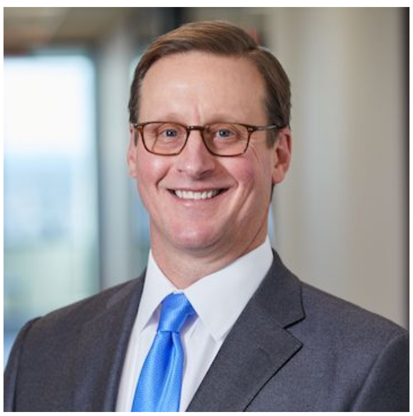
Stephens

INVESTMENT BANKING

Quarterly Update: April 2022



Hello and welcome,

During a quarter that was highlighted by shifting monetary policies and increased geopolitical tensions, we continued to advise our clients on a wide range of transactions.

This edition of the Quarterly Update features exclusive perspectives from senior bankers in every sector and subsector that we serve, on major trends that have emerged so far this year and what to look for in the months 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

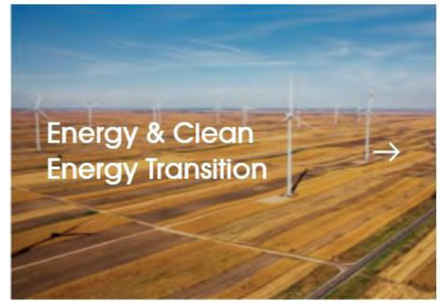
Business & Industrial Services

Infrastructure Services

Power & Industrial Technology

Specialty Distribution & Services

Transportation & Logistics



Acquisitions & Divestitures

Clean Technology & Infrastructure

Exploration & Production

Midstream

Oilfield & Energy Infrastructure Services

Diversified Financials

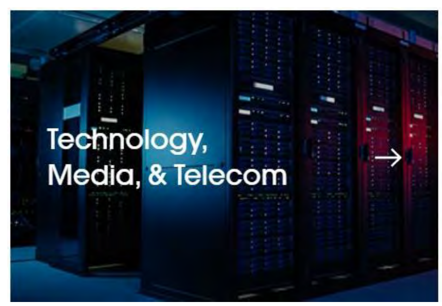
Depository

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

January 4, 2022
NOT DISCLOSED
Amber Resources
HAS BEEN ACQUIRED BY
Renewable Energy Group

January 6, 2022
NOT DISCLOSED
G&D
A PORTFOLIO COMPANY OF
naxicap PARTNERS
HAS ACQUIRED
TRITEC ELECTRONIC AG

January 10, 2022
$50.2 MILLION
CIVISTA BANCSHARES, INC.
HAS AGREED TO ACQUIRE
CBC

January 17, 2022
NOT DISCLOSED
BELDEN
HAS ACQUIRED
macmon smartly simple

January 20, 2022
NOT DISCLOSED
HOLLAND RV CENTERS
HAS BEEN ACQUIRED BY
RV Retailer, LLC

January 24, 2022
$150 MILLION
FIRST FOUNDATION
SUBORDINATED NOTES

January 24, 2022
NOT DISCLOSED
PLUMBERS SUPPLY
HAS BEEN ACQUIRED BY
FERGUSON

January 25, 2022
NOT DISCLOSED
MapleMark BANK
HAS AGREED TO MERGE WITH
OAKWOOD BANK

January 31, 2022
$217.5 MILLION
curacao
SENIOR SECURED REVOLVING CREDIT FACILITY

January 31, 2022
NOT DISCLOSED
SISK AUTOMOTIVE GROUP
HAS BEEN ACQUIRED BY
White Family Dealerships

January 31, 2022
NOT DISCLOSED
Southern Bancorp
HAS AGREED TO ACQUIRE
PREMIER BANK OF ARKANSAS

February 24, 2022
$313.5 MILLION
Origin Bancorp, Inc.
HAS AGREED TO ACQUIRE
BT Holdings

March 2, 2022
$142 MILLION
FULTON FINANCIAL CORPORATION
HAS AGREED TO ACQUIRE
Prudential Bancorp, Inc.

