SS&C INTRALINKS

Global M&A Dealmakers Report 2022

Produced in association with Mergermarket

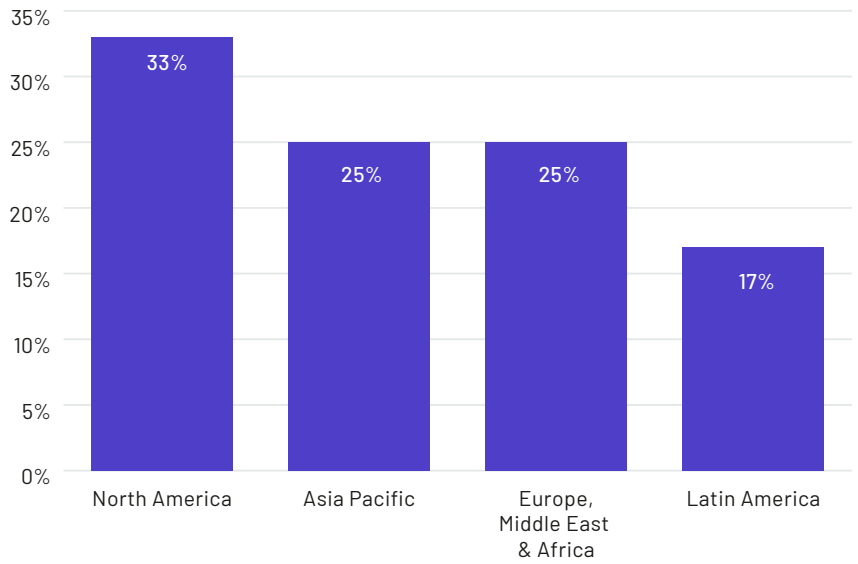
Foreword

2020 will be remembered for its unprecedented volatility due to the pandemic. For dealmakers, the second half of the year saw an impressive rebound in deals with momentum carrying through the first half of 2021. Global mergers and acquisitions (M&A) levels reached new records as dealmakers were able to convert high levels of uncertainty into success.

Amidst the backdrop of this fast-changing landscape, we surveyed 300 global M&A dealmakers to find out current sentiment and COVID-19's impact on the future deal environment, along with challenges and opportunities on the horizon.

Notwithstanding the overwhelmingly positive sentiment for the remainder of the year, dealmakers are forecasting for potential headwinds.

Breakdown of 300 survey respondents by region



Methodology

In Q2 2021, Mergermarket surveyed 300 dealmakers, 225 corporates and 75 private equity (PE) professionals. Among those, 100 are headquartered in North America, 75 in EMEA, 75 in APAC and 50 are in Latin America. Sixteen percent of our respondents are corporates whose main sector of focus is TMT, and 15 percent in Industrials & Chemicals and Consumer. Forty-six percent of corporates have an annual turnover greater than USD three billion. Fifty-two percent of PE firms have less than USD 10 billion assets under management (AUM). In general, all charts show overall figures except when figures based on region or distinctions of corporate/PE are statistically significant.

Key findings

Dealmakers optimistic, with the middle-market set to dominate

Almost two-thirds (64 percent) of dealmakers in our survey expect the level of M&A activity over the next 12 months to increase. Nearly a quarter (24 percent) expect activity to increase significantly.

An overwhelming 83 percent of firms expect to undertake middle-market M&A deals (deals worth less than USD two billion) over the next 12 months.

COVID-19 boosted dealmaker appetite; PE to lead the way

Over half (51 percent) of respondents say that COVID-19 has increased their dealmaking appetite — and 13 percent say it has increased significantly. As was seen in overall dealmaking sentiment, private equity respondents are much more bullish than corporates — just four percent of PE firms say their appetite has significantly decreased post-COVID, compared to 16 percent of corporates. Dealmakers expect carve-out and spin-off deals to become more commonplace as vaccine programs ramp up around the world.

Spotlight on ESG due diligence

Environmental, social and corporate governance (ESG) is more than just a fad; it's a critical piece of the M&A puzzle. Over half (62 percent) expect ESG scrutiny in the deal process to increase over the next three years. Dealmakers also acknowledge that they will be spending more time on ESG review during the actual deal process. Nearly half (48 percent) expect ESG-related due diligence to increase in transactions over the next three years.

Data analytics and cybersecurity disruptions

Data analytics is viewed as the most disruptive trend set to affect M&A processes: Fifty-five percent of respondents expect this to be the case. Cybersecurity is also high on the dealmaker agenda: Fifty-two percent of respondents see this as a disruptive trend that will impact M&A.

Overall, the rest of the year looks bright for global dealmakers. While challenges, such as increased scrutiny from regulators, are expected to intensify, dealmakers that quickly overcome these barriers should ultimately achieve success.

M&A environment

The M&A community's spirits are high due to strong activity in the first half of the year. Almost two-thirds of respondents expect M&A activity to increase over the next 12 months. Meanwhile, almost a quarter (24 percent) expect activity to increase significantly — highlighting the wave of optimism among global dealmakers.

This optimism is built on an impressive surge in deal value — a total of USD 2.9 trillion in M&A activity in the first half of 2021 is already equivalent to 91 percent of 2020's annual figure according to Mergermarket figures. There were 13,144 deals in H1 2021 — an increase of 59 percent in volume compared to the same period the previous year.

When it comes to their future plans, survey respondents — especially financial sponsors — are showing a strong appetite for deals. Over a third (36 percent) of PE respondents expect to undertake four or more deals over the next 12 months while over two-thirds (68 percent) of corporates expect to undertake between one and three deals over the next 12 months. Only 13 percent of total respondents said they did not expect to undertake any M&A over the coming 12 months.

The PE industry's ambitions for next year make sense in the context of activity so far this year. According to Mergermarket data, a total of USD 453.3 billion worth of buyout deals were announced in Q2, making it the highest

Figure 1. What do you expect to happen to the level of M&A activity over the next 12 months?

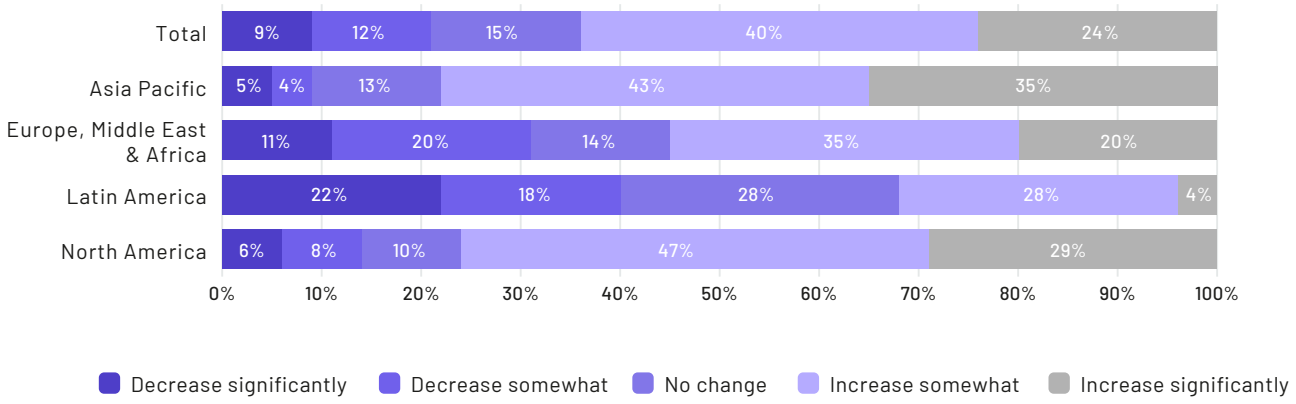
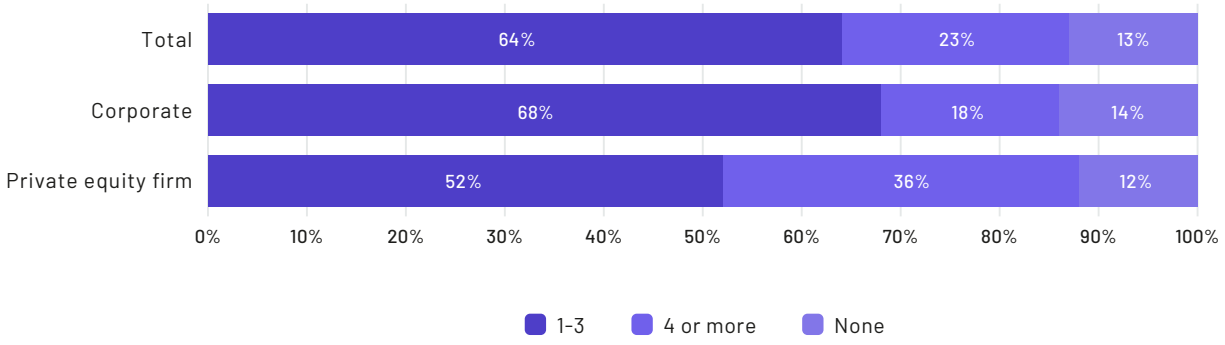


Figure 2. How many M&A deals do you expect to undertake over the next 12 months? (Select one.)



quarterly deal value on Mergermarket record (going back to 2006). An H1 deal volume of 3,168 buyouts, meanwhile, represented a 98 percent year-on-year increase.

Regional variation

The Asia Pacific (APAC) region is the most optimistic regarding the level of dealmaking activity over the next 12 months — 78 percent expect to see an increase. North America is also expected to be active — 76 percent of respondents from the region expect to see more deals. Latin American respondents, on the other hand, are less positive. Just 32 percent expect their level of M&A activity to increase over the next 12 months.

This result reflects the varying levels of recovery in deal activity in these respective regions. North America has had a remarkable H1 for M&A activity. Mergermarket figures show that the region recorded USD 1.5 trillion in deal value in just the first six months — already more than the total M&A value for the whole of 2020 (USD 1.3 trillion). Volume came to 4,701 transactions over H1, a 68 percent increase on the same period the previous year.

Although deal activity in Asia trailed, the region still recorded 2,495 deals worth USD 591.8 billion in the first half of this year, an 33 percent rise in the number of transactions and more than double the total value completed in H1 2020, according to Mergermarket data.

Making plans

When asked about their plans, our survey finds that corporates from across all regions favor Europe as a destination of choice — almost half (47 percent) expect to initiate a deal in this region over the next 12 months. Investor interest in Renewables is one reason for Europe's current attractiveness, according to the head of M&A at a German corporate: "Given the demand for new product types and Renewables, we are focusing our attention

on the regions which are supportive of this burgeoning sector. We're seeing plenty of good opportunities in Europe."

Europe's reputation for producing "ESG-ready" companies is another reason for the region's popularity. "We are currently prioritizing investments in Europe in order to initiate our plans for sustainable development and growth. The region is producing plenty of ESG-ready companies favorable for investment," says the head of strategy and business development at a Finnish corporate.

North America was the second most popular region, with 43 percent of respondents (from all regions) looking to execute deals in the region — an indication that the strong levels of activity in the first half of 2021 will continue for the rest of the year.

