100-Day Plans in the COVID-19 Era

for Private Companies and Investors

CONTENTS

SECTION ONE

Introduction

The COVID-19 pandemic is an unparalleled time for both businesses and individuals. Following a period of strong financial results and economic trends in 2019, most companies and investors had an optimistic outlook for 2020. Now, many are grappling with unanticipated challenges on multiple avenues.

However, market disruptions can also create opportunities for success. In a demonstration of resiliency, some businesses and their backers are revising revenue and operating models to a quarter or half of initial forecasts for the first quarter of 2020 and beyond. Executives are prioritizing pathways to more sustainable cash flow into the start of 2021.

For investors looking at new deals, valuations are expected to have a material decline of up to 30%, unless there's sufficient evidence for a new opportunity or an identifiable lack of impact. Private equity and venture investors are prioritizing their existing portfolios and implementing protective provisions in the deals they sign. Government relief is somewhat thwarted by a lack of clarity around eligibility, which requires additional legwork and advisors.

These times are difficult for all, but, for determined leaders and investors, now is the time to exhibit resilience and demonstrate commitment to trusted relationships; evaluating business opportunities and executive-leadership capabilities when determining next moves.

In this report, we detail strategies and tactics private companies and their backers can employ when determining their next steps in the current environment. We hope you find it useful.

– Taft Kortus, National Industry Group Leader, Technology, Communications & Media, and Life Sciences Practices

EXECUTIVE SUMMARY

This unprecedented era concludes a historic decade in private markets' strong investment activity, company growth, and proliferation of private capital. Here are some of the major changes business have seen and potential challenges or opportunities those businesses could face due to the COVID-19 pandemic.

- Private equity (PE) experienced a surge of technology investments, which led to significant rollups across multiple platforms, primarily in software.
- Record-setting deal sizes and valuations, albeit with relatively judicious leverage, created somewhat higher stakes, but also helped fuel larger, potentially more-robust businesses.
- Multiple tactics are in play as companies pivot. Investors tap reserves of capital, businesses engage in lender relationships, and executives shore up balance sheets by preserving cash and intensifying focus on alignment of cash flows.
- Government relief funds' complex eligibility requirements force businesses to coordinate with existing advisors and investors.
- Each company faces a unique situation; for sectors enjoying booms in demand, it will be critical to capitalize on successes, especially as they could be an indeterminate length.
- Opportunities are arising in distressed debt, and investors can benefit from exposure to previously robust companies with the capacity to bounce back after the pandemic. In addition, tools and services that feed into remote and digital infrastructure enablement could experience increases in demand.
- Record inventories of private companies held by PE and venture capital (VC) backers have created a complex web of relationships that must now stand harsh tests of their resilience.

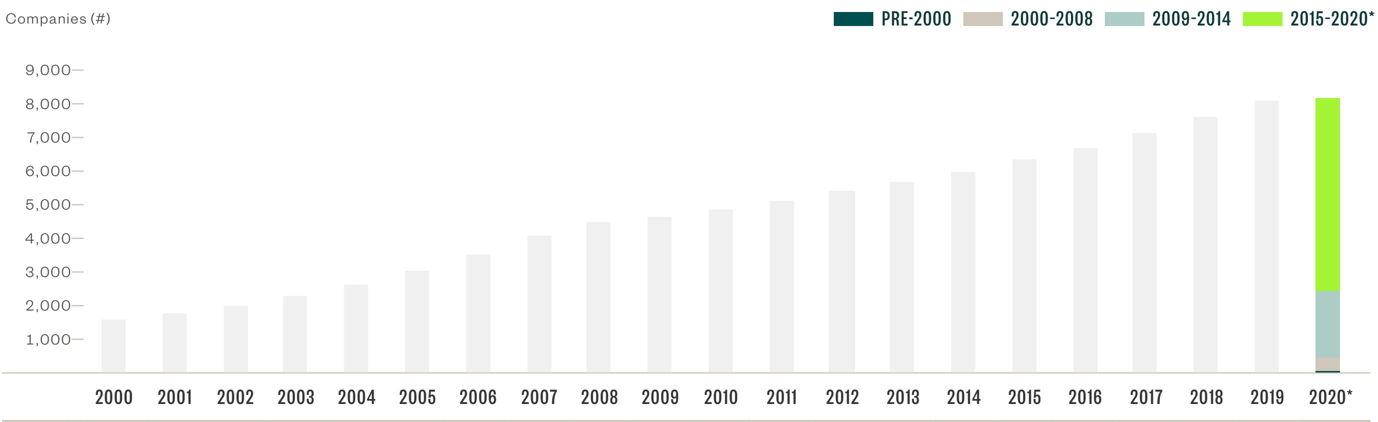
SECTION TWO

Market Backdrop

Prior to the onset of the COVID-19 pandemic, private companies saw a decade of record-setting positive trends.

Private markets were defined by largesse—with buyout activity reaching record highs, the merger and acquisition (M&A) cycle notching several consecutive years of multitrillion-dollar tallies in aggregate deal value, and the advent of multiple tech unicorns in venture.

FIGURE 1: Inventory of PE-Backed Middle-Market IT Companies, Sub-$1 Billion
United States, 2007–2020 YTD



*As of March 31, 2020

Note: We've indicated all cases where sample size is fewer than 30 participants

Starting in 2010, software took center stage. As the app-based ecosystem flourished, PE firms plunged into tech-focused fundraising to conduct software rollups, and tech giants acquired key startups to augment their business lines or move into new markets.

