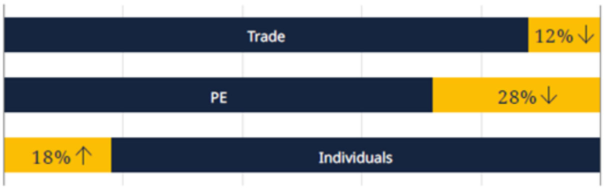
M&A in 2020: Impact of COVID-19

The COVID-19 pandemic has caused one of the biggest and most sudden disrupting events in the global M&A ever seen, and there was significantly less M&A activity in the second quarter of 2020 due to the pandemic. Having that said, the M&A market seems to have adapted and recovered. Based on the research made by DLA Piper in the report Global M&A in 2020: Impact of COVID-19, we will in this article briefly describe the key take-aways on how, who and what the pandemic has impacted.

Sellers

During the beginning of the pandemic, trade and private equity sellers generally pulled assets from the market and very few new processes started. The sale processes that were however launched were generally (i) forced sales caused by the financial distress of the seller, target or both; (ii) sales where the sellers remained intent on exiting their business or requiring further funding for the business; and (iii)sale of assets whose value increased because of the pandemic.

Change in sellers

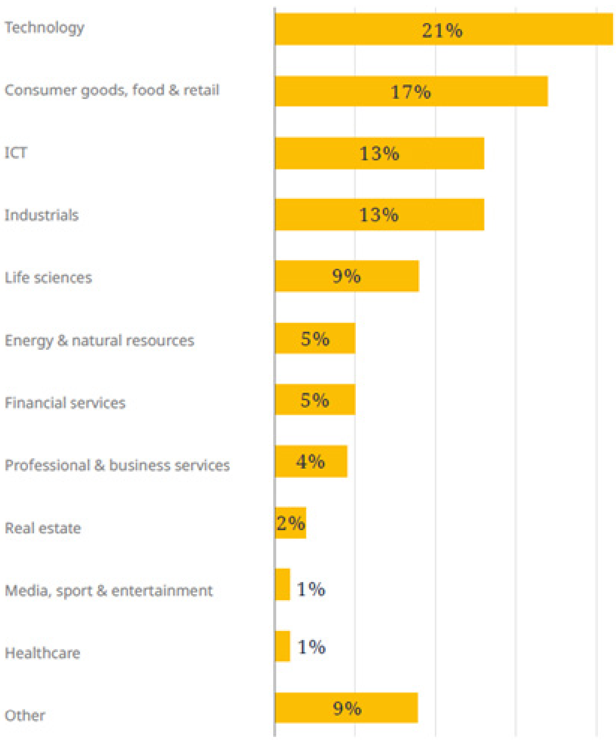


Sectors

Not surprisingly, the technology sector experienced most activity in terms of M&A transactions. The pandemic created a "new normal" which required businesses to adapt and seek to accelerate their focus on digitalization and use of technology. As a result, technology businesses became very attractive to buyers.

The consumer goods, food and retail sector also experienced significant activity, however mostly in the food manufacturing sub-category of the sector. Other active sectors included infrastructure, construction and transport, industrials and life science.

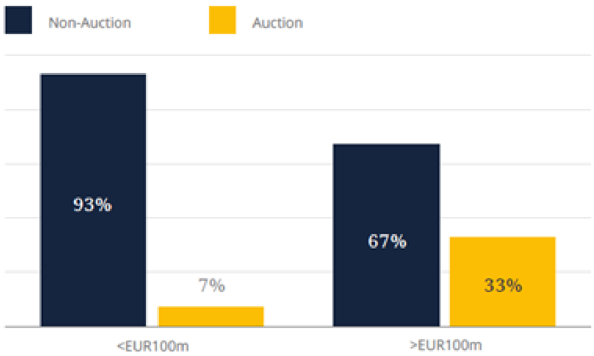
Deals by sector



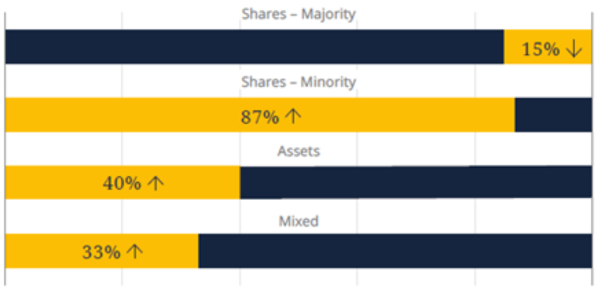
Deal Process

The number of deals completed because of concluded auctions nearly halved in 2020 compared to 2019. This was perhaps due to the potential buyers having been less willing to spend time and money on auction processes where there was no certainty that they would be successful. In addition, during the pandemic, we also saw a significant increase in the number of auctions that broke at some point during the process.