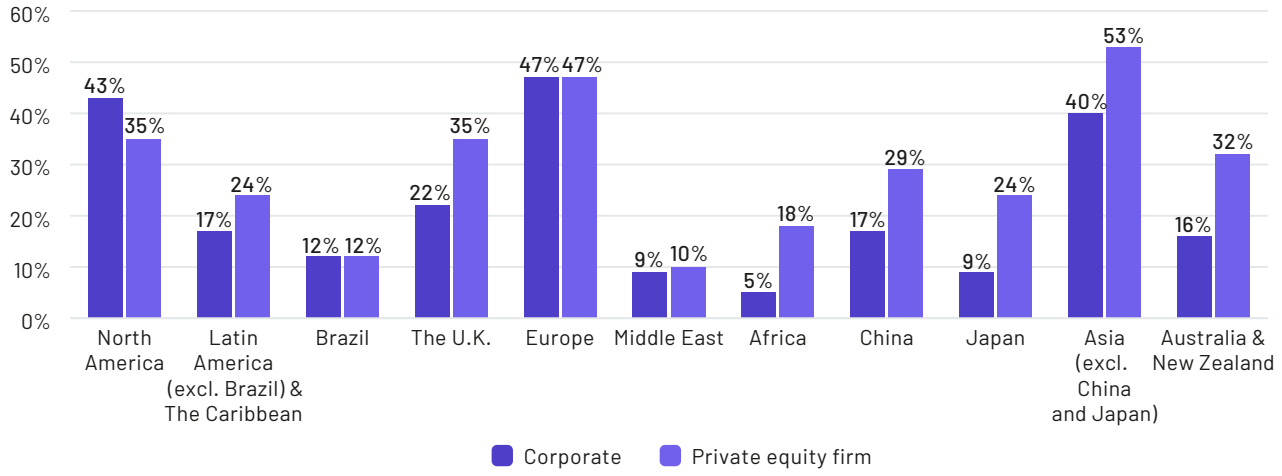
For financial sponsors, Asia (excluding China and Japan) is the most popular location for dealmaking, with over half (53 percent) looking to execute deals in the region. This is closely followed by Europe (47 percent).

Digital transformation drives deals

Pursuing digital transformation is viewed as a driver of global M&A activity over the next 12 months — fourteen percent of respondents chose this as the most significant driver. After a year in which the importance of technology to remote work and business continuity was highlighted, this should not come as a surprise.

"We expect investments in technology companies to accelerate. As we are investing in a highly disruptive field,

Figure 3. In which of the following regions do you expect to execute deals? (Select all that apply.)

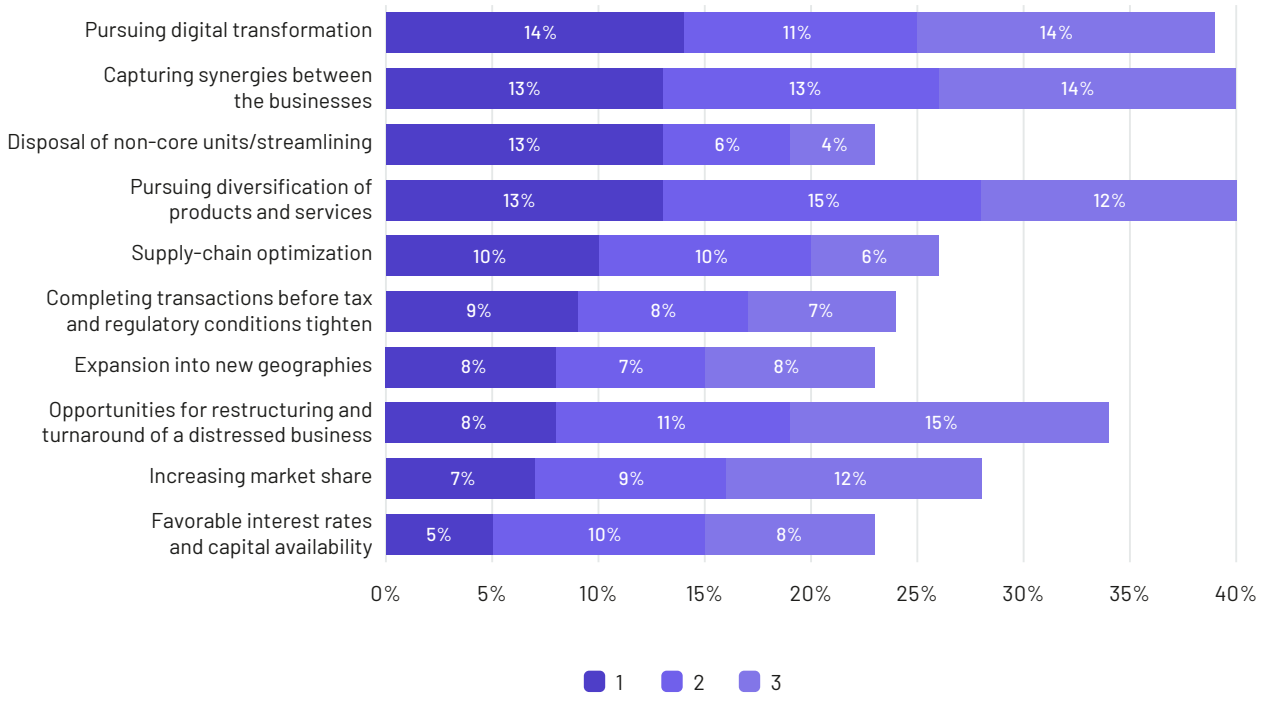


the companies we acquire need to be extremely adaptive," says the managing director at a U.S. PE firm.

Capturing synergies between businesses is also a major driver for deals — 40 percent chose this as one of the top three drivers.

When looking at barriers to dealmaking, rising scrutiny from regulators is considered the most significant risk — about a quarter (26 percent) of respondents said this was the case. This is followed by the ongoing impact of the global COVID-19 pandemic, with 18 percent citing the health crisis as the most significant risk they are facing.

Figure 4. What will be the key drivers of your M&A activity over the next 12 months? (Select top three and rank 1-2-3 by order of significance, where 1 = most significant.)



The impact of COVID-19

The outbreak of COVID-19 immediately impacted both global deal value and volume, as the markets fell sharply in the second quarter of the year.

Yet dealmakers were able to quickly adapt to the "new normal," and began closing deals at record rates. This was evidenced in the sharp rise in both value and volume, with global deal value reaching an all-time high in Q2 2021.

Our survey reflects this optimistic outlook, with over half (51 percent) of respondents saying that COVID-19 has increased their dealmaking appetite — thirteen percent significantly. As seen in overall dealmaking sentiment, private equity respondents are much more bullish than corporates — only four percent of PE firms say their appetite has significantly decreased since the pandemic.

Yet the outlook varies widely across regions. Given the year's extremely strong dealmaking within the region, 66 percent of APAC respondents say that COVID-19 has spurred their forecast for more deals, followed by 64 percent of North American respondents. Strikingly, only

Figure 5. What impact has COVID-19 had on your dealmaking appetite? (Select one.)

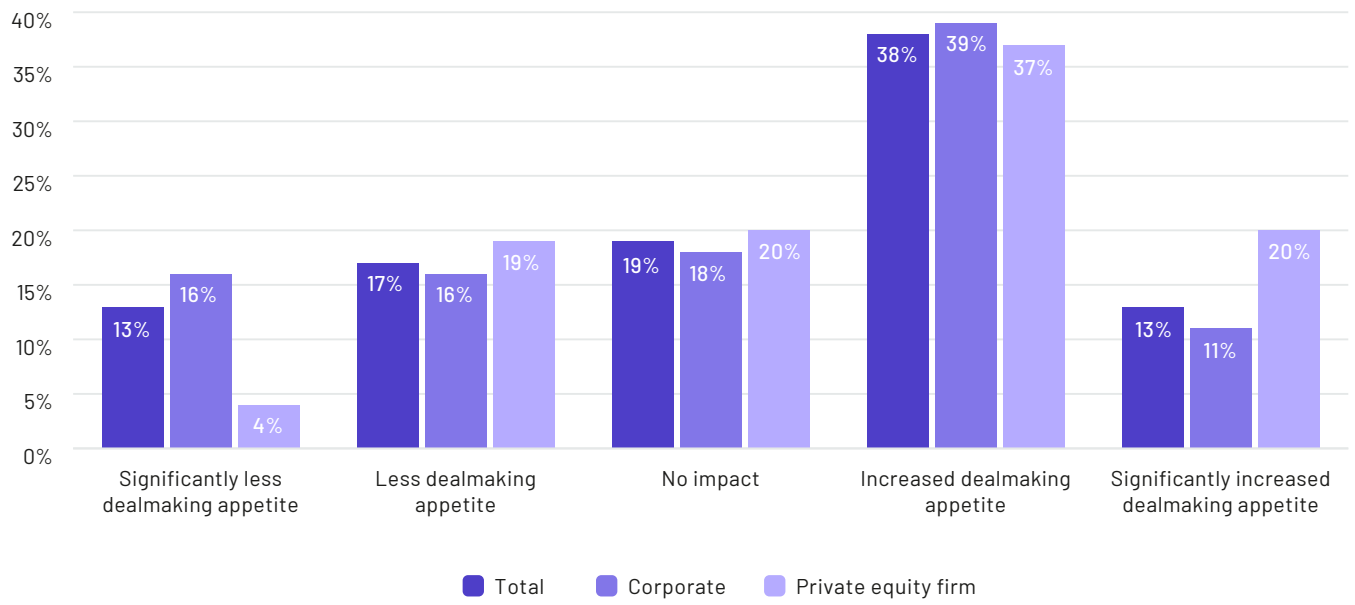
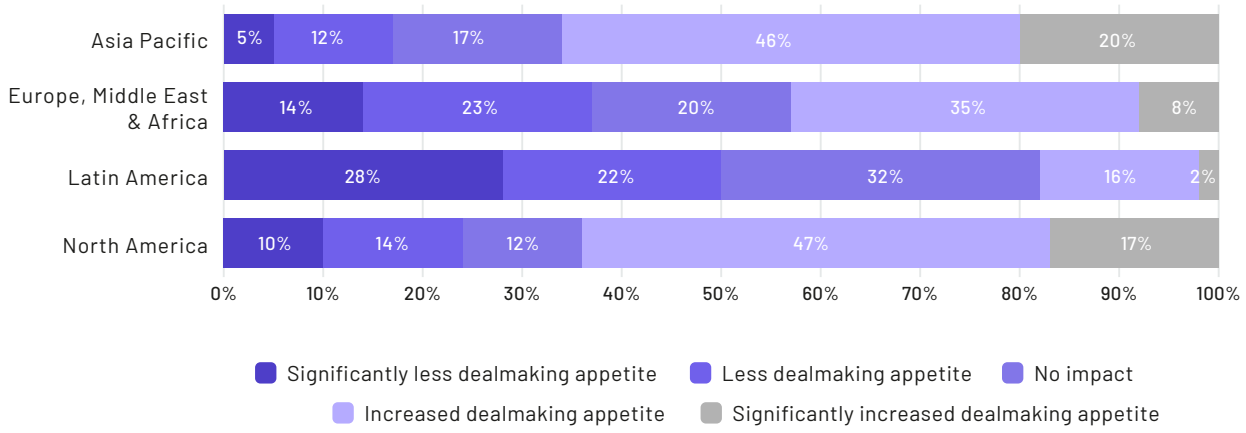


Figure 6. What impact has COVID-19 had on your dealmaking appetite? (Select one.)



