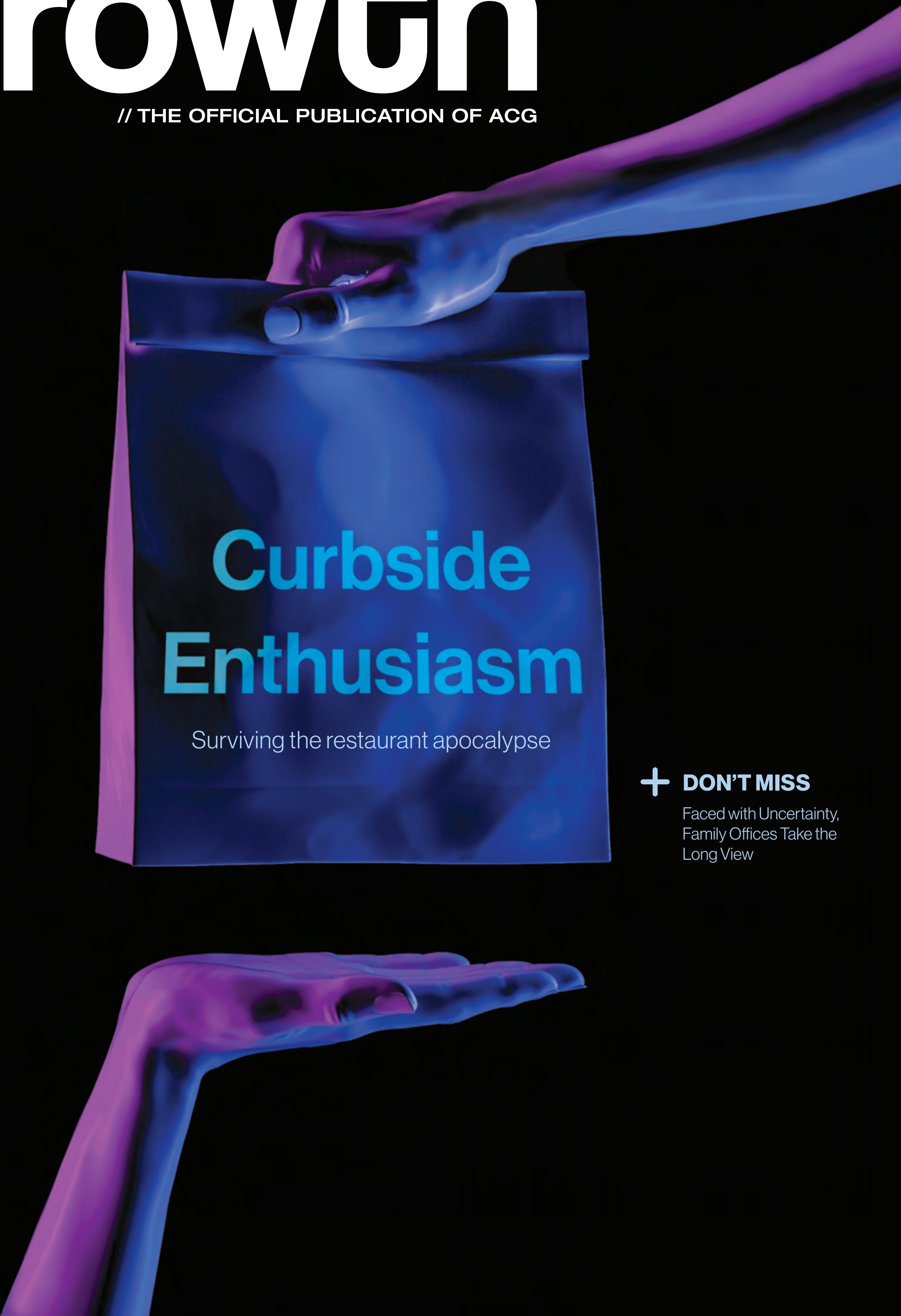
SEP/OCT 2020

MIDDLE MARKET Growth

// THE OFFICIAL PUBLICATION OF ACG



Curbside Enthusiasm

Surviving the restaurant apocalypse

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COVID-19's Lasting Legacy

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Regular readers of *Middle Market Growth* know that each issue focuses on a particular theme, often an industry, with articles that explore its various angles and trends.

This edition of the magazine is in keeping with that tradition, with a focus on consumer products. But if after reaching the final page, you concluded that the overarching theme was something entirely different—that "change" was the through-line—I wouldn't argue.

In the early days of the coronavirus outbreak, it looked as though the disease and disruption might be a short-lived phenomenon. We now know better. This crisis will make a longstanding, if not permanent, imprint on institutions, businesses and behavior.

That shift to a new reality is reflected throughout this issue. Our cover story looks at the ways businesses are rethinking their models, and the trend feature explores how family office investors are evaluating risk and adapting their deal sourcing and diligence. You'll also find articles that examine cannabis, pet products and social media marketing, including how these industries are evolving and what that means for M&A.

In the Portfolio section, Insperity's Kendal Ross strikes an optimistic tone as he reflects on the innovation that emerged from the Great Recession, and the new companies founded in its aftermath. That's likely to be true coming out of this crisis, too.

MMG launched in 2013 to tell the stories behind successful midsize businesses, and how their investors, advisers and other partners contribute to their growth. Like Kendal, I expect more of those examples to surface in the post-COVID world.

Against that backdrop, *MMG* is introducing a new set of awards to honor exceptional middle-market companies. Across five categories, we're seeking businesses that have grown despite the setbacks of 2020, created or retained jobs, or retooled their business models to survive. We'll be accepting nominations this fall and will name winners the following spring. You'll find more details on p. 12.

A year of freefalling U.S. GDP wasn't what we expected when we began discussing the MMG Awards. And yet, in a way, it seems fitting to launch them in 2020. This year's myriad challenges have tested companies and leaders in unprecedented ways; those who rose to the occasion are surely worth celebrating. //

Missed Connections? Not on ACG's Watch

TOM BOHN, CAE, MBA
President and CEO, ACG Global

This year has called into question much of what we thought we knew.

The future of entire industries once considered stable, like travel and hospitality, is now uncertain. The stock market revealed itself to be untethered from the real economy. And who could have predicted 2020's hottest fashion trend would be the face mask?

At least one piece of pre-COVID wisdom has proven true: Necessity is the mother of invention.

After ACG was forced to cancel its InterGrowth conference in April, we knew we needed another way for our members to connect. With that goal in mind, we developed a custom software called ACG Access that allows users to request and confirm meetings, and host them within a secure platform. We introduced ACG Access in June during the inaugural virtual ACG Member Summit, and attendees accepted more than 5,500 meeting requests throughout the three-day event.

The summit also featured opportunities to network in a virtual conference space. Attendees traveled to different floors and joined open spots at networking tables to make new contacts and catch-up with existing relationships. They also heard from experts and peers during the summit's panel discussions and on-demand programming. You'll find more about that content in this issue's ACG@Work section (p. 48).

For me, the enthusiastic participation in the summit speaks to something I suspected: There's power in connectivity, whether it's in person or within a virtual meeting room. ACG and its chapters will continue to host events using ACG Access, to help our members develop the relationships they need to do business in today's market.

To paraphrase a quote from this issue's cover story, the pandemic has shown just how important it is for organizations to be diversified and resilient, and it would be foolish not to take that lesson to heart. COVID-19 has prompted ACG to get creative in our offerings. In addition to ACG Access, we'll soon launch a new certification program for M&A professionals. Watch your inbox for more details.

Like most organizations today, ACG is learning and adapting in the current moment. Expect to see even more disruption to spur our continued innovation. //

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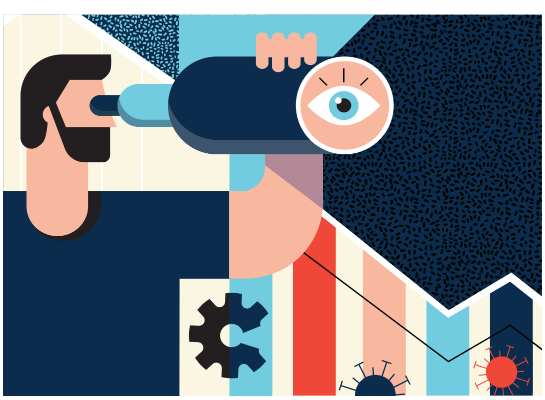

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TREND

Faced with Uncertainty, Family Offices Take the Long View

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MMG CONVERSATIONS

GTCR's Melissa Mounce on Talent Management in Private Equity

On the podcast, Melissa Mounce, a managing director focused on leadership talent at private equity firm GTCR, discusses human capital management and recruitment strategies, and why this is an area where private equity firms are focusing. Mounce describes GTCR's approach to talent within its portfolio and points to the attributes that make a portfolio company leader successful–and which don't.

PODCAST Listen to this interview and previous episodes at middlemarketgrowth.org.

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MIDDLE MARKET Growth

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Resilient Pet Industry Shows Private Equity Is Barking up the Right Tree

By Kathryn Mulligan

The first half of 2020 was a boom time for pet adoptions, as animal-lovers emptied shelters during the COVID-19 lockdowns.

Like their four-legged consumers, a number of companies serving the pet market have also been scooped up in recent months—in their case, by private equity investors hoping to capitalize on a growing industry expected to withstand an economic downturn.

The early innings of the COVID-19 outbreak in the U.S. saw a marked slowdown in mergers and acquisitions activity. Still, TSG Consumer Partners announced on April 3 it had acquired a majority stake in Pathway Vet Alliance, an owner and operator of more than 270 veterinary hospitals throughout the U.S., from Morgan Stanley Partners.

A month later, TSG said that it would sell its minority stake in Radio Systems Corporation as part of the company's sale to Clayton, Dubilier & Rice, also known as CD&R. Headquartered in Knoxville, Tennessee, Radio Systems focuses on the pet health and safety market. The company designs and distributes more than 2,000 products under brands such as Invisible Fence, and employs more than 800 people. TSG first invested in Radio Systems in 2006 before exiting in 2012. TSG provided additional capital in 2016.

Terms of these deals were not disclosed.

CD&R Partner Kenneth Giuriceo pointed to the pet industry's allure in a May 12 press release announcing the acquisition. "The market for pet care is large and growing with attractive long-term secular tailwinds and demonstrated recession-resilience," he said.

PHOTOS ON PAGES 8 & 9 COURTESY OF COSMIC PET

"IN RECENT YEARS, EVERYONE PUTS THEIR PET IN THEIR HOLIDAY CARD. WHAT THAT SAYS TO ME IS, PETS ARE PART OF THE FAMILY."

PETER HAABESTAD
Managing Partner, Guardian Capital Partners

Pet-focused businesses have attracted deal-makers' interest for years, and private equity investors say the recent crisis has accelerated trends that were already underway.

Owners increasingly view pets as part of their family, a phenomenon that Peter Haabestad, a managing partner at Guardian Capital Partners, refers to as the "humanization of pets." Owners today are attuned to the diet, health care and exercise needs of their animals, which now play a prominent role in the household.

"In recent years, everyone puts their pet in their holiday card," Haabestad says. "What that says to me is, pets are part of the family. They truly are."

Guardian Capital had been watching the humanization trend for several years before investing in Hyper Pet, a maker of pet toys and accessories, in 2016. The private equity

Products from three of Cosmic Pet's brands (left to right): Wild Eats, Hyper Pet and Aussie Naturals

firm also saw an opportunity within the pet industry to add e-commerce capabilities and expand sales beyond brick-and-mortar retail.

The platform business, now called Cosmic Pet, has since made four major add-on acquisitions, plus several product acquisitions. The four add-ons brought new natural toys and treats to Cosmic Pet's product lineup and helped the company expand its offerings for cats.

The company has benefited from pet owners' willingness to shell out for their animals. Total spending on pets in the U.S. reached $95.7 billion in 2019, up from $90.5 billion a year earlier, according to the American Pet Products Association, which looked at expenses including food and treats, medicine and veterinary care, and other products and services.

Cosmic Pet made its fourth acquisition in July 2019 when it bought Pet Fusion, a business that sold entirely through e-commerce channels. Just three and a half years earlier, Cosmic Pet had no online sales. Today, the Pet Fusion team leads the e-commerce strategy across the platform and has achieved double-digit growth rates for Cosmic Pet's brands through sales on Amazon, one of the company's largest customers, according to Haabestad. It continues to sell through brick-and-mortar retailers as well.

Cosmic Pet's addition of e-commerce capabilities through acquisition echoes the strategy of another PE-backed business, PetSmart, which bought online pet-products retailer Chewy for $3.35 billion in April 2017—the largest e-commerce deal ever at the time, and one that was met with skepticism from market watchers.

The bet ultimately paid off for PetSmart's owner BC Partners, according to reporting from the *Wall Street Journal*. The private equity firm is credited with helping to turn around PetSmart and positioning Chewy for its successful IPO in June 2019.

Spending on pets has proven resilient during the pandemic, even amid record-high unemployment and a cratering economy. Chewy reported net sales of $1.62 billion for its first fiscal quarter, ending May 3, representing a 46% year-over-year increase.

Cosmic Pet's sales have remained strong, too, according to Haabestad. Owners are now spending more time at home with pets and likely to notice leashes and collars that are wearing out, or to add new toys to their collection while they're stuck at home, he says.

Plus, pets still need to eat. Their owners have shown they're willing to pay for higher quality food, and investors have taken note.

In June, private investment firm Kinderhook Industries announced that it had acquired Prairie Dog Pet Products, a specialty manufacturer of premium pet treats and antlers, based in Grand Prairie, Texas. According to its website, the company's products use meats, poultry and fish that are "100% pure, farm raised, and made in the USA."

Pet companies in the U.S. aren't the only ones to draw PE dollars in recent months. Petlove, a Brazil-based online pet shop serving the country's local market, announced on June 18 that L Catterton's Latin America fund invested in the business, underscoring the industry's potential for global growth.

For its part, Cosmic Pet is actively pursuing new add-on opportunities, according to Haabestad.

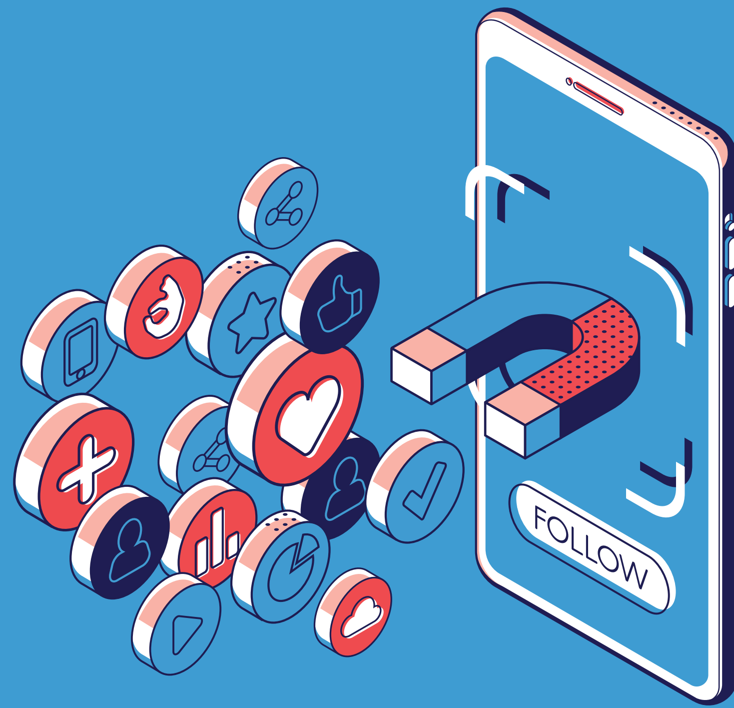
The company faced its share of issues during 2020, due to supply chain disruptions and store closures for its retail partners. But despite the interruptions, Cosmic Pet saw sales climb, thanks to devoted pet owners who continue to fill their online shopping carts.

"We should beat last year's numbers handily, year over year, even though we're in the middle of a global pandemic," Haabestad says. "It is very strong in the pet industry." //

Under the Influence

Growing audiences draw acquirers to new modes of marketing

By Benjamin Glick



Influencer marketing platforms were once the exclusive domain of early-stage and venture capital investment, but they're receiving more attention from private equity and other strategic investors as they grow in size.

