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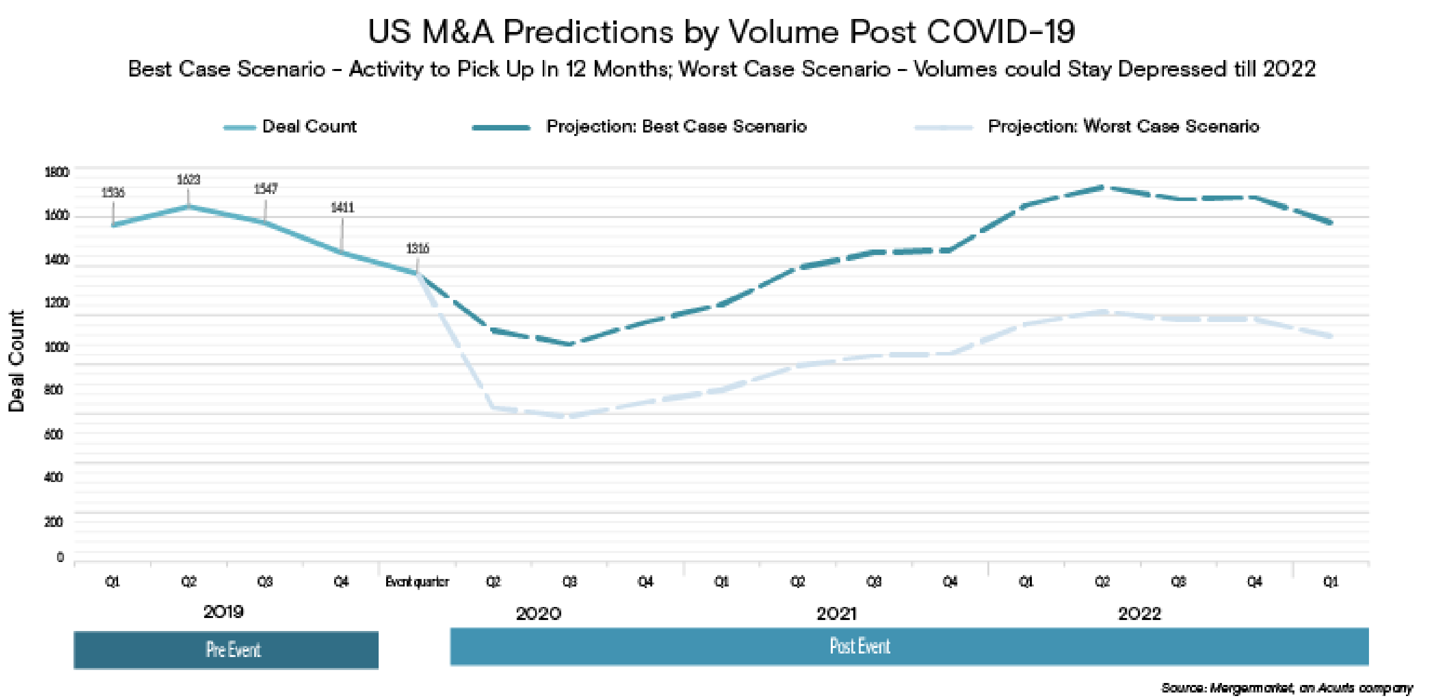
M&A predictions in a post COVID-19 world: US edition

