

Evolving Perspectives (June 2020)

Mergers & Acquisitions, Financing Markets and Industry Updates

As we all continue to adjust, evaluate, learn and experiment with a changing economic landscape because of COVID-19, it is evident we are being challenged in multiple ways. Global forecasts continue to remind us there is no case study to follow that shows the best path in our emerging “normal.”

It is clear that the safety and welfare of employees and clients remains a top priority in stabilizing work environments. Juggling phased reopening strategies, working with government officials on what constitutes an essential business, and developing new business models are calling for strategic planning and decision making for all businesses. Bundy Group is committed to ongoing involvement with all levels of these emerging changes, and as we continue to work with clients, investors, industry experts and colleagues to support these emerging directions. Furthermore, we will continue to share these insights with friends and colleagues along the way.

 *The Economist* recently predicted the U.S. will experience a “90% economy, which will be smaller than that which came before, and it’s new strangeness will be more than a matter of size.”⁽¹⁾

Mergers & Acquisitions Update

As a sign of COVID-19’s impact on business sale transactions, global Mergers and Acquisitions (“M&A”) has fallen by approximately 45% by mid year of 2020.⁽²⁾

As one family office investor recently said, “We are seeing investment opportunities fit on a barbell scale, meaning the potential acquisition targets are either doing quite well, or they are distressed.” For those companies that fit in the middle of the barbell, now may not be the optimal time to sell or bring on a financial partner. In that case, they may be best served by following Winston Churchill’s suggestion, “to ride out the storm.”

(1) “Not quite all there.” *The Economist*. April 30, 2020.

(2) Ahmed, Nabila. “Dealmakers Look for M&A to Pick Up in Second Half of the Year.” *Bloomberg*. May 14, 2020.

That being said, there ARE also signs of renewal in the M&A market, as reported by a recent survey of 1,000 senior executives by Ernst & Young. The results indicate that companies are “preparing to transact” in order to prepare for a post-pandemic economy. Furthermore, Bundy Group continues to receive strong interest in client engagements that fit on the attractive end of the scale, and we are seeing an increasing buyer appetite for firms that could benefit from a relatively quick recovery.

For those companies that can demonstrate they are on the path to stable operating performance, strategic and private equity buyer options are becoming more readily available.

Financing Markets Update

A contributing factor to the downturn in the M&A market has been challenges in obtaining financing for transactions.

Commercial banks have been placed under stress due to extreme capital requests from clients and devoting resources for PPP loans. As a commercial banker relationship of Bundy Group recently said, “Right now capital is a premium, and we are focused on lending to only the highest quality companies.” Private investment groups, which will place debt and/or minority equity into companies, continue to be an alternative for business owners and management teams. These groups are taking extra steps in completing thorough due diligence on companies, especially those firms that have been significantly impacted by COVID-19. As the financing markets stabilize relative to this new environment and the economy regains momentum, Bundy Group anticipates both commercial lenders and private investment groups will increase their aggressiveness for deploying capital. There is a significant amount of capital available in the market, and we are already seeing signs of increased capital deployment in our current client engagement work.

Industry Updates

As an investment banking advisory firm focused on serving a number of core industry verticals, Bundy Group would like to highlight emerging trends in several segments that we cover.



Healthcare: Pharmaceutical Services

The Pharmaceutical Services, or Healthcare Contract Research Organization (CRO), market includes many therapeutic specialties (dermatology, infectious diseases, oncology) that continue to operate with various degrees of impact from COVID-19. A number of CRO players are working diligently on clinical drug trial studies for COVID-19 drugs. Meanwhile, other CROs and clinical trial site networks are trying to maintain their clinical trial study schedules for various therapeutic drugs so their clients can continue developing and releasing new pharmaceutical solutions. As phased openings continue, ongoing pharmaceutical and testing trials will continue to accelerate, resulting in stronger financial performances for CRO organizations.

Healthcare: Physician Practice Management

While the Physician Practice Management segment has been significantly impacted by the current pandemic, it is also a market that has the attributes to experience a quick recovery.

Tom Ferkovic, Managing Director with Medic Management, a medical management and operational consulting firm, stated, "Depending on the specialty, once the market opens to full access and

surgery you can expect a Nike swoosh growth model." Tom further elaborated that "the comfort level of the patient and the acute or chronic conditions being treated will dictate the speed of recovery. Therefore, companies serving as Management Services Organizations in quickly recovering specialties should rebound quickly, but companies managing cosmetic or non-essential procedural practices will likely have a slower recovery period." Tom also stated, "The other concern in the Physician Practice Management sector will be the insurance status of patients as they lose jobs and benefits; there is a strong likelihood of defaults on co-pays and open patient balances."



Healthcare: Services & Technology

Scott Alexander, the owner of iVelocity Marketing, a leading healthcare marketing firm, is seeing a rapid return of patient volumes and a shift in how patients expect to interact with healthcare providers, which is positive for businesses offering technology and services to providers. "While we saw a dip in elective volumes in the initial phases of COVID-19, we are now seeing that many of those procedures were delayed, not cancelled. We are also seeing that new patient engagement for elective procedures is equal to or higher than in early March before the shutdown, contrary to what was originally forecasted. It is very encouraging for healthcare providers and their suppliers."

Healthcare services and technology companies have felt the impact of COVID-19, however, owners of many of these organizations anticipate a quick ramp back up as we progress further into 2020.

