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

I hope you all are having an enjoyable holiday season with family and friends.

It's been my tradition in this annual end-of-year letter to spend time reflecting on the past year, and to look forward to what the next year holds for us. We have plenty to consider on both fronts.

Despite headlines ranging from the "Great Resignation" to supply chain issues to billionaires in space, the defining theme of 2021 was economic recovery. Touted as a sign of the pandemic's economic defeat, the S&P 500, Dow Jones Industrial Average, and Nasdaq all closed at record highs in early November.

As I noted last year, COVID-19 provided an environment of accumulated net worth matched with a consistent demand for quality assets. The result was a record-breaking year for global M&A as totals jumped 63 percent to $5.63 trillion, far outpacing 2007's record of $4.42 trillion. Deal volumes in the United States nearly doubled to $2.61 trillion. We saw blockbuster deals, record levels of private equity buyouts and increasingly higher multiples.

It was also a banner year for us at ***martin****wolf*, and we have our clients, partners, and friends to thank.

Our Year

In January of 2021 we acquired ITX, a leader in facilitating smaller mid-market IT M&A transactions. Our two businesses proved to be a powerful combination, closing nearly 20 transactions in 2021.

- ITX closed 11 total deals in the Microsoft, MSP, MSSP, Oracle, Salesforce and ServiceNow spaces. ITX's average transaction value for 2021 deals was $9 million.
- ***martin****wolf* closed eight transactions, including one finalized in December 2020. Our firm was fortunate to work with some incredibly respected firms such as 3RP, Ascend Technologies, Convergence Networks, Grade A, Metafile, Promevo, Quantiq, RSM and Vicom.

Trends We Anticipated in 2021

Other than my previously noted expectation of increased levels of M&A activity in 2021, I want to follow up on a couple of my key points from last year's annual letter.

- We saw continued economic decoupling with China as the Xi Jinping-led government's focus remains on economic control rather than growth. Further fragmentation among the global community into Western and Chinese-dominated ecosystems means duplication, and more expense. According to the U.S. Chamber of Commerce,

  > *"In the investment channel, if decoupling leads to the sale of half of the U.S. foreign direct investment (FDI) stock in China, U.S. investors would lose $25*

billion per year in capital gains, and models point to one-time GDP losses of up to $500 billion. Reduced FDI from China to the U.S. would add to the costs and—by flowing elsewhere instead—likely benefit U.S. competitors."

- Another trend we all witnessed, and continue to witness, is "Work from Home/ Work from Anywhere" culture. The effect of this trend is two-fold, drawing reactions from employees and companies. Office attendance in 2021 was down over 60% compared to a usual year as employees continue to embrace the opportunity to work remotely. Secondly, we will keep seeing companies move to places like Austin, Detroit, Miami and Phoenix as they seek more favorable business conditions compared to traditional large office communities like New York City and San Francisco. For example, Tesla joined Oracle and Hewlett-Packard by moving its headquarters out of California in favor of Texas while well-known Silicon Valley companies like Twitter, Yelp, Airbnb and Dropbox have all investigated subleasing their San Francisco office space.

Big Deals & Big Winners

Big deals and mergers were a defining part of 2021 in the IT space. I want to call out two deals that will prove to be channel-altering.

- First, CDW's acquisition of Sirius Computer Solutions will cause ripple effects in the channel. Based on CDW's track record integration, this transaction will give the already dominant company solutions, product, service, enterprise, data centers and workspace.
- The SYNNEX/Tech Data merger is a brilliant deal that creates leverage for both. We consider SYNNEX to be the most innovative in the space as shown by this deal and 2020's spin-off of Concentrix. The company has a good track record of anticipating market needs and growing its business.

This year I'm adding CDW to my list of winners and continuing to praise Microsoft.

