



'GREAT RESIGNATION' SPURS SPIKE IN M&A ACTIVITY

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Any analysis of the economic impacts of the COVID-19 pandemic and the period that followed would be certain to place the so-called "Great Resignation" at its center. The much-discussed phenomenon refers to the unusually high number of U.S. employees who left their jobs during the years 2020-2022. Many factors have been cited to explain the Great Resignation, including burnout, pandemic-related health and safety concerns, and a reevaluation of personal and professional priorities.

The time period in question also

overlapped with a high-water mark in the domestic mergers and acquisition (M&A) market, setting historical records for M&A transactions both by deal size and volume. According to a study by the Institute for Mergers, Acquisitions and Alliances, calendar year 2021 saw the closing of nearly 60,000 merger and acquisition transactions, with an aggregate purchase price of over \$5 trillion, both of which shattered previous records. But what, if anything, is the connection between the Great Resignation and the spike in M&A activity that followed, and

what does it portend for the future? Was this phenomenon an aberrant blip during an unprecedented time, or does it offer us any lessons of trends we can expect going forward?

To be sure, global macroeconomic conditions play a vital role in explaining the rise in M&A activity in 2020-22. Central banks around the world moved to lower interest rates to near-zero levels to buoy their economies during the pandemic. The lower prices to borrow offered strategic companies in acquisition mode and

financial investors unprecedented access to cheap capital that made it much easier to finance M&A transactions, leading to an increase in deal-making.

Likewise, the economic uncertainty caused by the pandemic led many companies to reassess their business models and strategies. Some companies found it difficult to operate in the new normal and some saw a decline in their business due to reduced demand. Mergers and acquisitions offered an opportunity for companies to reposition themselves in the market, diversify their offerings, and gain access to new markets and technologies.

But those economic fundamentals only explain half of the puzzle: the demand side. To understand the supply side, we need to talk about the Baby Boomers.

The Baby Boomers, the generation of Americans born between 1946 and 1964, had the dual fortunes of both being born during the mid-20th century baby boom that made it one of the largest generations in history and also coming of age during the historic post-war economic expansion. Known for their hatred of smartphones and love of The Beatles, the Baby Boomer generation enjoyed the greatest accumulation of wealth in American history, and its investment in private business ownership played a crucial role in that success story.

According to the U.S. Census Bureau, Boomers owned 2.34 million small businesses in the United States on the eve of the pandemic, employing more than 25 million people. Managing a business during COVID-19 proved to be an arduous ordeal for many business owners, who were forced to balance company productivity with employee health while reckoning with the new normal of Zoom meetings and remote work. As the pandemic dragged on, fatigue set in for many business owners who, left without a succession plan, decided it was time to sell. With the stock market at an all-time high and interest rates at historic lows, many Baby Boomer business owners took advantage of the opportunity to cash out under favorable market conditions.

The Baby Boomer phenomenon is by no means the sole cause of the M&A spike during the pandemic, nor is it even the only cause with a direct link to the Great Resignation. With so many employees leaving their jobs and unemployment rates receding throughout 2021, companies found it increasingly difficult to attract top talent through traditional recruiting efforts. By acquiring companies with talented employees, companies could bypass the recruiting process and bring in a group of experienced workers all at once. Acquiring talent

through M&A is not a new concept, as many companies have been using the strategy for years. However, during the Great Resignation, companies began to pursue M&A more aggressively as a way to acquire top talent. For some companies, acquisition became their primary method of adding workers.

According to research firm Mergermarket, after a collapse in the second quarter of 2020 (when the shelter-in-place order had just been implemented nationwide and uncertainty abounded), the M&A market saw a 33% increase in deal volume and a 140% increase in deal value in Q3 over Q2. The frenetic pace of M&A transactions continued well into 2021 and even the first half of 2022 before it finally crescendoed in Q3 and Q4 of 2022.

While some observers have seized upon the precipitous decline in M&A activity from 2020-21 levels to declare that the M&A market is in recession, the truth of the situation is more nuanced. There is no question that the market has receded from its 2021 apex (and with it, its historic valuations, multiples and deal prices) and there are good reasons for that. The macroeconomic conditions that made closing deals during the pandemic like running downhill have abated. Instead, once-in-a-generation inflation has caused widespread economic uncertainty. To make matters worse, rising interest rates have significantly increased the cost of capital needed to finance acquisitions. In addition, increased antitrust scrutiny from the Biden Justice Department has slowed (and in some cases, completely halted) a number of blockbuster transactions with deal prices in the tens of billions. The overall number of megadeals decreased, with only six \$25 billion-plus deals and thirty \$10 billion-plus deals announced in 2022, compared to 10 and 53, respectively, during 2021.

Still, there are many reasons to be optimistic about where the M&A market is headed, particularly for middle-market transactions that are less likely to be the subject of merger enforcement by the DOJ Antitrust Division. If one were to simply remove the two-year period between Summer 2020 to Summer 2022 from a graph of domestic M&A volume, what one would see would be most similar to a steady upward trajectory. According to the Harvard Law School Forum on Corporate Governance, 2022 ended with a total deal volume of \$3.6 trillion globally, down from the over \$5 trillion we saw in 2021 but in line with the \$3.5 trillion of volume in 2020 as well as with the trailing five-year average (excluding 2021). While M&A activity has clearly failed to con-

tinue at the historic, unsustainable rates of the pandemic, it has continued apace with pre-pandemic growth levels. In certain key sectors – technology, energy, business services and healthcare, to name a few examples – activity is burgeoning.

There are a number of factors that explain why the M&A bonanza has resumed even in the face of macroeconomic hurdles that are challenging, to say the least. Many well-positioned public companies now have balance sheets that are relatively strong compared to previous recessionary periods, which could help drive corporate acquisition activity despite an economic downturn. Similarly, private equity funds have continued raising massive amounts of cash from investors and find themselves with record amounts of uninvested capital to deploy. Both of these factors are likely to drive more M&A activity in 2023 and beyond despite turbulent debt financing markets.

But the most important factors may very well be those on the supply side that were at the heart of the 2021 M&A peak. While many Baby Boomers took the plunge and sold their businesses at the height of the market, a sizeable percentage held on to their companies and will be looking to close deals in the months and years to come. Similarly, while the labor market has normalized somewhat, unemployment has remained incredibly low, the hunger for top talent has prevailed, and talent acquisition via M&A continues to be a core corporate strategy.

According to a recent article in *Forbes*, the M&A forecast for the year ahead is split between two camps. Optimists expect the downturn in the global economy to be brief and shallow with a rapid acceleration in M&A activity as soon as Q2 of this year. The more pessimistic camp is predicting a longer, deeper recession that will delay the resurrection of the M&A boom until Q4 or even 2024. Either way, it is likely only a matter of time before M&A professionals find themselves buried in deal work yet again.



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