Baker Tilly International–Acuris thought leadership campaign

Global dealmakers 2021:
Cross-border M&A outlook

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The appetite for deals and the positive sentiment for cross-border action is heartening — particularly when you consider that enthusiasm builds on an already very strong first half. This comes despite the well-understood challenges: closed borders, travel restrictions, economic uncertainty and the demands of managing the pandemic. Where deals are strategically important, people make them happen. Even a pandemic hasn't slowed the interest in M&A.

Michael Sonego
Baker Tilly Pitcher Partners, Australia

Foreword

Global dealmakers remain determined that cross-border M&A is essential to adjusting to seismic macro shifts and complexities caused by the pandemic.

With the rollout of vaccines in key markets through the first half of 2021, hopes ran high that this would be the year the world put COVID-19 behind it. Then came Delta. The variant that began making headlines through the middle of the year potentially threatens the modest economic and social health recovery achieved over the past 18 months. Growth forecasts are starting to look a bit cloudier than they were at the half-year mark.

The M&A space, however, seems largely unfazed by these developments. Having capped a frenetic half year of new records, dealmakers are bullish that the current M&A wave will roll on. Sentiment in our research shows that most are planning acquisitions and many will be looking outside their home markets for growth opportunities via cross-border M&A.

While part of this research was completed just as the Delta variant began to spread, M&A trends provide reason for positivity. Even during the depths of the pandemic, before a vaccine was available, dealmakers remained committed to their international M&A strategies. Therefore, Delta may prove to slow this process down, but on balance will be unlikely to kill momentum.

The reality is that dealmakers may not have a choice. Numerous challenges and macro trends are coalescing and placing pressure on businesses to innovate and expand their global reach to remain competitive, resilient and relevant to their customers. Cross-border M&A is critical to this success and survival, both in reaction to the pandemic and in the years beyond.

In this research, we look at the motivations and tactics dealmakers are using to grow and reach their global potential. We also focus on some of the key drivers and challenges that will influence their decisions — and consider what might derail their efforts in the year ahead.

As always, we hope you find this an enjoyable and informative read and invite you to join the conversation by reaching out to one of our many partners globally.

Contents

About this report: From June to July 2021, Baker Tilly International commissioned Acuris Studios, the publishing division of Acuris, to canvas the opinions of 150 dealmakers at corporations and private equity firms to gauge their opinions on M&A trends and challenges in the global market. Respondents were evenly split and based in the following regions: Asia Pacific, North America and Europe.

Within the graphed survey results, percentages may not sum to 100% due to rounding, or when respondents were allowed to choose more than one answer.

Data in this report comes from Dealogic and was compiled on 1 August 2021. All figures are in USD unless otherwise stated. Deal values are approximations.

M&A snapshot 2020

71%

of respondents say global M&A will increase in the year ahead

56%

say COVID-19 has increased their appetite for cross-border deals

49%

say they will look for cross-border opportunities in North America and Western Europe

95%

have completed cross-border deals in the past year, despite challenges from the pandemic

39%

say transformational M&A and changing customer behaviours will be key drivers of M&A

53%

say mid-market M&A will see the most deal activity in the year ahead

80%

say their recent mid-market deals were successful

59%

Say the financial services sector (including fintech) will be the top sector for M&A

42%

say a more complex due diligence process will be their biggest deal challenge

93%

say due diligence is more important today than ever before

71%

say protectionism in key markets is getting worse

72%

say financing market conditions will improve through 2021

Global M&A:
Dealmakers set sights on cross-border opportunities to achieve growth and transformative change

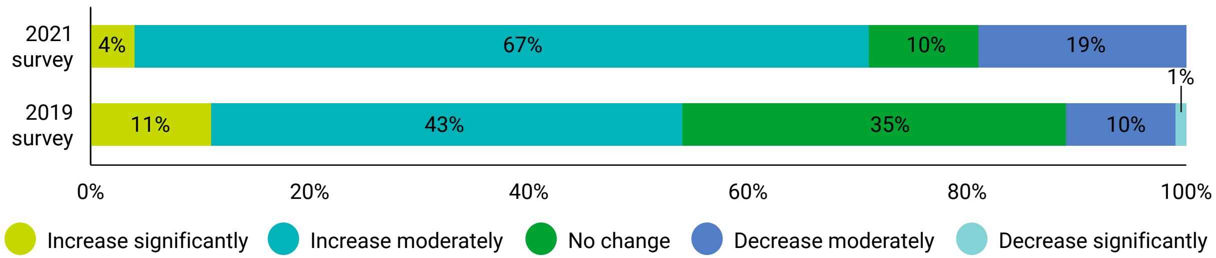
Dealmakers are sending strong and clear signals that M&A momentum will only gather steam through the rest of 2021. Most (71%) are bullish that deal activity will increase on a global scale (Figure 1). Another 10% say M&A will remain unchanged from the past year, which has seen record levels as dealmakers reclaimed lost ground from the early months of the COVID-19 health crisis.

These sentiments are a significant improvement on expectations even before the pandemic. In late 2019, only half (54%) of dealmakers thought M&A would increase over the following 12 months, many citing uncertainties and economic repercussions from the US-China trade war as areas of concern.

While dealmakers are conscious that they will be pursuing M&A against a backdrop of increasing risk — the spread of the Delta variant and delayed vaccine rollouts in key economies, in addition to ongoing challenges from the trade war to name a few — many are convinced that they must bank on M&A for growth and to realise transformative change within their organisations. Sidelining M&A is simply not an option.

"Companies around the world want to grow at a faster pace -- and M&A is probably the best way of achieving these financial and growth targets. So despite business continuity challenges and ongoing COVID-19 risks, dealmaking will increase," says the Managing Director of a US-based PE/VC firm.

Figure 1. What do you think will happen to the level of global M&A activity in the next 12 months?



Cross-border M&A: Expanding global reach is essential

While most deals were done domestically during the pandemic — in part influenced by border restrictions but still in line with historical trends — respondents are eager to venture internationally in search of opportunities. More than half (56%) say the pandemic has given them a greater appetite to pursue cross-border deals, and almost a third (29%) say they will be contributing significantly greater spend on these ventures (Figure 2).

"The fast-paced nature of our industry calls for accelerating growth through acquisition opportunities — and conducting cross-border deals is one of the best ways to accelerate growth," says the CFO of a US-based corporation. A Partner at a Polish PE/VC firm adds to this, saying: "Cross-border deals offer long-term yield and greater potential."

Most respondents agree with this opinion, as one of the realities of the modern global marketplace. Pandemic or not, the search for growth requires companies to seek out emerging opportunities in new geographies and business segments. Many more agree that the type of transformative change required to compete today can only be achieved by expanding the global reach of their organisations.

M&A intentions: Looking beyond the home front

Optimism for cross-border deals is best illustrated in shifting sentiment from our 2019 research. Prior to COVID-19, most respondents (78%) were overwhelmingly focused on looking for opportunities in their home markets. Today, that number has dropped to 37% with greater numbers of dealmakers looking to foreign markets rather than domicile geographies (Figure 3).

Specifically, close to half of dealmakers (49%) today are focused on Western developed markets like North America and Europe as they plan their post-pandemic business strategies. Dealmakers noted that reliable infrastructure in North America and Europe made them attractive as investment destinations (Figure 4). After the tragedy of 2020, governments seen to be responding to and containing

Figure 2. What impact will COVID-19 have on your dealmaking appetite for cross-border deals in the year ahead?

