

Big, Bold, Strategic Moves: The 2021 M&A Outlook

Jake Siewert: This is Exchanges at Goldman Sachs where we discuss developments currently shaping markets, industries, and the global economy. I'm Jake Siewert, global head of corporates communications here at the firm. Today, we're going to talk about the latest in M&A and whether the sharp rebound in activity that we've been seeing will continue. We're joined by Stephan Feldgoise and Mark Sorrell, the global co-heads of mergers and acquisitions in the investment banking division here at Goldman Sachs. Stephan, Mark, welcome to the program.

Stephan, I'll start with you. Set the stage for us. Talk a little bit about M&A at the tail end of 2020. Obviously we saw a big comeback in activity in the second half after deals sort of ground to a halt when the pandemic first hit. Talk a little bit about the two parts of last year and the scale of the uptick in volume that we saw.

Stephan Feldgoise: It's interesting. It was definitely a tale of two cities from a global M&A perspective. The first half of the year was down significantly, as you mentioned. But, you know, just statistically, just to give you some perspective, from September 1st through the end of the year, it was the most active M&A market in history with almost 1.8 trillion in activity, which effectively was double the first half of the year.

And I'll tell you a little bit of foreshadowing as we look towards 2021. You know, the year has started off double, again, what the first half of last year was, which was the pre-pandemic period. But, you know, companies really retrenched. And as we came out of the first half of the year, once there became what I'll call some lights at the end of the tunnel around the potential for vaccines, companies moved aggressively and positioned themselves both from a risk perspective as well as from an opportunity perspective, folks across the spectrum, whether that be technology, consumer industries, health care, all came out and said, "I'm going to make moves now," even though obviously we're still in but hopefully towards the end but still in the pandemic.

Jake Siewert: Let's talk about the way deals are getting done in this, you know, crazy pandemic era. Mark, talk a little bit about your experience advising companies on M&A virtually. Typically this is an intensive, in-person experience. How has the virtualization of everything changing the way deals get

done? And how might that change going forward?

Mark Sorrell: Thanks, Jake. I think, you know, just to give you the stat, since the pandemic really got into the worst phase in Q2 last year, we've announced over 100 transactions, a significant majority of which were completed fully virtually, which I think surprised us greatly. I think one of the reasons -- and we would talk to clients -- I think clients actually see with hindsight quite a lot of benefits from that.

The one I would pick out the most would be, you know, a more efficient use of management team, less travel, more focus, more focused interactions. And I think we will see many of the things we've seen including, you know, more virtual management meetings. You know, we've seen drone technology used for site visits and a few other innovations like that. I think we'll see many of them continue because they bring significant benefits for clients. And ultimately I think we will be guided by client preference.

So I think many of those things will continue. The one note I would put on that, Jake, that, you know, a lot of our business tends to be cross-border M&A. For example, transatlantic. I think that's part of our business that historically would rely a lot on travel and in-person interaction. And I think, you know, what we see there is the first signs of life and increased activity in that part of our business. And I think that the face-to-face part of that part of our business will still be very important.

Jake Siewert: So looking forward, as we contemplate a period ahead where there's much broader distribution of the vaccine and perhaps the worst of the pandemic is over, what's the outlook for M&A later in 2021? Mark, let's start with you.

Mark Sorrell: I think what we see in Q4 of 2020 and year to date, although it's only a few weeks, but year to date as well in 2021 is a really clear uptick in the amount of strategic dialogue with clients, both corporate and in private capital. And so I think the backdrop here is, you know, a high degree of confidence that the worst of the pandemic will be over, you know, at some point in the second half of this year as vaccines come through. That growth will really resume in a very strong way, particularly I think in the US but to a significant extent in Europe as well. And against that backdrop, many clients have very attractive stock prices. And obviously the financing markets are very conducive to M&A. And you put all of that

together, and I think you have an environment where many, many clients are looking to position their businesses for a strong period of growth hopefully from the second half of this year and onto next year.

So I think my summary would be a huge amount of dialogue and real conversation around important strategic moves for clients to position their businesses to be ready for a period of what will hopefully but strong growth.

Jake Siewert: So Stephan, you were talking about just how busy it is at the beginning of the year. What are the main drivers you're seeing for that kind of constructive outlook and that positive sentiment right now?

Stephan Feldgoise: Jake, I think there's probably three or four things. One, capital markets. If you went back to the financial crisis, back in '08/09, the banks were liquidity constrained. The banks have not been liquidity constrained. And so any party who's looking for financing can find that financing. And that's on the debt side or, frankly, on the equity side. You think about the amount of capital that's been raised by private equity, the sovereign wealth funds. I'm sure we'll talk a little bit about SPACs. The amount of capital on the equity sides to support transactions is tremendous.

And then most importantly, boards of directors and investors are encouraging their corporate clients and the companies they own to think aggressively about repositioning but also finding growth. And that has largely been domestically, as Mark said. But we are certainly expecting the cross-border, the international expansion in M&A to come back to life in 2021.

