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Preparing Your Company for Sale or Investment in a Post-COVID-19 World

Now that (some of) the initial shock of the COVID-19 pandemic has worn off, many people are moving from “what happened?” to “what now?” When it comes to M&A or equity investments, uncertainty and risk-shifting have always been at the forefront of negotiations. In a post-COVID-19 world, there are some new ways in which we expect to see that dynamic play out and some specific areas of concern that might be more prevalent now than in the past.

Valuation and financials

How to value a company and the calculation of the numbers underlying that value are subject to varied interpretation even during stable times; however, during COVID-19, the macro-level economic volatility combined with significant changes in company-specific financial data make valuation an even more difficult task. Disruptions to the supply chain and stay-at-home orders for much of the world have caused sales to plunge dramatically for some companies, while others are experiencing a surprising upturn in business by being in the right market with the right product at the right time (think Zoom, alcohol manufacturers, etc.). Cash flow, accounts receivable and similar metrics are likely quite different than three or six or nine months ago. Regardless of how a company has fared during COVID-19, valuation may be challenging in the short term because the company’s current financial state may not present an accurate longer-term financial picture of the company.

Sensitivity to supply chain and customer base

Suppliers and customers have always been a significant part of a buyer’s or investor’s due diligence of a target company. Disruption of supply chains was a key issue from the early days of the COVID-19 pandemic, and those worries only increased as more of the world began to shut down. Although a COVID-19-level event is difficult to predict or plan for, prepare for buyers and

investors to ask more questions about suppliers and supply chain issues, including contingency plans. Similarly with customers, understanding exactly who your customers are, where your product or service fits in your customer's hierarchy of needs (i.e. is your product/service essential or is it a luxury item?), whether your customers can suspend performance or terminate as a result of events like COVID-19, and which areas of your customer base are vulnerable will help a buyer or investor feel more confident that your company can weather other unexpected challenges.

Work force

Labor and employment issues have also been significantly disrupted by COVID-19, in part because of various national, state and/or local level stay-at-home or shelter-in-place orders. Have you taken any actions to stay open or continue production, which could create an employee litigation risk? Are your company's employees able to work remotely? Work From Home (WFH) has been a growing trend for years, but COVID-19 has accelerated that trend and it has become the new normal for many people. WFH also raises a number of new issues, like privacy and cybersecurity, that you should be prepared to discuss. Returning to work will bring its own challenges. If your workers are not able to do their jobs from home, then a buyer or investor will likely ask more detailed questions regarding your specific safety and emergency protocols pertaining to your on-site work force.

Innovation and contingency planning

COVID-19 has affected different industries in many and diverse ways, but there is one common thread: innovation. Schools have transitioned to remote learning environments. Some non-emergency healthcare providers have shifted to telehealth. Technology companies are creating and improving better platforms for remote connection at record speed. One major takeaway of COVID-19 is the necessity of a business to adapt quickly to a new environment and innovate in order to succeed. In the event of an emergency, what is your company's plan? Buyers and investors want to know that you have well-developed business continuity plans and emergency protocols and will review how your organization has innovated in this time of crisis. These skills and preparations are also dependent on industry, so understanding the specific risk factors and trigger points for your industry are important.

Contact us

If you have further questions or require more information regarding this update, please contact Ashley Edwards or your Husch Blackwell attorney.

Comprehensive CARES Act and COVID-19 guidance

Husch Blackwell's CARES Act resource team helps clients identify available assistance using industry-specific updates on changing agency rulemakings. Our COVID-19 response team provides clients with an online legal Toolkit to address challenges presented by the coronavirus outbreak, including rapidly

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changing orders on a state-by-state basis. Contact these legal teams or your Husch Blackwell attorney to plan a way through and beyond the pandemic.