

MERGERS & ACQUISITIONS

A Look Back at Top PE Trends in 2021

M&A was driven by digital transformation, ESG investments and IPO exits.

THE YEAR 2020 WAS THE “tale of two halves” for many private equity dealmakers, with the first half defined by the pandemic and a sudden pullback in deals across industries, and the second half marked by an uptick in optimism and the urge to deploy capital in a rapidly recovering economy.

That momentum continued in 2021, and it hasn't slowed down. Private equity dealmakers will look back on 2021 as one of the busiest years of their careers, fueled by a perfect storm of factors contributing to record activity in the sector. With some of the uncertainty associated with the pandemic now behind us, there is increased business confidence—and, along with that, dealmaking. Added to that are persistently low interest rates that continue to drive up valuations, prompting more deal activity. Finally, with private equity fundraising at an all-time high, private equity has ample dry powder to deploy on large, transformational deals.

Amidst the frenetic activity, several trends have emerged or accelerated in the private equity space over the past year.

Deals Driven by Tech

Every industry, from retail to financial services to healthcare, has been transformed by technology in recent years, but the remote working



Matthew Abbott
Paul, Weiss, Rifkind, Wharton & Garrison

environment prompted by the pandemic vastly accelerated the trend. To weather the crisis, companies have had to adapt quickly, whether that required technology to make remote drug trials possible, or a platform to provide K-12 education from home. Innovations that met these new urgent demands were ripe for investment in 2021.

With its longer-term view of investment growth, private equity is continuously looking to invest in up-and-coming technological innovations with the potential to disrupt and transform industries.

ESG Remains a Core Focus

Private equity's interest in environmental, social and governance (ESG) investing predates the pandemic, but it's become even more top-of-mind during the past year and a half as a public health crisis collided with a social justice movement.

Leading PE firms now recognize ESG engagement as a real way to drive returns, as it can create value while also mitigating risk. Firms can deploy numerous different ESG strategies in their investment approach, tailored towards their primary goals. Common strategies include impact investing, which aims to create measurable progress towards social or environmental goals, and ESG



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integration, which incorporates material ESG considerations into traditional investment and acquisition processes, including due diligence.

An Uptick in PE-backed IPOs

This year has seen the most robust private equity-backed IPO market since the 1990s, according to recent data from Dealogic. That's a change from past years, when the dominant mode of exit was a sale to a strategic buyer. Today, public listings make a more attractive exit option, given a receptive capital markets environment, rebounding economy and public equities indexes that have soared throughout most of the year.

Outlook for 2022

While the overall outlook for 2022 remains favorable, increasing uncertainty related to an uptick in inflation and the possibility of interest rate hikes could dampen deal activity. Private equity firms are also watching for shifts in the regulatory environment, such as stepped-up antitrust enforcement, and changes to the tax code. But private equity firms' adaptability and ability to pivot to take advantage of opportunities amid rapid change positions the industry to successfully navigate these potential headwinds. **M&A**

Matthew Abbott is a partner and global co-chair of the M&A group at law firm **Paul, Weiss, Rifkind, Wharton & Garrison**.