A CORPORATE M&A SERIES:

Your Next Deal Will Be Different

Part 1: Shifts in the Transaction Landscape – Sell-Side Preparedness

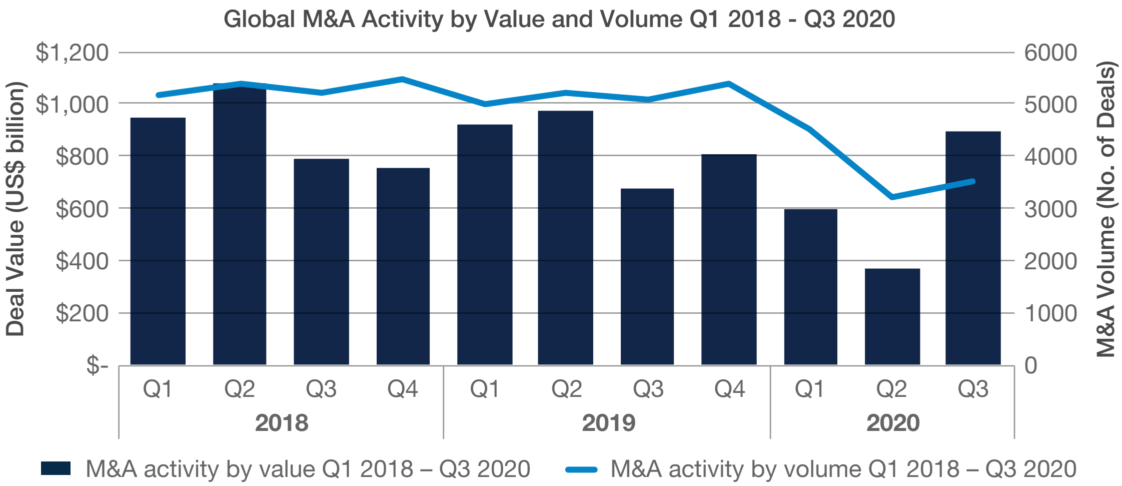
The COVID-19 pandemic significantly impacted M&A activity. In stark contrast to the historic highs seen globally over the past five years, the economic uncertainty created by the pandemic essentially paused transactions in the market in early spring of 2020. Rest assured; M&A activity will resume to healthy levels. Signs of recovery are already visible, particularly amongst private equity sponsors who have record levels of dry powder and corporates that are right-sizing their portfolios. These changes can present significant opportunities to both buyers and sellers, with the potential for shifts in market share and competitive position across many sectors.

"In a recent White & Case survey, nearly **60% of respondents reported halting or scaling back M&A** activity in the current environment, but **>70% expect M&A activity to increase within one year."**

As local governing bodies continue to actively manage the pandemic over the long haul, and new treatments and/or preventive vaccines become viable and available, we expect to see the following:

- Distressed corporates will enter into additional phases of cost cutting. Organizations will exhaust the benefits stemming from government aid and internal Pivot to Cash™ moves, and those that still face significant challenges will begin selling assets (both good and bad) simply to raise the cash to survive.
- Challenged, but overall healthy corporates, will transition from crisis management and targeted transformation efforts launched at the outset of pandemic, to full-on enterprise-wide portfolio transformation designed to realign their businesses in interim and post-COVID environments. Some divisions and assets will not make sense anymore; perhaps some never did. Moves that previously took years to clarify core and mission-critical businesses will now only take months, resulting in increased corporate divestitures.
- $1.5 trillion in private capital will start to come off the sidelines and be invested in new opportunities. However, lenders will almost certainly impose more restrictive underwriting standards post-pandemic so the bar for getting deals done will be higher, and a low interest rate environment will assist.
- Corporates with strong balance sheets or borrowing capacity will have the opportunity to be acquisitive in ways that strengthen market position and put distance between them and key competitors. Our research and experience show corporates that take thoughtful advantage of these opportunities during recessions and/or recoveries generate significant shareholder returns.

It is likely unproductive to predict the exact timing of when M&A activity will return to pre-pandemic norms, but we can predict that the recovery process will result in increased and sustained activity over the coming years (see figure below). Corporates should determine what that means for them (e.g. will they buy or sell?) and how to best align the way they execute transactions to maximize value in the new world.



"In Q3 a small number of high-value deals gave 2020 M&A activity a bump; however, overall activity remained well below 2019 levels"

Source: MergerMarket

Raising the Bar on the Sell-Side

We recommend that our clients pace these shifts in the market, with an increased emphasis on the sell-side to prepare and market businesses or sub-businesses efficiently for sale. Gone are the days of opaque marketing and cursory interviews with management that glazed over complexities and pushed the onus of integration planning and synergy capture to the buyer.

Operating under stricter financing provisions, buyers will now scrutinize targets more thoroughly. They will demand that sellers answer tough questions with detail and data: What was the impact of the pandemic on the business for sale? What value will be created for the next owner? What needs to happen before the sale to speed up separation, integration, and/or stand-up? How can the transaction be positioned from a tax perspective to optimize cashflow for both buyer and seller, and how will the benefits of that optimization be shared? Proactive sellers will have these answers at-the-ready to support the pace of buyers' agendas and will also have to adapt to offering greater comfort to prospective buyers in instances where travel restrictions may prevent on-site diligence.

> "Buyers will scrutinize targets and demand sellers answer tough questions with detail and data."

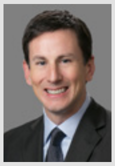
Transparency solves for the uncertainty that must be overcome to let capital flow and to accelerate deal activity. In the immediate term, therefore, seller transparency is required to execute deals safely, as companies must navigate a crisis that is about **economics *and* health.**

To deliver this level of transparency, seller preparedness will require:

- **Broad and in-depth sell-side due diligence –** Includes a deeper dive into financial accounting, tax, operations, information technology, human capital and supply chain to address critical questions like those outlined above regarding post-pandemic operations, value, separation, integration and/or stand-up concerns
- **Proactive synergy analysis –** Description and quantification of synergy opportunities, explanation of the complexities to achieve them and, when possible, an initial plan for "quick wins" that can be achieved prior to, or during, the sale process. This should include comprehensive analysis for sales, operations, back-office and tax, among others
- **An initial separation, integration and/or stand-up plan –** A plan for transition that outlines clear roles, responsibilities and commitments regarding how the seller can accelerate separation and integration where possible
- **Well-integrated planning and advisory teams –** It is imperative for the right internal teams and investment banking, legal and consulting partners to be in place. Even better, when they work together efficiently and synergistically, they will save buyers and sellers time and money, reduce risk and ultimately accelerate value capture

As we navigate the shift in transaction activity and best practices in the wake of COVID-19, we expect these and other trends to develop. In future installments, we will explore how both buyers and sellers can successfully prepare for and execute deals in the emerging M&A environment and how both sides of a transaction can produce win-win outcomes as we chart the course forward.

Key Contacts:



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