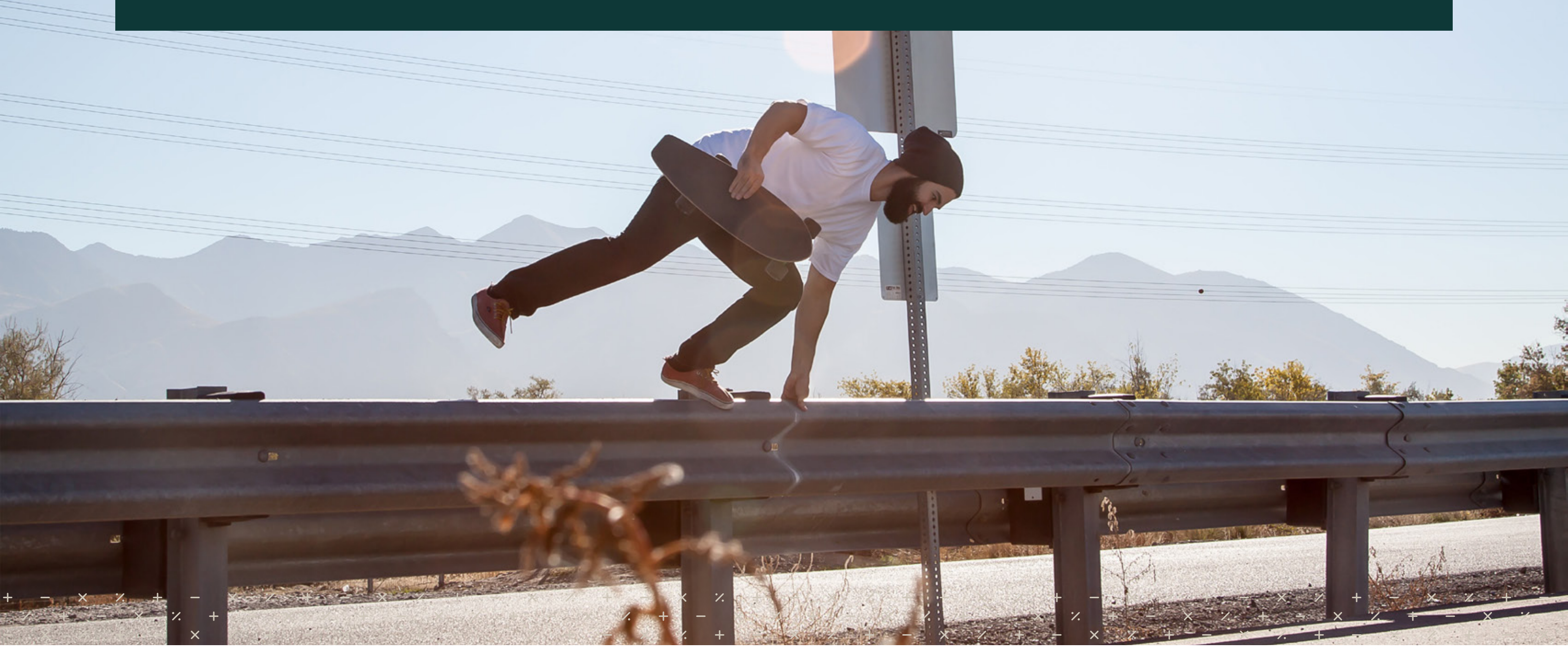
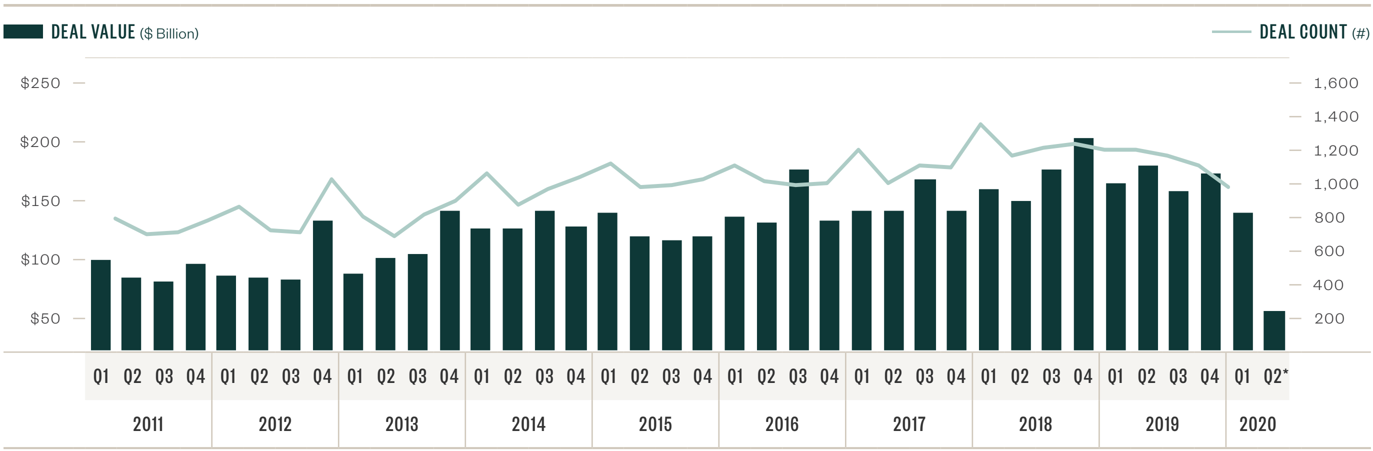


FIGURE 2: IT PE Activity by Quarter
United States, 2011–2020 YTD ($ Billion)



