



Capital Markets & M&A Outlook Post COVID-19

PRESENTED BY:

FRANK PINA, CPA & LEE D. BOSS, CPA, MBA, MANAGING
DIRECTORS, MERCADIEN

VALENTINA MIDURA, SENIOR MANAGING DIRECTOR,
BDO CAPITAL ADVISORS

June 4, 2020



Exit Planning – A Practical Approach

- **Understand the needs & objectives of the business owner**
 - Assess existing and required assets in retirement
 - Determine the vision of the Company without the business owner
 - Determine the vision of the business owner without the Company
- **Understand the strategic position & outlook of the Company**
 - SWOT, market analysis, financial projections
- **Evaluate exit options**
 - Internal succession – interested and capable insiders, deal economics
 - External sale – suitable counterparty, deal economics
 - Wait-and-see approach – continue to build
- **Decide on path forward and work the plan**



Succession Planning – COVID-19 Realities

- **Understand the needs & objectives of the business owner**
 - Market decline, financial/business losses & depressed valuations impacting net worth – may extend retirement date, sacrifice of deal value or reevaluate internal vs. external succession path
 - Objective(s) of the business owner likely has evolved due to new realities
- **Understand the strategic position & outlook of the Company**
 - What does this look like post COVID 19?
 - What changes and investments will be required to adapt?
 - How does this impact the exit planning decision?

Succession Planning – COVID-19 Realities *(cont'd.)*

- **Evaluate exit options**

- Business valuations likely lower, more uncertainty
- Internal succession
 - Buyer interest & capability
 - Investments required to succeed
- External succession
 - Likely a decline in demand & deal economics

- **Decide on a path forward & work the plan**

- Focus of time working “in” the business vs. working “on” the business

Capital Markets

Capital Markets: COVID-19 Impact



EQUITIES

- ▶ Dramatic sell-off March; April Recovery
- ▶ Unprecedented volatility
- ▶ Earnings guidance withdrawn
- ▶ Hardest hit industries still down 40%+ from highs



DEBT

- ▶ Impact not seen since 2008/09
- ▶ Rush to fully draw on revolvers
- ▶ Senior debt market frozen for new deals / M&A



NEW ISSUANCE

- ▶ IPO market dormant; Biopharma exception
- ▶ Debt issuance at record levels
- ▶ Pricing of most debt instruments 200 to 300 bps higher than Pre-COVID

Capital Markets: Evolving Sentiment



EQUITIES

- ▶ Trade on health news / expectations of economic recovery, new vaccines
- ▶ Fundamentals take a back seat - valuations are incongruent with economic recession
- ▶ Volatility the new norm



DEBT

- ▶ Actively flowing for existing borrowers; large cap
- ▶ Fed support is key - CARES Act, incentives and tax credits plus debt forgiveness



NEW ISSUANCE

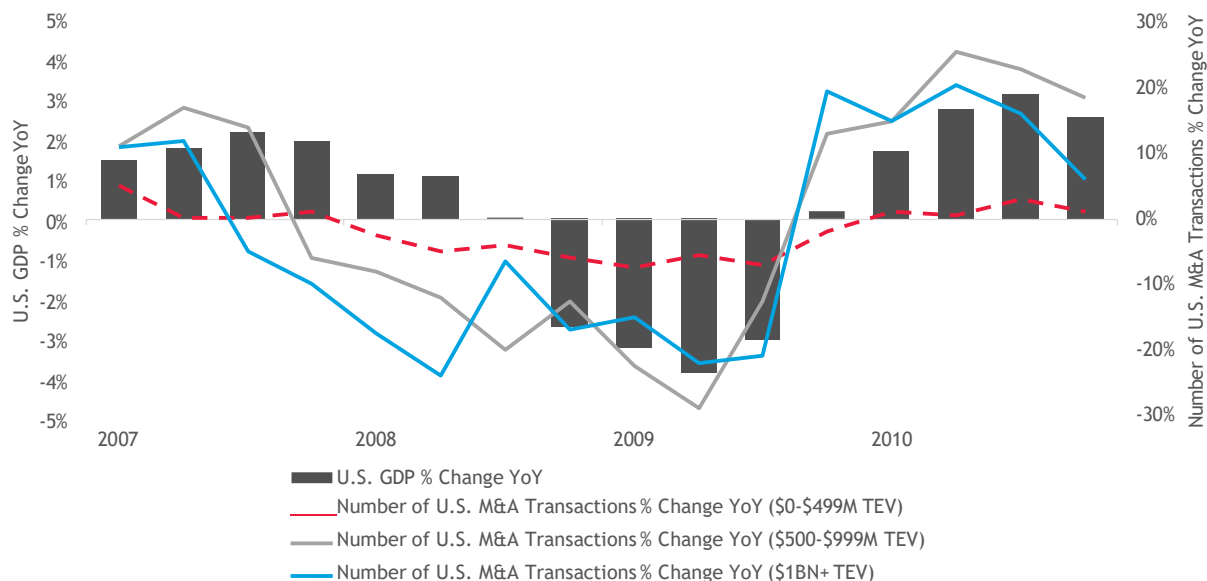
- ▶ Seismic shift in leverage from issuers to lenders
- ▶ Ratings changes
- ▶ Yield over price appreciation

