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STEPHENS INVESTMENT BANKING

Quarterly Update: January 2022

Hello and welcome to the 4Q 2021 edition of the Stephens Investment Banking Quarterly Update.

Our last three months of the year were full of brisk deal flow, as we worked closely with clients to help them enter 2022 on target to achieve their strategic and financial goals.

This edition of the Quarterly Update features exclusive perspectives from senior bankers in every sector and subsector that we serve, on both the major trends of 2021 and what's on their radar for the year ahead.

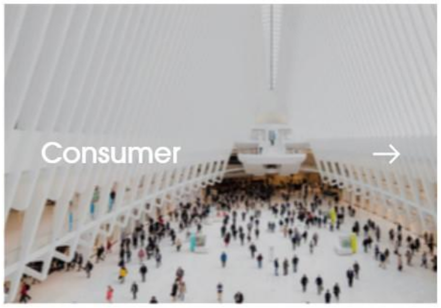
I hope you find it useful.

Sincerely,

Brad Eichler
Executive Vice President, Head of Investment Banking

Banker Perspectives

Click on a Sector or Subsector to Read Details



Consumer Products & Retail

Dealerships

Food & Agribusiness

Restaurants

Aerospace & Defense

Building Products, Construction Materials and Services

Business & Industrial Services

Infrastructure Services

Power & Industrial Technology

Specialty Distribution & Services

Transportation & Logistics

Acquisitions & Divestitures

Clean Technology & Infrastructure

Exploration & Production

Midstream

Oilfield & Energy Infrastructure Services

Diversified Financials

Depository

Specialty Finance

Healthcare Services

Healthcare IT

Life Sciences & Medical Devices

Financial Technology & Payments

Internet of Things

Media

Healthcare IT

Security Software

Telecommunications

Vertically Focused Software Applications

Select Quarterly Transactions

October 1, 2021 NOT DISCLOSED GRYPHON INVESTORS HAS ACQUIRED SOUTHERN HVAC A PORTFOLIO COMPANY OF MSOUTH EQUITY PARTNERS	October 4, 2021 $83 MILLION Community BANK SYSTEM, INC. HAS AGREED TO ACQUIRE ESB The people's bank est. 1869	October 6, 2021 NOT DISCLOSED ICG and Management have invested in ATOS	October 7, 2021 PRINTRONIX A SUBSIDIARY OF Evercel HAS BEEN ACQUIRED BY acacia RESEARCH CORPORATION	October 13, 2021 NOT DISCLOSED ENTERPRISE OIL CO. HAS BEEN ACQUIRED BY RelaDyne A PORTFOLIO COMPANY OF Audax Group
October 14, 2021 $240 MILLION BLACK MOUNTAIN ACQUISITION CORP INITIAL PUBLIC OFFERING	October 20, 2021 $180 MILLION ACCRETION ACQUISITION CORP. INITIAL PUBLIC OFFERING	October 20, 2021 $240 MILLION P10 INITIAL PUBLIC OFFERING	October 20, 2021 $1.1 BILLION TRISTATE CAPITAL HOLDINGS Has Agreed To Be Acquired By Raymond James Financial, Inc.	October 21, 2021 $53 MILLION(1) b1 BANK HAS AGREED TO ACQUIRE TEXAS CITIZENS BANK
October 26, 2021 NOT DISCLOSED Action Fuels LP HAS BEEN ACQUIRED BY refuel A PORTFOLIO COMPANY OF FIRSTRESERVE	October 27, 2021 $1.15 BILLION Sonic Automotive SENIOR UNSECURED NOTES	October 28, 2021 $350 MILLION Bank OZK PREFERRED STOCK	October 29, 2021 NOT DISCLOSED TLI TOTAL LOGISTICS, INC. HAS BEEN ACQUIRED BY WAREHOUSE SERVICES, INC.	November 1, 2021 $347.6 MILLION DIGI HAS ACQUIRED Ventus
November 3, 2021 $78 Million taylor HAS BEEN ACQUIRED BY FLUIDRA	November 4, 2021 $78 MILLION CADRE HOLDINGS INITIAL PUBLIC OFFERING	November 4, 2021 $323.5 MILLION First Merchants HAS AGREED TO ACQUIRE LevelOne	November 4, 2021 NOT DISCLOSED High-Tech Security Glass ISOCLIMA A PORTFOLIO COMPANY OF STIRLING SQUARE CAPITAL PARTNERS HAS ACQUIRED DLUBAK SPECIALTY GLASS CORPORATION Global Security Glazing	November 8, 2021 $1.5 Billion(1) CBTX, INC. HAS AGREED TO MERGE WITH AllegianceBancshares, Inc.

