

WEBINAR

## COVID-19 Business Resources Webinar – June 10<sup>th</sup>, 2020

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# Business Continuity: COVID-19 Impact on Private Company Valuations and Mergers & Acquisitions

Bobby LaCour, Partner, Aldrich CPAs + Advisors

Brian Andreosky, Senior Business Advisor, Aldrich Capital

Carl Pinkard, Partner, Aldrich Capital

Eliot Peters, Managing Director, RA Capital Advisors

Naomi Derner, Managing Director, Vantage Point Advisors



RA Capital Advisors LLC, Member FINRA and SIPC



## Bobby LaCour

PARTNER, ALDRICH CPAs + ADVISORS

Bobby has over fifteen years of experience in public accounting while serving his clients in the government, nonprofit, and private middle-market sectors.

He specializes in providing consulting, attest and accounting services, in addition to an extensive background in internal control and operations analysis.

## MEET YOUR PRESENTERS



### Carl Pinkard, CFP®, CEPA

PARTNER, ALDRICH CAPITAL

Since 2002, Carl has specialized in working with high net worth families, business owners and medical practitioners, providing financial planning and consulting services. He also works with pension committees and assists with a number of non-profit organizations.

As a leader of our Private Wealth group, Carl helps shape our comprehensive and integrative service model that provides investment management, financial planning and tax services to our clients in San Diego. He also helps guide business owners to help them maximize the value of their business and is a member of the Exit Planning Institute (EPI). He serves on the board of Champions for Health, formerly San Diego County Medical Society.



### Brian Andreosky, CEPA

SENIOR BUSINESS ADVISOR, ALDRICH CAPITAL

Brian joined Aldrich in 2019 and is dedicated to helping business owners transition their companies. In this role, he provides exit planning services to help clients maximize the value of their businesses one to five years before marketing the business for sale and is a member of the Exit Planning Institute (EPI).

## MEET YOUR PRESENTERS



### Eliot Peters

MANAGING DIRECTOR, RA CAPITAL ADVISORS

Eliot is a Managing Director with RA Capital Advisors and brings 20 years of experience as an advisor to his clients and plays a key role in the firm's strategic direction and execution of client engagements. Eliot has considerable expertise in the design and execution of successful processes for sales, mergers, and recapitalizations of founder-led or privately-held businesses.



### Naomi Derner

MANAGNG DIRECTOR, VANTAGE POINT ADVISORS

Naomi is a Managing Director with VPA and brings over 20 years of experience performing valuations of businesses, securities, and intangible assets, serving angel-, venture-, and private equity-backed start-ups, family-owned and closely-held companies, and publicly-held companies. She has specific valuation expertise in technology, life sciences, food, beverage, cannabis, hospitality, media, and consulting.

## DISCUSSION OVERVIEW



- Performance and valuation of public equity markets
- Trends in M&A valuations
- Venture Capital investment
- Private Equity
- Considerations for Business Owners

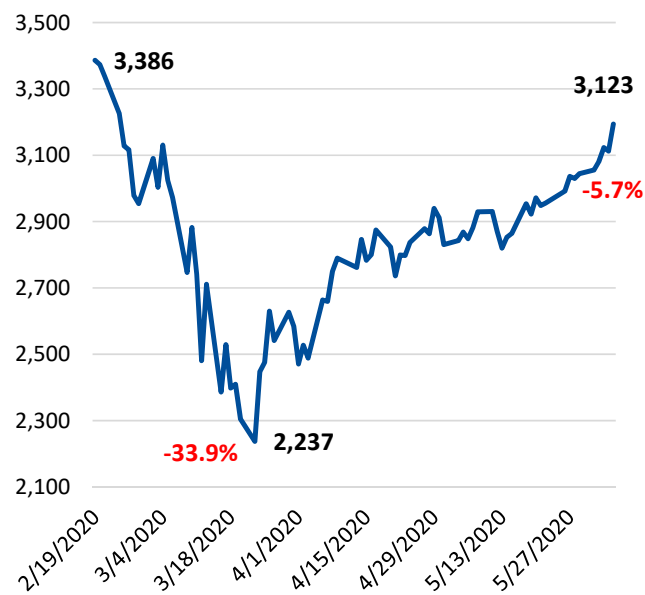
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# Public Markets

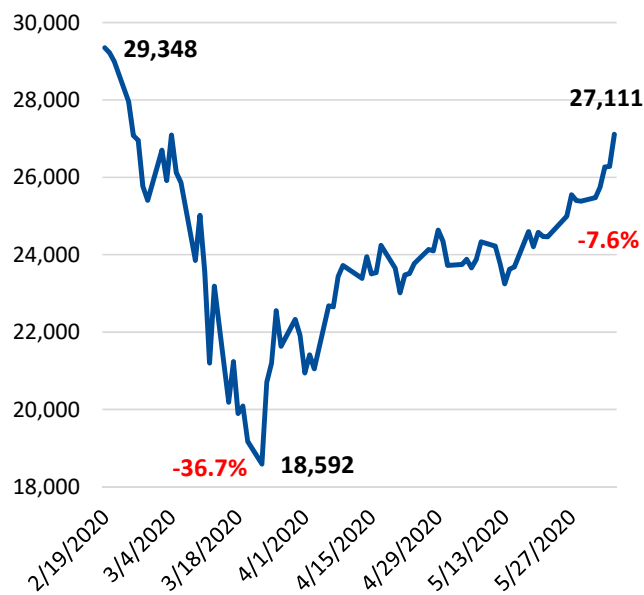
## RECENT PUBLIC MARKET PERFORMANCE

Private company valuations won't necessarily linearly correlate to public market performance, but public equities are generally a good leading indicator. Does your set of buyers include publicly traded companies?

