

Welcome

- We will begin at the top of the hour.
- A copy of the recording will be distributed following the session.

COVID-19 and the Impact on M&A

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Payroll Protection Program (PPP)

- Purpose: To help small businesses adversely impacted by the pandemic to maintain employment and wages – keep money in the economy
- Eligible borrower: Business concerns with under 500 employees (with some industries allowed more)
- Benefit: Low rate loans and loan forgiveness
- Available funds: \$349 billion (Congress considering increase)
- Program expires: June 30, 2020

Payroll Protection Program (PPP)

- One loan per employer
- Apply “now” > first come, first served
- \$250 billion committed as of early this week
- Prediction: Fully committed by end of week
- Congress considering increase “as we speak”

PPP Terms

- Maximum amount: 2.5 average payroll up to \$10 million, plus amount of Small Business Administration Economic Injury Disaster Loan (EIDL) that is refinanced
- Interest: 1% per annum
- Term: 2 years (for amounts not forgiven)
- Payments deferred for 6 months
- No collateral; no personal guaranty; no “credit elsewhere” requirement

PPP Key Issues for Deal Community

- Employee counting / affiliated entities
 - 500 or less
 - Expansive affiliation concepts
 - Tools for “workarounds”
- Payroll costs
 - Handling partnership income

COVID-19 Impact on Deals

- What is happening?
 - Delay (never to relaunch?)
 - Triage and prioritize
 - Pursue
 - Repricing / Risk-sharing

COVID-19 Impact on Deals

- Material adverse event (MAE) / material adverse change (MAC) impact
 - COVID-19 as a MAC
 - Financing commitments
 - Signed deals
- Due diligence
- Representations and warranties insurance (RWI) impact

COVID-19 Impact on Deals

- Handling of PPP loans
 - Who gets the benefit of the loans?
 - Who gets the benefit of the forgiveness?

COVID-19 Impact on Companies Operationally

- Force majeure issues
- Business interruption insurance claims
- Financing monitoring for defaults
- Shifting fiduciary duties of directors
 - Insolvency shifting
 - Caremark shifting

Families First Act: Payroll Tax Credits

- Refundable credits for qualified wages paid
 - Increased by allocable share of qualified health plan expenses
 - Increased by employer portion of Medicare taxes (i.e., the 1.45% tax)
- Credits will be reported on the quarterly Form 941 filing
- Fund the leave payments by reducing employment tax deposits
 - Form 7200, Advance Payment of Employer Credits Due to COVID-19

CARES Act: Payroll Tax Provisions

- Employee retention credit
 - Eligible employer
 - Operations fully or partially suspended due to governmental orders
 - Experiences a significant decline in gross receipts during the calendar quarter
 - 50% of qualified wages paid after March 12, 2020 through Dec. 31, 2020
 - Up to \$10,000 per employee, so maximum credit of \$5,000 per employee
 - 100 full-time employees in 2019
 - Claiming the refundable payroll tax credit
 - Reported on Form 941
 - Fund by reducing payroll tax deposits and filing Form 7200 if applicable
 - Not eligible to claim credit if receive a PPP loan

CARES Act: Payroll Tax Provisions

- Defer payment of employer Social Security taxes (6.2%)
 - Available to all employers except:
 - Employers that have had a debt forgiven pursuant to PPP
 - Similar deferral available to self-employed individuals
 - Not required to deposit the employer portion of Social Security taxes for the rest of 2020 beginning with deposits due on March 27, 2020
 - Must remit undeposited taxes in two equal installments:
 - Dec. 31, 2021 and Dec. 31, 2022

Income Tax Provisions

- CARES Act: Retroactive impact on 2018 and 2019 tax returns:
 - Limitation on Business Interest Expense – 163(j)
 - Qualified Improvement Property (QIP)
 - Utilization of Net Operating Losses (NOLs)
 - Overall Loss Limitation – 461(l)
 - C Corporation Alternative Minimum Tax (AMT) Credits
- Filing and payment due dates postponed to July 15

