

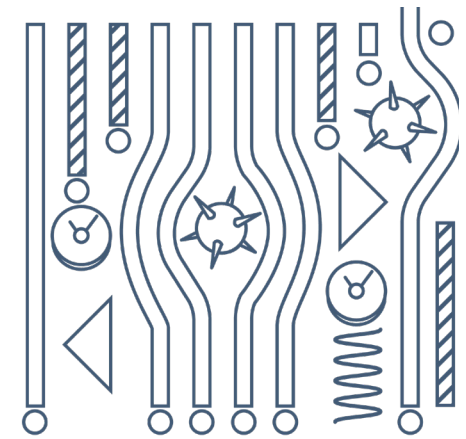
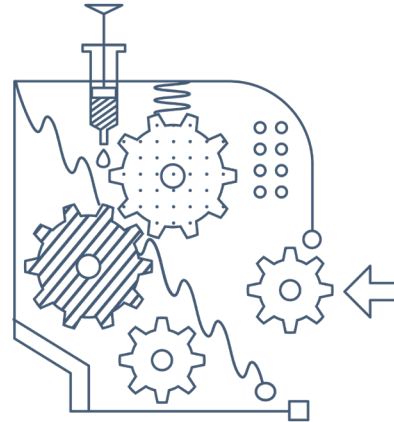
ACCELERATING M&A - 7 THINGS TO CONSIDER WHEN BUYING A DISTRESSED OR INSOLVENT BUSINESS

The ongoing pandemic will cause upheaval across all markets and sectors. Business models may become unviable. Sound businesses will suffer short-term liquidity crises. Customer behaviour may alter. Distress opportunities can create opportunity if buyers can work to an accelerated timeline.

1

IT'S NOT JUST INSOLVENCY

Distressed acquisitions come in many forms. Various outcomes can be progressed before the administrators are called in. Increasingly business owners and creditors will look at a range of options including accelerated M&A, non-core divestitures, or capital injections, to avoid formal insolvency, help viable businesses continue as going concerns and maximise value.



2

DEAL STRUCTURES MAY VARY

Buyers should be flexible as the transaction could be either a share or asset deal. The key to success for a buyer will be the ability to transact quickly, offer a deliverable outcome for the sellers and creditors whilst managing internal risk.

3

DISTRESSED BUSINESSES DO NOT HAVE THE LUXURY OF TIME.

Buyers must be able to identify and understand key issues, evaluate strategic fit and manage downside risk quickly and efficiently. There is no single solution for this, but an efficient and focussed diligence exercise, streamlined internal processes, experienced advisors and flexibility will all help.



4

MANAGE THE RISK

Risk in mainstream M&A is mitigated through extensive diligence and warranties. But these are commonly unavailable in distressed acquisitions. Deals happen quickly and warranties (if given at all) may not have much value once creditors have been paid. A successful buyer may need to employ different strategies, such as alternative pricing structures, management incentives or insurance to help manage deal risks.



6

HAVE YOUR CHEQUEBOOK READY

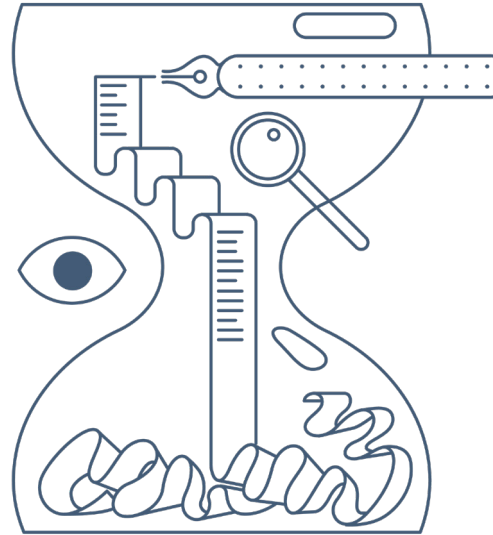
Cash is king for sellers who often require the price to be paid in full on completion. Although deliverability and speed of execution will also be assessed (so price isn't everything). Buyers should have funding lined up. A buyer who is relying on new bank facilities to do the deal may lose out to those with cash on their balance sheet or unconditional funding in place already.



5

IS W&I THE ANSWER?

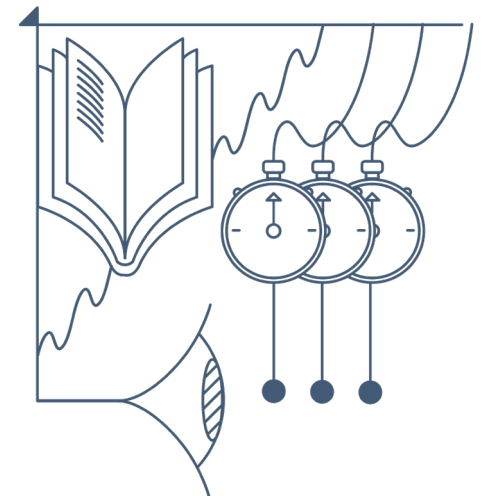
Synthetic W&I products provide a set of warranties that an insurer will pay out against without a seller having to give contractual warranties. Buyers will need to assess the time and cost of putting the policy in place and the need for a reasonable level of diligence to be provided to the insurer so it can evaluate the risks.



7

IT'S TOO LATE WHEN YOU READ IT IN THE PRESS

Distressed businesses come to market quickly and deals complete even faster. Awareness of opportunities is therefore key. This could be relationships with businesses you are tracking or speaking with the corporate finance houses and insolvency practitioners who commonly advise distressed businesses so you are front of mind.



IN THE LAST 15 MONTHS, 283 CREDITORS, INSOLVENCY PRACTITIONERS AND MAJOR COMPANIES RELIED ON ADDLESHAW GODDARD TO HELP TACKLE 895 DIFFERENT RESTRUCTURING CHALLENGES AND OPPORTUNITIES.

If you would like a more comprehensive view of what we're seeing in the current environment and what steps you should take to maximise your chances of success, please get in touch.

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