Sell-Side M&A

M&A Market: Past Economic Dislocations Inform Our View on the Impact of COVID-19

- ▶ Historical data supports direct correlation between GDP volumes and M&A activity across all deal segments
- ▶ During the GFC transactions included spin-offs, distressed assets, smaller-tuck-ins, and asset-based loans
- ▶ Lower volatility in the small to mid-sized end of M&A market during economic disruptions
- ▶ Recovery for all segments was prevalent once there was widely available liquidity, improving macro conditions and compelling valuations

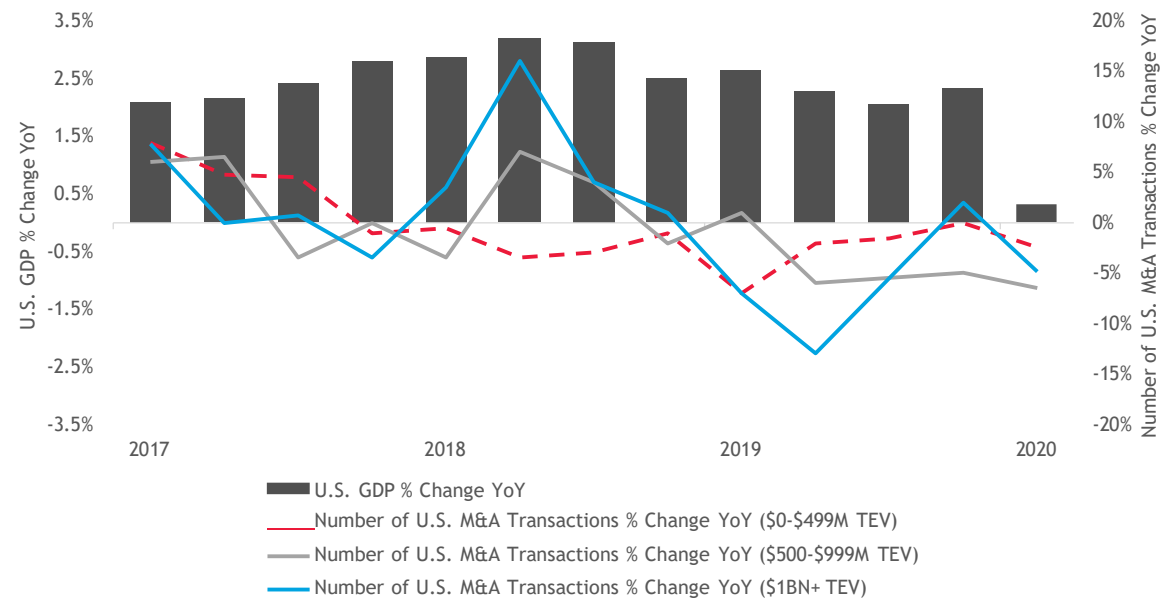
2007 - 2010 Real GDP Growth vs. M&A Deal Activity



M&A Market: Past Economic Dislocations Inform Our View on the Impact of COVID-19

- ▶ Regardless of the shape of the current recession (V or U-shaped) COVID-19 will impact GDP for balance of 2020 and M&A volumes will correlate with these impacts
- ▶ During prior economic disruptions, M&A volume had already abated, driven by late-cycle market dynamics - M&A has been on a decline since 2017 portending a faster recovery following this recession
- ▶ Prior to COVID-19, the economy was solid, unemployment was at historical lows, minimal inflation, progress in global trade issues, solid banking infrastructure