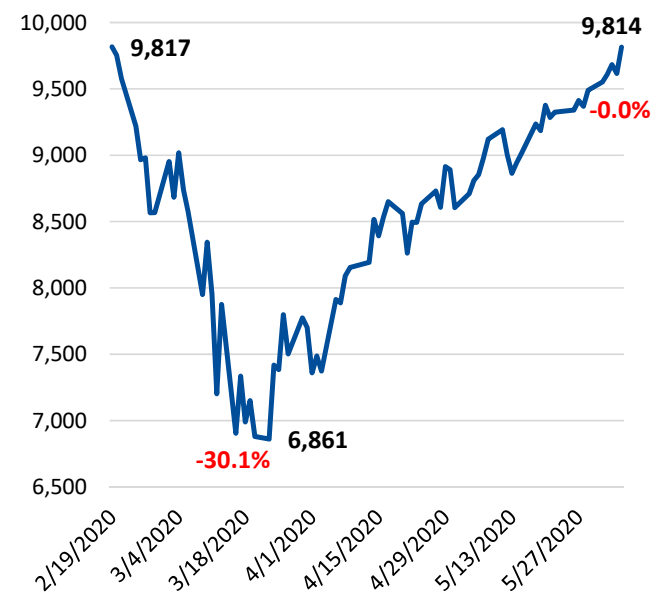
### S&P 500



### DJIA



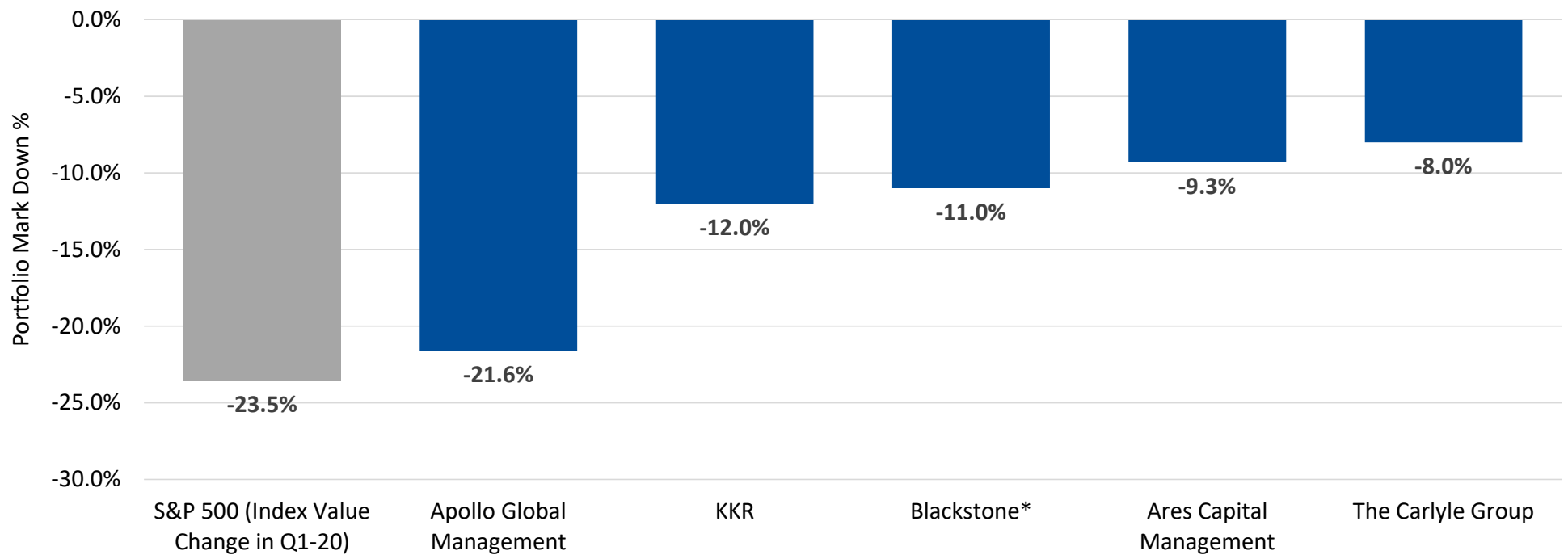
### NASDAQ



Source: S&P Capital IQ

## IMPACT ON PRIVATE EQUITY VALUES FOR Q1 2020

Public Private Equity firms also experienced decreases in portfolio value, but held up better than public markets



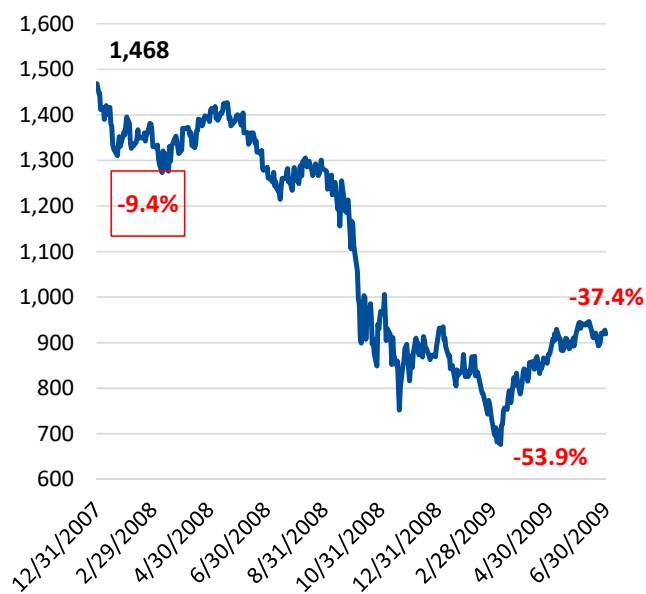
Note(\*): Excludes energy, entire portfolio down 21.6%  
Source: PitchBook, Company press releases and SEC filings



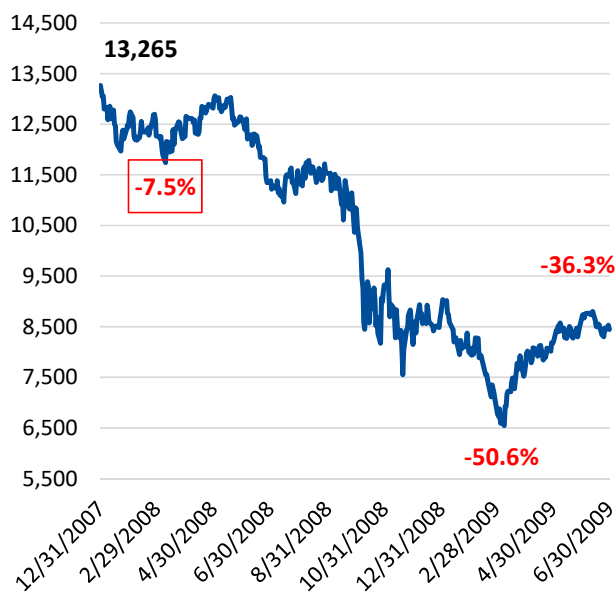
## PARALLELS TO THE GREAT RECESSION?

So far, there is limited comparability to the Great Recession, which started slow with modest decline. Markets then saw a sharp decline but recovered from lows prior to the official end of the recession