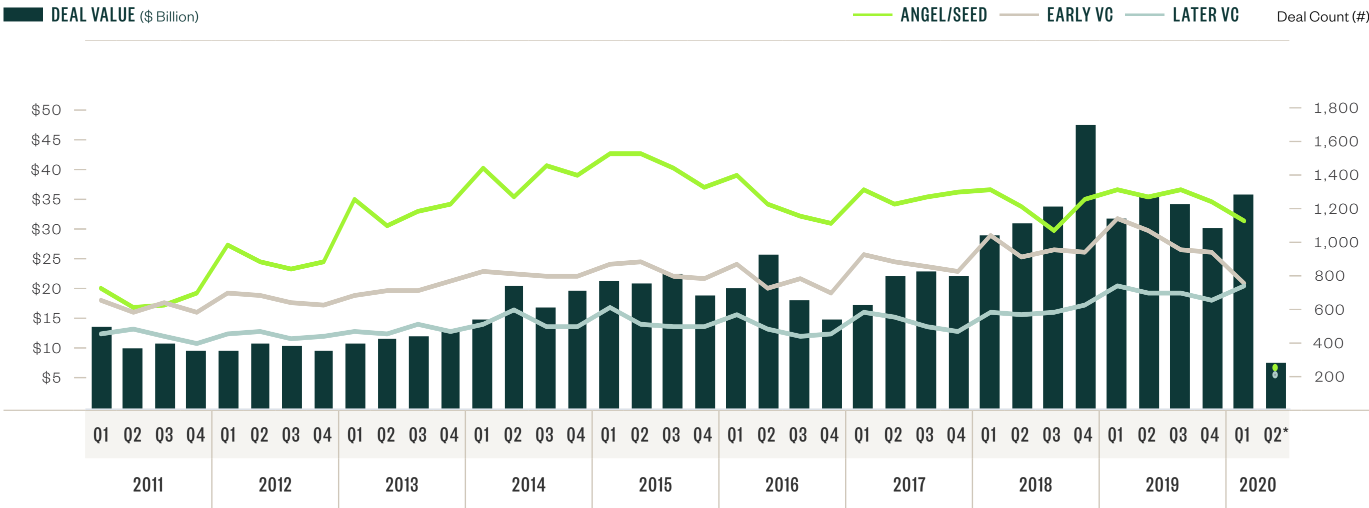
*As of April 30, 2020

This concentration of private capital resulted in record inventories for PE and VC private fund managers. For PE in the US middle market, more than 900 companies were held across multiple funds, the bulk of which were acquired from 2015 to 2020. VC portfolios, though difficult to verify, can be assumed to be equally packed, despite the buying spree of corporate acquirers.

However, the bull markets of the 2010s began showing signs of age as they entered 2019. PE deal volume peaked between 2018 and mid-2019, and then began trending downward—even as aggregate deal values remained robust. Although late-stage megadeals contributed to highs in VC invested quarter over quarter, the venture universe also saw contraction in volume at earlier stages throughout 2019.

These trends likely indicate a cyclical response to overabundance of capital supply because investors grew wary of heightened valuations. Public equities' uptick in choppiness over the same timeframe also influenced comparable metrics for late-stage companies.

FIGURE 3: VC Activity by Quarter
2011–2020 YTD ($ Billion)

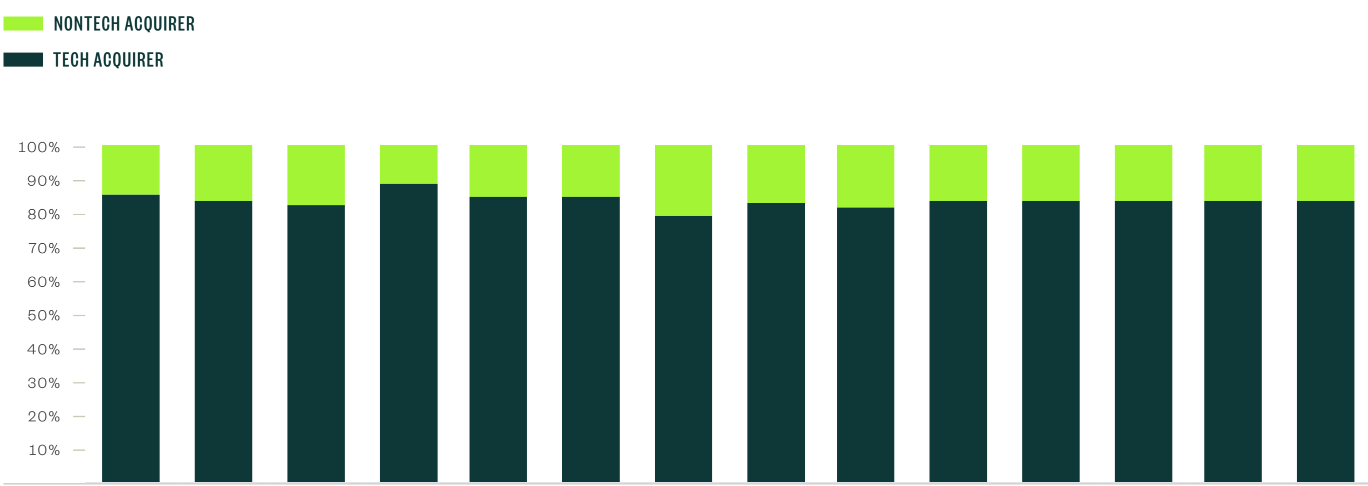


*As of April 30, 2020

Although now overshadowed, there were other neutral-to-negative signs of reversing cycles in 2019. For example, the significant challenges faced by vaunted unicorns such as Lyft and Uber after their public listings, as well as the ongoing issues at WeWork.

PE firms saw a resurgence of a few prominent write-downs and bankruptcy filings, providing a reminder of the narrow margin between sustainable and damaging leverage. Although some rules emphasized the importance of classic due diligence and discretion, these occurrences also signaled a shift in deal-making and company conditions.

