Browne Jacobson

Deal prospects for 2020: challenges and opportunities

How will the current extraordinary events impact the transactional market? The COVID-19 crisis has certainly created enormous challenges for the deal market.

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Please note: the information contained in this legal update is correct as of the original date of publication

How will the current extraordinary events impact the transactional market? The COVID-19 crisis has businesses' trading activity has settled (albeit for some companies at a very low level) but the outlook is impossible to predict……except that there will be deal opportunities that fall out of COVID-19.

A serious issue is how many businesses will not be able to hold on if "normal" or the "new-normal" does not return until September. A positive though is the considerable amount of funding support for business from the banks and other funders; for example, Browne Jacobson are advising on a large number of CBILS/CLIBLS facilities and have seen invoice discounters agree to push the funding period for receivables beyond the usual 60/90 days.

However, certain sectors are finding it harder to get the Government supported funding eg residential housebuilders due to the concerns about demand in the post-COVID period. The funding challenges are heightened in those sectors like leisure and hospitality, that have literally stopped, they will need funding "to get ready for trade" eg servicing machinery, retraining staff, re-stocking, before any turnover "comes through the door".

There will be understandable caution from funders financing acquisitions, development and capital expenditure until businesses can demonstrate that trade has revived to sustainably profitable levels. That might mean that some funders will be hesitant to fund until 12 months post-lockdown before committing finance which is not just for working capital. These challenges are exacerbated due the difficulty in valuing real estate and businesses at present.

However, opportunities will present themselves. Many private equity backed, cash out and leveraged deals were put on hold immediately following the start of the crisis - but we have also seen refinancing deals progressing in sustainable and long term sectors in particular health and social housing. There has also been considerable activity with the financing and acquisition of distressed businesses, some deals that were put on hold and that are in sustainable sectors have come back on. Participants want to maintain momentum and so are keen to get them over the line as soon as possible.

We are also seeing private equity houses raising funding for two purposes (i) to stabilise cashflow of their investee companies and (ii) to fund acquisition opportunities that fall out due to COVID. And challenger banks, alternative debt providers and debt funds may see the post-COVID period as an opportunity to build their businesses by funding acquisitions and capex while some other funders and banks may take a more conservative approach.

Linked to this there will be opportunities for overseas funders investing and lending into the UK. The same dynamic that we saw post the Brexit referendum could arise i.e. overseas funders and investors targeting the UK for acquisitions and investments as the recent post-COVID devaluation in sterling gives them a built-in upside.

All in all despite the extremely challenging times for businesses, there are dynamics at play that could well see a pick-up in deal activity levels in Qs 3 and 4.

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