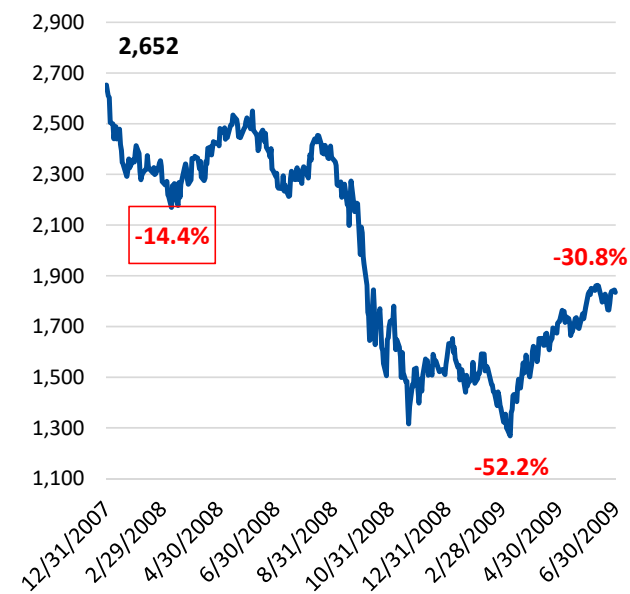
### S&P 500



### DJIA

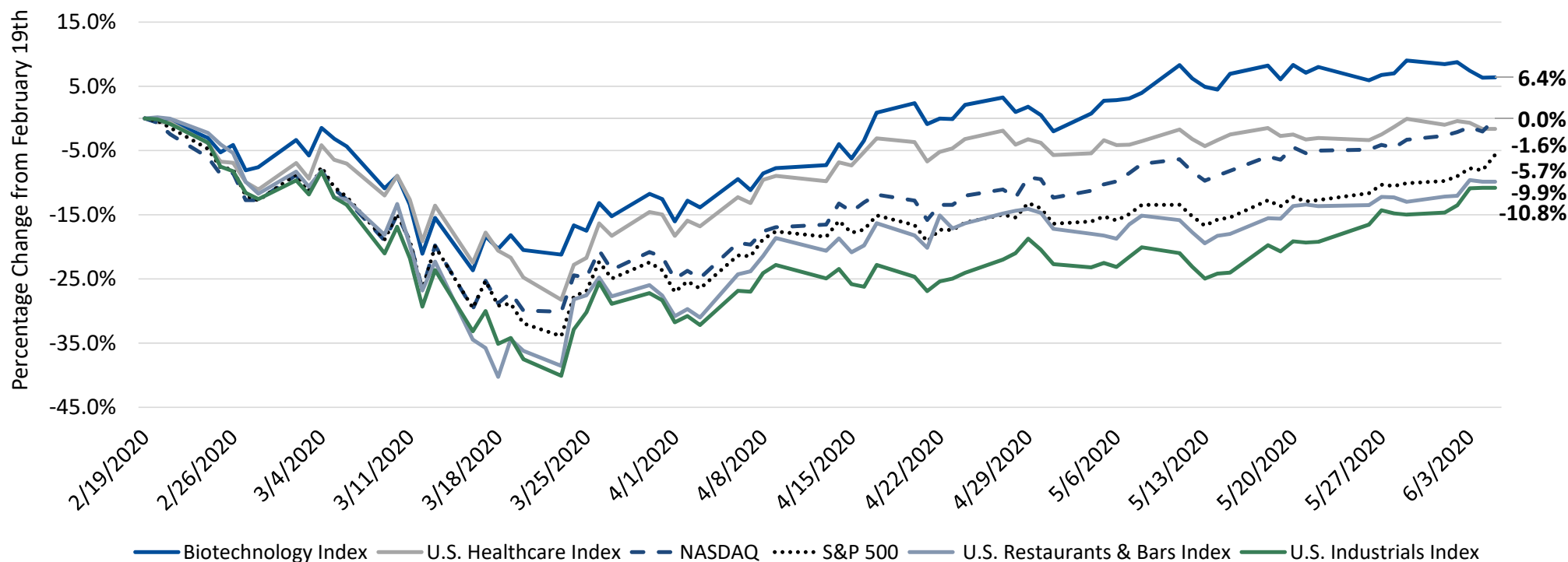


### NASDAQ



Source: S&P Capital IQ

Company value will continue to rely on the three pillars of value: growth profile, margin profile, and risk profile

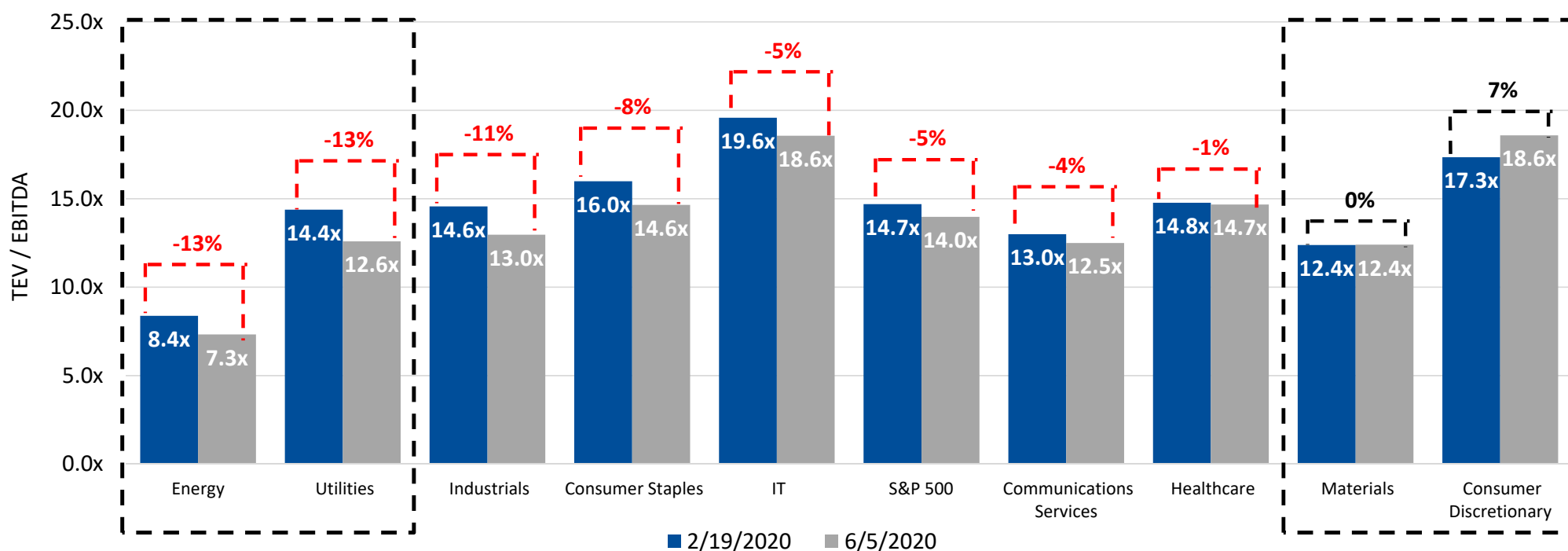


Source: S&P Capital IQ

## IMPACT ON PUBLIC COMPANY VALUATIONS



Valuations of public companies have been reduced, with Healthcare, Consumer Discretionary, and other particular sectors maintaining more value than others

