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Dealmakers Share Perspective On How Coronavirus Pandemic Is Impacting Their World

SMART BUSINESS

Dealmakers

STORY BY Smart Business Dealmakers Staff

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The coronavirus pandemic has brought our everyday routines to a grinding halt, including those in the business and deal-making community. As the markets continue to veer up and down based on the news at that particular moment, Smart Business Dealmakers wanted to get a sense of how those typically on the frontlines of deal activity are reacting to what's happening. We understand that news is changing by the minute, but given that reality, here is a sampling of what leaders and dealmakers across our readership had to say.

What is your immediate reaction to the coronavirus pandemic from a dealmaking perspective?

John Ensign, president and chief legal officer, MRI Software

"We continue to look at opportunities and continue to be bullish on acquisition as part of our growth story. The concern we have, and I think everybody's concern, is we're at that point in the process where there is so much uncertainty on where things are going."

"You're going to see some players get conservative. They're going to hit pause for a month or two just to see where things land. I think you'll see others view it as a buying opportunity. Competition has slowed a little bit, so they get more aggressive or use it as a negotiating ploy to put more pressure on price. Obviously, multiples have been very seller favorable, and this theoretically changes some of that."

Ed Weinfurter, managing partner, Blue Olive Partners LLC

"In my view, the recent volatility in the market and the uncertainty in the near future will give a lot of buyers pause, and justifiably so. However, these situations create opportunities for those open to look for it. We saw in the last recession that cash was king and those that had it, and were willing to invest it wisely, generally did really well."

"Today, despite all that's going on, there are still massive amounts of capital in the hands of dealmakers looking for viable investment opportunities. Obviously, we are all looking for things to settle down a bit as we are all highly focused on our people and their safety right now, but there is no doubt that there will be significant opportunities ahead. The demand and competition for high-quality opportunities will only get stronger with time."

Joe Baez, principal, CLA Oak Brook

"I tend to be a little more optimistic than most. I'm not in denial. I'm fully aware that there's going to be a slowdown as it relates to deals. We deal in the lower end of the middle market, primarily, so that's the lens through which I view the world. With our practice, things that are in progress from a quality of earnings and due diligence perspective are still moving along. They are at least moving in the right direction, albeit a little slower."

"My phone is still ringing. I've got two calls scheduled, one with a company that's thinking about going to market later this year and another with a local company that's looking to make an acquisition. It's a strategic buyer and this is not necessarily stopping them from at least pursuing opportunities. At some point, we'll get over this. I don't know if that's two weeks, four weeks or eight weeks. But there is still going to be a boatload of cash waiting to be invested. This might spook enough sellers to say maybe now is the right time."

Daniel Kessler, partner, Cyprium Partners

"We started to hear about deals being put on hold toward the end of last week and expect that trend will be widespread as companies, lenders and investors digest the rapidly developing situation. The ultimate scope and duration of shutdowns, quarantines, travel restrictions, and supply-chain disruptions will certainly have an impact on the economy, and this high level of uncertainty is not conducive to traditional dealmaking. Most important, however, the executives that we've talked with over the past week are more focused on keeping their employees, customers and neighbors healthy at this moment in time."

Stephen J. Gurgovits Jr., managing partner, Tecum Capital Partners

"While still technically open for business, I can't see closing a new deal right now. We are in full portfolio management mode. We learned too much information just yesterday on how fast things are falling, including employment in the overall economy."

"Second quarter is going to be a disaster for most businesses. This is a wholesale issue across the board. I think the window

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Dealmakers share perspective cont'd

for new deals is closing for now, just like most businesses. I have never seen things change so dramatically and so fast. We need to all hope that this virus and the health crisis can pass quickly to allow for a faster recovery. The longer this drags on, the more damage will be done and the harder it will be to restart. Even private equity is not exempt from this developing morass.”

Louis Rappaport, partner, co-chair, Corporate, M&A and Securities Practice Group, Blank Rome LLP

“Transactions involving retail and food-related deals are slowing down, awaiting some guidance or visibility as to how long the current operating conditions will persist. To date, in what I have seen, there still remains a fair amount of optimism that businesses that are being most directly impacted by the current conditions (retail, food, travel, etc.) will see daylight again on the other side of the curve. The challenge is managing through this uncertain time. On the other hand, we see transactions kicking off in other industries that should be more immune to the social distancing-induced consumer slowdown currently in process.”

What impact has restricting travel had on deal activity?

Kessler: “Travel restrictions have impacted certain aspects of our business, but social distancing is having an even greater impact since it affects even routine meetings that don’t involve travel. As employees are encouraged to work from home whenever possible, we are using technology — especially videoconferencing and online meetings — to work with our colleagues and portfolio companies around the world. Ten years ago, this would have been more difficult, but the widespread use of these applications in today’s business culture has allowed us to continue functioning at near normal. In the long term, however, there is still no substitute for in-person meetings to develop and strengthen relationships.”

Rappaport: “I have a deal with a foreign buyer right now that has negotiated for extended diligence and exclusivity periods in light of global travel restrictions and concerns about getting key diligence items completed. With technology, much of the deal process can occur remotely, but depending on the business involved, site visits and on-site diligence such as environmental inspections may be impacted.”

How does the rest of 2020 look as of right now, understanding that conditions could change completely at any time?

Ensign: “It’s about trusting your sources of information and working collaboratively to ensure that you’re really thinking through each decision and validating your approach, whether

that’s at a board level, with your operational peers or whatever it may be. Pressure-test your approach and how you’re thinking about different things just to make sure, as you’re moving forward, you’re really being thoughtful and not overly reactionary.”

Baez: “About a year ago, before anyone knew about the coronavirus, CLA asked every group to write a contingency plan for a number of worst-case scenarios. We all wrote those out or at least thought through it. So when this happened, while we weren’t expecting it by any stretch of the imagination, we at least had a playbook to go by. We at least have things in place so we can communicate with folks and get information out and make some decisions along the way, which is good. It at least gives you a nice feeling that we’re not just flying by the seat of our pants.”

Rappaport: “I think it is too early to tell. With such market upheaval, strong, well-positioned businesses will weather the storm and weaker businesses may struggle to survive. For those who are strong today, I believe there is optimism that once the immediate challenges are navigated, there will be opportunity, including for growth by acquisition. For those that are struggling, they may not get to see the other side of the curve. In terms of deal flow, we remain optimistic that the appetite to do M&A transactions will persist after this short-term disruption.”

Kessler: “Uncertainty is not a good condition for dealmaking, and this seems to be a time of unprecedented near-term uncertainty. How will the economy be directly impacted by the measures implemented to curtail the spread of the virus? What businesses will continue operating in the interim? How will lenders react? What will the government’s stimulus plan look like? Will smaller businesses be disproportionately impacted? How will any of this change long-term consumer behavior? The high level of uncertainty in the environment is reflected in the ups and downs of the stock market as it reacts to each new set of headlines. None of this is favorable to traditional dealmaking.”

“Our economy is generally pretty good at allocating capital, whether through M&A or investing in internal growth. As businesses and investors begin to see a return to normalcy, capital will again flow to those opportunities that make sense. When and at what pace that will happen is the big question.”