



**LION EQUITY
PARTNERS**

COVID-19 Impact on Corporate M&A

Survey Results | May 2020

Introduction



The COVID-19 pandemic has sent a seismic shock throughout the entire M&A landscape. As many regions begin reopening processes, I wanted to take a snapshot of the impact COVID-19 is having on Corporate M&A and the response from Corporate Development professionals.

Lion Equity is focused on acquiring non-core divisions from larger companies, so we've been working with Corporate Development professionals extensively. Additionally, I serve on the Global Board of Directors for ACG and lead efforts to create programming, events and content for Corporate Development professionals.

I believe Corporate Development professionals are arguably the most dynamic M&A professionals. They are the nexus of a company's inorganic growth, connecting M&A strategy, deal execution, and integration with executive leadership and business unit managers. Thus, I believe surveying these professionals would generate unique insights and profound results.

The conducted survey is heavily weighted with seasoned Corporate Development professionals from some of the largest and most active companies across the globe. The survey quantifies and assesses the COVID-19 pandemic impact on deal volumes, expectations on post-pandemic deal characteristics, and a paradigm shift to using virtual tools to execute and integrate deals. Furthermore, the study captures anecdotes on how the disruption is creating emerging best practices.

Thank you to all who participated in this survey. I hope you find the results interesting and valuable. Please feel free to connect for further discussion.

Best Regards,



Aaron M. Polack

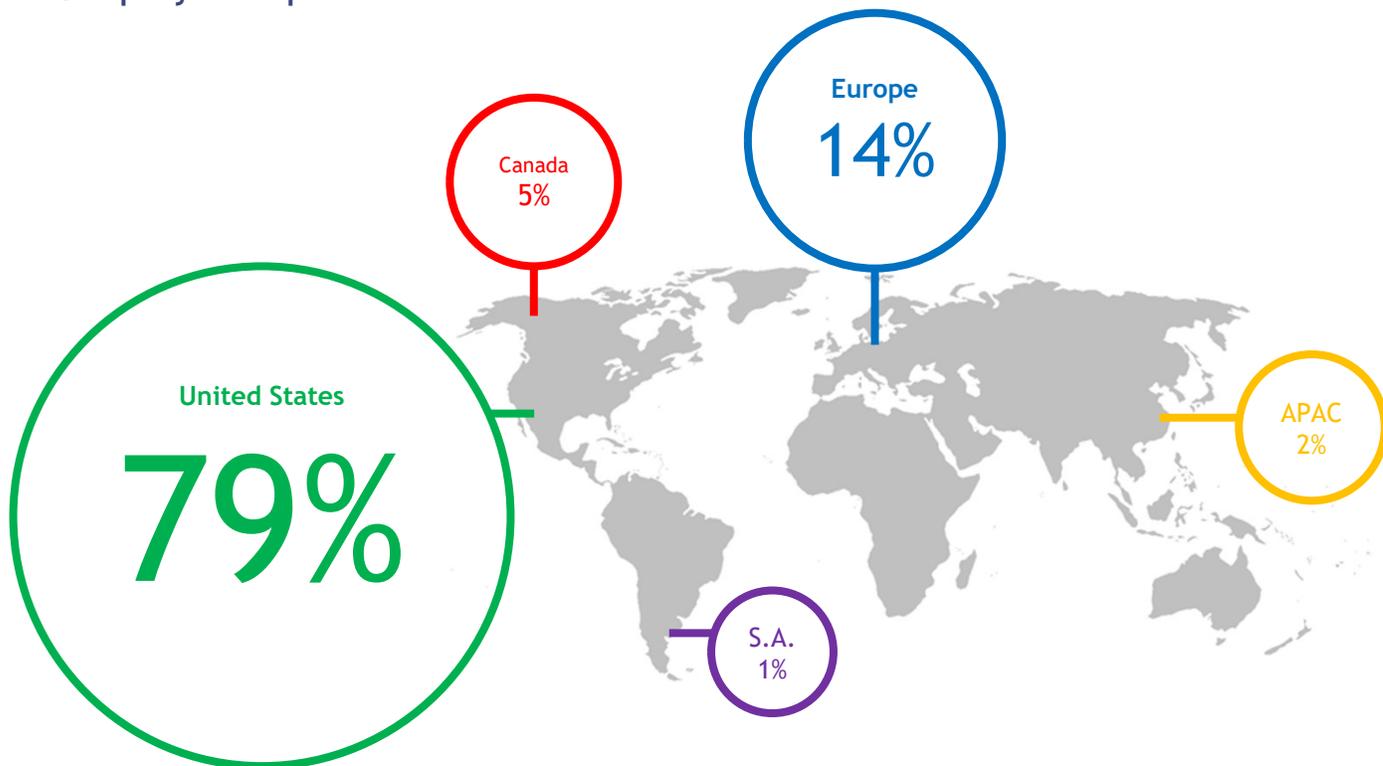
Lion Equity Partners, Head of Business Development

