THE LEAD
https://theleadpc.com/the-new-ma-third-of-a-series/

The New M&A (Third of a Series)

THE LEAD | August 5, 2020

The challenges of COVID are making financing deals even trickier than normal. Top M&A bankers we have spoken with gave us their perspectives on what sellers and buyers should expect given all the uncertainty.

"There are a lot of twists and turns today," a mid-West managing director told us. "You may think the company you're trying to sell is operating at pre-COVID levels, but what happens if this virus stuff backs up? It's a real risk given the reversed course of new cases across the US.

"In the current climate you don't want to run a big process," he continued. "Having dozens of lenders witness softer monthly numbers is not a path to success."

Another source agreed. "You don't want to have all the lenders talking to each other, otherwise it's not a select process. It's best to keep it to a tight circle. We're seeing situations where only existing lenders are being asked for term sheets."

From a financing perspective, this banker advised, the first step is to make sure the incumbent agent is there. "The key is to get them involved early. Find out what their maximum appetite is, then work within the existing group to fill in the rest.

"Even if the incumbent is supportive, they may not be able to lead the process. This is particularly true today with hold levels and flexibility not what they were pre-COVID. So you may need to bring another lead arranger alongside the agent to ensure the financing is well-supported. Then you'll be able to get a solid feel for the lead group."

Beyond the issue of locking down your financing up-front, a third sell-side player added a cautionary note on valuations: Don't let buyers talk to sellers until the price range is established. "It does you no good today to let anyone see the sausage-making," he said.

Do bankers have any advice for lenders looking to improve their relevance? Be constructive with your private equity clients about the credits or verticals you like, one advisor told us. A simple phone call goes a long way.

And be vocal with your own partners about the borrowers in your portfolio you like. For some reason sponsors are often hesitant to check with their lenders for feedback. So it pays to take the initiative.

"Remember, sponsors have moved from risk-off in March and April to risk-on," the adviser concluded. "Despite the persistent economic uncertainty, there's plenty of liquidity for the right businesses. Financing is firming up. There's willingness to underwrite. Non-COVID-impacted businesses are still valued at a premium. And lenders are realizing if they don't step up now, it's going to be a disappointing year."

? Next week: We conclude our M&A series with a look at industry winners and losers.