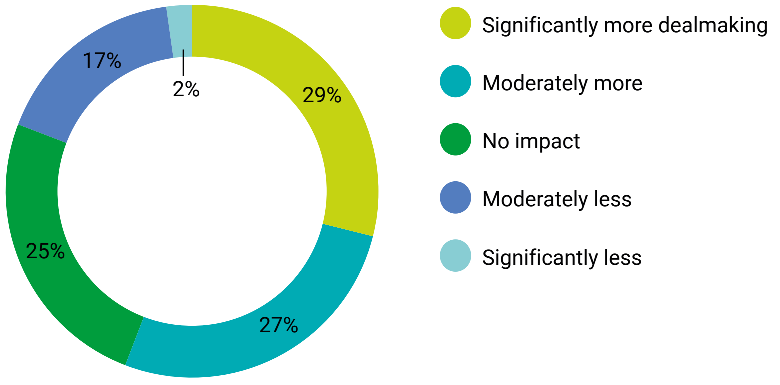
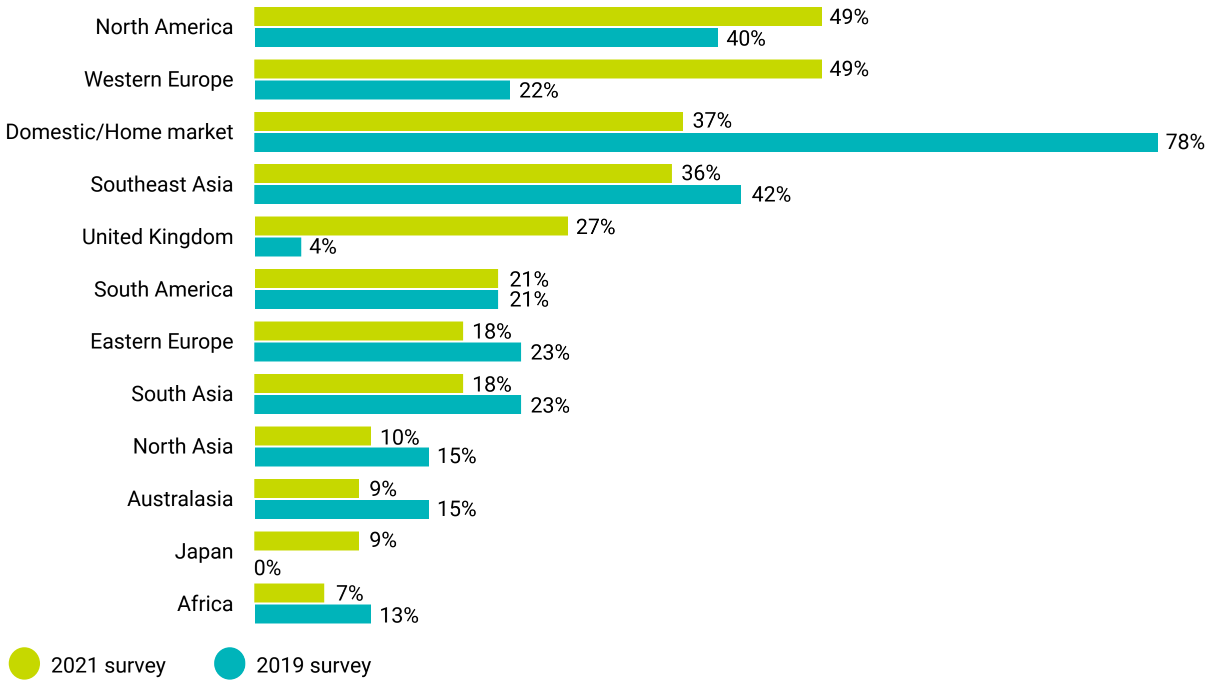


Figure 3. Where will your company/firm look for investment opportunities in the year ahead?

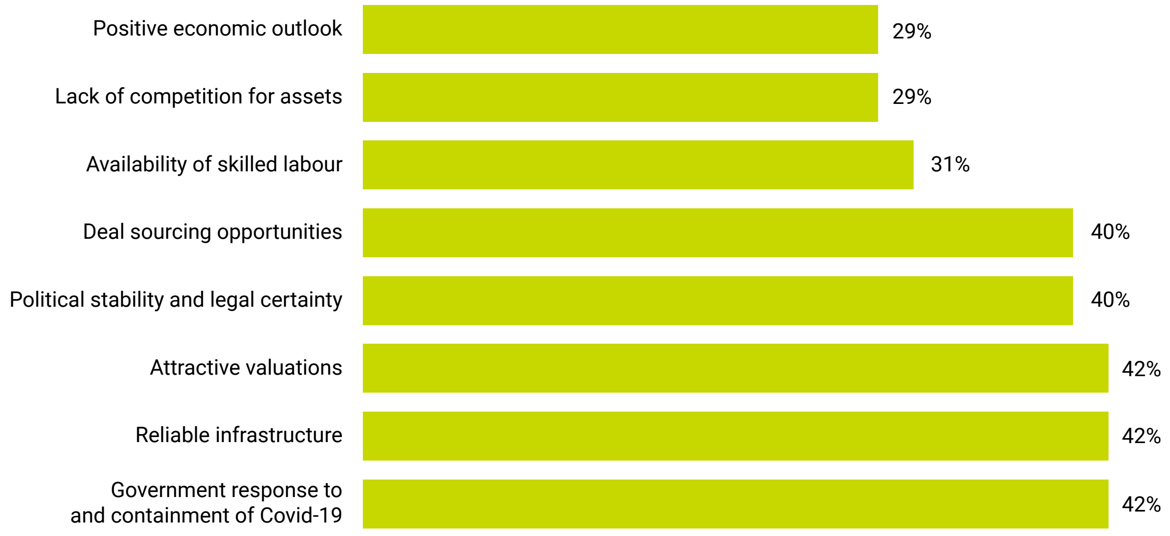


COVID-19 are rewarded with investor optimism. Attractive valuations were another factor playing into sentiments.

While the efficacy of COVID-19 containment in these geographies is debatable, especially as some markets begin to close down again as the Delta variant spreads, respondents seem most focused on the fact that these economies (specifically the US) were able to reopen and return to some semblance of normality following widespread vaccine rollouts. Emerging parts of the world, particularly Asia Pacific, have been slower on the uptake of vaccines due to limited availability and larger populations in some geographies. Other key markets continue to remain voluntarily closed off from the rest of the world and may do so for months to come.

This focus on developed markets and factors such as reliable infrastructure shows that dealmakers realise that cross-border deals will still be challenging and complex, regardless of the speed of the recovery post-pandemic. As such, while emerging markets will still offer the high-growth opportunities they did before the pandemic, dealmakers may not want to add additional risks (such as those associated with investing in emerging markets) to their deals until the health crisis fully abates and economic conditions stabilise.

Figure 4. Which of the following factors will you consider when making investments in global markets in the next 1-2 years? (Select all that apply)



> The corollary for regions that have not managed to rein in case numbers, or which are still struggling to secure and distribute vaccines, is that deals in their jurisdictions come with an additional layer of risk that didn't exist pre-pandemic. We can see in the reduction of interest in some key markets — even Australasia which has traditionally been seen as a safe haven for investment — that the perception of risk has changed.
>
> **Michael Sonego**
> **Baker Tilly Pitcher Partners, Australia**

M&A trends analysis: Answering the cross-border call

With almost US$3tn in global totals recorded since the beginning of the year, 1H21 is the highest half-year on record for values (Figure 5). Confidence continues to ride high, driven by many positive market conditions and developments — the ongoing and longest bull market in history, persistently low interest rates, ample cash reserves among corporate and private buyers, and low-cost financing — setting the stage for continued, frenetic M&A.

While deal values have risen into the stratosphere, volumes have lagged slightly, particularly in comparison to pre-pandemic levels. For instance, global values are up 38% in 1H21 compared to 1H19, but overall deals are down 9%.

Even so, recent trends and positivity among respondents suggests global M&A will remain robust. "Many companies have stalled their dealmaking strategies. They will resume these activities because they are getting accustomed to the new normal conditions," says the Managing Partner of a French PE/VC firm.

Respondents have been particularly determined to access growth and opportunities in new markets. Despite the challenges and uncertainties of the past year, 95% of dealmakers closed at least one cross-border deal — and some completed more (Figure 6).

"We completed a cross-border deal in Europe. We were not planning to do a cross-border transaction because of the tense geopolitical conditions, but we cannot also let these concerns affect the business progress," says the Partner of a Chinese PE/VC firm.

Figure 5. Global M&A (US$m)

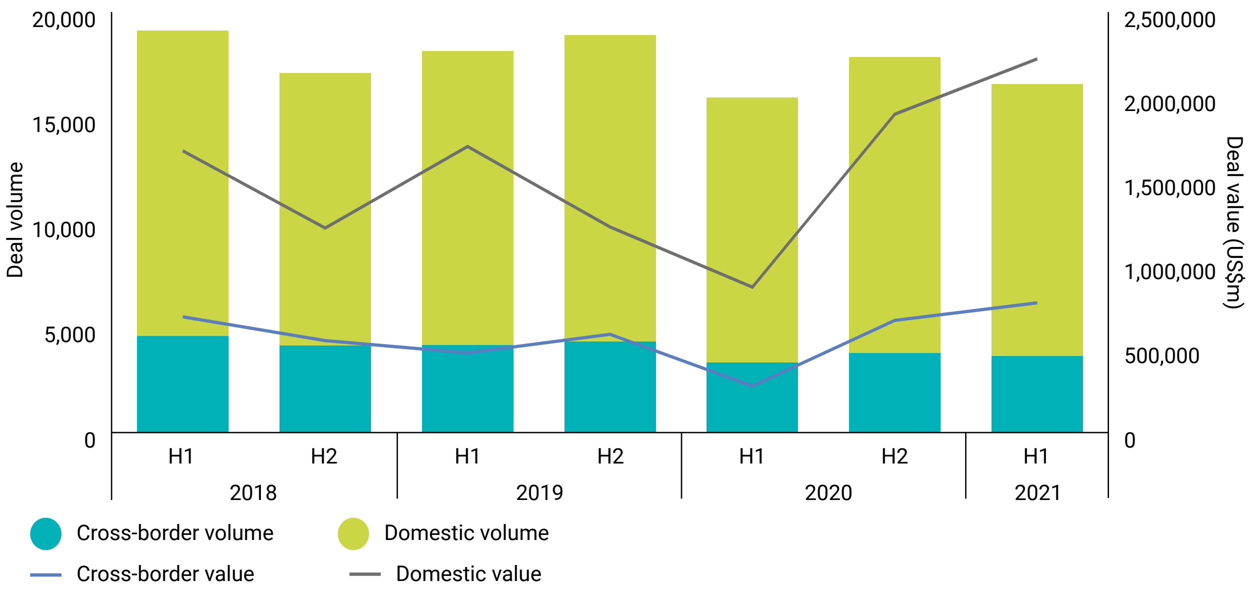
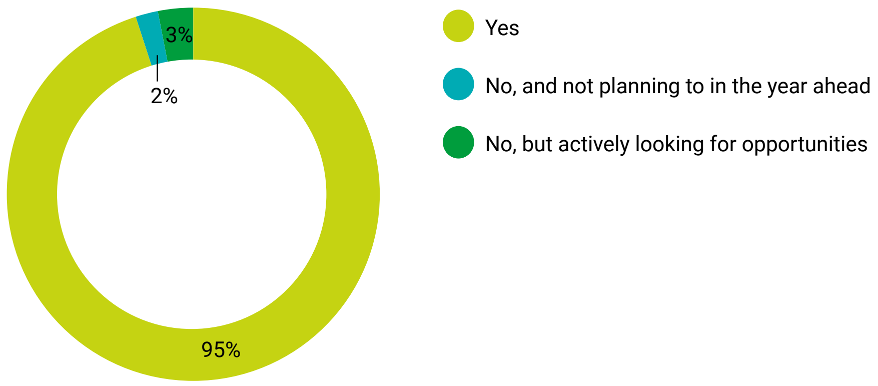