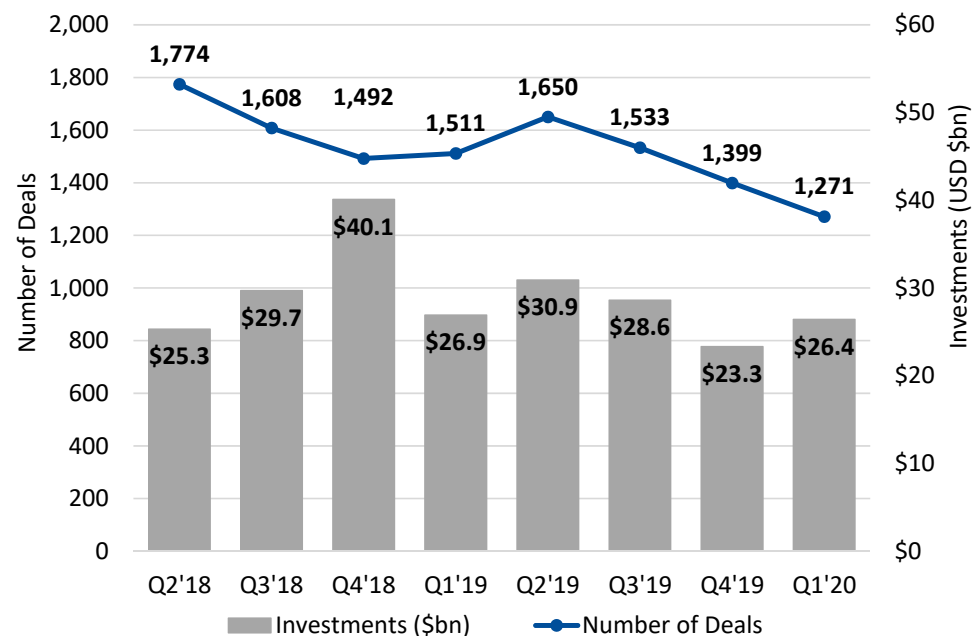


Source: S&P Capital IQ

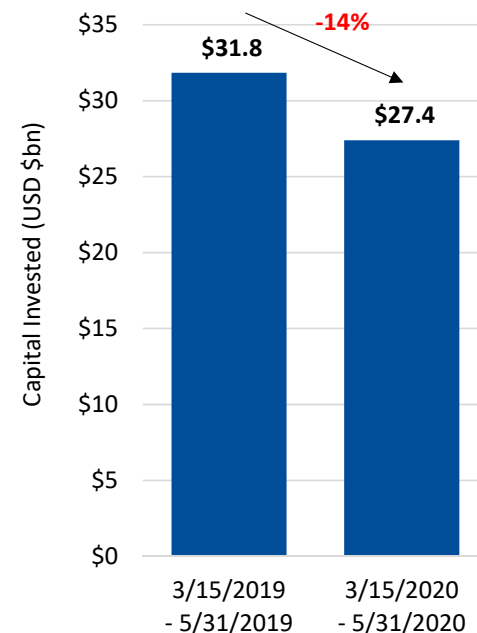
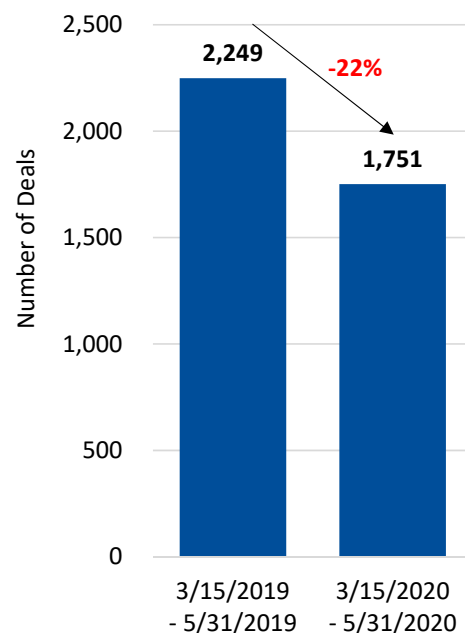
# Venture Capital

## DECREASE IN VENTURE FUNDING MARKET

Deal volume in Q1-20 is down significantly, but appeared normal by capital invested which was skewed by mega-deals over \$100 million



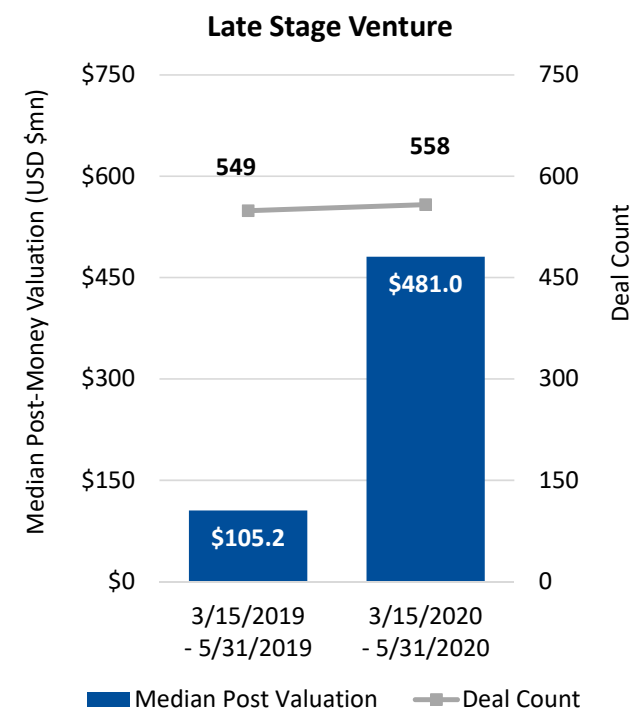
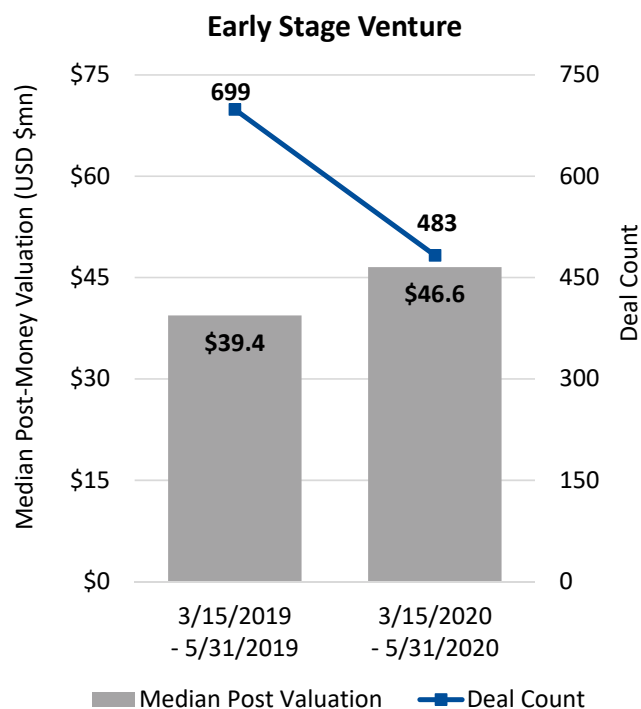
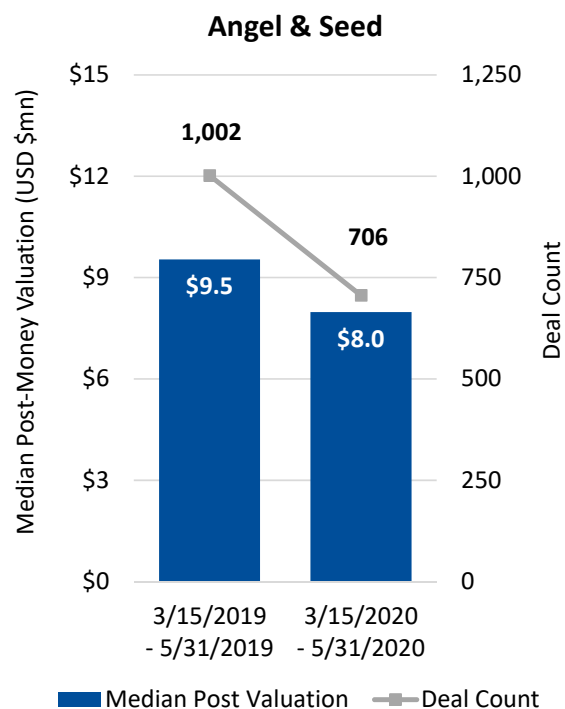
Venture Capital and angel deals completed during the COVID-19 crisis are down 22% by deal volume, but only 14% by total invested capital year-over-year



