdings, Inc.</td>
<td>Has acquired TTI Inc. Systems, Inc.</td>
</tr>
<tr>
<td>Novanta</td>
<td>Has acquired Novanta, Inc.</td>
</tr>
<tr>
<td>OMNI</td>
<td>Has completed the acquisition of Abbott Biologics Manufacturing</td>
</tr>
<tr>
<td>Satori Capital, LLC</td>
<td>Has provided capital to VRx Solutions, LLC</td>
</tr>
<tr>
<td>Novanta, Inc.</td>
<td>Has acquired Novanta, Inc.</td>
</tr>
<tr>
<td>DRT Holdings, Inc.</td>
<td>Has acquired TTI Inc. Systems, Inc.</td>
</tr>
</tbody>
</table>

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**Note:** The above transactions are illustrative examples and do not represent the full range of transactions completed by Deloitte Corporate Finance in 2021.
Private equity

Private Equity activity in 2021 shattered records across the board. Deal value from January–September 2021 ($1.17 trillion) has surpassed every prior full year since 2015. In fact, Q2 2021 deal value eclipsed total deal value for all of 2016. This robust activity can be attributed to several factors, most notably the unprecedented level of capital pumped into economies to fight the impacts of the pandemic, the record-breaking level of fundraising, and the desire to exploit current economic growth and low interest rates.

In comparison to 2020 where there was a scarcity of high-quality opportunities, the 2021 market was flooded with quality assets forcing private equity groups to be extremely judicious in what they chose to review. Although valuation multiples remained elevated, firms' lack of capacity bred a buyer's market during the third and fourth quarters.

This year, without the pressure of capital gains taxes and opportunities that were postponed during the start of the pandemic, we expect to see a lower level of deal volume though still an active market. Additionally, numerous opportunities that were overlooked in Q3 2021 may resurface this year.

Source:
Private debt markets experienced a very strong return and robust performance in 2021. Low interest rates, subdued default rates, and the pivot to alternative investment strategies aided strong fundraising in the private debt market, much of it allocated to direct lending strategies according to Direct Lending Deals. Even with strong deployment throughout the year, we anticipate there will still be a significant amount of dry powder available to sustain a borrower-friendly market in the near term.

Following strong performance in 2021, we remain very positive on what is to come in 2022. Throughout the year, direct lenders were able to structure unitranche facilities in excess of $1 billion, often highly-leveraged with flexible covenants. The ability to structure larger deals helped enable direct lenders to siphon opportunities away from broadly syndicated loans. This was partially driven by high purchase price multiples and valuations across certain sectors.

Given these dynamics, alternative lenders went back to work in a meaningful way in 2021, creating a competitive, borrower-friendly market. We expect these trends to continue in 2022 as pricing has tightened to or slightly below pre-pandemic pricing levels and available leverage has returned to pre-pandemic debt levels as pent-up private equity demand and add-on acquisitions drove significant buyout activity. We anticipate competition amongst lenders will continue to drive flexible terms, particularly with respect to operational flexibility and financial covenants. The market has also welcomed a broad range of transactions in recent months, including dividend recapitalizations.

In terms of risks, patterns and observations have emerged within portfolios and portfolio companies, giving lenders a better understanding and potentially more comfort regarding headline risks for the coming year. Even with the risk of future COVID-19 variants, there is less perceived risk attributed to the lingering pandemic given the performance and resilience of portfolio and the market opportunities for investors.

However, interest rate risks can impact cost of capital as well as refinancing transactions in years to come. Interest rate risk has the potential to surpass the pandemic as the most relevant risk to the credit markets in 2022, particularly as long as inflationary pressures remain strong. However, even incorporating multiple quarter-point rate hikes in 2022, the result in 2022 would likely be a Federal Reserve funds rate near 1%, which likely doesn’t warrant fear of a substantial impact on the availability or accessibility of private debt in 2022.

Health care M&A deal volume hit a record in 2021, increasing approximately 55% over 2020, driven by market tailwinds, including record capital availability.

Successful health care companies in 2021 were agile – driving innovation and adapting to patients’ needs as the global pandemic continued to transform care delivery. The pandemic continues to upend traditional care and delivery modalities, as patient preferences increasingly focus on safety, convenience, and efficiency. As a result, a growing number of inpatient services are now delivered more effectively and at lower-cost at-home or in outpatient settings, frequently via telehealth, leading to new market opportunities for investors.

Unmet, pandemic-fueled demand continues to drive investor attention in behavioral health. Telebehavioral health saw a drastic increase in virtual visits in 2021, with nearly 25% of outpatient behavioral health claims conducted virtually – a frequency more than 12x higher than pre-pandemic levels.

Investor interest also remains high within life sciences, as there have been promising developments made by biotechnology companies in cell and gene therapy.

Our view remains that M&A activity will continue to be strong in 2022 and will be focused on several themes including:

- Home-based and alternative sites of care
- Value-based provider models
- Tech-enabled devices and services

Source:
5. “Full Year 2021 Insights and Outlook”, Direct Lending Deals, January 14, 2021
Human Capital Management
Across industries, demand for talent exceeds the supply, making human capital management a discipline of increasingly strategic importance. Businesses are deploying purpose-built systems and harvesting data to support business decisions, requiring high-end IT and analytics professionals. In health care and life sciences, an aging population and strong demand for drugs and medical devices will increase competition for top technical talent. With baby boomer retirements increasing for several years, value-added recruitment and staffing will be a necessity.