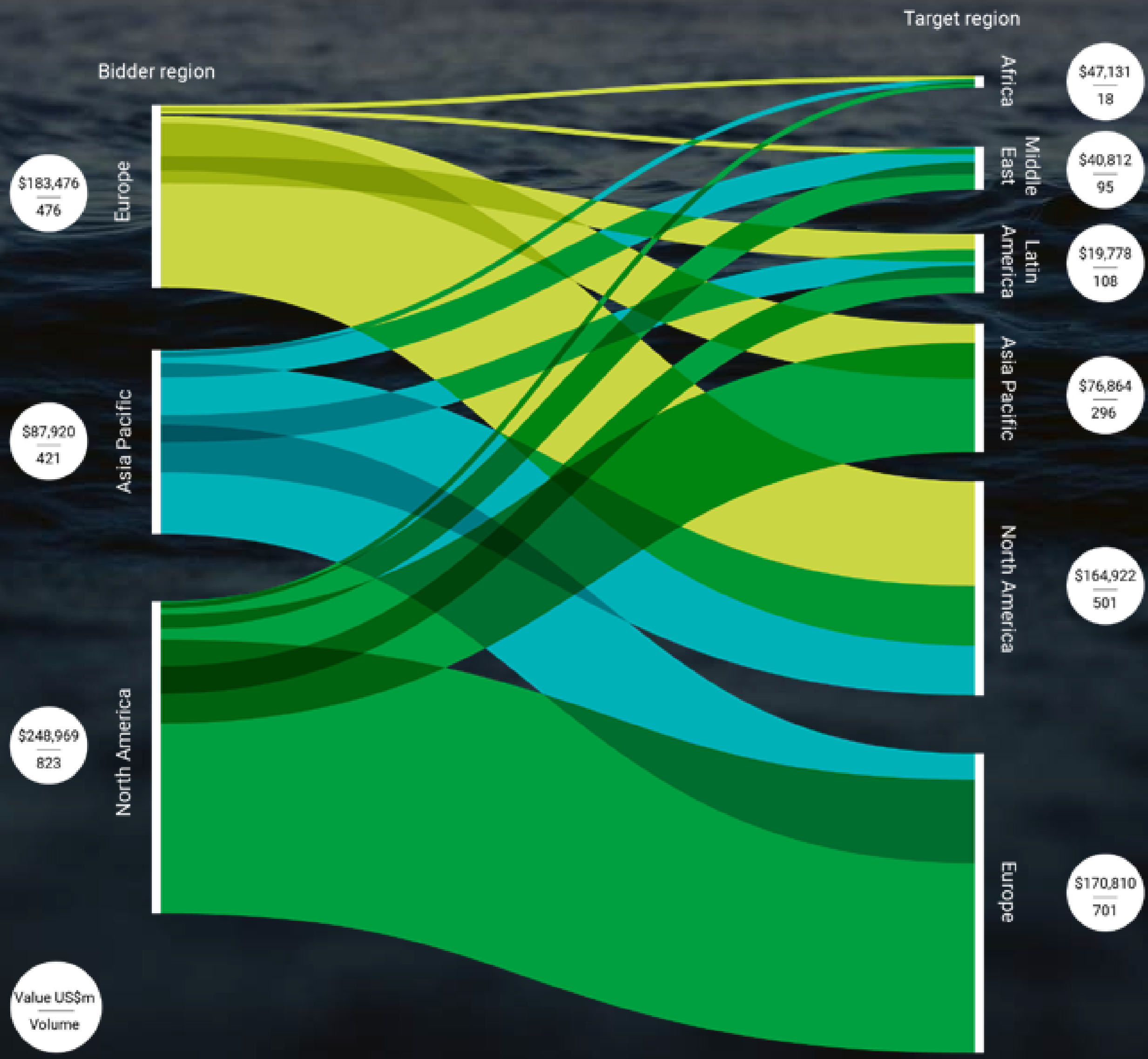
Figure 6. Have you completed a cross-border deal in the past 12 months?



Cross-border values have risen markedly from 1H19 — up 63% to hit US$771bn in 1H21 — as dealmakers commit capital to their international deal efforts. Similar to global totals, cross-border volumes are still playing catchup: down 13% from 1H19.

Regardless, cross-border deal activity continues unabated with significant deal flow into key regions. As figure 7 shows, North American dealmakers have been particularly active alongside those from Europe. Asia Pacific buyers continue to venture abroad even as their own markets remain mired by uncertainties about when borders will be opened and social distancing measures lifted. We look at specific geography opportunities and drivers in the section “Key markets: Interest shifts from emerging to developed world” on page 14.

Figure 7. Global cross-regional deal flows 1H21



> The push to acquire businesses in response to changing customer behaviour is a red flag for those companies yet to adjust to the new normal. There's clear interest among dealmakers in acquiring targets that can strengthen business models by introducing new revenue streams or broaden the opportunities to engage with customers digitally or through new channels.
>
> Adrian Cheow
> APAC Corporate Finance Lead,
> Baker Tilly Singapore Corporate Finance Leader

Deal drivers: Strategies focus on rapidly changing consumer habits and digital adoption

Adapting to changing consumer behaviours and reaching new customers remain key priorities for many dealmakers (39% each) as they prepare their future deal strategies (Figure 8). "In every sector, clients and customers want faster service and products that include advanced digital solutions," says the Partner of a UK-based PE/VC firm.

The rise and rise of the digital consumer

The pandemic has helped accelerate the shift to ecommerce and other digitally enabled methods that have allowed vast populations to go on with their work and personal lives. While digital adoption was prevalent prior to the health crisis, the speed at which it has rapidly unfolded since the start of 2020 is impressive: research from consultancy McKinsey estimates that the world leapt five years forward in consumer and business digital adoption in a matter of around eight weeks.[1] Regarding online shopping in America, progress has been even greater: ten years' growth in three months.

Importantly, it is unlikely that post-pandemic consumer behaviour and preferences will revert once life fully returns to normal. As such, businesses that adequately adapt today will be better placed to meet the needs of an increasingly digital society tomorrow.

1 "Digital adoption through COVID-19 and beyond." McKinsey Digital, published 14 May 2020.

Transformational M&A: Small, superficial change will not be enough

Many dealmakers (39%) also realise that in addition to adjusting to new consumer habits, deep transformations may be required to pivot and position themselves for the post-pandemic, digital era. "A transformational acquisition is important to improve the profitability and accelerate the growth prospects," says the Global Director of Strategy at a US-based corporation.

In addition to potentially improving growth prospects, transformational M&A also provides the opportunity for dealmakers to rebuild their organisation around their core customers, enhancing operations and offerings and reaching new customers. Many dealmakers agree that new tech solutions will be essential to implement organisational and industry-level change — and more than half (55%) have already made such acquisitions as part of digital transformation strategies.

Indeed, as an immediate response to the pandemic, many businesses were quick to pull forward digital transformations that had been delayed for years, using technology to prevent losses while helping employees transition to remote work during lockdowns. This trend looks set to continue as companies prepare themselves for the digital age, many using M&A to drive this change.