Source: PwC / CB Insights MoneyTree, PitchBook

## CHANGES IN EARLY STAGE INVESTMENTS

The number of deals between March 15<sup>th</sup> and May 31<sup>st</sup> are down substantially year-over-year at the angel/seed stage and early stage, but are up in the late stage



Source: PitchBook

- Key takeaways:
  - Fewer deals overall, with biggest impact at earliest stages, and valuations holding so far
  - Valuations expected to decline, funding may be difficult to obtain at any valuation



# Mergers & Acquisitions and Private Equity

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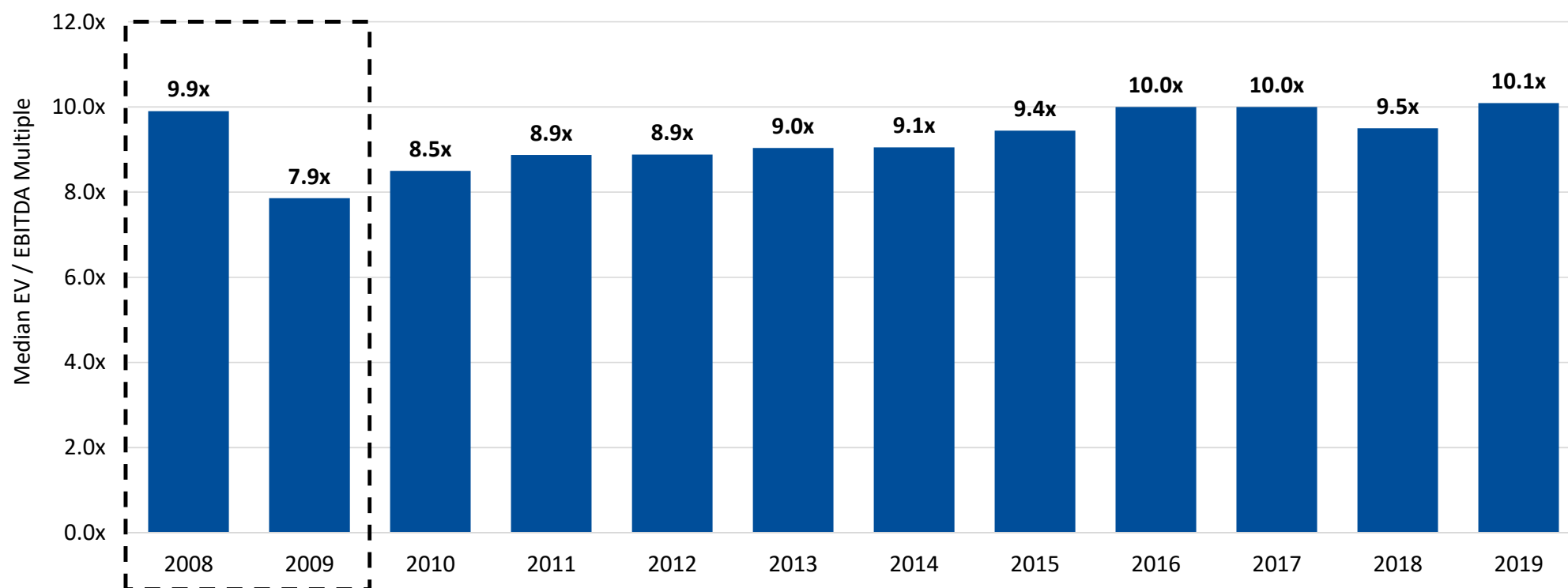


- Transactions are still getting closed
  - Timelines are extended as buyers wait to see the full extent of the impact
- Fewer transactions are coming to market
- Healthy businesses should continue with process – delayed start
- More prevalent opportunities for add-on acquisitions or minority investments for PE firms
- Strategic buyers are in the market being cautious buyers



## TRANSACTION MULTIPLES OVER TIME

During the Great Recession, overall multiples contracted by 2.0x EBITDA or ~20% from 2008 to 2009

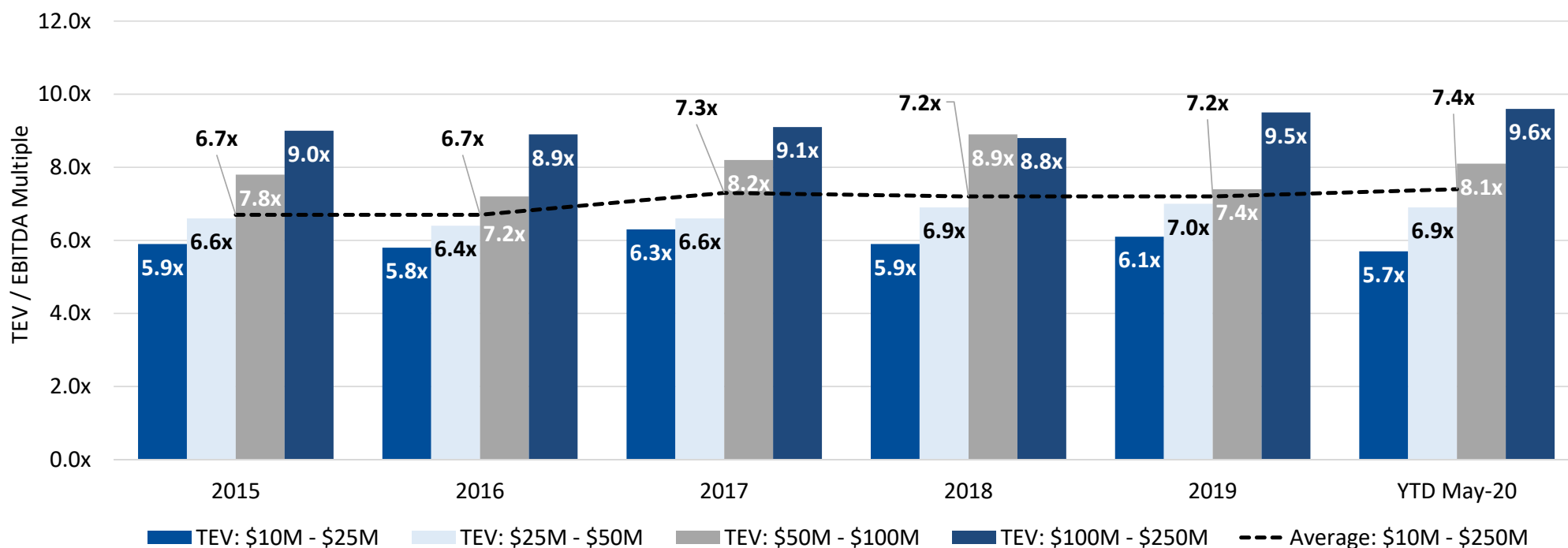


Geography: North America  
Source: PitchBook

## MIDDLE-MARKET TRANSACTION MULTIPLES



Multiples for middle-market transactions (deal sizes \$10 million to \$250 million) have increased over the last few years, from an average of 6.7x in 2015 to 7.4x through May 2020

