Deals Sentiment Report

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AXIOS PRO

Introduction

Welcome to the Axios Pro: Deals Sentiment Report for 2022.

In a climate of intense private and public market uncertainty, Axios tapped our unique audience of dealmaking executives and decision makers to learn more about how they're thinking about the future.

> **Why it matters:** Many Axios Pro and Axios Pro Rata subscribers are at the forefront of the dealmaking world, with readers at leading firms like Emerson Collective, Warburg Pincus and Pacific Western Bank.

In this report, you'll learn more about how our readers are thinking about the future of deals, alongside granular analysis from our deeply sourced reporters who guide our subscribers through the dealmaking world every day.

> **The bottom line:** If you need to know where the deals market is headed, this Axios Pro report is made for you.

Learn more about Axios Pro by visiting AxiosPro.com.

Results & analysis

In August, hundreds of Axios readers who said they work in the dealmaking sector participated in a survey intended to gauge their sentiment around the deal market. Today, we're thrilled to share the results with you.

> **1 big thing:** Across all verticals, political and macroeconomic concerns dominate readers' worries about the challenges facing dealmaking in the months ahead, whether those deals be venture capital, private equity or initial public offerings.

> **The BFD:** In a striking result, readers across the entire deal spectrum universally expect lower valuations on every type of deal.

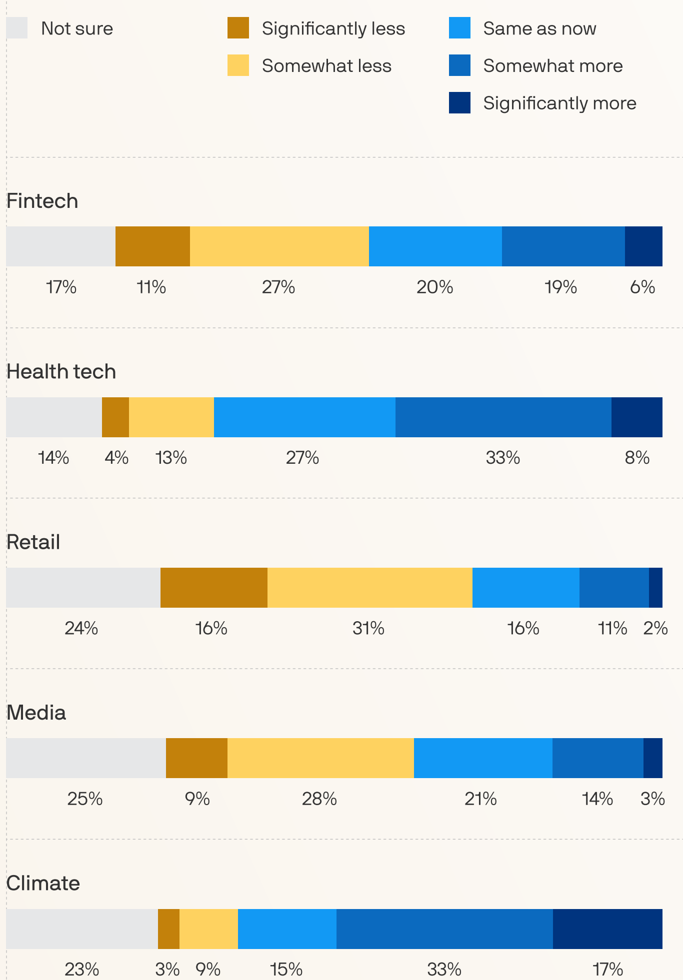
Between the lines

More than 60% of respondents expect more challenging times for all deals.

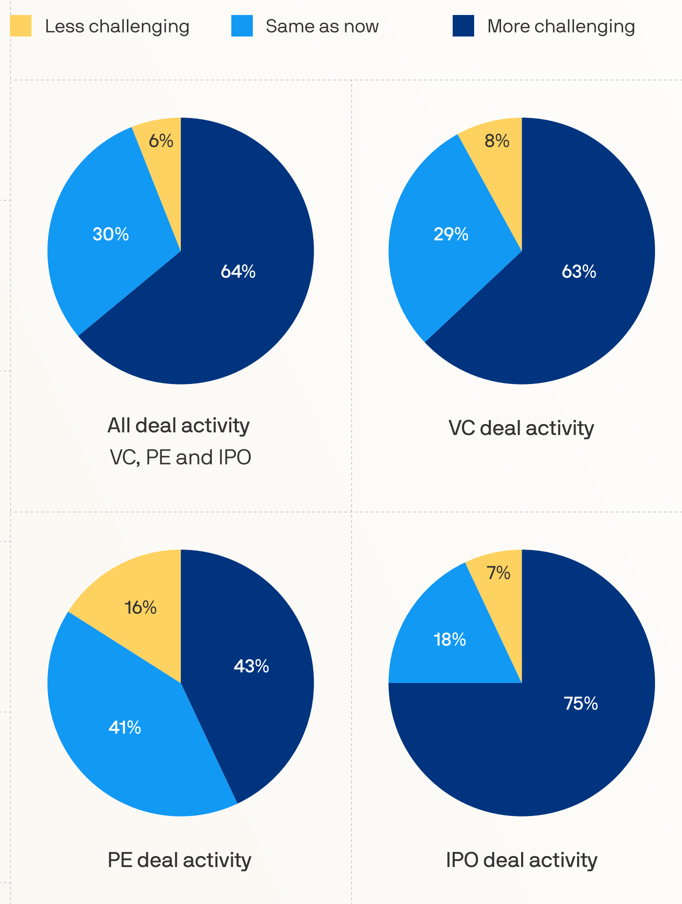
> Specifically, 62% for VC deals, 75% for IPOs and in a pass at optimism, 43% see more challenging times ahead for private equity.