Mid-market M&A

Respondents also agree that dealmaking in the mid-market (those deals valued between US$15m and US$500m) will drive M&A in 2021 and beyond. More than half (53%) say mid-cap M&A will account for the bulk of deals (Figure 9).

Large numbers (43%) also see small caps attracting the most attention from dealmakers. As the Partner of a UK-based PE/VC firm points out, "Smaller companies have fewer obstacles when it comes to completing deals. There would be no regulatory challenges that hinder these deals."

The same may hold true for mid-market firms. Indeed, many respondents say that instead of targeting large-cap companies and dealing with anti-trust or merger control hurdles, they decided to invest in the mid-market and avoided these unnecessary barriers to new markets.

Perhaps more importantly, many dealmakers recognise the value of the mid-market in terms of these companies having reliable sources of revenue and deal synergy potential. "[Mid-market companies] are more stable in comparison to small caps and the cost would be better compared to large caps," says the Director of M&A at a French corporation.

Figure 8. Which of the following best describes the main strategic driver of: your most recent cross-border acquisition; and future acquisitions? (Please select all that apply)

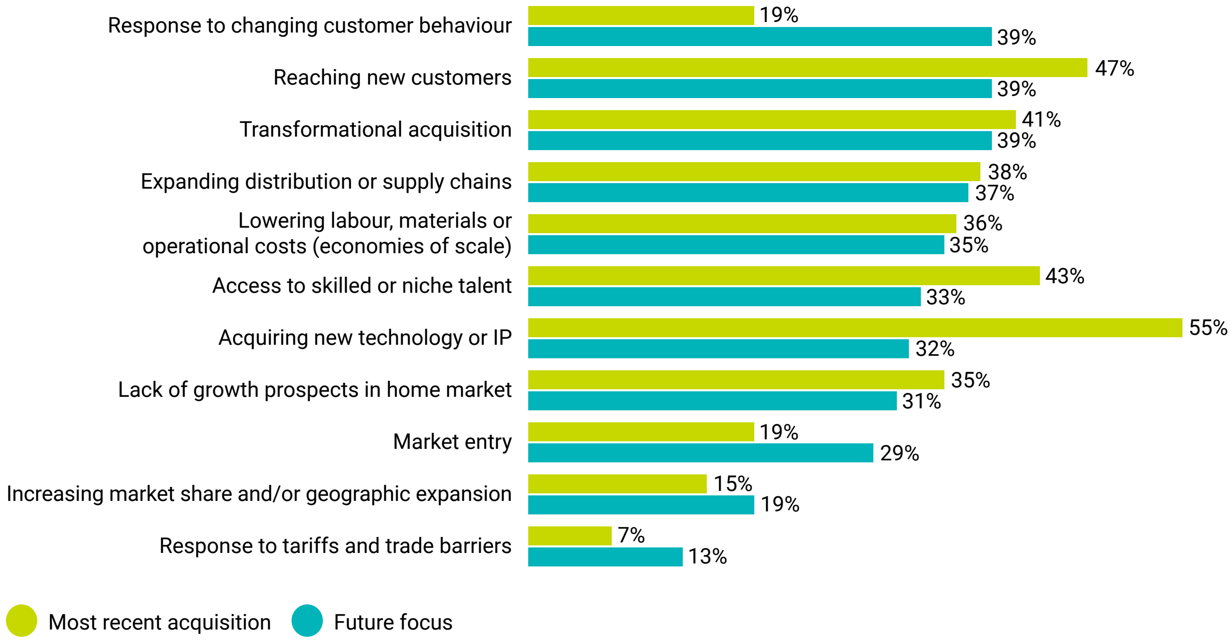
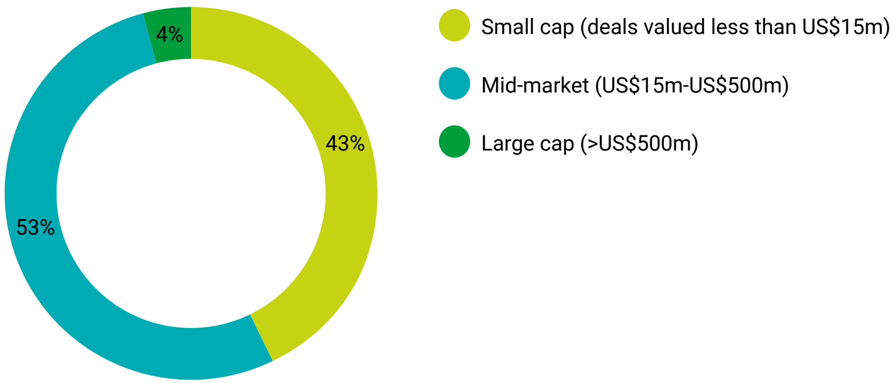


Figure 9. Which deal segment will see the most M&A activity (by deal volume) over the next 12 months?



Deal focus: Value in the mid-market

The mid-market can be a tremendous source of value when looking to accelerate growth and achieve business objectives via M&A. Almost all (99%) respondents completed at least one mid-market deal in the past year, and 80% say these deals met or exceeded expectations (Figure 10).

- **Strong fundamentals:** Respondents specifically target mid-market firms given their established market presence, track records of growth and uptake and implementation of new technologies. Notably, many respondents agree that these companies are "usually the most dynamic, providing the perfect opportunities for acquirers looking at faster yield," says the Managing Director of a US-based PE/VC firm. Equally, many mid-market firms have an "established customer base. They can increase the returns potential when there are no problems with the integration," says the Managing Director of an Indian PE/VC firm.
- **Attractive valuations:** Valuation alignment (34%) will be the top deal driver of mid-market M&A (Figure 11). "Valuation alignment has taken place because of the pandemic disruptions. The sellers have come down to a price that buyers were expecting to get the deal done," says a Partner at a Chinese PE/VC firm.
- **Mid-market M&A momentum:** Mid-market M&A has seen a strong recovery compared to overall deal trends. Deals have risen consistently across half-years since 1H20, with totals now above pre-pandemic levels: values in 1H21 were 38% higher and 32% higher in volume from 1H19 and show no sign of stopping (Figure 12). Across the entire deal spectrum, mid-market deals accounted for 32% of all transactions in 1H21, the highest percentage since 2018 as corporate and private buyers pour into the deal segment.

Figure 10. How successful was your most recent mid-market acquisition in yielding the intended value from the deal or achieving business objectives?

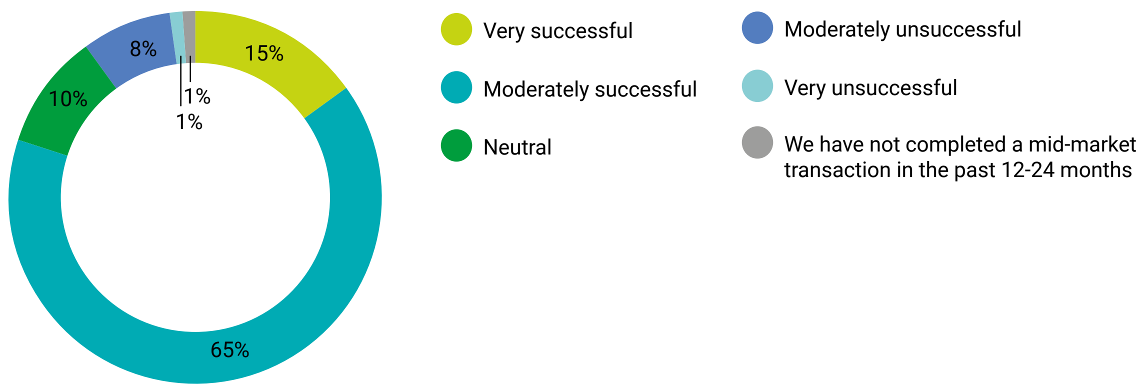


Figure 11. Which of the following will be the main driver of mid-market M&A in 2021? (Select one)

- **Distressing outlook?:** Surprisingly few respondents (13%) say distress-driven deals will feature in the immediate outlook despite the financial pressures these businesses faced over the past 18 months. This could change, however, as government support and stimulus are scaled back. “Due to COVID-19, there aren’t many financing or stable revenue sources for companies and this is going to contribute to increasing distressed sales,” says the Director of Global Strategy at a US-based corporation.
- **Integration pros and cons:** Many respondents point to the ease of integration as another positive for mid-market deals. “Mid-market deals have been flourishing because there are fewer complexities. Mid-market companies provide the necessary stability immediately after the integration has been completed,” says the Head of Finance at a Japanese corporation. However, among the 19% of respondents who said their mid-market deals produced neutral or even negative results, many specifically pointed to integration challenges, making it an area where dealmakers will need to put in the time and resources to ensure the deal succeeds.
- **Reinforcing cross-border deals:** Respondents point out that it was the steps taken during the early stages of the deal that helped preserve the value, particularly in cross-border acquisitions. “Investing in the opportunity was successful, especially considering that we were not aware of the market challenges at the time. We consulted local advisors who helped us reach this level of success,” says the Partner of a Chinese PE/VC firm.

