

COVID-19 RESPONSE

COVID-19 AND ACCELERATED M&A

Securing success in the most complex of circumstances

With the devastating human impact of COVID-19 and the associated slowdown of the global economy, it is inevitable that we will see an increase in business distress, liquidity issues, and the need for new capital to be deployed quickly to shore up weakened balance sheets.

In situations where existing shareholders are unable or unwilling to provide additional liquidity, an accelerated sale of a business can often remedy the situation.

Unlike traditional M&A processes, where a business has months to prepare for sale, accelerated M&A sales processes are typically carried out in situations of distress. This is often where time is short and management are dealing with a host of unexpected issues, alongside supporting the sales process. The COVID-19 crisis is a particularly acute example.

When shareholders and management teams face an accelerated sales process, in order to preserve the business and safeguard jobs and assets, what are the key considerations that will help maximize the chances of success, in complex, time-pressured, or unpredictable circumstances?

Maximizing the chances of success



1. BE BRAVE, MAKE DECISIONS

It is understandable that, in challenging times, many questions will arise: How did we get here? This wasn't the investment case—where is our contingency? However, while questions are asked, we often see a lack of decisive action, postponing decision-making and wasting time. In a distressed situation, every day or week of additional liquidity improves the odds of success.

A key part of any new investor diligence will be to assess the team running the business, its track record, the ability to be decisive and take action to address the underlying issues, and form a view on the team's ability to lead the business through recovery.

Analyse, assess, act: timing is crucial.

2. MANAGE YOUR LIQUIDITY

Once a liquidity need has been identified, a rapid assessment of the actions and the necessary levers to either maintain or improve the position should be carried out. Which costs can be avoided or postponed? Which creditors can be stretched or extended terms agreed? Which capex programs can be paused?

During the sales process, a huge effort will be made to build the confidence of potential investors in the business and the team. Liquidity requirements that increase during the process can be costly. They also not only impact investor confidence, but can lead to increased compression of the timetable, and the loss of potential buyers or a significant loss of value.

Continue to reassess these questions and monitor your liquidity throughout the process.

3. FLEXIBLE YET ROBUST PROCESS

Many experienced management teams will have been involved in M&A processes in the past, and be familiar with the key workstreams, stages of the process and timing required to engage with buyers and build competitive tension.

While maximizing value for the creditors or existing shareholders will be a key priority, so is the survival of the business through the injection of new equity. An accelerated process will include preparation of a business plan and marketing materials, and the compilation of a data room and buyers list. Depending on the timescales available, there will be an increased need for early engagement with buyers, speed over perfection (applying the 80/20 rule) and flexibility in timescales and order of events.

No two sales processes are the same. While at the outset there is always a broad plan and associated timetable, each process is bespoke, reflecting the response of the buyer community, market events, and changes in circumstances of the business.

Flexibility is key.

4. ENGAGE WITH POTENTIAL INVESTORS

As with any sales process, identifying the hungriest buyers and those with the most strategic logic for the acquisition is key to maximizing value. In time-pressured situations, identifying buyers that can work within the timeline available is critical.

Given the compressed nature of the transaction, buyers must be willing to accept the reduced scope of due diligence available (typically balanced through price), the increased risk of the target entity failing, and often the reduced level of legal protection afforded by the seller.

Equally, in order to quickly attract the attention of buyers and investment, the key value drivers of the business must be quickly identified and presented in a digestible form, ensuring that interactions with buyers are incremental to their engagement in the process and view on value.

Constant and clear investor engagement is critical.

5. STAKEHOLDER MANAGEMENT

In any accelerated sale process, there are a variety of stakeholders to manage—ranging from employees, customers and suppliers; to shareholders, lenders and bond holders. The key to successful management, as in any crisis, is early engagement and frequent communication.

By ensuring key stakeholders are kept abreast of the situation and the proposed plan, surprises can be avoided and odds of achieving a consensual position

are improved. Remember, objectives will vary across the various stakeholder groups. In situations where there is no ideal outcome, having the preferred solution seen as the 'least worst option' can be viewed as success.

Ongoing and transparent stakeholder dialogue is crucial.

There is no silver bullet for delivering a successful accelerated sales process. There are many considerations to be addressed, often in very compressed timescales. Adopting the five steps above can increase the chances of success and, ultimately, significantly improve the long-term viability of a business.



For more information, get in touch:

Nick Wood

Managing Director
O: +44 20 7332 5221
M: +44 7976 851 379
nwood@alixpartners.com

Graeme Smith

Managing Director
O: +44 20 7332 5115
M: +44 7932 158 222
gsmith@alixpartners.com

Tom Paterson

Director
O: +44 20 7332 5068
M: +44 7584 149 328
tpaterson@alixpartners.com

ABOUT US

For nearly forty years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges—circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line—a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA—so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

The opinions expressed are those of the authors and do not necessarily reflect the views of AlixPartners, LLP, its affiliates, or any of its or their respective professionals or clients. This article, COVID-19 and accelerated M&A ("Article") was prepared by AlixPartners, LLP ("AlixPartners") for general information and distribution on a strictly confidential and non-reliance basis. No one in possession of this Article may rely on any portion of this Article. This Article may be based, in whole or in part, on projections or forecasts of future events. A forecast, by its nature, is speculative and includes estimates and assumptions which may prove to be wrong. Actual results may, and frequently do, differ from those projected or forecast. The information in this Article reflects conditions and our views as of this date, all of which are subject to change. We undertake no obligation to update or provide any revisions to the Article. This Article is the property of AlixPartners, and neither the Article nor any of its contents may be copied, used, or distributed to any third party without the prior written consent of AlixPartners.