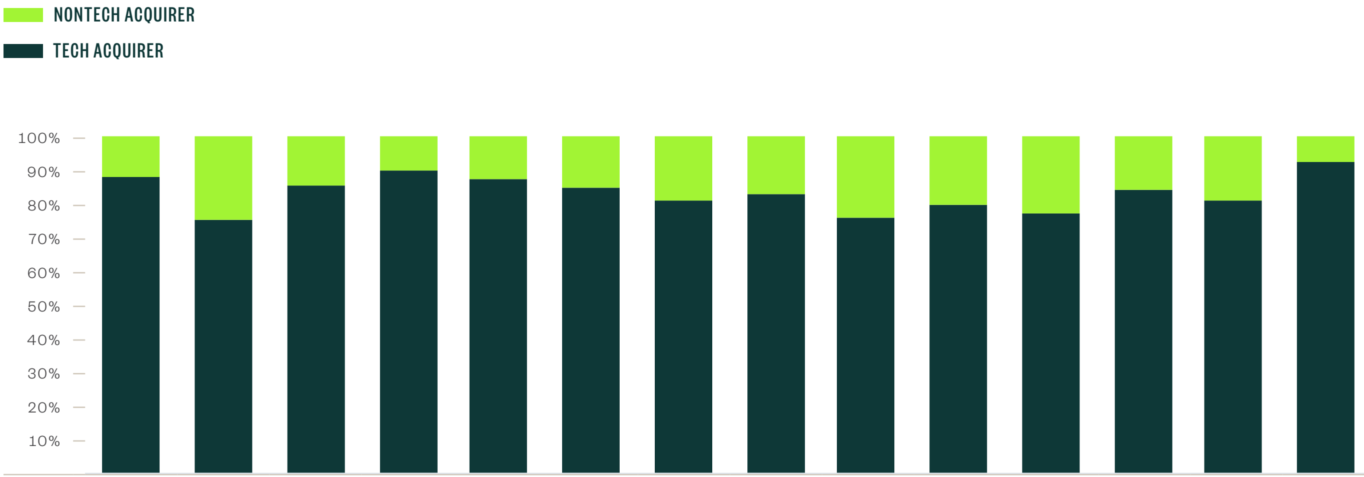
FIGURE 4: Amount of IT PE Add-on Activity by Tech and Nontech Acquirers
United States, 2007–2020 YTD



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020*
	357	244	189	312	314	366	375	452	479	479	598	628	624	149
	60	48	41	41	56	67	100	94	109	94	118	122	123	30

*As of April 30, 2020

FIGURE 5:
IT PE Add-on Activity by Tech and Nontech Acquirers
United States, 2007–2020 YTD ($ Billion)



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020*
Tech acquirer	$32.2	$15.6	$6.1	$20.5	$23.8	$28.0	$31.7	$38.3	$35.8	$106.8	$64.5	$66.5	$72.3	$38.2
Nontech acquirer	$4.3	$5.2	$1.0	$2.2	$3.4	$5.1	$7.4	$8.0	$11.2	$27.0	$19.3	$12.6	$17.1	$3.1

*As of April 30, 2020

Then, as 2020 began, epochal change began to sweep global markets throughout the duration of the first quarter.

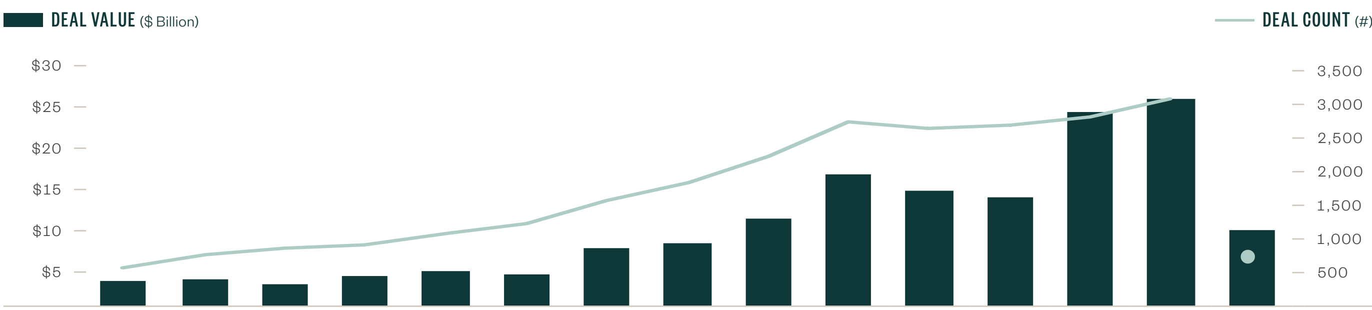
> "Not a single client views this as a 30-day or 60-day event. Nobody is planning on a V-shaped recovery. Although very different than the financial crisis in 2008–2009, the range of impact is widespread if not universal, so everyone is planning for the long haul."
>
> – Vance McCollough, Partner, Technology Practice

SECTION THREE

Current Conditions and Responses

In reviewing the trends in metrics for context as to what defined private companies entering the COVID-19 era, it's clear that PE and VC portfolio companies did share some similarities—but their disparities are significant enough to warrant analyzing them separately.

