DealCloud Dealmaker Pulse Survey Shows Deal Activity Is Ready to Plateau

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- Nine out of 10 (89%) private equity firms closed deals in the past 6 months
- 89% also predict closing as many or more deals in the coming 6 months as they did in the previous 6 months
- 45% plan to raise their largest fund ever; 14% predict a larger fund than anticipated

Palo Alto, Calif., November 16, 2021 — The coming 6 months will bring increasingly stiff competition for more private equity deals at higher prices that demand larger fund sizes, going beyond the significant rebound that had been reported 6 months ago, according to the autumn 2021 edition of the DealCloud Dealmaker Pulse Survey Report released today by Intapp (NASDAQ: INTA), a leading provider of industry-specific, cloud-based software solutions that enable connected professional and financial services firms.

Among the 89% of private equity survey respondents who said their firms had closed deals in the past 6 months, the number of deals closed — 4.3 on average — is expected to remain the same in the coming 6 months (according to 51% of respondents) or move higher (38%).

Competition for deals appears to be plateauing. More than half of survey respondents (57%) expect the deal market to become more competitive in the next 6 months than it has been during the past year, though that fraction is significantly smaller than the 67% of respondents who responded similarly 6 months ago. Of those who predict an increase in competition, 42% said there are too many PE firms chasing too few quality deals and 49% feel pressure from limited partners to put cash in play.

“The industry has shown tremendous resilience through the pandemic” said Ben Harrison, President of Financial Services at Intapp. “Private equity firms have shown both the strategic clarity and agility to shift priorities, which will help them compete in the new normal.”

DIMINISHING GROWTH TRENDS

Nearing a possible saturation point, the deal market edged further upward. Key findings include:

- **The firms that reported having closed a deal in the last six months inched up 2% from spring to autumn 2021 (87% to 89%), a much lower rate than the 17% increase in the 6-month period between our autumn 2020 and spring 2021 survey.** Looking ahead, 75% of the respondents who said their firms had not completed a deal between the spring and autumn surveys do plan to close at least one deal in the coming 6 months.
- **Sixty percent of autumn survey respondents plan to prioritize new acquisition activity over roll-ups or working with portfolio companies to improve operations — down from 84% who planned to focus on new deals in spring.** In fact, 24% plan to make working with existing portfolio companies their top priority, compared to just 7% in the prior report.
- **Four in 10 dealmakers (40%) think valuations and pricing will be higher in the coming 6 months than they have been for the past 12 months**, though this is down from more than half of respondents who projected higher valuations in spring 2021.
- **Many bankers (52%) say their firms will take advantage of high pricing/valuations by selling companies earlier than ever before.** High prices also draw concerns; 39% of respondents worry about increased or overlooked risk and 36% about the speed of capital to market.
- **The combined effect of high valuations and competition for deals is pushing 27% of survey respondents to make larger acquisitions than their typical comfort zone.**

“Large, midsize, and boutique firms each face different headwinds as they react to the competitive market,” said Harrison. “Large firms are closing more deals and adding sectors to their portfolios — perhaps squeezing into others’ territory; midmarket firms refuse to invest in companies that could hurt their reputation; and boutiques may not feel pressed to change their sector focus but find themselves most likely to feel pressure from LPs to put capital in play.”

Boutique Firms
(Less than $500M AUM)

- Nearly 8 out of 10 (79%) surveyed have closed deals in the past 6 months
- These firms were least likely to feel pressure to change sector focus
- Roughly one-quarter (24%) are suspending fundraising plans or raising a smaller fund than they anticipated
- These firms are most likely to be taking heat from their LPs to put capital to play
- They’re also most likely to focus on portfolio company operations in the coming 6 months

Middle Market Firms
($500M to $9.999B AUM)

- Almost all (95%) surveyed have closed deals in the past 6 months
- Roughly 70% surveyed are raising their biggest fund to date, or are raising a larger fund than they anticipated
- Interestingly, these are also the firms that are most likely to say they don’t have talent challenges; Those that admitted to having talent struggles were most likely to cite recruiting outside talent as a main priority
- Middle market firms are least likely to make riskier investments compared to a year ago
- Just over half of middle market firms surveyed are likely to take advantage of valuations/pricing to sell

Large Firms
(More than $10B AUM)

- All (100%) surveyed have closed deals in the past 6 months
- These firms have closed twice the number of deals in the past 6 months compared with middle market and boutique firms
- They are least likely to be feeling pressure to change sectors, likely due to existing diversification
- 44% of large firms say that valuations and competition for deals are pushing them to make acquisitions that are larger than they are typically comfortable with

Several global trends are also affecting the private equity industry. Talent concerns have shifted significantly, with a growing number of respondents — 41% up from 30% 6 months ago — admitting that recruiting and hiring outside talent has become their greatest talent issue, and 16% of firms focusing on retaining existing talent, compared to just 6% in the spring.

Nearly all respondents (99%) view environmental, social, and corporate governance (ESG) as a factor that has either increased or retained the same level in importance during the previous 6 months, and 48% noted they would decline investments due to ESG concerns.

Harrison notes, “This edition of the Dealmaker Pulse Survey Report shows that overall expectations for acquiring new companies, hiring great talent, and achieving higher valuations have dampened a bit, but competition for assets will likely rise for most firms — and many are actively changing investment strategies as a result.”

The Autumn 2021 Dealmaker Pulse Survey Report is available at dealcloud.com/pulse.

The fourth semiannual survey was conducted during a 2-week period in October 2021 and reflects the anonymous responses of more than 150 private equity professionals.

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