

By: Mary Kathleen Flynn
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PE DEALS

Sperry, Mitchell's Beatrice Mitchell: "This is a seller's market"

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Beatrice Mitchell, Sperry, Mitchell

PE Hub's Outlook 2022 Q&A series with high-profile private equity professionals continues today with insights from Beatrice Mitchell, co-founder and managing director of Sperry, Mitchell & Co. Since its founding in 1986, the New York-based sell-side boutique investment bank has arranged more than 300 transactions across a wide spectrum of industries, including business services, consumer products, distribution & retail, healthcare, industrial products, packaging and telecom & technology. Mitchell also co-owns Percival Scientific, a manufacturer of biological incubators and plant growth chambers.

Will the dealmaking momentum continue in 2022?

Today's heated M&A activity is primarily driven by the abundance of private equity money in the market. The funding overhang is at a record level, and PE sponsors are projected to raise a record amount of fresh commitments in 2022. Too much money chasing too few deals. In addition, after a dramatic covid-induced pause in the spring/summer of 2020, the American economy has come roaring back. While some sectors are still experiencing hard times, many companies are growing and generating nice returns. Business owners understand that, given the huge buyer appetite, this is a seller's market. In addition, many owners of private companies have found the past year to be very stressful, and are simply ready to sell and move on. Every indication is that the party will continue into 2022.

Which sectors and types of companies are promising?

What is fascinating to me is that, by and large, the PE industry has morphed from an original focus on steady, asset-heavy companies to today's focus on quickly growing, asset-light businesses. In many ways, this evolution makes sense. Given the intense upward pressure on pricing, PE sponsors need to find ways to grow and improve their portfolio companies to generate appropriate returns. Asset-light service businesses, especially those with recurring revenue streams, generate plenty of free cash flow and are easier to scale. Ironically, this means that the best relative values in the current M&A market remain those slow, steady, asset-heavy manufacturing companies that were the original targets of the early institutional PE industry.

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What challenges do you see ahead? What keeps you up at night?

Everything keeps me up at night. I believe the best leaders are equal parts optimistic and paranoid, determined but worried. Historically, the two main threats to robust M&A markets are economic recessions and sharp increases in the cost of money. For 2022, I see a greater threat from rising interest rates than a dramatic downturn in the economy. Still, I have found in my 35 years in business that none of us has a clue what the future will bring. Long term, I think climate change will have a greater impact on our national political, economic and social life than most of us currently envision.

How will the hybrid work model affect deal origination and deal closings in 2022?

It took our industry a few months in the spring of 2020 to adapt to new ways of doing deals, but by the fall, we were back to dealing away, albeit in new settings and under new circumstances. As long as there are company buyers and company sellers, they will find imaginative ways to find each other and transact. Frankly, many of us have found that we are much more efficient by not traveling the way we did pre-covid. The real losers from this hybrid work model are those new in their careers: they crave the collaboration, collegiality and mentoring that can only truly be gained in person. And they need live interaction to cultivate their networks.

How will PE's increasing focus on ESG affect dealmaking?

We hear a lot about PE firms' incorporating ESG into their regular investment posture. However, in our experience, we rarely see ESG criteria driving interest in our deals or much diligence around ESG matters. Some PE firms have established internal ESG standards and protocols for portfolio companies, but we have yet to see ESG impacting interest in our deals.

What are you most looking forward to in 2022?

I was so looking forward to life returning to a post-covid world in 2022. But, it is now clear that may not happen any time soon. So, we will all simply have to press forward as best we can. What is clear from the last 18 months is that we cannot put our lives on hold for too long, and that we humans need personal interaction. My sense is that, in 2022, we will all figure out our own ways to getting back to "our normal lives."