Scott further added, "One challenge we see facing healthcare technology and service companies is that access to decision makers is being strongly curtailed. This is a new challenge for sales leaders of those organizations and is leading to a strong move online for marketing services to drive a connection between the technology or service supplier and the healthcare professional utilizing the product/service. While face-to-face efforts are always ideal, the new reality is that the sales process for healthcare technology, including medical devices, healthcare IT, and other products and services, will have to develop a strong digital component to be effective going forward."

Controls & Automation

The pandemic forced some manufacturers to dramatically increase their output, sometimes by rapidly adding manufacturing capacity (e.g. toilet paper, paper towels, sanitizing, wipes), while others had to completely redesign their plants (e.g. automotive manufacturers producing respirators). All of this took place respecting social distancing guidelines, and, in some parts, from a distance (e.g. with virtual commissioning). Businesses are now looking at



robotics and automation solutions to help mitigate the pandemic risks to operations while at the same time increase manufacturing flexibility and efficiency. Potential beneficiaries of this trend include control system integrators, industrial robot suppliers, providers of production floor hardware, industrial automation, Internet of Things (IoT) software and analytics.

Jose Rivera, Chief Executive of the Control System Integrators Association (CSIA), stated, “The trend towards digital transformation in industry is being accelerated by the pandemic. Originally intended to drive competitiveness, digital transformation is also driving resiliency. Access to plant floor data is key.” Jose further added, “Most brownfield plants and machines were not designed with data capturing and sharing in mind. Adding to the challenge, many sites include a colorful patchwork of legacy systems that need to be networked with the appropriate cyber-security protections. All of these are areas of control system integrator expertise.”

Manufacturing

While globalization will continue to be a driver of the Manufacturing sector, COVID-19 has forced businesses to reassess the balance of international versus domestic production. With border control tightening, many companies may reconsider the amount of manufacturing they want to outsource to other countries. With a better understanding of supply chain risks, many companies may reconsider the amount of manufacturing they want to outsource internationally.

Harry Moser, President of Reshoring Initiative, explained, “We expect a continued slowing or decline of global trade as a percentage of global GDP as countries and companies focus on reducing risk by shortening supply chains. Companies are also learning to focus on Total Cost, which includes all risks, as opposed to labor rates or Ex Works price, when making sourcing decisions. The trend has been building with the annual rate of reshoring job announcements up 20X from 2010 to 2019.” Furthermore, Harry added that “healthcare products will be the first sector to accelerate, driven by legislation and public insistence. Other industries, essential to the economy or defense, will follow as society realizes the country has additional priorities that require self-sufficiency.”

“Understanding the impact of Total Cost could help identify companies that will benefit disproportionately from the trend.”

Harry Moser
President, Reshoring Initiative

Transportation & Logistics

The Transportation & Logistics industry is critical to our national economy. *The Economist* points out, “Four-fifths of the planet’s 8 billion mouths are fed in in part by imports,” as “battalions of lorries and fleets of ships connect tens of millions of farms to hundreds of millions of shops and kitchens.”⁽³⁾

Transportation and logistics companies, which are on the front lines of delivering such vital goods and services, should anticipate continued demands for the foreseeable future. Furthermore, logistics and fulfillment organizations servicing the rapidly growing e-commerce sector can also anticipate strong demand and growth.



Chemicals

Within the Chemicals market, providers of antimicrobial and antiviral specialty chemicals have seen their market potential and value increase substantially since the outbreak of COVID-19. With the global economy’s heightened focus on disinfectants and hygiene solutions, those producers retain an outsized attractiveness in a volatile market.

As a case in point, Ecolab, an international player in the Chemicals sector, experienced an increase in performance in Q’1 2020 as a result of strong demand for its cleaning and sanitizing solutions, leading to a rise in the firm’s share price.⁽⁴⁾

Water & Wastewater

Manufacturing, technology, and services companies that provide critical solutions to the Water & Wastewater segment continue to operate in a relatively recession resilient environment. While tightened municipal budgets could have some impact on the overall Water & Wastewater market in the short term, companies positioned in this segment are expected to retain their value. Adam Krantz, Chief Executive Officer of the National Association of Clean Water Agencies (NACWA), reaffirmed this retained value by stating, “The Water & Wastewater market not only puts significant numbers of people to work but is also an essential public health and environmental benefit” during the age of COVID-19.⁽⁵⁾

(3) “The tables not yet turned.” *The Economist*. May 9, 2020.

(4) Jones, Carter. “Ecolab Sales Climb as Demand Increases for Cleaners and Sanitizers.” *Minneapolis / St. Paul Business Journal*. April 2020.

(5) “COVID-19 and the Water Industry: The Economic Impact.” *WaterWorld*. April 13, 2020.

Conclusion

While there is still a significant amount of uncertainty in the global economy, there are early signs of renewal. Mergers & Acquisitions and financing market options are available to companies within a number of industry verticals, and an overall increase in economic activity should be a positive driver for M&A and capital placement activity. As business and financial leaders evaluate how best to respond, plan and develop productive changes for their environments, Bundy Group team will continue to work and analyze the emerging changes. Our ongoing commitment is to continue communicating the trends and patterns. We value your leadership and friendship as we all adjust and find stability in the coming months.

Stay Safe & Healthy!



Bundy Group is a boutique investment bank with offices in Charlotte, New York, and Virginia. The company specializes in representing business owners and management teams in business sales, acquisitions, and capital raises. The 30-year old firm has closed over 200 transactions across a broad range of industries.

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