In essence, influencer marketing is an update on traditional endorsement advertising, where media personalities use their clout to recommend products to their audiences. Today, these influencers can be found on nearly all social media platforms and user-generated media sites like YouTube, Twitch and TikTok, as well as on podcasts.

The global market share of influencers in the marketing industry is expected to reach $23.5 billion by 2025, growing at an annual rate of 26.8%, according to market research firm Grand View Research. As the appetite for digital content has grown, so too has investor interest.

> "THE MOST IMPACTFUL BRAND STORIES NO LONGER COME DIRECTLY FROM BRANDS."
>
> IGOR VAKS
> Founder and CEO, CreatorIQ

To the extent that it's attracted outside investment, influencer marketing generally has been in the domain of venture capital. Former YouTube director Benjamin Grubbs' Next 10 Ventures, for example, closed a $50 million fund in 2018 aimed at developing the reach of influencers on social media. As marketing firms that focus on influencers have grown in size in recent years, they've begun attracting interest from a broader set of buyers.

In February 2019, Digital Brand Architects, a company that represents digital influencers, was acquired by United Talent Agency, which is backed by the Public Sector Pension Investment Board, a Canadian investment manager based in Ottawa.

The following June, growth equity firm TVC Capital and the venture capital and private equity arm of Unilever invested in CreatorIQ, which develops software that helps advertisers discover partners and collect better metrics for advertising campaigns that use influencer marketing.

"The most impactful brand stories no longer come directly from brands. They are told in collaboration with passionate advocates who are helping build culturally relevant companies by delivering these stories to the world," Igor Vaks, CreatorIQ's founder and CEO, said in a statement.

For some companies, reaching a target audience requires taking lessons learned in older mediums and applying them to new ones.

That was the case for Ad Results Media, an audio-focused marketing and advertising company based in Houston. Founded in 1998, the company achieved early success working with radio personalities like Adam Carolla to gain exposure for its advertising clients, and it discovered what would later become an essential part of its business.

"We considered those hosts and those personalities influencers, and their influence on the listenership was quite strong," says Kurt Kaufer, Ad Results' partner and chief marketing officer.

Before joining Ad Results, Kaufer led his own firm that built endorsement advertising relationships in the emerging podcast industry. After amassing a large portfolio of clients, the company merged with Ad Results in 2016, launching it into the podcast arena.

Radio is still a dominant force for advertisers, but as younger audiences veer away from the medium and toward on-demand content, podcasts have moved into the limelight.

Ad Results has worked with over 6,000 podcasts, including "The Joe Rogan Experience," "Pod Save America" and "The Daily" from *The New York Times*. The company has represented clients ranging from established corporations to high-growth startups, including brands now familiar to podcast listeners, such as ZipRecruiter, Blue Apron, MVMT watches and SeatGeek.

Ads delivered by influencers like podcast hosts typically perform better than traditional advertising, according to Kaufer. "The ability to

"WE WANT THEM TO BE AS NATURAL AND AUTHENTIC AS POSSIBLE."

KURT KAUFER
Partner and Chief Marketing Officer, Ad Results

cultivate a relationship directly with the endorser is incredibly powerful because it comes out in the tone of their delivery, their enthusiasm," he says.

A 2019 report from Influencer Marketing Hub showed that companies that used influencers generated an average of $5.78 in returns for every dollar they spent, while some specialty firms were able to achieve up to $18 in returned value per dollar spent. By comparison, a report from marketing consultancy Ebiquity found that spending on television advertisements yielded returns of about $1.74 per dollar.

Podcast advertising is not as simple as inserting a sound clip in the middle of a show. The audiences that listen to podcasts skew young and are sensitive to traditional advertising methods. Authenticity plays a key role with reaching the audiences of influencers and podcasts in particular. An ad that sounds like an ad might not stick, Kaufer says.

One of the ways to overcome that obstacle is by making sure podcasters like and support the products they advertise. Ad Results sends them samples in advance, giving hosts an opportunity to try a product or service for themselves, before endorsing it on their shows.

Ad Results tries to make sure the podcaster's message is not couched in a typical advertising break, but instead comes up organically. "We don't want them reading a script. We want them to be as natural and authentic as possible," Kaufer says. "A message that's baked-in, that's going to work best."

According to an industry report completed by Edison Research and Triton Digital, 37 million people in the U.S. regularly listen to podcasts in 2020, a 5 million jump from the year before and an increase from 12 million in 2010.

That growth in podcast listeners was one of the reasons Los Angeles-based private equity firm Shamrock Capital Advisors acquired Ad Results Media in December 2019.

"We have experienced firsthand the efficacy of podcast advertising in acquiring new customers and only expect this channel to grow as more and more consumers discover and engage with the podcasting medium," said Alan Resnikoff, a partner at Shamrock Capital, in a statement.

Ad Results is also building out its business working with influencers on other platforms like YouTube and Instagram.

Despite upward trends, the number of firms that specialize in brokering relationships between influencers and brands are relatively few, and the field is highly competitive. But the space could have a promising future.

"The maturation is there and the sustainability is there," Kaufer says. "The projections show that, and it's going to be incredibly strong for years to come." //

Middle Market Growth Introduces New Awards

Middle Market Growth magazine published its first issue more than seven years ago to tell the stories of midsize companies and the investors and advisory firms that help them grow.

Today, it's building on those efforts with the Middle Market Growth Awards to recognize the growth and innovation within the middle market.

The awards are designed to showcase the accomplishments of midsize businesses and demonstrate how their partners—investors, lenders, accountants, attorneys and others—contribute to their success. Judges will select winners in five categories that recognize exceptional growth, job creation, innovation and other achievements.

Award finalists will be recognized in a special report published by *MMG* in the spring of 2021. Winners will be recognized at ACG's 2021 InterGrowth conference in April and on the ACG and *MMG* websites.

MMG will begin accepting applications in mid-September at middlemarketgrowth.org. No application fee is required.

Who Should Apply

The MMG Awards will recognize exceptional middle-market companies, defined as those with $10 million to $1 billion in annual revenue. ACG members are encouraged to nominate their portfolio companies or clients that have excelled in one of the four corporate categories, and business leaders are welcome to apply on behalf of their own organizations.

The awards also include a fifth category that recognizes the accomplishments of young professionals working in the middle market. Eligible candidates should be able to demonstrate their contributions to corporate growth, either within a midsize business, as a capital provider, or in an advisory capacity. ACG members are encouraged to nominate a young professional for this award, and self-nominations are also welcome.

Winners and finalists from ACG chapter-level award programs are encouraged to apply for the MMG Awards, although winning a chapter-level award is not a prerequisite for entering the MMG Awards competition.

At least one individual listed on the award application must be an ACG member in good standing.

Awards Categories

Below is a brief description of each of the five awards categories. For more information and to fill out an entry form, visit middlemarketgrowth.org.

MMG Growth Engine Award
An organization that has demonstrated remarkable growth over the past year, either through

M&A, increased revenue, new locations, and/or the addition or expansion of product and service lines.

MMG Job Creator Award
An organization that can demonstrate significant job creation in 2020, or that can demonstrate creative and effective strategies for retaining jobs following a merger or acquisition, under private equity ownership, or during the COVID-19 crisis.

MMG Innovation Award
An organization that can demonstrate a newly introduced or expanded offering that represents a notable innovation within its industry. This could include a new product, a service performed in a new or innovative way, or a product or service delivered at an unprecedented scale.

MMG Workplace Award
An organization that can demonstrate a vibrant corporate culture, through strong employee retention and engagement, innovative benefits, or a compelling recruitment proposition for prospective hires.

MMG Young Professionals Awards
Up to five professionals with less than 10 years of experience will be awarded for their accomplishments working within a middle-market operating company, or in an investor or advisory capacity working directly with middle-market businesses or through M&A activities.

How to Apply

To apply in any of the five MMG Award categories, please visit middlemarketgrowth.org. Applications will be posted in mid-September and will remain open throughout the fall, after which a panel of judges will review all applications. Finalists will be notified in early 2021 and winners will be announced at ACG's InterGrowth conference on April 26-28, 2021. //

How Will the 2020 Elections Impact M&A?

From taxes to trade, here's what deal-makers are watching

By Benjamin Glick

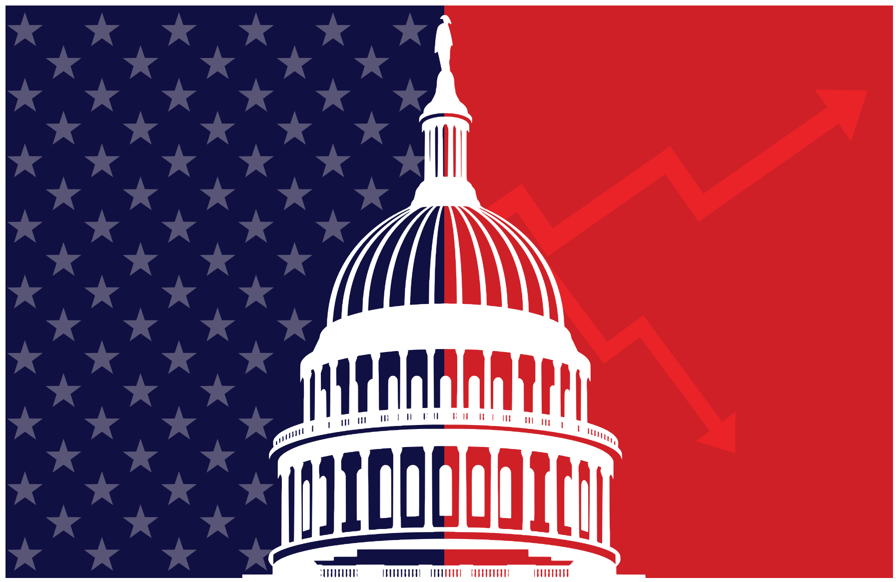
President Donald Trump started 2020 presiding over a strong U.S. economy, one that may have carried him to a second term. But severe disruption from the COVID-19 pandemic has narrowed his chances and bolstered those of his rival, former Vice President Joe Biden.

"This entire climate has just been shaken like a snow globe, and we don't know what's up and what's down," said Jake Sherman, a senior writer for *Politico*, speaking about the political environment during ACG's virtual Member Summit in June.

The leveling of the playing field has raised questions within the middle-market M&A community about what to expect should the presidency or Congress shift to Democratic control.

Tax and trade policy have the potential to impact growth prospects for businesses across sectors and will likely play a role in future M&A and investment decisions. Meanwhile, heavily regulated industries like health care could see significant change if Democrats were to secure majorities in Washington.

Democrats stand a good chance of retaining their majority in the U.S. House of Representatives, but they face an uphill battle to win the four seats needed for a Senate majority. If Democrats are able to secure the White House and Congress, a Biden administration is likely to push through a corporate tax hike, lawmakers say.



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"THIS ENTIRE CLIMATE HAS JUST BEEN SHAKEN LIKE A SNOW GLOBE, AND WE DON'T KNOW WHAT'S UP AND WHAT'S DOWN."

JAKE SHERMAN
Senior Writer, *Politico*

"Joe will come in with a more progressive economic policy than we have seen from a Democrat in a long time," Rep. Don Beyer, D-Va., and vice-chair of the Joint Economic Committee, told the *Wall Street Journal* in May.

Under Biden's proposed tax plan, the corporate income tax rate would rise to 28% from 21%—still lower than the 35% tax rate before the Tax Cuts and Jobs Act. Biden has also voiced support for a hike on capital gains taxes, which could potentially delay or mute M&A activity.

Dealmaking was already on the ropes as businesses pared back their ambitions amid the pandemic, but uncertainty over tax and other policy items could impact valuations and disrupt transactions, says Randy Worzala, the regional director of business development for North America at TMF Group.

"M&A isn't just going to fall off the face of the earth, but the elections could cause a longer pause on the M&A front," Worzala says, adding that he expects dealmaking volumes to reach pre-pandemic levels after November.

Other legislative activity could pose a threat to M&A directly. If Democrats were to gain control of the Senate, lawmakers may be emboldened to pass laws like the Stop Wall Street Looting Act, industry watchers have warned. Introduced in July 2019 by Sen. Elizabeth Warren, D-Mass., the bill would restrict private equity activities.

Trade is another area where policy could shift depending on the outcome of the elections. Biden, who has spoken out about the Trump administration's years long trade dispute with China, could normalize relations with Beijing, says Steve Rosen, co-CEO of Cleveland-based private equity firm Resilience Capital Partners. Trump is not expected to seek rapprochement if he's reelected.

"Biden could soften the trade war, which could be positive for investment theses, especially for companies with a manufacturing focus," according to Rosen, who says the industrial businesses in Resilience's portfolio have been negatively impacted by supply chain disruption caused by the U.S.-China trade war.

It remains to be seen how much of Biden's campaign agenda is implemented if he is elected, although Rosen expects other factors, like interest rates or fiscal stimulus efforts, to have a more potent effect on business growth and investment decisions.

"YOU'D BE A LITTLE BIT EARLY TO CATCH A FALLING KNIFE IF YOU STARTED DEPLOYING CAPITAL IN SIGNIFICANT AMOUNTS TODAY."

STEVE ROSEN
Co-CEO, Resilience Capital Partners

The coronavirus outbreak and the government's response will continue to affect American businesses and M&A—regardless of who occupies the Oval Office, Rosen says.

"There's not going to be a whole lot of activity for the remainder of 2020 in the PE universe," he says, adding that M&A may not return to pre-COVID levels until the second half of 2021. "You'd be a little bit early to catch a falling knife if you started deploying capital in significant amounts today."

Health Care's Prognosis

Health care policy has long been a hot-button issue on the campaign trail, manifesting in recent elections through proposals to expand or reduce government involvement or fiscal support—and the 2020 election will be no different.

If Trump wins a second term, the administration may continue to attempt to chip away at the Affordable Care Act, but otherwise the status quo is unlikely to change, says Michael Cole, a managing director at consulting firm Alvarez & Marsal, who focuses primarily on M&A and private equity investment in the health care industry.

Under a Biden administration, Cole says some health care businesses could face stricter regulations with some recent Democratic proposals to heavily regulate M&A. In anticipation of a Biden win, sellers might be motivated to complete a deal ahead of the election to avoid higher taxes and a potentially lower valuation for their company, and to prevent increased capital gains taxes from cutting into profits from the transaction.

At the same time, a Democrat in the White House will likely bring increased coverage, expanded benefits and increased funding to Medicaid and Medicare. "That's a boon if you're a health care company," Cole says. Clinics and other patient-facing services that could gain from increased government spending on health care are likely to become attractive targets for buyers during a Biden presidency.

History has shown that policy change can also fuel business innovation in the health care industry, according to Cole. The Affordable Care Act, for example, introduced incentives for health care providers to digitize medical records, creating new businesses to manage and analyze those records.

"If you go back over time and kind of correlate the way policy changes have followed administrative shifts, you'll see many kinds of businesses that were created out of necessity," he says. //

An earlier version of this article contained an error that was corrected on August 25.

Cannabis M&A in a Tough Spot

JOHN GABBERT
Founder and CEO,
PitchBook

This year hasn't been kind to many industries. For cannabis, it's been a bit chaotic, but the industry was already bracing for change heading into 2020.

Throughout 2018 and 2019, there was a rush by cannabis companies to grab market share across the country, a feat that was often complicated by the fitful pace of state legalizations. To expand as much as possible, many cannabis transactions were done for licensing rights, in addition to buying up the assets themselves. The past several years have been something of a race for regional consolidation, in anticipation of potential national consolidation if cannabis were to become federally legal.

The tide started to turn late last year, as M&A deal flow began to hinge on profitability and liquidity instead of market share. A handful of big deals would be canceled, including MadMen's $862 million acquisition of PharmaCann. The shift in focus turned out to be a sign of things to come.

Perhaps more than many industries, the cannabis sector will likely see a tectonic shakeout. Many expect the current downturn will be the death knell for hundreds of small cannabis businesses. Larger, sturdier companies now have the opportunity to acquire upstarts for cheap, often below $10 million. And there will be lots of smaller cannabis companies struggling to survive.

While it certainly helped that eight states deemed cannabis stores to be "essential," and another 20 states did the same for medicinal cannabis, the bigger problem has been liquidity. Cannabis companies that "touch the plant" are ineligible for federal stimulus money, thanks to the still-illegal status of their product in federal eyes—a status that also prohibits them from taking bank loans. As a result, many companies have been forced into bankruptcy or have had to lay off the bulk of their employees.