18 percent of Latin American respondents think that COVID-19 has increased their dealmaking appetite — and just two percent significantly.

Carve-outs set to dominate amid lingering uncertainty

Alongside traditional takeover deals, our survey finds that dealmakers expect carve-out and spin-off deals to become more commonplace. Of the respondents, 30 percent rank this within the top two most important trends they expect to see in the aftermath of COVID-19, while 15 percent rank this as the most important.

"We expect to see more carve-out deals as the world recovers from COVID-19. The trend has emerged more in the past few years, yet after the effects of COVID-19, this is one of the best ways for companies to generate funds," says the head of M&A at an Indian corporate.

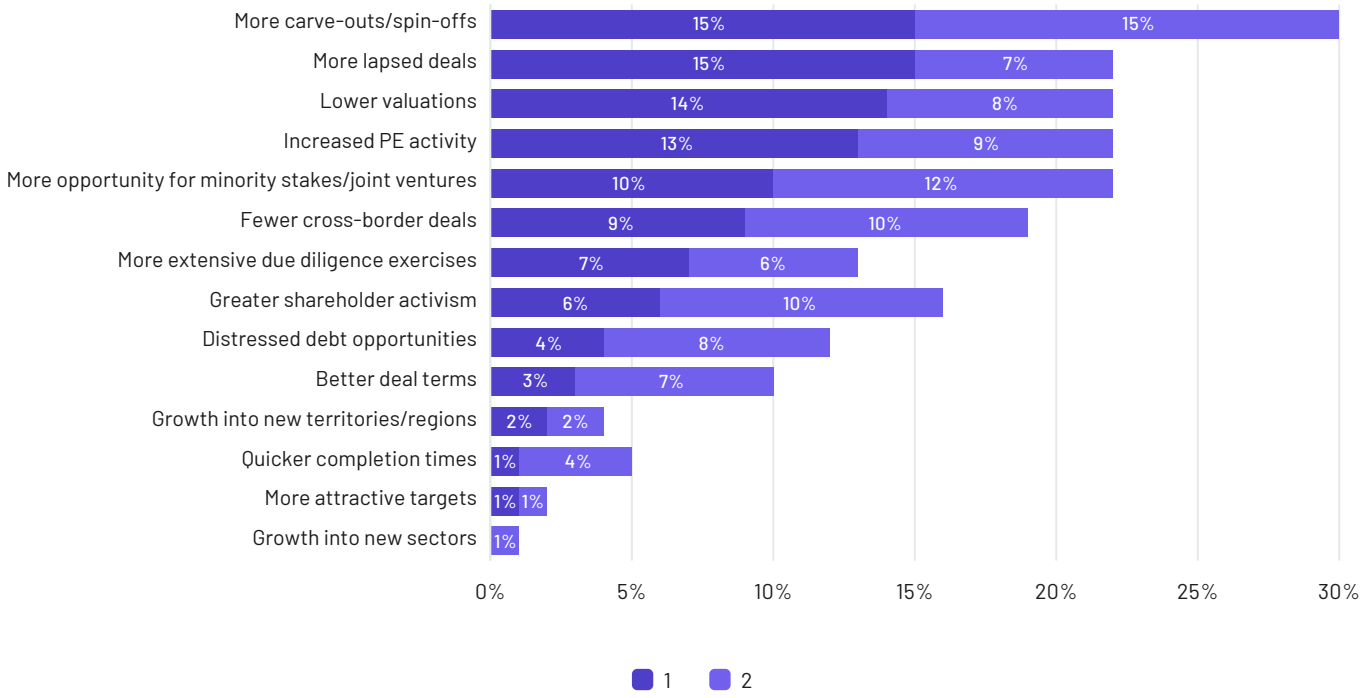
Yet the possibility of lapsed deals is still very much on dealmakers' minds. Of the respondents, 15 percent see this as the most important trend for dealmaking, putting it in line with carve-out/spin-off deals as a major trend to expect following COVID-19.

"Given the uncertainties in the market at this point, I do expect more lapsed deals. Deals are failing to complete, either due to problems with financing or not enough trust in the sellers," says the founding partner of a Chilean PE firm.

The economic uncertainty caused by COVID-19 negatively impacted valuations: Twenty-two percent of dealmakers put lower valuations within the top two most important trends they expect to see post-pandemic.

"Lower valuations were witnessed in the aftermath of the COVID-19 pandemic. This trend will continue over the next few months until companies can improve their operational

Figure 7. What trends do you expect to see in M&A in the aftermath of COVID-19? (Select the two most important: 1 = most important, 2 = second most important.)



performance and derive more profits," says a partner at an Argentinian PE firm.

Expectations regarding deal trends differ significantly across the globe. EMEA respondents expect to see a greater opportunity in carrying out minority stakes/joint ventures. Of the survey respondents, 19 percent cite this within the top two most important post-COVID-19 deal trends they expect to see. This compares to 10 percent of overall respondents, and just five percent of North American respondents.

"We expect to see more opportunities for joint ventures over the coming months," says the group director of M&A and business development at an Italian corporate firm. "This trend will be driven by the need for start-ups to access financing as traditional funding streams become more conservative."

When looking at the types of deals in the cards, 41 percent of PE firms are most likely to be involved in buyouts/add-ons over the next 12-18 months. Meanwhile, 41 percent of corporates

expect to be involved in M&A over the same timeframe, while 40 percent expect to conduct carve-outs/spin-offs.

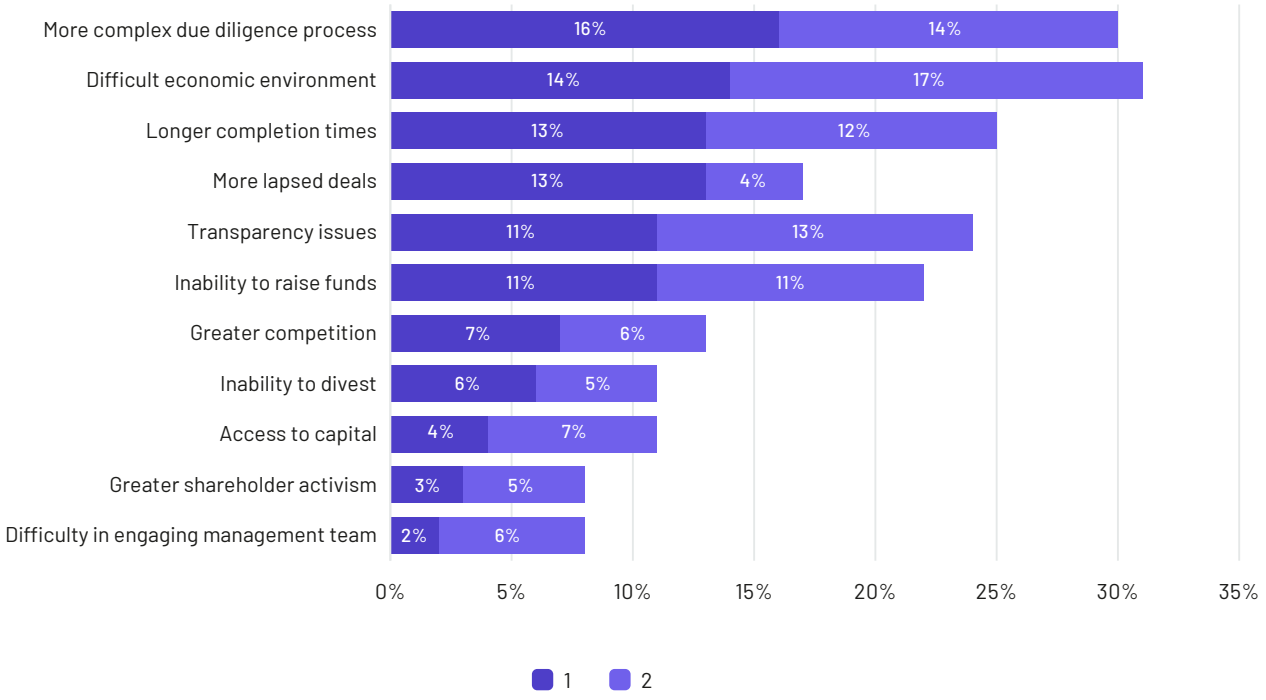
Due diligence grows in complexity

While there are opportunities to be capitalized on, challenges continue to persist — particularly in terms of due diligence and financing.

In the aftermath of COVID-19, firms consider increasingly complex due diligence processes as the greatest challenge facing deals. Of the survey respondents, 16 percent say that this is the case. In addition, due diligence periods are becoming increasingly compressed. This trend was in effect before the pandemic and COVID has only exacerbated the situation due to the pressure to get deals with attractive assets over the line as quickly as possible.

However, for many dealmakers, these contracting timeframes are proving a headache. According to the director of M&A at a U.S. corporate, the due diligence process is set to become more time-consuming: "The target set for completing each stage of the due diligence process will likely have

Figure 8. What challenges do you expect to see in M&A in the aftermath of COVID-19? (Select the two most important: 1 = most important, 2 = second most important.)



to be extended. I expect this to become a more common occurrence in the post-COVID deal environment."

The managing director at a French PE firm agrees: "Due diligence will be the most demanding challenge we face. As seen in the previous financial crisis, we expect sellers not to be forthcoming with information, which will delay deals."

The uncertain economic outlook is compounding this effect, according to a group head of finance at an Irish corporate: "Judging the prospects and performance of a company will be more difficult within the current unstable economic climate. Global companies will find the preparation most challenging."

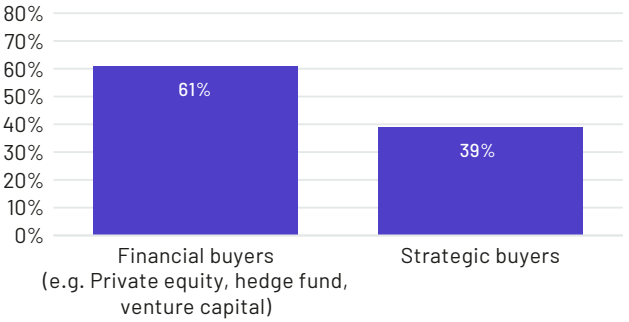
Financing conditions set to tighten

A difficult economic environment is cited as the top challenge by 14 percent of respondents, with financing conditions becoming increasingly strained. "The financial crisis scenario that we find ourselves in has negatively affected lender sentiment. There is a greater risk associated with financing transactions," says the vice president of finance at a Thailand-based corporate firm.

According to the head of strategy at a Taiwanese corporate, this is a trend that is seen across the global banking industry: "All traditional banks have become very conservative when it comes to financing deals. Given the economic conditions globally, they are not confident providing debt for acquisitions."

