



Think. Forward! (Part Three)

By [Dan Kowalski](#), [Arun Shukla](#), [Phil Lynch](#)

Use Deliberate Thinking to get back in business after the gut punch of COVID-19 in the Private Equity world.

Unless your portfolio is singularly built on business platforms whose models work even when people self-quarantine (think Netflix and hand sanitizer production), your portfolio company valuations have taken a hit due to the spread of coronavirus 2 (SARS-CoV-2). COVID-19 may have thrown you off course from the value creation roadmap, but a deliberate detour will get you back on the value creation highway. So now what?

Introduction

This is Part Three of our series on how to use Deliberate Thinking to deal with, and bounce back from, the business impact of COVID-19. In [Part One](#), we covered how to make tough binary decisions that have no easy or obvious solution. In [Part Two](#), we covered making “business” lemonade by recognizing assets for their potential within the current situation.

In this article, we will discuss the longer-term effects on business for PE portfolios and platform companies which may arise as a result of the global pandemic. The impact of the changes to “normal” business that come from social distancing, self-quarantining, and following shelter-in-place orders are going to be temporary. However, more profound changes will come when, post recovery, consumers maintain behavioral shifts of not consuming at all, consuming differently, adjusting to alternatives, or others yet to be seen.

We will explore approaches to assess whether our current investment criteria and targets will fit into the new operating models as well how current portfolio companies can adjust.

What is happening?

“This is the *NEW* normal!” has become a popular saying. Perhaps more than ever, we live in a volatile, uncertain, complex, and ambiguous world. Change is metamorphic and happens with speed. We won’t lack for potential areas to look at, think about, and adapt to.

This is even more true in the Private Equity space. The initial investment theses of portfolio companies are being challenged – capital which was originally planned for acquisitions by platforms may be needed to bolster the balance sheets and working capital needs of portfolio companies. Further, portfolio companies themselves are facing disruptive forces to their business models, approaches, and general livelihoods. Executive teams are facing difficult decisions, acquisition teams are on stand-down orders, and many projects are on-hold or have been canceled already. Conversely, as discussed



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in previous articles, some projects will need to be created and fast-tracked to ensure success in this “new normal”. All of this is happening concurrently and managing it will require a paradigm shift in the operating models.

Where should we focus?

While the expectations for fund performance do not change, the pathways for delivering the performance must be remapped. No correct answers exist, and playbooks do not work. Any ideas we think up will need to be stress tested to ensure we are deliberately thinking through the options, have weighed the risks, and can achieve the expected outcomes. The same applies at the Private Equity Sponsor and Portfolio Company level.

We can borrow the “*Stop, Start, Continue*” perspective advocated by practitioners of agile methods. However, we will also introduce Accelerate as a modifier to the Continue viewpoint. Think of it as a two-part approach on the time continuum.

Right now, we have had some “Stop” foisted onto us, including conducting in-person business unless it meets an essential need. We have also had to stop regular activities, like meeting with customers, because of shelter-in-place rules or even stop our acquisition activities until we have more clarity around business models. Many, if not all businesses, have had to start conducting more activities in a work-from-home approach and have had to learn how to adapt. Further, some businesses have had to start reinventing their approaches such as launching telemedicine or producing medical equipment instead of machinery or automotive components. In the Continue category, we strive to keep business going as much as possible, but there are other projects and activities we are conducting in which we need to Accelerate to support the new normal. These perspectives should provide us with lots to work with.

We need to think about the long-term consequences during the lifecycle of the fund and individual hold periods of the portfolio companies. What if the products (goods and services) delivered by the platform company undergo a complete disruption post recovery e.g., discretionary medical procedures which customers cannot afford or don’t see a need for in a permanently socially-distanced world? What if the ways of consumption change e.g., conferences are more virtual and a new wave of “life-like” immersive virtual technologies replace the need for large conferencing facilities? The entire infrastructure supporting these industries could become redundant.

The table below provides an initial framework to focus and stimulate thinking and creativity. In a world where there are fewer known answers, better solutions are found by asking more questions.



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Lens	Focus	Questions to Consider
Stop	Services or products stopped by others	<ul style="list-style-type: none"> When the service or products become available again, would the customers still need or want it? If no, what, if anything, do we need or want to replace it? Put another way, we now have resources that we can deploy in new ways if we want.
	Activities stopped by us, either through our own volition or imposed upon us by governmental pressure	<ul style="list-style-type: none"> When we can offer it again, will our customers still need it or want it? E.g., many customers haven't been able to see our salespeople in person, will they return to seeing them? If they won't, what will we do instead? How will we evaluate and verify it? And capitalize on it through targeted reduction of costs or making new investments in technology to jumpstart.
Start	Necessity being the "mother of invention" e.g., changing all but critical medical appointments to telemed format	<ul style="list-style-type: none"> How well does this new way work? What advantages or insights have we gotten that can be applied elsewhere? Should we continue it when shelter-in-place ends?
	Leveraging already available approaches e.g., using virtual meeting platforms for everything	<ul style="list-style-type: none"> How well does this new way work? What advantages or insights have we gotten that can be applied elsewhere? Should we continue it when shelter-in-place ends?
Continue and Accelerate	Despite best efforts some aspects of keeping the business going have changed	<ul style="list-style-type: none"> What 'if only we had...' ideas have popped up? What can we do to make modifications now? What modifications should we plan to put in later?
	Accelerate key projects or growth areas of the business which may experience more demand	<ul style="list-style-type: none"> What areas will better position us for the future? Are there any projects we have just been beginning which will be advantageous to fast-track?



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What should we do now?

Nobel Laureate, Daniel Kahneman, says we develop rules when we have data on success. Our answers to the above questions will be first-time thinking. The solutions will be bespoke. Not everything will work. We should approach all ideas as a chance to experiment and iterate. It will be far superior to inaction or jumping on a prepackaged restructuring bandwagon. Leveraging external vendors and thought leaders can assist in navigating the uncertainty and help to develop new ideas.

Regardless, it is important to remember to thoroughly investigate each idea and potential activity. Analysis should be performed to understand the overall impact to the business and the future impacts to EBITDA and operational value creation. Propping up pilots may be necessary to assess viability prior to launching a significant business model change. Ensuring the results are reviewed, including readiness to manage unintended consequences will be necessary. And finally, understanding the overall impact to the value of the business during the hold period, and beyond to potential future acquirers, will be critical to ensure any changes fit with the investment thesis of the business.

How does this really work?

We must use our sapience to assess the current and potentially on-going impact of this NEW normal. Based on what we learn, we must:

- Accept that we must create new solutions because no rules exist
- Use the lenses of Stop, Start, and Continue (or Accelerate) to ask (and answer!) questions
- Thoroughly test ideas and solutions before full-scale implementation
- Model and evaluate the impact to the portfolio company itself, but also to the entire Fund and its investment thesis

What's next?

In the first three parts of this series, we have discuss how to address difficult decisions through a “yes, no, maybe” approach, identified what short-term or business model changes are necessary in the current environment, and have now contemplated how to address longer-term business model changes. The fourth part of this series will cover some basics of Deliberate Thinking to understand how we increase our understanding and think when there are no rules.