The only options left have been white-knight acquirers or risk-hungry investors. Like many industries, though, economic uncertainty was top of mind, which brought Q2 deal activity to multi-year lows. The PitchBook Platform shows only 30 cannabis deals done last quarter across the U.S. and Canada, compared with more than 100 in Q1 2019.

Whether that slow pace is sustainable is another question. Prior to the coronavirus outbreak, the cannabis industry topped the list of sectors in need of consolidation. Hundreds of smaller companies—from growers to manufacturers to distributors—can be found across the continent, but ultimately only a dozen or so major companies will be able to compete. On top of the need to consolidate, the cannabis industry is still a growth industry, and keeping up with growth expectations is a major hurdle in the middle of a pandemic. The industry should count its lucky stars it was deemed essential by so many regulators.

Now the real challenge begins—to become profitable, not only to survive but also to reap the potential benefits of federal legalization. At the moment, cannabis companies don't have many places to turn for help. Better days are ahead if they can figure things out this year. //

ACG Austin/San Antonio's "CPG: The New Landscape" Panel

"The COVID crisis was not particularly shocking to us [in the food manufacturing space]. It required an extra level of vigilance, but we are constantly checking and testing for microbiological activity and viruses ... Fighting against bacterial and viral infections is something we have to pay attention to every day, whether there's a global pandemic or not."

BEN PONDER,
Co-founder and CEO of Ponder Foods, on why his company was prepared to respond to the COVID-19 outbreak

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"We've developed a box that arrives at a buyer's office ... You open it up, the samples are there and they hang off the top. There are some vegetables that pop out – if you remember as a kid, you had those pop-up books? We're trying to create some unique, interesting ways [to reach buyers]. We're trying to bring the energy that we had at the tradeshow into an office."

SCOTT JENSEN,
Co-founder and CEO of Rhythm Superfoods, a manufacturer of organic, plant-based snacks, on engaging customers during virtual sales presentations

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"I've been playing with green screens and how to create a Zoom background that is engaging for customers, and having product sit right behind you and available, where you can just grab it and bring it to the screen to show them ... I tend to think we can be more effective in Zoom than some in-person meetings, if it's handled correctly."

MASON ARNOLD,
Founder, Cece's Veggie Co., on experimenting with digital tools to improve remote meetings

"COVID-19 IS CHANGING OUR PERSPECTIVE, AND THERE TRULY IS NO TIME LIKE THE PRESENT TO RE-EXAMINE EVERYTHING. IF YOU UNDERSTAND WHERE YOU WANT TO TAKE YOUR BUSINESS, CREATE A FUTURE STATE ORG CHART, HONESTLY ASSESS YOUR CURRENT TEAM, AND BEGIN BUILDING A STRATEGIC TALENT PLAN, YOU ARE WELL ON YOUR WAY TO SURVIVING AND THRIVING."

KURT WILKIN,
Co-Founder, HireBetter, and the panel's moderator, on the importance of investing in talent

Adventure Ready Brands Keeps Campers Happy

By Benjamin Glick

Months spent sheltering in place have given many a new appreciation for leaving home.

For Adventure Ready Brands, a maker of outdoor recreation equipment, the itch to get out of the house is good for sales, says Douglas Korn, a managing partner at New York City-based Victor Capital Partners, which acquired the company in January 2019.

"People are reminded how important it is to connect with the outdoors," he says. "Nothing can remind you of that better than being locked in your room."

Adventure Ready Brands saw continued demand for its products throughout the pandemic—especially for its medical kits—but it has seen a spike now that many retailers and national parks have reopened.

Headquartered in Littleton, New Hampshire, the company offers a wide range of products, from survival kits to insect repellent. It sells its products through nearly 50,000 retail outlets in 46 countries, a scale that it achieved over its nearly 40-year history by acquiring and growing businesses with a loyal following. During the pandemic, it leaned on its e-commerce platform and deepened its relationships with Amazon and retailers like REI, Walmart and Moosejaw, which sell the company's brands through their online stores.

But scale isn't everything.

PHOTO PROVIDED BY ADVENTURE READY BRANDS

Adventure Ready Brands' products include insect bite treatment After Bite

Authenticity is the currency for many outdoor enthusiasts, and Adventure Ready Brands knew it must continue to meet the needs of its customers, even as it grew.

Soon after Victor Capital bought Adventure Ready Brands, the company began adding to its marketing and sales teams, including by recruiting talent from well-known consumer-focused companies like Procter & Gamble, General Mills and Wayfair.

"We had that track record of taking these really good, authentic outdoor brands, but then bringing them to the masses," says Adventure Ready Brands CEO Chris Heye. "We just needed good commercial people to make that even stronger."

The company has since expanded product lines for existing brands like Ben's Insect Repellent and Counter Assault bear spray. It is also developing a new line of insect repellents, to combat the rising threat posed to hikers by Lyme disease-carrying ticks.

Now that lockdown orders in many parts of the world have been lifted, Adventure Ready Brands' customers are able to pursue their passions once again. But that doesn't mean the company can get comfortable. Tastes change quickly among outdoor enthusiasts, so the Adventure Ready Brands team is continuing to focus on new product development, ensuring it can pivot in response to customer demand.

"It's really important to have a fast-paced innovation process or system where we can look at our products and no matter how good they are today, we look to the future," Heye says. "The risk to any consumer product business is you get stale and you rest on your laurels." //

Robert von Furth

Managing Director, Stout

Robert von Furth is a managing director in Stout's Investment Banking group. He brings more than 20 years of experience executing mergers and acquisitions, debt and equity financing, capital raising, board advisory, valuation and strategic alternatives analysis for middle-market companies and large corporate segments. He has deep experience in the consumer, retail, food and beverage sectors. He recently corresponded with *MMG* about M&A and investment trends in the consumer product space.

"IT SEEMS THAT THE DEMAND IS INCREASING FOR MANY PRODUCTS MOVING ALONG THE SUPPLY CHAIN AND INTO PHYSICAL RETAIL SPACES THAT ARE OPEN, ESPECIALLY FOOD AND BEVERAGE PRODUCTS."

Q What impact will the COVID-19 crisis have on investment and M&A objectives in the middle-market consumer product sector?

A We are a brand-aware, consumer-driven economy that is, as of now, largely deferring our more premium purchases by fulfilling our essential needs. Is that expensive fragrance you eyed at Macy's in February essential? Not now. But it will be, as long as the brand stays authentic and culturally relevant, the packaging is sustainable, and you can buy it online and get it in two days. This goes for many product categories in addition to beauty. These product-positioning themes, and the investing dollars pursuing them, are sheltering in place downstream at the end of the supply chain. At the moment, the focus is on essential items. Using the beauty sector as an example again, most major brands, including L'Oreal, Coty, Revlon and Shiseido, pivoted to hand sanitizers.

Furthermore, there have been at least two realizations highlighted during the pandemic. The first is knowing how sensitive the supply chain is. We certainly got a taste of it pulling product from China for the last few years, but now we see dumped milk and slaughtered animals too large to go through stalled processing plants. The second is that the pandemic accelerated the inevitable: more online shopping and fewer retail stores. Thus, the investing themes are going to be focused on more-affordable and essential items—products available online as well as through mass, club and off-price channels—that are in real demand now and in the future. Also, diligence around a company's current supply chain (and contingency plans) will likely be deeper going forward.

Q In which consumer product subsectors has M&A and private equity investment activity picked back up the fastest, and where do you expect to see the quickest rebound?

A It seems that the demand is increasing for many products moving along the supply chain and into physical retail spaces that are open, especially food and beverage products. We are seeing this even in mature categories such as Italian food products. For example, Nestle sold off Buitoni in the fresh pasta segment to private equity firm Brynwood Partners right in the midst of the pandemic. (Brynwood had just sold Joseph's Frozen Foods to LaSalle Capital a few months earlier.) Overall, the grocery channel is strong

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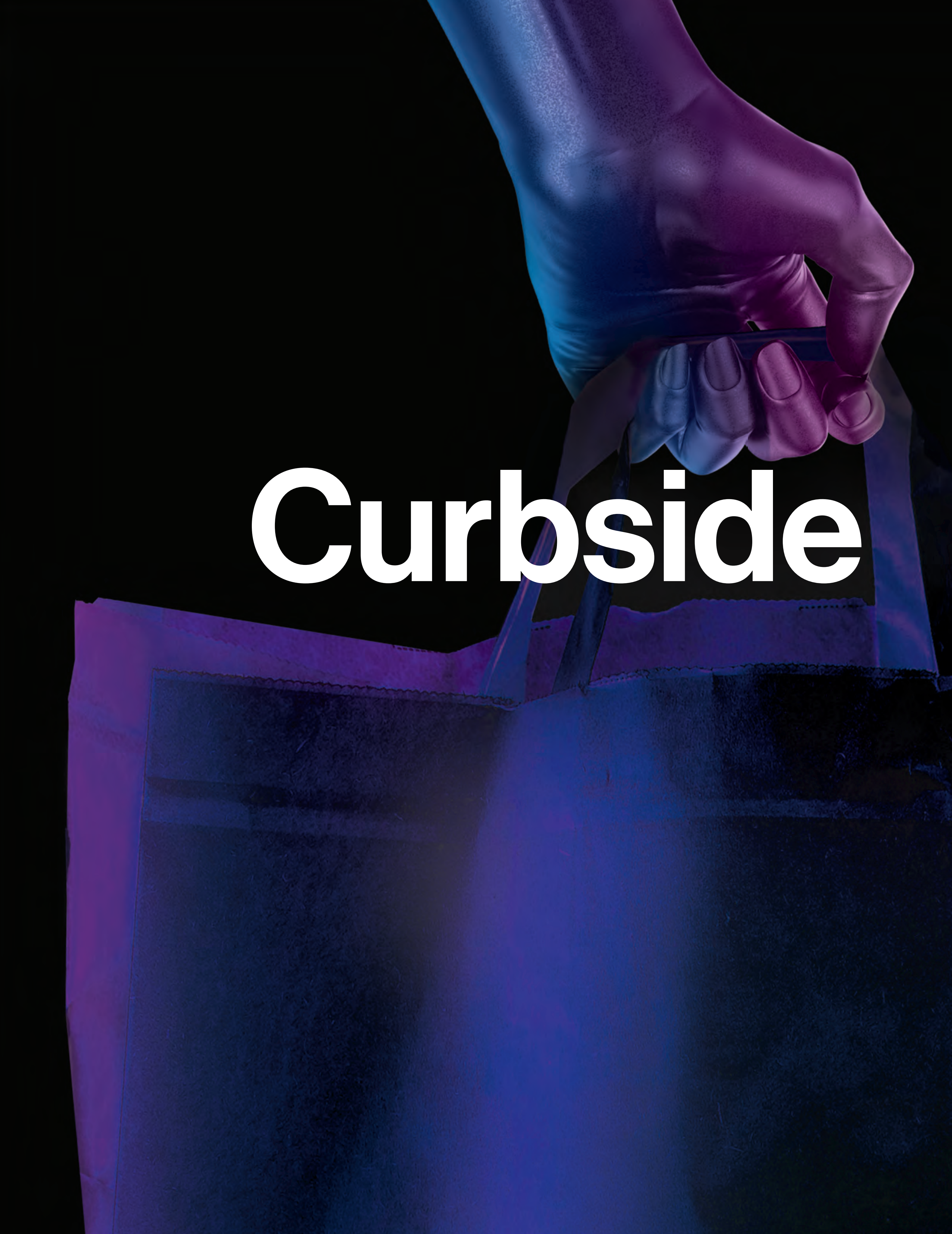
because that's where people are going. Albertsons IPO and the high level of first-quarter and second-quarter same-store sales for many grocery chains exemplify that.

The closing of gathering places like schools, restaurants and camps has created disruption across the food-service supply chain. Massive layoffs and furloughs have taken place downstream at the end of the supply chain, while upstream we've watched unused product being dumped. It turns out it takes time to convert food-service production lines to retail lines. Reconfiguring the transportation requirements is also a challenge in efficiency. Product flowing into food service travels very differently from product going into retail. All that said, there are many well-capitalized buyers on the food-service side waiting for the inevitable rebound.

Q How do you expect the exit environment for PE-backed consumer goods companies to look in the coming months?

A For years, M&A has been a key growth strategy for the larger players across many consumer segments. However, one obvious exit impediment for the next few months in the middle market is the lack of broad credit available to support M&A activity overall. Before deals can return to pre-crisis levels, lenders must first navigate through their credit exposure after digesting second- and third-quarter financials. Deals are getting done now, but until there is clarity in credit availability, I suspect few are predicting a robust M&A environment.

There are, however, very liquid strategic buyers and an increasing number of private equity buyers willing to over-equitize if necessary, so sale processes may pick up sooner rather than later—or maybe the shape of the sale process is more customized. That's not to say that more exits are not currently being planned. They are. If you have a consumer products portfolio company that has thrived during the pandemic, chances are you are reviewing your options. //


Curbside

Enthusiasm

Surviving the restaurant apocalypse

BY S.A. SWANSON

On March 12, the NCAA canceled its Division I men's basketball tournament, played every year since 1939. For sports fans, it was the end of March Madness in 2020. For business owners, it was just the beginning.

As the COVID-19 pandemic caused sales to drop that month—or disappear overnight—many U.S. companies were forced to rethink their business models. And they had to do it fast.

"If you had talked to me in January, 2020 was going to be our best year ever," says Theresa Nemetz, founder of Milwaukee Food & City Tours. She anticipated increased demand for her company's guided bus tours of local restaurants, bars and chocolate shops, due in part to Milwaukee hosting the Democratic National Convention this summer. "It was going to be one for the books," she says. »

GETTY IMAGES/VPANTEON

PHOTO COURTESY OF FARMERS RESTAURANT GROUP

“AS I STARTED TO SEE RESTAURANTS CLOSED FOR DINERS, I JUST THOUGHT: THE GROCERY STORES ARE GOING TO GET OVERWHELMED.”

DAN SIMONS
Co-Owner, Farmers Restaurant Group

This year has indeed been one for the books—just not in the way anyone expected. The fallout from the coronavirus outbreak has strained businesses and prompted consumers to change their behavior, including how they procure food.

Restaurants and food suppliers, in particular, have had to experiment with new models and overhaul their approach to sales and marketing. That urgent innovation emerged from necessity, but early signs suggest businesses will adopt those changes for the long term.

THE MODERN GROCER

As COVID-19 cases spread through Europe in February, Dan Simons knew the business he co-owns, Farmers Restaurant Group, would soon suffer. He remembers thinking, “There’s not one piece of logic that tells me this is not going to be a total disaster.”

With seven locations in Washington, D.C., Maryland, Virginia and Pennsylvania (plus a distillery), Simons’ restaurant group had about 1,200 employees in February. On March 16, the company laid off 1,100 of those workers, as revenue plunged. The decline in sales began with a 5% dip in February, compared with the previous year. But a few weeks later, during the second half of March and the first half of April, sales were down 90% compared with the same period in 2019.

The Farmers restaurants offered carryout and delivery before the pandemic, and they continued those services while dining rooms were closed. But to rehire workers, Simons realized the company needed a new source of revenue.

He saw an opportunity in grocery stores’ struggles. “As I started to see restaurants closed for diners, I just thought: The grocery stores are going to get overwhelmed,” he says. Grocery stores and restaurants have different supply chains, and that meant Farmers could help address consumers’ shopping needs.

Shortly after the company’s massive layoffs, the 100 employees who remained worked on the launch of Founding Farmers Market & Grocery at five of the restaurant chain’s locations. The new retail arm provides delivery and curbside pickup of grocery items, prepared foods and household staples like toilet paper. The company also converted its distillery to make hand sanitizer. By July, it had sold more than $120,000 of distillery-produced sanitizer.

In St. Louis, Kern Meat Co. saw a similar opportunity to sell a product to consumers who might otherwise have bought it at a grocery store.

For years, the company had received daily phone calls with the same question: “Do you sell to the public?” The answer was always no. Kern sold its wide range of meat products—from beef and chicken to exotic game and deli meats—to Midwestern restaurants, hotels, retirement centers, hospitals and food distributors. It also planned to ramp up sales in sports arenas, after selling products in 2019 at Dodgers Stadium.

