

Coronavirus Fears Cast Cloud Over Dealmaking

By Tom Zanki

Law360 (February 25, 2020, 8:20 PM EST) -- Coronavirus fallout has largely halted mergers and acquisitions activity and slowed public offerings in China and its adjoining regions, but that chill could spread to cross-border transactions beyond Southeast Asia if the virus continues to proliferate.

China-targeted mergers and acquisitions activity is down more than 20% year to date while proceeds have plummeted by more than half, according to research firm Dealogic. Initial public offerings in China are actually up year to date, though much of that activity occurred in early January before the severity of the outbreak was widely known.

Paul Aversano, global practice leader of consulting firm Alvarez & Marsal's transaction advisory group, said his China colleagues have noted the outbreak has dampened M&A volume in China and neighboring countries. Cross-border deals beyond Greater China and Southeast Asia have yet to suffer as dramatically, Aversano said, though he added it's still early to assess the fallout.

"If this continues for an extended period of time or escalates, there is no doubt that the disruption will extend beyond the region," Aversano told Law360. "It may even cause drops in valuations that could accelerate M&A down the line. It's an area that our team is watching closely."

Coronavirus fears have spread globally, spooking U.S. investors who are trying to sort the disease's impact on the global economy. The Dow Jones Industrial Average fell nearly 1,900 points combined Monday and Tuesday — its largest two-day point drop in history — following news that the virus had spread beyond China last weekend, including a spike in cases in South Korea, Italy and Iran. The World Health Organization on Tuesday reported 80,239 total cases of the virus, including 77,780 cases and 2,666 deaths in China alone.

China-focused mergers and acquisitions activity has taken a brunt of the economic toll. Dealogic reports 389 mergers and acquisitions were completed in China in this year's first eight weeks, exceeding \$20.6 billion in deal value, compared with 490 transactions exceeding \$54.2 billion at this time in 2019. Dealogic data show M&A activity has especially fallen in the last four weeks.

Lawyers say uncertainty over the extent of the outbreak and its full macroeconomic impact, which makes it harder for market players to determine valuations, is compounding problems.

Baker Botts LLP partner Yan Zhang, who advises cross-border transactions involving China, said his firm

closed several deals before China's annual Lunar New Year break, which began on Jan. 25. But launching new deals is challenging under the circumstances, Zhang said, citing the inability of participants to meet face to face given travel restrictions and other barriers.

"It's just hard to start new deals in this environment," said Zhang, whose China-focused work includes mergers and acquisitions plus public offerings, private placements and joint ventures.

Zhang said the resumption of new deals depends on a sense of getting "back to normal," though no one can say when that will be. In the meantime, speculation about the severity of the virus' macroeconomic impact is making it difficult for investors to decide where to commit their capital.

"With so many unknown unknowns, or even known unknowns, it is very reasonable for investors to be extremely cautious at this point as to whether they want to put new money to work," said Haynes and Boone LLP partner Liza Mark, who heads the firm's Shanghai office.

Mark advises private equity funds, mostly helping Chinese private equity investors invest outside of China. She also helps U.S. companies reassess and adjust their exposure in China.

If the Chinese economy, the world's second largest, drags as a result of the coronavirus, the ripple effect can hit certain industries especially hard. Energy, where prices are sensitive to global demand and were already falling partly because of a mild winter, is a prime example.

Oil prices are down 17% year to date, while natural gas prices have also tumbled. Winston & Strawn LLP partner Eric Johnson notes that the U.S. is a big exporter of liquefied natural gas to China, but declining prices are hurting prospects for oilfield service companies.

"You are seeing this trickle down of uncertainty, which is obviously going to negatively impact M&A," Johnson said.

In terms of China-listed IPOs, trends appear headed in a better direction. Dealogic data show that 32 companies have gone public in 2020 through last week, raising \$9.4 billion, compared with 13 IPOs that raised \$1.4 billion at this time last year. But most IPOs in 2020 were completed in the year's first four weeks, largely before severe travel restrictions took effect.

Dealmakers say companies and their investment banks are less likely to push new issuances under current conditions, putting a damper on marketing roadshows for an undetermined time.

The cool-off in Chinese IPOs coincides with a pause in U.S. IPOs, which are historically slow in February anyway. Only one company, Canadian waste hauler GFL Environmental Holdings Inc., whose operations are not significantly impacted by events in China, announced terms for a new offering this week. IPO research firm Renaissance Capital said in an online post on Monday that more companies may be waiting for market volatility to settle before launching plans.

But prospective public companies closely linked with the Chinese economy may face serious risks. The U.S. Securities and Exchange Commission last week urged companies that either directly operate in China, or have suppliers and distributors and customers in China, to consider whether they need to disclose coronavirus-related risks in their regulatory filings.

Debt markets may not be immune to coronavirus fears either. Bloomberg News on Tuesday reported

that European corporate bond sales have plummeted this week as investors determine the impact of the disease is having on corporate supply chains. If companies have to move manufacturing outside of China, the ripple effects of the coronavirus could be long lasting.

“It all depends on how long this will last and how broad the impact will have on a global scale,” Zhang said. “At the moment it’s just hard to predict.”

--Editing by Emily Kokoll.