Analysis

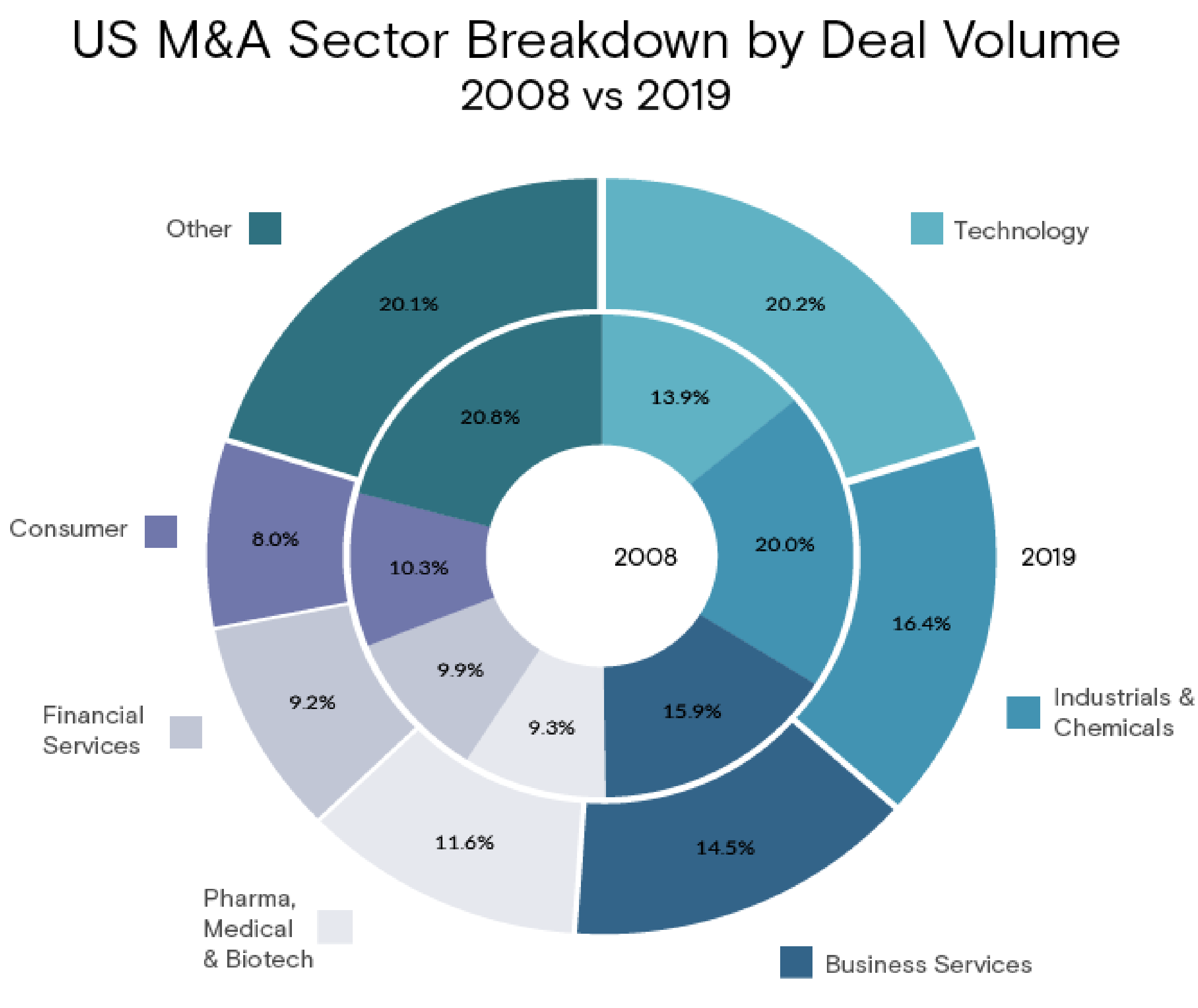
21 APR 2020

Mergermarket predicts US M&A trends after COVID-19 using a combination of proprietary data and market insights to decipher market signals on future activity. Our methodology for predictions is included below.



In a best-case scenario, if the coronavirus pandemic starts to recede later this year ahead of a vaccine emerging in the next year, *Mergermarket* predicts US deal values and volumes will start to pick up in 12-18 months, with numbers returning to pre-COVID-19 levels in early 2022. In the worst case scenario, where a resurgent COVID-19 wave prolongs the global oil crisis and worsens trade hostilities with China, values and volumes could stay depressed despite highlights in certain sectors, until 2024. Altogether, 1Q20 deal values are down 56.3% by value to USD 207.8bn and 14.3% by volume to 1,316, as compared to 1Q19.

“It is more likely that buyers [rather than sellers] will attempt to halt or terminate ongoing deals,” said White & Case partner Michael Deyong. The US law firm has published a report indicating that despite the steep decline in M&A, deals are expected "to proceed as agreed." Of the two largest deals announced in the US this year, Xerox Holdings called off its USD 35.5bn bid for HP, while United Technologies completed the USD 19bn spin-off of its elevator company on the NYSE.



