Monthly Transaction Monitor
Deal Volumes In The Age of COVID-19
August 2020

OBJECTIVE
Investment Banking & Valuation

Highlights

Declines Have Been Pronounced, Perhaps Less Than Expected However

- Control sale transaction volumes have declined significantly since the pandemic took hold of the U.S. economy in early March 2020
- The decline appears to have reached a lower bound in May 2020, when deal volumes were down in aggregate by 51 percent versus the year-earlier period
  - Notable deal inhibitors have included an inability of sellers to project near and medium-term results with customary certainty, limited access to acquisition debt, and challenges with performing on-site due diligence
  - Both strategic and financial buyers have slowed down proportionately

A Modest Rebound Appears to be Underway

- The decline in closings persisted though July 2020 but it appears to have been less pronounced than in earlier months. July data is still being finalized, with preliminary data suggesting a 30-35 percent drop versus July 2019
  - Dealmakers and management teams have found semi-solid footing as everyone adjusts to the "new normal"

The Extent of Valuation Degradation Remains Unclear but, As Always, It Depends on Company/Industry Specific Circumstances

- The public markets were hit hard by Covid-19, with the S&P 500 Index declining by nearly 31 percent from January 1 through March 23 – The S&P Industrials Index was hit even harder, down 40 percent during the same period
  - Surprisingly, most sectors have rebounded, with the S&P 500 Index up almost 49 percent since March 23 (through August 5) – The S&P Information Technology Index has risen the most, up by 61 percent during the same period
  - It remains unclear how this optimism translates to private company sale pricing in the middle-market, but time will tell
  - We are seeing a significant increase in the number of middle-market deals in process and two positive themes are emerging – 1) a significant percentage of our economy has been spared by Covid-19, and 2) some segments have actually benefitted (e.g., consumer staples, ecommerce, delivery services)

Source: S&P Capital IQ   Note: Data herein is based solely on the 6 industries Objective closely follows

Objective Capital Partners is a leading investment banking and valuation firm, advising lower middle market companies through the following services:

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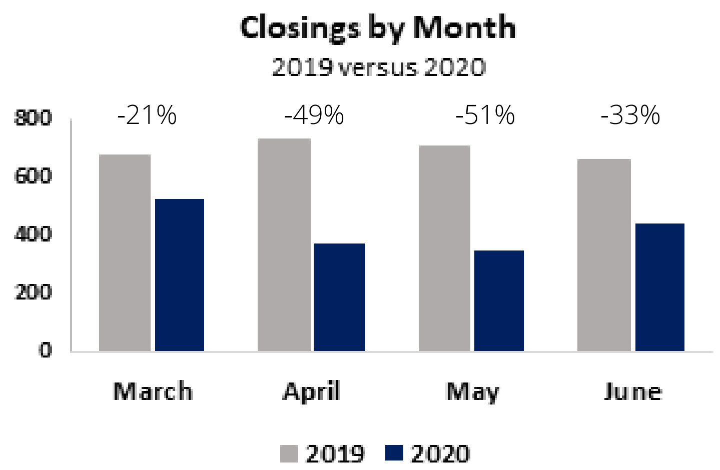
The Details

The decline in control sale transactions reached a lower bound in May 2020, down 51 percent versus the year-earlier period (see bar graph below). The down trend continued in June 2020, with closings off by approximately 33 percent, however it was a notable improvement to proceeding monthly results. Data for July 2020 is currently being gathered and early indications suggest a decline of 30-35 percent versus July 2019.

