

Expect strong M&A activity in 2021



By Daniel Officer, Managing Director at Sperry Mitchell

In high-school history class, many of us learned some variation of the aphorism “history has a tendency to repeat itself.” Over the history of M&A, nowhere is this observation more salient than with the oft-repeated “roll-up” strategy – the program of progressively acquiring and merging many companies in a fragmented market. The M&A world is addicted.

Roll-ups can be found in nearly every corner of the economy, from dentist offices, to consumer-product sellers on Amazon, to commercial service providers, and beyond. These strategies have long been pursued by major industry consolidators, but today are often and increasingly coordinated by private equity (PE) investors.

Despite significant prior consolidation, the industrial gas field has the potential to see an acceleration in roll-up efforts over the next few years, driven in part by a veritable

treasure-chest of private equity capital eyeing the industry.

Background: 2020 ended with one of the busiest fourth quarters for M&A in recent history, and 2021 is expected to be another vibrant year. Private equity firms are responsible for a significant share of the activity – PE-backed transactions represented over 42% of completed deals in 4Q 2020, according to PitchBook. It’s no surprise why – in recent years, PE firms have amassed a record ~\$1.5 trillion of ‘dry powder’ to acquire companies. There is tremendous pressure for these firms to do deals.

What this means: The combination of significant capital and competition in the PE system and a low interest rate environment is causing buyers to ‘pay up’ for acquisitions. These high valuations are prompting PE investors to turn to ‘tried and true’ methods to create value and earn a sufficient return

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on investment. ‘Roll-ups’ are one such well-tested strategy.

The fragmented industrial gas industry is ripe for PE interest. The newest PE-backed player is Meritus Gas Partners, a recently-formed platform sponsored by AEA Investors, one of the oldest firms in the private equity community. Additional PE-backed platforms are likely to emerge in due course.

Haven’t we seen this before? Consolidation is not a new theme. It is no secret that the majors



have grown via acquisition for decades, and many distributors are well aware of Tech Air's recent 28-company PE-backed acquisition spree prior to its 2019 sale to Airgas, an Air Liquide company.

Yet, after waves of consolidation, there continues to be hundreds of independent and often multi-generational gas distributors in the US. This fragmentation will continue to be a magnet for PE capital.

How does this impact

independents: More interest means more options. The majors are no longer the only viable buyers - mid-sized independents now have at least three viable transaction paths: (1) partner with a private equity firm to initiate an aggressive acquisition strategy, (2) partner with an existing PE roll-up, or (3) sell to a major.

Competition tends to produce better pricing and terms and greater optionality. It's a good time to be an independent seller.

What about timing? PE funds have more than sufficient capital to fuel M&A for the next few years. In 2021, there will likely be strong activity as certain independents seek to transact this year, ahead of potentially-forthcoming tax hikes over the Biden administration.

Over the intermediate term, if consolidation accelerates significantly with multiple big-money players, the trick for regional independents will be to decide whether it is more fruitful to sell or merge into a larger platform or to double down on an aggressive growth campaign to avoid being 'boxed out' of market position by a sharp-elbowed new consolidator.

Many multi-generational independents will have seen this movie before. The question is whether PE capital will flood the market at such a clip that this time the movie has an alternate ending.

With ~\$1.5 trillion of PE capital looking for a new home in the next few years, we will know soon enough. [gw](#)

ABOUT THE AUTHOR

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