FIGURE 6: IT Venture Debt Activity Deal Value and Deal Count
United States, 2007–2020 YTD ($ Billion)



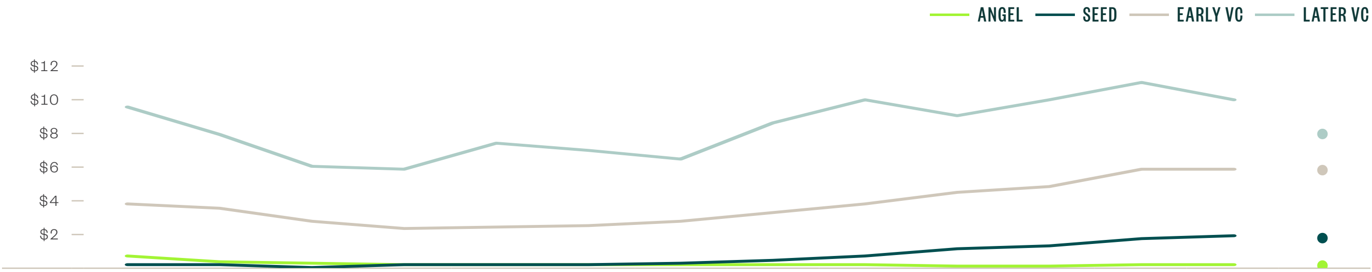
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020*
VALUE	$3.2	$3.4	$2.8	$3.7	$4.4	$4.0	$7.3	$7.9	$11.1	$16.6	$14.7	$13.8	$24.6	$26.2	$9.7
COUNT	556	765	860	910	1,072	1,217	1,550	1,827	2,208	2,717	2,634	2,676	2,801	3,066	744

*As of April 21, 2020

VENTURE CAPITAL

Although rarely examined as often as other deal-making trends, venture debt usage can provide insight into evolving conditions in the VC market overall. The record peak in surge deal activity in 2019, plus the fast start in 2020, hints that companies were resorting to debt more frequently as a financing tool—likely drawn by its flexibility and the growing number of providers, which enabled more competitive structuring.

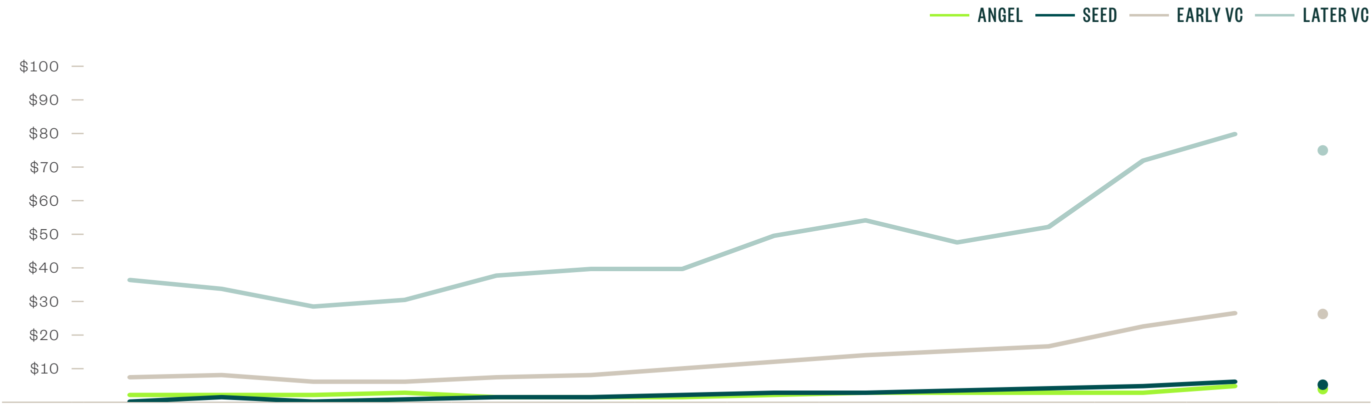
FIGURE 7: Median IT VC Deal Size by Stage
United States, 2007–2020 YTD ($ Million)



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020*
ANGEL	$1.0	$0.7	$0.6	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.6
SEED	$0.5	$0.5	$0.4	$0.5	$0.5	$0.5	$0.6	$0.8	$1.0	$1.4	$1.6	$2.0	$2.2	$2.1
EARLY VC	$4.0	$3.7	$3.0	$2.6	$2.7	$2.8	$3.0	$3.5	$4.0	$4.7	$5.0	$6.0	$6.0	$6.0
LATER VC	$9.5	$8.0	$6.1	$6.0	$7.5	$7.0	$6.6	$8.7	$10.0	$9.1	$10.0	$11.0	$10.0	$8.1

*As of April 30, 2020

FIGURE 8: Median IT Premoney VC Valuation by Stage
United States, 2007–2020 YTD ($ Million)