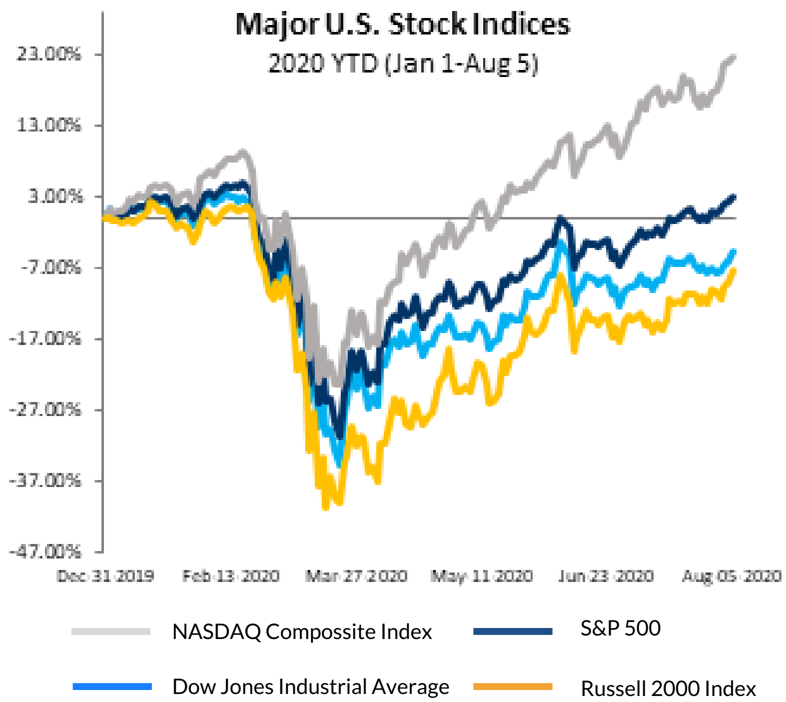


Source: S&P Capital IQ

While not as active as dealmakers would like, a market at 60-70 percent of historical norms provides enough fluidity for many buyers and sellers to transact, mostly for discernably stable and high performing companies that are able to project near and medium-term performance with a reasonable level of certainty.

The impact of Covid-19 on valuations remains an open question. The best answer is an unsatisfying "it depends". It really does depend on target-specific and industry-specific circumstances. Despite all the negativity in our economy, there are stable (and even expanding) sectors that are worth attention, including consumer staples, e-commerce, logistics (shipping and/or delivery) and IT and the companies performing in these and other stable/growing segments are the ones that are transacting right now.

While it remains unclear whether price movements in public securities are an indicator/influencer of M&A sale valuations, public company investors have certainly bid up stock prices since the market bottomed on March 23, 2020 (see following stock chart).



Source: S&P Capital IQ

Interestingly, S&P's Consumer Discretionary Index (up 63+ percent since the Covid low on March 23) has outperformed their Consumer Staples Index (up 29+ percent since March 23), the opposite of what most people would have predicted. The discretionary index includes high-flyers like Amazon and several online apparel companies, all of whom have benefited greatly by serving stay-at-home shoppers.

The S&P Information Technology Index has outperformed all other indices presented herein (up nearly 62 percent since March 23), surpassing the broader S&P 500 Index by nearly 13 percent. Both the Information Technology Index and the broader S&P 500 Index have been favorably influenced by the tech components such as Apple and Advanced Micro Devices.

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The Details (cont.)

Stock Index Performance by Sector - 2020

	Jan 1 - Mar 23	Mar 24 - Aug 5	*Jan 1 - Aug 5*
S&P 500 INDEX (^SPX)	-30.75%	48.73%	*3.00%*
- Consumer Discretionary	**-27.62%**	**63.21%**	*18.12%*
- Consumer Staple	**-22.57%**	**29.28%**	*0.10%*
- Healthcare	**-26.70%**	**42.58%**	*4.52%*
- Industrials	**-40.07%**	**50.94%**	*-9.54%*
- Information Technology	**-23.08%**	**61.53%**	*24.26%*
DOW (^DJI)	-34.85%	46.31%	*-4.68%*
NASDAQ (^COMP)	-23.54%	60.31%	*22.58%*
RUSSELL 2000 (^RUT)	-39.92%	54.25%	*-7.33%*

While more volatile than the S&P 500 Index, Industrial stocks have performed on par with the broader index in recent months. There is optimism in the industrials sector within the U.S. given the onshoring that is occurring (and likely accelerating) and due to the increasing use of technology in manufacturing settings, making U.S. based facilities more competitive globally.

The broader health-related sector has struggled during Covid-19, with many health care facilities idled except for the treatment of Covid-19 and other acute care needs. As such, public securities in the sector have lagged the broader market.

Source: S&P Capital IQ Note: Data herein is based solely on the 6 industries Objective closely follows

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