

## A Business Owner in the Land of Covid-19

Whatever else it brings, COVID-19 will be remembered as the germ that shut down America and changed the way we do business. Interesting times indeed!

We are learning more about the disease every day and how to treat it and prevent its spread. The curve will flatten and we won't all perish. So, how is the economic landscape changing, and for what should the owner or manager of a middle market business be planning?

### What's Trending?

The health of the U. S. economy in the second half of 2020 and the outcome of the fall election will depend on the length of the shutdown and how well government, at all levels, handles the pandemic and its impact on the American consumer's ability to spend (70% of the economy).

It will also depend on the innovation and perspiration of the American entrepreneur in adapting to the new challenges and opportunities and getting back to work. Here are some trends to ponder:

- **Supply chains are being re-examined** and restructured for greater control and less risk; disadvantages of the 'just-in-time' manufacturing model are being exposed
- **Re-shoring of sophisticated manufacturing to the United States is gaining steam**, especially of essential products, ingredients and components for healthcare and national security purposes
- **Tele-living is surging** – working remotely, shopping online, telemedicine, virtual meetings, online education K-12 and beyond are all boosted by necessity and the wave of new home internet connections when schools closed
- **Companies are creatively applying their skills to provide new products and services** – from autos to medical products, for example – based on changing temporary or long-term needs
- **The 11-year economic expansion has ended** – sacrificed for a greater good; as Jeffrey Frankel, an economist and professor at Harvard said 'the odds of a global recession seem elevated'
- **Oil prices have plunged** – roiling the energy industry and slowing pursuit of alternative fuels, but lowering the cost of business for most other industries
- **New pandemic legislation can aid employers** – offering bridge financing for many middle market businesses until the economy reopens
- **Easing the lockdown too quickly** could trigger a second wave of infections – slowing recovery

### Assess How the Situation Affects Your Business and Update Plans

What are key impacts on your customers, your employees, your suppliers and therefore your business?

We recommend you heed **Ben Franklin's** old adage, **“failing to plan is planning to fail.”** If you are considering the potential transition of your business in the next several years, we encourage you to use this moment to refresh your strategic plan and prepare your business for a sale at the right time.

If your business is operating profitably through the pandemic and you see growth ahead, this is a most advantageous time to begin the sale process. Many buyers have cash and are looking for profitable, growing acquisitions – middle market companies and divestitures – the supply of which has dramatically shrunk in past weeks.

If this is not the time to sell, use some quiet time in your home office to prepare. EdgePoint recently conducted a survey of middle market business owners who sold their business and found that most owners wished they had begun **planning for the sale a year sooner** than they did.

### **Here are some practical steps you can take now to assure you're 'transition ready' when the market is.**

1. Pull together your **latest five years of annual financial statements**, and monthly statements for 2019 and forward to illustrate for potential buyers how your business was performing just before the pandemic, and how quickly you recovered afterward.
2. Similarly, **track key performance indicators** (e.g. volume and productivity metrics) each month to better tell your story of response and recovery. When trying to decide what to track, ask yourself, is it actionable, or merely interesting.
3. Open a **Covid-19 Account** (or series of accounts) for all one-time pandemic-related expenses which can be added back to more accurately reflect the cash flow available to a buyer. Also keep track of all owners' compensation and perquisites.
4. Develop or revise a **budget for 2020 and strategic plan**, and **run multiple scenarios**. You'll be better prepared to make the difficult decisions quickly if they become necessary and to seize new opportunities for products, services and markets.
5. Conduct your **own Pre-Due Diligence** to make sure the future sale process goes smoothly. Now is a good time to go through all your contracts, insurance plans, leases, Board minutes and the like. Make sure you have complete, fully executed copies. Be sure to check termination dates, rights of renewal, and other key terms to determine if any action is required, then scan and store a copy electronically, using an appropriate filename. Finally, commit yourself to immediately digitizing and filing every new agreement so you don't have to go through a major cleanup again!
6. An experienced investment banker can help with a **Transition Readiness Assessment** if desired.

*Thanks to **Russ Warren** and **Matt Bodenstedt** – they generously allowed us to publish this article.*

*Both are Managing Directors of **EdgePoint**,  
with a combined 70 years of advising US-clients in the sale of their middle market businesses.*

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