Figure 12. Global mid-market M&A (US$m)

Key markets: Interest shifts from emerging to developed world

Dealmaker sentiments and trends data show that the world's developed markets are favoured for an uptick in M&A. Emerging markets also hold potential although possibly for the less-risk- averse investor.

North America: Winning the recovery?

The North American M&A outlook shows promise among respondents: 68% say dealmaking will increase in the year ahead and 39% expect a surge in M&A (Figure 13). In particular, respondents feel the United States offers the most potential and almost half (44%) say they will be looking for opportunities there through the near term (Figure 14).

Much of this optimism is based on rapid and successful vaccine rollouts that allowed social distancing restrictions in the US to be lifted sooner than other markets. Now, with the spread of the Delta variant and reintroduction of mask mandates in parts of the US, a full return to normalcy may take a bit longer.

Dealmakers are nonetheless positive that strong economic growth prospects in the US and North America will continue to drive deals. Pent up consumer demand bolstered by several rounds of government stimulus continues to be unleashed to drive what could be the fastest economic growth in decades.[2] Already, GDP is on track to rebound to pre-COVID-19 levels seen at the end of 2019.

Outside of economic advantages, respondents point to the region's reliable infrastructure as a key feature driving positive sentiment. Others mention the quality of targets as North America's biggest draw, particularly opportunities in the mid-market. Equally, many say that deals are generally easier to complete than in less-developed markets — and in a time of constant uncertainties and challenges, this proves invaluable, especially when pursuing cross-border deals.

Europe: Strong comeback but cloudy outlook

Strong signals regarding the short-term economic outlook are driving positive sentiment towards Europe. Two-thirds of respondents (62%) say M&A will rise in the year ahead, sentiment driven by reports that successful vaccination drives and government stimulus will allow the eurozone economy to recover as soon as by year end, much earlier than expected.[3]

Like North America, this too will depend on the severity of the Delta variant as it threatens the largely upbeat, albeit fragile, outlook. Just as some governments were lifting social distancing measures, many have been recently forced to reimpose restrictions.

2 "Fiscal stimulus, vaccines likely fueled U.S. economic growth in the second quarter." Reuters, 29 July 2021.

3 "European Commission sees the economy recovering faster than expected." New York Times, 7 July 2021.

Dealmakers in Europe and offshore investors highlight a number of advantages within the eurozone. Proximity to home markets and key economies will drive deals and make it easier to implement growth strategies. Respondents also say consolidation will be a key theme going forward. "There is much scope for consolidation in European markets as companies have been struggling to operate individually," says the Director of Strategy at a French corporation.

Other respondents agree that strategic players will look for consolidation opportunities across Europe. Financial sponsors will likewise drive deals as they put record levels of dry powder to work, possibly in distressed M&A as governments across Europe begin winding down expensive emergency aid programs that have supported businesses through the pandemic.

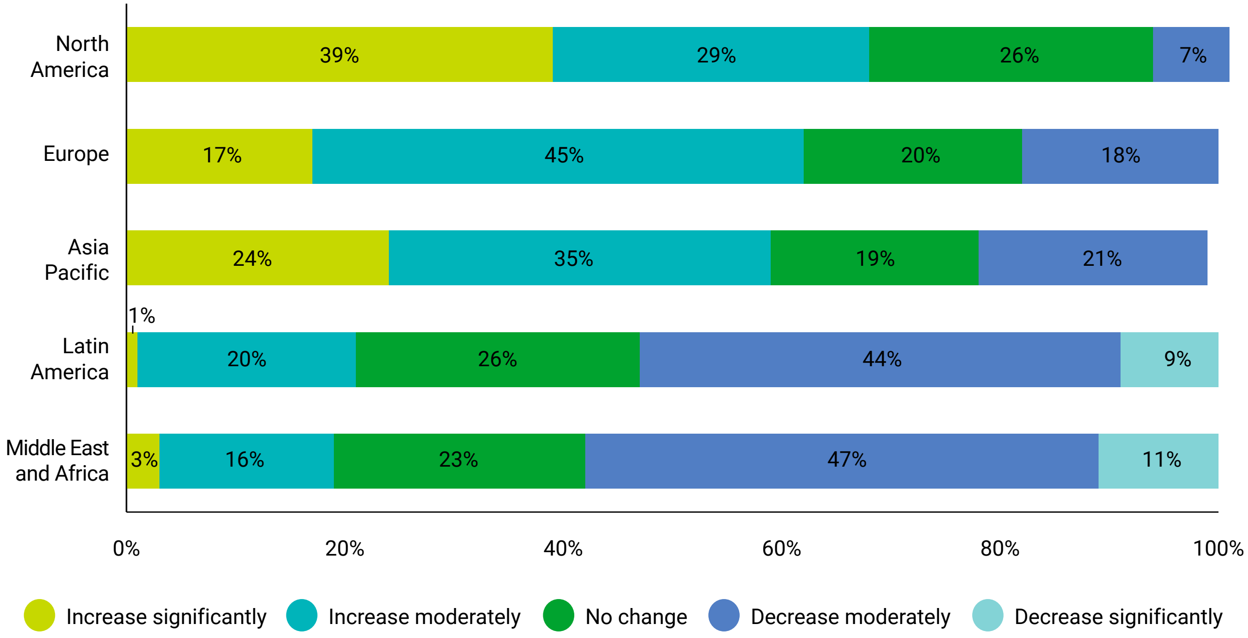
Respondents say they will specifically invest in the UK (25%) and Germany (24%) in the year ahead. Concerns over Brexit seem to have abated, overshadowed perhaps by the pandemic and with respondents recognising that despite the geopolitical uncertainties, the UK still presents ample investment opportunities and predictable risks compared to emerging markets.

Asia Pacific: Short-term setbacks, long-term potential

Despite being one of the few regions to successfully contain the spread of COVID-19, respondents feel this may not necessarily translate into greater dealmaking in Asia Pacific. Granted, more than half (59%) see a robust outlook ahead, albeit with greater deal challenges involved as borders remain closed and the spread of the Delta variant creating uncertainties around economic recovery and growth in key markets.

Regardless, speaking positively towards Asia Pacific's potential, respondents feel the region's greatest advantage comes from lower target valuations compared to more mature markets and the long-term economic prospects in the region. "For cross-border dealmakers in Europe and North America, they are finding Asia Pacific markets more favourable based on the valuations," says the CFO of a Chinese corporation.

Figure 13. What do you think will happen to the level of M&A activity in the following markets in the next 12 months?



> North America and Europe have dominated interest in the past six months due to perceived stability and rapid vaccinations, but also in the availability of targets. As both Latin America and Southeast Asia reopen for international travel, we are seeing an uptick in deals, particularly in high-growth sectors like telecommunications, media and technology.
>
> **Bill Chapman**
> **North America Corporate Finance Lead**

Hong Kong (19%) and China (15%) in particular hold dealmaker interest, particularly given the success of containment efforts and the economic prospects whenever a post-pandemic recovery is able to fully unfold. China was able to achieve growth of 2.3% in 2020, making it one of the few major economies to register positive growth, and is on track to meet targets of over 6% this year. However, as the economy recovers, concerns of uneven growth may require the government to respond with policy solutions and fiscal support to sustain growth for the rest of the year.[4]

While not a single Southeast Asian market made top selections among respondents, dealmaker commentary still paints a relatively positive picture for the year ahead — and 36% (in figure 3) said they were considering opportunities here. Valuations and the availability of skilled labour were among the many advantages of investing in the region and many dealmakers speak to the quality and abundance of mid-market opportunities. "There are many [mid-market] companies who have achieved success within a short amount of time. And since these are emerging markets, the valuations are more reasonable than elsewhere," says the Managing Partner at a Canadian PE/VC firm.