March 3, 2022
NOT DISCLOSED
BELDEN
HAS ACQUIRED
NET MODULE

March 3, 2022
$150 MILLION
VERITEX COMMUNITY BANK
FOLLOW-ON OFFERING

March 14, 2022
$55 MILLION
ENCINA
PRIVATE PLACEMENT

March 14, 2022
NOT DISCLOSED
BUSKE LOGISTICS
HAS BEEN ACQUIRED BY
FOURSHORE PARTNERS

March 18, 2022
$50 MILLION
American National Bank & Trust
SUBORDINATED NOTES

March 18, 2022
$200 MILLION
Sandy Spring Bancorp
SUBORDINATED NOTES

March 24, 2022
NOT DISCLOSED
Cryptshare
has been acquired by
POINTSHARP
a portfolio company of
MAIN CAPITAL PARTNERS

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

Supply Chain Dynamics Fuel a Surge in Transportation & Logistics Deals

Michael Miller, Managing Director in Transportation & Logistics, explored how manufacturers, wholesalers, and retailers have addressed significant supply chain challenges from the global COVID-19 pandemic and higher customer demand for their problem-solving services. Within this backdrop, a healthy pace of mergers and acquisitions has occurred. Some companies have expanded market share, entered new markets, diversified services, or enhanced human / IT capital. Others have engaged in divestitures to free up assets and focus on core competencies. **Click here to read more.**

EV Battery Market: Soaring Nickel Prices, Russia Sanctions

Max Blandon, Managing Director in Clean Technology & Infrastructure, covered breaking trends in the electric vehicle battery market in March, after the price of nickel skyrocketed in response to the Russian invasion of Ukraine and a series of major sanctions. As long as nickel remains an essential component for achieving high-energy density in certain types of lithium-ion batteries, these X-factors may impact both battery and vehicle manufacturers. **Read the brief here.**

Healthcare IT: The Race to Empower Consumers & Support Practitioners

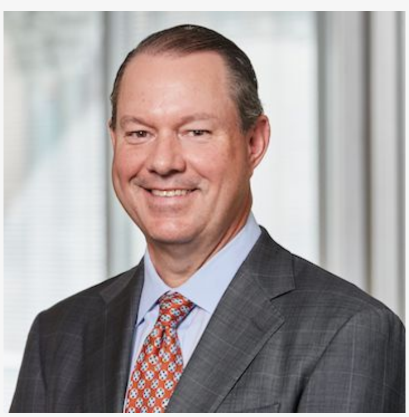
Doug Brockway, Managing Director in Healthcare IT, wrote about how developments in the space have been influencing capital raising and consolidation activity among a diverse spectrum of companies. Virtual care, direct-to-consumer (DTC), revenue cycle management (RCM), and post-acute care continue to see strong strategic and financial interest. Developments in provider-focused, payer-focused, and/or life sciences-focused software also may present opportunities for issuers and acquirers. **Click here to read the article.**

Anthony Donges Joins as Director in London for the Consumer Advisory Team

The firm announced in February that Anthony Donges joined Investment Banking as Director within the Consumer advisory practice in London. Mr. Donges has extensive Consumer M&A experience, and has worked with a broad client base of entrepreneurs, family-owned businesses, private equity and corporate clients. He joins the senior team at Stephens from KPMG, where he was a Director in the Consumer Goods and Retail team. Mr. Donges has worked in the industry for 13 years and recently has advised on notable transactions such as SportPursuit's investment by bd-capital as well as Mindful Chef's majority stake acquisition by Nestle. Stephens' Consumer practice has dedicated senior bankers across Little Rock, New York, London, and Frankfurt, and is active in all segments of the industry.

Anthony Donges
Director,
Consumer advisory in the UK
+44 20 3757 9875
Anthony.Donges@uk.stephens.com

Industry Event: Keith Behrens to Speak at Houston Energy Finance Group



"New Developments in PE and Mezz"

On Wednesday, May 18, Keith Behrens, Managing Director and Head of Energy & Clean Energy Transition at Stephens Investment Banking, will speak at Houston Energy Finance Group. He will address the current private equity and private debt landscape for oil and gas companies. Mr. Behrens has generated and led the execution of various M&A, public & private equity and senior & mezzanine debt transactions representing approximately 200 transactions and $47 billion in transaction volume. He also serves on the board of directors of the Dallas Petroleum Club.

