

A recent report published by GF Data, a database of private company transactions, confirmed that the impact Covid-19 has had on the mergers and acquisition markets was a dramatically lower number of completed transactions reported through the first half of 2020. The second quarter of 2020, entirely in the pandemic time frame, saw only 31 completed private company deals. This represents a 35-40 deal shortfall from what one would have expected to cross the finish line during Q2. Interestingly, however, the valuations on these done deals were at the same lofty levels as we have seen in prior years and in the prior quarter.

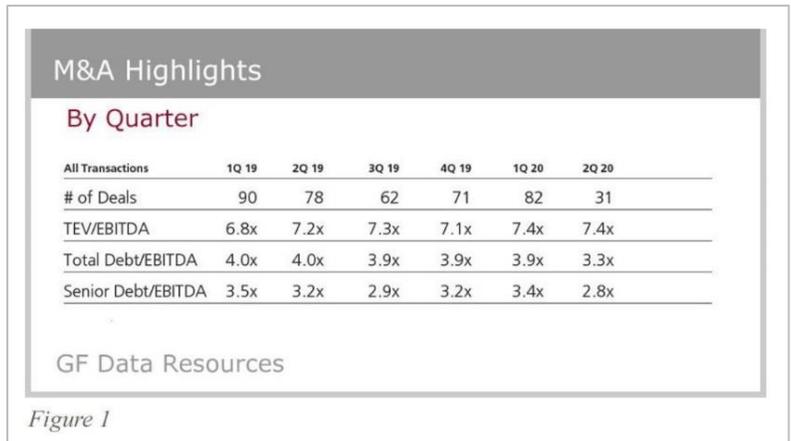


Figure 1

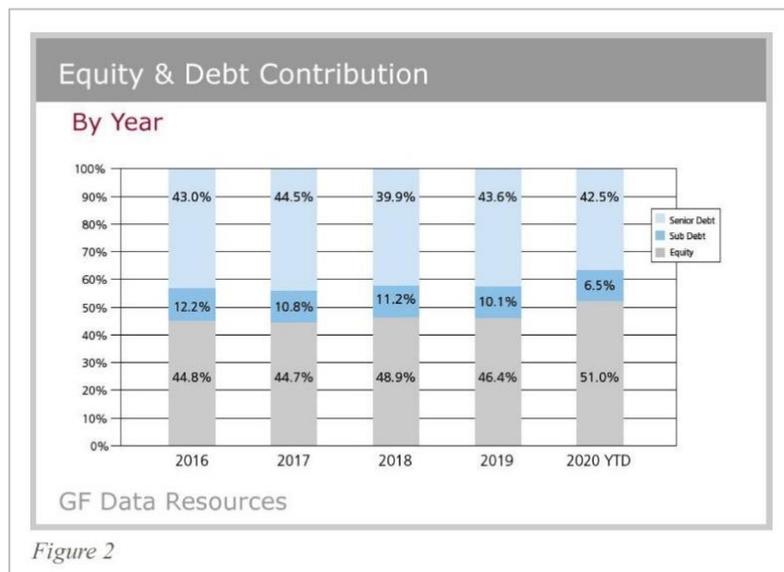


Figure 2

We may eventually see some “stalled” transactions still in the queue appear in the done deal stats in the coming quarters. Most buyers, both financial and strategic, are performing heightened financial due diligence before committing to a purchase. Due diligence typically covers a wide range of areas including legal, IT, operations, marketing and financial. Financial due diligence is designed to answer questions about a company’s sustainable earnings based on key forecasting assumptions. In the current Covid-19 era, financial due diligence has become more difficult and is taking longer to complete. Another key area of due diligence focus during the pandemic is a company’s ability to operate remotely.

The GF Data report also confirmed that current deal structures are less leveraged than in past years. Typically, buyers will structure a transaction with as much debt as can be comfortably supported by regular and predictable earnings. With future earnings now difficult to estimate, buyers are taking a more conservative approach to deal structures while lenders also are exercising more caution.

NOTICE:

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