Key Findings

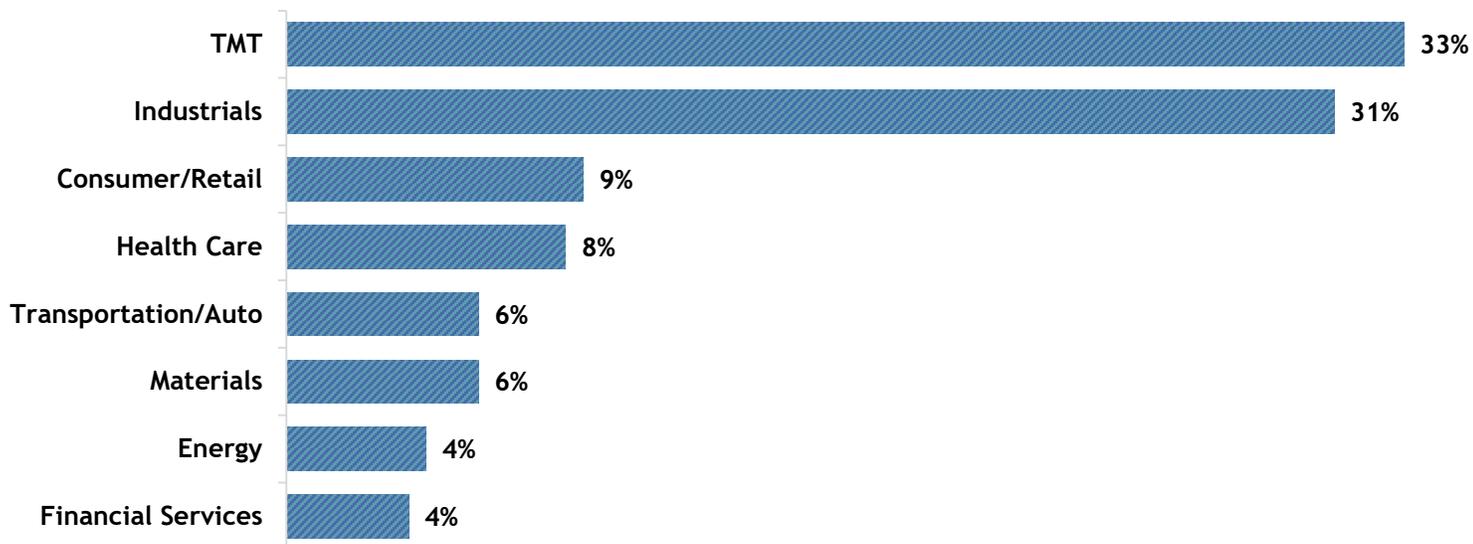
- **77%** Of respondents agree there will be a significant release of pent up deal volume once the COVID-19 pandemic subsides
- **95%** Expect valuation multiples to significantly or moderately decrease in the next 12 months
- **88%** Expect deal terms to be significantly or moderately more buyer friendly in the next 12 months
- **77%** Expect structures such as earn-outs to significantly or moderately increase in the next 12 months
- **27%** Are concerned their job is in jeopardy or their team has already experienced layoffs
- **78%** Have participated or expect to participate in virtual deal meetings
- **76%** Expect an increase in virtual management presentations and diligence meetings after COVID-19 has subsided
- **40%** Recently scheduled (or recently conducted) a review of the portfolio (business units) or M&A strategy
- **33%** Plan to initiate a divestiture in the next 12 months

Survey Profile

Company Headquarters



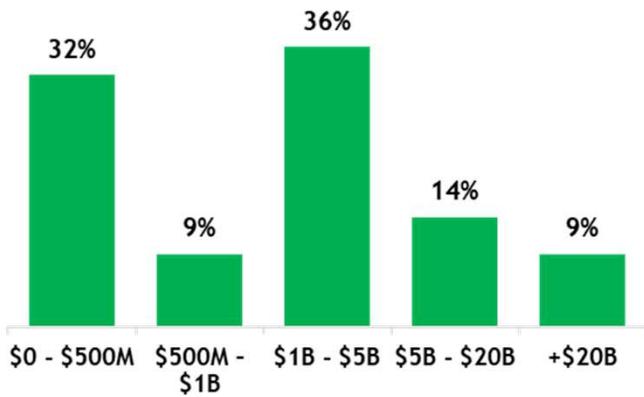
Company Industry



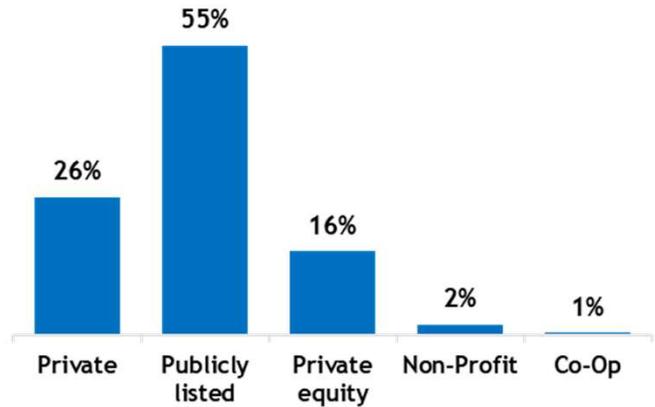
Note: Survey data is collected from 201 respondents

Survey Profile (cont'd)