About Houston Energy Finance Group

Houston Energy Finance Group ("HEFG") is a professional organization started in 2003 to foster education in all matters directly affecting the industry. Members are generally involved in upstream oil and gas whether domestic, international, or offshore.

Keith Behrens
Managing Director,
Head of Energy & Clean Energy Transition
(214) 258-2762
Keith.Behrens@stephens.com

Banker Perspectives: Consumer Sector

SECTOR-LEVEL VIEW

Consumer Products & Retail companies with strong brand recognition, health-conscious positioning, or pricing power remain poised to command premium valuations within the marketplace. Tight inventories and high per-vehicle margins have contributed to strong profits for auto dealers. U.S. food prices may rise significantly this year, due to pre-existing domestic inflation trends, elevated freight costs, avian influenza, and wheat import disruptions caused by Russia's invasion of Ukraine. And the omicron variant surge of COVID-19 had a meaningful but brief impact on the restaurant subsector compared with previous variants, as online delivery platforms invested in payments and marketing capabilities.

Consumer Products & Retail

Despite various headwinds to deal activity persisting or taking shape in the first quarter – including geopolitical instability, supply chain disruption, price inflation, labor shortage, and rising interest rates – companies with strong brand recognition, pricing power, and health-conscious positioning remain poised to command premium valuations within the marketplace. Buyers with strong balance sheets and/or dry powder plus a well-defined and actionable M&A strategy are best positioned to deliver accretive inorganic growth to stakeholders. First quarter also realized near-record debt capital markets activity as issuers raced to market prior to widely-anticipated rate hikes. Meanwhile, equity capital markets issuance softened in harmony with overall equity markets performance with a number of companies pausing or postponing planned IPOs, etc.

Dealerships

Tight inventories and high per-vehicle margins have contributed to strong profits for U.S. auto dealers. Supply chain and microchip shortages pushed prices for some lightly used cars above those of new cars. Meanwhile dealers continue to ramp up investment in the electric vehicle market and online purchasing capabilities for consumers. In 2011, the top 150 dealerships owned nearly 14% of U.S. franchised stores. Last year they owned nearly 23% of stores.

Food & Agribusiness

U.S. food prices may rise significantly this year due to pre-existing domestic inflation trends, elevated freight costs, avian influenza, and wheat import disruptions caused by Russia's invasion of Ukraine. Rising food costs are leading to increased frequency of meals at home for Americans, as value begins to dominate consumer spending mindset. Subsector activity remains strong with a significant number of deals announced or completed in the first quarter, especially in on-trend themes such as natural and organic protein, better-for-you snacks, ethnic flavors, and functional food ingredients.

Restaurants

The omicron variant surge of COVID-19 had a meaningful but relatively brief impact on the restaurant subsector compared with previous variants. Instead of widespread worker furloughs amid store closures, restaurants coped with temporary quarantine or sick leave waves that soon subsided. Job growth did slow in 1Q 2022 compared with the previous three quarters, but many workers who left one restaurant job seem to have found work at another rather than leave the industry. In addition to making COVID-era service options such as online delivery orders permanent, companies have been addressing inflation and supply chain issues by hiking prices, cutting menu items, and reducing portions.

Click here to return to Banker Perspectives Main Page

Sources: EY, Retail Dive, Bain & Company, Morningstar, Wall Street Journal, Automotive News, Lexology, American Farm Bureau Federation, CNBC, American Restaurant Association

Banker Perspectives: Energy & Clean Energy Transition

SECTOR-LEVEL VIEW

The price of WTI crude oil rose from $75.21 per barrel on Dec. 31 to $123.64 on March 8, and ended the first quarter at $100.28. This was largely due to ramifications of the Russian invasion of Ukraine, with the U.S. tapping the Strategic Petroleum Reserve after banning imports of Russian oil, liquefied natural gas, and coal. The conflict has put new emphasis on the strategic importance of renewable energy as an alternative to oil. As of April 1, the U.S. rig count stood at 673, up nearly 57% from a year earlier and up more than 14% from the start of 2022.