Jake Siewert: So, Mark, before the pandemic, a lot of the deals that were being done were opportunistic mergers, some unsolicited, some hostile approaches. Has that changed in this environment? And, you know, given the amount of dry powder in private equity that Stephan referred, what are you seeing and hearing around the sponsor segment?

Mark Sorrell: Thanks, Jake. So I think what we're seeing at the moment is clients willing to make, you know, big, bold strategic moves. And I put clients into both corporate clients and private capital. So I think these are larger transactions, higher risk transactions in terms of size and complexity. And complexity can have many elements -- financing, regulatory risk, [UNINTEL] risk, all sorts of risks. So I think there's greater

risk appetite and there's greater willingness to be bold.

I think what goes with that is a willingness to, for the right transactions to be also more aggressive. And we see that in terms of an uptick in, you know, more unsolicited situations and some more fully hostile situations. That's in terms of client sentiment.

To come to your question on private equity in particular, I would say that that boldness is really apparent in the private equity and private capital industry generally. I think when you think about the amount of dry powder, the ability to write very large equity checks, the different pools of capital that exist between [UNINTEL] private equity, long-term capital, cross-over infrastructure, traditional infrastructure, family offered sovereign wealth funds, the pools of capital where the check size, the willingness to be bold, the willingness to also be innovative in transaction structure, I think this is all driving increased activity.

Jake Siewert: So Stephan, we talked to Olympia on the program about continued momentum around SPACs as an alternative path for companies to raise money in the public markets. So how has the SPAC boom, which really took off last year but is continuing to this year, changed the M&A market? I mean, there's a large amount of capital that is now looking for M&A targets. And how do you think that will play out this year?

Stephan Feldgoise: Look, I think from the SPAC perspective, it's obviously very topical now and certainly relevant both to the IPO market and the M&A market. Many companies can choose to go public through an IPO, and some are certainly choosing to go public through SPACs. There's a large number of certainly very highly qualified individuals, former executives, former bankers, former founders of companies who are affiliated with SPACs. And so there's certainly what I'll call an attractiveness to that angle, but there's also a lot of companies going public through traditional means. And so it remains relevant to the IPO market.

On the M&A side, again, I'd say similarly. It remains very relevant. There's obviously, you know, hundreds of SPACs now out talking to companies about taking them public. How it evolves, whether corporations get more involved directly in terms of forming their own SPACs. Obviously private equity has started to get involved in the SPAC arena. We'll see how private equity gets involved with it. But it certainly is quite

relevant right now. And is it driving the M&A market overall? I'd say probably not. Corporate activity remains central and remains the main driver of the M&A market. But the SPAC market is relevant.

But again, I think it's more of an alternative path right now for companies to become public companies than it is changing the M&A market in terms of companies who would have thought about M&A now doing M&A because of SPACs. I'd say that's not the case. If a corporation thinks M&A is the right thing to do strategically, that's how they're thinking about it. And a SPAC may be a path they choose as part of that, but it's not necessarily, you know, the driver of what we're seeing in terms of the robust activity in the M&A market.

Jake Siewert: So before we wrap up, I'll give you both a chance to answer this question. With the recent uptick in M&A activity, we've certainly seen some deals over the \$10 billion size and some cross-border activity despite fears at the beginning of the pandemic about a decline in globalization. Do you expect to see more big ticket M&A as well as cross-border M&A continue? And what does that mean for your business?

Stephan Feldgoise: So I can start, Mark. We certainly expect what I'll call cross-border activity to come back to companies in different continents, per se. But every major transaction, even if within a given country right now, is an international transaction in that almost every company is international. And so the impact of how either foreign governments or regulatory bodies view transactions is relevant to in-market transactions as well. But again, we have seen less of the Corporation A in Country A merging with company in Country B. But we certainly expect that to come back.

I'll tell you the level of dialogue right now amongst our largest clients is certainly ramped up at the end of last year but certainly to the beginning of this year. And they are thinking about large global repositioning as critical to their strategy as they go through 2021. So certainly based on the dialogues we're having and the views of our clients, their boards, and their shareholders, we'd expect the large tickets and certainly the cross-border to return.

Mark Sorrell: Yeah, I would agree with Stephan. Without doubt, we're seeing the number of large, you know, \$10 billion-plus situations increasing rapidly through the second half of 2020 and continuing this year. And I think we believe that

conditions are conducive to big, bold moves. And if you look at stock prices and if you look at the ability to finance large check sizes [UNINTEL] corporates and private capital, those would all indicate bigger transactions will continue to increase. And we think as we get closer to hopefully to the other side of the pandemic, that will also include, you know, bigger cross-border activity.

Jake Siewert: Well, it sounds like both of you will have a lot of work near ahead. So Stephan, Mark, thanks for joining us today.

Stephan Feldgoise: Jake, thanks for having us.

Mark Sorrell: Thanks, Jake.

Jake Siewert: That concludes this episode of Exchanges at Goldman Sachs. Thank you very much for listening. And if you enjoyed this show, we hope you subscribe on Apple Podcasts and leave a rating or a comment. And tune in later in the week for our weekly Markets Update where leaders around the firm provide a quick take on the latest in markets.

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