Then in March, for the first time in the company’s 72-year history, it began selling directly to consumers, via contactless curbside pickup.

“I had a lot of inventory on hand that I needed to move because all of our steakhouse customers closed up,” says general manager Matt Sherman, whose family has owned Kern for three generations. “I want to say we had about a half a million dollars’ worth of inventory. In the meat business, you either sell it or smell it.”

The company managed to sell pallets of that inventory to large Midwestern grocery stores, but it still had a lot to offload, particularly specialty products that were meant for hotels that had recently closed, according to Sherman.

During the early days of the pandemic, he was surprised to see some individual customers placing thousand-dollar orders. “I mean, it was crazy,” he says. “Some of these orders were bigger than my restaurant orders that were still open.”

▼ Farmers Restaurant Group set up a new retail arm to help meet the growing demand for groceries

PHOTO COURTESY OF FARMERS RESTAURANT GROUP

PHOTOS COURTESY OF KERN MEAT CO.

"I WANT TO SAY WE HAD ABOUT A HALF A MILLION DOLLARS' WORTH OF INVENTORY. IN THE MEAT BUSINESS, YOU EITHER SELL IT OR SMELL IT."

MATT SHERMAN
General Manager, Kern Meat Co.

BRANDED BEEF

In the early days of the pandemic, toilet paper shortages became a national fixation, and they helped illustrate the differences in commercial and consumer supply chains.

Reconciling those differences was a challenge Farmers Restaurant Group had to confront as it shifted its focus from its restaurants and toward the new grocery initiative.

Toilet paper was easy—the restaurants received big boxes with 144 rolls, which could be sold individually. Flour, on the other hand, was a problem. To sell their supply, the Farmers restaurants had to divide 50-pound bags into five-pound Ziploc portions. Through trial and error, employees found that a funnel helped.

Another hard-earned lesson: Always double-bag it. The single-bag approach was one of the company's early (and messiest) mistakes. "You have flour that ends up breaking open in one of the boxes of groceries that you're delivering," Simons warns.

Kern, too, had to cut its meat portions into more practical sizes for individuals and families. The company went a step further to retool its packaging and labeling systems, to make them more palatable for the public.

"Retail packaging takes a certain eye, and it has to be crisp and clean," Sherman says. In addition to the Kern Meat branding, the company began labeling every steak with the individual customer's name, a process the company automated through its labeling system. "That added a personal touch to it," he says.

To sell directly to consumers online, Kern began using the e-commerce platform Shopify. After spending a weekend building the Shopify website, Sherman linked it to Kern's existing site and launched the new service in late March.

By June, consumers had placed about 2,000 orders online. Overall, those sales represented only about 4% of revenue, according to Sherman. Still, the direct-to-consumer sales growth exceeded his expectations.

A week later, on April 4, Founding Farmers Market & Grocery also began accepting online orders. The company wanted the market to

PHOTO COURTESY OF MILWAUKEE FOOD & CITY TOURS

▲ After tour bookings dried up, Milwaukee Food & City Tours founder Theresa Nemetz began selling specialty gift boxes

be a sustainable business model, so instead of stocking a few household essentials, Market & Grocery launched with more than 1,000 SKUs.

For its e-commerce platform, the company made an unconventional choice by opting for an upstart without any established grocery retail customers. With sales cratering at Farmers' restaurants, a well-known e-commerce platform would have come at too high a cost.

Its chosen technology provider, called GoTab, had previously worked with clients to support contactless restaurant orders. But it was more affordable than competitors, and its leaders saw an opportunity in partnering with Farmers on the new grocery initiative.

Simons recalls pitching his ambitious vision to GoTab: Create a grocery e-commerce platform with 1,000 items that's reliable enough to handle thousands of orders per day. Also, link that platform to the company's accounting system, and connect it with the company's production system (so the chefs know what to make) and provide detailed reporting for employees who handle packing, delivery and curbside pickup. And get all of that done in three weeks. "I talked to the CEO right in the beginning and I said, 'You're going to think that not only am I crazy, but that it's not possible, but I'm telling you we're going to do it. I need to know if you're all in with us,'" Simons says. "And this guy was like, 'Let's do it.'"

SPREADING THE WORD

Building online infrastructure is only part of the challenge for companies selling something new. They also need to let customers know they're doing it.

This spring, Milwaukee Food & City Tours founder Theresa Nemetz saw all the business the company had booked for 2020 dry up. By the end of May, its upcoming bus tours for convention groups, weddings and company outings had all been canceled.

But weeks before that, Nemetz created a new offering for her company: specialty food gift boxes, shipped nationwide and also delivered locally by the company's part-time tour-bus drivers.

The boxes feature products from shops included in the company's tours. Nemetz was inspired to create them after hearing business owners express concerns about maintaining team morale while working from home. "I thought, wait a second, how could I help other people facilitate that for their staff?" she recalls.

The company began selling a couple of specialty boxes on its website. It has since expanded the selection to more than 15, including boxes themed around the Wisconsin State Fair (and its iconic

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CLOCKWISE FROM LEFT: PHOTOS COURTESY OF MILWAUKEE FOOD & CITY TOURS, KERN MEAT CO., & FARMERS RESTAURANT GROUP

▲ Clockwise from left: Milwaukee Food & City Tours' gift boxes, Kern Meat Co.'s individually packaged bacon, and produce sold at Founding Farmers Market & Grocery

cream puffs). It also offered boxes for holidays including Easter, Mother's Day and Father's Day.

Although the company did spend a little money on Facebook ads, most promotion has been word-of-mouth. Facebook has been "integral," says Nemetz, not only for creating awareness, but for helping the company understand the types of care packages customers prefer.

She admits it's not a conventional way to launch a new product. "This is a good case study on how to not start a business," she says. "We are not doing any market research. I'm talking to friends. I'm figuring out what people want, what people need, posting it online and seeing if they like it."

The company also has a private Facebook group that only customers can access, which allows them to watch behind-the-scenes videos of the bakers, coffee roasters and other specialty food shops whose products fill the company's gift boxes, along with tour guides sharing favorite Milwaukee stories. "We're trying to still have it be connected to our mission, which is to be able to tell the story of Milwaukee and its food producers," she says. "And so instead of us bringing people to the food, we're bringing the food to the people."

CONNECTING WITH CUSTOMERS

When the pandemic is no longer altering consumer behaviors (and companies' ability to operate), all three business owners plan to keep their newly minted revenue streams.

For Matt Sherman at Kern Meat Co., direct-to-consumer sales have value beyond the roughly $55,000 that came in through the Shopify site during its first three months. "It's not much, to be honest with you. But it's $55,000 we didn't have before," he says.

As Missouri's economy reopened, the pace of Kern's online sales slowed. By early August, total direct-to-consumer sales amounted to about $60,000.

Still, nearly 20% of the site's orders are placed by repeat customers, giving the company a chance to engage more directly with consumers of its products.

"You can't talk to the end user when they sit down in a restaurant at all. Or when the bride and groom are eating your filet at their wedding, you can't talk to them," Sherman says. That's changed with direct-to-consumer sales. "They know who you are, it puts a name with the company. It allows a more personalized touch to a business."

Archibald McKinlay and his wife, Jan, are two customers who Sherman has gotten to know this year. The couple was looking to support local businesses when they found Kern. The McKinlays enjoy trying new products, like spatchcock heritage chickens, and Sherman

"I THINK IT WILL ENHANCE OUR BUSINESS IN THE LONG RUN TO BE ABLE TO OFFER THESE PRODUCTS. NOW I KNOW HOW TO SHIP NATIONWIDE."

THERESA NEMETZ
Founder, Milwaukee Food & City Tours

walked them through their options by phone. On his recommendation, they decided to add bison meat to their order, alongside more conventional meats like pork chops and ground beef.

"We developed a friendship as well as gaining his advice on our purchases," Archibald McKinlay says, adding that it's "very similar to a relationship you would come to with a butcher, but Matt [Sherman] was more approachable."

Kern will have another opportunity to engage directly with consumers starting in September, when it plans to introduce home delivery.

By August, online orders accounted for only about 1% of Kern's sales, prompting the company to reconsider its retail model and add a delivery service, designed to appeal to customers wary of visiting stores during the ongoing pandemic.

Unlike Kern, Milwaukee Food & City Tours has relied heavily on sales from its new business model. Tour and transportation revenue was down 95% in July, compared with a year earlier. "We are shooting to really break even and not lose our staff in 2020," says owner Theresa Nemetz.

The company reintroduced its tours on June 1, but as of mid-July, it had only conducted two public tours and three private ones. Its gift boxes continue to drive 99% of revenue.

The pandemic forced Milwaukee Food & City Tours to shift from selling a service to selling products, but Nemetz says that isn't necessarily a bad thing. "I think it will enhance our business in the long run to be able to offer these products," she says. "Now I know how to ship nationwide." She plans to make the gift boxes a permanent offering.

For his part, Dan Simons says Farmers Restaurant Group plans to keep its grocery business "in some way, shape or form."

In May, Market & Grocery provided about 85% of the company's revenue. By August, the grocery arm accounted for around 15% of overall revenue.

"Now, the restaurant sales are climbing. I think people are going back to some of their normal habits and routines," Simons says. Although June sales were still only about half the size of the previous year, by mid-month, Farmers had rehired nearly 400 workers.

He expects the company will continue to be entrepreneurial—to prepare not only for the unpredictability of the coronavirus, but for other unforeseen events that could arise at any time.

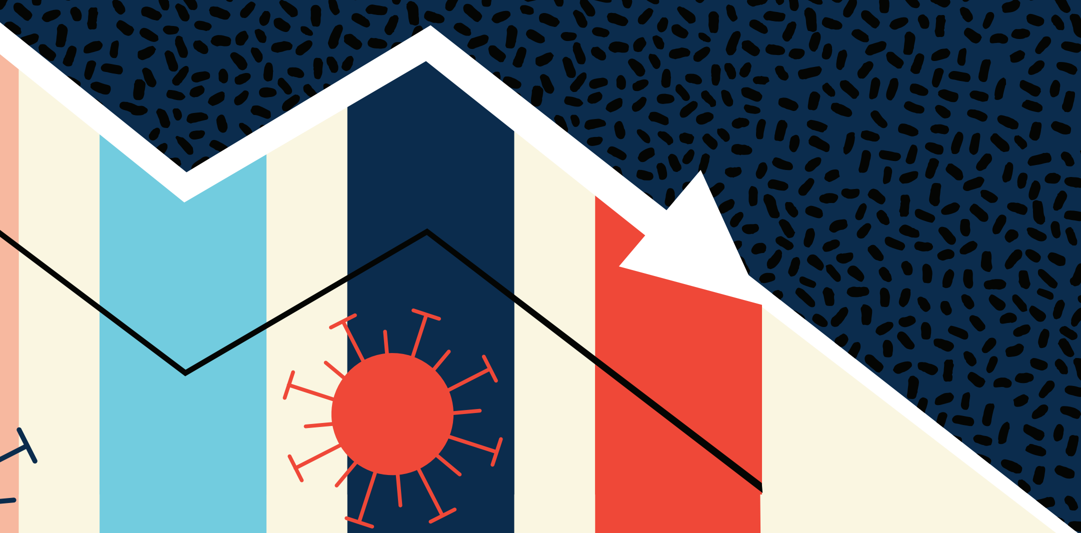
"You know, once you learn you're not resilient or diversified enough, if you think, 'Oh, I learned that lesson, but I won't need to apply it again,' you're just a fool." //

S. A. Swanson is a contributing editor at *Middle Market Growth*.

Faced with Uncertainty, Family Offices Take the Long View

Families' patient capital puts time on their side

BY BAILEY McCANN



The first half of the year was a rough one for the global economy. As the coronavirus spread and lockdowns took hold, understanding what the emergency response means for daily life and global business has been a study in adaptation.

Yet at least one type of investor—family offices that make direct investments into operating companies—is often spared the immediate impact of economic tumult. Investment cycles are longer and dealmaking decisions are largely decoupled from macroeconomic trends and concerns. Early data suggests that this crisis will be no different, even if investment teams have to manage much of the origination and diligence process remotely.

ALL IMAGES: GETTY IMAGES/DRAFTER123

FACETIME TAKES ON NEW MEANING

Many investors are continuing to deploy capital, despite uncertainty caused by COVID-19, according to a survey of institutional limited partners and family offices from Campbell Lutyens, an independent private equity advisory firm. But there are some caveats.

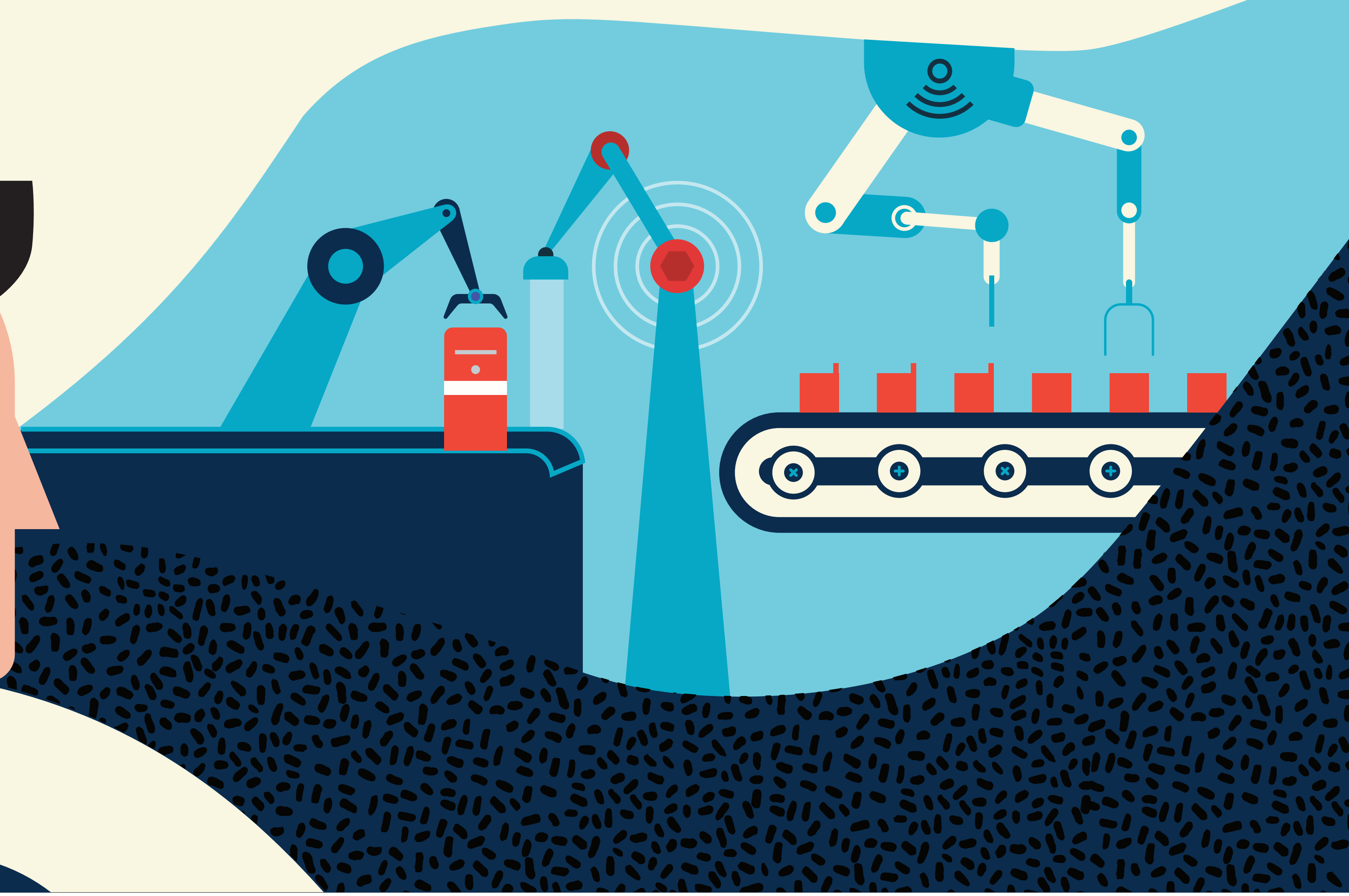
Many of the M&A deals completed by family office investors in the first half of this year were already in the pipeline prior to the start of the coronavirus outbreak. During the first quarter, there was a widespread pause on M&A activity. Investors wanted to ensure they had sufficient liquidity, and to better understand the potential impact of the pandemic. By the second quarter, investment activity had largely rebounded across the board.

