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M&A roars back as pandemic wanes, St. Louis dealmakers report

By [Greg Edwards](#) – Reporter, St. Louis Business Journal

Mary Anne O'Connell, a mergers and acquisitions partner at Husch Blackwell, has been swamped after a year in which the pandemic slowed deals dramatically.

"M&A is so busy right now, that I barely have time to visit with you about it. That is the case for most of my corporate partners, as well," O'Connell told the Business Journal.

In the first quarter this year, St. Louis companies were involved in 57 transactions, with 23 companies selling and 34 buying, said [John Hull](#), managing director at [The Fortune Group](#), an M&A advisory firm that tracks deals here. That compares with 48 transaction in the fourth quarter of 2020 and an average of 39 deals per quarter for the full year. The average level of M&A activity in 2019, before the pandemic, was 53 deals per quarter.

"A comparison of these activity levels to those immediately before the onset of the pandemic suggests that St. Louis M&A has fully recovered from its bout with Covid," Hull said.

Chris Dalton, a managing partner at BKD CPAs & Advisors, said, "On a national scale, this is the most active M&A cycle I've been involved with and we expect the remainder of 2021 to continue at high levels." St. Louis mergers and acquisitions were 22% higher in the first quarter of 2021 than the second and third quarters of 2020 combined, according to BKD's count.

"Deals are red hot," said Kevin Short, managing partner and CEO of M&A advisory firm Clayton Capital Partners. "Competition for companies is fierce." Companies particularly in demand include information technology, consumer discretionary, consumer staples and industrials.

O'Connell said she has a half dozen deals at various stages right now, from recently signed letters of intent to near closing. "I reviewed as many letters of intent and indications of interest in the past four months as at any busy time in the past," she said

The deals, though happening, are not easy, with price a big sticking point. Valuations of companies are relatively high, "beyond the comfort level of most buyers," Short said. Because of that, potential buyers are engaging in a much higher level of due diligence. "If they are going to pay these much higher prices, they will want to know what they are getting," he said.



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The Fortune Group's John Hull said that St. Louis M&A has fully recovered from the pandemic.

"I am seeing more broken deals, where a buyer gets into the process, finds a problem of some sort and walks away because the parties cannot agree on an appropriate price adjustment," O'Connell said.

Short's tip to would-be sellers: "Quantify the effect Covid had on your business, good and bad. In addition, the buyer will not consider Paycheck Protection Program (PPP) injections into your business as a part of profit."

All the dealmakers agree the Biden administration tax proposals will boost M&A activity, at least in the short term.

"Given Biden's proposed increase on capital gains, transaction activity may further accelerate in the third and fourth quarters as sellers seek to complete transactions in advance of the anticipated tax hike," Hull said. "While promoting short-term activity, Biden's proposed tax plan could curtail M&A levels longer term."

Under Biden's plan, the capital gains rate would be eliminated, which would increase the tax rate on the gains from transactions from 20% to 39.7% for sellers with income above \$1 million, he said. Also, the plan currently increases the tax on private equity, which could suppress their return on capital and overall market valuations.

"Our advice is to sell sooner rather than later to avoid the coming tax changes," Short said.