ACCELERATED M&A VS TRADITIONAL M&A

Accelerated M&A differs from traditional M&A in the fact that the acquisition target is a business facing financial distress. There are many stages of financial distress, ranging from a business simply concerned about its cash flow position through to a company facing formal insolvency proceedings. The level of distress a company faces, will typically guide the timeline of an Accelerated M&A process.

KEY DEAL DRIVERS	ACCELERATED M&A	TRADITIONAL M&A
TIMELINE	• An accelerated process will typically feature a business that has an imminent threat of financial distress and a significantly shortened transaction timeline (weeks) is required to mitigate insolvency.	• A traditional process will usually not have any imminent threat of insolvency, therefore both sides of the transaction will ensure they complete all aspects of a thorough process taking a number of months to complete a deal.
DEAL TYPE	• Historically, Accelerated processes have more often utilised asset purchase deal structures that can be purchased free of any pre-existing debts owed by the distressed entity.	• Traditional processes can utilise an array of deal structures including both asset and share deal types, usually substantial time can be spent finalising the best type of deal structure for both parties.
THE BUYER POOL	• Accelerated M&A requires strategic consideration of the potential buyer pool. Valuable time and resources cannot be wasted on interested parties that can't complete a deal in the accelerated timeline or are uncomfortable with the risks associated with acquiring a distressed business.	• Within traditional processes, significant time will be taken by the seller to understand and reach a much broader buyer pool in order to ensure all potential opportunities are explored.
PROFITABILITY	• In distressed scenarios, current levels of profitability are not of paramount concern to a potential purchaser however demonstrating the future profitability and potential of the business model is key to attracting bidders and defining value.	• Maintaining control over key profitability KPI's is integral to the traditional process which can often involve an EBITDA multiple to value the target business.
CONTRACTS & LICENSES	• In an accelerated process, the focus will be placed on securing the transfer of key contracts or licenses material to business operations. Continuity of these items can often be paramount in the success of AMA transactions to minimise operational disruption.	• In traditional processes and without the threat of limited working capital that can be seen in distressed situations, substantial time can be taken in validating, negotiating and transferring all the associated contracts & licenses a business may hold.
DUE DILIGENCE & WARRANTIES	• In theme with the accelerated timeline, throughout the due diligence process there is a key focus from all parties and advisors on items that are materially crucial to the deal and its completion.	• Extensive financial, taxation and legal due diligence will be done on both sides of the transaction and will often take substantial time to complete.
LEGAL & REGULATORY	• An accelerated process will clearly outline the distressed position of the target, and as such the level of negotiation between the parties is limited. • Most legal time will be spent structuring the transaction through to the execution phase and being mindful of Insolvency laws.	• The majority of traditional processes will have two parties in relatively strong positions aiming to both seek a mutually agreeable deal, which can take time to develop and evolve to a final exchange. • As such, significant time is spent working with lawyers to work through negotiations between the parties.

OUR OUTLOOK FOR ACCELERATED M&A

We believe the current market conditions in Australia will create a substantial appetite for Accelerated M&A (AMA) transactions over the next few years. The abundance of willing buyers with excess cash looking to capitalise on COVID-19 effected businesses will create significant demand for pre-insolvency solutions, which in turn will result in more alternatives for companies facing financial distress.

OPPORTUNITIES WITHIN THE POST PANDEMIC ENVIRONMENT

- At a time where Government stimulus and key stakeholder support is starting to be withdrawn, businesses may start to show the early warnings signs of distress.
- Many financial investors and funds saw the uncertainty around COVID-19 result in an initial decline in the number of deals, meaning many have a significant amount of ‘Dry Powder’ ready to be deployed into Australian assets.
- Companies emerging from the pandemic with a strong financial position and excess cash will see opportunity in capitalising on competitors facing distress.

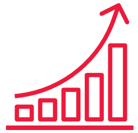
KEY CONSIDERATIONS FOR SELLERS

- AMA transactions will allow distressed businesses to continue operating.
- A successful sale will allow shareholders to exit a loss-making business.
- The accelerated timeline and simplistic deal structure will limit cash burn.
- Transactions can utilise asset values rather than underperforming EBITDA result.

KEY CONSIDERATIONS FOR BUYERS

- Despite an accelerated timeline, limited warranties and Due diligence, buyers have the ability to demand a significant discount to fair value.
- Potential to obtain a business with strong underlying potential that has been adversely effected by COVID-19.
- Pursue opportunities for new market share and revenue streams or protect supply chain.
- Transaction completion can be delayed when contracts, leases and licenses are required to be transferred to the buyer.
- Inexperienced buyers may take on off-balance sheet liabilities such as warranty issues, licences issues, employment contracts or environmental remediation obligations.

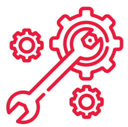
WHAT DO WE EXPECT?



M&A activity across both Traditional & Accelerated M&A will continue to rise

‘Loan to own’ transactions are a key tool to where short-term cash flow concerns exist with the conversion of debt to equity.

AMA deals could move away from purely asset purchases, instead opting for share sale structures being utilised to speed up completion time.



Key stakeholders of distressed businesses will demand more solutions and alternatives to formal insolvency proceedings.

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