Source: Mergermarket, an Acuris company

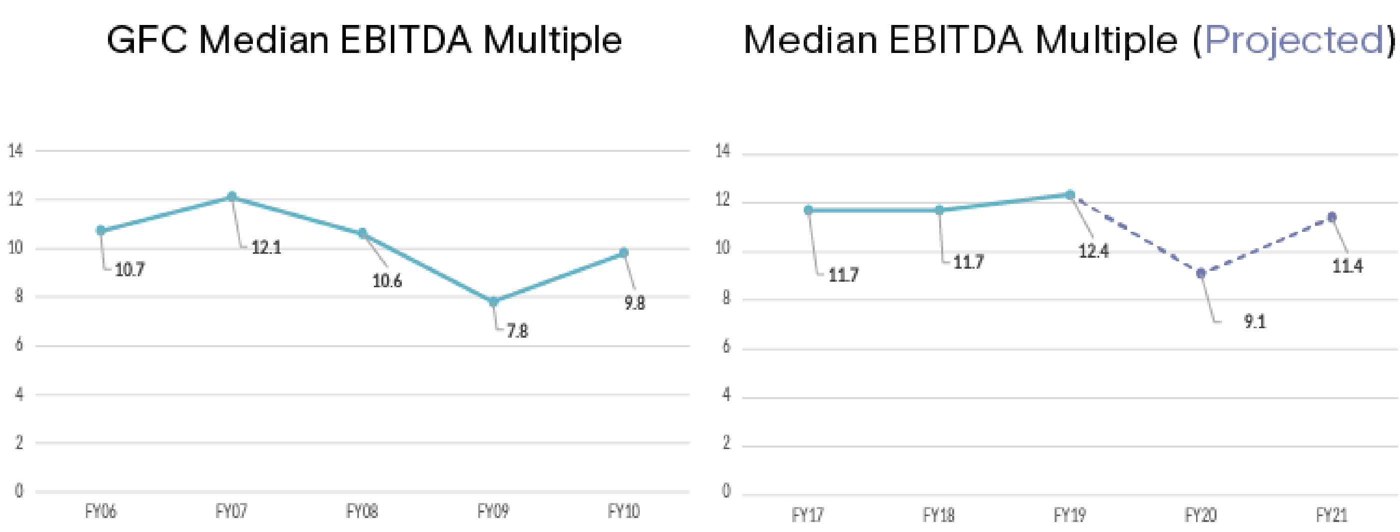
Sectors

As experts try to piece together what life after COVID-19 will look like, only one thing is clear: not all sectors will emerge equal.

“Clearly, businesses that depend on people being willing to congregate together have been and will continue to be hit badly – industries such as travel, entertainment, events, food service and gaming,” said Paul Shim, a partner at Cleary Gottlieb Steen & Hamilton.

Both Shim and Luke Laumann, a partner at White & Case, agreed niche sectors such as technology specializing in work-from-home applications, pharma, biotech, diagnostics, and personal safety would be robust for the foreseeable future. That said, Laumann cautioned, "the implications are complex and some savvy business leaders are finding ways to repurpose themselves or otherwise mitigate their downside."

Technology, industrials, mining, business services, and financial services were among the sectors that drew in hefty deal values at north of USD 180bn apiece in 1Q19. Industrials and chemicals, at a meagre USD 53bn, was the highest performing sector in 1Q20. Technology and financial services trailed behind, while the steepest falls were seen in healthcare and business services.