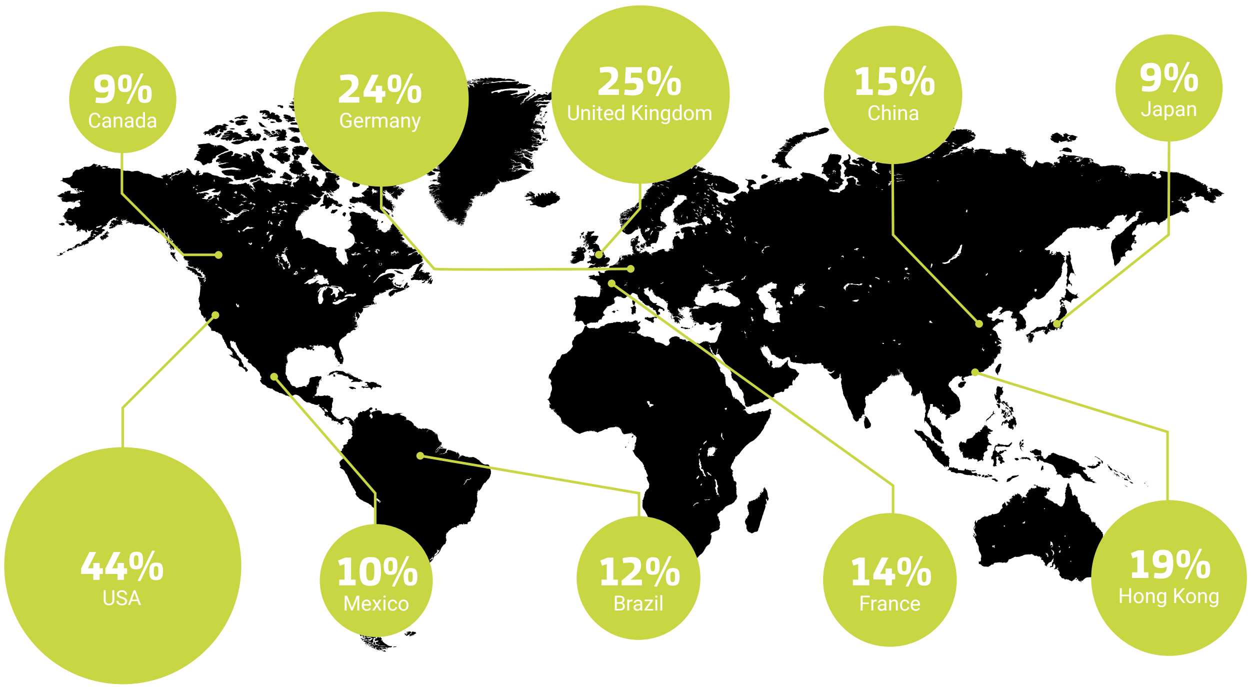
South America, Africa and the Middle East: Sinking sentiments

Dealmaker sentiments towards the emerging world have flipped since 2019, possibly deterred by the difficulties of accessing these markets with their deal teams and the economic uncertainties around recoveries. Vaccine rollouts have not been as consistent as developed economies, or even those in Asia Pacific, and most respondents appear to be taking a wait-and-see approach to deals.

The minority who say M&A will increase point to many of the same advantages of emerging markets in Asia Pacific: lower valuations and the prospect that when economies in these regions rebound it will be with renewed force. As such, they are keeping them on their radar screens, albeit with suppressed intentions to do deals today.

4 "China's economic recovery loses some steam, investors eye more policy easing." Reuters, 15 July 2021.

Figure 14. Specifically which markets will you invest in within the next 1-2 years? TOP 10



> Financial services including fintech have been the clear winners from the pandemic, and we would anticipate the fintech space to continue to dominate, as dealmakers see a market for companies that can compete in the neobanking, financial security, digital payment or value exchange space. It's an area ripe for disruption with a very large, very new market of customers who will be expanding their spending in this space for some years to come.
>
> Xavi Mercadé
> Baker Tilly Spain CEO

Sector watch: Digitalisation and environmental concerns drive transition strategies

Financial services: The fintech factor

Changing consumer needs amid COVID-19 have accelerated a shift towards digital payments and ecommerce. As such, more than half of respondents (59%) expect the financial services sector to be a hotbed of M&A as companies accelerate digital transformation drives (Figure 15).

- **Building strength in digital:** As payment providers gear up for growth across the whole value chain, M&A is becoming a tool to build expertise around ecommerce, small business services, and "buy now pay later" instalment solutions, according to Mergermarket intelligence. "The financial services industry is transitioning to a stronger digital presence, and they will be interested in new merger and acquisition deals," says the Partner at a Polish PE/VC firm.
- **Ripe for investment:** Dealmakers also point out that many fintech start-ups in key geographies worldwide are reaching maturity, having proven their worth during the pandemic. Specifically, those providing online services including payment, insurance brokering, lending or automated investment advisory, are ripe for investment.
- **Consolidations and carve-outs:** Initially driven by the financial crisis, banks have begun to consider what is core in a stressed market and some have concluded that captive businesses may be sub-scale or that the required technological investment in innovation may be too burdensome.

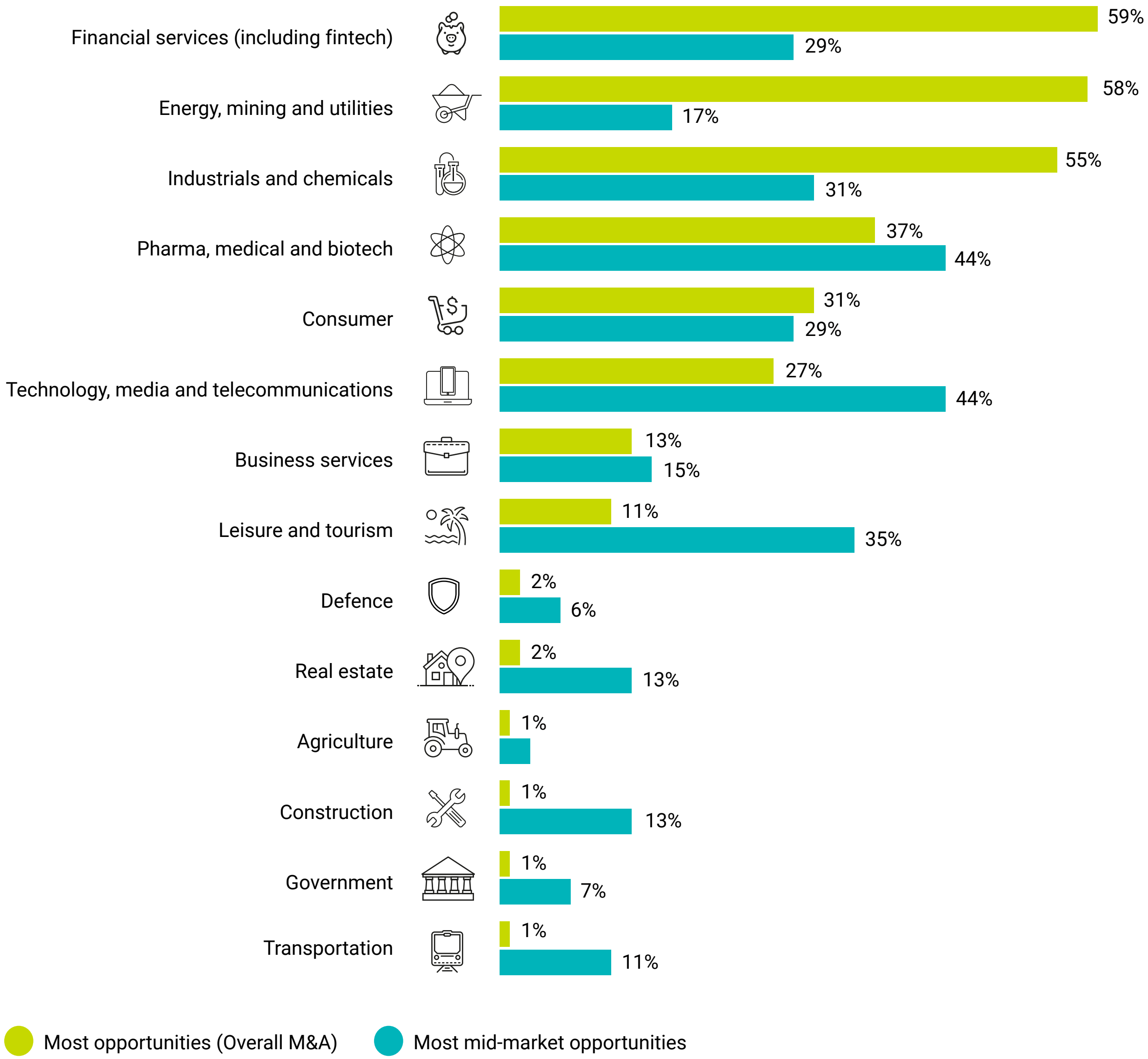
Energy, mining and utilities: Green is good

The pandemic and subsequent oil price crash are causing energy and resources companies to sharpen their strategies and reassess portfolios to make operations leaner and more resilient to future change. As such, 58% of dealmakers feel these changing priorities will help fuel M&A.

- **Divestitures and sell-offs:** Widespread rationalisations will see corporates push non-core assets onto the market to add funds to their war chests or exit businesses that may not align with ESG frameworks. For instance, European energy majors are already setting the tone, restructuring portfolios in Australia towards new priorities, many including net-zero carbon ambitions.[5]
- **Environmental concerns drive change:** Carbon intensity is now a key factor in determining what is kept and what is disposed of, which means assets are being sold for ethical rather than strategic purposes. "The non-compliance of ESG parameters has to be addressed and investors are not happy associating with companies who are not in compliance with ESG norms," says the CFO of a UK-based corporation.

5 "Energy transition to be key driver of Australia's upstream M&A." Pipeline Oil and Gas News, 1 October 2020.