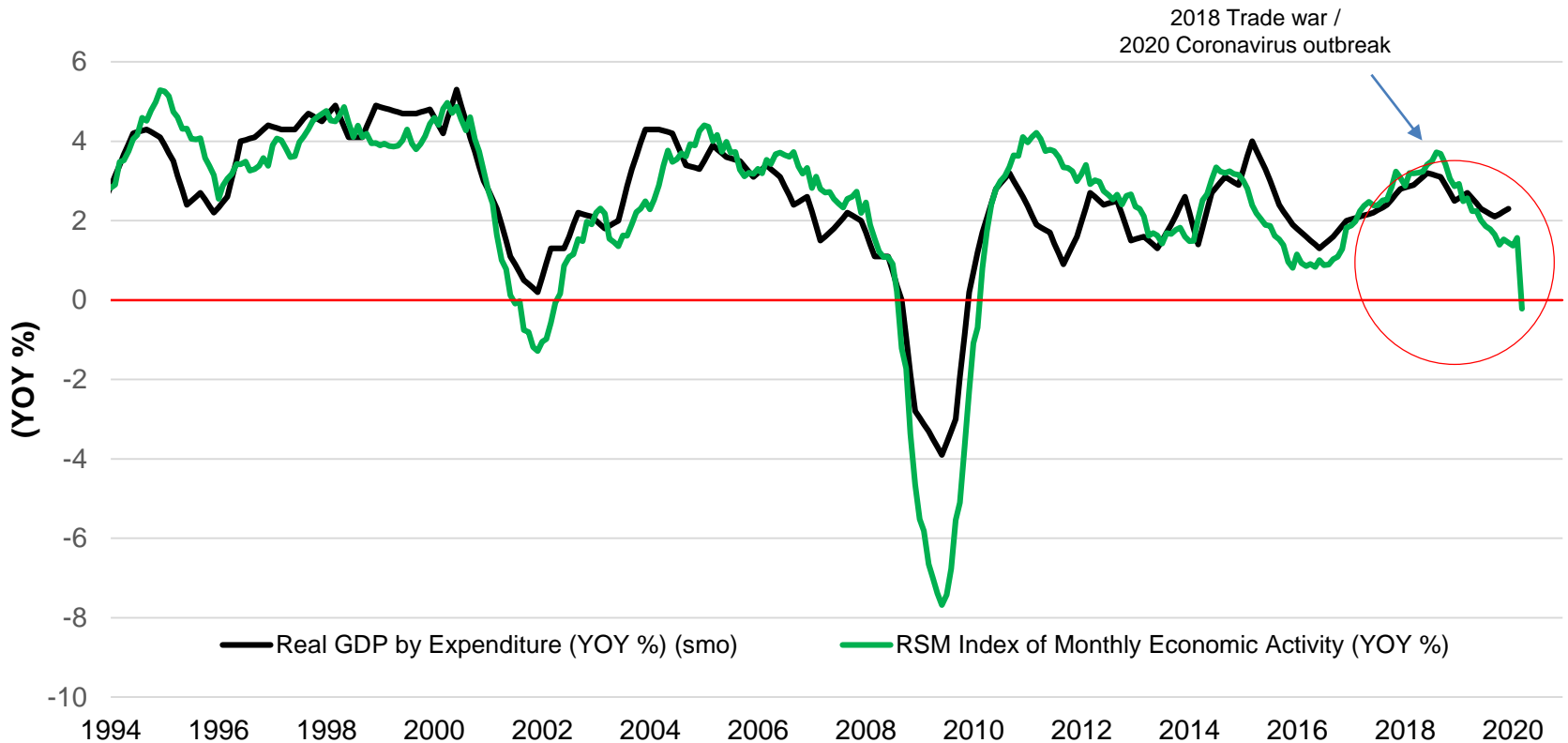
U.S. Economic Outlook: Recession & Recovery

- U.S. economy has suffered a series of shocks.
 - Supply, demand, and financial shocks
 - Near 7-standard deviation shock
 - Depression-like shocks, but no depression
 - Recession will likely last 2-3 quarters
- Policy response
 - Robust fiscal and monetary policy response
 - Main Street Lending Facility
- Shape of recovery
 - Unlikely to be a V-shaped recovery
 - Elongated and frustrating in some industries

Real Economy Shock: Labor Market

- Labor market shock
 - 24 million jobs at risk
- Initial claims
 - 6.6 million for the week ending April 4
 - Forecast 5.5 million for week ending April 11
- Unemployment
 - Currently 10-13%
 - Every 1.5mm in initial claims is about 1% in unemployment rate
 - Peaking between 18%-24% later this year