> That separation for private equity indicates the reality that with the IPO door shut so tight, it likely represents the next best option.

Over the next 6 months, what are your expectations on the amount of deal activity for the following industries?



Over the next 6 months, what are your expectations on the following deal activities?



Results & analysis

Be smart

Private equity looks best of the lot, but a close eye must be kept on the lending market. With higher rates a reality, investors will monitor the stability of this market.

Yes, but...

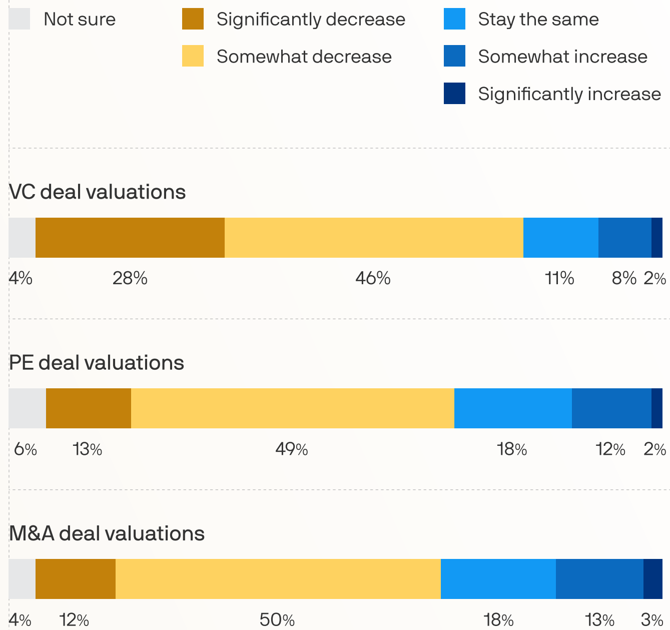
Climate deals stand out as a hold of optimism. 50% of readers expect to see somewhat or significantly more deal activity in the sector, and just 3% expect less deal activity.

> Health tech comes next at 41% expecting increased deal activity while expectations of increased deal activity for fintech, media and retail land at 25%, 17% and 13%, respectively.

State of play

Regardless of expectations, lower valuations are expected across the board, to the tune of 45% for venture capital, 48% for private equity and 49% for M&A valuations.

Over the next 6 months, what are your expectations on the following deal valuations?



Go deeper

The subsequent pages and charts offer more complete details from this survey.

Subscriber insights

What are the top 1 to 3 **opportunities** facing your market over the next six months?

Select market **opportunity** responses

> As the labor market gets less overheated, it's already getting easier for our technology portfolio companies to hire employees/execs and pressure on retention is easing somewhat.

> Increased global climate regulation. Increased awareness and spend.

> Opportunity for strategics to acquire once highly-valued emerging businesses which are now facing a cash crunch and must lower value expectations.

> 1. Significant dry powder that needs to be deployed.
>
> 2. A resiliency in climate tech due to excitement about things like the IRA.

> 1. Continued supply chain dislocation and resulting backlog is keeping pricing power high in B2B.
>
> 2. Public companies overreacting and underinvesting in inventory / people due to market reactions to the stock, etc. which creates opportunities for well capitalized businesses.

What are the top 1 to 3 **concerns** facing your market over the next six months?

Select market **concern** responses

> 1. Companies that raised at inappropriately high valuations and/or are inappropriately capitalized will suffer, churn customers, or be acquired — this will reshape market maps.
>
> 2. Health systems face rising costs and staffing challenges will be a difficult customer segment for tech and services to sell into.
>
> 3. Drug price reform on pharma and pharma tech/services ecosystem.