Acquisitions & Divestitures

Upstream A&D total deal volume for 1Q 2022 was more than 2x higher than the same period last year, and total deal value was more than 3x higher than in 1Q 2021. Total deal value and volume for the quarter also were higher than 4Q 2021 levels. Between April 1, 2021, and April 1, 2022, approximately a third of upstream deal activity occurred in the Permian region and more than half of all transactions involved small-cap companies. As of April 1, the U.S. rig count stood at 673, up nearly 57% from a year earlier and up more than 14% from the start of 2022.

Clean Technology & Infrastructure

The Russian invasion of Ukraine has put new emphasis on the strategic importance of renewable energy as an alternative to oil. Homeowners, businesses, and utilities are all recognizing the benefits of pairing solar energy systems with battery storage. Whereas in 2019, only 3.9% of solar energy systems were paired with battery storage, this year nearly 14% of systems are anticipated to pair and by 2025 pairing may reach nearly 24%. On the electric vehicle front, the total market size for lithium-ion batteries may increase fivefold between 2022 and 2030. The global energy storage market is growing rapidly. This year, annual investment in energy storage is estimated to reach $14 billion, up from $10 billion in 2021.

Exploration & Production

The number of E&P-focused IPOs increased slightly in 1Q 2022 compared with 1Q 2021, although IPO deal value was much lower in 1Q 2022 compared with 1Q 2021. M&A activity for the quarter increased somewhat in terms of both deal volume and value, compared with the same time period last year. This was influenced by the price of WTI crude oil rising from $75.21 per barrel on Dec. 31 to $123.64 on March 8, and ending the first quarter at $100.28. The overarching trigger was the Russian invasion of Ukraine, which prompted the U.S. to tap the Strategic Petroleum Reserve and ban imports of Russian oil, liquefied natural gas, and coal.

Midstream

Many energy companies in the Midstream space are reducing their capital expenditures this year compared with 2021, and will apply rigorous criteria to any potential expansion projects. However Midstream may see greater volumes of crude oil come in from West Texas and Western Canada this year.

Oilfield & Energy Infrastructure Services

While the total volume of IPOs in 1Q 2022 stayed nearly the same as 1Q 2021, the total value of IPOs in the quarter was more than 3x higher than the same period last year. For M&A, the first quarter of 2022 had lower total volume of transactions but the total value of transactions was more than 2x higher than the first quarter of 2021. Major OFS companies announced the suspension of new investments in Russian operations in response to the invasion of Ukraine and U.S. sanctions, while also advancing projects on clean energy, carbon storage, industrial asset management, and artificial intelligence solutions.

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Sources: Enervus, Baker Hughes, Solar Energy Industries Association, Wood Mackenzie, BloombergNEF, EY, St. Louis Federal Reserve, The White House, S&P Global Commodity Insights, Business Insider

Banker Perspectives: Diversified Industrials & Services

SECTOR-LEVEL VIEW

Supply chain disruptions, inflation, and labor shortages had moderate impacts on the Diversified Industrials & Services sector in the first quarter of 2022. Companies have been preparing to capitalize on recovery from the pandemic, stimulus from the federal Infrastructure Investment and Jobs Act, and digital transformation campaigns. Onshoring, service outsourcing, and infrastructure spend could contribute to deal activity for Specialty Distribution & Services companies. In Transportation & Logistics, the race is on to digitize the omnichannel customer experience through real-time access to data and automated workflows. And Russia's invasion of Ukraine has put renewed emphasis on Aerospace & Defense products.

Aerospace & Defense

U.S. air travel levels in 1Q 2022 were higher than any previous time during the pandemic, and air travel levels in March were only slightly below the pre-pandemic levels of March 2019. Russia's invasion of Ukraine has put renewed emphasis on Aerospace & Defense products. The U.S. is sending significant amounts of anti-tank and anti-aircraft weapons to Ukraine, as well as funding the shipment of satellite internet equipment there, while U.S. and Polish troops reportedly have held joint military exercises near the Ukrainian border.