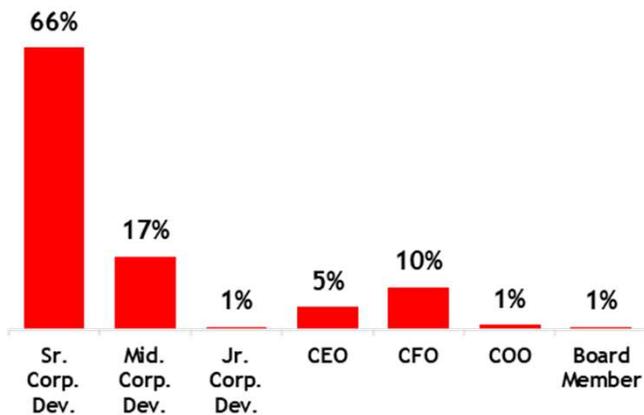
Company Revenues



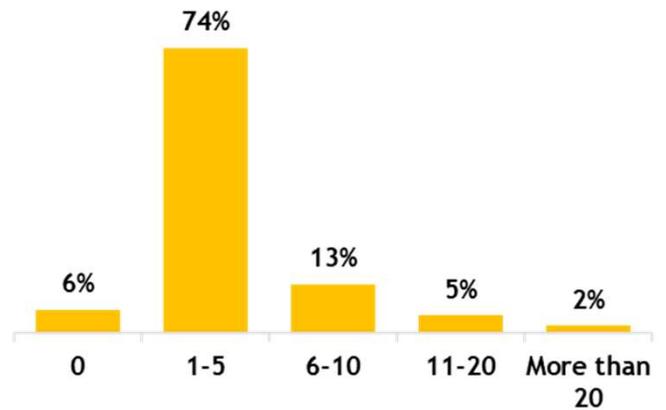
Company Ownership



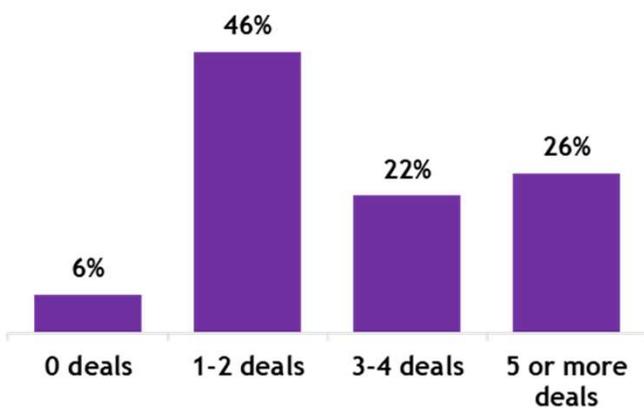
Professional Role / Title



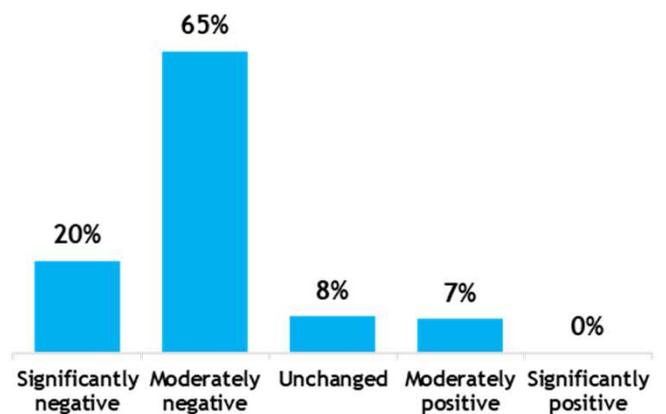
Size of Corporate Development Team



Average Annual Deals Closed



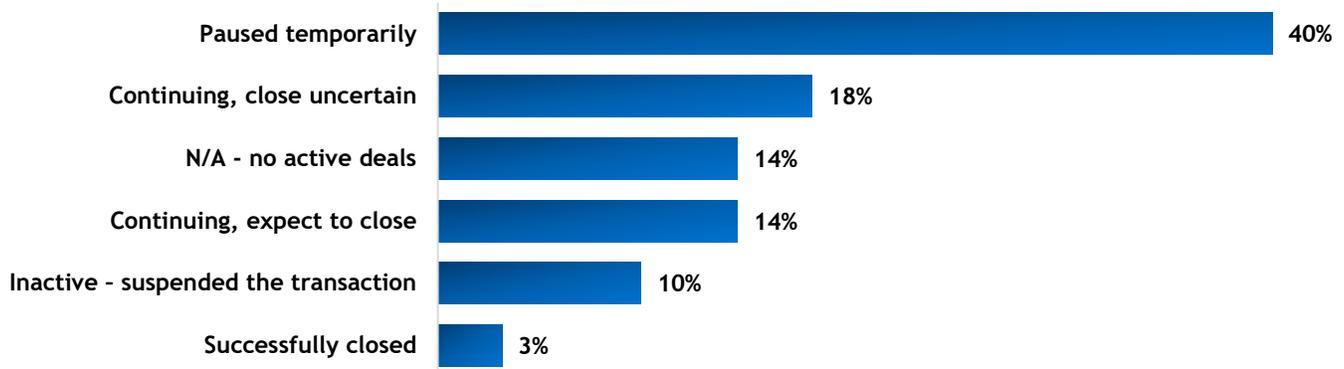
COVID-19 Impact on your Company



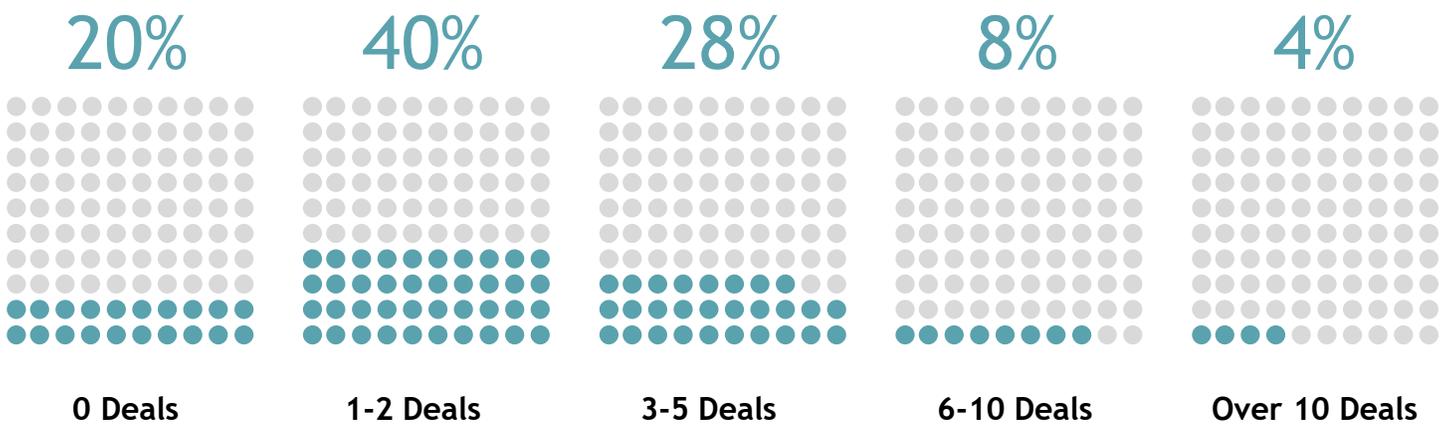
Note: Survey data is collected from 201 respondents

Current Deal Activity

Q - What best describes the status of a potential acquisition you were pursuing prior to COVID-19 (active pursuit on 2/1/2020)?



New deal opportunities received by your company in April 2020:



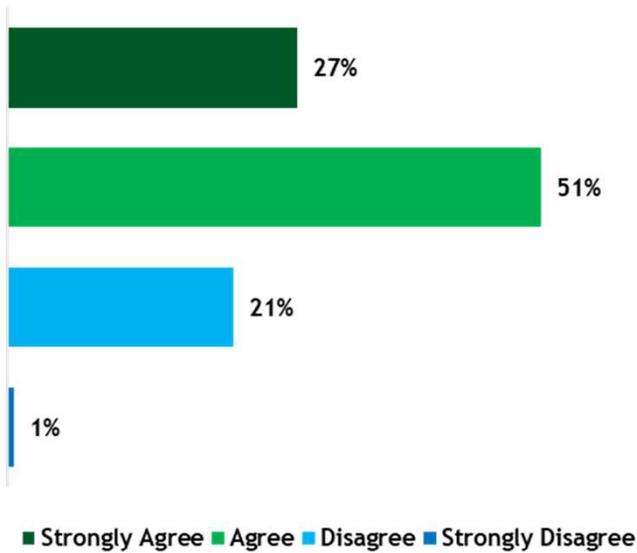
“Prior to COVID-19, our company would typically see 4-6 deals per week. After COVID-19 hit, volumes dried up almost completely. Unless deals were in an advanced