When it comes to the types of firms profiting from this environment, 61 percent of respondents feel that financial

Figure 9. Which of the following do you feel is better placed to take advantage of buying opportunities presented by COVID-19?



buyers are better placed to take advantage of buying opportunities presented by COVID-19.

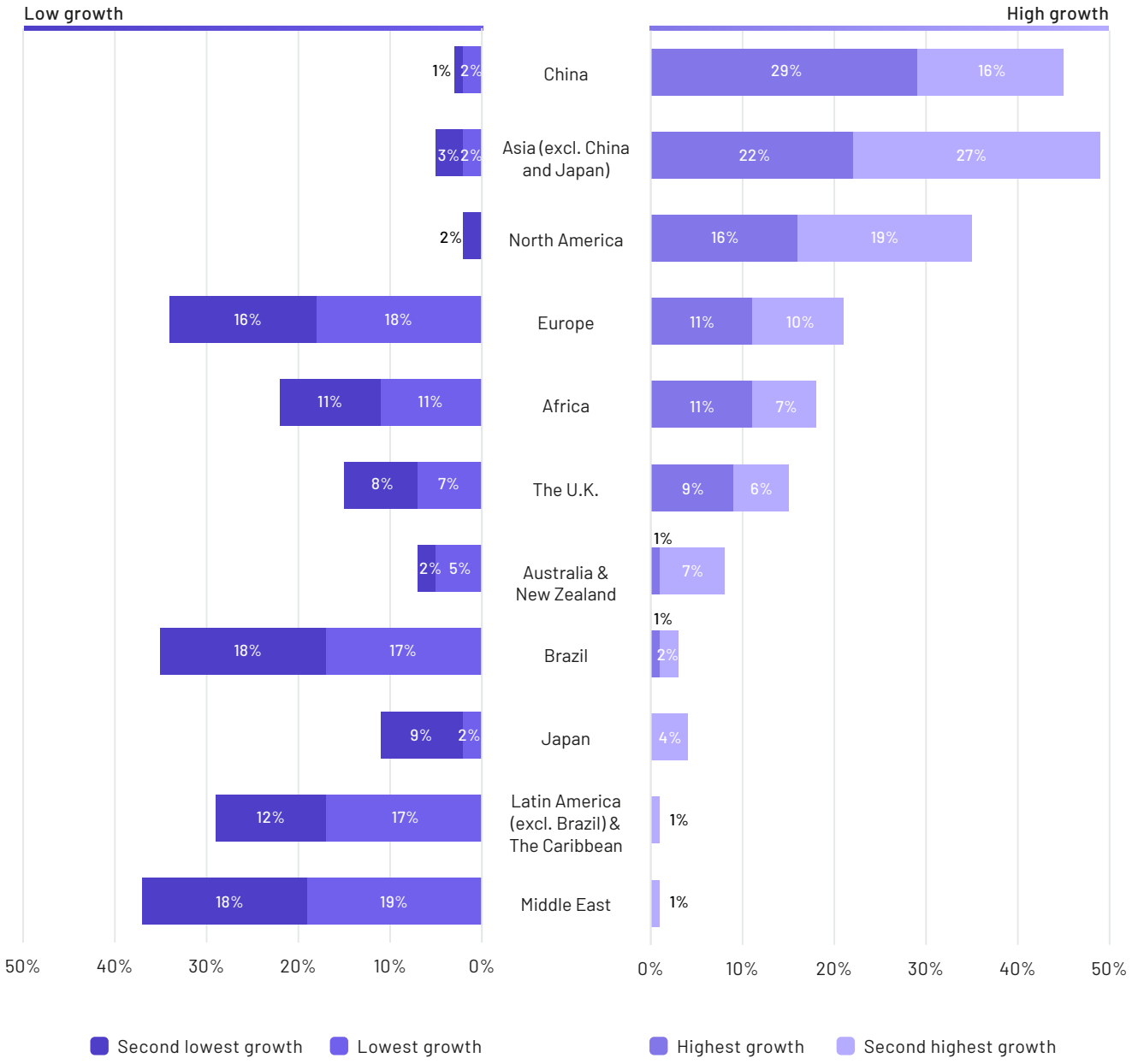
According to the CFO of a Canadian corporate, the economic downturn has meant that PE firms are in a better position to seize opportunities: "The recession-like economic climate has negatively impacted the dealmaking outlook for corporate companies. PE firms, on the other hand, have more opportunities to invest in companies to achieve growth."

Winners and losers

Looking across regions, China is expected to see the highest growth in dealmaking post-COVID — twenty-nine percent of respondents believe this to be the case. Positive factors such as strong economic growth and supportive government policies are boosting Chinese domestic dealmaking, while a boom in e-commerce is providing plenty of fuel for Technology and Logistics.

Asia, excluding China and Japan, is also expected to see significant growth post-COVID, with 22 percent of

Figure 10. Which regions will see highest growth/lowest growth post-COVID-19?
(Select the two most affected: 1 = highest growth/lowest growth, 2 = second highest growth/second lowest growth.)



respondents expecting the region to see the highest growth in dealmaking.

The Middle East, meanwhile, is expected to see the lowest growth in dealmaking. Nineteen percent of respondents expect this to be the case. Dealmaking has been slower to pick up in the region than elsewhere across the globe, with the current economic uncertainty and global market disruption impacting deal confidence.

The Consumer and Leisure industries are expected to see the highest growth post-COVID. Twenty percent of respondents chose this as the sector in which they expect to see the highest activity. Segments of the Consumer sector saw a surge in demand amidst the pandemic as changing consumer habits fueled M&A opportunities, while others are now benefiting from the lifting of restrictions.

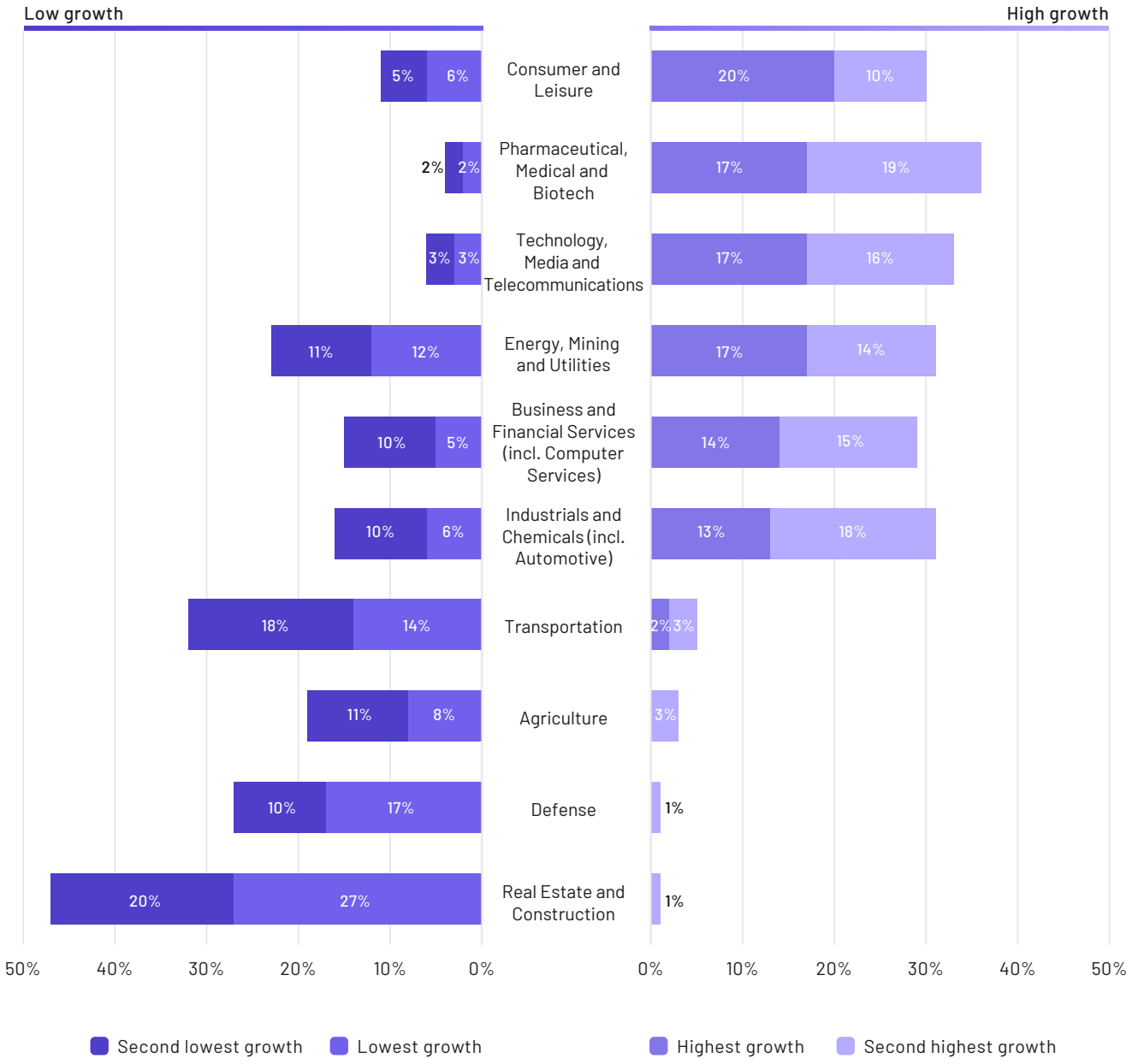
Leisure, meanwhile, was one of the hardest-hit sectors of the pandemic, with many hotels, shopping centers, restaurants and entertainment facilities forced to close their doors due to government-ordered lockdowns intended to stop the spread of the disease. More distressed M&A is expected as investors — particularly PE — look for high-growth opportunities as the dust settles post-pandemic.

Pharma, Medical and Biotech is also set to be a growth center for dealmaking — seventeen percent think that this sector will see the highest growth post-COVID. As with the Consumer sector, Pharma assets became hot property during the pandemic. Demand for innovative solutions such as digital health technology ramped up, causing valuations to soar. This trend looks set to only increase over the next few years.

The Real Estate and Construction sector is expected to fare the worst post-COVID. Twenty-seven percent of respondents believe it will experience the lowest growth. The industry struggled as the pandemic took hold, with trade and travel restrictions impacting business, operating costs spiraling and a significant decrease in demand. Despite the lifting of COVID-related restrictions in many jurisdictions, the outlook remains unclear regarding the demand for commercial and office property, with many businesses opting to keep a flexible work policy or preferring shorter-term lease contracts. This uncertainty has kept investment sentiment in these sectors subdued.

Latin America is the least optimistic surrounding dealmaking in Real Estate and Construction, with 34 percent expecting the sector to experience the lowest growth. This is followed by the APAC region at 32 percent.

Figure 11. Which sectors will see highest growth/lowest growth post-COVID-19?
(Select the two most affected: 1 = highest growth/lowest growth, 2 = second highest growth/second lowest growth.)



ESG climbs up the deal agenda

ESG remains a topic of importance across the globe, driven by increased scrutiny from investors, regulators and governments, as well as growing public awareness.