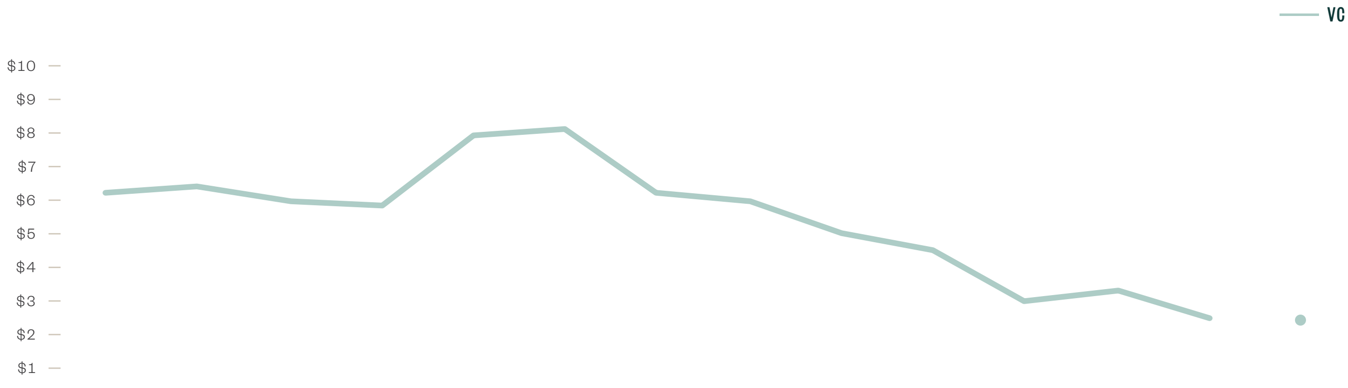
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020*
ANGEL	$4.6	$4.1	$4.2	$5.0	$4.0	$3.5	$4.0	$4.2	$5.0	$4.9	$5.0	$5.2	$7.0	$6.3
SEED	$2.2	$3.8	$2.7	$3.3	$3.8	$4.0	$4.7	$5.0	$5.3	$5.6	$6.3	$7.0	$8.0	$7.5
EARLY VC	$9.8	$10.0	$8.3	$8.4	$9.6	$10.0	$11.8	$14.3	$16.0	$17.5	$18.6	$24.0	$28.0	$27.8
LATER VC	$37.5	$35.3	$30.0	$31.7	$38.9	$40.9	$41.1	$50.3	$55.0	$48.5	$53.0	$72.4	$80.0	$75.0

*As of April 30, 2020

What this entailed across the market overall was a growing cohort of companies entering 2020 with increased complexity of capital structures as well as more flexibility with associated costs—for example, equity warrants.

Given the degree of inflation in valuations across the board, which still reached new highs in 2020 through the end of April, the stakes were relatively high. Especially as the median revenue of VC funding trended significantly downward through the end of 2019, businesses didn't have much margin for error.

FIGURE 9: Median Revenue at Time of IT VC Deal
United States, 2007–2020 YTD ($ Million)



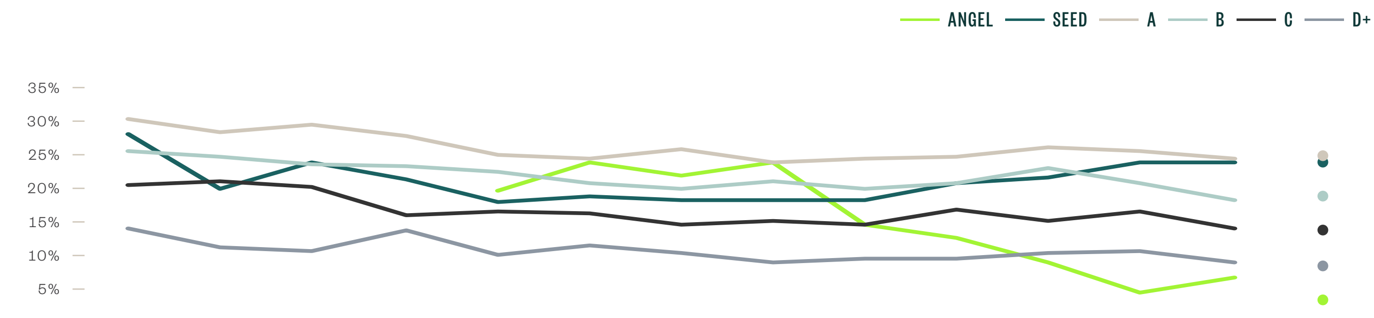
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020*
VC	$6.2	$6.4	$5.9	$5.8	$7.8	$8.0	$6.1	$5.9	$5.0	$4.5	$3.0	$3.3	$2.5	$2.5

*As of April 30, 2020

> "Most portfolio managers are adopting a wait-and-see approach right now, emphasizing potential downside."
>
> – Cheryl Teeter-Balin, Partner, Technology Practice

Companies and investors in venture are primarily adopting as sober an outlook as possible. Especially at the early stage, new bookings are being modeled down to half of their original forecasts for the second quarter—and even into the third quarter—of 2020, on the side of caution in terms of cash flow projections. Larger businesses could be slightly more insulated on average, but they're also considering similar viable outcomes—and on occasion anticipating churn on renewals increasing by two-to-three times.

FIGURE 10: Median Percentage Acquired at Time of VC Deal by Series
United States, 2007–2020 YTD



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020*
ANGEL					21.3%	25.0%	23.3%	25.0%	16.8%	15.0%	11.9%	8.0%	10.0%	7.0%
SEED	28.5%	21.6%	24.8%	22.7%	19.7%	20.5%	20.0%	20.0%	20.1%	22.2%	23.0%	25.0%	25.0%	25.0%
A	30.6%	28.9%	29.9%	28.4%	25.8%	25.5%	26.6%	25.0%	25.3%	25.8%	26.9%	26.3%	25.4%	25.6%
B	26.4%	25.6%	24.7%	24.4%	23.6%	22.2%	21.6%	22.4%	21.4%	22.2%	24.1%	22.2%	20.0%	20.6%
C	22.1%	22.4%	21.7%	18.1%	18.5%	18.2%	16.9%	17.3%	16.7%	18.7%	17.3%	18.5%	16.3%	16.3%
D+	16.4%	13.8%	13.4%	16.1%	12.8%	14.1%	13.2%	12.0%	12.5%	12.5%	13.1%	13.4%	11.9%	11.5%

*As of April 30, 2020

"There's an increased focus on maintaining liquidity and monitoring cash burn to maximize remaining runway; as a result, scrutiny of capital stewardship is intensifying on investors' parts. The pervading feeling is that the simply good versus the truly great companies will be quickly delineated."