stage, bankers were advising clients to postpone deal launches. Uncertainty in projected financial performance, combined with Buyers' capital constraints are creating a vacuum in which Sellers are unclear as to what their businesses are truly worth. I am optimistic that as financials become more transparent in the coming months, Sellers' expectations will start to align more with Buyers' expectations and transactions will begin to accelerate. In the meantime, our Corporate Development group was impacted given deal volume reductions to the point where reductions in staff were required.



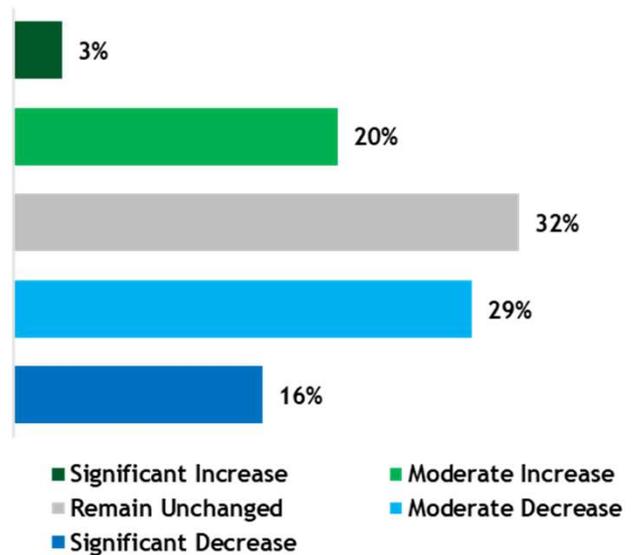
- Austin Olney
Corporate Development M&A Professional
(formerly with a Colorado-based public company)

M&A Activity Expectations

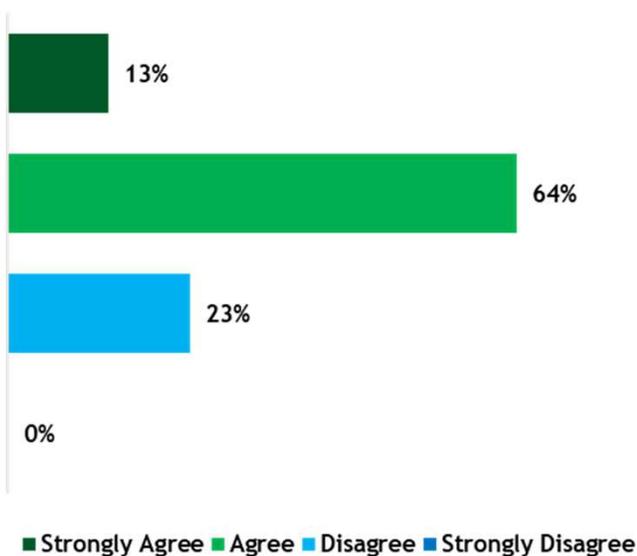
Q - COVID-19 and current market volatility will negatively impact global M&A longer than 6 months:



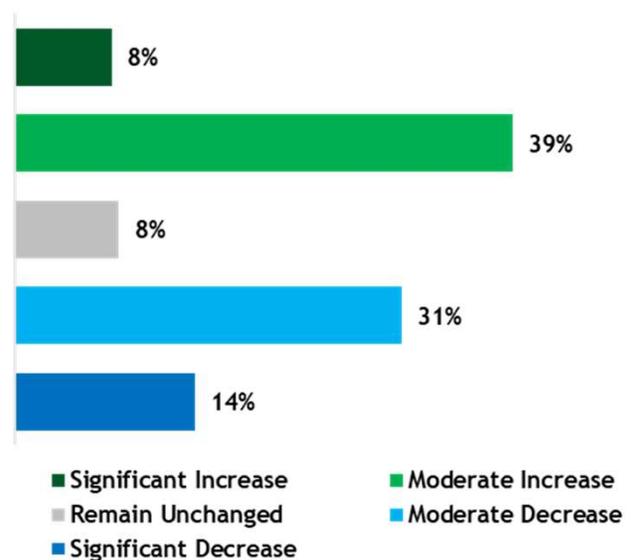
Q - How will COVID-19 affect your company's appetite for M&A in the next 12 months?



Q - Once the COVID-19 crisis subsides, I expect a significant release of pent up deal volume:



Q - When compared to the 12 months prior to COVID-19, I anticipate my deal pipeline for the next 12 months will experience a:

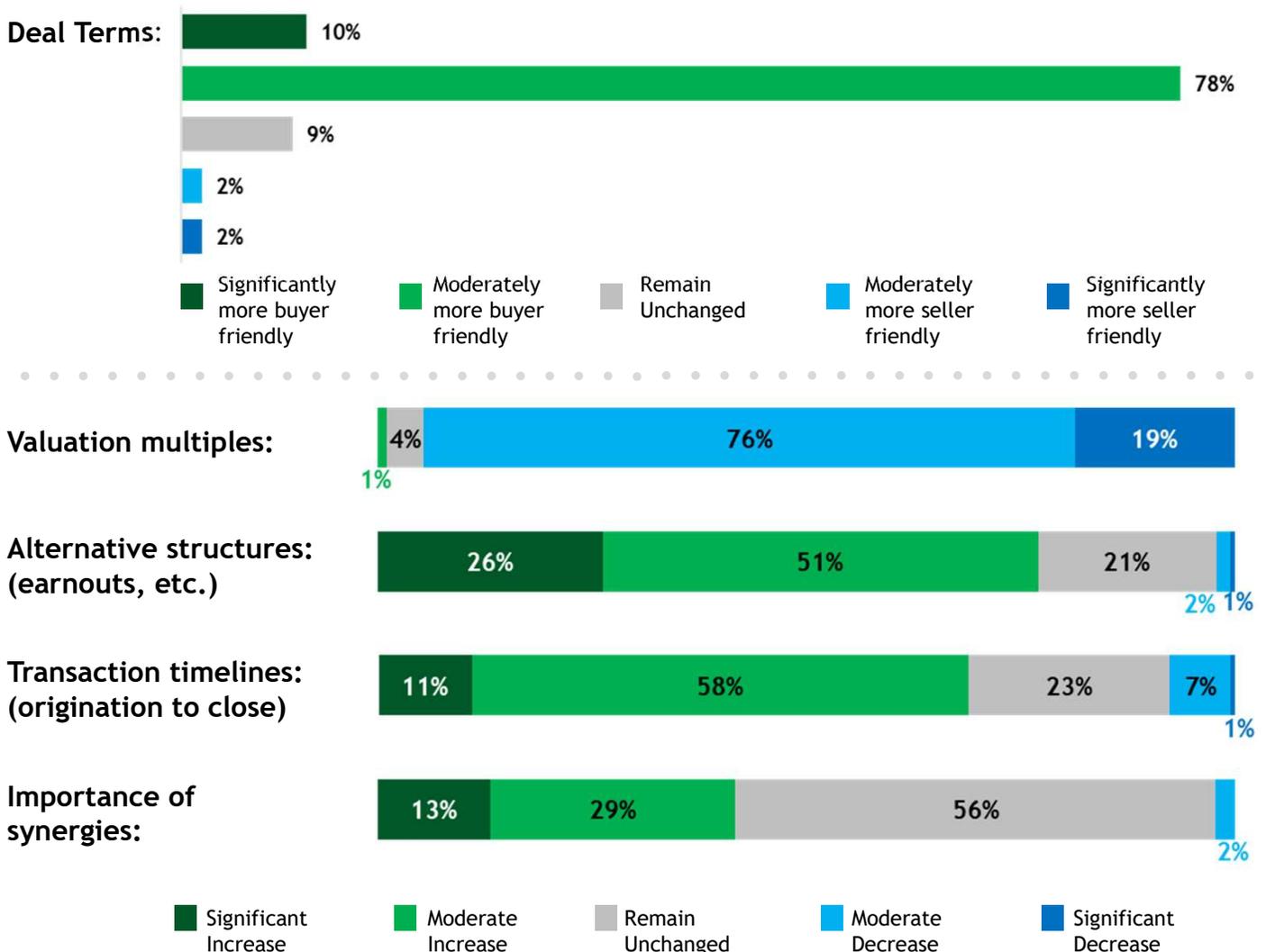


Deal Characteristics

Q - Do you anticipate your future purchase agreements will include additional provisions to address pandemics, communicable diseases or other black swan events?