> 1. Softening consumer demand.
>
> 2. Rising costs of customer acquisition in online marketing channels due to algorithm changes by Apple and Meta.
>
> 3. Increased global economic uncertainty (Ukraine, China, Eurozone inflation) will make international acquirers more hesitant to participate in transactions. US does not find a soft landing with balance of interest rates and unemployment and expectations for inflation turn into a self-fulfilling prophecy. IPO market delays creates more competition for late stage VC/PE dollars and PE funds have to commit more money to existing deals vs. finding new deals.

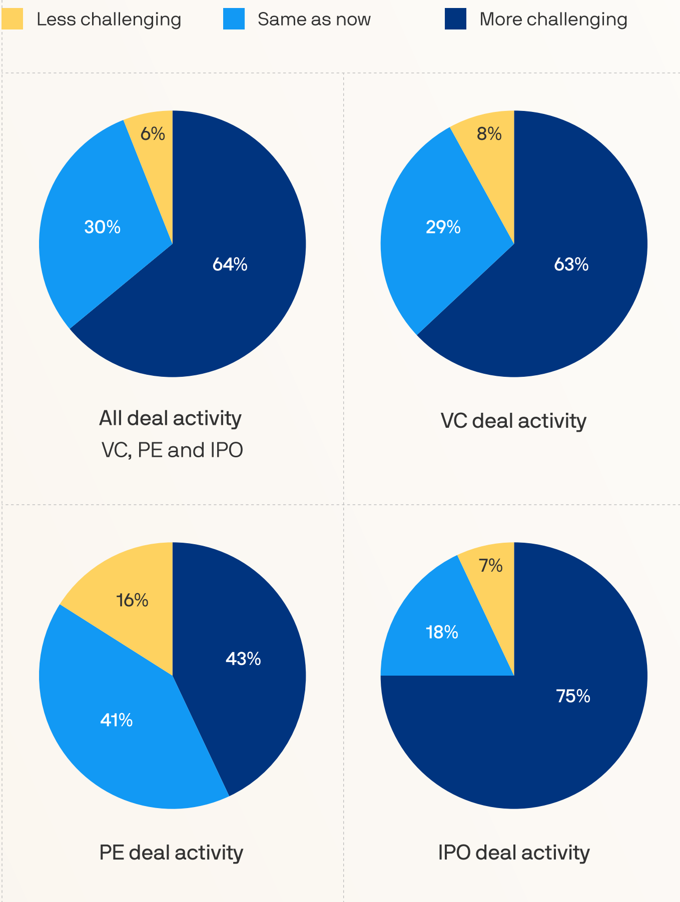
> Lack of LP and lender appetite for the consumer space.

> Valuation creep as a result of increased competition from the amount of dry powder raised in the past 12-18 months, particularly as we grapple with increasing rates and unstable supply and customer dynamics.

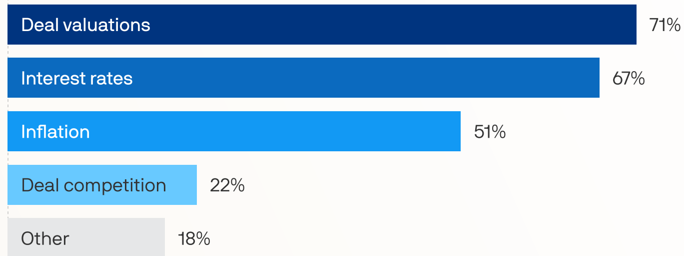
> Less availability of capital, bid ask spreads that take many months to close, fiscal and monetary policy that causes a longer and more severe recession.

Data & charts

Over the next 6 months, what are your expectations on the following deal activities?



If you've selected "more challenging" for one or more deal activities, which of the following factors drive those challenges?



Select "Other" responses

- Supply chain challenges at my company (strategic buyer)
- More companies staying private for longer
- Political uncertainty & potential black swan events
- Specifically an unwillingness to provide follow on capital to seed stage companies as PMF takes longer to materialize if inflation and other challenges reduce buying power

Thought bubble

Private equity still has plenty of capital to deploy and can breathe easier after basically dodging a bullet on carried interest last month.

> The syndicated financing markets are tight but not impossible, with direct lenders stepping up to lever deals.

> Public market volatility means a cadre of worse-for-wear, take-private candidates.

Data & charts

If you selected "less challenging" or "same as now" for one or more deal activities over the next 6 months, please explain why you chose your answer.

> Right now, disconnect exists between public / private markets and recent volatility has had lots of velocity, which I expect to slow in the coming months (so public to private gap will tighten, making deal activity easier).