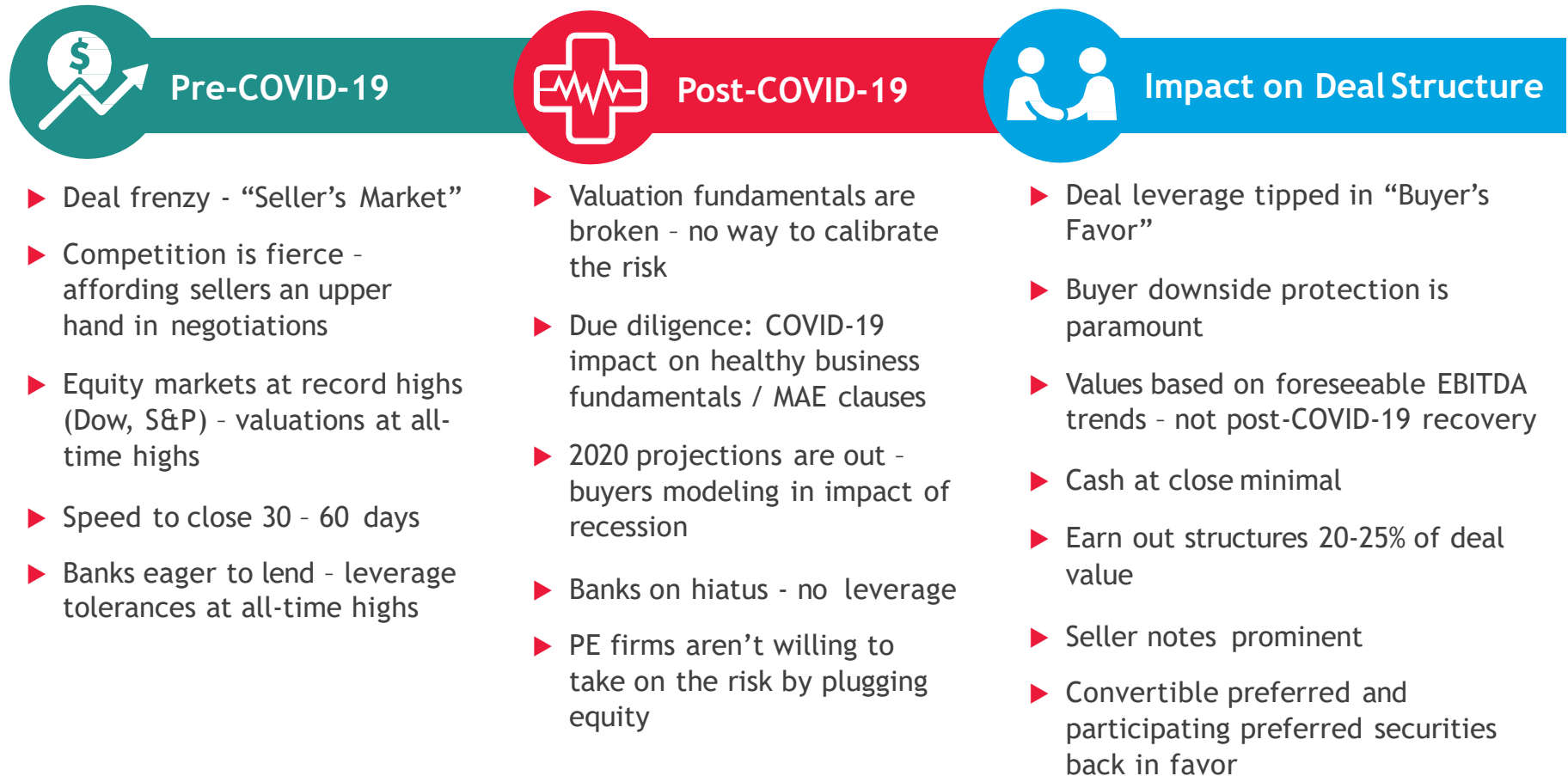
2017 - Q1 2020 Real GDP Growth vs. M&A Deal Activity



M&A Market: Sell-Side Process Upheaval

ENGAGED NOT LAUNCHED	LAUNCHED	LATE STAGE DEALS
<ul style="list-style-type: none">▶ Preparations continue albeit slowly▶ Monitoring impact on clients, end markets and supply chains▶ Re-pricing▶ Debating launch timing▶ Wait-and-see	<ul style="list-style-type: none">▶ Hiatus, pause, on-hold▶ Moving forward but timing is extended▶ Travel restrictions impeding progress▶ Pulling deals in certain sectors susceptible to top line impact	<ul style="list-style-type: none">▶ Closed (early on)▶ MAE / MAC / Withdrawn▶ Financing pulled or dead stop▶ Deep dive of immediate impact▶ Restructuring of deal terms introduced