Building Products, Construction Materials and Services

Supply chain disruptions, inflation, and labor shortages did have moderate impacts across the subsector in 1Q 2022. However demand for residential construction largely overcame those obstacles in the first quarter, in part due to low housing inventory and relatively low lending rates despite the Fed's change in monetary policy. First quarter new home starts soared over their January, February and March 2021 levels. Certain areas of commercial construction also are positioned for growth throughout 2022. These include new warehousing and distribution centers, as well as hotels undergoing renovations as business travel picks back up. PE firms eager to conduct M&A in the sector before borrowing costs rise may deploy considerable amounts of capital that went unspent during the pandemic.

Business & Industrial Services

In 1Q 2022, companies throughout the subsector have been preparing to capitalize on recovery from the pandemic, stimulus from the federal Infrastructure Investment and Jobs Act, and digital transformation campaigns. Adoption of cloud-based, Internet-of-Things (IOT) enabled mobile devices and equipment is pushing organizations to quickly gather, analyze, and respond to data that traditionally has been siloed in separate departments. By planning to foster reliable high-speed internet access for all Americans, the federal infrastructure package could accelerate this transformation. Meanwhile as workers, customers, and students return to stores, offices, factories, and schools, significant MRO and HVAC projects are needed to ensure onsite health, safety, and efficiency.

Infrastructure Services

The goal of more powerful and ubiquitous connectivity is driving intense investment in Infrastructure Services. Capacity needed to deploy 5G services, and increasing adoption of high-bandwidth technology such as cloud and telehealth platforms, call for enhancing network infrastructure. Greater investment in broadband for underserved and rural communities supported by government initiatives, including the Infrastructure Bill and Rural Digital Opportunity Fund that aims to close the Digital Divide, may drive further investment. In the more fragmented European market, there is still significant

Click here to return to Banker Perspectives Main Page

Sources: TSA, Department of Defense, Washington Post, Census Bureau, St. Louis Federal Reserve, Fortune, Colliers opportunity for consolidation. Across both continents, infrastructure funds and PE firms have been investing heavily in the space. Sustained consumer demand for stronger network capacity, speed, reliability, and security will be essential to capital raising and M&A activity as the demand on broadband and wireless infrastructure continues to grow.

Power & Industrial Technology

By the end of 2022, the global market for power generation, transmission, and distribution equipment is projected to reach nearly $540 billion, up 11.3% from last year as COVID-19 restrictions fade, and the market could reach nearly $800 billion by 2026. Within this market, transmission and distribution (T&D) continues to gain momentum as utilities focus on reliability while shifting to cleaner, often more distributed, sources of power. Traditional power sources such as coal, nuclear, and natural gas will continue to lose share to renewables, which play an increasingly more important role in the energy mix. Between 2016 and 2020, solar and wind accounted for more than half of capacity additions, a number that is expected to increase further between 2021 and 2025. In addition, an aging workforce with a continued wave of skilled labor retirements has utilities outsourcing a greater proportion of their operating expenditures. All of these trends may continue to drive significant momentum in the utility T&D equipment, software and services space for many years to come.

Specialty Distribution & Services

The pace of M&A slowed in 1Q 2022 from the brisk pace of 2021. Volume has begun to pick up and is expected to accelerate through the third quarter, partly due to a heavy industrial backlog emerging from a lull that started with the industrial downturn in mid-2019. However rising interest rate, inflation, and geopolitical risks suggest growing headwinds for M&A in 2023. In the meantime, valuations could remain at all-time highs. Appetite for cornerstone investments in the subsector has increased due to positive long-term secular trends such as onshoring, service outsourcing, and infrastructure spend. ESG has become a crucial factor in how strategic and financial buyers evaluate opportunities, and businesses have become more efficient with fewer resources.