The COVID-19 crisis has shone a spotlight on a range of ESG issues, from tackling climate change to social issues. Global concerns such as energy efficiency, diversity and inclusion and business transparency are now on top of the corporate agenda.

According to research conducted in 2020 by investment management firm Fidelity, companies with a strong ESG track record were proven to generate stronger financial returns and were more resilient to economic shocks. Against this backdrop, ESG is becoming a key factor influencing M&A strategy.

Scrutiny on deals increases

ESG's rise has meant greater scrutiny on deals. This looks set to increase as companies, investors and regulators place even more importance on ESG considerations. Our survey finds that 62 percent of respondents expect ESG scrutiny in the deal process to increase over the next three years, with 25 percent expecting this to increase significantly.

Figure 12. How do you expect ESG scrutiny to change in deals over the next three years?

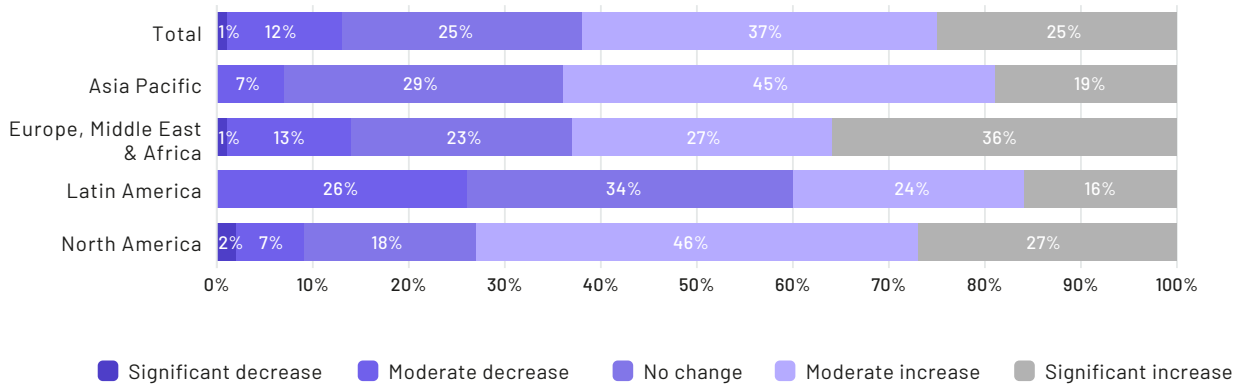
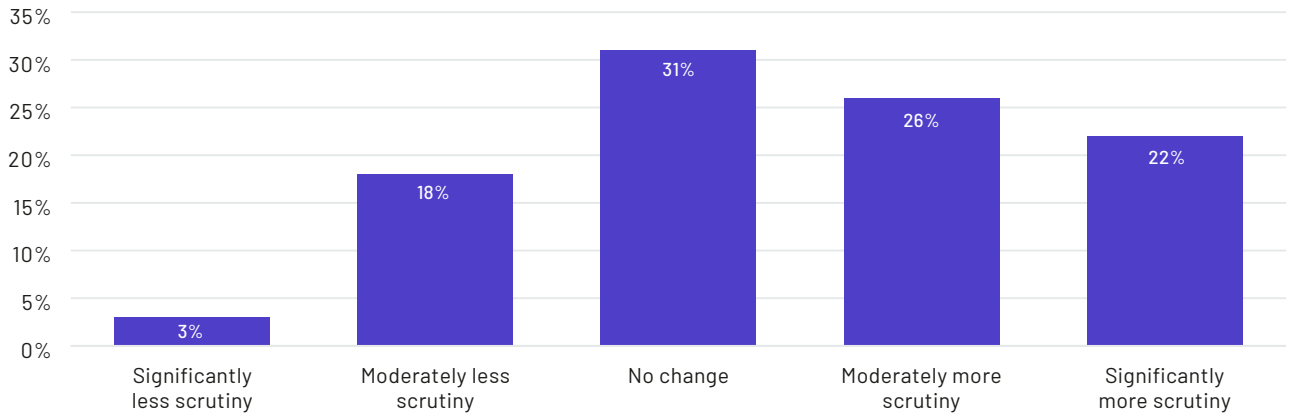


Figure 13. How do you expect due diligence to change in terms of ESG factors in transactions in the next three years?



Attitudes vary widely across regions. While almost three-quarters (73 percent) of North American respondents expect ESG scrutiny to increase over the next three years, just 40 percent of Latin American respondents expect this to be the case.

ESG considerations are taking a much greater role in the M&A due diligence process and have the potential to make or break a deal. This is reflective of the realization that ESG factors can have a material impact on a company's valuation.

This focus looks set to only increase in the future. Our survey finds that almost half (48 percent) of respondents expect due diligence to increase in terms of ESG factors in transactions over the next three years, while 22 percent expect it will increase significantly. A mere three percent of respondents expect levels of scrutiny to significantly decrease.

Environmental issues

ESG considerations are driving investment and target selection and have become a crucial consideration when companies are looking to close a deal. At the top of the agenda are greenhouse gas emissions and carbon management, with 42 percent of respondents selecting these within their top two ESG considerations. This figure rises to 43 percent among EMEA respondents.

This is to be expected given the current government and regulatory pressure exerted on companies to reduce environmental impact. "Carbon-management protocols are being urged by governments the world over," says the director of strategy at an Irish corporate firm. "We have to think about the impact of our investments on the planet and scrutinize these considerations closely."

The managing partner at a Japanese PE firm agrees: "When sourcing companies, we aim to assess and understand their capabilities in carbon management. There are many decarbonization requirements placed on companies today to tackle global climate change. The company must be able to fulfill these."

Water and wastewater management came second, with 37 percent of respondents choosing this within their top two ESG considerations when looking to invest. "Effective water usage and wastewater management is crucial both for the welfare of our communities and to ensure the long-term resilience of businesses," says the head of M&A at a Mexican corporate.

Energy efficiency is also a major concern for businesses: Thirty-six percent of respondents chose this within their top two reasons for contemplating investing. "We urge our teams to use renewable energy and reduce consumption whenever possible. We expect targets to do so as well," says the CFO at an Indian corporate firm.

When looking across regions, almost half (47 percent) of EMEA respondents consider energy efficiency as the most important ESG consideration when contemplating investing, compared to 24 percent of North American respondents.

The social factor

When asking respondents which social issues are top of mind when it comes to selecting deal targets, fair marketing and advertising top the list. One-third (33 percent) of respondents chose this within their top two ESG considerations when looking to invest.

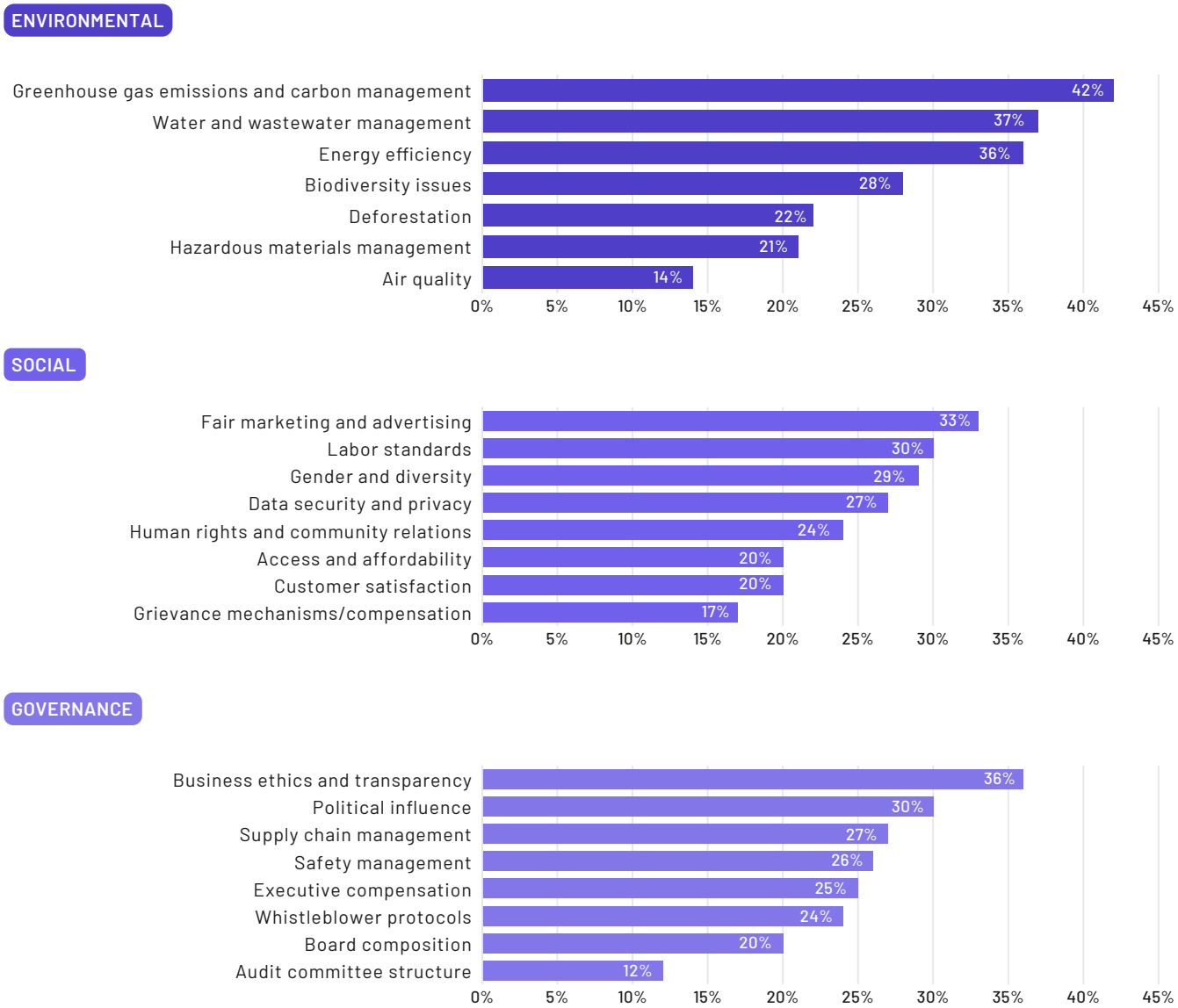
"It is easy to forget about fair marketing practices and advertising. If this is not achieved, it can really hurt a company's customer base and client sentiment," says the CFO of an India-based company.

Labor standards are also a top priority for businesses, with 30 percent of investors selecting this within their top two considerations — a figure that rises to 36 percent among APAC respondents. "We always assess labor standards when contemplating an investment," says the CFO at an Australian corporate firm. "They determine how well the company has been following the industry standards and if there have been many problems in the past."

Gender and diversity are a growing area of interest for investors — 29 percent of respondents chose this within their top two ESG considerations when looking to invest. As gender and diversity policies have a direct impact on motivating employees, they have the potential to improve company performance in the long term: "Gender and diversity has a positive effect on the mindset of employees. There are more chances to motivate employees when they know that the company has an inclusive policy," says the managing director of a Chinese PE firm.

