WCF Market Update

May 2020

M&A deal activity falls, but sellers still have options

Our last newsletter started off, "Let the good times roll" as we finished off a strong calendar 2019 and looked forward to 2020.

Well, that sentiment was most certainly shattered and in a much shorter time frame than anticipated. However, we remain bullish on M&A on the whole and offer a few words of wisdom on current and anticipated near-term trends.

M&A deal activity

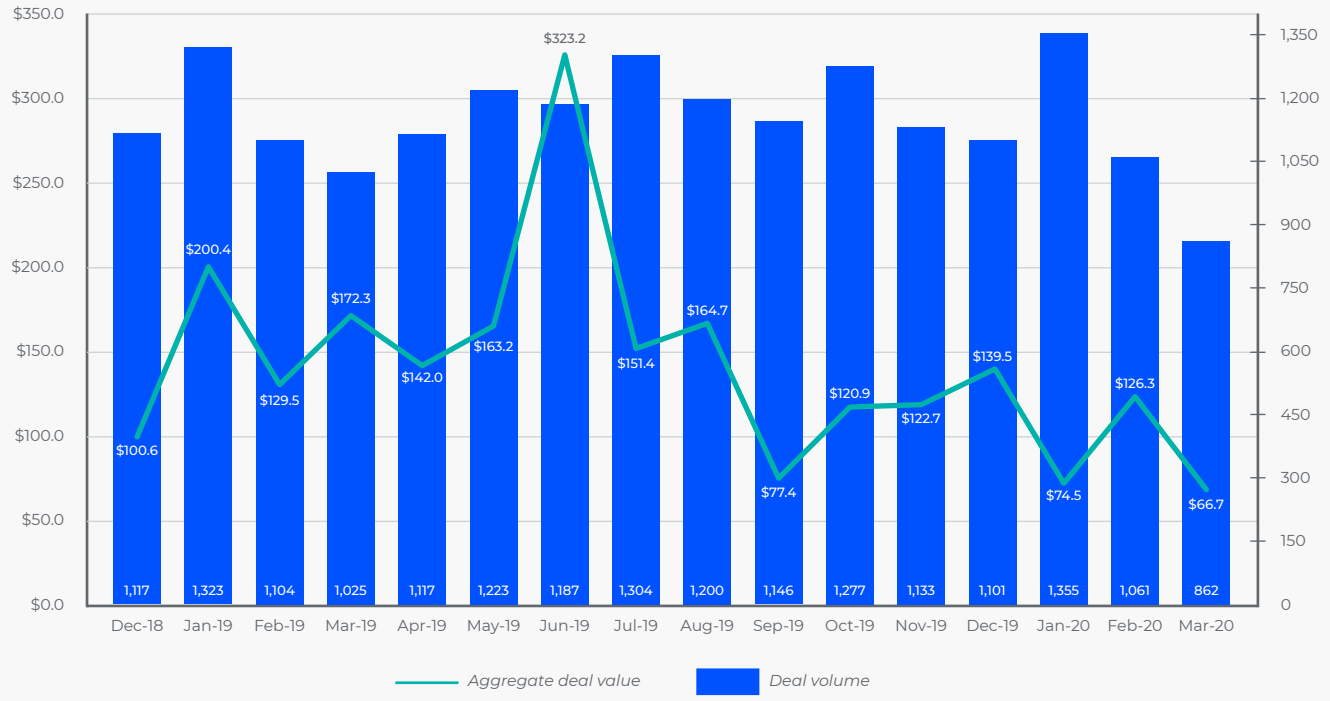
FactSet reports that total U.S. M&A deal activity dropped 18.8% in March 2020, with 862 announcements compared to 1,061 in February. Aggregate M&A spending decreased 47.2% in March compared to February.

Lower middle-market deals with enterprise value of $10 million to $24.9 million were down by 19%, while deals below $10 million in value were down 29% and deals between $25 million and $49.9 million were down 21.4%.

In a few weeks, statistics for April will be out and will almost certainly reflect a year-over-year decline, as will the next several months. Nonetheless, deals are getting done.

Wipfli Corporate Finance closed two deals in April — both of which were impacted by the pandemic but closed after working through financing and other hurdles. We have six others in various stages that we anticipate will move forward, albeit at different paces.

The U.S. mergers & acquisitions market index



(Source: FactSet Research System Inc.)

Actions that sellers can take

For sellers contemplating going to market, we offer the following:

- If the business is severely impacted by the economic disruption, it is very tempting to bail. However, value will be severely impacted. Distressed deals tend to get done during downturns because they need to, and sellers are highly motivated to close. Uncertainty kills deals, so waiting until the business's near-term projections can be firmed up generally yields a better price and terms.
- If the business is minimally impacted or benefits from a down market, there is no need to wait. The process is likely to take longer, so get on the market and allow for more process time (i.e., management meetings, financing and due diligence). There are fewer quality sellers, and supply/demand dynamics are in your favor.
- If the business is moderately impacted, then you have a choice. Values are generally lower in an economic downturn, but through creative structuring, there are many ways to find a win-win. If there are market opportunities, spending some time on building those out can position the business for sufficient upside to counter the initial value decline. Deals are very fact- and circumstances-based. The best course of action is to choose an advisor you trust and work to get ready, then determine the right launch timing. If there is sufficient buyer demand, leverage dynamics will work in your favor in any market cycle.

Tenacity and creativity are traits needed during down markets. There remains strong buyer interest from both strategic and private equity buyers. Deals can get done by working with an experienced and qualified M&A advisor.

Wipfli Corporate Finance Advisors

provides a broad range of investment banking services tailored for middle-market companies ($10 million to $500 million of revenue) and capital providers.

Our clients benefit from the depth of our leadership team's experience — over 100 years of combined experience advising middle-market companies and management teams — and the extensive knowledge of our parent firm's 270+ partners and over 2,200 associates.

Your experienced team at WCF Advisors knows how to prepare the business and effectively navigate troubled waters.

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