Figure 15. Which of the following sectors do you think will be most attractive over the next 12-24 months for general M&A and specifically mid-market transactions?



Mid-market opportunities

Close to half (44%) of respondents view tech and pharma deals as among the best in the mid-market. Likewise, leisure deals could provide value for dealmakers.

- **Tech:** These mid-cap firms make for excellent bolt-on deals to enhance operations or drive innovation and the CFO of a US-based corporation says the "opportunities for tech integrations are vast." Other respondents point to disruption from the pandemic and the new working landscape as key drivers. "Given the extent of remote working that has been initiated during the lockdown, technology has become key to a company's success," says the Managing Partner of a Canadian PE/VC firm.
- **Pharma:** Most respondents say the ongoing pandemic and need for greater medical solutions will encourage deals in this space. "Considering the need for medical attention and medication during the pandemic, the demand for this sector has increased," says the Partner of an Australian PE/VC firm.
- **Leisure:** As one of the hardest hit industries during the pandemic, respondents think M&A will be driven both by rising distress. "Leisure and tourism companies have struggled during COVID-19. Many operations came to a complete standstill and it will take a lot of effort and investments to start marketing them once again," says the Director of M&A at a Canadian corporation.

Due diligence and other deal challenges

While the worst of the pandemic may have passed, dealmakers acknowledge they face a dynamic and growing list of risks and complexities. Many are a direct result of the health crisis, while others — like regulatory changes and rising protectionism — have been problems on the periphery from years past as dealmakers pursue cross-border deals.

Due diligence: More important than ever

Close to half of respondents (42%) say a more complex due diligence process will be their main challenge or risk in the aftermath of COVID-19 (Figure 16). "Due diligence functions are complex enough without having to deal with the repercussions of COVID-19. The business environment and the way deals are conducted have changed completely," says the Senior VP of Corporate Strategy at a US-based corporation.

Indeed, most respondents agree that assessing the underlying economic risks and potential business continuity problems has made the diligence process exponentially more complex and time consuming. As such, 93% say due diligence is more important today than before the pandemic (Figure 17).

While respondents recognise the need to carry out deeper investigations, they also flag this as an issue given the time required to go above and beyond the standard assessment. "The complex due diligence process we have to carry out today may slow us down. Deal teams need to be even more focused and prepared to get the different due diligence

> There's a tension between the increased focus on due diligence — ranked far more important now than pre-pandemic — and the complexity of undertaking proper due diligence in the current market. Dealmakers and sellers have had to be creative in how they capture and share information quickly in the absence of physical inspections, and some of that innovation will improve the speed of future deals.
>
> Olivier Willems
> EMEA Corporate Finance Lead

Figure 16. What deal challenges/risks do you expect to face in the aftermath of COVID-19?

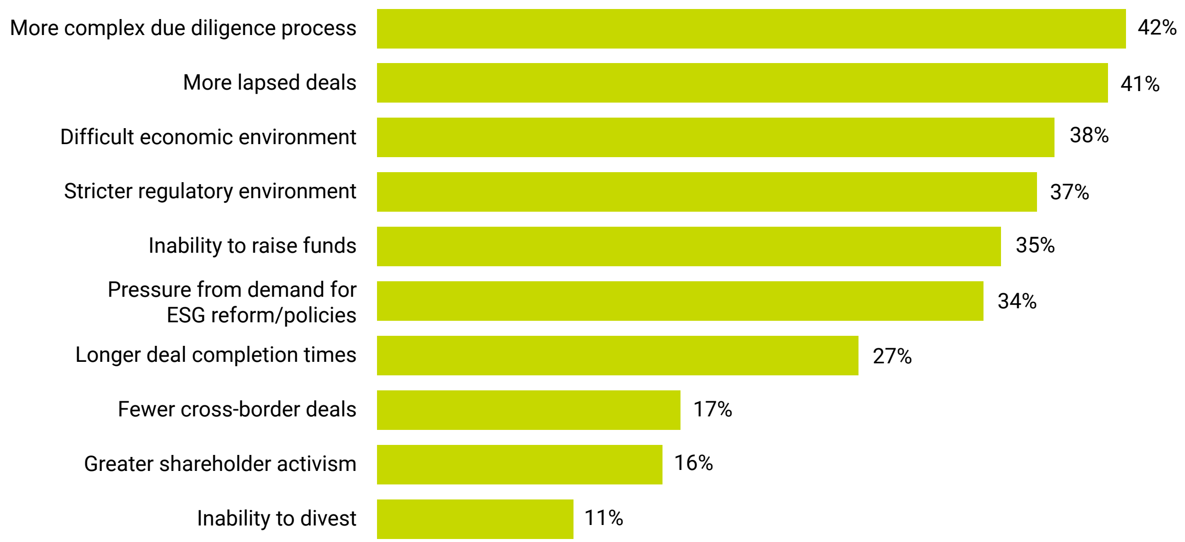
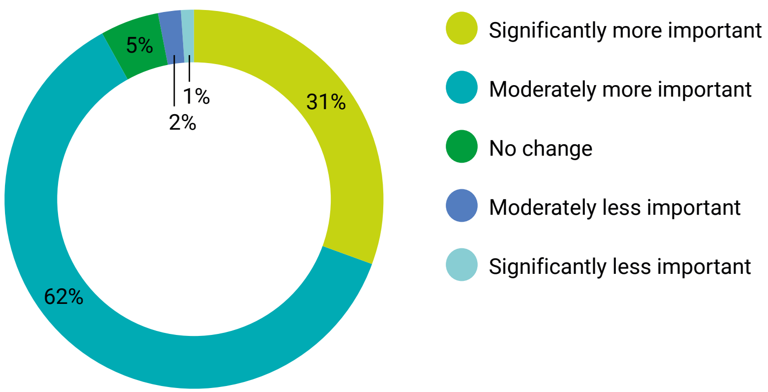


Figure 17. How important is due diligence today compared to before the pandemic began?



aspects covered within the desired schedule," says the Head of Strategy at a Japanese corporation.

Timing is always an issue during the deal process, however, with increasing competition for assets, respondents say that the pressure to complete diligence quickly is leaving them with no other option but to compromise on the depth and integrity of their investigations.

Hand in hand with these challenges, close to half (41%) also say that lapsed deals will emerge as a risk. Many say longer diligence and other complexities are causing deals to collapse.

To manage due diligence more effectively during the pandemic, respondents turned to new solutions to reinforce efforts, including transferring documents via the cloud and conducting virtual site visits (Figure 18). Many will continue to use these into the future, including the use of external advisors, which most respondents feel provide significant value and guidance to cross-border deals. "Consulting with advisors has been very useful in gaining new insights. Often, they have a new perspective about the opportunities and ways in which the target business can be developed," says the Managing Director of a US-based PE/VC firm.

Regulation and protectionism

Regulatory challenges will also create new risks and add to existing ones. More than a third (37% in figure 16) are concerned that the regulatory environment will be stricter and more challenging as they pursue future cross-border deals.

Indeed, dealmakers face a growing wall of regulation. From the respondent commentary, this now covers everything from anti-competition laws and data protection requirements to compliance and environmental concerns.

Protectionism is another serious challenge dealmakers must contend with today. While trade concerns have been an ongoing point of distress since trade frictions began between the US and China in 2018, the pandemic may be exacerbating these restrictions. Most respondents (71%) say protectionism in key markets is getting worse (Figure 19).

Figure 18. Which of the following did you use as part of your due diligence efforts within the past year that you normally would not use? Which will you continue to use in the future? (Select all that apply for each row)