This figure rises to 38 percent among Latin American respondents — the highest across all regions. "We always review a company's gender and diversity policy in our investment decisions. All employees feel motivated when social and governance policies are followed properly," says the CFO at a Mexican corporate.

Figure 14. What are the most important ESG considerations when contemplating investing? (Select top two answers for each.)



Our survey finds that 69 percent of dealmakers think that, when looking for a new target, diversity balance within the organization is important, while 27 percent view this as significantly important.

Governance matters

When looking at the various governance issues facing businesses, our survey finds that business ethics and transparency are top of the agenda — thirty-six percent of respondents rank this within their top two ESG considerations when looking to invest. According to the managing director at a U.S. PE firm, ethical standards are crucial in mitigating investment risk: "If the company is not following the industry-prescribed standards, it would be highly risky to invest in them."

This is followed by political influence, which businesses believe is an important factor when considering an investment. Of survey respondents, 30 percent rank this within their top two ESG considerations, with this figure climbing to 40 percent among Latin American respondents.

"Our targets need to learn to manage the political-influence levels within the business. Undue influence will put the company image under question," says the head of M&A at a Mexican corporate firm.

The head of strategy at a Japanese corporate agrees: "It is important to gauge the level of political influence as it impacts decision-making capabilities within management teams. Also, there are potential ethical issues at play that can be uncovered with proper due diligence."

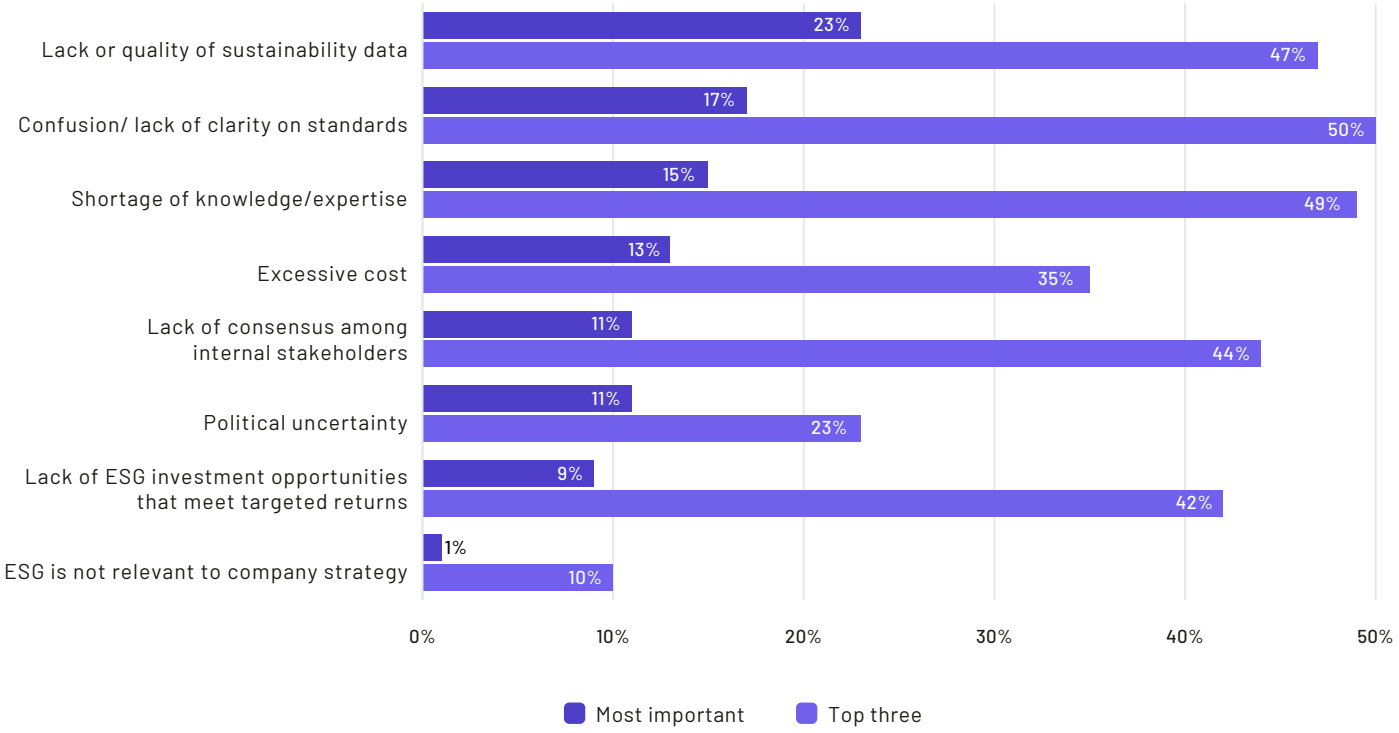
Supply-chain management is another major focus for firms. Twenty-seven percent of respondents pick this within their top two ESG considerations when looking to invest. Effective supply-chain management can ensure necessary flexibility in uncertain economic times, making businesses more resilient to economic shocks in the long term. "Supply-chain management is one of the most important aspects of a business. The business continuance depends on the flexibility and the support provided by the supply chain," says the head of M&A at a U.S. corporate.

This number climbs to 31 percent among EMEA respondents — the highest across all regions. "Supply-chain management is the first thing we assess when looking to invest. Vendor management techniques vary across companies, and we have to spend a lot of time learning to understand their working methods," says the group head of finance at an Irish corporate firm.

A lack of clarity

When looking to make ESG-oriented investments, firms are being held back by the lack or poor quality of sustainability data. Almost a quarter (23 percent) of respondents see this as the biggest challenge in making ESG-oriented investments. A lack of data regarding the sustainability of a company can mean that the investor does not have the information it needs to make informed investment decisions, putting the investment at risk. Confusion or lack of clarity on standards is identified as the second biggest challenge facing respondents — seventeen percent see this as their top challenge. At present, the number of standards with which companies

Figure 15. What are your organization's biggest challenges in making ESG-oriented investments? (Select top three and most important.)



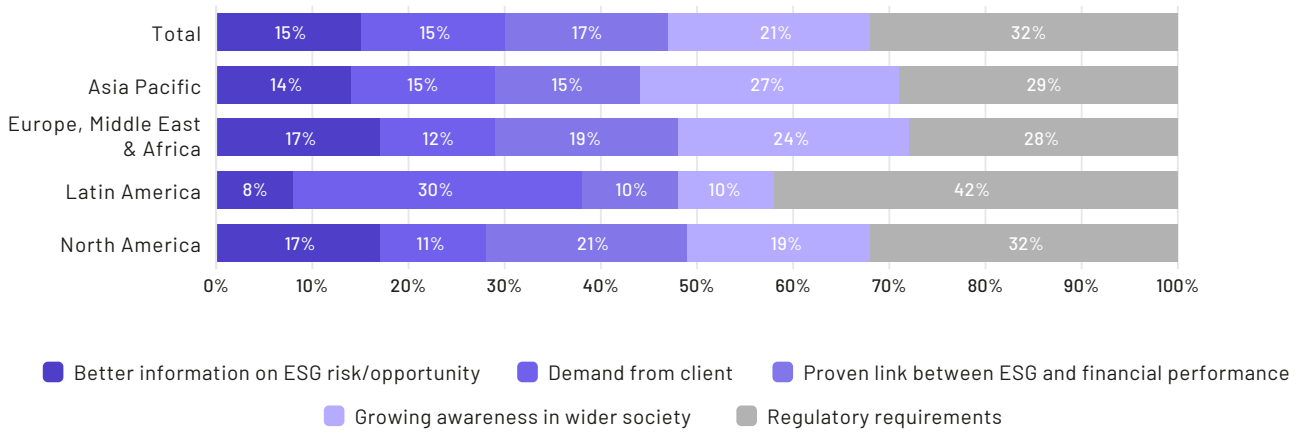
are looking to comply can cause confusion and may deter firms from making ESG-oriented investments.

Rising regulatory requirements

Increasing regulatory requirements surrounding ESG criteria look set to boost companies' focus on the issue. Almost a third (32 percent) of respondents think that regulatory requirements are the factor that would push their organization to have a wider consideration of ESG. This number climbs to 42 percent among Latin American respondents.

A growing awareness of ESG issues among wider society is the second most important factor pushing greater ESG consideration — twenty-one percent of respondents say that this is the case. This motivating factor is highest among APAC (27 percent) and EMEA respondents (24 percent).

Figure 16. What would push your organization to have a wider consideration of ESG? (Select one.)



Process and execution

While global dealmakers have strong tailwinds when it comes to executing deals, they still face a range of challenges in terms of process and execution. Our survey identifies that deal preparation and due diligence are the most problematic issues facing deals. Of the respondents, 22 percent expect preparation to be the part of the deal process that will be the most difficult for the remainder of 2021 into 2022, while 21 percent expect this to be due diligence.

Stricter financial terms and comprehensive due diligence are the main ways that companies are looking to mitigate risk in M&A over the next 12 months. Almost a quarter (23 percent) select stricter financial terms as their top choice, while 19 percent choose comprehensive due diligence processes. Improving integration planning and execution also looks set to be a key focus area for global dealmakers over the coming year — thirty-two percent pick this within their top two methods to mitigate M&A risk.

Engaging with advisors early is seen as critical over the coming year — thirty-six percent believe that this will be the most important factor helping to better execute M&A. Meanwhile, 28 percent of respondents say that starting their deal process earlier would aid overall M&A execution.

Figure 17. Which part of the M&A process will be most difficult in 2021? (Select one.)

