

DEALMAKERS AT CROSSROADS AS PANDEMIC SHIFTS EXPECTATIONS

Buyout shops such as Platinum Equity are still in hunting mode amid the global Covid-19 crisis, though others are putting a hold on dealmaking.

BY ARMIE MARGARET LEE

Deal professionals are navigating unfamiliar territory amid the novel coronavirus disease outbreak.

“We’re in uncharted terrain with this global pandemic, which could very well create an existential crisis for some operating companies,” said Platinum Equity LLC partner Mark Barnhill in emailed comments to The Deal. “But we’re as prepared as we can be given the circumstances.”

The Beverly Hills, Calif.-based private equity firm has been gearing up for a potential recession for some time, Barnhill said, adding that Platinum’s portfolio construction for some time now has an emphasis on “risk mitigation, diversification and defensive assets with less correlation to GDP and cyclical market positions.”

The World Health Organization on March 11 described the outbreak of Covid-19, the disease caused by the novel coronavirus, as a pandemic.

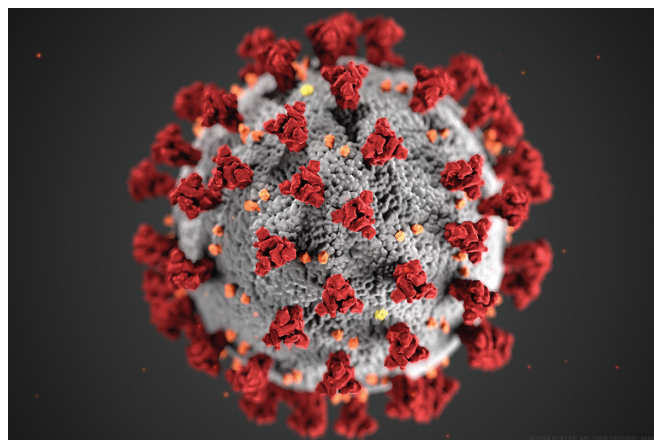
Platinum’s operations group is “managing the portfolio aggressively to preserve liquidity, reduce costs and prepare for an extended downturn,” Barnhill said.

As it works to mitigate the crisis’ impact on its portfolio companies, Platinum is also pursuing new investments. “Our strategy is to both mitigate and pursue...We’re actively engaged on both sides of the equation,” Barnhill said.

Platinum in January said it had wrapped up raising Platinum Equity Capital Partners V LP with \$10 billion, marking the largest fund in its 25-year history.

“Diligence is continuing, with the same adjustments everyone else is making with respect to working remotely rather than in-person,” Barnhill said.

Barnhill said in the March 20 email that Platinum the week before had asked employees to work from home unless they had an essential function or critical business reason to be at



the office. Then on March 20, the firm asked employees who had not yet done so to start working from home.

In addition to Beverly Hills, Platinum has offices in Boston, Greenwich, Conn., New York, London and Singapore.

The Herd Thins

Not all PE firms are actively trekking new opportunities amid the crisis.

A mid-market PE healthcare investor, who requested anonymity, told The Deal on March 20 that their firm is hitting the pause button on new opportunities for the moment. As for current investments, the firm has been in touch with portfolio company CEOs and boards through phone and video calls, the investor said. The firm is also in touch with limited partners and lenders, the investor added.

Eva Davis, co-chair of Winston & Strawn LLP’s PE practice, said she has received some calls about existing deals in the pipeline and how acquirers and their financing sources can get

their arms around the effects of Covid-19 on the underlying business.

“I have only received one call for a new deal in the past 10 days, and that was for a growth equity deal for a branded consumer product which requires no debt financing,” said Davis, who is managing partner of Winston’s Los Angeles office, in a March 23 email.

“Nobody’s going to pay the purchase price they were willing to pay a week ago, a month ago,” Davis said. “Purchase prices are changing dramatically.”

The question, she said, is “whether sellers are willing to transact on something less or put processes on hold.”

Davis said most of the calls she has fielded have centered on the workforce and how companies can take care of them. Clients have also sought guidance on the availability of financing sources to fund operations during the downturn.

The Winston & Strawn team has been working remotely since early last week.

‘Foggy Landscape’

Ed Bagdasarian, managing director and CEO of Intrepid Investment Bankers, a unit of MUFG Union Bank NA, described the deal environment as a “foggy landscape filled with landmines and potholes.”

“For deals to happen, buyers need to be able to price risk and project future cash flow,” Bagdasarian said. “The lack of

visibility in this environment is not good. Risk and growth are hard to measure.”

Amid the novel coronavirus crisis, Intrepid has implemented travel restrictions for its staff and canceled large gatherings. The Intrepid team is conducting business remotely now, staying in touch by phone, email, WebEx and Zoom.

The travel restrictions have impacted management presentations, which are typically done face to face.

In many of Intrepid’s sell-side processes, “we had to decide whether to continue and finish the process with management presentations by video conference or whether we want to extend the timeline or put the process on hold,” Bagdasarian said.

Intrepid closed two sizable transactions in February, one in March and has two that are targeted to close by the end of the month, he said.

The investment bank advised American Logistics LLC on the sale of student transportation provider ALC Schools LLC and Red Rock Technology LLC to Palladium Equity Partners LLC in a transaction completed in February. It also advised marketing agency Barrington Media Group on receiving an investment from Fort Point Capital in a deal that closed in February, as well. Intrepid has not disclosed specifics about the deal that closed in March.

“We’re seeing credit markets still functioning when the deal size is sub-\$200 million,” Bagdasarian said, adding that lenders have more questions and are becoming more conservative.