Some of the early dealmaking hurdles have persisted. For example, building new relationships can be challenging without the ability to travel or meet face to face. Just under half (46%) of the respondents in the Campbell Lutyens survey said they wouldn't consider a new relationship without an in-person visit—a tall order during a pandemic that is likely to extend well into 2021. For investors who are willing to press on, creativity is key.

"We decided to do a video to explain who we are," says Katherine Hill Ritchie, director at Nottingham Spirk, a family office and product design and engineering firm that focuses on consumer products, medical devices, industrial businesses and military technology. "The video helps folks understand what we do. We have a 60,000-square-foot facility and over 1,300 patents and it can be difficult to explain that all over a Zoom call."

But when it comes to due diligence, a video is unlikely to assuage most investor concerns. "The on-site visit is important," Ritchie says. "If only so you can know at a base level that the building is there. But you also want to see who is in the business, what it looks like during the workday."

A FaceTime-based initial walkthrough is one low-cost workaround. A high-tech approach might involve using drones or viewing security camera footage.



In most cases, an in-person meeting will still need to take place at some point in the process, in order for the family office buyer to feel comfortable enough to close. "If we're investing millions of dollars into a management team and their business, we're not going to do that without meeting them in person," says Dan Patterson, founder and chairman of Patterson Thoma, a family office based in Dallas.

A DELICATE BALANCE

Despite some changes to the due diligence process, family offices are generally well-positioned to invest right now. They aren't locked in to a fixed timetable for making investments and selling their holdings, so the pause in new transactions at the beginning of the year didn't necessarily hurt them. And if it takes longer to exit or do new deals, a family office can usually wait that out. "It's a delicate balance," Patterson says. "We wanted to get our bearings and we took time to do that at the beginning of this year. But you also want to stay in the mix so that you aren't missing out on new opportunities."

"WE DECIDED TO DO A VIDEO TO EXPLAIN WHO WE ARE. THE VIDEO HELPS FOLKS UNDERSTAND WHAT WE DO. WE HAVE A 60,000-SQUARE-FOOT FACILITY AND OVER 1,300 PATENTS AND IT CAN BE DIFFICULT TO EXPLAIN THAT ALL OVER A ZOOM CALL."

KATHERINE HILL RITCHIE
Director, Nottingham Spirk

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Andrew Glaze, founder and chief investment officer at Shiro Capital, says the deal environment remains competitive, despite uncertainty about the broader economy. His Los Angeles-based family office makes minority and control investments in middle-market businesses.

"We're looking at the smaller end of the market, and it's still really crowded," he says. "We might look at a deal once and by the time we come back, it's already under a letter of intent. Or we'll look at a deal and there are already two or three other families interested in it."

The competitive deal environment isn't new. It has been a common feature of family office and private equity investing for a few years now. And as the number of funds and families investing in the middle market has gone up, so have valuations.

"BEFORE WE INVEST, WE SPEND A LOT OF TIME THINKING ABOUT POTENTIAL DOWNSIDES. IF I LOOK AT OUR PORTFOLIO COMPANIES TODAY, THEY'VE PERFORMED WELL DESPITE SOME REALLY SURPRISING CIRCUMSTANCES."

BETH RAHN
Principal and Head of Family Capital, McNally Capital

Families we spoke to for this story noted that prices haven't fallen much in the private markets, despite volatility in the public markets. "If it's a deep recession, you're likely to see more movement in valuations," Patterson says. "But I think it's hard to look at a company that was performing really well before COVID and just assume it's all over now. Especially if that company isn't operating in an industry like airlines or cruises. And even those companies might come back if you're willing to wait it out."

COVID-ADJUSTED EBITDA

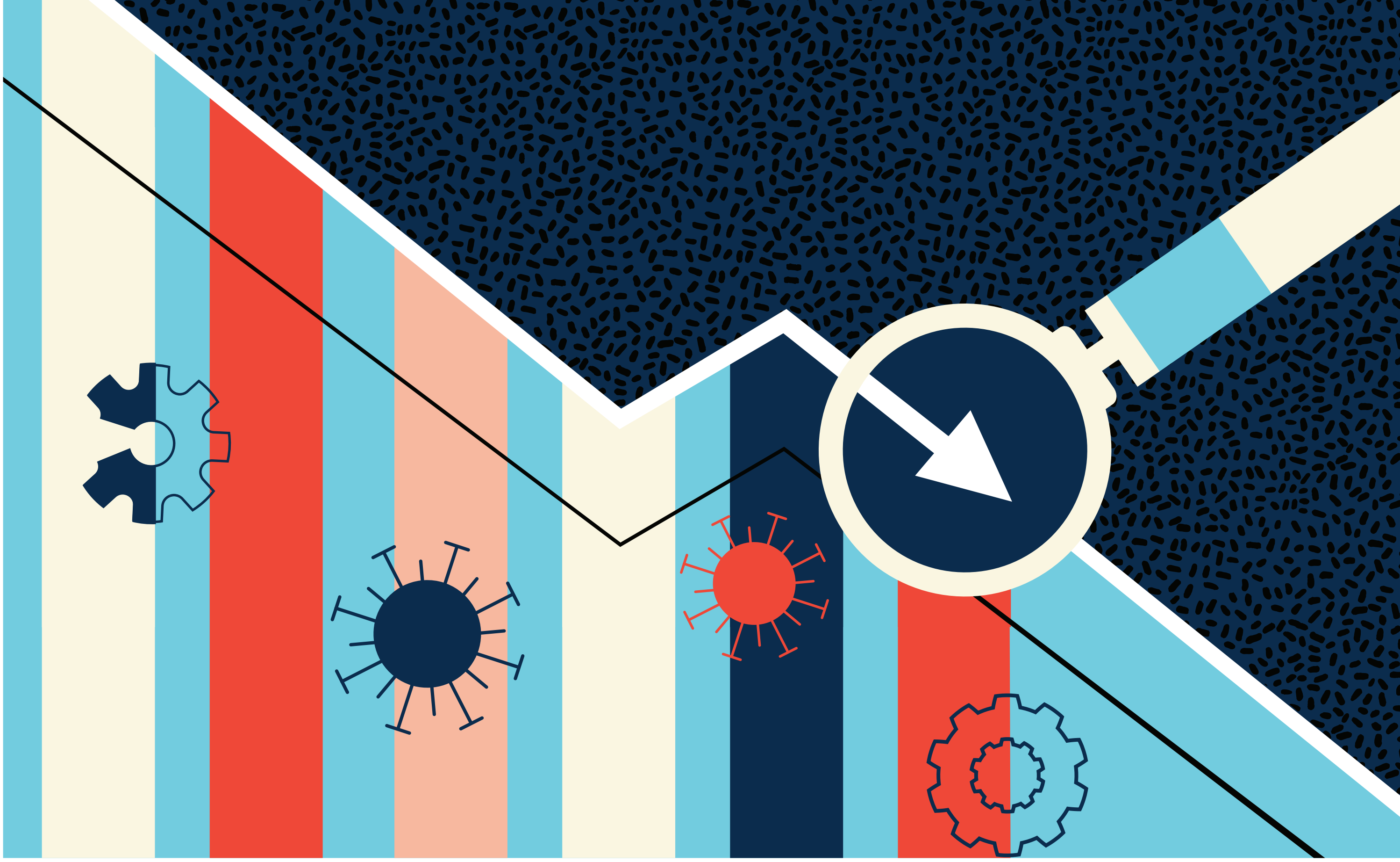
Family offices tend to focus on risk when evaluating prospective investments, a quality that could help them weather a global pandemic.

"Before we invest, we spend a lot of time thinking about potential downsides. If I look at our portfolio companies today, they've performed well despite some really surprising circumstances," says Beth Rahn, principal and head of family capital at McNally Capital, the investment arm for the family behind Rand McNally & Company.

Rahn points to cleaning and floor care companies in her firm's portfolio that have done well during the crisis, as businesses sought out sanitation services. "Before the pandemic, these were just steady, solid businesses," she says. "Obviously, no one could have predicted a need like this, but they have performed well and we expect that to continue as more parts of the economy open up."

As family offices pursue new investment opportunities, they'll have to contend with today's unpredictable environment and factor it into their risk assessment. Michael Schwamm, a partner at law firm Duane Morris in the firm's M&A practice, notes that investors and businesses are trying to look at the big picture when it comes to potential performance. "The issue is, you're either going to have a performance lag and a catch-up, or you'll have outperformance now and then maybe a lag when other businesses come back online," he explains.

A company that closed temporarily or strictly limited its operations in the early months of the outbreak will likely have two quarters of severely disrupted cash flow. Once that business reopens and resumes normal operations, it's unlikely to bounce back instantly, and its financials will reflect that delayed rebound. Conversely, companies that excelled because of the pandemic, such as professional sanitization services or webinar platforms, could end up having a record-breaking 2020. But that won't last forever. Eventually, their performance will return to more normal



levels, once people are allowed to meet up in person, or businesses create more efficient in-house cleaning protocols.

Scenarios like these require investors to evaluate businesses in a new way.

"Call it COVID-adjusted EBITDA," Schwamm says. "How do you factor in potentially 12-24 months of anomalous behavior? Investors are choosing to bring in more factors to analyze a given transaction because the immediate performance is unreliable."

Meanwhile, entrepreneurs and owners looking to sell their businesses may have to adjust their expectations about price and extend their timelines. "I would expect that you're going to see a larger portion of the purchase price being paid in earn-outs or rollover equity because the valuations are going to be based more on future results," Schwamm says.

That could give family offices an advantage over competitors as they look for middle-market investment opportunities. Unlike traditional private equity firms, families aren't governed by the terms of a commingled fund. They can afford to be more flexible about when they invest, what they invest in and when they exit. That flexibility can also translate into attractive deal terms for owners and entrepreneurs. Minority investments are an option with family offices, too, which could benefit companies that are looking for capital but aren't interested in transferring full ownership.

That is not to say that the flexibility afforded by family offices comes at no cost. Families generally are able to extend their holding periods, but they're going to expect to be paid for that additional time. "You have to assess where you think the compounding growth is going to be over the next two to three years," Rahn says. "It's fair to say that a company that is being sold now needs to have a fairly unique story."

She expects family offices to place greater scrutiny on the capital structure in the future. "We typically look for companies that are low leverage to begin with," she says. "But I think people are going to look closer at covenants and they're going to want finance partners that are well prepared for any eventualities."

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"I THINK WE'RE GOING TO BOUNCE BACK QUICKLY, ESPECIALLY IF WE GET A VACCINE BY THE END OF THE YEAR OR SOONER."

ANDREW GLAZE
Founder and Chief Investment Officer, Shiro Capital

The insurance industry, which typically moves slowly, is also likely to adjust in response to COVID. Insofar as businesses were covered in the event of a big material change like the pandemic, it will no doubt be harder to buy the same type of coverage in the future. The cost of insurance policies is likely to go up as well.

WHAT IS NORMAL ANYWAY?

The families we spoke to were somewhat divided on what the future holds for investing and the economy. "I think we just don't know," says Nottingham Spirk's Ritchie. "You have to think through new layers of risk in terms of supply chains, real estate, employee health. Some businesses are going to do fine. Others aren't going to make it. But I don't think anyone knows where it ends up in terms of what everything looks like when we level off."

Others were more optimistic. Although they no longer expect the V-shaped recovery many hoped for at the start of the pandemic, something resembling more of a Nike "swoosh" is possible, with growth accelerating as COVID-19 treatments become available. "I think we're going to bounce back quickly, especially if we get a vaccine by the end of the year or sooner," says Shiro's Glaze.

The new normal for family offices' direct investment strategies is likely to reflect adjusted individual risk tolerance. New indicators of risk will make their way into models, deal terms may tighten slightly, and video conferencing will replace the boardroom.

Overall, the model of family office direct investing remains the same. Families are still on the hunt for high-growth businesses that continue to come to market—even in a pandemic. //

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In Challenging Times, Lender Relationships are Key

Twin Brook's commitment to clients is more than transactional

The decade leading up to 2020 was accompanied by extremely strong market conditions and abundant capital, prompting some private equity firms to view lenders as a commodity as they sought the best loan pricing.

However, in the face of the COVID-19 pandemic and the unique challenges it created for industries and businesses worldwide, many sponsors that neglected their lending relationships found themselves at a disadvantage, as their competitors turned to trusted lenders for sound advice and the flexible financing needed to navigate unprecedented times.

Healthy credit markets helped bolster private equity deal activity in recent years, creating the illusion of limitless capital and, for some, little need for sponsors to form strong relationships with their lenders. Global private equity deal value in 2019 reached $551 billion, down just slightly from 2018, according to Dealogic. Last year, deals with debt multiples higher than 6x EBTIDA became the norm, accounting for over 75% of the total, Refinitiv LPC data shows. More than 55% of U.S. buyout deals in 2019 had a purchase price multiple of more than 11x, according to Refinitiv LPC.

Then came the fallout: Leveraged lending dropped a whopping 80% from January through April 2020, according to Dealogic. Private equity firms that cemented strong relationships with lenders prior to the crisis were generally happy they did, while some others found themselves in a challenging position.

"We have certainly self-selected to work with firms that value their relationships with lenders. These firms are looking for partnerships, not the cheapest financing," says Rich Christensen, a senior partner at Twin Brook Capital Partners. He adds that he believes Twin Brook's private equity clients typically want to work with a "lender that will provide certainty and expertise that will help them and their middle-market portfolio companies manage through both downturns and periods of growth."

Having experience working through multiple credit cycles, the Twin Brook team has witnessed how important the open line of communication and information flow that comes with these deep relationships can be, as it supports the firm's ability to act as a partner and help its borrowers and their sponsors work through any issues that might be on the horizon.

But this type of give-and-take partnership doesn't happen overnight. It comes from years of

“WE HAVE CERTAINLY SELF-SELECTED TO WORK WITH FIRMS THAT VALUE THEIR RELATIONSHIPS WITH LENDERS. THESE FIRMS ARE LOOKING FOR PARTNERSHIPS, NOT THE CHEAPEST FINANCING.”

RICH CHRISTENSEN
Senior Partner, Twin Brook

Illustrations by Tony Healey

building relationships based on trust and transparency. Many of Twin Brook’s professionals have spent a substantial amount of time and thoughtful effort cultivating bonds with reputable private equity firms.

Grant Haggard, a senior partner at Twin Brook, cites one client with whom he interacted for nearly a decade before ever closing a deal together. “It took time and legwork to get into a position to transact. But when we did, the deal worked out extremely well and we have established a long-term relationship with that client,” he says. “Some lenders are more transactional, and that’s fine, but that’s not how we operate.”

Shortly after being founded, this particular sponsor was one of the first that Twin Brook closed a deal with, and they’ve partnered on seven more transactions since then.

In early April, in the throes of the pandemic, the sponsor had a portfolio company that was spinning off and combining with a competitor. The transaction was complex, and COVID-19 added even more uncertainty, Haggard recalls.

“If there had been no relationship, that deal may not have happened; very few other lenders would have taken on this transaction at that time. But we had trust in them and a solid working relationship, so we were able to move forward,” he says. “We had long-term experience with this sponsor and insight on how they operate—having seen them successfully execute on their growth strategies for businesses and manage them through good times and bad—and that allowed us to get comfortable.”

VALUE OF A TRUE PARTNER

There are some sponsors that want the cheapest pricing and treat lenders as a transactional part of the deal, but others, like Incline Equity Partners, recognize the value of a deeper partnership.

“We want to make sure we are working with lenders that can respond quickly and then follow through seamlessly on their commitments—we want to work with someone who will do what they say they will," says Incline Senior Partner Leon Rubinov. "It's easy to talk a big game when everything is going gangbusters, but deals get tested."

Rubinov adds, "It's often simple to get a deal financed. It's hard when things go sideways. That's when you need a true partner, and that's why we value building ongoing lender relationships."

SCALING TOGETHER

Some private equity firms look to their lenders for flexibility and sound advice. Many also need a lending partner that can scale up as they grow their portfolio companies.