To see all Stephens Investment Banking transactions & advisory, click here.

* Based on BFST closing stock price of $25.30 as of October 19, 2021.

* Pro forma combined CBTX and ABTX market capitalization as of November 5, 2021.

Select Quarterly Transactions

November 8, 2021 $100.6 MILLION THIRD COAST BANCSHARES, INC. INITIAL PUBLIC OFFERING	November 9, 2021 $52.5 MILLION KIMBELL ROYALTY PARTNERS FOLLOW-ON OFFERING	November 18, 2021 $43.8 MILLION FATHOM FOLLOW-ON OFFERING	November 18, 2021 $36.8 MILLION FINWISE BANCORP INITIAL PUBLIC OFFERING	November 18, 2021 NOT DISCLOSED Valley RUBBER HAS BEEN ACQUIRED BY GRT A PORTFOLIO COMPANY OF MAIN ST CAPITAL CORPORATION
November 19, 2021 $581 Million SPIRIT OF TEXAS BANCSHARES HAS AGREED TO MERGE WITH Simmons First National Corporation	November 23, 2021 $200 MILLION RENASANT CORPORATION SUBORDINATED NOTES	November 26, 2021 NOT DISCLOSED PERWYN EVERGREEN | FAMILY | INVESTORS Has acquired BARFER'S WELLFOOD	November 30, 2021 NOT DISCLOSED ferrovial HAS SOLD timec TO ARCHITECT EQUITY	November 30, 2021 $56.0 Million INBANKSHARES, CORP HAS AGREED TO ACQUIRE LEGACY BANK
December 3, 2021 NOT DISCLOSED Direct Digital Holdings SENIOR SECURED TERM LOAN & DELAYED DRAW FACILITY	NOT DISCLOSED GHMGROUP PORTFOLIO COMPANY OF VR Equitypartner Bayern LB Private Equity HAS AGREED TO BE ACQUIRED BY GENUI	December 8, 2021 NOT DISCLOSED NEW ENGEN HAS BEEN ACQUIRED BY INSIGNIA CAPITAL GROUP	December 9, 2021 NOT DISCLOSED advania A PORTFOLIO COMPANY OF Goldman Sachs Asset Management HAS AGREED TO ACQUIRE Content +Cloud	December 9, 2021 NOT DISCLOSED AMIFAST A PORTFOLIO COMPANY OF RoX Capital HAS BEEN ACQUIRED BY AFINITAS A PORTFOLIO COMPANY OF FORSYTH partners
December 9, 2021 $22.0 MILLION BANK7 SECONDARY OFFERING	December 9, 2021 NOT DISCLOSED the Jt agency A PORTFOLIO COMPANY OF THIRD CENTURY HAS BEEN ACQUIRED BY CROWN CAPITAL INVESTMENTS	December 14, 2021 $30.0 MILLION COASTAL FINANCIAL CORPORATION FOLLOW-ON OFFERING	December 17, 2021 $1.14 Billion American First Finance HAS BEEN ACQUIRED BY FirstCash	December 23, 2021 NOT DISCLOSED THOMAS MURRAY SENIOR SECURED

To see all Stephens Investment Banking transactions & advisory, **click here.**

The Energy Transition Webinar

Maximo Blandon, Managing Director in Energy & Clean Energy Transition, participates in our newest Capital Thinking webinar. This entry features perspective from executives at Denbury, Orion Infrastructure Capital, and CleanBay Renewables. Len Vermillion, Editorial Director for Oil and Gas Investor, moderates the panel. They explore how innovative companies in the space are accessing capital to pursue alternative energy projects while maintaining a focus on ESG initiatives. Registered attendees can watch their conversation starting on Feb. 1. **Click here to sign up.**