RSM Monthly Index of Economic Activity



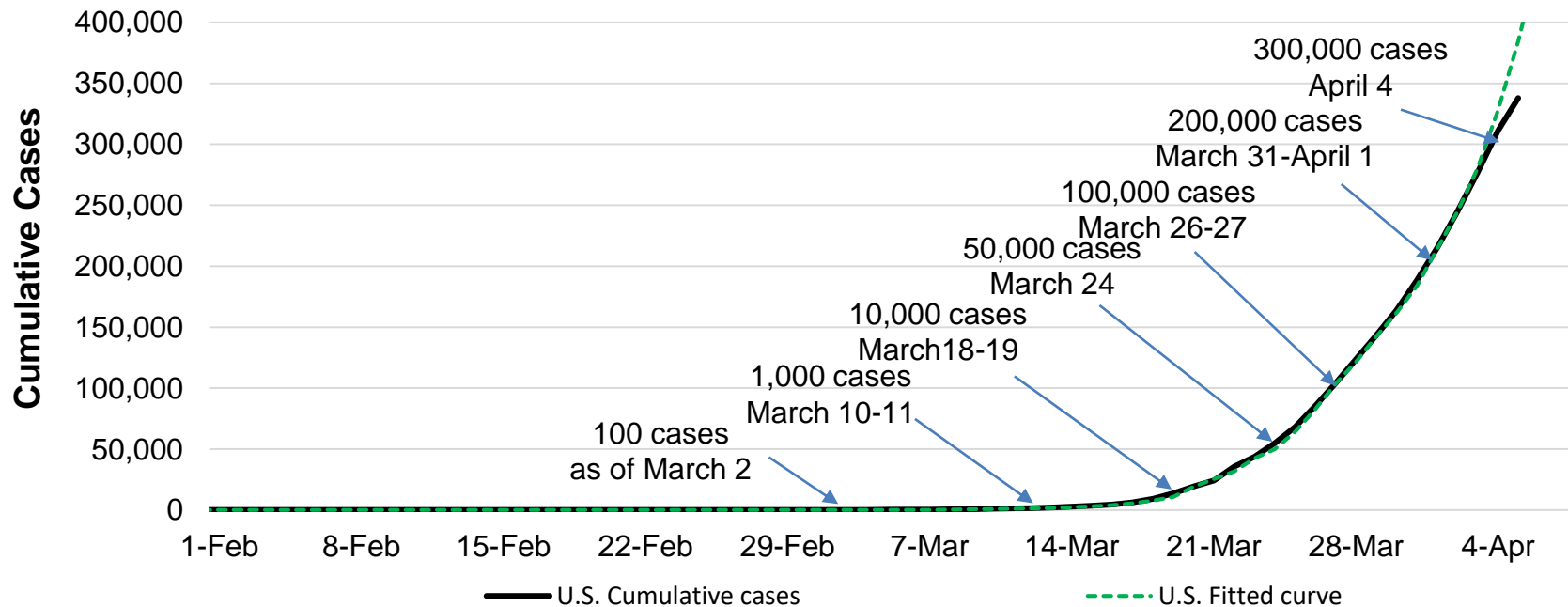
Source: BEA; BLS; Census; Bloomberg; RSM US

How Long Before U.S. Is Back to Full Production?

- How long?
 - Depends on success of scientific and public mitigation efforts
 - U.S. economy should begin to recover in June/July period
 - Below output production in 2020-2021
- Steps to *fully* reopening economy
 - A consistent decrease in the number of cases
 - The ability to test entire population, isolate infected, and trace source
 - Sufficient amount of healthcare infrastructure available if re-emergence
 - Effective therapy and vaccine available to entire population
 - China provides case study

RSM Fitted Curve: Actual and Hypothetical

Cumulative Cases of the COVID-19 Virus – February-April 2020



Sources: Actual Cases: WorldoMeters, Johns Hopkins/CSSE; Fitted Curve: RSM US

Q&A

Please submit questions via the
Q&A feature.

Thank You

A recording of this webinar will be available on ACG Indiana's website.