Expectations for the next 12 months:

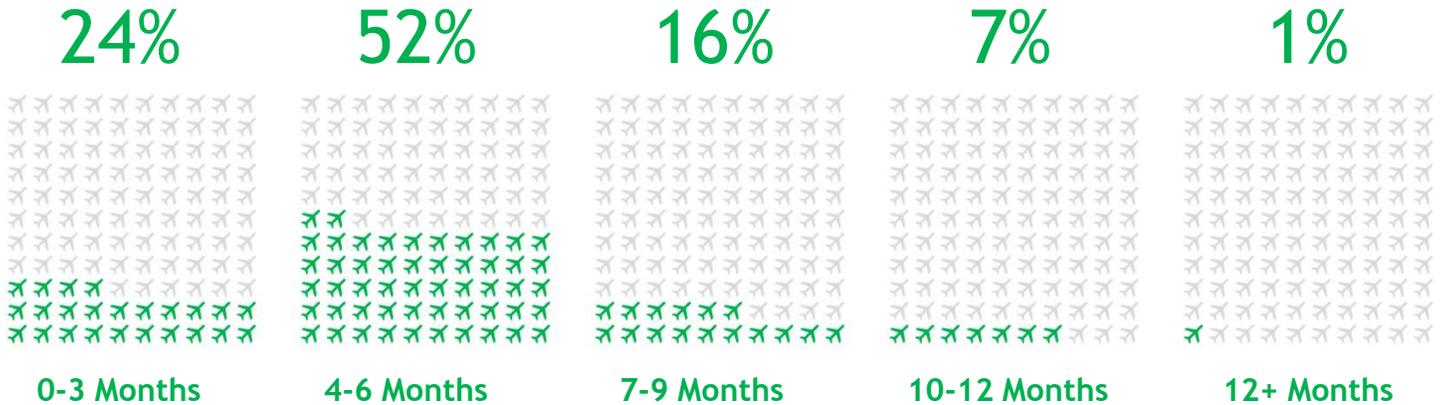


“ [I expect] slower deal timelines, more earn-outs and claw-backs to manage risk, terms more buyer-friendly.

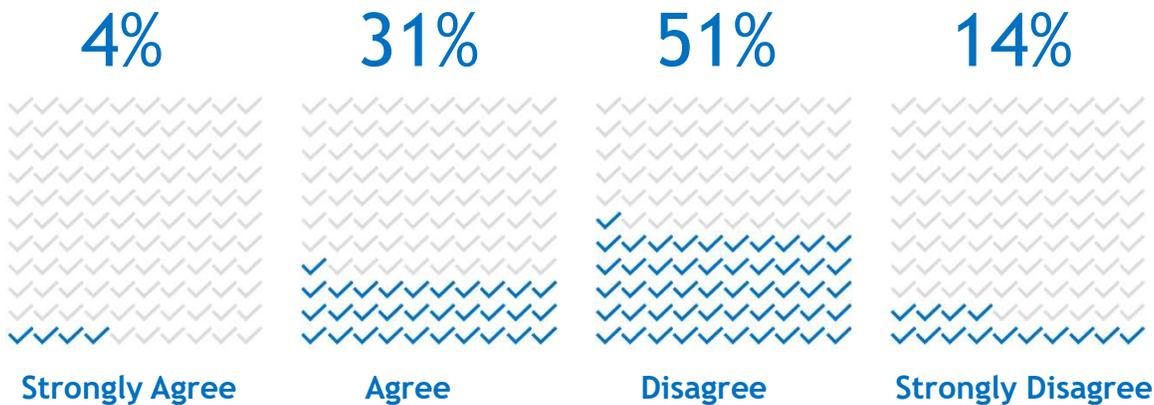
- CFO of a private company

Corporate Development Teams

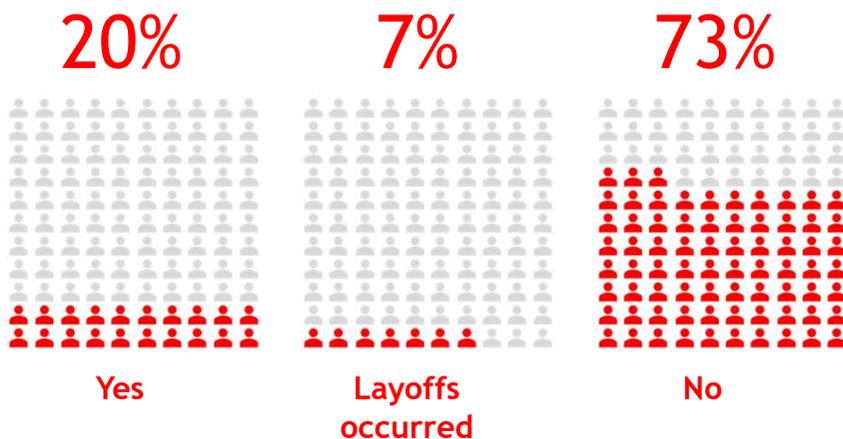
Q - When do you expect to travel again for business?



Q - COVID-19 and stay-at-home orders have negatively impacted your Corporate Development (M&A) team's ability to work effectively:

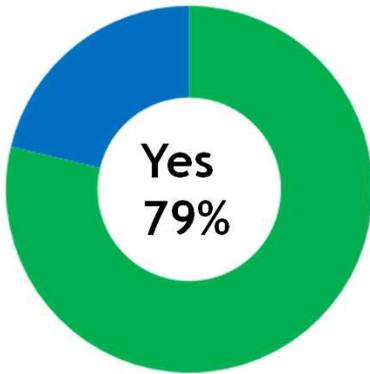


Q - Are you concerned your Corporate Development (M&A) team will be downsized, or your position is in jeopardy?