– Cheryl Teeter-Balin

Ownership by VC investors has altered slightly across some stages as of late 2019, but, over the long term, most ownership percentages have trended slightly downward. In general, founders have retained a slight upper hand in negotiations as supplies of capital have been more than ample. However, now the tenor of conversations has changed.

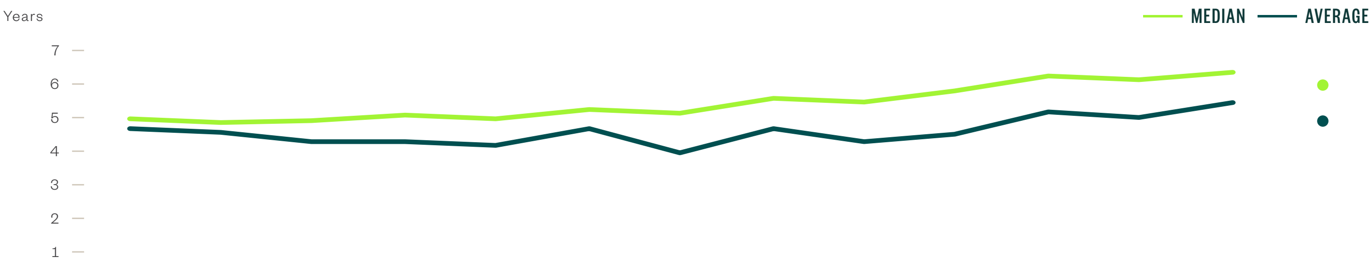
"New deals are being underwritten to lower return profiles; existing deals are being repriced and retraded. Funds are dusting off older deals for reevaluation. There's now a higher degree of uncertainty around materials' adverse effects and determination of whether or not the outbreak is sufficient to trigger related clauses in contracts."

– Cheryl Teeter-Balin

The quality of relationships will be an even more important differentiator through the remainder of 2020. As noted by industry leaders, the human element of the pandemic can't be emphasized enough by business leaders and investors. It's critical to maintain morale in times of high stress.

> "Many chief executives are stressing treating employees with kindness and understanding; it's potentially the highest-stress environment many have ever undergone."
>
> – Vance McCollough

FIGURE 11: Years from First VC Financing to Exit in IT
United States, 2007–2020 YTD (Years)



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020*
AVERAGE	4.76	4.70	4.42	4.43	4.31	4.79	4.15	4.79	4.42	4.63	5.22	5.08	5.46	5.00
MEDIAN	5.02	4.91	4.95	5.13	5.02	5.29	5.20	5.57	5.50	5.79	6.17	6.11	6.29	5.96

*As of April 30, 2020

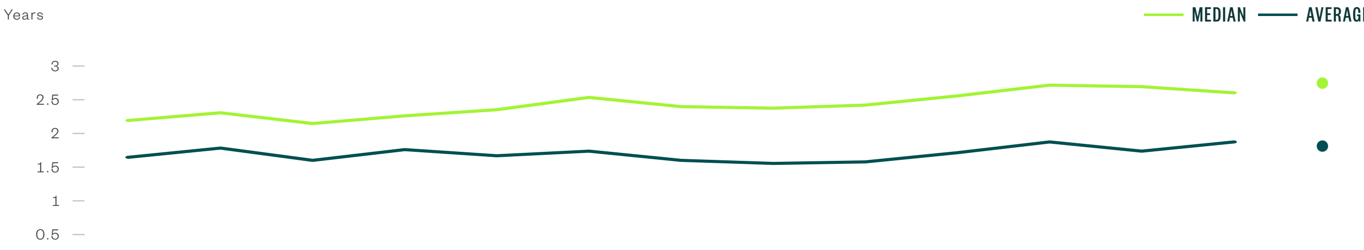
Liquidity is increasingly significant for nearly all companies, and solvency is cropping up as a major concern for a growing number of businesses. For some, however, the timing of liquidity is even more important. Some businesses that were contemplating liquidity events—whether through an initial public offering (IPO), a sale, or by cashing out early-stage investors and employees—now could find themselves in a time and cash crunch.

Throughout the 2010s, businesses trended toward staying private for longer periods of time, in no small part due to the accessibility of private capital. So far, 2020 has seen a slight reversal in this trend, but the larger implication for many companies is that they don't necessarily have easy access to widespread liquidity.

> "In terms of sentiment, nearly every company is uncertain, so there's intense focus on managing liquidity. Cash is king, more so now than ever before."
>
> – Gassen Mosbahi, Partner, Restructuring Services

Secondary exchanges and intense management of capital structures will be a key focus for executives and their investors. To conserve cash, many will likely see how they can tap equity as a replacement compensation for critical talent, within reason. Otherwise, for those companies that were sufficiently underway in the process and generally prepared, even IPOs will likely still proceed. We anticipate talks will emphasize the upsides and downsides of additional pandemic-driven business disruptions and accompanying risks.

FIGURE 12: Years from Last VC Financing to Exit in IT
United States, 2007–2020 YTD (Years)



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020*
AVERAGE	1.77	1.90	1.73	1.88	1.78	1.86	1.72	1.68	1.69	1.83	1.98	1.86	1.99	1.94
MEDIAN	2.28	2.39	2.25	2.36	2.44	2.62	2.48	2.46	2.50	2.63	2.78	2.75	2.68	2.84

*As of April 30, 2020

> "Technology companies' biggest cost is usually their people; second is often offices leased. Landlords are being approached for renegotiation and whole teams that would be idle are being furloughed. The hope is that employees can be essentially retained as inexpensively as possible, so that if things turn around, they can be brought back quickly."

– Vance McCollough

For those companies working through rounds of venture financing, whether planned prior to the pandemic or engaged upon as a matter of necessity, there's a possibility that follow-up rounds and inside funding could increase dramatically. That said, a culling of some sort is almost inevitable.