Arsenal Capital Partners thinks of itself as a company builder—crafting transformative strategies for companies and building high-growth market leaders. "We need to work with a lender that can scale with our companies, as we may start with a business with $10 or $15 million of EBITDA that we look to grow to $100 million or above," says Roy Seroussi, an investment partner with Arsenal. "It's an intensive approach. Our primary focus is often not on optimizing pricing or covenants, but on finding a lending partner that understands what we are trying to do with our companies."

For Arsenal, there are a host of factors to take into account when building a lending partnership. "Our relationship with Twin Brook has been very collaborative. They have been flexible and have proven their value-add to us," Seroussi says.

Twin Brook partnered with Arsenal for one of its most complex deals to date. Over the course of several months, Arsenal merged four businesses to create Elite Comfort Solutions, which became a leader in polyurethane foam technologies primarily serving

"SOME LENDERS ARE MORE TRANSACTIONAL, AND THAT'S FINE, BUT THAT'S NOT HOW WE OPERATE."

GRANT HAGGARD
Senior Partner, Twin Brook

the bedding market. The companies didn't have audited financials or traditional sell-side bankers. "It was not a straightforward transaction. We partnered with Twin Brook and did the best we could with limited information. Few lenders would have been able to get comfortable with it," Seroussi says. Early last year, Arsenal successfully sold Elite to Leggett & Platt in an all-cash transaction for $1.25 billion.

More recently, Twin Brook helped one of Arsenal's portfolio companies complete an acquisition to create a leader in specialty water treatment chemicals. "We did this in the midst of COVID-19. It was a difficult time to finance a new deal, but Twin Brook showed their ability to close deals regardless of the environment," Seroussi recalls. "I don't know if this deal would have happened if we didn't have the relationship."

▲ Faraaz Kamran, Senior Partner, Twin Brook

STEADFAST THROUGH UPS & DOWNS

It's hard to know what M&A will look like in the coming months, amid continuing uncertainty created by COVID-19. Regardless of the outcome, the situation has highlighted how private equity firms often benefit from working with lenders who will stick with them, regardless of the macroeconomic challenges that will inevitably arise.

Twin Brook's commitment to being a dependable, solutions-focused partner has always been core to their strategy and is something that sponsors and borrowers appreciate, especially in times like these. This includes Varsity Healthcare Partners, a private equity firm focused on lower middle-market health care services companies and a longtime Twin Brook client. Kenton Rosenberry, a founding partner of Varsity, notes, "The consistency, reliability and expertise that the Twin Brook team brings to bear is exceptional and is a big part of why we have continued to partner with them over the years, working together on over 10 transactions to date."

Twin Brook's clients have experienced the value of a strong lending relationship firsthand, and the firm has shown that it's committed to fostering new partnerships and serving its existing sponsors and borrowers through good times and bad.

"Despite the pandemic-related uncertainty and challenges prevalent across both the private equity and direct lending markets, we closed five platform acquisitions between late March and the end of April. Our clients are focused on capitalizing on good opportunities, whenever they may arise, and so are we. When we've forged a deep relationship with a sponsor, we are often able to be more flexible—because of that strong foundation—and are willing to get more creative when it comes to supporting them," says Faraaz Kamran, a senior partner at Twin Brook. "Simply closing transactions is easy; being willing to roll up your sleeves and work hand-in-hand with clients through both ups and downs is the hard part, and we do just that." //

As Consumer Preferences Evolve, So Does M&A

MIDMARKET TRENDS // A new set of criteria is redefining consumer product deals

Dennis McLister
Partner, DHG LLP

Now more than ever, people are finding new ways to live, work, play and shop. Everyone is a consumer. Yet the branded goods they consume and the companies they support are changing at a rapid pace, and so are the M&A deals and trends that follow.

Many new realities have altered consumer behavior and preferences—including demographic diversity, technological developments, and a greater focus on environmental and social responsibility, just to name a few.

Branded consumer categories vary widely, from apparel through beauty and personal care, to electronics, food and beverage, health and wellness, home furnishings, pet food and sporting goods. When acquiring these types of companies, the perceived value lies in the eyes of the beholder. Often, a target's value depends on the situation and desired outcome. Adding an operating consumer product company to an existing portfolio is very different from making a platform investment.

Historically, midmarket deal professionals focused on a handful of characteristics when evaluating consumer product investments. But a new set of criteria is redefining these deals. As inorganic growth has taken precedence for consumer products, three attributes—brand power, high-growth opportunities and operational edge—have become key priorities and building blocks for value creation.

Brand power: A powerful brand used to mean widespread recognition and availability. While some global and iconic brands still carry reputational power, many consumers are looking for their own personal connections to brands with a story. "Products are made in the factory, but brands are created in the mind," famed brand designer Walter Landor once claimed.

Today, brand identity and power can be influenced by myriad factors that include a company's background, history, mission or values; ethical or sustainable manufacturing and distribution; and social media and celebrity endorsements, among other factors.

High-growth opportunities: Acquiring innovation can be transformational for consumer product companies. One company's own internal innovation can be complemented, amplified and even accelerated by acquiring more innovation. Buying disruptors and innovators early on—sometimes prior to having to compete—has perceived M&A value above revenue or earnings multiples.

Similarly, capturing additional sales channels can provide ample runway for high growth. E-commerce is an important sales channel for consumer products and social media shopping has taken e-commerce to new heights. Companies and brands that capitalize on these sales opportunities are attractive counterparts to those that have relied heavily on brick-and-mortar retail.

The operational edge: It's paramount to understand which operational areas to improve and which should be left alone. Knowing when or how to consolidate, eliminate or change any company can be risky and costly. Disrupting growth, innovation and customer connections under the guise of cost synergies can also be problematic. Many winning strategies tend to assess manufacturing and distribution expertise, capacity and scalability, and to evaluate supply chain relationships, management and sourcing. Successful strategies are less likely to consolidate value out of areas like marketing, sales and product development.

Midmarket consumer product M&A and investment by financial sponsors will keep evolving, just like the modern consumer. //

Dennis McLister is a partner in DHG LLP's Transaction Advisory Services practice. He has more than 20 years of experience working with private equity groups, investment banks and strategic corporate clients.

Even Now, Reasons for Hope

SOUND DECISIONS // Crisis creates opportunities for innovation

Kendal Ross
Innovation and Development, Insperity

The world is in the grips of an invasive viral pandemic and an economic crisis the likes of which we have not seen for nearly a century. It is impacting our daily lives and threatens our long-term prosperity. All the turmoil makes you want to take your ball and go home (which, apparently, is exactly what we are supposed to do). So, where is the glimmer of hope? Are there opportunities hidden in the current adversity? I say yes—for the innovative.

Think back to the financial crisis of 2008. The subprime mortgage market collapsed, sending a financial shockwave across America and throughout the world. The Dow Jones index fell from 14,500 to 6,600. Banks collapsed, and peoples' fortunes were shattered. The situation was dire. Billions of subsidy and loan dollars were used to prop up everything from banks to automobile manufacturers.

Fast forward 12 years. Following a healthy recovery that elevated the nation and many individuals to new financial heights, we again face financial strains—this time brought on by a global virus outbreak. Hoping to starve the virus, we have withdrawn from our normal lifestyles to shelter in place. Our retreat has shuttered many businesses and constrained others, threatening our vital small business economy and paralyzing even the titans of global industry.

> "INSIGHTFUL AND TIMELY INNOVATIONS WILL GIVE SOME COMPANIES THE VICTORY OVER BOTH THE VIRUS AND THEIR COMPETITION."

So where is the reason for optimism? We must look to our national heritage of resilience to find hope.

Let's return to our history. In the years following the financial crisis, we learned, adapted and adjusted our rules and practices of commerce. We invented and implemented safeguards to prevent the reoccurrence of spiraling downturns on both Main Street and Wall Street.

Some entrepreneurs discovered innovation opportunities in the chaos. In a March article, *Forbes* cited Uber, Airbnb, WhatsApp, Square, Pinterest, Slack and Twilio as notable businesses that sprung to life in the months following the financial crisis. These low-capital startups are now household names. They rose from the post-crisis realities of business and capital constraints. They parted from traditional business infrastructures and created lean human capital models in what are traditionally employment-heavy industries. They reinvented the way people communicate, travel and transact business.

We have not yet seen the full impact of the pandemic on businesses. Among others, the list of changes to daily life will certainly include: the way we shop, the products we prioritize, and where and how we work.

Looking ahead, we need to analyze these changes and develop winning strategies. Stress experienced during the pandemic may reveal that our old models of customer management, culture, supply chain, operations and human capital are ripe for innovation. Insightful and timely innovations will give some companies the victory over both the virus and their competition.

When we look back in another 10 years, which innovators will we celebrate as the brightest business minds, who mustered faith and created something enduring out of the COVID-19 calamity? //

Kendal Ross works in innovation and development for Insperity. He is also a professor at the University of Kansas, where he teaches management policy and strategy at both the undergraduate and graduate levels.

Cash, Communication and Control

SOUND DECISIONS // A "three C's" mantra for any successful turnaround

Cynthia Romano
Global Director, CohnReznick's Restructuring and Dispute Resolution Practice

Science has proven that the more stressful the situation, the less rational the decision-making. Our ability to process complex information diminishes, perceptions distort, and focus narrows. When that happens, people and companies rarely survive.

Consider this example: ABC company generated annual net income of $3 million on $65 million in revenue. The family owners departed. Five years of deepening distress followed. Fourteen months later, annual revenue was at 50% of plan, monthly EBITDA was averaging negative $400,000, and weekly cash burn approached $100,000. Frustrated, fatigued and burning cash faster with each attempt to improve, the shareholders gave up and made plans to exit.

But something unexpected happened. The chief restructuring officer appointed to wind down ABC stabilized the business, generated cash to support operations, and posted a profit for the first time in 18 months. ABC was no longer at death's door. What made the difference? An unrelenting focus on this survival mantra: "Cash, communication, control."

Cash

First, stop the bleeding, then find and fix the source. Clearly, more cash can't go out than comes in. Yet smart, experienced people who owned and managed ABC allowed that to happen. Blinded by "good news," they focused on doing more of the wrong thing with more money. Therefore, step one is to do the known, right thing and stop the cash bleed. Initially, it doesn't matter why cash is bleeding; it simply matters that the bleeding is stopped while not further crippling the business or exposing fiduciaries to additional liability.

Communication

Reach out early and often—even when there's nothing to say. Amid fear, shame, anger and other crisis-induced emotions, communication fails. Information is held "close to the vest." Executives hide in their offices. Productivity declines. Good people leave, and fear grips those who remain. Instead, leadership can effectively communicate with honesty, transparency and frequency.

Control

Know where you are, where you are going, and course-correct as necessary. Evolving a new way of seeing begins Day One through whatever mechanisms, policies and actions make clear this is about survival, not business as usual. By the end of the second week, a plan should be complete and vetted with allies whose support is critical. The plan begins with a cash model but, inevitably, includes a map for operational restructuring. Control is the implementation of the turnaround plan with practice, monitoring, assessment and adjustment.

The 3C's Coordinated: Surviving

ABC's team refused to quit, despite prior failures and terrible odds. They were unrelenting in repeating and enacting the mantra "cash, communication, control," and the results were striking. Cash breakeven was achieved within six weeks. Margins improved monthly. Operating income hit breakeven. Profitability was achieved within four months after years of losses. And, a buyer expressed interest as an alternative to a shutdown. With the newly found cash runway, diligence commenced on the day the lights were previously scheduled to be shut off. //

Cynthia Romano is a global director of CohnReznick's Restructuring and Dispute Resolution practice. She has more than 25 years of experience in performance improvement, turnaround management, transaction support and investment analysis, and has used the "three C's" to drive change in troubled situations.

Avoiding Risk with International Payroll

GLOBAL VIEW // How to cut through complexity while staying compliant

Nicole Sahin
CEO and Founder, Globalization Partners

If you are a company looking to hire global talent, you will need to onboard international employees and figure out how to pay them. To avoid encountering any potential international payroll issues, companies need to make sure they are following the rules when it comes to classification, tax withholding and a series of other details.

Aside from complying with the requirements of national authorities, organizations must be sensitive to local payment customs and cultural differences that impact how international employees are paid. For example, a 13-month payroll is commonplace in many South American, European and Asian countries.

Similarly, in the European Union, the working week is capped at 48 hours, while in China, labor law caps the working week at 44 hours. Meanwhile, in the U.S., nonexempt employees receive overtime pay once they have worked more than 40 hours in a week. Therefore, the international payroll system will need to incorporate a method to accurately record and report time.

Here are four additional factors to keep in mind:

The compliance fundamentals: When paying international employees, businesses must ensure they are withholding and paying the appropriate types of tax, and the correct amounts, by the right deadline.

In addition to tax compliance, international payroll will need to follow all national rules that relate to benefits and wages. This may include contributing to an employee's pension plan and adhering to any minimum wage rules that apply.

Navigating legal concerns: There is an array of legal differences that must be tracked when paying a remote international team. For example, in the U.K., employers need to pay Statutory Sick Pay if an employee is sick and off work for at least four days for a period of up to 28 weeks. In the U.S., however, employers can offer paid time off for sickness, but they are not legally obliged to pay employees.

The practicalities of payment: Employees must be paid according to the laws of the country in which they live and work, but there are exceptions. For example, if a company asks an employee to temporarily move abroad in the line of work, it may be possible to continue to pay them from their home country payroll.

International employers must also juggle fluctuating currency exchange rates to ensure people get paid the correct amount in their local currency—without incurring excessive cost to the organization itself.

Cutting through complexity and staying compliant: To eliminate the complexities associated with onboarding and paying international teams, companies are increasingly electing to outsource the management of their international payroll to a global employer of record.

A global employer of record enables companies to quickly hire talent in countries where they do not have a business subsidiary or branch office. This is because the company's employees are placed on the existing payroll of the employer of record, with the company benefiting from the global legal infrastructure. This ensures that country-specific payroll requirements are met, and that employees get paid on time and in the currency of their home country. //

Nicole Sahin's mission is to eliminate barriers to doing business internationally and building global teams. As founder and CEO of Globalization Partners, she is recognized for creating an innovative solution that enables companies to hire great talent anywhere in the world, without the complexity of setting up foreign branch offices or subsidiaries. Businesses are able to leapfrog over the legal, HR and tax complexities without having to figure out "how" to do business in a foreign country, while getting all the benefits of a global team.

Invest in Digital Transformation to Drive Value

SOUND DECISIONS // How to drive value and prepare for the future

Shawn Panson
Private Company Services Leader, PwC US

How prepared is your portfolio company for the next big disruption? It may depend on how far along you are on your digital transformation journey. It's imperative today to invest in digital transformation—not only to help prepare for the next disruption, but also to grow and stay competitive.

Digital transformation is a continual investment in core business platforms to enable differentiated capabilities—implementing new technologies to deliver products and services more efficiently, improve margins, offer a better customer experience and develop and attract talent. A digital transformation is a continuous effort and mindset that should be integrated into the fabric of the business and embraced as part of the strategy.

Why Prioritize Digital Transformation Now?

The COVID-19 pandemic might be considered a once-in-a-lifetime "black swan" event, but its impact has been vast, and it put companies around the world on notice. The swift and sudden shift to a virtual work environment highlighted which companies had invested in digital transformation and which had gaps. Many companies faced hurdles as they moved to a remote business environment, whether it was setting employees up with remote access to the tools and technology they needed to operate, or overlooking cybersecurity gaps.

The disruption showed how important it is for companies to be resilient and agile. Those that had made investments in technology continued to perform during the crisis without skipping a beat. They were able to transition more quickly and smoothly to a remote working environment and in many cases, a remote way of managing operations that was essential during the crisis. Embedding digital transformation across the business model can help give companies the flexibility to adapt as the business and markets change.

There is an expectation for companies to be digital in a post-COVID-19 world. That means being able to conduct your business no matter what disruptions may come and being able to respond fluidly to those changes; it's also being able to advance early deal interaction virtually, from initial management meetings through operational and financial due diligence.

Limiting face-to-face interaction may be easier to do in smaller, tuck-in acquisitions than in larger, transformative or platform transactions, which typically involve more in-person meetings and site visits. These meetings can include early integration plan discussions, help set the tone and build comfort in the transaction. Conducting these sessions remotely may not be the same as doing so in person, but having the right technology and digital platforms in place can help make things smoother.

