

# THE LAST LAP: HOW TO WIN THE COVID-SELLER'S MARKET & AVOID AN EMERGENCY EXIT

Zain Jaffer - Dec 7, 2020, 2:01 pm



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When it comes time to seek a deal, win an exit, and walk away with your value in hand, tensions climb. But the COVID-19 pandemic has put new stress on sale-oriented founders, and prospective sellers are crunching the numbers with white knuckles. It's not just the economic dip causing the alarm. It's the speed of change in the market, the fluctuating valuation multiples, and the fear that [private equity](#) has exited the market completely.

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On the matter of private equity, at least, there's ample reason to be reassured. Investor capital remains alive and well in the market. In fact, after months of COVID-inspired patience delaying deals, private equity exists at an all time high. ~~An estimate from Bain and Company~~ projected an approximate \$2.5 trillion in private equity floating around worldwide. Of that \$2.5T, over half is concentrated on the North American market.

## Trident Fund LP May 2020 Commentary



The Trident Fund LP returned +1.4 percent in May, and the fund is +3.8 percent net for 2021.

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## The COVID-Seller's Market

The numbers tell us firmly that the COVID-market has not sent buyers running. Much the opposite, some experts are anticipating the post-crisis market to be a seller's market, especially for companies valued in the ball park of \$2M-\$5M. The crisis has, however, created a type division in investor capital. There are now two kinds of buyers. There are those who are looking for the COVID-19 winners; buyers who want to pay strong performing, increasingly valuable companies what they're worth. And there are those who have an eye out for

floundering operations; buyers interested in companies that lost steam in the crisis-market and that might sell for a fraction of their pre-crisis valuation.

Generally speaking, all investment capital is good investment capital. The novel pandemic hit at a time when the corporate landscape was undergoing a significant demographic shift. Emergent Research surveyed older business owners; 40% indicated that they were considering [closing their business](#) permanently, disinterested in investing extensive efforts or resources into a rebuild due to their age. If retirement is looming near, or if a founder is simply ready to move on to the next, an emergency exit might make all the sense in the world. In these cases, sellers might be happy with a lower valuation, grateful just to close a deal in these strange COVID-19 waters. And for those sellers, capital awaits.

But just like there are two kinds of buyers, there are two kinds of [sellers](#): there are those who are ready to call it a day, and those who are interesting in running through the finish. [BizBuySell's Insight Report](#) indicates that 11% of businesses have seen no economic impact in the fact of the virus, and an additional 11% have seen their value increase. For the sellers who want to steer the boat to safety *before* negotiating a sale, the task is great. But those that succeed will have done the seemingly impossible—they will have sold for a capital-P Profit after COVID-19.

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# Manning The Ship

Between making a career defining sale and being forced to transact at low multiples, management will make all the difference. Success in the time of COVID-19 is an asset that can't be overvalued, and being able to show tangible traction after a pivot can change the terms of a deal. Sellers should first mine their operations for revenue boosting opportunities. Maintaining a connection with consumers, understanding their shifts in demand and demonstrating an ability to adapt; these are the signs of a business that isn't backing down.

All of the corporate housekeeping needs tending to: updating employee policy, repairing supply chain inefficiencies, and eliminating slow-moving inventory. But relationships remain a high-value item in the COVID-economy. Even if sales are stagnant, it's important that your company is able to prove that customer affinity has endured or improved throughout the crisis. Potential purchasers can overlook a couple stagnant quarters. They'll be most focused on your ability to outperform your industry peers. If you're emerging from COVID-19 with deeper client relationships, you're drastically increasing your company's value in a buyer's eyes.

## Investing In Your COVID-19 Name

Public image is another area that will make or break a deal. While it might not surface on a term sheet, buyers are looking for companies that have survived the pandemic in good name. Social awareness, environmental neutrality, and philanthropic efforts—COVID-era consumers are rewarding all of the above.

Luckily, there are endless ways to help in this moment of crisis, and any help is valuable. Some companies have been able to reallocate their capital, supporting local shelters or creating loan programs for fledgling companies in their industry. Others have simply used their social media to raise awareness around [social issues](#), or offered their space and services to frontline workers, free of charge. In preparation for a competitive sale, generosity might not seem like the winning strategy. But investments made into your public image are value-adds

to a potential buyer. They know the downstream effects of those actions will have invaluable returns.

## Above And Beyond: Preparing For A New Age

Having manned the ship, managed the housekeeping, and invested in your public profile, there are a few additional areas of investment that can go a long, long way. The task is to prove to potential buyers that you've invested in the company's future, that you've gone above and beyond in your preparation to meet the new normal. As a result, the company is better positioned for success, and the value of your deal is increased.

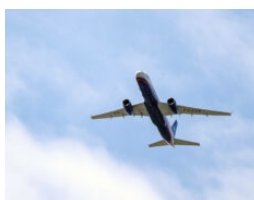
You might begin with opportunistic hiring. Throughout the pandemic, job losses and furloughed positions have made the available talent pool much larger than normal. Investors want to see strong management in place before they take over the business. Taking advantage of the talent at hand and recruiting for high-impact roles shows a potential buyer that you're not slowing down, that it's full steam ahead.

Next, it's time to prepare your infrastructure to meet the new-age. Invest in your technology to further facilitate remote working, and spend real capital on IT security. IT security will be one of the most valuable assets as increased reliance on at-home technology and e-commerce sales continues. Prioritize these areas before you engage

potential buyers. In other words, go the extra mile and adapt to the new normal so the buyer doesn't have to.

Sellers looking for an easy exit will find one. But sellers looking to increase their value and trade at higher multiples have a heavy task at hand. Every forward action—deepening existing consumer relationships, building a strong COVID-era public image, and making targeted investments in new-age capacities—is changing the terms of a deal in live time. Patience, targeted [investments](#), and relentless hard work can transform a COVID-era deal into the sale of a lifetime.

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