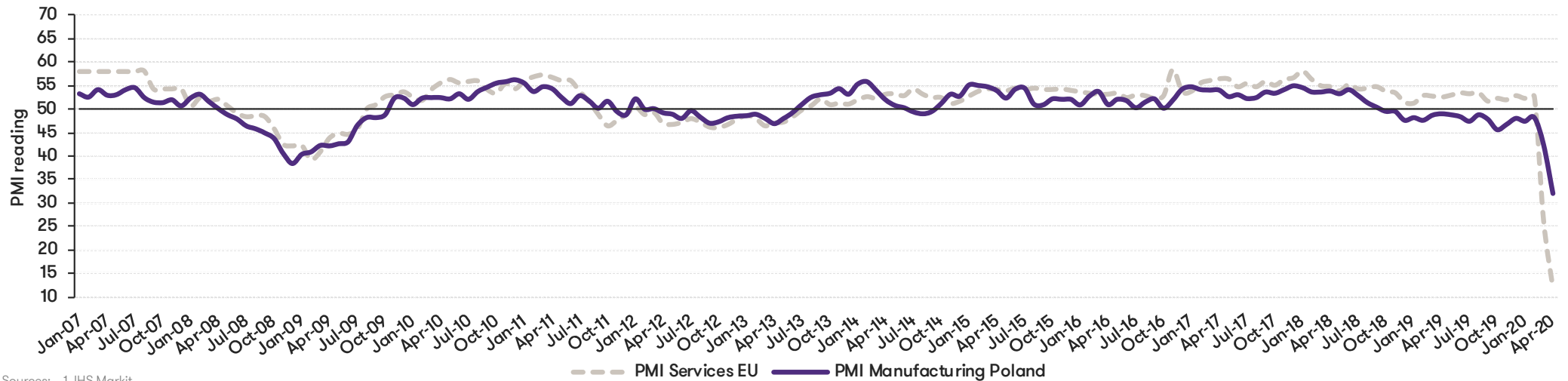


COVID-19 and its impact on M&A statistics and due diligence



Impact of COVID-19 on the economy

Eurozone Services PMI and Poland Manufacturing PMI in the period Jan'07 – Apr'20



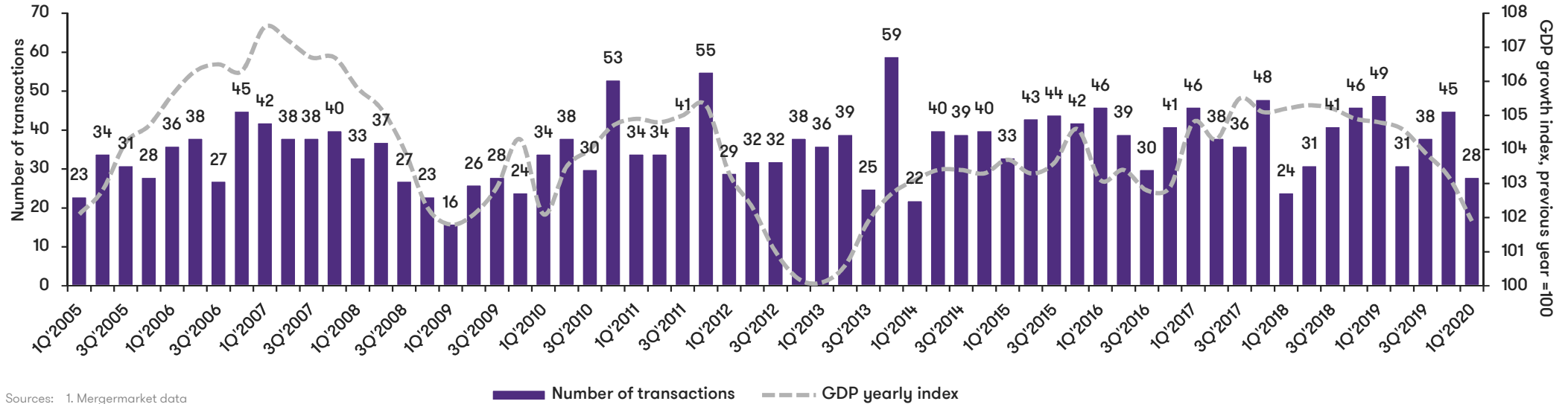
Sources: 1. IHS Markit

Implications of ongoing recession

- Nothing in recent history has changed the business landscape as quickly and as dramatically as the COVID-19. There is a several different macroeconomic indices which present shape of a global economy and shows COVID-19 impact. One of the most reliable leading indicators for assessing the state of the economy is PMI formerly known as the Purchasing Managers' Index.
- PMI indices sank to this century record low in first fourth months of 2020 in particular in service sector. This was driven mainly by the restrictions imposed by governments.
- Unprecedented drop in output, new orders and sales occurred as a result of limitations and lockdown all over the world. Steep decrease in new orders and sales drove the domino effect in relation to purchasing activity of manufacturers, service providers, retail, restaurant and tourist businesses and distributors.
- Part of the companies halted work and employment rate began rising.
- Due to the fact that we are currently in the initial stage of the recession caused by COVID-19 pandemic, we are yet to see an actual assessment of economy's current condition with macroeconomic indices.
- Announcement of pandemic and introduction of restrictions has also impact on the M&A market. Investors stopped the M&A transactions which were in progress and temporarily suspended the future deals. M&A market followed the trend presented by PMI indices.
- Overleaf tendency on M&A market was presented.

