

M&A MARKET PERSPECTIVE

March 2020

KEYSTONE
CAPITAL MARKETS



IRVINE

114 Pacifica
Suite 370
Irvine, CA 92618

SAN DIEGO

4225 Executive Square
Suite 600
San Diego, CA 92037

PARK CITY

2750 Rasmussen Road
Suite 201
Park City, Utah 84098

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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