



COVID M&A UPDATE: WHERE WE WERE AND WHERE WE ARE

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OUTSET OF COVID (Q1 – Q3)

COVID-19 M&A IMPACT

OUTSET OF COVID (Q1 – Q3)

- Deals were on pause due to:
 - Decline in business production as a result of COVID induced restrictions
 - Increase in focus on running/maintaining businesses
 - Lenders were uncertain with respect to setting rates and terms
- Original purchase terms renegotiated as buyers are unsure whether they were overpaying under current circumstances
- Write-off of “dead deal” costs to generate cash tax savings and possibly create net operating loss (NOL) carrybacks
 - Increased tax compliance time to calculate impact of NOL carryback
 - Attention must be paid to purchase agreement terms and the party entitled to NOL carryback benefit

COVID-19 M&A IMPACT

OUTSET OF COVID (Q1 – Q3)

- Greater utilization of earn-outs due to downturn in economy creating cash deferred savings
- Favorable working capital adjustment for buyer creating reduced purchase price due to COVID-19 revaluation of historical working capital trends
- Risk-shifting between buyer and seller regarding COVID-19 impact to be negotiated, reducing purchase price for buyer for added contingencies
- Avoidance of reverse break-up fee for buyer due to “financing out” if lender(s) back out of deal due to Covid-19
- Additional Representation and Warranty Insurance (“RWI”) Exclusions related to COVID-19 “known or should have been known” issues

POLL QUESTION #1

Question 1: Did your company/clients experience downturn/halt in M&A activity in 2020 as a result of COVID-19?

Answers:

A. Yes

B. No

C. Not Sure/Not Applicable

DEAL ACTIVITY REBOUND (Q4)

COVID-19 M&A IMPACT

DEAL ACTIVITY REBOUND (Q4)

- Deal spigot turned back on:
 - Companies adjust to the “new normal” of business operations
 - Backlog of stale capital (from Q1 – Q3) ready to be deployed
 - Buyers and Sellers eager to close deals
 - Lenders become more settled on “new normal” and term setting
- Deal terms renegotiated
 - Total purchase price adjustments
 - Earnouts based on graduated scale of progress towards pre-COVID earnings levels

COVID-19 M&A IMPACT

DEAL ACTIVITY REBOUND (Q4)

- Race to get deals done in 2020
 - Amid speculation of potential hike in capital gains tax rates
 - Deal teams eager to “reset the clock” for 2021
- Uncertainty remained with impact of COVID relief programs
 - Tax deductibility of PPP loan expenses
 - Obstacles of acquiring a PPP borrower (e.g. SBA change in control procedures, eligibility of Buyer ERC recipients, etc.)
 - Purchase agreement terms formulated to comply with SBA forgiveness and escrow requirements associated with a change in control situation

POLL QUESTION #2

Question 2: Did you assist your company/clients with any COVID-19 relief program applications?

Answers:

A. Yes

B. No

C. Not Sure/Not Applicable

CURRENT M&A OUTLOOK

COVID-19 M&A IMPACT

CURRENT M&A OUTLOOK

- On December 27, 2020, President Trump signed the Consolidated Appropriations Act, 2021 (H.R. 133) into law
 - PPP loan expenses associated with loan forgiveness amounts are tax deductible
 - PPP borrowers may claim the employee retention credit (ERC) on a retroactive and prospective basis
 - ERC large employer designation increased from 100 to 500 employees
 - ERC economic hardship threshold adjusted to 20% loss of gross receipts for 2021 (down from 50% in 2020)
 - ERC increased to \$7,000 per employee for 2021 (up from \$5,000 in 2020) at 70% of qualified wages (up from 50% in 2020)

POLL QUESTION #3

Question 3: Has your company/clients experienced any R&W insurance exclusions as a result of COVID-19 issues?

