ACQUISORY

Your Growth, Our Business

Deal Making in Turbulent Times

With the global spread of COVID-19, the economic distress continues to adversely impact the businesses worldwide. Several organizations are already on the verge of facing financial instability at an unprecedented scale. It is expected that in the times ahead, numerous companies will consider and find it suitable to merge with a robust strategic partner or induct a financial/ equity investor.

Pandemic has created barriers in the ongoing private equity and M&A deals and a new normal of consummating deals is expected in the times to come. Given these uncertainties, a robust and insightful due diligence and valuation exercise given the social distancing constraint is going to be a vital aspect of consideration for future deals.

DEAL PROCESS AND DOCUMENTATION

- Extensive use of virtual data room(s) for conducting due diligence
- Innovative and varied structuring options may be a precursor to closing deals
- Elongated timelines due to changes in the target's workforce, travel restrictions, data accessibility etc.
- Additional representations & warranties and indemnities to cover COVID-19 scenario may be included in the closure documentation
- Deals in final stages may face some operational hurdles however on-going deals/ early stage may undergo renegotiation of the terms
- Agreements may include clauses which provide flexibility in execution
- Closing mechanics and long stop dates will be tightly worded in term sheets
- E-execution of the agreements will take place. However, stamping and registration process might witness some delay
- Force majeure clauses to be tightly negotiated for performance suspension in limited scenarios
- Assessment of impact of COVID-19 for invocation of material adverse effect (MAE) clause in the investment agreement

FORECASTS & VALUATION UNCERTAINTIES

- Stress test the financial numbers to assess and quantify the impact the businesses can absorb
- Scenario forecasts will be beyond sensitivity analysis and may require consulting with vendors, investors, lenders and management
- Relevance and period to be considered for the Market Multiple Approach of valuation may need to be revisited
- Existing business plans to be critically evaluated with renewed focus on business continuity by the management
- Management to assess existing contracts and impact of onerous contracts to be considered in forecasts
- Dynamic discount rate may be considered, the currents situation will lead to a decline in the risk-free rate
- Risk premium for COVID-19 may be worth considering which may lead to an increase in cost of capital
- Normalizing adjustments to revenue and expenses would be required in the business forecast models
- Impairment of intangible assets may trigger prematurely which may need to be considered in the valuation exercise

FINANCIAL DUE DILIGENCE ADJUSTMENTS

- The profits to be assessed and analyzed with the new measurement fundamental of EBITDA i.e. EBITDAC (EBITDA excluding the estimated impact of COVID-19)
- Identify and analyze the pre-lockdown working capital position and the movement in working capital during lockdown period to establish a normalized trend
- Impact on valuation of inventory due to reduced inventory movement, decline in selling prices, inventory obsolescence, etc. to be considered
- Assess the impact of cash and debt like items such as deferred rent, deferred interest, deferred salary and emoluments etc.
- Assessment of financial covenants of current debt held by the business
- Assess the impact of any non-compliance relating to time bound obligations
- Assess the impact of relief measures extended periodically by the
- As per advisory note issued by ICAI, assessment of going concern due to the Covid-19 is necessary
- Analysis of changes in revenue recognition and invoicing as per revised customer contracts will be critical
- Supply chain disruptions may adversely impact the margins and working capital and one-off adjustments may have to be made
- One-time extra-ordinary adjustments due to additional costs incurred/ to be incurred for rebooting the business/ factory operations to be assessed for arriving at normalized EBITDA
- Practical view on differentiating the one-off financial/operational adjustments with the changes which may have a longer impact
- Re-assess the expected useful life and residual life of the Plant Property and Equipment which may have remained idle
- Assessment of tax implications due to COVID-19 which may impact the cash flows

Email / Website: info@acquisory.com | www.acquisory.com

Delhi- NCR | Mumbai | Bengaluru