Transportation & Logistics

The impact of omicron has been much milder than previous COVID-19 variants on Transportation & Logistics companies, many of which are still coping with labor shortages. In the first quarter of 2022, the war in Ukraine and inflationary pressures on consumer spending have been more immediate concerns for the subsector. Yet overall, Transportation & Logistics companies able to overcome supply chain and labor hurdles are expected to see increased profitability in 2022. Much focus remains on digitizing and automating aspects of the supply chain through real-time access to data and automated workflows. In 1Q 2022, private equity firms have acted as both acquirers and sellers of logistics companies, a trend that is poised to continue throughout the year.

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Sources: Report Linker, Edison Electric Institute, Center for Energy Workforce Development, Bain & Company, Boston Consulting Group, Oracle, Atlanta Business Chronicle, DC Velocity

SECTOR-LEVEL VIEW

Macro concerns about inflation and the potential for recession in the U.S. have largely been offset for depositories by a highly anticipated series of Federal Reserve interest rate hikes, the first of which since 2018 occurred in March. In both the U.S. and the UK, the widespread adoption of online investment services is prompting diversified financial services firms to consolidate with the goal of increasing digital capabilities and backend efficiencies. 2022 is shaping up to be a strong year across Specialty Finance with consumer loans and credit increasing during 1Q 2022, continuing trends that have prevailed since the first half of last year.

Diversified Financials

Last year's energetic pace of consolidation across wealth, asset management, and insurance companies has persisted throughout the first quarter of 2022. With over 5,000 registered investment advisor firms in the U.S. each managing under $1 billion in assets, M&A deal activity in the space may indeed accelerate this year. UK banks, insurers, and sponsors are all eager to acquire fee-based wealth management firms as consolidation platforms. On both sides of the Atlantic, the widespread adoption of online investment services is prompting diversified financial services firms to consolidate, with the goal of increasing digital capabilities and backend efficiencies. In insurance, both strategic and financial buyers have considerable capital to deploy at high valuations as carriers seek to expand their distribution.

Depository

Macro concerns about inflation and the potential for recession in the U.S. have largely been offset for depositories by a highly anticipated series of Federal Reserve interest rate hikes, the first of which since 2018 occurred in March. Optimism around higher rates and improving loan growth has been tempered by potential wage inflation and recession fears as the yield curve has flattened. Most banks should benefit from a rising rate environment and, therefore, find themselves well positioned to pursue acquisitions. The industry, meanwhile, could seek to improve their technology offerings through investment in predictive artificial intelligence that helps personalize customer needs for services such as mortgages, auto, and business loans. During 1Q 2022, several depositories pursued M&A deals to expand their footprints in strategic geographic hubs or metropolitan corridors, while others issued subordinated debt through either private placements or public offerings.

Specialty Finance

2022 is shaping up to be a strong year across Specialty Finance with consumer loans and credit increasing during 1Q 2022, continuing trends that have prevailed since the first half of last year. Specifically in vehicle finance, despite concerns about consumer affordability and credit normalization, originations are still expected to grow 10% year-over-year on a unit basis and even higher on a dollar basis due to elevated used car prices. On the capital markets front funding has become tighter across asset classes, having an impact not just with cost of funding but also with credit investors' willingness to buy loans and securitizations. This may impact those without steady funding but help those with strong liquidity and demonstrated capital markets access. Overall non-prime credit has largely normalized at this point and the focus will be on the outlook for credit over 2022, given a healthy employment environment counterbalanced by elevated inflation.

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Sources: RIA Channel, Reuters, Digital Insurance, CME FedWatch Tool, Wall Street Journal, Federal Reserve, Fitch Ratings

Banker Perspectives: Health & Life Sciences

SECTOR-LEVEL VIEW

Certain companies active in Healthcare Services are bracing for higher medical costs and rate pressures, but progress on a new federal $10 billion COVID-19 relief bill may provide tailwinds in the months ahead. A growing global ecosystem of collaboration among different companies is enabling new breakthroughs in areas such as artificial intelligence and machine learning software for medical device providers. Pharmaceutical companies have been partnering with biotechnology firms on various initiatives, including gene-editing. In the Healthcare IT subsector, 1Q 2022 set the pace for another strong year with $11.3 billion of total M&A deal volume over 130 announced transactions, an increase over the 120 announced in 4Q 2021.

