



### HOW THE COVID-19 CRISIS IS IMPACTING BUSINESS OWNER EXITS



#### *Business Challenge-*

#### **Navigating the M&A marketplace in the wake of the Corona Virus.**

Business Owners of mid market companies face unique challenges in the face of this pandemic. The health and safety of loved ones, employees and themselves is of course their primary concern, but this article will focus on the potential financial implications for business exits. Many of these owners had already begun to consider their exit or growth strategies before the crisis and now are curious what the future may hold for their aspirations.

#### **WHAT OWNERS ARE THINKING**

- What will happen to the business over the next month?
- Will we survive economically, will we have anything left to sell?
- When will we know we can safely return to “normal”?
- What will normal look like?

Those of us that survived the last economic downturn remember dealing with the post downturn world as the “new normal”, now we are facing what is being dubbed the “**next normal**”. Many owners who were unprepared for that episode delayed their exits or simply did not survive. Sadly, many owners who did not learn the lessons of the past are doomed to encounter the same fate. The uniqueness and fluidity of this situation requires owners who are better prepared and able to adapt in order to survive. Just like last time weaknesses will be revealed but it will also create tremendous opportunity for those that position themselves properly.

#### **HOPE FROM OUR HISTORY LESSONS**

As painful and uncertain as this is , we do anticipate an end at some point where medical science at least mitigates the medical threat. Once we reach a certain equilibrium in this realm we can begin to move forward again economically. Remember, our recovery from eleven years ago turned out to be tremendously robust and we did not experience the same level of downcycles we would normally have anticipated. Many owners who had the foresight to execute proactive strategies were able to exit at optimum valuation levels. While it is impossible to predict the length and depth of this disruption, we do urge owners to heed these lessons and take the steps necessary to position themselves optimally to take advantage of the ensuing market opportunity.



## Predicted Impact on M&A

So how is the current environment impacting the M&A landscape currently? Through our own experience and research collected from other groups, like a special roundtable formed of fellow Axial members, we have some insight into what is happening today. While the landscape is changing on almost a daily basis, this will offer some perspective in today's world.



While some deals that were in the works are being terminated we have actually witnessed an acceleration to complete deals that are in the latter stages of the closing process, some even forgoing some more rigorous due diligence items to close.



Deals in the earlier stages are seeing the reverse effect with an over abundance of diligence and scrutiny being applied and a general dragging of the feet to see how things develop. Look for this trend to continue for now as the ground on this issue keeps shifting and financial institutions tighten their reigns.



Cash is King. Private and Equity and many well capitalized companies are still flush with cash to be deployed and they see the disruption as another opportunity to attain inorganic growth and to acquire talent and innovation. Look for them to leverage this advantage for favorable deal terms, and more contingencies like earnouts and holdbacks.



While some industries have been hit hard, there is always a marketplace to pick up distressed opportunities in a downturn. Other sectors are thriving, particularly in basic consumer goods, healthcare, e-commerce, and anything virtual. Cash is king, stubborn owners who fail to react in time risk their business value dropping to zero.



Valuations in general are headed downward, uncertainty of recovery and tighter requirements from the banks will be downward drivers. Many boomers who have delayed their exits may decide they no longer are willing to wait out the next cycle and we will see an increase in the supply of businesses for sale possibly driving valuations down further. The decade long upward trend is likely over for many, those who waited too long may have missed their optimal exit.



However, strong companies who were prepared will still command a premium valuation. Stock market volatility may drive many investors to seek alternative revenue strategies especially those who were previously business owners themselves. Many will look to jump back in to try their hand in business again. Strategic companies with cash in hand will look to acquire their way to new markets they deem resilient to future economic turmoil.



## What Can Owners Do?

### Keep Calm and Keep Solvent

For some owners, the first step is triage. Contact your financial institution and the SBA for disaster loan assistance, have candid conversations with your employees and suppliers, and do your best to preserve your cash flow. There will be no chance of an exit if you can't weather this storm. For stronger companies it may be time to be aggressive and look out for acquisition opportunities.

### Undergo a Pre-Due Diligence Checkup Undergo a Pre-Sale Valuation

As an M&A advisor we are usually more than happy to begin the exit process but despite this benefit to us we have always advocated to our owners the necessity for early exit planning. Sadly very few owners end up creating an actual pre exit strategy, we end often end creating a de-facto plan as part of our more traditional M&A engagement because the businesses are simply not ready to be taken to the marketplace in their current state. Have a professional analyze your current valuation in the marketplace and perform a due diligence stress test to determine where you need to improve value.

### Prepare an Exit Plan and Take Action To Improve Value

Once a professional has performed a valuation analysis and a pre diligence review it is time to put together a proper action plan to take the steps necessary to improve your marketability. Again, our clients rarely take advantage of these services but hopefully this latest experience will augment the perceived value for being prepared for various contingencies. At a minimum most of the transaction steps will not need to be created from scratch when the company determines they are ready to execute their exit.

### Contact Your Professional Advisors

Whether you need immediate assistance in preparing a Disaster Loan Package or you are looking to make a move on an acquisition it is time to reach out for professional help. Time can be your enemy or time can be your friend. Any true exit professional will work in conjunction with your management team and your existing advisors (accountants, lawyers, bankers, wealth advisors etc.) to coordinate a functioning exit to optimize your exit.

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## *Next Steps*

Contact us to schedule a confidential no obligation meeting to discuss how we can design a program to perform your ideal exit or acquisition .

Gulfstream works together with wealth advisors, accounting firms, legal firms and other advisors to business owners.

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