

Fact or Myth: Deals can Still be Done in a Pandemic

The first quarter of 2020 got off to a great start for many companies. But in March, businesses around the globe were delivered a blow to the gut. This is not the first time in history we've experienced an economic downturn, and it certainly won't be the last! No one is immune from a sudden economic downturn like we have weathered. Without recent pandemic history, no one really knows what 2020, 2021, and beyond holds.

While many business owners were forced to deal with business survival, obtaining financing, or understanding the 'new normal,' others were in the thick of selling their company. Faced with the tremendous uncertainty of a few months ago, all non-essential businesses were closed. The unprecedented uncertainty demanded patience, perseverance and a bit of tenacity to navigate through.

Through our lens, we have seen some prospective clients disappear as a result of the pandemic; others have successfully mitigated through the disruption. While some have experienced a significant drop in sales, others have maintained sales levels, albeit selling lower margin products or services. In fact, some have experienced growth and expect 2020 to be better than 2019 results.

For many businesses, short-term liquidity became an immediate obstacle. With the advent of the SBA's PPP loan program, businesses that received funding survived the downturn as the business adjusted staffing levels to support a reduction in operations.

SEA was in the middle of the storm with several clients and has successfully migrated through. While no one has all the answers, we wanted to share what we've learned from being on the front lines.

- After approximately six weeks of a 'cooling off' period following the national emergency shut-down, companies pivoted to new operating guidelines and new M&A activity virtually disappeared. Unless the company was deep in the process, deals were put on hold while certainty began to return. As restrictions eased and some of the uncertainty began to abate, transaction activity began to return. Interest in opportunities has remained strong following the same 'cooling off' period.



- Valuation expectations have been minimally impacted as earnings have temporarily been affected.¹ Despite the impacts to earnings, overall valuations remain healthy. According to Axial's survey of deal professionals, "many deal professionals have decided that valuations may remain somewhat unchanged."² How long will a negatively-affected business remain is truly an unknown. Some buyers require increased certainty of the effects of the pandemic on the long-term economy, while others continue to press ahead, anxious to 'get the deal done.'
- Deal structures have been effected by the uncertainty. With the historical tightening of credit in past economic disruptions, there remains concerns over current credit tightening. Although we have not witnessed it just yet, we've heard credit tightening is beginning to happen and is expected to continue until there is greater economic certainty. While valuations have been minimally affected, deal structures have changed from the first quarter of 2020. Structures today have a greater focus on preservation of cash in case of future uncertainty or should the COVID virus return. Long-term liquidity continues to be more uncertain and how traditional lenders will react this time remains uncertain. If credit tightening continues unabated, we expect the market will develop alternative financing for successfully repositioned companies. And in some cases, we expect the PPP forgiveness should help 2020's profitability for well-managed companies.

In summary, deals continue to get through to closing. According to Axial, 'While much of the market was forced to push pause in Q2, it has created a lot of potential for the remainder of the year. There is still an abundance of dry powder that needs to be deployed.'²

If you would like to learn more about the current market conditions, please connect with a Managing Director.

¹ How COVID-related costs/earnings decline is handled in recasting is a topic we've discussed here.

² The Path Forward: Ten Takeaways from Q2; Kristina Payne, June 18, 2020