Source: Mergermarket, an Acuris company

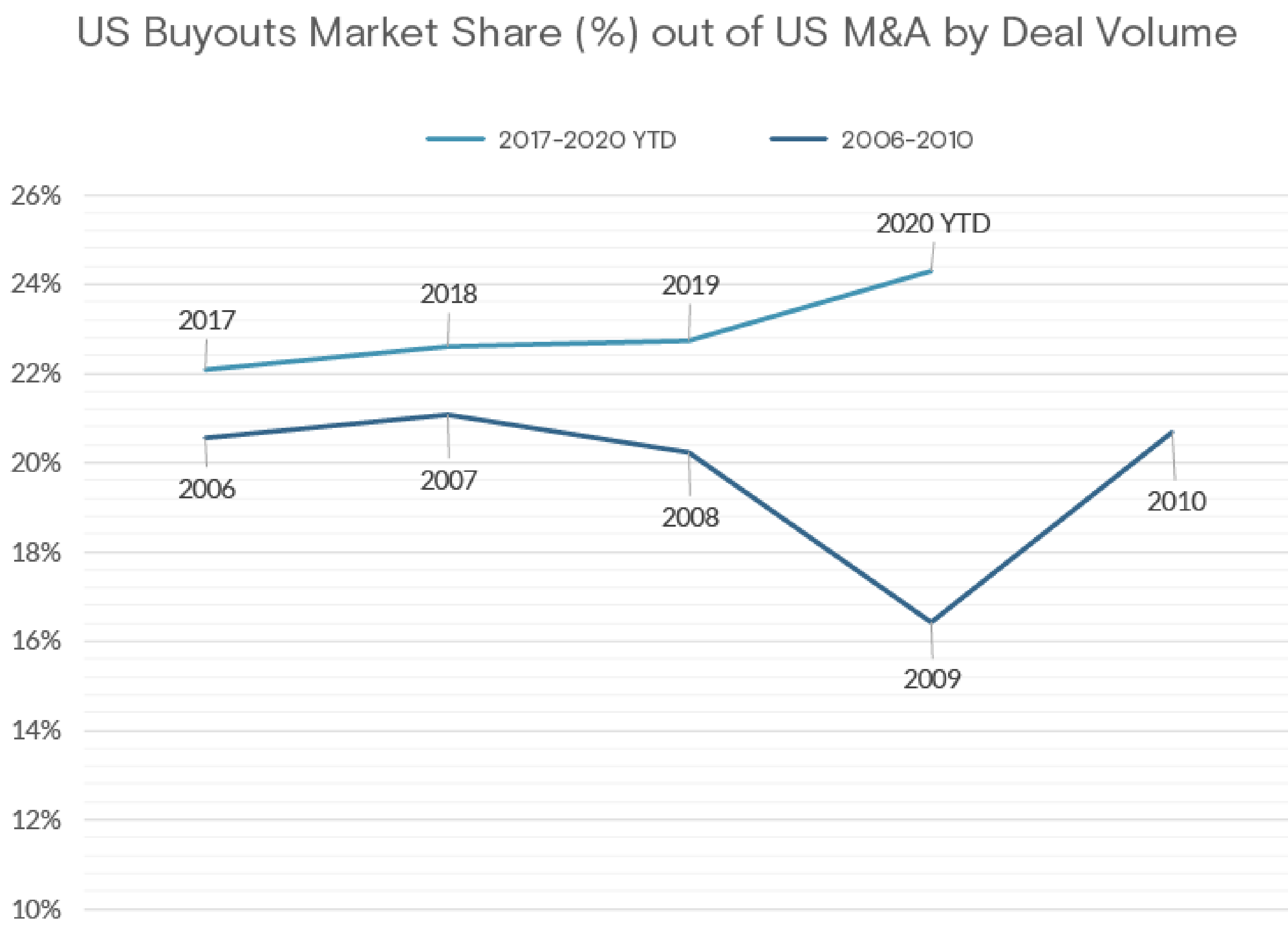
Valuations

During the 2008 global financial crisis, median EBITDA multiples fell to 7.8x in FY09 from 12.1x in

FY07. Last year, deals were being completed at a median 12.4x EBITDA multiple. This could fall almost three turns to 9.1x EBITDA in FY20 before moving up again next year, according to *Mergermarket* data.

Despite the almost guaranteed fall in valuations, especially for the harder hit sectors, the US is expected to maintain its weight on the global scale as a predominant player, though "lasting restrictions on global travel could affect cross-border activity," said Paul Shim.

"As the US braces for its apex, which is likely behind Europe, we believe any US slowdown in M&A will largely emulate a similar global slowdown and the systemic reasons for higher M&A activity in the US (a large integrated market supported by a large sophisticated financial system) are unlikely to be linked to the pandemic," said White & Case counsel Morgan Hollins.



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Private Equity

The new wave of deal-making may lead to deals happening by PE firms, cash-rich corporates, SWFs, and buyers of distressed assets.

"We believe that companies which have experienced rapid deterioration in market capitalization because of the pandemic and that have liquidity needs in the near term and potential difficulty in accessing the debt markets may seek out alternatives short of 100% sales," said Hollins.

The S&P 500 was down 12% YTD on 20 April, before oil prices caused global stocks to crumble even lower. Listed corporates, too, will see buying power evaporate as stock prices underperform and earnings deteriorate.

"This may lead," Hollins continued, "to opportunities for PE firms, not necessarily just as an acquirer but also as a PIPE (private investor in public equity) investor."

Unlike the 2008 GFC, which basically resulted in a loss of faith for financial institutions globally, this pandemic is biologic and humanitarian in nature, and PEs and the financial industry may be seen as a savior rather than the spoiler.

But while the die is cast, "[i]t's probably a bit early for deals driven by the new world order, though – stay tuned," said Cleary's Shim.

by Anjali Piramal, with analytics by Mate Taczman, Prasad Deshmukh & Philip Segal

**US M&A best/ worst case estimated using data correlations with Global Financial Crisis of 2008*

***Median EBITDA multiple projection based on YoY rate of change between 2008-2010*

Grade: Strong evidence

Countries
USA

States

Sectors
Agriculture
Automotive
Biotechnology
Chemicals and materials
Computer services