Virtual Chat: Trends in Private Equity & Investment Management

Two of our London based bankers – Hugh Elwes, Managing Director in the Financial Services Group, and Simon Tilley, Managing Director in the Financial Sponsors Group – recently held a virtual chat on crucial developments in the private equity, asset management, and wealth management sectors. They discussed sponsor and trade capital flows, transatlantic deal activity, factors driving consolidation, and more.

Watch their conversation here.

Capital Thinking Article: Media Streaming Platforms Ride the M&A Wave

Media bankers Phyllis Riggins, Managing Director, and Greg Gordon, Senior Vice President, wrote about emerging M&A and capital raising dynamics focused on internet-enabled streaming capabilities. These platforms have gained tremendous momentum during the past two years, as millions of Americans have spent much more time at home than anticipated, due to social distancing and remote working conditions brought on by the COVID-19 pandemic.

To read their article, click here.

Nathan Mittag
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Nathan Mittag Joins as Managing Director in the Financial Institutions Group

The firm announced in December that Nathan (Nate) Mittag joined Investment Banking as Managing Director within the Financial Institutions Group. Mr. Mittag focuses on Depositories, a core capability and practice of Stephens, and assists in the firm's dedicated coverage of banks across every region of the US. He is based in New York and has amassed extensive experience in his field over a 14-year career. Mr. Mittag holds a BA in economics from Bucknell University. In the 12 months prior to his hire, the FIG team created over $8 billion of combined capital markets and M&A transaction value for clients. This includes Depositories such as community and regional banks, thrifts and other financial institutions.

Industry Events: Robin Brown, Managing Director in Technology – UK

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TMT World Congress 2021 - London

Robin was a panel speaker at a session on Enterprise Software Investment Trends and M&A Strategies. The panel's discussion included transformational growth strategies in the digital era, the extent to which M&A is enabling software firms to expand their core offering vertically and horizontally, as well as financing to support deal flow for software firms of various sizes.

PopX Webinar – Smart MSP

Robin chaired a virtual event that Stephens hosted in association with the PopX platform for digital Managed Service Providers. The webinar provided actionable insights for owner operators and C-level executives who are using Smart MSP capabilities to achieve scale without also exponentially increasing costs, while maximizing valuation potential.

Banker Perspectives: Consumer Sector

SECTOR-LEVEL VIEW

Throughout 2021, consumer spending continued to be a foundational support for the economy, including within our core Consumer subsectors. Many M&A participants and capital markets issuers are still adjusting to a "new normal." The Restaurant sector is a prime example, as it repeatedly adjusted to evolving COVID-19 safety precautions throughout 2021. In 2022, we expect the Consumer sector will continue to generate elevated M&A and capital markets activity.

Consumer Products & Retail

Last year, Consumer Products & Retail companies generated total M&A deal value and volume that exceeded 2020 levels, creating something of a seller's market. Cash-rich buyers made strategic acquisitions to address changing consumer behaviors, consolidate fragmented markets and overcome supply chain disruptions while also attracting top talent. A venture-capital fueled IPO boom and spurt of SPACs added to the energetic 2021 landscape. This year, we expect that many retailers will raise prices, right-size teams, and enhance automation. We anticipate that more companies will invest in better e-commerce platforms, such as direct-to-consumer models and same-day delivery options for customers that have come to expect the convenience. Divestment from noncore assets also will be in focus, as we believe that companies may continue to realign their brand portfolios and customer engagement strategies.

