

After a Year of Challenges, Private Investment May Rebound in 2023

Business owners need to balance business growth needs and personal wealth management with a trusted team of advisors

■ By MATT HANSEN, CFP®, CEPA®


Business owners with goals of growing their companies through an infusion of investment capital, or building their businesses with the intent of preparing to exit their ownership positions, found 2022 to be a challenging year. An inability for some owners to access available capital funding may have exposed them to compromise long range personal financial goals as they sought coveted cash investments for short term needs.

In addition to a decreased appetite for private investors to fund companies, merger and acquisition activity declined in the first three quarters of 2022, as outlined in the chart showing the most recent available data. According to the UBS Q3 2022 M&A Update, M&A volume is down nearly 40% year over year. This was in part due to large cap companies looking to go public, the so called “unicorns,” having their comparables and multiples valued lower by their publicly traded counterparts. 2021 was an unusual year with heightened activity from pent up demand from 2020 as well as an accelerated liquidity events out of fear of a 2022 revision in the tax code, which did not materialize. The climate, however, for mergers, sales and IPOs appears constructive as the new year begins, and business owners may see a more favorable atmosphere for a resurgence of activity in the months ahead. With more than \$1.6 trillion in estimated cash on-hand according to Preqin, there is significant “dry powder” earmarked for acquisitions as well as continued growth in fundraising activities from private equity.

Q3 2022 M&A Update

Window open for companies looking to transact but macro economic uncertainty impacting M&A decision making

2022 M&A Market is active, despite slowing from 2021 record highs	<ul style="list-style-type: none">• YTD 2022 Americas M&A volume is down (37%)¹, largely driven by lapping difficult comparables and increased near-term market volatility• Middle market M&A is still very active and market is shifting away from large cap deals to mid-sized transactions• YTD 2022 levels are above YTD 2019 (onset of pandemic), demonstrating deal activity remains elevated
Market backdrop remains constructive...	<ul style="list-style-type: none">• Significant available “dry powder” earmarked for acquisitions• Sponsors continue to build pipeline of targets and aggressively going after “must-own” assets• Credit is still available but spreads widening significantly• Economy performing and nearly all covid mobility restrictions lifted
... But Macro environment impacting near-term transaction execution	<ul style="list-style-type: none">• Many market participants waiting for additional stability and certainty before proceeding with transaction plans• Persistent inflation, public market volatility, war in Ukraine, fear of recession creating market uncertainty• Downward pressure on valuations given rising rates, inflation and 2022 public equity sell-off• Inability to push leverage and expensive credit deterring large buy-out transactions, despite attraction valuation levels
Corporates and Sponsors utilizing M&A to drive growth and innovate but are being more selective	<ul style="list-style-type: none">• Appetite remains for high quality, resilient, cash flowing businesses• Focus is on getting the right deals done to drive strategic growth and capital returns• Scale, diversification, growth and technology remain key priorities
Sellers “testing the waters” before launching formal processes	<ul style="list-style-type: none">• Many sellers having “fire-side chats” with select universe of potential buyers to efficiently gauge market interest and build awareness ahead of launching more fulsome process• Backlog of sellers waiting for market to stabilize; using current market to prepare for launch



Source: Thomson Reuters and Dealogic as of 10/07/2022
Note:
1 All deals with disclosed deal value, excluding minority stake purchases, repurchases, spinoffs or withdrawn deals and deals less than \$50 million

3

In today’s times of uncertainty and market volatility, entrepreneurs who are exclusively focused on building business resilience may overlook the safety of their assets and ways to protect them. Relying on the recommendations of just attorneys and accountants may be insufficient when trying to balance the acquisition of business capital and the security of personal assets.

If you own a business, having your future funding plans assessed then managed by a qualified team of advisors may be beneficial in both your

near term and long-term strategy. Conferring with a trusted team of tax and estate planning attorneys, wealth managers, CPAs, investment bankers, M&A attorneys and value accelerators early in the process can help maximize the value and attractiveness of a business before you go into your next round of funding, and ultimately as you look to exit the business. Making sure that your financial books and records are in good order, from an auditing or quality of earnings perspective, a marketing strategy which includes 2023 financial projections, as well as ensuring that your

management team is in place to carry on the business when you sell are important details that will help create a successful exit.

There may also be value in weaving these conversations into reviewing and revising asset protection plans for your business, personal wealth and family succession as part of your exit planning and retirement strategy. Creating a flexible plan that can evolve with economic, commercial and personal circumstances could be a critical decision as you enter the new year.



Matt Hansen joined UBS Financial Services, Inc. in 2015 as a Senior Vice President-Wealth Management. He holds certifications both as a Certified Financial Planner® and a Certified Exit Planning Advisor (CEPA®). Matt works with business owners to help them with retirement plans, accessing capital and guiding them through an eventual transition with succession planning. For a copy of the full M&A report, contact Matt at HansenWM@ubs.com.

Matt Hansen is a Financial Advisor with UBS Financial Services Inc., 17180 Bernardo Center Drive, Suite 100, San Diego, CA 92128. Any information presented is general in nature and not intended to provide individually tailored investment advice. Investing involves risks and there is always the potential of losing money when you invest. The views expressed herein are those of the author and may not necessarily reflect the views of UBS Financial Services Inc. Neither UBS Financial Services Inc. nor any of its employees provide tax or legal advice. You should consult with your personal tax or legal advisor regarding your personal circumstances.



As a firm providing wealth management services to clients, UBS Financial Services Inc. offers investment advisory services in its capacity as an SEC-registered investment adviser and brokerage services in its capacity as an SEC-registered broker-dealer. Investment advisory services and brokerage services are separate and distinct, differ in material ways and are governed by different laws and separate arrangements. It is important that clients understand the ways in which we conduct business, that they carefully read the agreements and disclosures that we provide to them about the products or services we offer. For more information, please review the PDF document at ubs.com/relationshipssummary.