

Covid-19: ICFG Key Message #1

At ICFG, we are positioned at 3 different stages of the Covid-19 crisis, with Partners located across the globe from Hong Kong to the USA, and a dense presence across the whole of Europe.

Each week we try to mobilise an “around the world” perspective to identify an emerging set of best practices aimed at overcoming this sharp curve, from a pragmatic and hands-on perspective.

We are happy to share our evolving key takeaway messages:

1. Dump your forecast

The unprecedented impact of this global confinement and epidemic on business has made all of us far too optimistic about the next 6 months. Dump, and dump again your forecast, it will save you time, strike the right funding plan and put you in the right strategic mood.

2. Cash

Rush for state cash for the maximum amount. Conditions will be harder to match in a few weeks, ask for big money.

3. Covenants and cost of capital

Net debt EBITDA multiples of the last 5 years are gone, so plan less riskier financing structures with more equity and debt coming from institutional debt funds and less from banks. Solutions will come from a necessary level of management skills to navigate these tough conditions, not from borrowing against collateral assets, i.e. it is an equity market not a debt market, cost of capital is up.

4. Double Polarisation

Beyond the usual polarisation in each segment between top flyers, average & survivors, the Covid-19 cash flow squeeze will exacerbate a second polarisation between debt-free and debt-loaded firms. Debt-loaded jewels will become available and no-debt average players will have a chance to become predators.

5. V-shape or not?

As long as this crisis does not trigger massive assets destruction, the recovery will be faster and stronger than after the World Wars. However, the recovery trajectory is unpredictable; Forget about a v-shape curve and focus on micro segments dynamics.

6. External trade and relocation

We would normally expect a very sharp drop in external trade, which tends to overreact to GNP variations. This reaction will be accelerated by a series of measures leading to reinvestments in national industrial supply chains for goods reported as strategic - ranging from rubber gloves, medicine, chemical inputs, food and telecom equipment to quote a few.

Those moves can be expected to involve significant state interference, with its usual consequences, including disruptions in the supply chain for non-strategic products as resources are reallocated. Manufacturing and trading activity will be increasingly dynamic and fluid, leading to new business opportunities but dissolving prior relationships and old certainties.

7. Valuation

In the short term forget about DCF; this will suffer an uncertain and adverse period of anything up to 24 months. Instead, focus on book values like Warren Buffet! At a time when customer behaviours are expected to change in unexpected directions, pay attention to intangible brand values. After all, getting a share of mind is the first condition in getting cash flow from a client.

8. Security

Expect increasing customer demand for services and products that feed their need for sustainability, resilience and protection from adverse events. Green business will benefit, as well as insurance, health and this new market for Personal Protective Equipment, where innovation, volumes and diversity will grow exponentially.

9. Social distance

The massive move towards social distancing will accelerate shifts in the labour market; telework, secure communications, contactless payments, home delivery, streaming and video games i.e. plenty of opportunities are there. However, tough challenges will face real estate, automotive, hospitality, transport and recreational industries. Losers will probably also include conferences & conventions, sports stadiums, cinemas and theatres.

10. The future is now

This Stop & Go period which starts with a planet learning to live with confinement and de-confinement rules applied to control the outbreak, will offer opportunities for those who can adapt NOW to the environment in front of us, with the ability to grab market shares that the less agile will let go.

We will come back to you soon as the only certain thing is that when everything is on hold, minor differences make the all difference.

Have a nice day!

From the ICFG members

The CEO Agenda - an ICFG check list:

- Secure cash
- Take care of your employees and supply chain
- Invite investors
- Chase debt- loaded jewels
- Thrive on relocation moves
- Postpone valuation events to 2022
- Sell sustainability and protection
- Go for a contactless customer experience

– Ends –

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About ICFG

ICFG is an M&A and corporate finance network of independent member firms focussing on the middle-market, where we design, initiate & execute transactions up to \$300 million. With 20 offices all over the world, we have the in-depth knowledge of local markets to make a cross-border transaction happen. Since 1956, our members have closed thousands of transactions in virtually every industry.

Our understanding of local cultures, marketplaces and regulatory environments and expertise in cross-border transactions has resulted in many satisfied customers and attractive cross border deals. We recognize the challenges and opportunities of midmarket companies going international and we therefore ensure that our clients receive active and sophisticated advice from our partners and employees at all stages of a transaction.