Dealerships

In addition to multiple billion-dollar capital raising transactions, some of the largest automotive and RV Dealerships in the U.S. completed acquisitions in 2021. Healthy consumer demand was offset by lower inventory due to chip shortages and supply chain constraints, hindering new vehicle sales. Dealers, however, experienced record-level margins as well as strong used vehicle demand. New vehicle inventory is expected to remain low well into 2022, continuing to drive strong profitability for dealers. Although electric vehicle makers are testing direct-to-consumer models, traditional dealers and their OEMs are building online buying tools and leveraging their service & parts capabilities to maintain their market share. Inventory shortages, record profitability, and increasing sophistication of the business model are expected to drive additional Dealership consolidation this year.

Food & Agribusiness

Better-for-You and ESG-friendly transactions represented a significant portion of our 2021 M&A and capital markets activity in the Food, Beverage & Agribusiness subsectors. We completed transactions on behalf of companies active in plant-based foods, zero-sugar beverages, sustainable bio-refining, as well as an IPO for one of the oldest fresh produce companies in the world. The protein and agribusiness subsectors have performed well, benefiting from supportive supply and demand dynamics, including positive price trends in many commodity markets. We expect strong Food, Beverage & Agribusiness deal flow in 2022, even as industry participants continue to face ongoing supply-chain and labor challenges.

Restaurants

Restaurant companies have been COVID-challenged since the beginning of the pandemic, with capacity restrictions impacting businesses well into 2021. The industry overall didn't begin seeing sales in excess of pre-pandemic levels until May, 15 months after the start of COVID-related restrictions. December saw some pullback as Omicron began to have an impact on staffing and customer traffic. Quick service brands, and those that relied on off-premise orders pre-pandemic have been best positioned throughout. The IPO market and M&A have been quite busy, but the bar remains high for transactions. Private equity remains interested and active in the sector, and several SPACs are still looking for transactions.

Click here to return to Banker Perspectives Main Page

Banker Perspectives: Energy & Clean Energy Transition

SECTOR-LEVEL VIEW

Elevated commodity prices last year triggered increased activity in upstream Acquisitions & Divestitures, along with healthy investor interest in oil and gas SPACs conducting IPOs. Commodity prices and deal activity are likely to stay robust this year. Yet companies are looking to ascertain when public equity capital markets will open up. Traditional IPO activity remains relatively slow, although a good pipeline is building and follow-on activity was up year-on-year. As for clean energy, 2022 may well be the year when it becomes standard for public and private investors to demand material ESG and renewables commitments before committing capital.

Acquisitions & Divestitures

Beginning with deal activity ramping up in the middle of the second quarter, the A&D market for upstream oil and gas recovered significantly last year from 2020 lows – for both high-yield and public equity offerings. This contrasts sharply with the near standstill of 2020, when deal activity featured forced selling and opportunistic transactions. This year, a post-pandemic global economic recovery could spur energy demand that sends crude oil above $85 per barrel. Persistent inflation could be tolerable for the A&D market in that case, if the cost of capital lowers in the energy sector and firms find and retain enough qualified workers to keep up with production.

Clean Technology & Infrastructure

Public support for ESG issues; government mandates at the federal, state, and municipal levels; corporate sustainability initiatives; as well as general concern for the environment as a response to the COVID-19 pandemic, all ramped up in 2021 to accelerate demand for low emissions and renewable power. Oil majors are starting to embrace the circular economy. Pension funds and insurers are pledging to become carbon neutral in their investments. Capital is flowing into green hydrogen and electric vehicle projects. And if the Build Back Better bill is passed in 2022, it may allocate $555 billion for climate provisions, of which $320 billion would go to clean energy spending and tax credits.

Exploration & Production

Crude oil nearly doubled in price between January and December 2021, and is poised to stay well above the $40 to $60 range that prevailed over the past two years. Similarly, natural gas prices last year were generally much higher than in 2019 and 2020. This has helped investment-grade oil and gas producers – particularly those focused on free cash flow instead of just shale extraction – to stabilize their credit ratings. Alternative capital in the form of SPACs flowed into E&P last year, and an encouraging number of IPOs on the horizon suggests that equity capital markets are opening for oil and gas companies.