Investing in Digital as a Strategy to Get Ahead

Investing in digital technologies enables businesses to operate more efficiently to help accelerate growth, driving return on investment. CFOs consistently maintained investments in digital transformation during the pandemic, PwC's "CFO Pulse" survey showed, underscoring how some continued to prioritize growth and resilience.

Investing in digital transformation can help make your company resilient, competitive, efficient and agile. Middle-market private equity sponsors should have collaborative discussions with their portfolio companies to help ensure the business strategy is appropriately integrated with digital technology to help drive value and to be ready for what the future brings. //

Shawn Panson is the Private Company Services leader for PwC US. In this role, he has a team of over 200 partners and more than 2,200 audit and tax professionals across 18 markets dedicated to serving private companies and their owners.

Best Practices for Acquiring a Business After COVID-19

SOUND DECISIONS // Considering the impact of an unprecedented global crisis

Dan Schoenleber
Partner, Transaction Advisory Services, Brown Smith Wallace

Jenna Beckmann
Director, Advisory Services, Brown Smith Wallace

As the economy recovers after the COVID-19 pandemic, investors and buyers will likely have opportunities to make purchases at prices not seen in recent years. But now that businesses have endured an unprecedented global crisis, it is important to approach a purchase with not only buy-side due diligence in mind, but also post-merger integration and business process improvement. It is likely that post-merger integrations will have a quicker timeline than under the previous economic norm.

Buy-Side Due Diligence

Depending on the sell-side diligence performed, buyers will likely want to plan for more time to evaluate the impact of COVID-19 on a target company. If the business showed short-term improvements, consider normalizing the recent growth related to COVID-19. Businesses that received a Paycheck Protection Program loan might have delayed the financial impact on the business through the receipt and forgiveness of these funds. If the business experienced a decrease in sales, evaluate the time it will take to return to previous levels and whether margins for the business have changed as a result. COVID-19 might have also impacted working capital requirements for the business, including days sales outstanding, inventory supply and vendor payment terms.

Some companies have started using the metric EBITDAC (EBITDA Coronavirus), but a buyer should consider what earnings will be after COVID-19, not before. Forecasting the future of the business will be difficult amid such uncertainty, and there will be additional risk for buyers. Still, those willing to hold long-term could see a good return.

Post-Merger Integration

The goal of an acquisition is to add value and achieve synergies. Poor post-merger integration can damage or destroy value. In a post-COVID-19 world, it is even more crucial to begin a post-merger integration plan before the deal closes. Setting guiding principles for the integration plan to drive what to integrate and keep separate ensures the buyer keeps the objective of the deal at the forefront.

Components of an impactful post-merger integration program include: staffing assessment and employee onboarding; development and focused management of the transition services agreement; rationalization and implementation of standardized systems; back-office alignment, including standardized processes, centralization or outsourcing; financial statement development; functional integration of innovations and R&D, supply chain, distribution, warehousing and logistics, go-to-market sales and marketing, and back office; and structured transition to "business-as-usual" at the end of integration.

Business Process Improvement

Once a purchased company is integrated, there will be business processes that need to be reviewed and improved to achieve synergies. Start by developing an understanding of in-scope processes, systems and governance structure. Build process maps to provide current state insights. Evaluate process maturity, performance metrics, policies, procedures and controls. Identify opportunities to improve efficiency and effectiveness of people, processes and systems. Prioritize improvement opportunities and assign timelines.

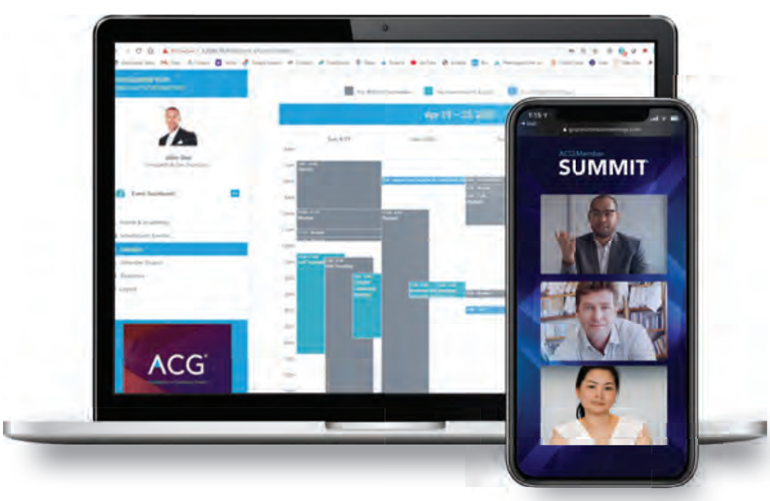
Being aware of due diligence considerations and potential post-merger integration obstacles—and planning accordingly to address them—will prepare a buyer for a successful acquisition. //

Dan Schoenleber leads due diligence and quality of earnings engagements for Brown Smith Wallace. **Jenna Beckmann** specializes in business performance consulting, including business integration and process improvements, for Brown Smith Wallace.

ACG Member SUMMIT

ACG MEMBER SUMMIT

The Association for Corporate Growth hosted its first all-virtual conference, the ACG Member Summit, on June 23-25. More than 2,100 deal-makers and M&A professionals registered for the inaugural event. They hosted meetings on ACG's virtual meeting platform and attended an array of live-broadcast panel discussions over the course of the three-day program.



MEETINGS

The summit showcased ACG Access, a custom-made technology platform that attendees used to schedule more than 5,500 virtual one-on-one meetings over the course of the conference.

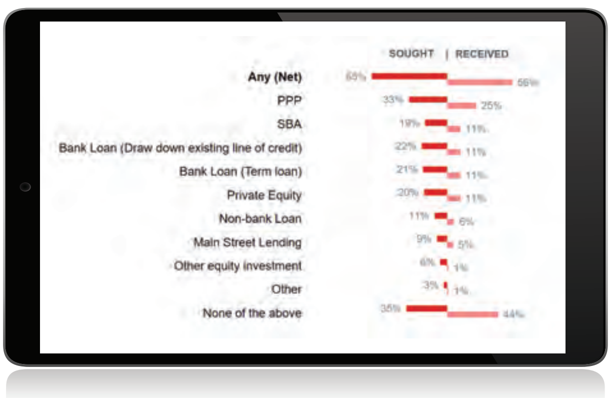
At the end of each day, attendees met up for informal roundtable discussions. The virtual setting replicated the format of an in-person conference space, giving participants the ability to move easily between tables and network in small groups.

SUMMIT STATS

5,505
ACCEPTED MEETINGS

703
ATTENDED VIRTUAL HAPPY HOURS

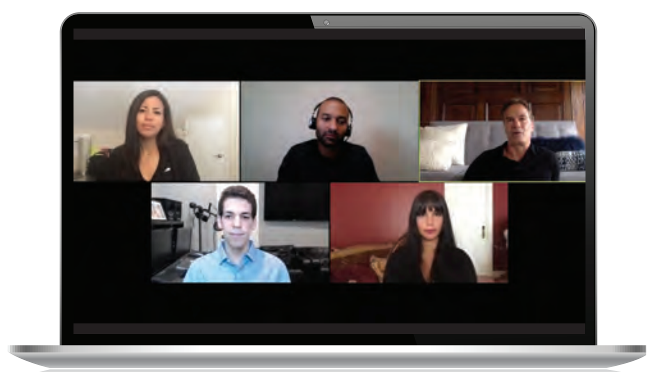
1,903
ATTENDED PANEL SESSIONS



DAY 1

More than 450 attendees gathered to hear the National Center for the Middle Market Executive Director Tom Stewart's "State of the Middle Market" presentation, sponsored by Intralinks. Stewart shared preliminary findings from a recent survey that showed COVID-19 is still a source of major challenges for midsize businesses, but that executives are beginning to find their footing. Stewart's presentation included a look at where middle-market companies are seeking funding (pictured left).

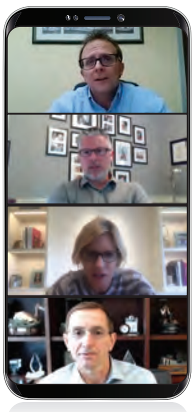
Later, the panel "Sport of the Future: Investing in Esports" discussed the growth in esports and how investors can get in on the action. The panel featured Johanna Faries (top left), commissioner of the Call of Duty World League, an esports division of Activision Blizzard, along with other industry leaders. The panel drew more than 180 attendees.



Finishing off the first day's program was the panel "Industries Remaining Strong During the Pandemic," which looked at how businesses are weathering the fallout from the COVID-19 pandemic. The panel drew more than 280 attendees and was sponsored by Global Upside.

DAY 2

The second day of the summit began with a survey of the political landscape ahead of the federal elections this November. More than 300 event attendees sat in on the "Election Impact on Middle Market M&A" panel, which featured veteran *Politico* reporters Jake Sherman and Anna Palmer, who co-author the popular "Politico Playbook" daily newsletter. The panel was sponsored by global law firm Dentons.

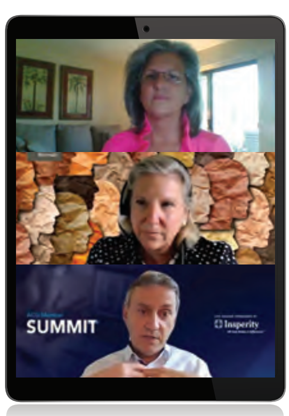


During the day's second discussion, "Supporting Portfolio Companies in Unprecedented Times," sponsored by Plante Moran, panelists described ways that private equity firms are helping their portfolio companies get through the COVID-19 crisis. The panel drew more than 240 attendees.

DAY 3

On the final day of ACG's Member Summit, discussions began with the panel "Financing Throughout and After COVID-19," which addressed how investors can financially support their portfolio companies through the COVID-19 pandemic. The panel was sponsored by STNL Advisors and drew more than 170 attendees.

The event's last panel discussion, "The New Norm for Organizational Structure," outlined how some private equity firms are preparing their companies for a return to the office. The panel was sponsored by Insperity and had more than 250 in attendance.



UPCOMING ACG EVENTS

ACG chapters are adjusting their programming to offer alternatives to face-to-face meetings and seminars, and some are adding virtual components to existing gatherings. Below is a list of some of the virtual events scheduled for the coming months. Learn more about these and other upcoming ACG events by visiting acg.org/events.

- **ACG National Capital** – Corporate Growth Awards Gala – Sept. 2
- **ACG San Francisco** – 2020 M&A West Conference – Sept. 3
- **Great Lakes ACG Capital Connection** – Virtual ACG GLCC – Sept. 9-10
- **ACG New Jersey** – Virtual Member Forum – Sept. 10
- **ACG New York** – M&A DealSource & Value Creation Summit – Sept. 14-15
- **ACG Seattle** – Virtual Northwest Middle Market Growth Conference – Sept. 24
- **ACG Denver** – Virtual ACG DealSource – Sept. 30-Oct. 1
- **ACG Richmond** – Virtual Virginia Capital Conference – Oct. 7-8
- **ACG Philadelphia** – M&A East – Oct. 26-28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MEMBERS ON THE MOVE

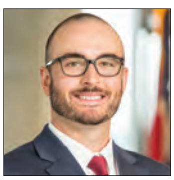
Dixon Hughes Goodman LLP, a top 20 U.S. public accounting and advisory firm, announced that MARK T. MILLER has joined DHG as a principal in the firm's Private Equity practice. Miller helps DHG's clients assess financial performance and coordinate operational restructuring services that stabilize distressed organizations and drive enhanced liquidity in tight markets. He brings more than 25 years of experience assisting private equity-held and middle-market companies with performance improvement. Prior to joining DHG, Mark held chief operating officer roles at a number of organizations.

Grant Thornton LLP, an audit, tax and advisory firm, has named CARLOS FERREIRA as the firm's national managing partner for private equity. Ferreira will lead the strategic direction for a range of private equity services designed to generate value across the investment life cycle. Additionally, he will serve on Grant Thornton's national leadership team and will retain his role as the global co-leader for Transaction Advisory Services at Grant Thornton International Ltd. As a Transaction Advisory partner, Ferreira previously led the Advisory Services practice for Grant Thornton's metro New York and New England market territory.

CenterOak Partners LLC, a private equity firm based in Dallas, announced that LUCAS CUTLER (top photo) and JASON SUTHERLAND (bottom photo) were promoted from partner to managing partner, joining CenterOak's CEO and founder, Randall Fojtasek. Cutler and Sutherland both serve on CenterOak's investment committee and on the board of directors of several of the firm's portfolio companies. Prior to joining CenterOak, Cutler and Sutherland both held senior investment positions at Brazos Private Equity Partners.

TSG Consumer Partners, a private equity firm focused exclusively on the branded consumer and retail sectors, announced that it has promoted ERIK JOHNSON (top photo) and ED WONG (bottom photo) to managing director. Johnson joined TSG in 2011 and is involved with new investment opportunities, as well as leading the firm's environmental, social and governance strategy. Prior to joining TSG, Johnson was an investment banker at Sawaya Partners. Wong has been a part of TSG since 2011 and is involved in the evaluation and execution of new investment opportunities, as well as overseeing companies within TSG's portfolio. Before joining TSG, he was with Falconhead Capital. Johnson and Wong are both based in New York.

CenterOak Partners announced that it has promoted CARRIE HAMILTON (pictured), ERIC HOLTER and BLAKE RICHARDSON from vice president to principal. Hamilton supports the firm's business development activities and investor relations functions. Holter and Richardson both support the firm's evaluation, execution and monitoring of investment opportunities. CenterOak has also promoted MARK IZLAR from associate to senior associate. In his role, Izlar supports the firm's investment and monitoring activities.

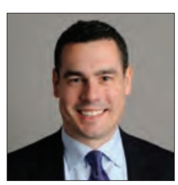


Northcreek Mezzanine, a provider of mezzanine debt and equity for lower middle-market companies, announced the addition of three investment professionals to its team. BRIAN BAIRD (pictured) joined Northcreek as a senior associate responsible for deal origination, deal execution, underwriting and portfolio management. AARON OSWALD and NIC RUSCELLO both joined as analysts, responsible for financial modeling, due diligence, portfolio management and industry research.

DAVID DARRAGH has joined LongueVue Capital, a private equity firm based in New Orleans, as an operating partner to support LongueVue's food and beverage investment strategy. Darragh has more than three decades of experience as a senior executive accelerating the growth and profitability of branded product portfolios, contract manufacturing business lines and private label operations. He most recently served as president and CEO of Reily Foods Company in New Orleans.

ROD STEVENS has joined Seattle-based corporate advisory firm Revitalization Partners as a senior director. During his nearly 40-year career, Stevens has successfully turned around complex commercial real estate projects on behalf of high net worth individuals, financial institutions, development firms and municipalities. Stevens previously served as vice president of Wyse Investments in Portland, where he negotiated and invested capital on behalf of individuals and the pension funds of a number of regional firms.

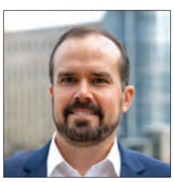
HKW, a middle-market private equity firm, announced that DANIEL KIM has joined the firm as partner. Kim joins Jeff Bistrong, hired by HKW in April, in spearheading the firm's expanding focus in the technology sector. Over the course of his career, Kim has built an extensive track record investing in high-growth technology companies. Prior to joining HKW, he was co-founder and former partner at Bregal Sagemount, a New York-based growth capital investment firm.



WilliamsMarston, an accounting advisory and management consulting firm focused on serving public, private equity-backed and pre-IPO companies, announced that MARK LAMONTE has joined the firm as a managing director. He brings extensive accounting, finance and capital markets experience and will serve as a resource to clients and WilliamsMarston's teams as the firm expands its capabilities and geographic footprint. LaMonte previously worked at Moody's Investors Service as a managing director in the Credit Strategy and Standards Group.

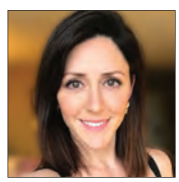
MEMBERS ON THE MOVE

Accounting, tax and consulting firm Plante Moran announced it has promoted TED MORGAN (top photo) to partner. In the Strategy and Operations Management Consulting practice, Morgan provides commercial due diligence, market analysis and strategic growth and planning services. Plante Moran has also promoted MIKE ABRAMO (bottom photo) to partner. In the Audit practice, Abramo provides assurance and transaction advisory services. Both Morgan and Abramo focus on clients in the manufacturing, distribution and service industries. In addition, each has leadership roles in Plante Moran's Private Equity, Manufacturing and Distribution industry groups. Morgan and Abramo are based in Plante Moran's Southfield, Michigan, and Columbus, Ohio, offices, respectively.



