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Change? Don't endure it. Run toward it.

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Commentary

Months ago, I can recall optimists speculating that COVID-19 and its vast economic damage would be winding down by Memorial Day. They just failed to specify which Memorial Day. Meanwhile, in the M&A environment, we've seen the majority of qualified buyers and sellers sitting on the sidelines — activity is down 83 percent over the past year.

The deals that are happening are those that are strategic because of the needs created by the pandemic (health products, food-related and consumer product deals as well as technology) and those not affected by the pandemic. But many deals are mired in quicksand for now.

The opportunities, however, are growing exponentially every day that investors delay. And finally, I'm seeing an end to it, with buyers in the private equity markets wanting now to get things done.

The dominant factors in the brave new world of M&A to come? Figuring out what former imports can be made here, how consumer demands have changed, and nailing down the quantity, quality, and location of the labor force.

The labor aspect is part of the formula many investors overlook until they realize they have a problem. That's why companies everywhere are having to reassess their labor needs and their sourcing.

Making the shoe fit

The fact is, in many service-based industries, it doesn't matter where your employee physically resides because of that little box with the keyboard and mouse. And for those who want to work but want nothing to do with crowded cities since the pandemic, that's good news. From universities to auto dealers to federal IT contractors, it's all moving online.

Employers are already making that shoe fit, with things like job training and onboarding all being done online. So, what they thought they needed six months ago has shifted dramatically to what works right now.

There are exceptions, of course, where an employee's physical presence is required, like health care and manufacturing. There are opportunities in cities for that because everyone does not want to move to the suburbs.

Three such successful urban growth examples that my company has witnessed are all in downtown Baltimore: a packaging company, a furniture maker, and a poultry plant.

Then there are others, such as automotive manufacturers, that, at the expense of cash-strapped cities, have chosen to set up shop in places like the rural South, where the skills are good and wages low.

But whatever opportunity we think we see, we should all be tiring of any business discussion using the letters PPE. There's going to be a profit-crushing glut in that sector before too long.

The real focus should instead be on figuring out what nonpandemic-related stuff can be made here, and with what equipment and labor, that was once made overseas. What can you buy at a distressed price and then make it into something new to fill the need for those once-imported goods?

It's all part of a nationalistic shift in manufacturing that's going to change the math on a lot of things. And that shift will start with consumer products and then spread to commercial and industrial goods and commodities (but you can count energy out: Oil and gas can't recover from their free fall before renewables make both mostly irrelevant).

Top of mind

The most important element for M&A investors will be figuring out consumer behavior changes — what are their new priorities, and what are they spending money on now?

It's not spa treatments or designer clothing (RIP Brooks Brothers), it's things like home improvement products, electronics, furniture, and entertainment sources. For example, the pandemic spurred a mini-boom in home improvement projects, which has sharply increased demand for lumber. Where are they going to buy these things? Not at shopping malls, which are going dark all over the country.

Investing in sectors like that is what's going to reverse that 83 percent decline in M&A activity. And while some investors are waiting to see if someone else's venture works before they make a move, it's created a first-mover advantage.

Sure, that gutsy first-mover is going to have to sort out the valuation gap: Sellers in suddenly hot industries will be in great demand and might ignite bidding wars. And sellers in businesses hurt by the pandemic may try to wait out the valuation problems until profits return if they can avoid an involuntary M&A deal prompted by bankruptcy or forced asset sales at fire-sale prices.

Sure, that first M&A mover may have to tweak the venture to get the bugs out and make the next one better. But he or she is going to set off a gold rush – M&A transactions will probably be back to pre-pandemic levels in six to nine months.

That's not much time to be one of those first movers. And those that are not first in snapping up promising opportunities may be the last.

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