Insurance Services
Insurance services providers have significant opportunities to support carriers’ claims processes in their pursuit of improved policy-holder experience, loss mitigation, and cost management. In addition to automation and analytics solutions emerging from a thriving insurtech ecosystem, outsourced services create new opportunities for carriers to improve cycle times, increase the precision of investigations, and unlock new opportunities for cost containment.

Legal Support Services
The legal services industry exists on the foundation of a complex business environment, with stable and growing demand for outsourced services. Law firms, seeking to meet client performance and cost requirements, increasingly rely on support services from providers offering differentiated solutions and tools for greater automation. Furthermore, the pandemic drove an increase in legal activity through remote environments, a development expected to continue post-pandemic, unlocking opportunities for innovative solutions and technologies.

Quantum Computing
Information processing has transformed dramatically over the past several years. Classical computers, once the preeminent standard, can no longer withstand the rate of innovation and magnitude of processing power currently being tested and proposed, which has led to the creation of a new standard of processing capability, quantum computers. Quantum computers, calculating with quantum bits or qubits rather than traditional digital bits, are providing new opportunities for advancement of artificial intelligence and data analytics capabilities. Quantum computing is affording enterprises with outsized computing power capable of tackling issues seldom before solved or even quantified.

Technology Talent
Companies are facing significant challenges recruiting and retaining technology talent in part due to the demand for hybrid and remote work flexibility, the rise of private market valuations, and increased use of stock-based compensation. On the private side, employees are finding it difficult to join startups whose valuations and subsequent equity packages seem frothy. On the public side, use of stock-based compensation has become more prevalent over recent years. As interest rates are anticipated to rise in 2022, employers are wary of attrition driven by concerns of potential valuation decreases in public, high-growth, technology companies.

Edge Computing
Recently, extensive infrastructure investments have been needed to support growing device and infrastructure edge demand. The rapid growth of public cloud infrastructure and the emergence of edge computing have shifted the third-party data center market, resulting in traditional enterprise wholesale data centers being unable to manage the requirements of edge computing and public clouds. As digital services become more ubiquitous, the scope of network performance requirements will continue to expand.

Source:
According to Nielsen, the pandemic introduced over 22 million new US shoppers to the online channel through February 2021. Consumers are expected to increasingly utilize app-based purchasing and delivery services for groceries and consumer products in 2022. Direct-to-Consumer (DTC), E-Commerce, and subscription-based purchasing capabilities will likely be paramount for brands and retailers seeking to expand their businesses and connection to consumers. Given the intricacies and pace of internet-based purchasing, companies may need to accelerate investments in their infrastructure, leverage external partners, and potentially make strategic acquisitions to be successful.

Businesses across various industries were affected by supply chain and labor issues in 2021. Accordingly, going forward, consumer companies will need to be diligent in working with their suppliers and distributors to ensure quality, timeliness, and visibility into near-term supply. According to a Deloitte study, eight in 10 surveyed executives report consumers will lose trust in a company if labor shortages affect quality.

Food producers will likely need to continue to focus on transparency in 2022 as consumers increasingly scrutinize the contents of what they eat. Many brands will also benefit from trends toward in-home cooking, particularly as employers extend their work from home (WFH) policies. Convenience continues to be a priority – per Bloomberg data, 50% of US consumers ordered from one of the major meal delivery services as of November 2021. Restaurants should focus on online ordering and integration with delivery applications to fulfill consumer needs and remain competitive.

Health continues to be a priority for consumers, driving growth for healthy lifestyle and fitness products. Tech-enabled fitness and better-for-you foods are expected to demonstrate outsized growth within their respective segments. Branding, advertising, and marketing will likely be critical for companies to showcase their differentiation to consumers.

Industrial M&A activity in 2021 rebounded strongly, exceeding our initial expectations. We expect deal activity in 2022 to remain robust as strategic buyers and private equity investors continue to invest in new technologies, as well as execute more traditional M&A strategies driven by scale, product offering, and geographic expansion. While pandemic-related challenges continue, changes in consumer habits are accelerating the need for evolution within the industrials segment. We expect M&A to be an opportunity for organizations to meet these market demands.

Increasing commodity costs and supply chain disruptions have impacted many industrial and distribution businesses. We have begun to see manufacturers, for example within the automotive market, enter into partnerships to combat shortages of key production inputs, and expect others to do the same as these challenges persist into 2022. Additionally, many industrial and distribution businesses are reexamining their supply chain structure and sourcing partnerships, with a focus on total cost of ownership calculations, including restocking to reduce time to market and overall freight cost.

Investment in technology continues to be strong across various industrials subsectors. The energy transition away from fossil fuels has continued to drive M&A activity, including many high profile deals across the automotive ecosystem and for emerging technologies, such as hydrogen. We also expect the automation sector to draw increased attention as demand remains particularly strong, driven by labor shortages and increased costs across almost all sectors.

Developing a roadmap leading to a climate-neutral impact and corporate responsibility will likely continue to be central to C-suite discussions, strategy development, and corporate governance. Many private equity investors are already setting various environmental, social, and governance (ESG) goals and targets, and employing full-time corporate social responsibility officers. In addition to equity investors, many debt investors are also increasingly incorporating terms related to the ESG performance of the borrower. While ESG initiatives and compliance may not directly drive M&A, it is an increasingly important factor in the decision-making process and can be argued as having a direct impact on value.

Source:
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