Midstream

In total volume and value, the Midstream subsector demonstrated higher activity last year than in 2020 for M&A deals. Many deals involved asset sales by utilities such as electricity providers, which have been signing long-term contracts to secure natural gas supplies instead of owning pipelines outright. Private equity firms also have been keen to acquire liquid natural gas assets. This year, we anticipate that traditional Midstream companies will look to purchase assets that allow them to meet increasing investor and regulatory demands around ESG and clean energy goals.

Oilfield & Energy Infrastructure Services

There was greater volume and value of equity issuances in 2021 than in the previous two years across the Oilfield & Energy Infrastructure Services subsector. Total M&A volume and value last year also surpassed 2020 levels. With both the U.S. rig count and the price of crude oil more than 60% higher in early January 2022 than the same time last year, OFS entered the year on solid footing. But lower demand for new drilling operations has prompted companies to expand into renewables opportunities such as carbon capture and wind. In 2022, we believe that middle market companies will engage in M&A to increase scale and improve operating margins.

Click here to return to Banker Perspectives Main Page

Banker Perspectives: Diversified Industrials & Services

SECTOR-LEVEL VIEW

The passage of the federal $1.2 trillion infrastructure package last year stands to improve M&A and capital raising activity across the sector. Meanwhile global supply chain disruptions characterized by a tight labor market, port congestion, and equipment shortages benefited mainly Transportation & Logistics companies. In Aerospace & Defense, air travel in major locations improved in 2021 to approach levels seen prior to the pandemic, while President Biden's 2022 budget mostly upheld full defense spending amid elevated geopolitical tensions. Building Products, Construction Materials and Services enjoyed rising housing demand, higher spending on repair and remodel services, and an appetite for infrastructure spending.

Aerospace & Defense

Air travel in major locations improved in 2021, approaching levels seen prior to the pandemic, and certain manufacturers are forecasting stronger production in 2022. M&A also increased last year from 2020, in both commercial aviation and across Aerospace & Defense as a whole. This may have been helped by President Biden's 2022 budget mostly upholding full defense spending. Elevated geopolitical tensions are also at play, with significant investments in R&D likely. These factors could prompt defense companies to consolidate around technology enhancements and to acquire newer firms with cutting edge breakthroughs.

Building Products, Construction Materials and Services

Last year this space benefited from a robust M&A market, rising housing demand, higher spending on repair and remodel services, and an appetite for infrastructure spending. Companies stayed resilient despite pandemic-related market volatility, driving investor activity and premium valuations. Corporations that spent years building balance sheets eagerly shifted to growth, and sellers sought to get ahead of potential tax changes and greater capital gains obligations. Financial buyers – including sponsors, family offices, and SPACS – are sitting on the highest levels of dry powder on record. The near-term outlook appears positive.

Business & Industrial Services

Deal volume accelerated in 2021 across many sectors within the Business & Industrial Services space with financial buyers being particularly active. The market saw strong activity in the professional services space including HR outsourcing, IT services, IT consulting and digital transformation platforms. Favorable market tailwinds in route-based, outsourced services continues to drive interest in technical services, fire/life safety, HVAC and general facility services. While activity in certain areas of Industrial Services remains muted, there is growing interest in environmental services and highly technical industrial MRO business models. Looking ahead into 2022, we expect that potential acquirers will be focused on targets that will benefit from ongoing return-to-work dynamics, subsectors in early stages of consolidation, and businesses that will benefit from the infrastructure package.

Infrastructure Services

Due to decades of deferred maintenance in the U.S., substantial investment is required in aging and inadequate power, gas, and water utility infrastructure. The Infrastructure Bill, which passed at the end of 2021, allocates significant funds to not only repair, but also upgrade critical infrastructure. In recent years, there has been a significant increase in M&A activity in contractors servicing these critical infrastructure end markets. Last year this also included the contractor universe servicing communications infrastructure, due to several factors. Demand for highly-skilled communications contractors continues to grow with operators seeking to upgrade strained existing network infrastructure and ramp up for the deployment of high-bandwidth 5G services. Private capital is focusing on investments in suburban and rural markets where there is limited competition, while

Click here to return to Banker Perspectives Main Page

lawmakers are also focusing on bridging the Digital Divide for underserved and rural communities through federal and state programs. All of these factors are driving demand for highly-skilled labor in metro and rural markets. European infrastructure investment, specifically in telecommunications assets, has significant room for growth before reaching the levels seen in the United States and China. The infrastructure required to deploy 5G services is especially in need of development. Unlocking Europe's potential will require additional investment in power, fiber, data centers and tower infrastructure – representing an attractive opportunity for infrastructure services investors across the continent.

