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CORPORATE GROWTH & M&A

Industries expected to drive the M&A market in 2022

By J.R. DOOLOS AND JEFF JOHNSTON

The last 24 months have proven to be a unique and exciting market in M&A resulting in a remarkable increase in transaction activity in almost every industry. This historic increase was the result of several factors, the most prevalent being the release of pent-up activity that was deferred in 2020 as the world was adjusting to the COVID-19 pandemic. In addition to clearing the 2020 deal backlog, there was a shift in macro-dynamics, resulting in a disconnect in global supply and demand dynamics. The environment afforded several industries to achieve outsized growth. The result has been increased valuation multiples, encouraging more sellers to market while building momentum throughout 2021 and into 2022.

Almost all industries are experiencing transaction volume growth, but for different reasons. Increased deal activity by industry can be more broadly characterized and understood in two categories:


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1. Historically cyclical industries that have managed to skip the normal downturn cycle

2. Industries driven by technological advancement and change.

CYCLICAL INDUSTRIES

These industries have historically tended to ebb and flow with cyclical forces, whether it be commodity pricing, consumer sentiment, administration / regulatory changes, and / or construction spending. Illustrative examples include building products, metals and mining, chemicals, business and consumer services, paper and packaging and certain real estate sectors.

The brief COVID-19 recession and subsequent surge in demand created global challenges and imbalances in supply and demand dynamics for manufacturing businesses, while a historic labor shortage has brought about continued inflationary pressures. As an example, prior to the pandemic, housing starts and construction spending had been hovering at a consistent level for the previous six years, forming the expectation of an imminent cycle, or at a minimum, muted growth trajectory. These forces fostered the opposite, shining a spotlight on decades of underinvestment and driving a majority of commodity-driven inputs to surprising levels while supporting downstream investment and construction demand.

Global stimulus policies buoyed many small businesses and consumers, which encouraged a return to normal and drove spending to consumer staples in goods and services. Industries within this category are experiencing the most notable growth as 2022 gets underway, often with extended backlog commitments and unrelenting demand as companies struggle to catch up. Due to muted activity in 2020 and early 2021, these industries are likely to experience substantial M&A volume growth in 2022.

TECHNICAL CHANGE

These industries have been significantly influenced by technological change that has either shifted consumer preferences or created an entirely new industry segment. Examples include automotive, distribution, transportation and logistics, energy, consumer and the general technology sector.

Although extremely disruptive, the pandemic accelerated the advancement and proliferation of technology in the way we communicate, work, purchase goods and services and live our everyday lives.

Industry experts are predicting that over 25% of the entire workforce in the U.S. was working in at least a partially remote environment at the end of 2021. This fundamental change in environment required upgrades in communication technology and demand for a new form of virtual communication and connectivity beyond what has been previously experienced.

Stay-at-home orders accelerated the persistent shift in consumer buying preferences away from traditional brick-and-mortar locations to online options. This shift also encouraged more spending through the direct-to-consumer channel and has driven significant investment in broader distribution infrastructure and related transportation and logistics companies. Another significant trend from 2021 that continues to drive M&A deal activity heading into 2022 is the focus on alternative energy and sustainable technologies. This trend is most evident in the significant uptick in 2021 electric vehicle investments and continued capital commitments to large battery and wind and solar projects. Industries within this category will continue to show meaningful M&A growth in 2022, although investors are likely to be more selective after significant transaction volume in 2020 and 2021.

Although the pandemic will continue to linger and many unknowns remain, 2022 will continue to generate significant M&A activity across a number of attractive industries with the potential to be yet another record volume year.

These macro factors complement an already supportive deal environment with significant dry powder available from both private equity (over $1 trillion available) and strategic buyer sets, in addition to an abundance of debt capital in both the independent and traditional leverage markets. Although the pandemic will continue to linger and many unknowns remain, 2022 will continue to generate significant M&A activity across a number of attractive industries with the potential to be yet another record volume year.

Jeff Johnston is a managing director and Group Head of the Mergers & Acquisitions Group of KeyBanc Capital Markets. Contact him at jjohnston@key.com. J.R. Doolos is a managing director in the Mergers & Acquisitions Group of the KeyBanc Capital Markets. Contact him at 216-689-7674 or jdoolos@key.com.