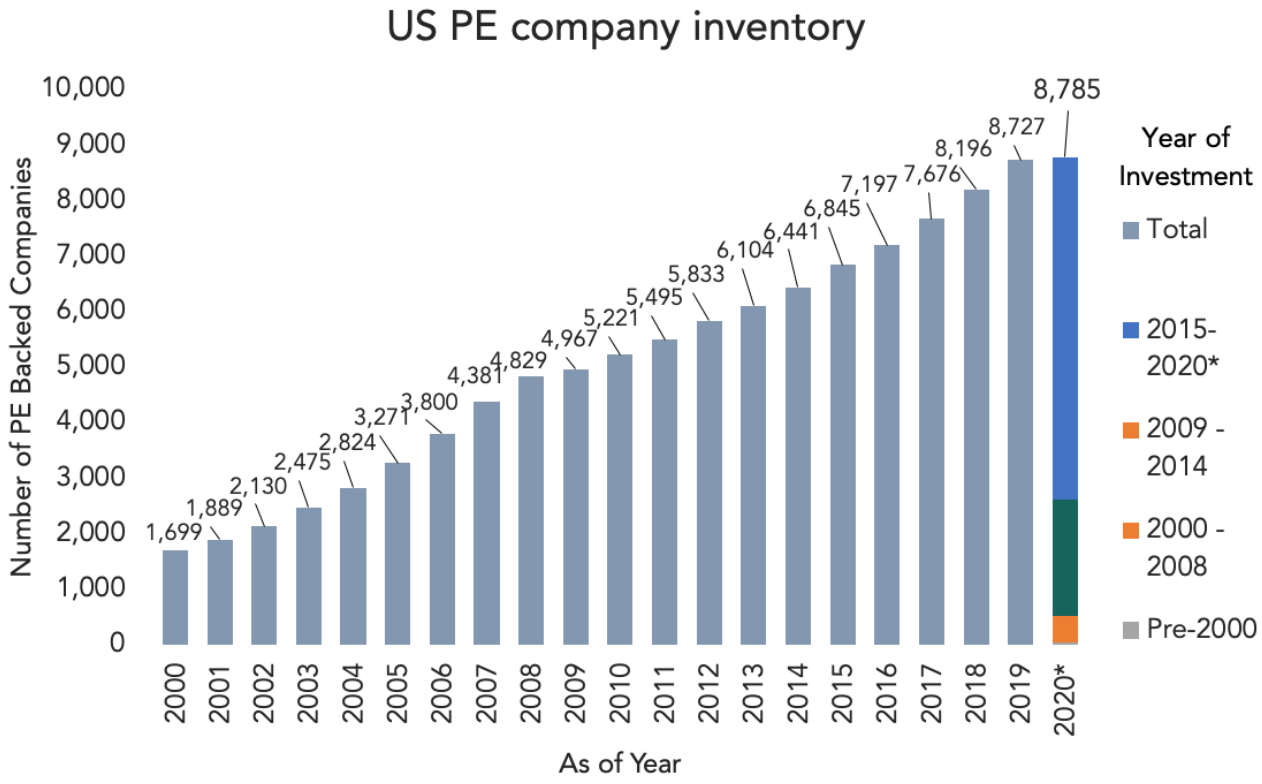
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How sponsors are handling the crisis

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The economic impact of the COVID lockdowns was so swift that many investors “didn’t know what they didn’t know” at the outset. Many didn’t even know what the problems were, let alone fix them. In a recent collaboration with RSM, “COVID-19: Rewriting private equity’s playbook,” their in-house industry experts shared with us the steps being taken to handle the sudden downturn.

Across the board, sponsored companies were urged to tap their credit facilities to ensure cash flow. Revenue declines were all but guaranteed but couldn’t be quantified accurately, which made forecasts and cash flow models difficult to nail down. Adding to the confusion, statewide quarantines varied in length and scope; revenue forecasts for New York City sales would need to be calculated differently than Salt Lake City sales. Every lockdown was subject to change in duration, as well. The revenue question made a direct impact on any cost reductions that would need to be made. March and April saw other questions spring up, such as loss recovery claims, supply chain disruptions and legal compliance with federal healthcare guidelines. Some firms went so far as to hire CDC officials to act as regulatory surrogates for their portfolio companies. Other concerns included rent abatements, covenant freezes and temporary pauses on principal and interest payments.

As more fires were extinguished, the questions and tasks began to change. For at least a month now, sponsors have been focusing more on cybersecurity concerns (and the myriad fraud schemes popping up across several industries). They’re also beginning to understand the data that’s coming back to them, which was probably

bewildering at first. Today's sponsors at least have a better grasp, even if it isn't perfect, of their own performance metrics and the likely regulatory impacts that will emerge later. Not least, portfolio companies are getting a better understanding of employee productivity and helping them stay productive during a historically stressful period.

Earthquakes happen after the fault lines beneath us decide to move. For financial crises, the opposite is true: the earthquakes happen before the fault lines rearrange themselves around the "new normal." Add-ons and other efforts to capture market share and gaining steam. Businesses are already getting a better understanding of what their customers will value after the pandemic resides, and many of those wants and needs will be different than what they were six months ago.

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