The Early Innings of Tariff Impact

Trade tensions between the U.S. and large trading partners like China are increasing. While the future of trade policy and tariffs is less than certain, the impact on middle market M&A is starting to be seen.

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TARIFF IMPACT ON INDUSTRIALS M&A

With the first $34 billion of tariffs announced in June and implemented in July, companies were left with little time to prepare. Every deal is unique, but there's no doubt that tariffs have added a layer of complexity to the process as we work with management teams to decide how best to address tariffs and any tactical steps. For example, some companies are considering changes to their supply chain and moving activities to areas that aren't impacted, while others see little impact now but could in future, depending on further tariff actions and trade conversations with Canada and Mexico.

While no one has a crystal ball on the outcomes, we're advising companies and investors to take a long-term view:

- Tariffs are a tool, not a long-term policy. We've seen this before. Smart investors know that there may be a short-term impact on some companies and consumers, but that impact on profitability and/or valuations could be short-lived.
- Talk openly about the impact. Preparedness is important. Every deal and every company impacted or potentially impacted by tariffs will need to articulate what it means, how it's hitting their supply chain, expectations for performance, and how they'll address it.
- Take in the broader context. Even amid uncertainty around trade policy, there are a lot of reasons for investors to be bullish on the industrials sector. Overall economic recovery and positive results in commercial construction and housing are continuing to create demand. Across the U.S. and globally, financing providers have leverage available for deals, the PE community remains engaged, and strategics are very active.

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The full impact on deal flow is still playing out, but middle market M&A in industrials has remained strong. Despite uncertainty, our pipeline suggests that the second half of 2018 will be even more active than the first half. There is ample capital and dry powder to be deployed, and while some investors are taking a "wait and see" approach, others see uncertainty as a time to strike when there may be fewer buyers in the market.