

Sellers - Don't Miss Your Window of Opportunity

COVID-19 has posed a significant challenge to the global economy. In the United States, a report conducted by RSM found that middle market firms have reported a hiring decrease of 46 percent and a gross revenue decrease of 61 percent. Despite the headlines, however, many sectors are experiencing an increase in M&A activity, and companies that have performed well through the pandemic are receiving premium valuations. Business owners who have considered selling their business in the last year would be wise to evaluate their options to take advantage of this window of opportunity.

As a response to the economic suffering endured by the United States, both the federal government and Federal Reserve have created measures aimed at supporting the economy. According to the Washington Post, roughly \$6 trillion has been spent to date, and Congress is drafting an additional spending bill to further combat the recession. While economic stimulus can be viewed as a necessity to prevent further economic downturn, it should also be noted that the money has to come from somewhere – taxes. Tax rates will have to increase to prevent the exponentially widening budget deficit, while interest rates cannot continue to fall as they are already at zero percent. Both of these policies will serve as headwinds to the M&A industry, as low tax and interest rates have helped fuel deal making since the Great Recession. Additionally, the development of a vaccine will be closely monitored, and a full economic recovery likely depends on its creation and widespread administration. According to research performed by McKinsey, even if a vaccine comes to fruition, the short-term economic outlook is bleak, and it may take until 2024 for some sectors to fully recover to their pre-Covid-19 GDP. Despite this unfavorable outlook, businesses that are insulated from this damage are receiving premiums from acquirers.

While M&A activity has slowed from a record high, it has not completely disappeared. In fact, a Private Equity report conducted by Bain & Company shows that deal activity has rebounded from May to June and should continue to increase. A large reason for this increase is the massive amount of cash that Private Equity firms are holding. Even though investable capital is at an all-time high, PitchBook, a financial data and software company that tracks transactions, states that there are “over 8,100 privately backed companies were approved for loans of \$150,000 or more from the Paycheck Protection program.” Private Equity funds need to actively invest that cash and generate returns for their investors. They have done so through the increasing use of Add-On Acquisitions, where one of their portfolio companies strategically acquires another company in the same industry. According to PitchBook, these types of acquisitions were responsible for over 70% of all Private Equity Buyouts in the second quarter of 2020 and will most likely continue to



increase. Therefore, premiums will likely be paid to target companies, further substantiating that the time has come for business owners to strongly evaluate their options.

COVID-19 has caused severe health and economic damage, and while the pandemic refuses to come to a halt, the global battle towards normalcy continues. This has been witnessed in the United States, with many businesses experiencing drastic hiring and revenue decreases. Although the government has enacted lofty spending policies to support the economy, people need to realize that those funds need to come from higher taxation. Combined with the inability to drop interest rates further, the economy will not return to pre-Covid-19 levels for a while. The M&A market will continue to be active in the short-term, and should signal to business owners that now may be the right time to sell. So, take advantage of this window of opportunity; do not sit back, wait, and miss it. Take the first step, call us to explore your options.





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