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Socially distancing from high multiples

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The median M&A multiple clocked in at 8.2x in Q1. That's down from last year's 9.8x median, according to PitchBook's just-released North American M&A Report. One quarter does not a year make, but 2020 is probably an exception. The Q1 dip included two normal months, which won't be the case going forward.

8.2x—or anywhere in that vicinity—presents a problem for sponsors. PE entry multiples have been in the double digits for several years now, with some stretching into the high teens. Would-be sellers are facing a daunting entry/exit balance if they planned on putting portfolio companies on the market this year. Sponsored companies have the benefit of professional ownership in a very difficult period, and *if* their investors can keep them healthy through the downturn, they will be merger targets during recovery. Market share will be up for grabs and well-run companies would be first-round draft picks. Like Joe Burrow, though, they may have to settle for less than they were hoping for.

The exceptions will be specialized companies run by specialized investors, in sectors like consumer and tech. Potentially tectonic shifts are taking place as consumers change their behaviors in fundamental ways, and many of those adjustments will become permanent. Mastercard, for example, reported a 40% jump in "contactless" payments—like tap-to-pay and mobile pay—in Q1. Habits are hard to break, even new ones. It’s one change among many that will become the new norm for consumers even after a vaccine is approved. Specialized investors are more likely to identify others going forward, with exit multiples to show for it.