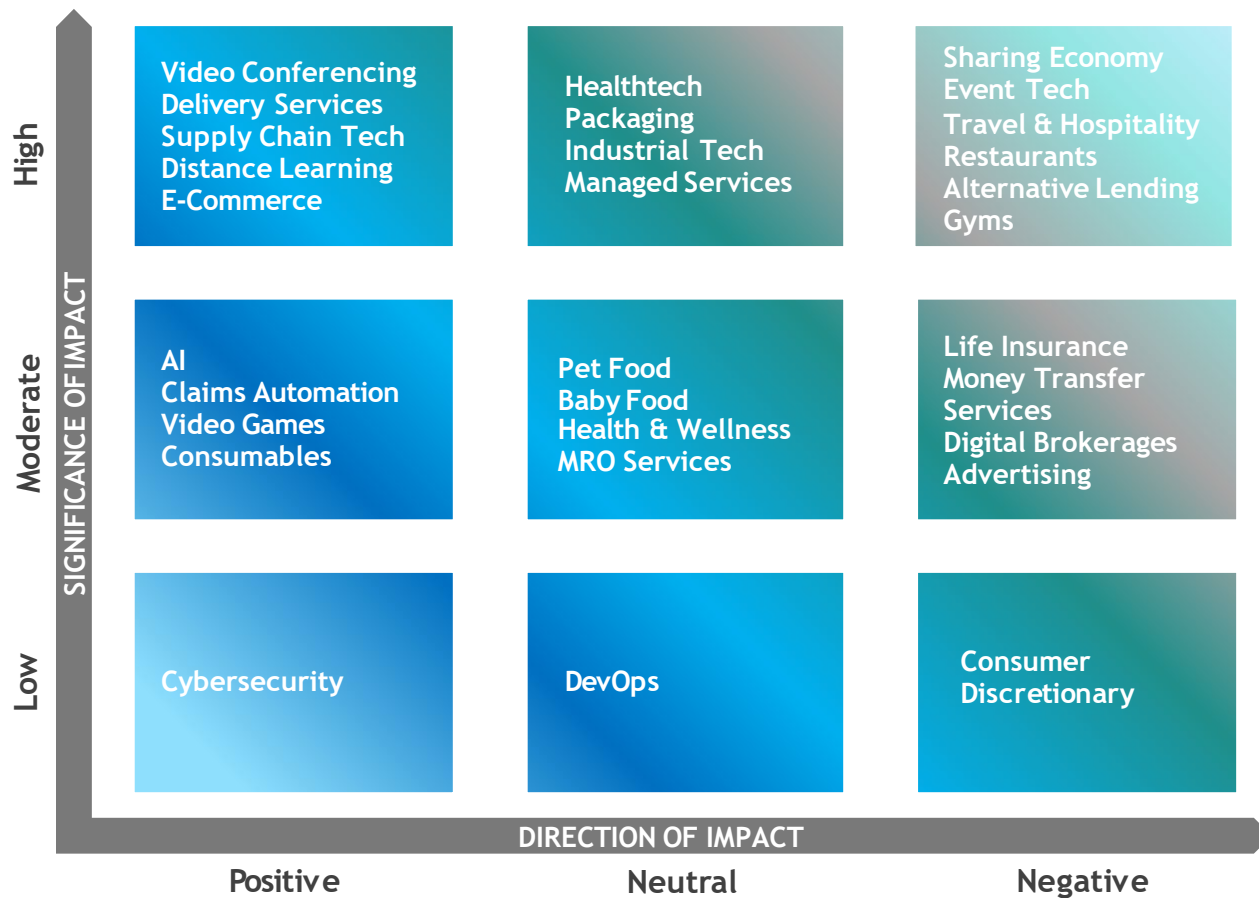
M&A Market: A Deal Environment in Transition



M&A Market: Liquidity Drives Dealmaking

- ▶ Businesses with liquidity needs:
 - Spinoffs, distressed sales, minority investments, structured transactions
- ▶ Highly strategic deals: rationale outweighs economic conditions
 - Deals that drive revenue and cost synergies, complementary tuck-ins or offer mission critical needs
- ▶ Consolidation of weak players:
 - Mergers may provide relief from forced bankruptcies or fire sales
- ▶ Long-term secular trends prevail:
 - Investor demand for segments experiencing secular growth will continue