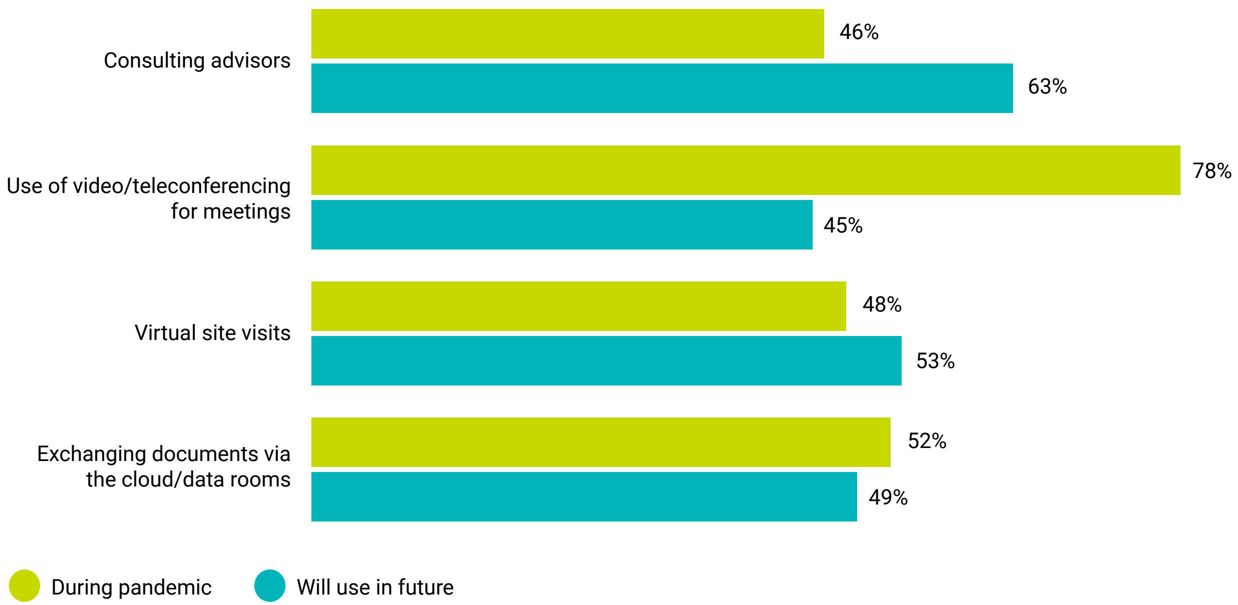
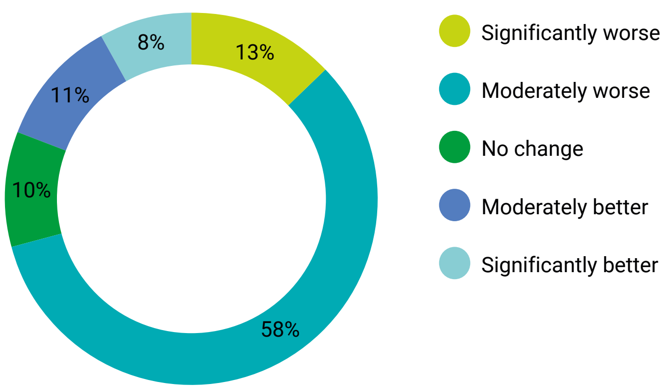


Figure 19. Do you feel protectionism in key markets is getting better or worse?



To mitigate risks associated with changing regulations and compliance requirements, many respondents are looking outside their organisation for support, enlisting the services of advisors and experts in the markets where they are looking to invest. "The regulatory environment is only getting more challenging today. Now, we have to think about hiring external advisors, especially when we are investing in global markets. They can provide us details about the regulatory expectations," says the Group Head of Finance at an Irish corporation.

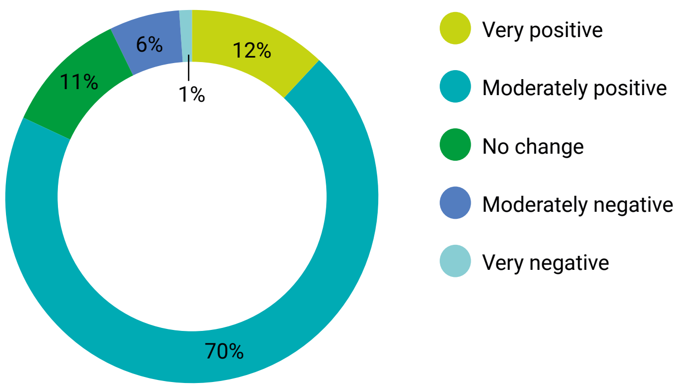
Deal financing

While 35% of dealmakers in figure 16 say they are concerned about their ability to raise funds as they pursue deals in the post-COVID-19 world, most expect this to be temporary. Most (82%) expect financing market conditions to improve through 2021 and remain more positive than they were over the past two years (Figure 20).

However, much of this optimism seems to hinge on vaccine rollouts and government abilities to mitigate the impact of the Delta variant. Echoing the sentiment of many respondents, the Managing Director of a German PE/VC firm says that "I feel the financing markets will be moderately positive, although this will depend on the control of COVID. If there is anymore lockdown or restrictions on businesses, the financing market will take a turn for the worse."

> The challenge to secure financing could act as a brake on some activity, and this is likely to be exacerbated in sectors where investors, banks or private equity are reluctant to engage in assets that have poor records in ESG. It is only going to get harder to find capital if there's a risk of damage to the financier's reputation.
>
> Julie Haeflinger
> Baker Tilly France Corporate Finance Lead

Figure 20. What do you expect financing market conditions to be like in 2021 compared to the past 12-24 months?



Deal focus: ESG

ESG policy and reform is changing at breakneck speed, as are expectations from both investors and consumers that corporations and funds be more environmentally and socially conscious. "ESG priorities are changing. There is greater demand for disclosures and better transparency," says the Partner of a US-based PE/VC firm.

A third of dealmakers (34%) in figure 16 see pressure to adhere to these new measures and requirements as a challenge. Even among those that say regulatory challenges are creating risks, many say ESG now sits side-by-side geopolitical challenges from the US-China trade war as a key area of concern.

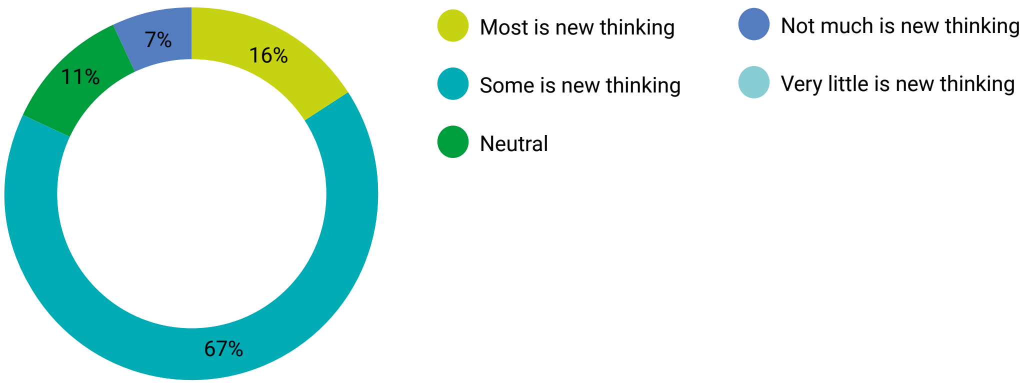
Previous research in "[Deal breakers and opportunity makers: The role of ESG in M&A]", however, shows that many dealmakers are already putting greater emphasis on ESG: 65% say it is an important consideration when making investments. Another 52% in that research say their ESG investment strategy has had a positive impact on overall investment returns in their recent deals.

ESG today: new thinking or recycled ideas?

Most respondents (83%) consider their ESG policy to be "new thinking" rather than dated approaches and standards (Figure 21). Within this group, however, only 16% say most of their policy is based on fresh ideas.

"Some of it is new thinking. We have been taking positive steps to incorporate the UN SGDs into our investment agenda and most of our business decisions have come to rely on this new thinking," says the Group Head of Finance at an Irish corporation. The Chief Investment Officer at a Thai corporation adds to this, saying, "Only some of it is new but we are working closely with environmental consultants to

Figure 21. How much of your organisation's ESG policy is "new thinking" rather than responsibilities/actions that have historically always been taken?



> The other issue dominating discussions of risk is ESG. Previously, a deal might have been marginal when judged on environmental, social or governance but financially sound enough for dealmakers to get it over the line. Now, with risk at the forefront of dealmaker minds, poor ESG performance can easily derail a deal.
>
> Julie Haeflinger
> Baker Tilly France Corporate Finance Lead

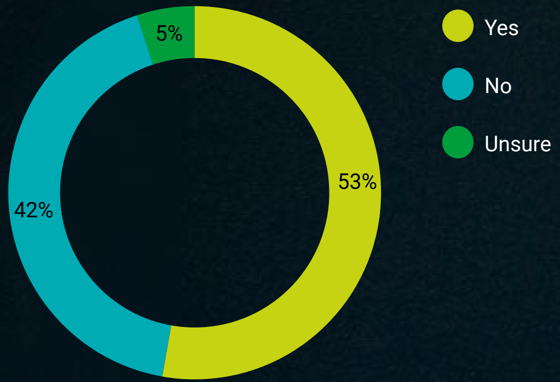
initiate any new policies. This would improve the value of the company and make it future-ready."

Interestingly, most respondents (53%) also think ESG is being applied too liberally to actions and responsibilities that do not necessarily pertain to environmental, social or sustainability goals (Figure 22). "Sometimes, I think that ESG is applied too liberally where the processes are functioning according to acceptable ethical standards and with no damage to the environment in particular," says the Managing Director of a US-based PE/VC firm.

Conversely, the 42% who say it is not applied too liberally mention that ESG is ultimately for the greater good. The negative effect on revenue can and should be minimised as there are more than enough technological applications available for companies to manage the impact.

"ESG is not applied too liberally. Even if it is, it is good for the environment and the society as a whole. Companies would be more conscious about the negative impact they are having," says the Managing Director of an Australian PE/VC firm.

Figure 22. Generally, do you feel ESG is being applied too liberally to actions/ responsibilities that do not necessarily pertain to ESG?



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