Healthcare Services

Managed care organizations have been preparing for higher medical costs and rate pressures, as well as legislative and policy changes, but progress on a new federal $10 billion COVID-19 relief bill may provide tailwinds in the months ahead. Hospitals could face upward pressure on salaries and wages, somewhat offsetting signs of positive post-pandemic demographic trends and pent-up demand from Medicare patients. New home-based technologies and the relatively cost-effective nature of home health services may enable such companies to both achieve strong organic growth and conduct significant M&A transactions. Many hospice providers have been willing to pay high valuations for large acquisitions, and roll-ups of smaller hospice providers at attractive valuations could gain traction.

Healthcare IT

Following a record year of M&A deal activity in the Healthcare IT subsector, 1Q 2022 set the pace for another strong year with $11.3 billion of total M&A deal volume over 130 announced transactions, an increase over the 120 announced in 4Q 2021. Deal volume in 1Q 2022 was the second highest first quarter to date, surpassed only by the record 143 deals that were announced in 1Q 2021. Private investment in the sector remained consistent with previous record quarters. Virtual care, revenue cycle management, and post-acute care, among others, continue to see strong strategic and financial interest. This activity is poised to continue in 2022.

Life Sciences & Medical Devices

Sensor-based technologies, wearable medical devices, and advanced cloud-based data collection platforms from medtech providers are fast gaining traction. This is informing the development of engineering, treatment, and basic customer needs. A growing global ecosystem of collaboration among different companies also is enabling new breakthroughs in areas such as artificial intelligence and machine learning software for medical device providers. Pharmaceutical companies have been partnering with biotechnology firms on various initiatives, including gene-editing. This may lead to commercially successful smaller entities becoming acquisition targets for more established organizations. Cross-border activity is a common feature of deals announced so far this year.

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Sources: CNN, Congressional Budget Office, McKinsey & Company, Hospice News, S&P Capital IQ, 451 Research, Rock Health, Bessemer Venture Partners, Forbes, Federal Register, Deloitte

Banker Perspectives: Technology, Media & Telecom

SECTOR-LEVEL VIEW

Retailers are accelerating adoption of technologies to provide "Unified Commerce" software capabilities and to improve worker productivity and retention. Deal activity in the Financial Technology & Payments space this year may surpass 2021 levels, especially if certain high-profile companies go public in 2022. In Media, advertising-based video-on-demand viewers may surpass subscription-based video-on-demand viewers in 2022. Continued interest from private equity firms drove record levels of first quarter M&A and investment activity in Security Software. As the demand for vertical software accelerates in 2022, so is the potential for leading strategic and financial buyers to acquire newer entities that may augment their capabilities or expand their market reach.

Financial Technology & Payments

Deal activity in the fintech and payments space this year ultimately may surpass 2021 levels, especially if certain high-profile companies go public in 2022. Regardless, the pace of M&A is poised to stay strong for several reasons. Neobanks appear committed to standing out from traditional financial institutions through innovative fee structures and online capabilities. Buy-now-pay-later providers are seeking to capitalize on spending habits of younger and lower income consumers. Blockchain tech is going mainstream on everything from investments to payments. And online-only platforms have cultivated global customer bases.

Internet of Things

Retailers are accelerating adoption of technologies to provide "Unified Commerce" software capabilities and to improve worker productivity and retention. Unified Commerce software provides a single platform for e-commerce and traditional in-store sales leveraging a single view of all inventory—in the store, in the distribution center and at third party logistics facilities.

One of the most durable trends to emerge from the pandemic has been consumers' increased adoption of e-commerce including "buy online and pick up in store" (BOPIS), along with accepting in-store returns for any purchase including online purchases. Unified Commerce software platforms enable retailers to embrace this flexible consumer behavior, while also providing seamless API integrations across disparate third-party vendors and systems. In addition to adapting to changing consumer purchasing behavior, retailers are embracing software technology that addresses the tight labor market, enabling greater worker productivity and accountability and improving worker job satisfaction and retention.

