

The **5 minute reading series** will share quick points of view on relevant topics for executives and M&A professionals. Over the next weeks we will talk about addressing the impact of Covid-19 on M&A, how to drive M&A planning in virtual environment, and tips for the post outbreak.

5 minute reading series
Deloitte M&A LatAm

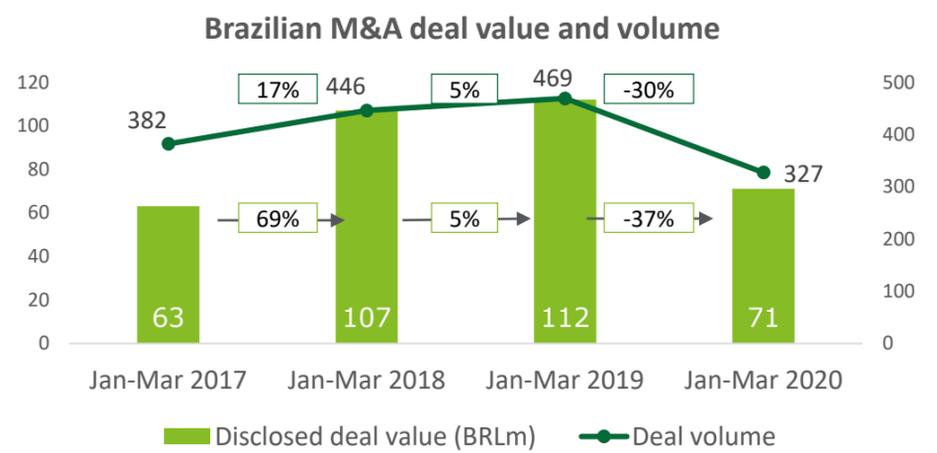
Covid-19: How does it impact M&A deals in Brazil?



During the past decade Brazil has faced several challenges, including a political crisis followed by an economic crisis between 2016 and 2018. Though recovery was happening later than expected, in 2019 we saw an increase of deals volumes and values and, all things considered, the market was looking forward to seeing a recovery in 2020. However Covid-19 had an immediate impact on key economic indicators that impact M&A:

- Since January the Brazilian Real has devalued more than 40%
- Brazilian stock market (IBOV) dropped 46% in March and as of April is still 34% lower than in January
- Comparing versus a similar period in prior years, we have seen a 37% of decrease in the deal value and a 30% decrease in the deal volumes.

Despite these changes, we have seen that the deals that were already negotiated or heavily advanced have been moving forward (slowly) and those that were pre-due diligence are not cancelled but postponed. Very likely this will result in a larger drop of deal activity in Q2, but a higher volume of deals toward the latter half of the year. Given the uncertainty, we have seen many companies find new ways to move forward with their deals. See below for a few specific points of attention for those that continue to advance with M&A activity at this moment:



M&A strategy	Target screening	Due diligence & Negotiation	Pre day one	Post day one
MAKE THE RIGHT MOVE M&A strategy & Target screening	KNOW THE ROAD Due diligence		EXECUTE FLAWLESSLY Integration / Divestiture	
<p>Low stock market and the exchange rate will create opportunities in the distressed M&A market. However, taking advantage of these opportunities requires special attention to two areas:</p> <ul style="list-style-type: none"> • Valuations – given the significant market uncertainty revenue projections and discount rates will need to be more conservative • Cost of capital will need to be reevaluated. Banks might reduce the available capital to support M&A activities and companies with cash reserves will have an advantage. 	<p>In the post crisis scenario the risks will be amplified. Due diligence is more important than ever to allow buyers to properly plan for and mitigate risks.</p> <ul style="list-style-type: none"> ✓ Perform a detailed due diligence of the target including IT, operational and HR liabilities ✓ Develop a financial analysis that excludes the impact of Covid-19 to understand business as usual. <p>We will discuss best practices of virtual due diligence in a future article of this series</p>		<p>Plan for a longer execution phase. First, regulatory approvals will likely have delays. Second, virtual coordination can decrease the pace of planning. Direct your efforts to quick wins on cash synergies (integration) or stranded cost reduction (divestiture).</p> <p>Push back material CAPEX related investments to minimize risk.</p> <p>We will discuss best practices of a virtual m&a process in a future article of this series</p>	

It is undeniable that the Covid-19 crisis has changed the economy and the M&A market. Even though it **remains uncertain how long and how deep the crisis will reach**, executives who respond quickly, **foresee impacts**, mitigate risks and keep an eye for opportunities typically thrive in the face of challenges.

 Deloitte has developed a global [methodology](#) to support our clients in being resilient and dealing with the Covid-19 crisis. Visit our [site](#) with exclusive content about the pandemic and for more insights on M&A, please visit our [webpage](#).

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