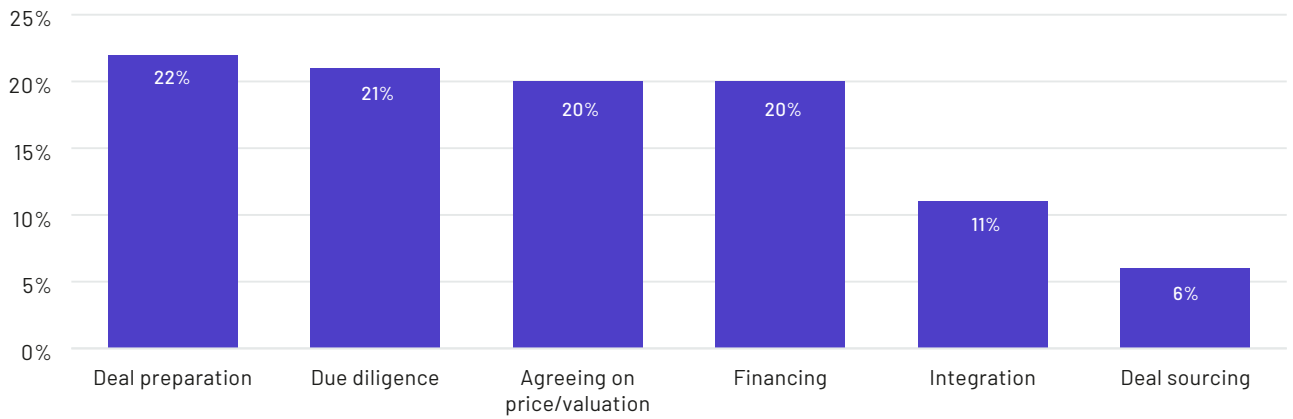
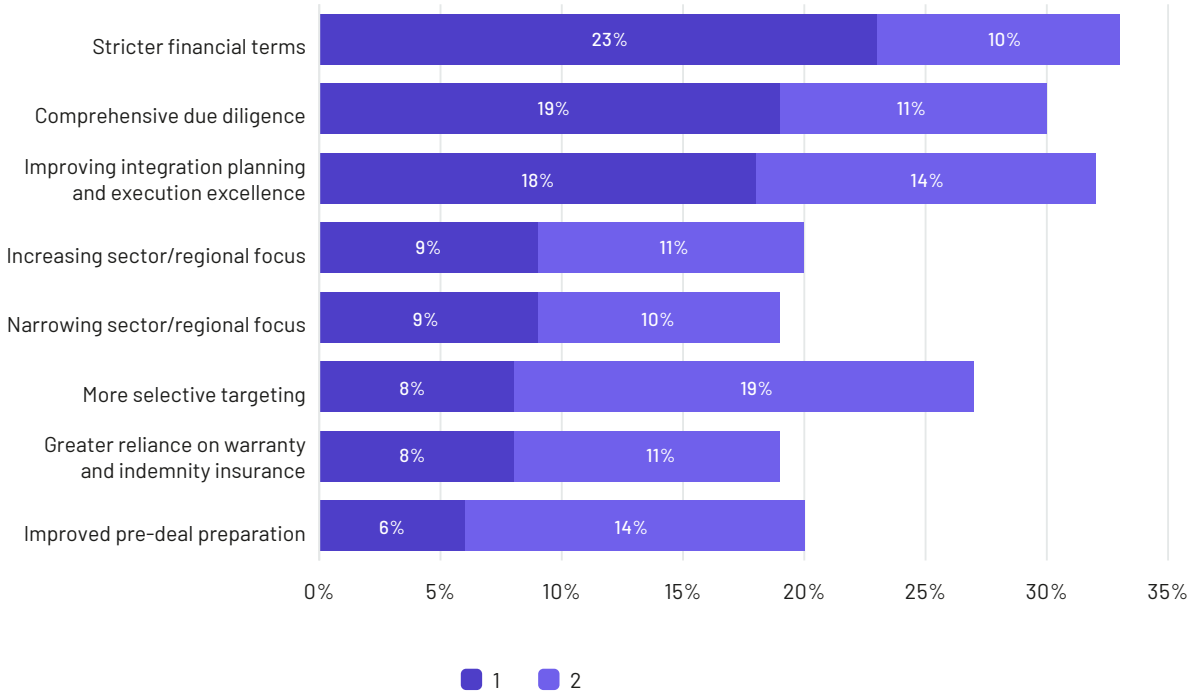


Figure 18. How will companies mitigate M&A risk in 2021? (Rank top two, where 1 = top choice.)



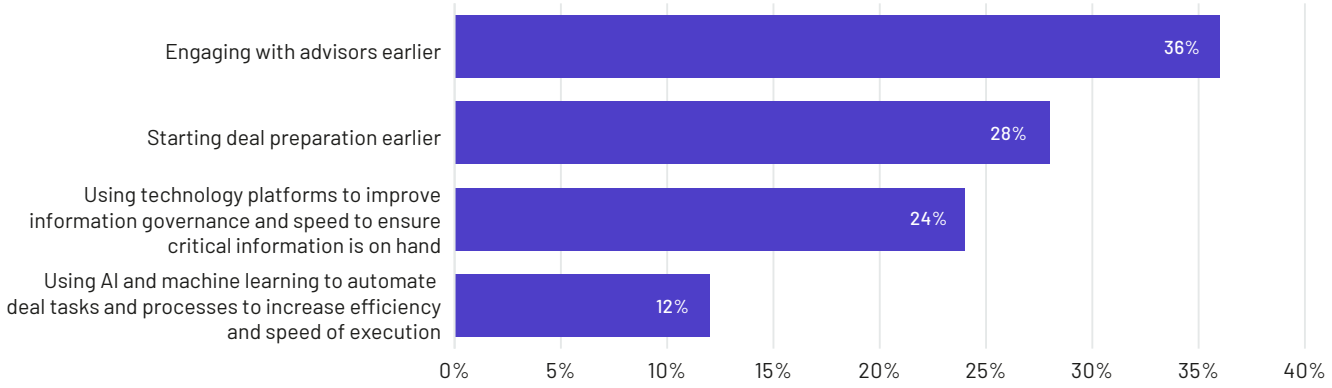
Disruptive trends

Disruptive technologies are impacting all parts of the deal process and execution. Global dealmakers need to both understand and utilize the range of tools at their disposal to keep up with the rapid pace of change taking place. "Technological tools to enhance M&A such as data analytics, cybersecurity and deal automation have become widespread — and are almost mandatory in today's deal landscape. The use of technology is now expected across all M&A processes," says the head of strategy and business development at a Finnish corporate firm.

The uptake of technology within the deal process has been accelerated by the COVID-19 crisis. While this initially tested firms' technological capabilities, it squarely placed technology in the center of the dealmaking process. This looks set to remain in place post-COVID due to the long-term efficiencies gained.

Data analytics is seen as the most disruptive trend that will affect M&A processes in 2021 — fifty-five percent of respondents expect this to impact M&A processes over the coming year. "Data analytics help to provide more actionable data and predictive information," says the

Figure 19. Which of the following will be most important to help companies better execute M&A in 2021? (Select one.)



vice president of finance at a Thailand-based corporate. "Companies that are not using data analytics for M&A purposes will fail to be competitive."

Not only this, but data analytics can have a real impact on the financial performance of a business, says the CFO of a Chinese corporate: "The provision of actionable information in a timely manner can really impact deal valuations."

Cybersecurity ramps up

The sharp uptake in the use of technologies amidst the COVID-19 pandemic has exposed vulnerability for cybercriminals to exploit. This is putting more pressure on dealmakers to implement effective cybersecurity measures to mitigate the risk.

As a result, cybersecurity is becoming an increasingly important factor in the dealmaking process — 52 percent of respondents see this as a disruptive trend that will impact M&A over the coming year.

"Cybersecurity will be the disruptive trend that affects the M&A environment the most. There is a huge amount of information being transferred through online platforms, significantly increasing the threat of cybercrime," says the head of strategy at a Japanese corporate firm.

Companies will increasingly look to hire external talent able to utilize cybersecurity technology and counter the threat of cybercrime, according to the director of strategy at a U.S. corporate. "We see cybersecurity as the most disruptive trend on the horizon. Companies conducting deals will need to hire talent to manage the associated challenges. If internal resources cannot manage the challenge, external talent will be needed."

Deal automation streamlines the deal process

The use of automation streamlines the deal process, ensuring efficiency at critical points in the deal while saving vital time for dealmakers. M&A practitioners are increasingly utilizing automation technologies such as robotic process automation (RPA), analytics, machine learning (ML) and artificial intelligence (AI) to accelerate deal cycles and ensure strategic value for the buyer.

By streamlining previously manual tasks, automation greatly increases the overall efficiency of deals: "Deal automation will have a positive impact on documentation, regulatory compliance and legal activities. These are regular tasks that take time when completed manually," says the chief financial officer and head of corporate development at a New Zealand corporate firm.

According to the chief strategy and marketing officer at an Indian corporate firm, automation can aid the due diligence process — a critical component to deal success: "Deal automation will help in retrieving data from multiple sources while data analysis can also be conducted in an automated format. It is therefore ideal for due diligence purposes."

When looking across regions, Latin American respondents show a much greater focus on intellectual property (IP) capabilities — seventy-four percent say that this is a disruptive trend they expect to see over the coming year, compared to 51 percent of respondents overall. IP issues

Figure 20. What disruptive trends will most affect M&A processes in 2021? (Select all that apply.)

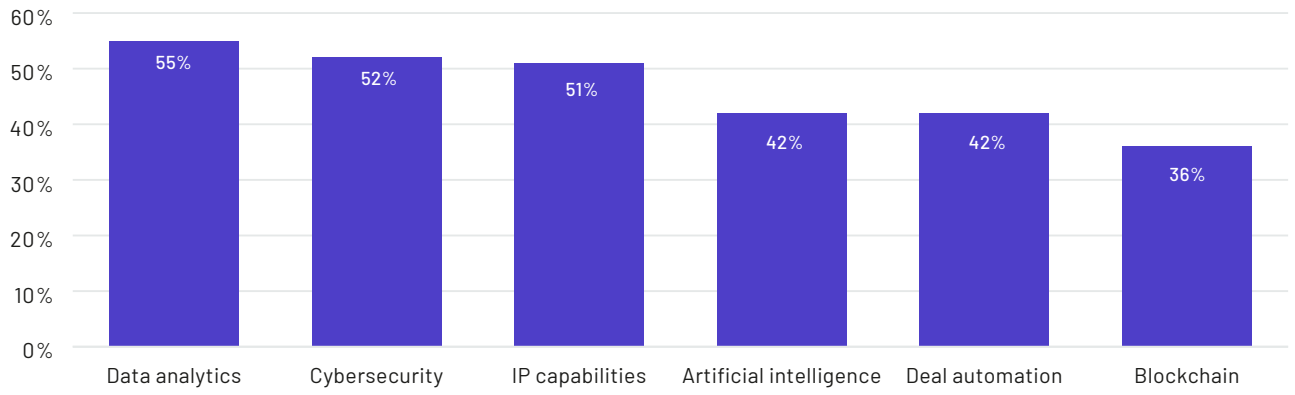
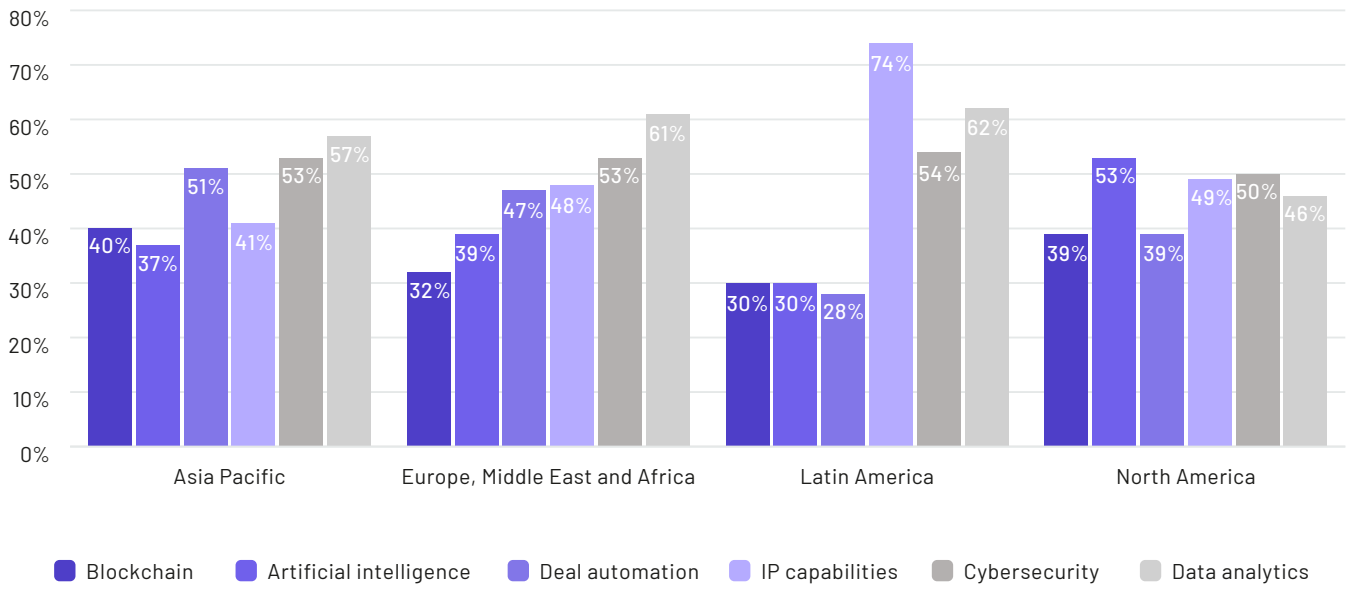


Figure 21. What disruptive trends will most affect M&A processes in 2021? (Select all that apply.)



have become central to the dealmaking process in recent years, as acquirers must accurately assess the value of the target's IP through due diligence.