Power & Industrial Technology

The passage of the federal $1.2 trillion infrastructure package last year enables considerable new capital raising and consolidation opportunities for organizations involved in water, transportation and power projects. A key component is the transformation of the U.S. electric grid, for which capital expenditures increased from approximately $74 billion in 2010 to $135 billion in 2020, totaling over $1.1 trillion during the previous decade. The pace of capex is set to accelerate this decade as utilities invest in software and hardware, from sensing and control solutions to data analytics, along with tying renewables and electric vehicles into the grid. As consolidation in the contractor universe servicing critical infrastructure continues to evolve, the skill sets of today's contractors will continue to expand to include not only power distribution, but also battery installation, HVAC maintenance, and structured cabling. This is leading to the creation of skilled labor platforms with broad capabilities across multiple critical infrastructure end markets. A trend that will continue given the significant investment in, and focus on, the critical infrastructure and a significant shortage of skilled labor nationwide.

Specialty Distribution & Services

Valuations moved higher in 2021 for both distribution and service companies. Industrial end-market companies are beginning to come back to markets as the subsector's economics continue to improve. The $1.2 trillion U.S. infrastructure package has generated great interest from distributors active in water, waste water, construction, and large construction projects. Yet supply chains remain challenging, with lead times at all-time highs, and transportation costs and labor shortages weighing over the space. Issuers and M&A dealmakers also are giving more attention to momentum around the onshoring of manufacturing, and ESG compliance trends.

Transportation & Logistics

Earnings and valuations for Transportation & Logistics companies remained in an up-cycle throughout 2021, on higher profits per shipment. Global supply chain disruptions characterized by a tight labor market, port congestion, and equipment shortages have allowed corporate strategics and financial buyers to boost M&A deal flow. Companies are increasingly attempting to provide full-service, "door-to-door" services, combining multiple modes of international and domestic transportation; automation technologies; as well as omnichannel fulfillment solutions. Sellers have been able to achieve higher valuations by showing buyers why growth does not hinge on transitory pandemic-induced factors.

Click here to return to Banker Perspectives Main Page

Banker Perspectives: Financial Institutions Group

SECTOR-LEVEL VIEW

The need for achieving scale drove a resurgence in bank M&A last year, with Depositories partnering with tech companies to increase growth and/or operational efficiencies. Consolidation across the asset management and wealth management spaces was quite strong, driven by fee pressure, technology upgrades, client demands, and private equity buyers deploying excess capital. Multiple M&A deals approaching or surpassing $1 billion in valuation occurred in the Specialty Finance subsector, such as those involving home improvement lenders or point-of-sale technology platforms. In 2022, a central theme will be how the pace and extent of interest rate hikes facilitates middle market capital raising.

Diversified Financials

Consolidation across the asset management and wealth management spaces was quite strong in 2021, for a variety of reasons. In asset management, active managers have been experiencing long-term fee pressure, technology upgrades are needed, and clients are demanding enhanced capabilities. Wealth management companies have become highly attractive to private equity firms, which have huge amounts of debt and equity capital that was not deployed during the worst of the pandemic. While these trends were especially the case in the United Kingdom last year, transatlantic activity and similar trends in the U.S. also prevailed. So far, 2022 is shaping up to maintain momentum.

Depository

The need for achieving scale drove a resurgence in bank M&A last year, with Depositories seeking to determine what they can do to evolve with fintech upstarts. For many, the answer has been to pursue partnerships with tech companies that can increase growth and/or operational efficiencies. Meanwhile bank performance and valuation will continue to be driven by the interest rate environment. The industry expects the Federal Reserve to increase rates in 2022. This should help Depositories improve core profitability as well as accelerate M&A and capital raising deal activity throughout the year.

