

Pandemic will lead to opportunities for some industries, businesses

By **ANDREA DECKERT**

The mergers and acquisition market could see a boom post COVID-19, with new opportunities for firms that took a front seat during the global pandemic, area experts say.

Companies looking to complete such deals may take into account either the scope — the products or services a business offers — or scale/size of these businesses when they consider M&A options.

Mengel Metzger Barr & Co. LLP partner James Schnell, chair of the firm's tax department, says new business opportunities in the M&A market could emerge.

That could range from industries that focus on telecommuting to grocery delivery businesses and online and mobile prepared food ordering companies, such as Grubhub.

"It will be interesting to see what comes out of this," Schnell says.

Schnell says his firm looks at the scope of a business for M&A purposes, determining its range of products and services.

"In general terms the wider the product offering, potentially the more stable or valuable a company may be as well as remaining growth potential," he says.

When it comes to economy of scale, if a client has more of a single sourced product offering, Schnell's firm looks at how that fares with the competition and how it compares with relevant market data in their industry, he adds.

Jeffrey Lewis, a partner with The Bonadio Group, is in charge of the firm's transaction advisory services team.

He agrees there could be a demand for companies that have played a key role in the current state of affairs. Those companies include ones that focus on medical devices or ones who specialize in medical supplies or testing.

Another area that could play a prominent role in future M&A activity is technology-enabled businesses, he says. That includes companies who offer online learning platforms which are now being used across the United States as schools temporarily close and students turn to online learning.

Lewis believes scale matters more than scope when it comes to M&A activity.

"Buyers almost always pay more for a company that does one thing extremely well — or is a market leader, or will allow the buyer to become the market leader — as opposed to a company that is 'middle of the road' at a lot of different things," Lewis says.

Thomas Anderson, a partner at Harter Secrest & Emery LLP, is head of the law firm's mergers and acquisition practice. He says the longer the uncertainty, the more the credit markets may become unsettled, which would likely create additional challenges for the market.

Anderson says Harter Secrest & Emery is currently working on a number of deals in various stages. Some are putting on the brakes or slowing down, while others are accelerating the process.

Those that require any regulatory filings or approvals may particularly see a slowdown with the process since a government agency that would authorize the approval may temporarily be shut down, he notes.

When it is back to normal business, however, Anderson believes the market will become active almost immediately, with buyers aggressively looking for new opportunities. The M&A market will look different than it did before the outbreak, he says.

"There will likely be opportunities to buy businesses at a significantly reduced value," Anderson says.

He believes potential attractive M&A candidates would be businesses that have strong products and services but are undercapitalized and need funding partners.

Private equity firms, who have a lot of money to spend, will likely be active on the M&A landscape, says John Hawkins, senior vice president with Paramax Corp., an investment banking firm focused on sell side advisory services.

Hawkins believes the market will pick up as the world gets a handle



Schnell



Lewis



Anderson



Hawkins

on the COVID-19 pandemic.

"I've talked to a number of buyers we've done deals with in the past and almost all indicate that once they get the 'all clear' signal they will actively and aggressively be entering the M&A market," Hawkins says.

And there is still activity in the local M&A market, he notes.

As of last week, Hawkins had some 25 deals in the works. Of those, a couple were put on temporary delay, while a couple of others were accelerated in pace. The rest were still moving forward, although at a slower pace.

Hawkins had also recently closed a deal and engaged with a new client last week who was interested in moving forward with a new opportunity.

He says each deal is individualized and the parties involved have to weigh the risks and rewards to determine what should be the next step during this time.

Hawkins is interested to see what the COVID-19 pandemic will do to a business owner's psyche, particularly one who may be at or near retirement age.

"Will this make them hold onto the business tighter or will they cash in an asset?" he wonders.

Mengel Metzger Barr's Schnell agrees the M&A market could pick up speed when the COVID-19 virus is under control.

"Things could ramp up very quickly," he notes.

Schnell is seeing some companies put M&A deals on a temporary hold, although it is not unusual for both parties to review the deal at 30 days into the process under normal circumstances.

He has seen some companies taking that pause right now and are watching what happens next.

"The situation brings more contingencies that will need to be addressed that weren't there 30 to 60 days ago," Schnell says.

When things return to normal, both sides have to make sure the deal is still a good one for each and that the collateral is still in place to complete financing, he says.

If it is a good deal that a client does not want to pass up, Schnell recommends both parties agree to a mutual extension.

"A good deal today is still a good deal tomorrow," Schnell says.

Bonadio's Lewis notes the M&A market was as strong as ever up until recently, but the global virus is making some people re-think their plans.

"Something that wasn't seen as very risky a few weeks ago suddenly seems a lot riskier," Lewis says. "Some people are not reconsidering their next moves, at least until the dust settles."

Lewis has roughly half a dozen deals in the works, and notes some want to take steps to get the deal done now, while others are opting to put on the brakes at this time.

The firm has adjusted some of its procedures when it comes to M&A work, Lewis notes.

For example, instead of calling potential buyers about a deal they may want to pursue immediately, Lewis now checks in to let them know about a deal that a potential buyer may want to start thinking about when market conditions are more stable.

"We've adjusted our strategy to keep more people at the table," Lewis says. "Time will tell."

Lewis believes there is still a silver lining for the M&A market, due, in part, to the availability of cash and the low interest rates.

"When the sun comes up again, hopefully we'll still be poised to be in a robust M&A environment," Lewis says.

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