Among North American respondents, AI is having a much larger impact on the deal process. Over half (53 percent) of North American respondents think that AI will affect M&A processes the most in the coming 12 months, compared to 42 percent across all regions.

EMEA firms, meanwhile, are placing greater importance on data analytics: Sixty-one percent expect this to affect M&A processes in the next 12 months, compared to 46 percent of North American respondents.

Need to know: M&A in 2022

When it comes to the key concerns for M&A in 2022, merger controls, protectionism and trade conflicts are top of mind for dealmakers. Antitrust and merger control issues are the main hurdle that dealmakers believe they will face — and given the noise coming out of the U.S. and the E.U., this fear is hardly unfounded. Just under a third (31 percent) rank this within their top two challenges to completing a deal in 2021–2022. Protectionist policies and trade conflicts are also on dealmakers' minds — seventeen percent rank these as their top challenges over the same timeframe.

However, two aspects that dealmakers do not see as major challenges could come back to haunt them. Only 10 percent see technology inefficiencies as a top-two concern, yet given the reliance on technology in almost all aspects of the M&A process, any perceived inefficiencies are likely to delay the transaction or worse.

Figure 22. What will be the biggest challenges to completing a deal in 2021/22? (Rank top two, where 1 = the biggest challenge.)

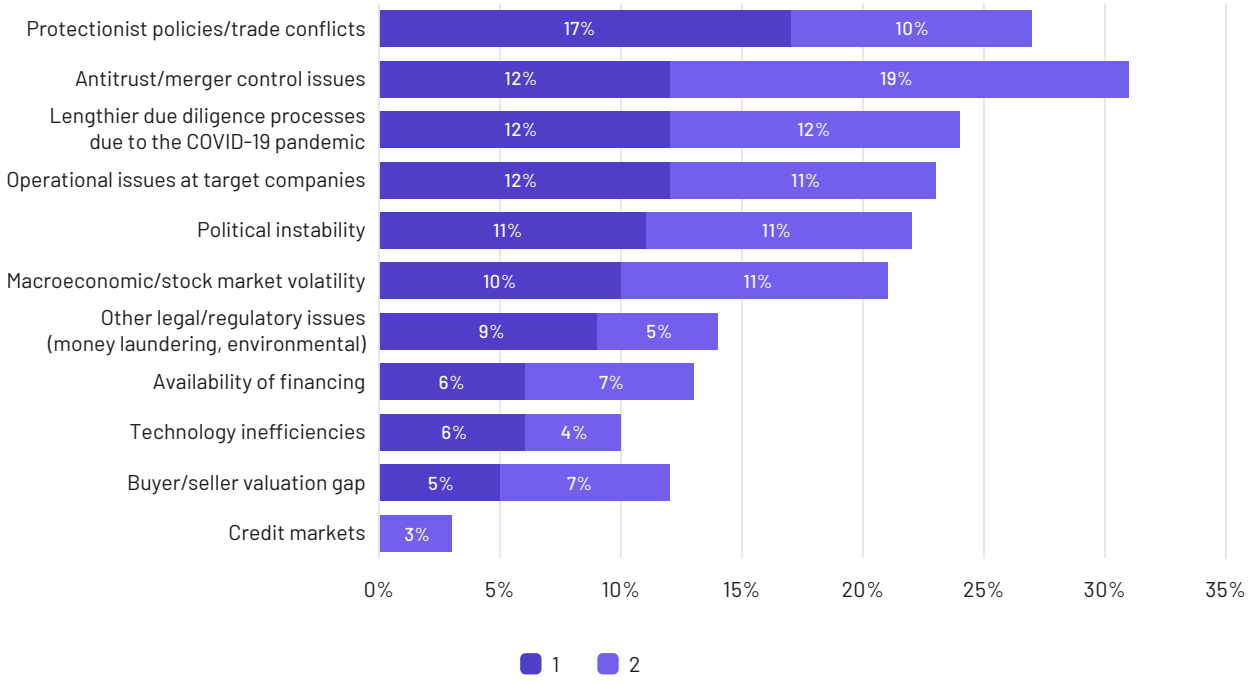
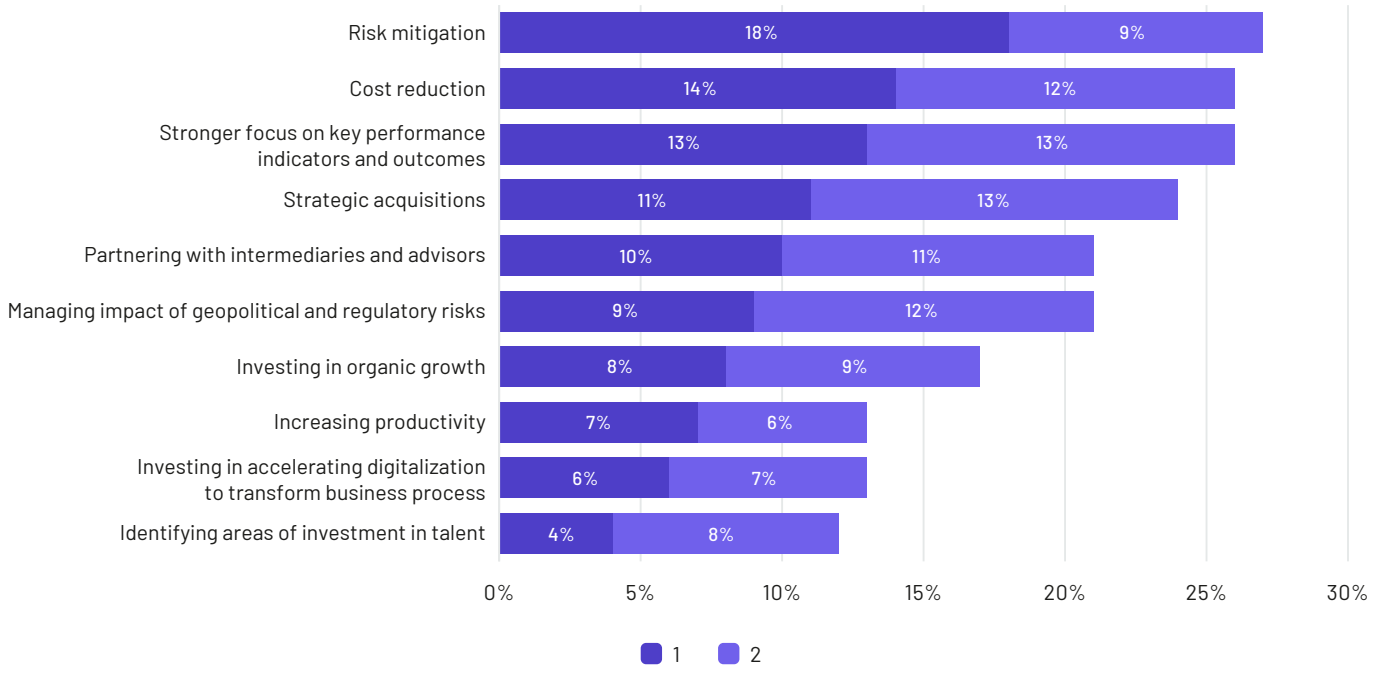


Figure 23. What will be the biggest focus for companies in 2021/22? (Rank top two, where 1 = top choice.)



Meanwhile, only 12 percent view the valuation gap as a top-two issue for 2022. This could well be a sector-by-sector concern. In highly active sectors such as Technology, Media, Healthcare and Consumer, sellers with strong assets are looking for top dollar, and PE's record war chest will only push prices upwards. For the top products, dealmakers need to be aware that their initial offer is unlikely to be accepted and that, distressed assets aside, the gap is growing.

With the pandemic still very much a concern, risk mitigation looks set to be the biggest focus for companies in 2021—2022 — eighteen percent rank this as their main priority. Strategic acquisitions and a stronger focus on key performance indicators and outcomes are also high up on the agenda.

"Looking ahead to the end of 2021 and into 2022, I believe risk mitigation will be the biggest focus for companies. Many economic and operational risks have emerged after the pandemic that companies have to deal with," says the managing director of a U.S. PE firm.

Key takeaways

Despite the fear of protectionist policies, slow timelines and greater regulatory interferences, the momentum for M&A looks set to continue. Yet to achieve success, dealmakers must learn to navigate an increasingly complex environment. We round up five key takeaways for dealmakers looking to conduct deals over the coming year:

1. Dealmakers capitalize on the "new normal"

Overall, dealmakers are buoyed by the brightening macroeconomic outlook and the gradual return of confidence witnessed in the global dealmaking market. Competition is ramping up, pushing up valuations and spurring greater deal activity.

2. Regulatory scrutiny is a barrier

Dealmakers see rising scrutiny from regulators as the most significant challenge they face. Furthermore, antitrust and merger control issues look set to be the biggest challenge to completing a deal in 2021—2022. Dealmakers must learn to navigate the increasingly complex regulatory environment to achieve success.

3. The COVID-19 aftermath brings opportunity and risk

The immediate shock of the COVID-19 pandemic within the global deal market was undeniable. Yet our survey shows that dealmakers have adapted, with the majority expecting to execute more deals post-pandemic. However, more complex due diligence processes and a challenging economic environment remain key barriers to overcome.

4. ESG considerations have become integral to the dealmaking process

ESG is here to stay — and dealmakers are taking note. This rising influence means that compliance with ESG criteria can make or break a deal. Public awareness of these issues, as well as scrutiny of deals in terms of how they comply with various ESG criteria, are expected to increase even further over the coming year.

5. Dealmakers must embrace tech to their advantage

Technology has accelerated all parts of the M&A deal process and execution, with dealmakers now looking to utilize the range of technologies at their disposal. Getting the right tech partners on board will be crucial to capitalize on opportunities and to keep up with the pace of change across all sectors. Data analytics and cybersecurity are the major disruptive trends set to influence M&A processes and execution over the coming year.

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