M&A Market: Winners & Losers Post-COVID-19



M&A Market: Preparing For a Sale Post COVID-19

- Review your strategic plans:
 - Determine your sale timeframe and begin preparing the company for sale
 - Perform an industry segment analysis (impact of COVID-19) on growth prospects
- Build a narrative around business performance outside the pandemic:
 - long-term growth prospects for your business within your industry
 - impact of the virus on those prospects
 - likelihood of immediate visibility on normalized business performance
- Track performance metrics and KPIs
 - Shift focus from cash to metric-centric approach
 - Interim data points to extrapolate in the near term
- Perform complete analysis of the company's supply chain and impact of disruption
 - Buyers will take a forensic approach to due diligence
 - Impact on working capital

M&A Market: Key Takeaways

- ▶ COVID-19 impact on M&A volumes will mirror the impact on GDP
- ▶ Unlike the GFC, prior to COVID-19 the economy was on solid footing - can a resurgence in M&A follow this market interruption?
- ▶ Liquidity needs will drive most deal activity in the near-term (spinoffs, distressed sales, structured deals)
- ▶ Valuations can't be defined without a clear sense of sustainable EBITDA and some level of confidence in projections post COVID-19
- ▶ Deal landscape has shifted in favor of buyers - convertible security structures, contingent consideration and seller financing are now the norm
- ▶ Supply chains are being reevaluated in every industry
- ▶ Market rebound will be sector specific: telemedicine, cloud computing, security software, e-commerce services and managed services continue to perform
- ▶ Preparation coming out of COVID-19 is key. Businesses need to build a narrative and be prepared to take advantage of the market rebound.

The valuation of a business is a function of its EBITDA, its growth prospects and an appropriate risk-adjusted rate of return.

- ▶ Calibrating risk is essential to valuing a business and right now you can't calibrate the risk.

There is no precedent for COVID-19.

- ▶ We can't predict its impact on the economy or M&A, or time a market recovery.
- ▶ Being prepared is the best defense.

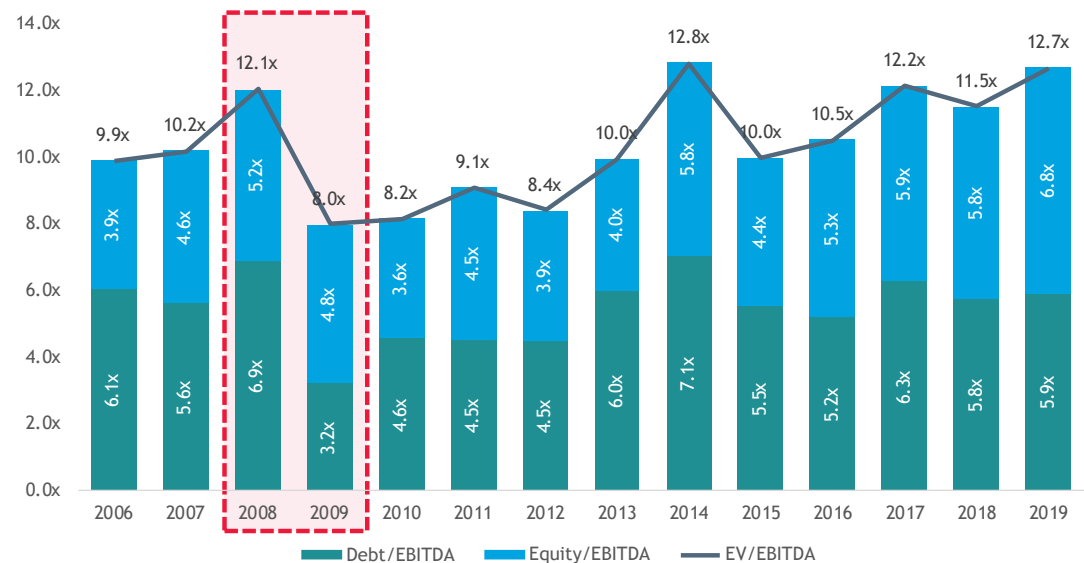
Buy-Side M&A

Buy-Side M&A: Valuation

Key Takeaways

- ▶ Valuation is highly cyclical, creating opportunities for disciplined buyers
- ▶ Median EV/EBITDA multiple fell 34% from 12.1x to 8.0x from 2008 to 2009
- ▶ Debt multiples contracted from north of 6x to 3x
- ▶ Multiples did not return to pre-downturn levels until 2014 (five years later)

