Dear Clients, Partners, and Friends of ***martin****wolf* M&A Advisors,

Well, that didn't go exactly as I expected when I was writing last year's annual letter!

But by this point, enough ink has been spilled on 2020. I want to instead focus on going forward.

At the end of the day, businesses are valued on discounted future cash flow. Today, the S&P500 P/E ratio is over 37x vs 25x at the beginning of the year. Either prices will come down or earnings will go up. It's *highly unlikely* next year will be worse—so we think it's highly likely that earnings will increase rather than prices decreasing.

In this letter, I'll touch on a few key developments we've observed over the past twelve months that I expect to continue or accelerate. As always, it's an exciting time for our industry.

One major theme that's become clear is we have begun an economic decoupling with China. And while the complexity of the relationship means this will be a long-running process, I expect this trend to continue and accelerate post-Trump. China has become an increasingly present force on the global stage. Foreign investment such as the Belt and Road Initiative, once limited to developing economies, is now making inroads into Europe and even Australia. Technology and telecommunications led by Huawei and 5G are enticing long-skeptical traditional US allies. We have a major advantage—Chinese technology, built largely from espionage and duplication, isn't yet at our level. Yet. But the country's swift recovery from the economic impact of COVID-19, and the fact that its growth is not constrained by environmental, labor or human rights considerations, mean that we won't enjoy that advantage forever.

This will ripple throughout the global economy. China's lack of inhibitions is one of the reasons we've had so little inflation over the past several years. And an increasing technological sophistication will be very disruptive for our leading global technology companies like Microsoft, Qualcomm, Intel and Apple. They're clearly aware of this—Apple has notably explored iPhone manufacturing in Vietnam and India. But it will be a disruptive and expensive process for them and their large IT Services partners. Google and Facebook are already banned from China, so their challenge comes in the form of China's homegrown competitors. Expect further fragmentation among the global community into Western and Chinese-dominated ecosystems—which means duplication, and more expense.

Another major trend we've observed over the last year is the rise of a "Work from Home" / "Work from Anywhere" culture. Many workers are finding that they prefer loose work-from-home policies and their added flexibility. The secret for many businesses is that with Work and Home blending together, people are spending more time working rather than commuting or "leaving" the office. What this means for culture is yet to be seen, but the impairment to large office communities like New York City and San

Francisco is clear. This has implications for cities and central business districts, but also real estate, pension funds, unions and small mom-and-pop stores.

Just as businesses are required to look at the intangible assets on their balance sheets, cities are going to be suffering severe writedowns. And planners who think that things will quickly revert back to “normal” are going to be sadly mistaken. I expect growth to predominantly center around growing regional cities like Phoenix, Austin and Detroit. It’s the second inning of a nine-inning game. And Oracle’s announcement earlier this month that they were relocating their headquarters from Redwood City is a wake-up call for both Silicon Valley executives and their counterparts across the country. A final note on this point: cities looking to fill their 2020-sized budget gaps with new taxes on high-net-worth individuals and corporations will find a rapidly shrinking tax base—especially cities in New Jersey, New York, Illinois and California.

I’ve read at least one commentator suggest that we replace Ben Franklin on the $100 bill with Jerome Powell. He’s arguably done more for asset appreciation than almost anyone else in recent history, creating so much liquidity that risk assets and stocks look positively frothy. This creates strange conditions in the markets, and valuations today in certain sectors like space travel and electric vehicles seem completely disassociated with reality. And when IPO pricing is so mismatched with demand (see AirBnB, DoorDash), SPACs, which have historically been “go-public” schemes and yellow flags, are now increasingly seen as legitimate alternatives. Traditional investing has been turned on its head. Many of the companies now being traded are pre-revenue, pre-EBITDA, and market activity is highly speculative. It’s good while it lasts, but there’s no guarantee it will end well.

Vinyl, “mom jeans,” distributors—retro is back, and Ingram’s $7.2 billion acquisition by Platinum Equity this month marked the second major recent private equity investment in the channel after Tech Data’s acquisition by Apollo. This is a wholly different trend than the SPAC rush described above—private equity is smart money, and through diversification, expense management and other moves we expect these operators to bring residual benefits to both their platform companies and their partner networks.

Finally, I’m running out of time in the year here, so I’ll close out with my thoughts on today’s Best and “Worst” positioned companies, and a look ahead.

Let’s start with the negative (it is 2020). You can’t have a “Worst” list without IBM—I haven’t for the last 10+ years—but in perhaps the biggest 2020 twist, I’ll use this space to applaud IBM for taking one of the first positive advancements in years. By spinning off the company’s infrastructure services and doubling down on cloud, CEO Arvind Krishna is correctly focusing the company toward the future. And that’s a significant improvement from the usual.

On a (more) positive note, best positioned for 2021 is Microsoft. The company has strong applications, a significantly growing cloud business (Azure), a dominant position in Windows (which is declining in value over time), and an unparalleled partnership network. This last point is its single biggest advantage. While Amazon and Google need

to develop, Microsoft has proven over time that it can be a partner—and its continued investments and broadening services portfolio only enhance that partnership. Runners-up in Cloud are Amazon and Google. Together, the three businesses offer compelling value propositions and margin opportunities to their partners—a cut above current and aspiring alternatives.

Looking ahead, we expect a V-shaped recovery because of the vaccines and ongoing improvements in care. Expect a very difficult first quarter, but accelerated growth following. Accumulated net worth is off the charts, and in 2021 rather than spending money on improving home offices or home schools, businesses and people alike will be able to shift their focus to investing in technology. We will see a lot of M&A, and multiples will stay higher, not lower. If we learned one thing during the pandemic, it's that there continues to be a demand for quality assets.

One last point: 2020 was a year of change. Consider Apple and Disney as prime examples. Apple has historically been a hardware company, and its share price rose and fell on news of phone production. Disney has been more diversified, but each earnings report its share price inevitably dropped on ESPN subscriber losses. Today, thanks to investments in Disney+, Apple One, and other services, the businesses are getting rerated and becoming more valuable. What can you do to achieve the same?

As always, thank you to you—our clients, partners, and friends. We hope you have remained well and we're excited to together experience what next year will bring.

Happy Holidays, Happy New Year, and Happy Selling! See you in 2021!

Marty Wolf