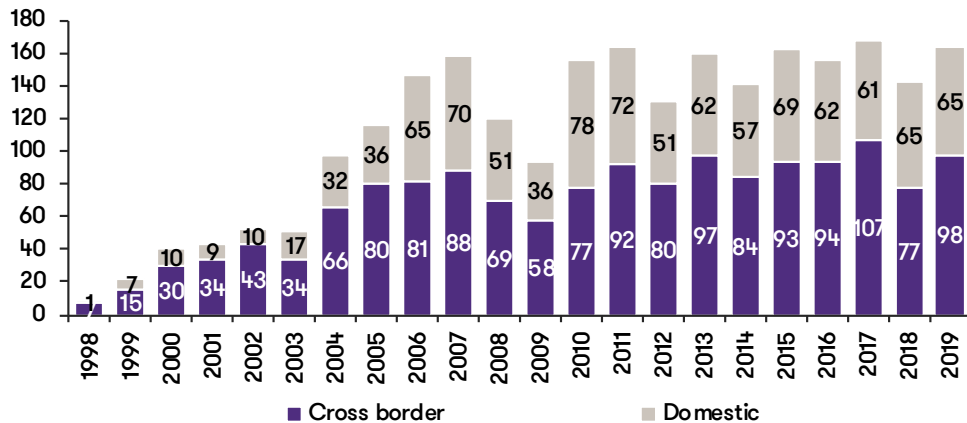
Impact of COVID-19 on the M&A statistics

Transactions on Polish market in the period Jan'05-Apr'20 in comparison with GDP growth index



Sources: 1. Mergermarket data

Share in transactions in Polish market by source of capital



Sources: 1. Mergermarket data

- Historically during the recession time (i.e. in the late 2000s) the number of M&A transactions followed the decrease in growth of GDP. However, it is worth to indicate that the amount of transactions following the recession was always very high. Additionally, slight increase in share of cross border capital in transactions was observed.
- The same pattern was observable at the beginning of pandemic which had obviously negative impact on the entire economy. Like the rest of the world, transactions have slowed down. Borders are closed, travel is restricted and face to face meetings are no longer an option. Management is consumed with weathering the immediate crisis while trillions of committed capital wait for the dust to settle.
- It is worth to note that pandemic may create a wave of new deals as troubled companies look for exit strategies and investors look for a market correction. In some industries companies may exit healthier, attracting new round of interested sellers. Given these M&A opportunities, how can buyers and sellers accurately gauge value and risk going forward?

Impact of COVID-19 on purchase price and due diligence



Due to the pandemic's impact on economy, additional issues arise that should be addressed in purchase price calculation and transaction process overall. Beside standard topics addressed during financial due diligence, following outstanding questions arise in the pandemic time:

EBITDA

What steps did the target undertake in order to control and reduce its expenses? Did the target attempt to renegotiate contracts with suppliers? Has the company been able to work with landlords to defer rent payments?

What is the target's policy regarding employees during the pandemic? Was the target able to keep each of its key employees? What are the effects of "working from home" – did the company incur additional expenses in order to provide its employees with necessary equipment? What was target's cost of continuing to provide health care benefits to furloughed workers?

Are there sufficient business continuity plans and crisis management procedures?

Is there a risk that the company lost sales from some of its key customers due to the COVID-19 impact on their financials.

Net Debt

What is the company's liquidity. Does the target have enough cash to pay all of its short-term obligations. Are there solvency or going concern risks?

What long-term liabilities does the Target have and is there a default risk? Did the target breach any of the financial covenants due to Covid19? If yes, how breaching those covenants will impact the target's financing?

Did the target use a help provided by the government? ? If yes, what are the terms of this aid? If no, is there a possibility for target to receive any support from government?

Net Working Capital

Who are the key counterparties to the target and how do they perform? Who are the key debtors and is there a risks on receivables collectability? What is the supply chain of the target - is it overly dependent on suppliers in geographic regions which were hit hard by the coronavirus?

What are the termination rights under key contracts with suppliers and customers. Do those contracts include a „Force majeure” clause?

Is the seller at risk of having insufficient inventory or parts?

How has the seller's workforce been impacted by the coronavirus? Does the seller have enough employees and third-party contractors to successfully continue its business? If all or a portion of the seller's workforce is unionized, what is the state of relations between the union(s) and the seller?

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