- CDW is the leader in the large integrator space, which is a space that will be dominated by five or six real "survivors" on a global scale. All integrators will be fighting to be a part the group of survivors.
- Microsoft continues to be the best positioned channel company because of its historical relationship with the channel. The channel partners have very valuable customer relationships, and Microsoft applications like Azure and Windows remain industry leaders. Microsoft's market performance reflects belief in the company as its year-to-date growth (53%) more than doubles that of the Nasdaq Composite Index (22.5%).

Looking to 2022

Now that we've reflected backward and highlighted some accomplishments, let's take a look ahead at several landscape-changing issues.

- Inflation is a real problem, and will continue impacting both the economy as a whole and valuations specifically. As a result, we will see more aggressive tapering and rate

increases in 2022. Buyers and sellers take note: with increasing rates come lower multiples. Still, it's too early to tell whether we will see "Stagflation" as some economists have predicted. We will have to wait and see what the Fed will do next as it's clear that interest rates are going to increase in 2022. The central bank said it will wrap up its stimulus program faster than originally announced, and the only thing that remains unclear is the trajectory of the interest rate increases.

- Many of today's business leaders have never experienced these levels of inflation. While inflation is disproportionately a tax on the poor, it is also a heavy burden on growth companies. So, bottom line: liquidity will be less, interest rates will be higher, and transaction multiples will be lower.

- This past year we have had too many IPOs, too many SPACS, and too many securities have been brought to the marketplace that were subpar. As a result, there are many businesses that don't generate revenue and do not have earnings—meaning their securities have no floor. At the end of the day, the value of a company is the supply and demand for its security. Without actual revenue and earnings, these securities will eventually have no demand.

- I expect deal-making to continue to be very active in 2022, although the current administration will likely influence where that activity occurs. Historically, this administration has not approved—or in some cases actively discouraged—large, horizontal transactions, even when those deals were not widely considered to be anticompetitive. This means that consolidation, which by definition is vertical, won't even be attempted.

- Limiting large deals will not be good for the US economy as it hinders our country's ability to compete with "national champion" companies like Yoplait in France or Huawei in China. Consolidation is not necessarily anticompetitive and does not always result in negative pricing issues for the consumer as many fear. Consider the following:

  - In 2019 the Sprint/T-Mobile Merger would have given the US three champion providers in the race to build 5G networks. The transaction eventually closed in 2020, and thus far has had a positive affect on customers via several new offerings without raising prices. You'll recall that I was quoted in "Fortune" supporting the merger, despite states filing lawsuits to block it:

    "Verizon and AT&T can finance a 5G rollout, but it's not clear that these two companies can on their own," said Martin Wolf, president of ***martin****wolf M&A Advisors, an IT merger and acquisition consultancy. "And from a competitive perspective, I'd rather have three 5G providers than two, especially considering the US is behind the rest of the world in 5G. The principal beneficiaries of a successful, cost-effective roll out are the under-served, the poor, the old and the rural."*

- I cannot finish this letter without addressing COVID-19 and our future with the virus. While transmission is still happening, we have to work. Unless we commit an unforced error, we are going to learn to live and work with the virus. States like Colorado and Arizona have provided us with roadmaps to balancing health and productivity. This week, the CDC reduced the amount of time it recommends people should isolate after testing positive for COVID-19, from 10 days to five. Health officials also reduced the amount of time one should quarantine after coming into contact with someone who tests positive. This is significant economically as it allows US workers to return sooner to jobs that cannot be done remotely.

- We will not only be working in a hybrid cloud environment, but we are also going to live in a hybrid work environment. This presents a lot of opportunity for the IT industry as telecommuting becomes standard. There will be increased duplication and a greater need for security as "WFH" professionals voice their desire to continue working remotely for the long term.

And Finally, A Big Thanks

Now that we have come to the end of the letter, we arrive at the most important part. I thank you all for the role that you have played in our success. As we commemorate our firm's 25th anniversary in 2022, it's clear we would not be where we are today without our clients, partners, global network of buyers, friends of our firm, and loving family members.

Happy Holidays, Happy New Year, and, as always, Happy Selling!

Sincerely,

Marty Wolf