Media

The avid demand for high-quality content to differentiate streaming media platforms continues, with transformative acquisitions, smaller production studio deals, and the acquisition of niche content. Major technology and media companies are seeking book, video game, and other franchises with pre-existing audiences. Advertising-based video-on-demand viewers may surpass subscription-based video-on-demand viewers as soon as 2022. The competitive distribution landscape has expanded beyond linear TV and VOD to include TikTok and other short-form video, social media, gaming, live streaming platforms, and the metaverse. Adtech deal volume grew by approximately 300% year-on-year in 2021. While private deal activity remains strong, many adtech IPOs and public company M&A deals are on backlog until valuations improve, perhaps as soon as late 2Q 2022. CTV/OTT, programmatic platforms, data & analytics firms, and digital performance marketing agencies will continue to lead market activity, as efficiencies and value propositions for these products expand. Many newer adtech players are aggressively adding market share and capabilities, increasing potential for further consolidation.

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Sources: Forbes, Payments Journal, PYMNTS.com, Reuters, Multichannel Merchant, U.S. News & World Report, Oracle, Hollywood Reporter, Fortune, Axios

Banker Perspectives: Technology, Media & Telecom

Healthcare IT

Following a record year of M&A deal activity in the Healthcare IT subsector, 1Q 2022 set the pace for another strong year with $11.3 billion of total M&A deal volume over 130 announced transactions, an increase over the 120 announced in 4Q 2021. Deal volume in 1Q 2022 was the second highest first quarter to date, surpassed only by the record 143 deals that were announced in 1Q 2021. Private investment in the sector remained consistent with previous record quarters. Virtual care, revenue cycle management, and post-acute care, among others, continue to see strong strategic and financial interest. This activity is poised to continue in 2022.

Security Software

Continued interest from private equity firms drove record levels of first quarter M&A and investment activity in Security Software. There were 50 announced deals and $8.6 billion of deal volume, which set the record for the number of first quarter deals and deal value. Private financings also set total deal value and volume records relative to past first quarter performances. In response to the ever evolving cyber threat landscape Capitol Hill passed "The Strengthening American Cybersecurity Act" on March 15. This act applies to companies in critical infrastructure sectors and establishes certain minimum reporting requirements such as descriptions of cyber incidents, descriptions of vulnerabilities exploited and security defenses in place at the time of an incident, and any identifying or contact information related to bad actors. The act makes for significant enforcement mechanisms and penalties for non-complying companies and lays the groundwork for increased demand within the Security Software sector.

Telecommunications

The goal of ever more powerful and ubiquitous connectivity is driving intense investment in the communications industry. Capacity needed to deploy 5G services, and increasing adoption of high-bandwidth technology such as cloud and telehealth platforms, call for enhancing network infrastructure. Greater investment in broadband for underserved and rural communities supported by government initiatives, including the Infrastructure Bill and Rural Digital Opportunity Fund that aims to close the Digital Divide, may drive further investment. In the more fragmented European market, there is still significant opportunity for consolidation. Across both continents, infrastructure funds and PE firms have been investing heavily in the space. Sustained consumer demand for stronger network capacity, speed, reliability, and security will be essential to capital raising and M&A activity as the demand on broadband and wireless infrastructure continues to grow.

Vertically Focused Software Applications

As the demand for vertical software accelerates in 2022, so is the potential for leading strategic and financial buyers in the space to acquire newer entities that may augment their capabilities or expand their market reach. The rapidly increasing need for organizations to gather and analyze industry-specific data, along with the proliferation of a digital-first omnichannel economy, is bringing vertical software-as-a-service (SaaS) platforms to sectors that traditionally have relied on horizontal tools. Many financial and healthcare companies have already made this transition. Significant opportunity now also exists for companies in sectors such as home building and supply chain management.

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Sources: Bessemer Venture Partners, Rock Health, S&P Capital IQ, 451 Research, JD Supra, Boston Consulting Group, ICR, Forbes

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