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The New M&A (Second of a Series)

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As we discussed last week in our special series on the new COVID-impacted M&A world, the volume of deal flow was off sharply at the onset of the crisis. But as deal makers adjusted to the new normal of business openings (and reversed openings) across the country, conversations are now back to deal processes.

What are some symptoms of the virus on these processes? “The time to market will inevitably elongate,” one top middle market banker told us. “Buyers and sellers will need longer preparation to assess the impact of COVID. The current quarter will be light in terms of volume because of that. What’s unknown is whether, given the ramp-up in cases, the period of uncertainty coming back to the US will stall the market.”

What kind of constraints are drags to M&A? “Travel restrictions are the most obvious,” another banker said. “Quarantines will slow down timelines, limiting the ability of management teams to build rapport with buyers, and to manage due diligence follow ups.”

A third M&A pro agreed. “What’s particularly challenging now is the differing COVID status by state. Conflicting quarantining dynamics can put our deal principals at risk. Openings and closings are not directionally consistent across the US.”

In this environment, how can buyers get comfortable with management teams? “Virtual meetings are fine, if you’ve met them previously. Otherwise buyers will have some tough decisions to make. Few of our private equity sponsors would invest in any platform if they haven’t personally met management.”

“We surveyed a number of lenders and sponsors on this topic,” our first banker said. “One private equity partner told us he was lucky with the first handful of deals: all were within driving distance. And a lender told us, ‘We’ll figure a way to get it done, even if we have to hire a private jet.’”

Despite the hurdles sell-side pitch activity is moving forward, with about two-thirds of pre-COVID deal flow remaining in the pipeline, according to a top firm. Unlike last year the firm sees exogenous factors driving timing. “Tax considerations with a new administration could motivate transactions to happen by year-end,” they reported.

Others were more sanguine. “We’re expecting a light second half,” a Midwest banker said. “Buyers are remaining very selective. A slowdown in late summer is possible. But there are obvious uncertainties. If you’re a motivated seller with a good property, we are recommending clients launch pre-Labor Day.”

Are owners nervous given all the market volatility? “Yes,” he said. “As happened after 9/11 and in the 2008/09 period, founders have been evaluating more urgently the need for a business and financial partner. It could also increasingly be a tax-driven event, given all the political stuff going on. It’s going to be a bumpy second half.”

? Next week: How are investment banks managing the financing process?