

In consultation with clients, investors, and other professionals active in the current M&A environment, Amherst Partners has developed a collections of insights regarding the current state of the deal market and, in particular, the private equity buyer segment

1 M&A deal flow remains sparse

- Aside from an increasing number of structured equity deals, including minority equity transactions, there have been very few new sale transactions initiated in the past month
- Despite the economic decline, some industry sectors remain active for new deals, with technology being the most notable
- For companies contemplating a sale in the near-term, preparation and dialogue with prospective buyers continues with an eye on assessing the strength of the recovery and balancing their desire to approach the market against the risk of a failed process

2 Targeting a return to an active deal environment

- Sponsors with access to funds have been actively signaling their interest in acquisition opportunities involving companies that were not adversely affected by the COVID-19 pandemic
- The resumption of broader deal activity will be based on how quickly performance levels rebound and whether sellers can provide investors with visibility into future financial performance
- In many cases, investors are expanding the scope of their screening process to include new industries and/or distressed assets during the transaction shortage

3 Valuations face significant nuance

- Scarcity value and pent-up demand for quality acquisition targets may yield premium valuations in the near-term for sellers with COVID-19 resistant operating results
- In the medium-term, sponsors generally expect a reduction in valuations to something lower than pre-pandemic levels; anticipated debt structures at lower leverage points contribute to this view
- Structured equity and deferred consideration (e.g., earn-outs) structures are likely to be utilized to bridge sellers' valuation expectations

4 Private equity buyers will adapt to lower leverage

- Lenders are generally focused on triaging troubled credits and have a limited appetite for new loans
- Private equity buyers with access to funding are expressing their willingness to commit additional equity to bridge the gap created by limited debt availability; most will seek to refinance when credit markets are more receptive
- Some sponsors are shifting focus to add-on opportunities for existing portfolio companies. In many cases, these deals involve distressed businesses purchased at discount valuations

5 Rebound in portfolio company performance

- Sponsors have assessed the condition of their portfolio companies and taken steps to shore up those businesses most affected by the crisis
- In many cases, sponsors are reporting that future performance indicators for portfolio companies have been more positive than expected in recent weeks
- Scenario planning for portfolio companies includes assessing the potential negative impact in the event there are future shutdowns caused by a spike in COVID-19 cases