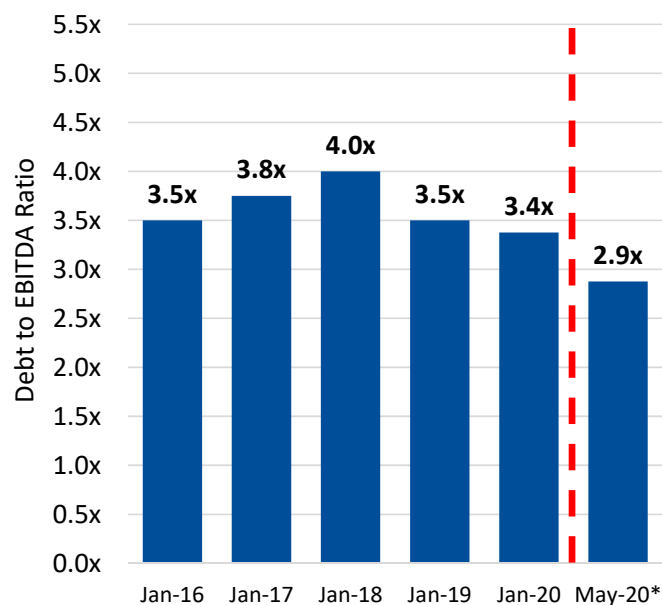


Source: GF Data

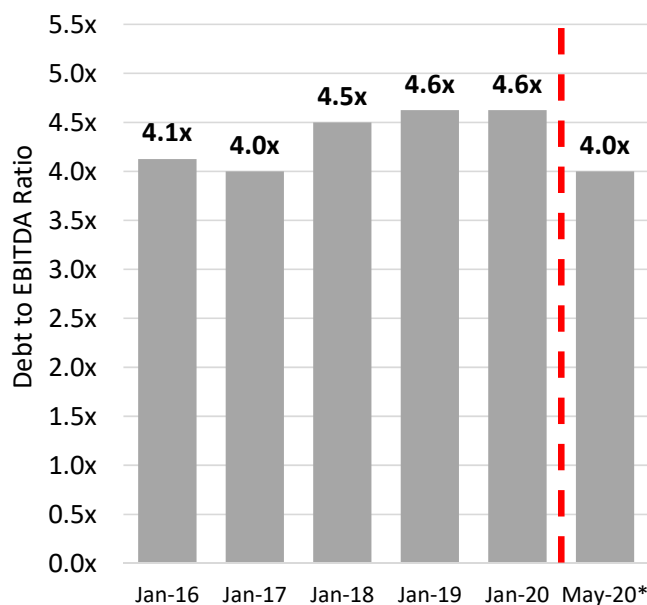
## MIDDLE-MARKET DEBT LEVERAGE

Leverage available for middle-market transactions is in decline, reducing buyers' ability to fund as large of a portion of a transaction with debt