Post-COVID deal process

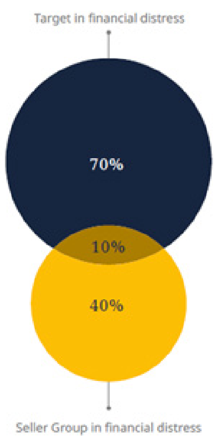


Change in deal type



Distressed M&A

Although it was predicted by many that the pandemic would lead to a significant increase in the volume of distressed M&A transactions, this has not been the case so far. This is likely due to the levels of government support, and when this support falls away, we may see more distressed M&A transactions materialize.



Due diligence

The pandemic has shown to lead to practical difficulties in the due diligence. Over a third of the DLA Piper partners reported to have encountered challenging difficulties in the due diligence process such as inability to carry out in-person site visits. This has led to extended deal processes since the due diligence has been taking longer time.

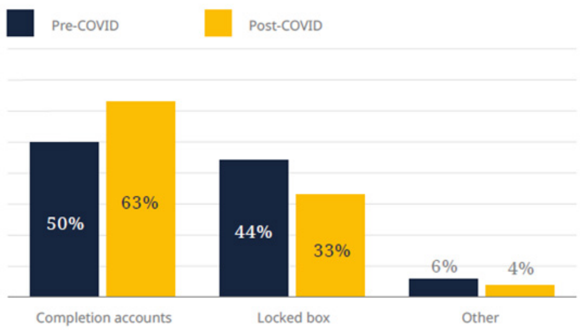
Further, two-thirds of the DLA Partners reported that the pandemic had let to a change in emphasis of due diligence with the buyers being more focused on for instance the pandemic's impact on material contracts, employees and their working environment, and government support taken by the target.

Pricing mechanisms

Following the pandemic there was a significant increase in the number of deals that used completion accounts pricing mechanisms as opposed to locked box.

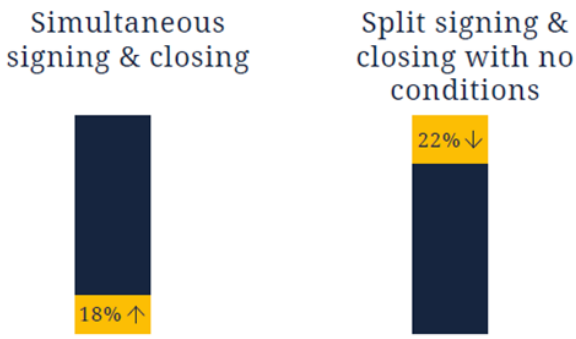
Where completion accounts were used, the adjustment mechanisms generally remain net debt and working capital. However, some of the M&A partners from DLA Piper reported seeing an increase in revenue or earnings adjustments. Where locked box accounts were used in post-COVID-19 deals, it was rare for these accounts to be more than six months old.

In relation to earn-outs, the reports made have shown that there is a correlation between a more buyer-friendly market and an increase prevalence of earn-out, thus the post COVID-19 market will most likely experience more earn-outs.



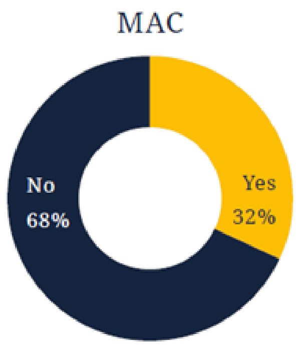
Split sign/close

Although commentators had predicted otherwise, the number of deals which have had a simultaneous signing and closing have increased post-COVID-19. Conversely, deals which had a period between signing and closing but no conditionality fell by over 20% globally.



MAC protection

Surprisingly, and opposite what had been predicted by some commentators, the percentage of material adverse change clauses saw no material change. In addition, the use of MAC clauses slightly decreased. The reason for this could perhaps be that the biggest decision in the M&A processes was really whether to proceed with a deal, and once this was decided, there was no need for the uncertainty of "get out" clauses.



You can read the overview version of the Global M&A in 2020: Impact of COVID-19 report or try to request the full report **here**.

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