Specialty Finance

Multiple M&A deals surpassing $1 billion in valuation closed in the Specialty Finance subsector last year, notably within home improvement and point-of-sale financing. Consumer spending continued to expand, particularly for discretionary goods and services. Loan volumes remained somewhat challenged due to a reduced supply of financeable products while asset performance continues its outperformance. Rising interest rates in 2022 may bolster prospects for student lenders and credit card businesses, with the latter also potentially capitalizing on a recovery in travel spending. On the whole, rate hikes may not significantly impact the broader Specialty Finance subsector as many lenders have strong unit economics with the ability to adjust pricing accordingly.

Click here to return to Banker Perspectives Main Page

Banker Perspectives: Health & Life Sciences

SECTOR-LEVEL VIEW

Middle market capital raising and M&A activity in the Health & Life Sciences sector unfolded at a steady pace in 2021 for a wide range of subsectors. This encompassed home care, diagnostics, and cell-engineering platforms on the IPO front along with electronic monitoring, sanitation, and specialized clinics on the M&A front. Last year also featured the completion or announcement of at least 10 Health & Life Sciences M&A deals each surpassing $7 billion in transaction value. This year could see greater federal and state-level emphasis on potential changes to drug pricing in the U.S., as well as a number of high-profile deals involving pharmaceuticals companies.

Healthcare Services

Companies in the Healthcare Services subsector sought to assess the impact of myriad pandemic-related factors in 2021, from the surge in Medicaid enrollment to rising costs. Deals last year included corporate strategic acquisitions of food safety processing equipment companies, and IPOs for diversified homecare platforms serving complex patient populations. Some homecare service providers shifted their M&A focus toward the clinical side, while exerting discipline when buying assets, in light of higher deal multiples, such as with hospices. In 2022, an improving labor environment offset slightly by higher wage inflation may push Healthcare Services companies to become even more rigorous in evaluating potential acquisition targets.

Healthcare IT

The Healthcare IT subsector experienced record M&A activity in 2021, with $95 billion of total M&A deal volume over 532 transactions, nearly tripling the prior record of $37 billion through 411 deals set in 2020. Private investments in the sector also experienced record activity, surpassing the prior records for total deal value and volume set in 2020. IPO activity was similarly strong. Virtual care, direct-to-consumer, revenue cycle management, and post-acute care, among others, continue to see strong strategic and financial interest. This strong activity is poised to continue in 2022.

Life Sciences & Medical Devices

The subsector experienced record levels of M&A, IPO and private fundraising activity in 2021. On the M&A front, there was $181 billion of total announced deal volume across 881 transactions in 2021, more than doubling the prior year volume. We believe this level of activity was fueled by record levels of capital availability, continued (and in certain cases accelerated) industry tailwinds, and an overall heightened interest from both strategic and institutional investors to participate in sectors where COVID-19 magnified the value proposition. Given the variability in COVID-impact on businesses across the subsector, investors have become creative with how to validate sustainability and underwrite COVID-impacted businesses. Looking forward, we believe 2022 is positioned for continued record levels of activity.

Click here to return to Banker Perspectives Main Page

Banker Perspectives: Technology, Media & Telecom

SECTOR-LEVEL VIEW

The total value and volume of TMT M&A deals climbed globally in 2021. Vertically Focused Software Application companies pursued more efficient cloud-based solutions. Security Software and Healthcare IT experienced record M&A and investment activity, as well as near-record valuations due to strong strategic and financial interest. Payments processing firms conducted several notable IPOs, debt offerings, and private investments. At least five online Media streaming deals occurred, including IPOs and acquisitions, ranging in value from $900 million to $43 billion. Private equity firms and strategic buyers alike showed healthy interest in wireless and utilities Telecom services. There is little sign that TMT deal flow will abate in 2022.