MATT HALLGREN has joined Erie Street as chief financial officer, overseeing the financial operations for Erie Street, a Chicago-based advisory firm focused on strategic and operational growth, and Performance Improvement Partners, an Erie Street company. Hallgren's responsibilities include accounting, financial planning and analysis, internal controls and investor relations, and he will design and develop both firms' M&A strategies. He also supports the evaluation and strategic integration of acquisitions for Erie Street and its partner companies. Prior to joining Erie Street, Hallgren served as chief financial officer of private equity firm Glencoe Capital.

Performance Improvement Partners (PIP), an IT consulting firm owned by Erie Street, announced that PATRICK DONEGAN has joined as executive vice president of growth and client services. In his role, Donegan is responsible for designing and developing an integrated growth strategy by deepening and expanding client relationships and innovating the value of PIP's offering, while also expanding the firm's client services team. Donegan joins from Gerson Lehrman Group, where he was managing director and head of Americas financial services.



Performance Improvement Partners also welcomed BILL McCROSSAN and KARA LANDON, who joined the firm as vice presidents of client services. McCrossan, who will focus on the West Coast market, is responsible for developing and executing the firm's growth efforts by expanding and deepening strategic client relationships in the West, with a focus on the Bay Area. Prior to joining PIP, he served as head of private equity and corporate business development at M Science, a Jefferies Financial Group company. Landon, who will focus on the East Coast market, is responsible for driving the firm's growth efforts with a focus on the New York, Boston and Connecticut markets, while also fostering and supporting the growth of PIP's East Coast client services team. She most recently served as director of business development at Efficio, a procurement consultancy.

MORE CAREER INFO

Watch for more career information in the *Members on the Move* monthly e-newsletter.

IT'S THE SMALL THINGS

TRENDS IN CONSUMER PRODUCTS // Hurry, while supplies last

1

Pickup Lines

The number of orders placed online and picked up in person surged 208% in the early weeks of the COVID-19 outbreak, and curbside pickup could be here to stay. Shoppers who became accustomed to contactless pickups for groceries and other items during the lockdown will likely continue using those services long after the coronavirus has passed, according to the president of commercial real estate services firm JLL's Retail Advisory team. – Adobe

2

Empty Shelves, Growing Tastes

Product shortages and tightening budgets stemming from the COVID-19 pandemic disrupted brand loyalty and prompted consumers to try branded and generic grocery items they hadn't bought previously. As many as 65% of U.S. consumers said they have tried new brands after they began sheltering in place, according to data from consulting firm AlixPartners. – *Meat+Poultry*

3

Amazon Expedition

COVID-19 accelerated digital channel growth in recent months. By mid-April, online orders grew 130% year over year. The spike in digital orders has created fulfillment challenges for retailers, as order picking and last-mile delivery added cost and complexity to their processes. Meanwhile, shoppers stuck at home have switched from placing orders on their phones to using desktop computers instead. – Deloitte

4

Consumers Still Loyal to Storefronts

E-commerce offers a lackluster and inefficient alternative to brick-and-mortar stores when shopping for nonessential goods, a sign that physical retail is here to stay, according to an analyst at Credit Suisse. As larger portions of the country open up, 80% of U.S. consumers plan to visit a physical store, the firm said in May. – *Retail Dive*

5

Wellness Rethinks Packaging

The wellness trend has endured – and even gained strength – during the COVID-19 outbreak, according to a report released in April by consulting firm McKinsey & Company. The firm suggested brands should reconsider their communications strategy, such as emphasizing health and cleanliness of a product in marketing messages. – McKinsey & Company

6

Home Is Where the Gym Is

More consumers are working out at home, even as gyms across the country reopen. The home fitness equipment market is projected to grow nearly 3% over the next five years, according to market research firm Reportlinker. With nearly 40% of U.S. adults estimated to be obese, North America leads the global market for home fitness equipment. – Reportlinker

7

Food-makers Skip the Store

As consumers increasingly turn online for their food and beverage needs during the COVID-19 pandemic, PepsiCo announced in May the launch of two direct-to-consumer websites where shoppers can order an assortment of the company's food and beverage brands. Competitors like Coca-Cola and Kraft Heinz have also grown their direct-to-consumer sales. – *Forbes*

– Benjamin Glick

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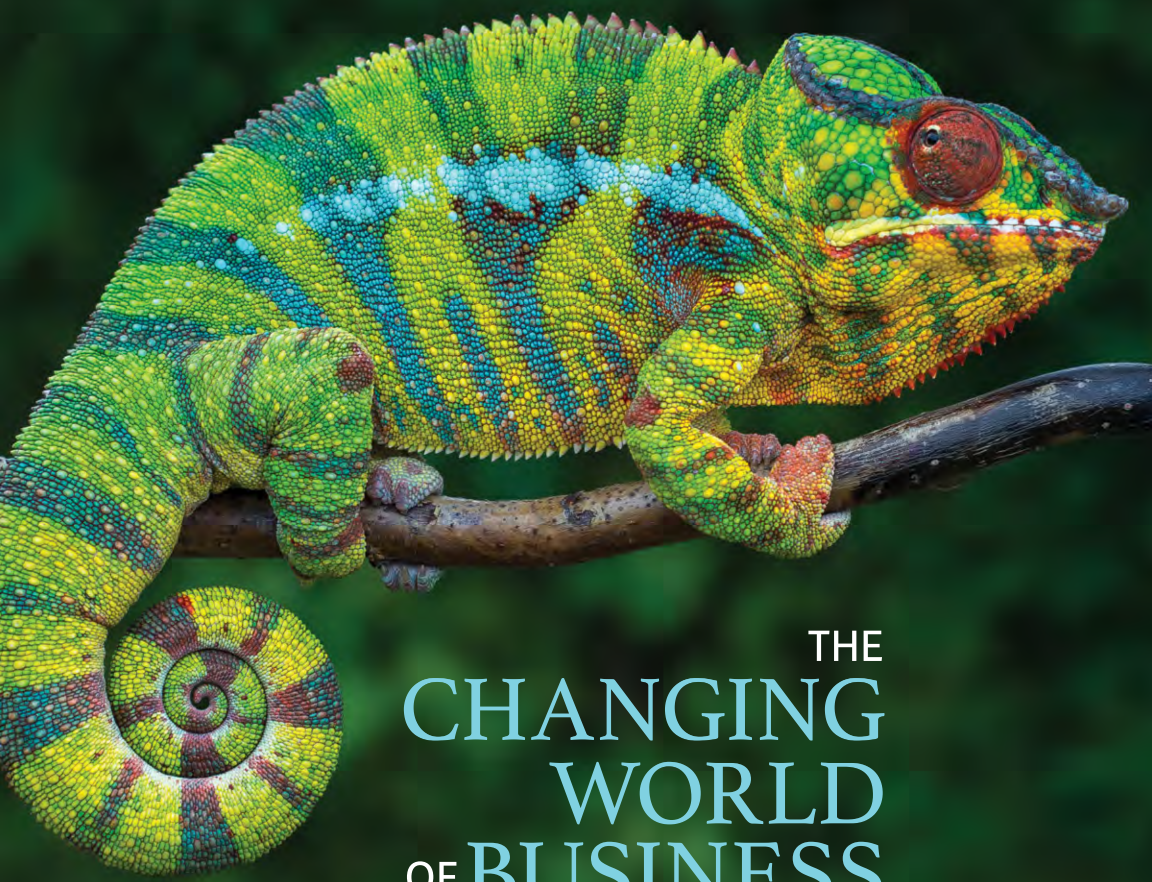


THE CHANGING WORLD OF BUSINESS

The Insperity® guide to managing change

Embracing a people-first workplace

Investing in technology that fuels your growth

Planning for the future now

One thing you can be sure of in all businesses is that *change is coming.*

Whether it's in the way you do business, the technology you use or the people who make your business what it is – your company is evolving all the time.

While some change is inevitable and somewhat predictable, sometimes it's unexpected and chaotic.

The best companies are open to change. After all, it's what ultimately drives their growth. They understand that the rapid evolution of today's business world demands flexibility and preparedness to be successful.

They embrace new ideas, ways of doing business and cutting-edge technology.

So how do you ride the winds of change and keep your business moving forward?

Let's find out.

Create a ROCK-SOLID company culture

Your company culture is the foundation of your business. It defines your company and sets the foundation for your future success. You don't get it by happenstance. A **strong company culture** is deliberate and built on your company's **mission, vision and values**.

Mission: Your company's purpose

Vision: How you will accomplish your mission

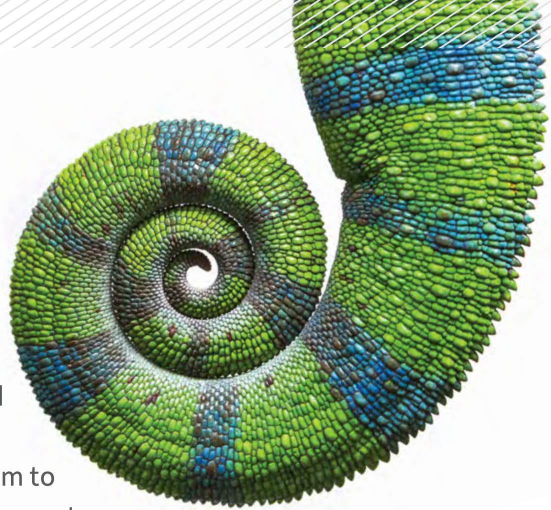
Values: How you and your employees will behave along the way

When your employees are happy, they are more committed to your business. The stronger your company's culture, the more employees understand what is expected of them and what they're working toward. The result? A thriving business that is adaptable to change.

Engaged employees provide many benefits to your company such as:

- Higher productivity
- Better customer relations
- Lower turnover rates

Adapt an AGILE ENVIRONMENT



In an agile workplace, performance and quality are valued over inflexible work schedules and controlled order. Freedom to collaborate breaks down barriers and supports creative adaptability.

SOME PERKS TO WORKING AGILE

- Change friendly
- Remote, flexible work schedules
- Less burnout
- Better results in less time

CULTIVATE emotional INTELLIGENCE

The nature of today's working world demands that people embrace adaptability. Emotionally intelligent people can positively influence others by recognizing and managing their emotions – skills that are in as high demand as technical ability.

Don't fear TECH SOLUTIONS

Innovation and technology are transforming all the time. It can be a scary concept for many businesses. How do you stay on top of the trends? Will automated processes replace human interaction? What will happen to your people?

But the truth is automation is here. It's helping businesses with routine tasks, so people can devote their time to more complex, creative endeavors.

COMPANIES THAT EMBRACE AUTOMATION CAN EXPERIENCE:

1. Decreased costs
2. Competitive advantages
3. Improved productivity
4. Huge time savings

HERE'S HOW TO MAKE AN EASY TRANSITION:

- Identify repetitive tasks that can and can't be automated.
- Offer training to support your employees on new technology.
- Be transparent about how automation will impact your employees' daily jobs.
- Encourage your employees to consider how high-tech solutions can make their jobs more productive.

Riding the *tide* of change

No matter how positive a change is for your business, it creates challenges. And it can be unsettling. With a little planning, you can make the process smoother for everyone.

Here are some tips:

Have an action plan

Before you start any change, ask yourself these questions:

- Where is the change going to take you?
- How will you know when you've gotten there?
- Who will be involved?
- Who will it affect?
- Are stakeholders and management on board?

Make your intentions clear

It's important that you communicate your change initiative from the top down. This creates buy-in from your employees and helps make the transition run more smoothly. Being transparent throughout the process and welcoming feedback is vital.

Expect some bumps along the way

Resistance to change is normal. With any group of employees you will have some who are more easily accepting of change than others.

Here are some typical stages of what people go through during change:

1. Shock
2. Denial
3. Frustration
4. Depression
5. Experimentation
6. Decision-making
7. Integration
8. Acceptance

> "We all have activities or situations that we avoid because we're afraid of feeling uncomfortable. Those are the ones we need to tackle first, and with gusto. Embrace discomfort and you will triumph with confidence."
>
> Corinn Price, Executive Director, Community Involvement, Insperity

Be supportive

Make sure your employees know how they will be affected by the change and where they can go for help.

- Do they have the time they need to do their job?
- Do they need training or additional equipment?
- Do you encourage an open-door culture?

Celebrate hard work

Recognize how the changes have impacted your company and your people.

- Reward your employees for their accomplishments.
- Encourage constructive feedback.
- Share updates on how the change is positively affecting the company.

Beware of HIDDEN DANGERS

Cybersecurity risks can be detrimental to your business. Theft of your intellectual property – ideas, customer data, concepts, symbols and creative design – can result in expensive financial losses to your company, as well as damage to your reputation.

TAKE THE TIME TO SAFEGUARD YOUR BUSINESS

Be prepared for the unpredictable

Develop a plan to deal with a data breach and have backup systems and a communication strategy in place.

Train your workforce on cybersecurity threats

Offer ongoing training on how to create secure passwords, avoid phishing schemes and safeguard unsecured devices.

Get tech-savvy

Encrypt information on company laptops, install backup systems for internal and external servers and regularly update firewalls.

Implement sound HR practices

Keep your company handbook up to date with policies and procedures on the proper use of the internet, company computers and email.

Take a good look at your security procedures

Do you have the latest technology to keep your information safe?

Control access

Restrict the use of flash drives and USBs. Limit access to file-sharing websites.

OPEN THE DOOR to OUTSOURCING

Outsourcing can be a great way to save both time and money. It can fill the gap in needed expertise, relieve your employees of time-consuming, repetitive business tasks and help you create a scalable workforce. But be aware, it can be a decision fraught with resistance.

3 questions to help decide if outsourcing is for you

1. Do you need skills that your team can't deliver?
2. Are you struggling to meet deadlines or complete work in a cost-efficient manner?
3. Are there tedious tasks that are taking away from your top-performers?

Top ways to make outsourcing a smooth transition

THINK STRATEGICALLY. Outsourcing should make your employees' jobs easier and free them up for more essential tasks.

CUSTOMER FIRST. Be mindful of your customers' experience when choosing your outsource provider. Your goal is to provide better services and products.

TRUE PARTNERSHIP. A good contractor will provide you with in-depth insight and direction on how to focus your resources as your company evolves.

OPEN COMMUNICATION. Let your employees know that outsourcing will support them and contribute to the success and growth of the company.

BE FLEXIBLE TO CHANGE. Evaluate to see if outsourcing is adding value down the road. If not, it might make sense to bring the work back in-house.

Be MINDFUL *of* WHAT'S NEXT

You've worked hard to take your company from a startup to a business primed for purchase. How do you prepare for what might be the biggest change to your company yet – a merger or acquisition?

While the tendency might be to focus on the business at hand, it's important to weigh the human capital side of the equation. Many times, what looks good on paper, may not work.

Some things to think about:

- Involve your HR team from the start.
- Establish a timeline of key events.
- Build a communication plan that's timed and aligned with the merger.
- Encourage your employees to share their concerns and questions.
- Determine if it's a good cultural fit. If it's not, are there changes either company can make to help?
- Address change management issues, such as job titles and reporting hierarchy, before the merger or sale is finalized.

Prepare for the unforeseeable

Bad things happen, and they come in all shapes and sizes. In business, it can be everything from public relations blunders to office shootings. While the common denominator of most crisis situations is unpredictability, there are steps you can take to prepare.

Develop a crisis-response team.

This can include emergency responders, subject matter experts, key leaders and your corporate communications team.

Create a vision.

Work with members of leadership, your crisis-response team and other key stakeholders to communicate throughout the year why crisis preparedness is important.

Communicate from the top.

Leaders should reinforce the reasons that preparedness is important and the necessary steps to be successful.

Provide training and support.

Offer training to employees that allows them to test their crisis response efforts against your company's business protocols.

MOTHER NATURE IS UNPREDICTABLE

Natural disasters bring their own set of challenges – everything from structural damage to homes and businesses to lost productivity and displaced workers. Rebuilding can be a long process.

REMEMBER TO:

- Check in regularly with your employees via multiple channels
- Be specific about next steps
- Facilitate recovery assistance
- Coordinate volunteer efforts
- Take care of your customers
- Address survivor's guilt
- Encourage gracious receiving