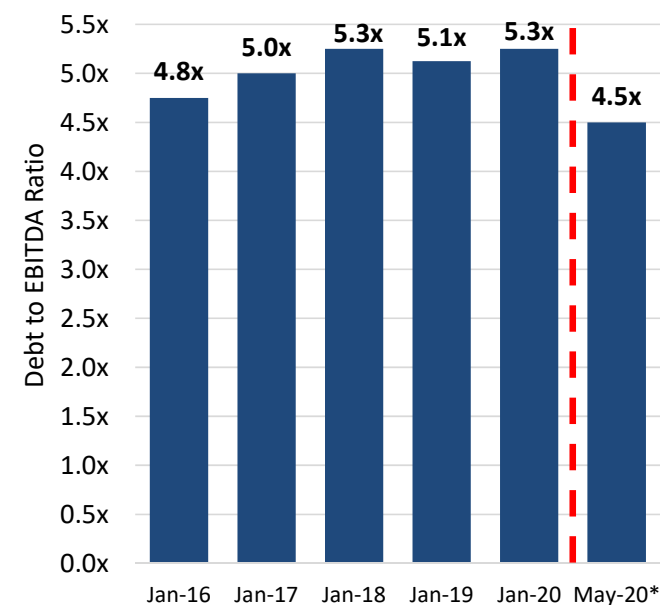
EBITDA: Up to \$10M



EBITDA: \$10M - \$20M



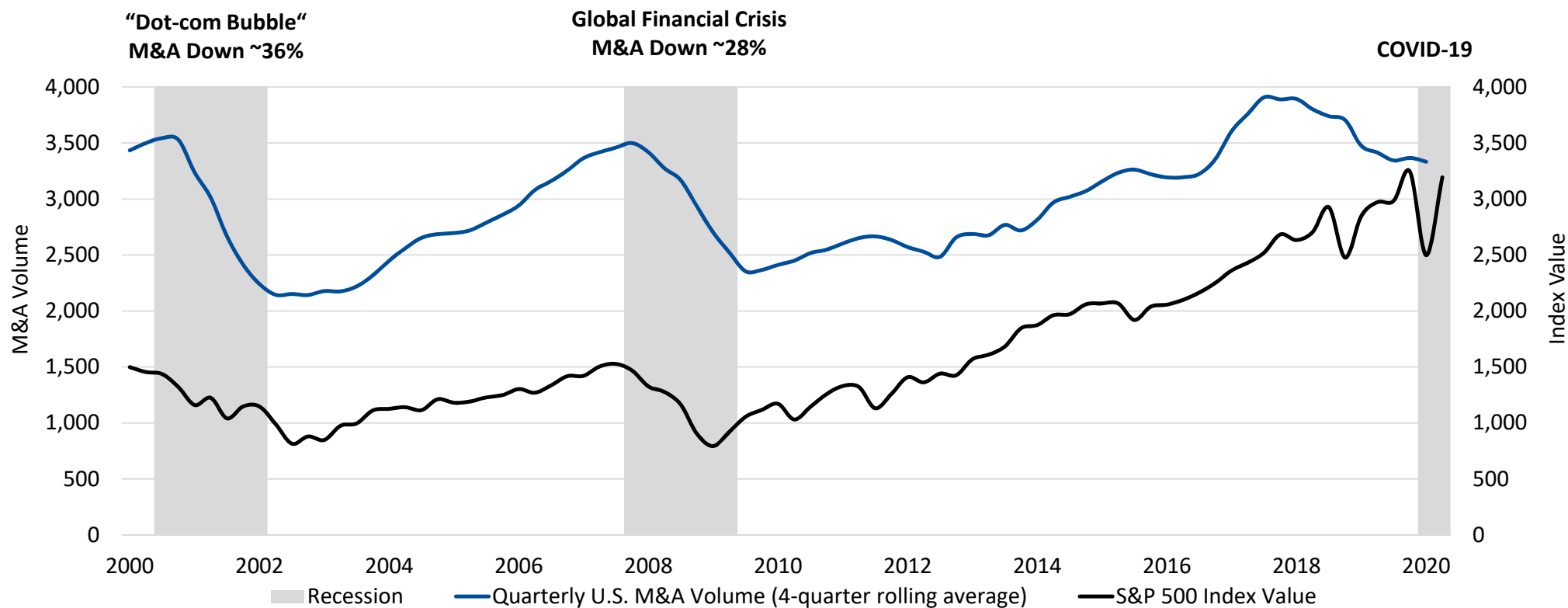
EBITDA: \$20M +



Note(\*): As of May 15, 2020  
Source: SPP Capital Partners

## M&A ACTIVITY AND S&P 500 PERFORMANCE OVER TIME

Historically, M&A activity has closely followed developments in the broader capital markets

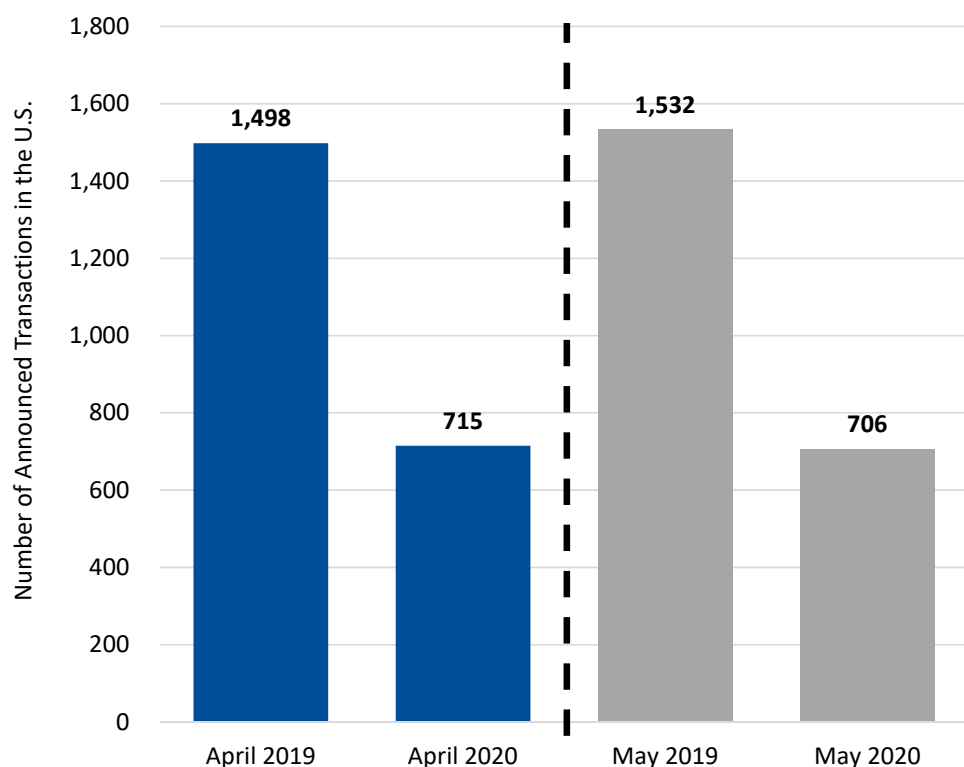


Note: S&P 500 Index Value through 05-15-2020  
Sources: IMAA, S&P Capital IQ

## M&A ACTIVITY DECLINED SHARPLY



With uncertainty in the market, M&A activity declined significantly from April & May 2019 to April & May 2020, and a number of high profile transactions were called off



**xerox**



**"Xerox Is Ending Hostile Takeover Bid for HP"**

"Coronavirus pandemic prompts copier maker to walk away from challenging merger attempt" - WSJ



**SYCAMORE  
PARTNERS**



**VICTORIA'S  
SECRET**

**"L Brands, Sycamore Agree to Scrap Victoria's Secret Deal"**

- WSJ



**SoftBank**

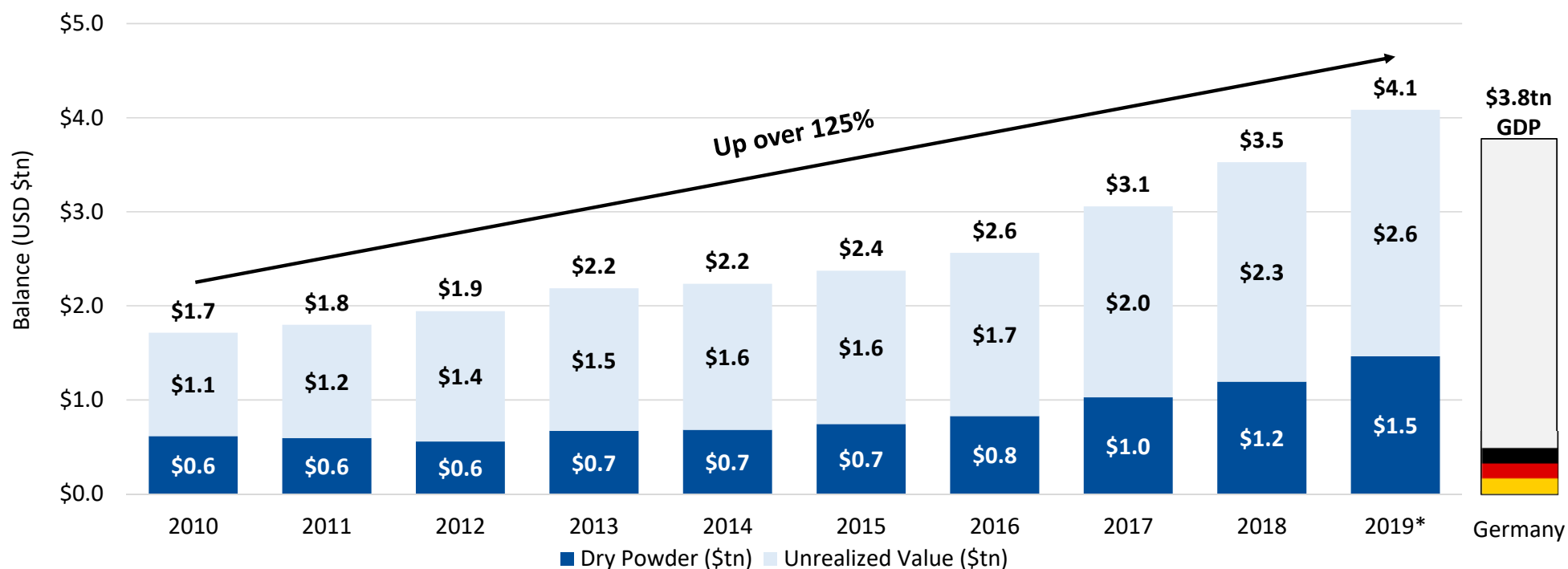
**wework**

**"SoftBank Backs Away From Part of Planned WeWork Bailout"**

- WSJ

Sources:  
S&P Capital IQ, WSJ

The capital available for Private Equity firms to deploy continues to rise faster than it can be deployed