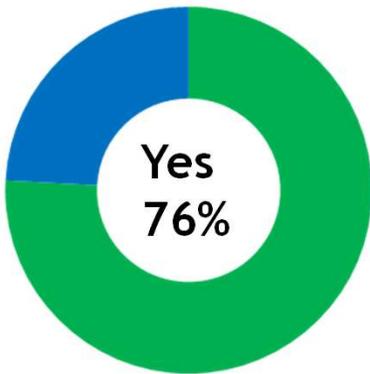


Corporate M&A Adopts Virtual Tools

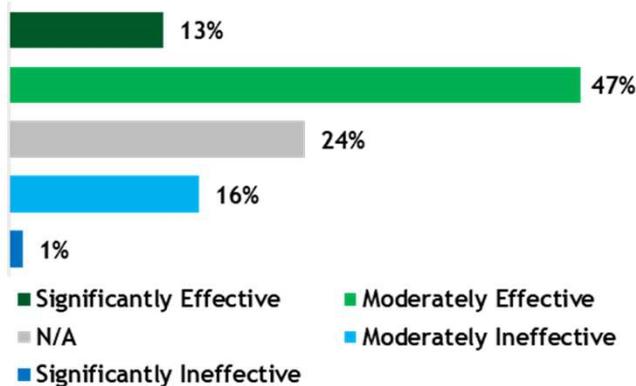
Q - Have you participated or expect to participate in any virtual M&A meetings (mgmt. presentations, diligence etc.)?



Q - Do you expect an increase in virtual M&A meetings after COVID-19 subsides?



Q - How would you describe the effectiveness of virtual M&A meetings?



“ Recognizing how much we can get done without travel is refreshing.

- Sr. Corporate Development professional from a multi-billion dollar publicly listed company

“ I believe [this pandemic] has opened some eyes to the possibility of remote and virtual workplace.

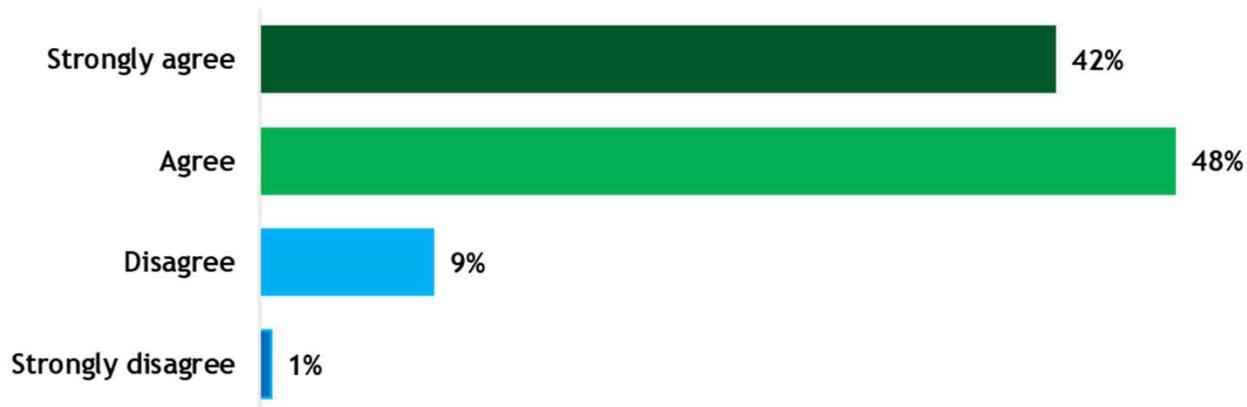
- Sr. Corporate Development professional from a multi-billion dollar publicly listed company

“ Turns out MS Teams is a great tool for more frequent interaction when real team is distributed worldwide.

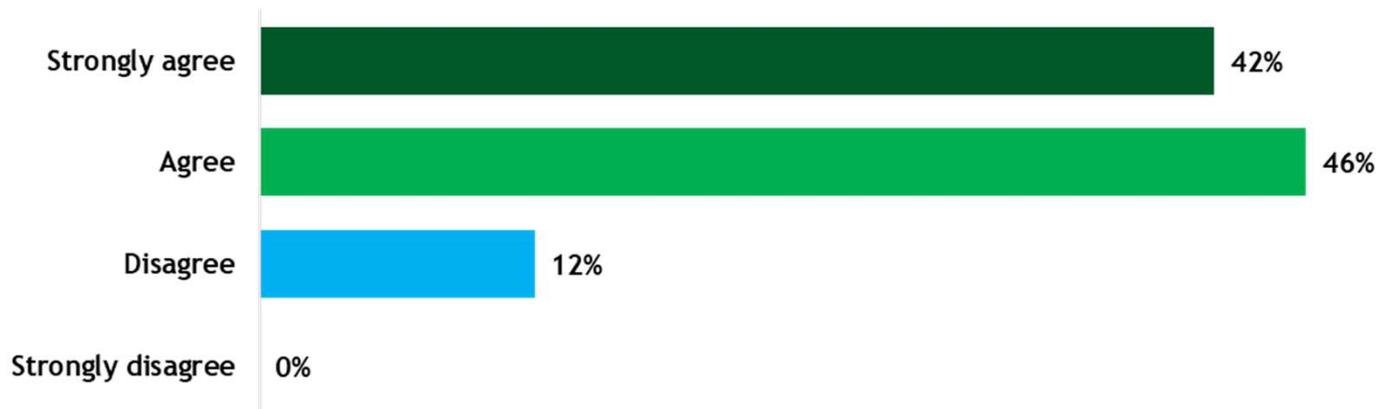
- Sr. Corporate Development professional from a multi-billion dollar publicly listed company