Financial Technology & Payments

The proliferation of non-bank financial providers or "neobanks" and direct-to-consumer fintech providers, as well as the unprecedented need during the pandemic for remote banking, pushed banks and credit unions to enhance tools for serving customers last year. This included automating and digitizing the lending process; several lending fintech firms that work with banks announced capital raising activity. M&A activity included major U.S. banks announcing deals for healthcare and other vertical payments firms and robo-advisors. Payments processing firms also conducted several notable initial public offerings, debt offerings, and private investments. Deal flow in 2022 is expected to maintain pace.

Internet of Things

Industrial and B2B service companies made an extensive push last year into IoT capabilities. Private equity firms in the U.S. and Europe invested heavily in IoT developers, while many privately held and publicly traded IoT companies made acquisitions themselves. Deals involved version control software for smart production machinery, cloud-based automation and mobility for infrastructure services, disaster recovery and change management solutions for manufacturers, insurance technology for vehicle telematics, and much more. As the Internet of Things goes mainstream in 2022, we believe that more companies will seek to access debt and equity capital in order to enhance consumer-facing home goods and public transportation capabilities.

Media

The boom in online streaming spurred a wide assortment of acquisitions in 2021 that enabled Media buyers to produce content and accumulate libraries of pre-existing content, as well as tap investor appetite for capital raises to fund long-term growth strategies. This included at least five deals ranging in value from $900 million to $43 billion. As cable "cord-cutting" continues, competing CTV and OTT streaming platforms are experimenting with revenue models, which may help determine acquisition targets. However, future deals may depend on the viability of individual companies, since it is uncertain how many platforms audiences will pay for or use. Despite languishing over the past few years, Adtech is now one of the hottest sectors for investment and consolidation, with 2021 deal volume growing by approximately 300% year-on-year. CTV/OTT programmatic platforms, data & analytics firms, and digital performance marketing agencies are leading the Adtech market activity, as the efficiencies and value propositions to marketers for these products continue to expand. Further Adtech-related consolidation by key platforms is expected to continue, as many of these relatively new players are aggressively adding market share and additional capabilities.

Healthcare IT

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Click here to return to Banker Perspectives Main Page

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Security Software

Robust interest from private equity firms drove record M&A and investment activity in the Security Software subsector in 2021. There were 192 M&A transactions and $73 billion of deal volume, compared to prior records of 136 and $24 billion, respectively. Private financings also set total deal value and volume records in 2021. Public market interest in Security Software also was strong in 2021 and is expected to continue in 2022. As companies experience increased cyberattacks and ransomware events, the subsector has demonstrated significant revenue growth, resulting in near-record valuations, which bodes well for 2022 activity.

Telecommunications

Connectivity is essential to our modern lives and has evolved into a utility service. The need for faster and more reliable broadband access will drive continued industry investment. Capacity required to deploy 5G services as well as the growing adoption of high-bandwidth services (teleheath and cloud services) will require upgrades to existing network infrastructure. Additional investment in underserved and rural broadband, supported by the Infrastructure Bill and Rural Digital Opportunity Fund, will seek to bridge the Digital Divide between communities. Overall, the demand on Telecommunications network infrastructure has never been greater and we anticipate that it will continue to grow for the foreseeable future. Enhanced network capacity, faster connectivity speeds, improved reliability, and security will be critical factors driving investment and M&A activity. The European broadband network infrastructure market remains highly fragmented with consolidation in the early stages relative to North America. Infrastructure funds and private equity firms are making major investments in the subsector as each country rolls out different initiatives. We believe that this will lead to accelerated M&A activity, new entrants to the market, and consolidation in the subsector in 2022 and beyond.

Vertically Focused Software Applications

Software companies continued to experience a major M&A surge with the total value and volume of information technology deals rising globally in 2021. Many European companies were up for sale, with American investors particularly drawn to attractive valuations and cross border expansion. Yet quite a few Europe-based firms are not looking to sell at any cost. Heading into 2022, many vertical-focused software platforms may look to M&A to augment the organic growth profile. Cybersecurity, healthcare, retail, property/real estate and financial-focused software platforms are areas experiencing significant M&A consolidation.

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Click here to return to Banker Perspectives Main Page

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