

M&A MARKET PERSPECTIVE

March 2020

KEYSTONE
CAPITAL MARKETS



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COMPANY VALUATIONS

Overall valuations likely to be lower:

- ▶ Public comps as well as their impact on private comps
- ▶ Tighter credit markets mute competitiveness of Private Equity
- ▶ Short-term difficulty pricing in risk of economic uncertainty

Individual valuations highly dependent on industry and company:

- ▶ Higher for essential services (goods & services for hospitals, CPG & food manufacturers serving grocery/convenience stores, residential & commercial infrastructure)
- ▶ Higher for companies out-performing their peers (even if performance is down)
- ▶ Markets will open up first for companies performing well in this difficult environment

CAPITAL MARKET RESPONSE

Shorter-term activity has dramatically slowed:

- ▶ Investors (Strategic and Private Equity) devoting attention to their existing businesses
- ▶ NDAs still being executed, but serious deal evaluation & offers (even for companies performing well) mostly on hold until economic clarity improves and in-person meetings can resume
- ▶ Pace of deals under LOI likely to slow (due to diligence limitations with social distancing) or be repriced/restructured (to address economic uncertainty)

Longer-term activity likely to increase as fundamentals improve:

- ▶ Increased cash on corporate balance sheets
- ▶ Declining debt levels and borrowing costs
- ▶ Urgency for private equity to deploy over \$700 billion in aggregate investable capital

BUSINESS OWNER
RECOMMENDATIONS

- Deals under LOI:** Expect delays and potential restructuring (to address increased risk)
- Deals in market:** Do not expect meaningful investor responses until visibility improves for capital markets and company financial performance (recent & projected)
- Deals in preparation:** Proceed as necessary to ensure marketing can begin as soon as visibility improves
- Longer-term exits:** Focus on out-performing peer companies, and consider acquiring weaker competitors at lower valuations

Keystone is a leading middle-market investment bank providing strategic advisory and merger & acquisition services to businesses with revenues between \$10MM and \$200MM. We offer clients the **expertise and capabilities** of a large investment bank, coupled with the **energy and attention** of a more entrepreneurial firm.



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