Importance of Face-to-Face Continues

Q - Face-to-face interaction is critical when performing diligence on a potential acquisition:

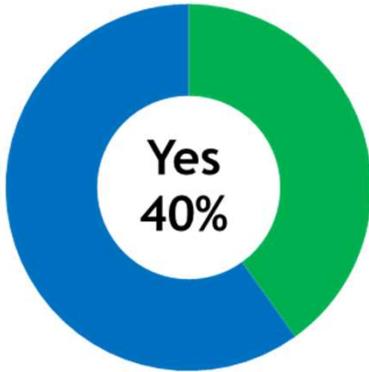


Q - Face-to-face interaction is critical to realizing synergies when integrating a new acquisition:

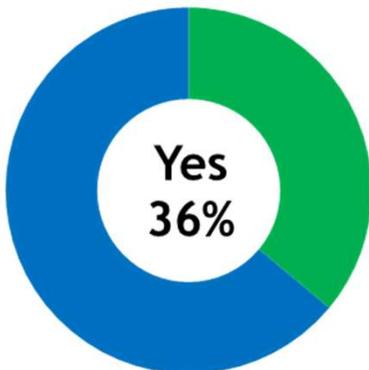


Focus on Portfolio Optimization

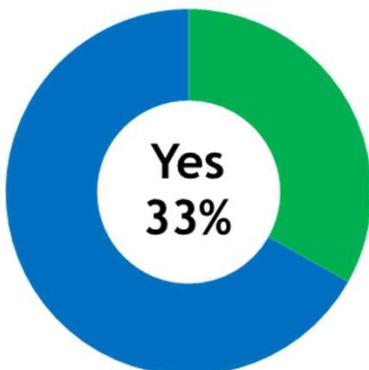
Q - As a result of COVID-19, has your company leadership recently scheduled (or recently conducted) a review of the portfolio (business units) or M&A strategy?



Q - As a result of COVID-19, do you expect your company will increase the frequency of portfolio and M&A strategy reviews?



Q - Do you expect your company will initiate at least one divestiture process in the next 12 months?



“ [The crisis] has driven good portfolio level decisions to ensure resources are focused on the highest growth / highest impact segments.

- Sr. Corporate Development professional from a multi-billion dollar publicly listed company

“ M&A will have to catch up and portfolio discussions will lead to even more activity.

- Sr. Corporate Development professional from a multi-billion dollar publicly listed company

Corporate Development Finds Growth in the Ashes

The burn from the COVID-19 impact on M&A is smoldering and will likely continue for the foreseeable future. However, Corporate Development professionals are finding green shoots in the ashes.

Many Corporate Development professionals are using this period of relatively low deal activity to look introspectively at their processes and approach, with the objective of emerging stronger than before the pandemic. Opportunities exist to redefine diligence and integration processes, bolster execution tactics and test the investment thesis to discover advantages over competitors.

A small number of deals are moving forward, and a normalized level of transaction volume is expected to return soon. Furthermore, companies are reviewing portfolio optimization and many plan to initiate divestitures. Regardless if they are pruning to heal or to grow, it will contribute to increased deal volumes. With increased deal activity impending, Corporate development professionals are positioning themselves to capitalize in a more buyer friendly climate.

As many professionals expect an extended pause on travel, M&A teams are adopting virtual tools to execute and integrate acquisitions. What virtual tools lack in human-to-human contact, they makes up for in efficiencies. Most of the technology being used has been available well in advance of COVID-19. However, the pandemic has greased the wheels for a paradigm shift in the use of virtual tools in the M&A process.

“*In general we are being more thoughtful with decisions. We are strengthening both our investment hypotheses and tactical implementation of integrations with the additional time since we are not traveling. We are seeing a rapid pace of technological change [in Healthcare] that will exit COVID 5-7 years ahead of where we entered from a digital transformation lens.*”

- Sr. Corporate Development professional from a multi-billion dollar publicly listed company

“*Operationally, our managers have become more creative on providing value with fewer resources, which we believe will help us with future integration.*”

- Sr. Corporate Development professional from a PE-owned company

“*Taking time to retool [our] due diligence process.*”

- Sr. Corporate Development professional from a multi-billion dollar publicly listed company

Corporate Carve-out Solutions

About Lion Equity Partners:

Lion Equity is a Denver-based private equity firm founded with the core purpose of helping companies meet strategic divestiture objectives. The Partners of Lion Equity have significant experience with corporate divestitures and the overall M&A process.

Why do companies divest non-core divisions to Lion Equity:

- ✓ Proven track record of executing complex carve-outs deemed “non-core” from sellers, including Siemens, Pitney Bowes, Sodexo, The Washington Post and others;
- ✓ Demonstrated ability to execute time-sensitive carve-outs requiring speed and certainty of closure;
- ✓ Committed to flexible structures that meet seller’s divestiture objectives;
- ✓ Dedicated to seamless transition through a unique understanding of the specific issues involved both during due diligence and post-closing working with Seller, employees, customers and suppliers.

To discuss a corporate carve-out opportunity, please contact:

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