Answers:

A. Yes

B. No

C. Not Sure/Not Applicable

COVID-19 M&A IMPACT

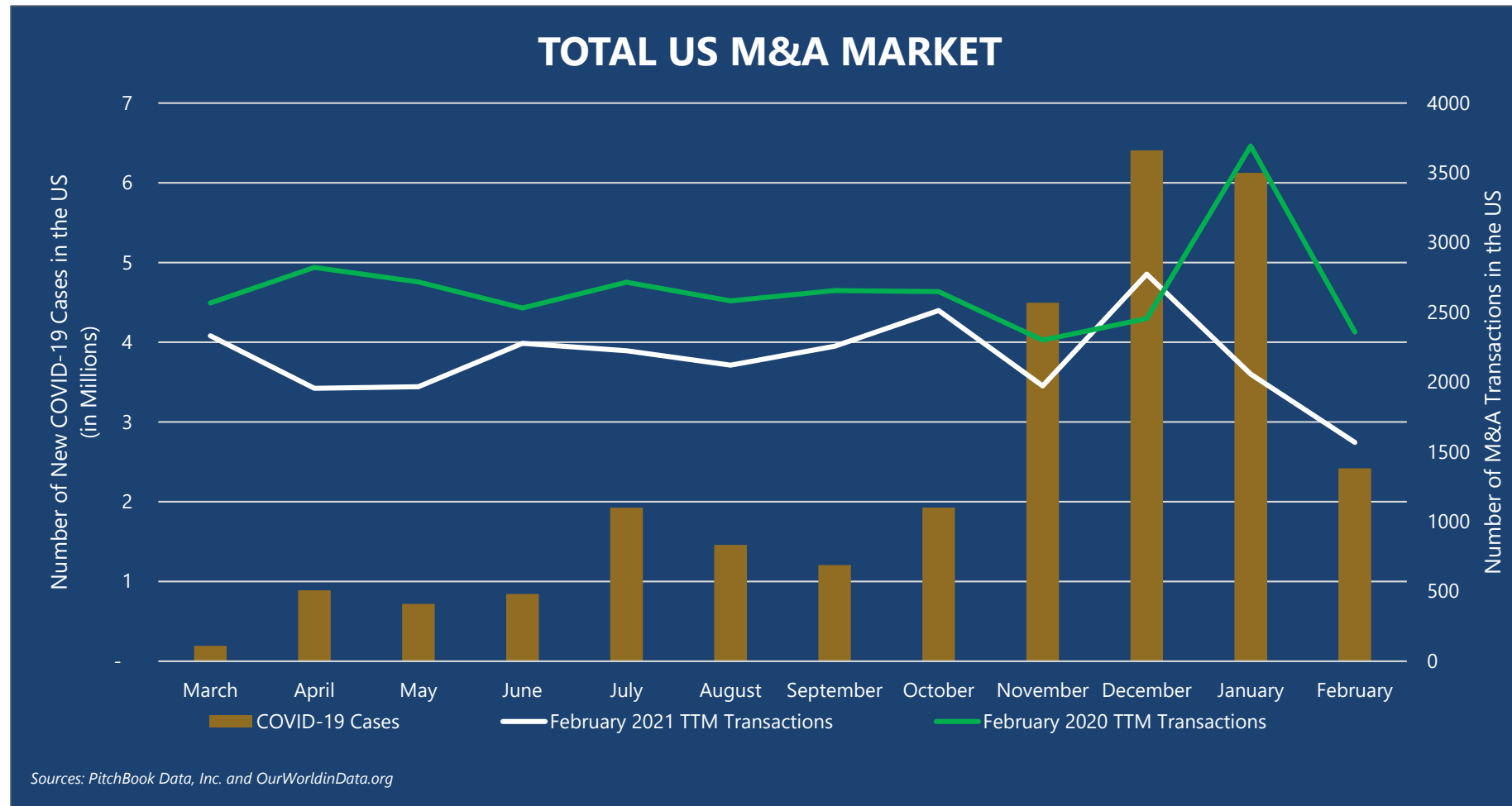
CURRENT M&A OUTLOOK

- Current Potential RWI Exclusions/Purchase Price Adjustments:
 - Deferred payroll taxes
 - Unforgiven PPP loan amounts
 - Excess provider relief fund distributions
 - Advanced Medicare reimbursement repayments
- What's next?
 - Second round of PPP loans available to small businesses with more certainty about the procedure and tax treatment

MARKET IMPACT

COVID-19 M&A IMPACT

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COVID-19 M&A IMPACT

MARKET IMPACT

- Sectors that out performed* in Q4 2020 vs Q4 2019:
 - Aerospace and Defense
 - Business Services
 - Banking
 - Finance & Insurance
 - Diversified Industrials
 - Food & Agriculture
 - IT & Telecom
- Sectors that underperformed* in Q4 2020 vs. Q4 2019:
 - Building Products & Construction
 - Consumer Discretionary Spending (e.g. vacations)
 - Healthcare
 - Power & Energy
 - Transportation & Logistics

QUESTIONS?