M&A EBITDA Multiples

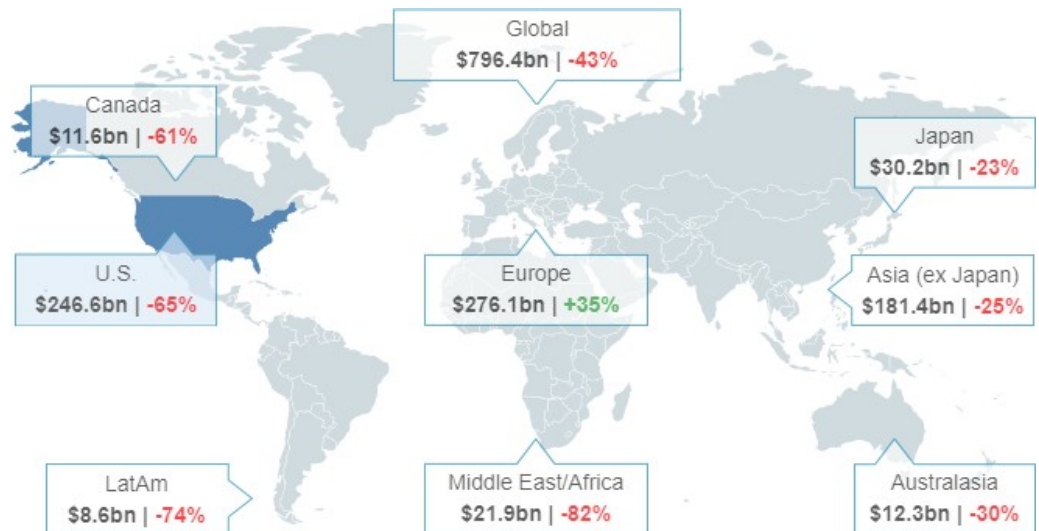


Buy-Side M&A: Activity

Key Takeaways

- ▶ Activity is highly cyclical, as heightened uncertainty and bid-ask spreads result in fewer deals closing
- ▶ Buyers struggle to value assets while the economy is in apparent freefall
- ▶ Sellers struggle to adjust to lower valuations and less favorable terms while also managing through a crisis

Global M&A Activity (YTD May 2020)



Buy-Side M&A: Learning from Past Cycles

M&A During Recessionary Periods: Key Themes

1

Businesses with liquidity needs will transact: Spin-offs, distressed sales, minority investments, structured transactions

2

Buyers will be more selective, focusing on quality: Emphasis on solid business models, recession resistance, strong margins, barriers to entry

3

Depressed public equity valuations present opportunities: Private investment in public equity (PIPEs), take-privates

4

Highly strategic deals make sense in spite of economic conditions: Revenue and/or cost synergies, complementary tuck-in acquisitions

5

Long-term secular trends persist: Investor demand for segments experiencing secular growth will continue

Buy-Side M&A: Today's Buyer Universe

Group A: Healthy M&A

- ▶ *Growth oriented*
- ▶ Proceeding cautiously
- ▶ Deeper diligence
- ▶ Buy time
- ▶ Wait-and-see
- ▶ Attempt to reprice
- ▶ Restructure terms

Group B: Opportunists

- ▶ *Value oriented*
- ▶ Proceeding aggressively
- ▶ Turnaround, distressed, special situations
- ▶ Funding working capital, liquidity needs
- ▶ Bridge financing
- ▶ Debt / convertible features

FOR MORE INFORMATION:

www.bdocap.com

Questions?



Contact Us



Frank Pina, CPA
Managing Director
fpina@mercadien.com
609-689-2319



Lee Boss, CPA, MBA
Managing Director
lboss@mercadien.com
609-689-2396



Valentina A. Midura
Senior Managing Director, BDO
vmidura@bdocap.com
617-422-7593

Disclaimer

- *DISCLAIMER: This advisory resource is for general information purposes only. It does not constitute business or tax advice, and may not be used and relied upon as a substitute for business or tax advice regarding a specific issue or problem. Advice should be obtained from a qualified accountant, tax practitioner or attorney licensed to practice in the jurisdiction where that advice is sought.*