

**Milano Finanza**  
**M&A after the storm**  
by Luca Gualtieri

***After lockdown. At the restart companies will be hungry for capital and will be ready for extraordinary operations. A wave that funds and investment banks are preparing for. The opportunities in the market.***

In these weeks of lockdown, peace has not only reigned in the streets of the cities. In many merchant banks and financial boutiques, too, business volumes have understandably declined. This is not surprising when you think of the great uncertainties weighing down on the major European economies. According to **\*\*\*Dealogic data\*\*\*** on global m&a activity, the first quarter was the weakest since 2013 with a 35.5% drop in volumes (\$690.1 billion) and a 16.4% drop in revenues (\$5.7 billion). And, if the lockdowns don't break, the numbers could get even worse in April-June. The third quarter, however, could reserve more than a surprise for market observers. If in fact, on the one hand, many companies will be involved in debt restructuring, a substantial slice of the Italian productive fabric could enter into consolidation processes in a rather short time frame. Pietro **\*\*\*Braicovich** and André Pichler, respectively managing director and co-head corporate of Houlihan Lokey Italy**\*\*\***, the American investment bank that a few years ago took over Leonardo & Co, the financial advisory arm of Banca Leonardo, are convinced of this. "In thinking about the health crisis," **\*\*\*Braicovich\*\*\*** explained to MFMilano Finanza, "we need to keep two distinct periods: the lockdown phase we are going through and the post-lockdown phase which will be characterized by a recessionary scenario. From a financial point of view, these phases will be characterized by very different phenomena that it is good to keep separate. In these weeks of lockdown the main problem for companies is obviously the impact of the reduction or zeroing of revenues on cash. The measures put in place by the government seem reasonable to me to buffer the liquidity shortage". Reasonable, but also effective? "Rather than making a process of the rules themselves, at this stage it is more important to focus on their implementation and above all on the timeliness of action. It is essential that the new liquidity enters the company as soon as possible and it is desirable that the banking system reduces the timing of the investigations as much as possible", **\*\*\*Braicovich\*\*\*** points out. "At a later stage, I think it will be possible to refine the regulations by reasoning by macro-sectors. Each sector has specific financial needs and targeted solutions could be put in place considering specific balance sheet parameters", **\*\*\*explains the banker\*\*\***. For example, there is a lot of discussion in the financial community about the need for specific measures to bring oxygen to the unlikely to pay, loans to companies that are no longer performing but are often struggling to complete delicate restructuring processes.

If, in short, during and immediately after the lockdown there will be a lot of work on the debt side, a rapid recovery of activity is also expected on the m&a front. "At the end of the lockdown, the Italian economy, like that of many other countries, will find itself in a recessionary phase characterised by a drastic reduction in demand," **\*\*\*Pichler\*\*\*** explains. "This is why we expect a wave of debt restructuring and a consequent recovery in m&a. The two phenomena will be linked: with the real economy in crisis, many companies will need equity to rebalance their financial structure. A need that will pave the way for mergers and acquisitions. The phenomenon will determine a concentration especially in certain sectors and the strengthening of the leadership of the strongest companies in the role of consolidators". An example? The recent restructuring of Sisma, the company that produces Samurai toothpicks, in whose capital Hourglass and Magnetar Capital have entered, making a restructuring process coincide with an m&a operation. "The feeling is that in the coming months we will see many such processes, which require a strategic view," **\*\*\*Pichler\*\*** notes.

There is no shortage of candidates for this wave of m&a. "International investors could play a major role," \*\*\*Braicovich\*\*\* explains. "After all, in recent years, the attention to the Italian market and its excellence has not waned. Obviously there has been a physiological stop in activity in the weeks of the lockdown, but, thanks to the ample liquidity, at the end of the emergency many funds will return to invest intensely". \*\*\*The sectors under the lens?\*\*\* "It is difficult to generalize", \*\*\*Braicovich\*\*\* replies, "given that the impact of the crisis could be very articulated also within individual sectors and supply chains. What is certain is that many companies could further strengthen their market position by becoming particularly attractive. To stay in the food sector, just think that, if catering has been heavily penalized, the entire food ingredients area should suffer little from the recession. In the consumer sector, while the retail sector is suffering a lot, the goods that can be distributed via e-commerce should not experience any particular slowdown".

--