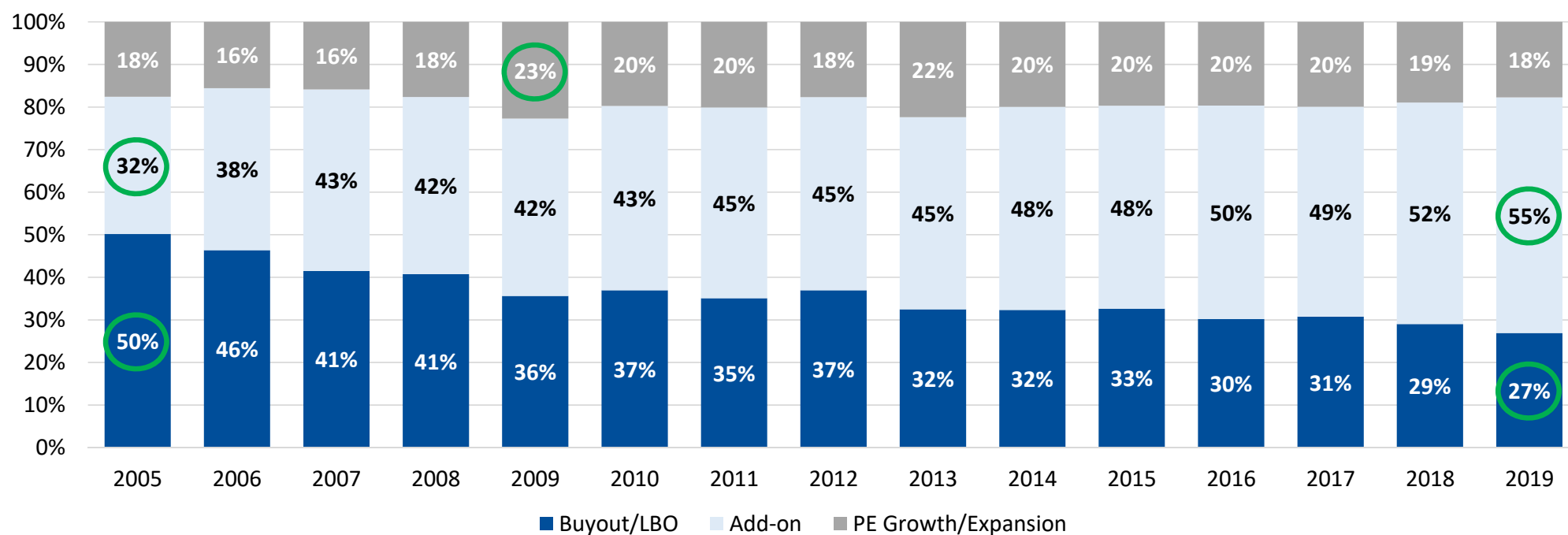


Note(\*): As of June 30, 2019  
Source: Preqin

## PRIVATE EQUITY MIX OF INVESTMENTS OVER TIME



Strategies for Private Equity firms have evolved since 2005 with a major shift toward add-on acquisitions



Source: PitchBook





## More Narrow Criteria...

- Increased focus on end-markets relatively insulated long-term from COVID-19, even if there is a short-term impact
- Reduced appetite for cyclical
- Limited exposure to hospitality, travel, and other heavily impacted industries

## But More Expansive Investment Strategy

- More flexible structure as traditional buyout firms consider non-control deals
- “Structured Equity”
- Expanded debt strategies with low and no amortization loans
- Heavy focus on add-ons for healthy portfolio companies
- Lower EBITDA and size thresholds
- High demand for ways to invest in quality companies as most firms are not distressed investors

Source: Company Websites & Newsletters

- Macro factors still point to a positive M&A environment in the medium term
  - Leverage is down
  - Interest rates remain low
  - Low tax rates (for now)
  - Quality targets are still scarce
- Active firms want to transact
- Transactions occur in every market



# What Now?

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- Our clients and their advisors are already optimizing tax strategies that take advantage of a temporarily reduced value environment
- Strategies for consideration:
  - Generational gifting – private company ownership/wealth transfers
    - Current administration raised lifetime gifting exemption from \$5.5 million to \$11.2 million in 2017 TCJA (double for couples); expires in 2025
    - Any changes to tax laws in coming years likely to be adverse, particularly if administration changes following election
  - Equity compensation via IRC 409A – non-cash compensation strategies aimed at retention at a time when companies may have cut cash comp
  - Minority owner buy-outs – a good time to clean up the cap table

## SHOW ME YOUR EBITDAC: LIQUIDITY OPTIONS FOR PRIVATE COMPANIES

Earnings Before Interest,  
Taxes, Depreciation,  
Amortization & Coronavirus  
(EBITDAC)

- Scenario #1: You are a 68 year old owner who was looking to sell in 2020.

The EBITDAC logo is displayed on a yellow background. It features a large dollar sign (\$) followed by a square root symbol (√), which is then followed by a biohazard symbol. Below these symbols, the word "EBITDAC" is written in a large, bold, black, sans-serif font.

**EBITDAC**

Earnings Before Interest, Taxes,  
Depreciation, Amortization  
& Coronavirus

## SHOW ME YOUR EBITDAC: LIQUIDITY OPTIONS FOR PRIVATE COMPANIES

Earnings Before Interest,  
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(EBITDAC)

- Scenario #2: You are nearing retirement and are 3-5 years out from the sale of your company.

The logo graphic for EBITDAC features a dollar sign (\$) followed by a square root symbol (√) which contains a biohazard symbol inside it.

**EBITDAC**

Earnings Before Interest, Taxes,  
Depreciation, Amortization  
& Coronavirus

## SHOW ME YOUR EBITDAC: LIQUIDITY OPTIONS FOR PRIVATE COMPANIES

Earnings Before Interest,  
Taxes, Depreciation,  
Amortization & Coronavirus  
(EBITDAC)

- Scenario #3: You still have a long runway ahead of you but know at some point 10+ years out you would like to sell your company.

The logo graphic for EBITDAC features a dollar sign (\$) on the left, a large square root symbol (√) in the middle, and a biohazard symbol on the right. The text "EBITDAC" is written in a large, bold, sans-serif font below these symbols.

**EBITDAC**

Earnings Before Interest, Taxes,  
Depreciation, Amortization  
& Coronavirus

## Navigating an Advantageous Position for your Business





# Questions?

## WE ARE HERE TO HELP



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