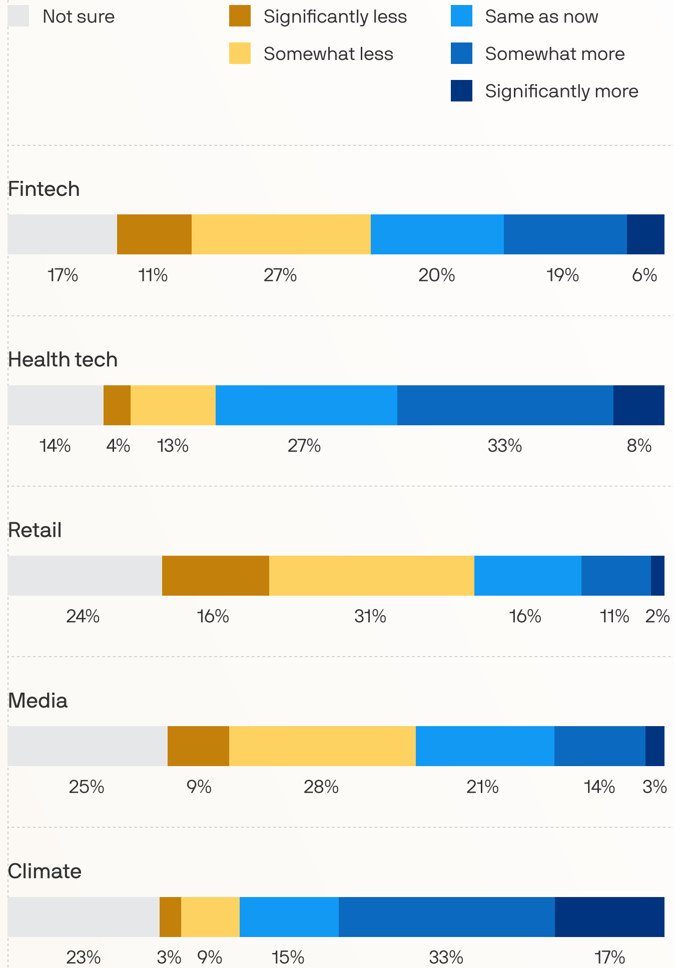
> As valuations come down, some PE opportunities will become more attractive.

> There is still a lot of dry powder. Innovation continues. Digital transformation and move to the cloud continues. Tech spend/budget remains intact for both revenue growth and expense reduction and efficiencies.

> Valuations are lower and less people are aggressively competing for deals, which makes for a less challenging environment.

> From the Investor perspective: valuations have come way down and it's a lot easier to get internal buy in for an investment for acquisition.

Over the next 6 months, what are your expectations on the amount of deal activity for the following industries?



Thought bubble

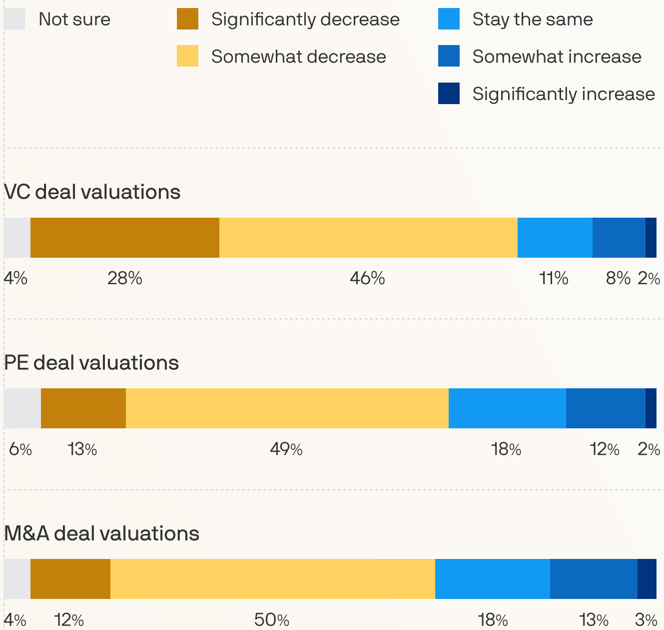
The climate tech deals sector is getting a significant assist from global policy initiatives combined with increased urgency to act from LPs and top dealmakers.

> The Inflation Reduction Act includes incentives for investment in technologies that have been limited to smaller pools of investment capital but require large upfront investments.

> Investors are also under increasing pressure from regulators and their LPs to act on emissions stemming from their portfolio companies, forcing many to evaluate climate-friendlier assets.

Data & charts

Over the next 6 months, what are your expectations on the following deal valuations?



What are the top 1 to 3 **opportunities** facing your market over the next six months?

Quick Take

- Decline in **competition** for deals
- Strong **companies** will pull ahead as weaker companies fall away
- Lower **valuations** overall
- Correction in **market** prices, with new market openings
- Opportunities resulting from a global focus on **climate**

What are the top 1 to 3 **concerns** facing your market over the next six months?

Quick Take

- Impacts of **inflation** not subsiding
- **Market** softening and reduced capital market activity
- Fears of a **recession**
- **Companies** have less access to capital and struggle to fundraise
- **Valuations** sink too low

Go deeper

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