Earlier-stage and even midstage companies will have to rethink their playbooks, especially pertaining to growth, and potentially pivot very swiftly. Later-stage companies with more substantial revenues will increasingly rely on current income to fund operations, trying to hold up revenues as much as possible throughout the duration of lockdowns.

> "Some companies will have to pivot. If they haven't been able to learn and adapt to the new environment to at least some degree already, then that isn't boding well. Investors and founders will have to align very honestly around projections, realistically."

– Cheryl Teeter-Balin

From the venture investor's side, there's a swath of important considerations. Those currently fundraising must assess their targets, while those looking to come to market with new funds are anticipate lowering their targets. There are concerns that limited partners will slow down on responses to capital calls—particularly if the calls require any sales at discount. Less-established fund managers will have to go the extra mile to demonstrate the viability of their strategies.

> "From investors' perspectives, understanding cash needs and usage is paramount. Beyond the classic quality-of-earnings assessment, buyers are looking more closely at companies' forecasts and trying to understand their base assumptions. The goal is to try and quantify as much as possible in real terms."
>
> – Gassen Mosbahi

Beyond fundraising, portfolio management is perhaps a more time-sensitive area of concern. Investors will have to be solicitous and proactive because they need companies to reach out to them or their lenders sooner rather than later. As a result, investors may need to kickstart conversations themselves. The hiccups that come with shifting due diligence and other practices to a remote setting will have to be overcome as soon as possible. Due diligence might need to be more extensive than ever before, integrating datasets that haven't normally been in review.

> "Portfolio companies are stretching accounts payables to match delayed accounts receivables and are reaching out to vendors en masse to pursue cost reductions. Fund managers will have to rethink terms and reestablish agreements as needed to help existing portfolio companies."
>
> – Cheryl Teeter-Balin

Firms will likely need to help their portfolio companies navigate the complexities of eligibility for government loan programs—such as the Paycheck Protection Program (PPP)—and they'll need to make sure advisory and accounting firms are on hand for consultation. There's a potentially wider array of programs that companies could be eligible for beyond those frequently appearing in headlines, including the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Some companies are rewriting their charters to fully benefit from affiliation rules on PPP loans.

"A first tactic was helping match companies with the banks providing any PPP loans. Businesses sought to secure them just in case, so now some are looking to see if they want to apply for loan forgiveness. However, affiliation rules will still need to be clarified in many instances as it's unclear whether venture-backed startups are eligible for present and future rounds of relief funds."

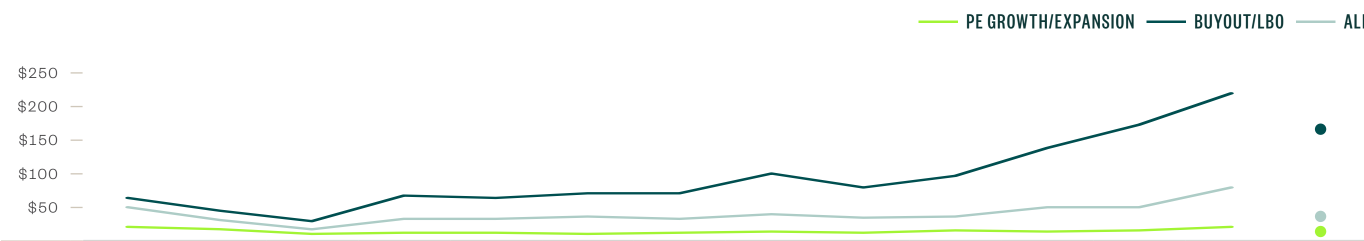
– Cheryl Teeter-Balin

Last but not least, venture firms currently underway on financings are honoring existing term sheets, but overall valuations are expected to decline by up to 30% on average, unless a company can demonstrate a lack of impact or a potential opportunity in the current environment and the opportunity's sustainability after the pandemic.

PRIVATE EQUITY

A significant narrative throughout the 2010s was PE's continued push into technology investing. As PE activity in technology rose, larger companies were targeted. However, 2019 saw a record in the median revenue of IT companies at the time of the PE deal, which understandably correlates with a rise in the median deal size across both major PE transaction types—PE growth and buyout.

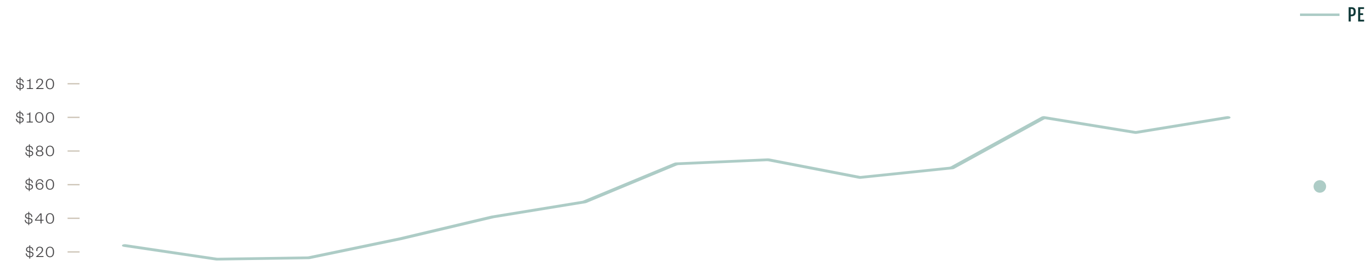
FIGURE 13: Median IT PE Deal Size by Type
United States, 2007–2020 YTD ($ Million)



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020*
PE GROWTH	$20.0	$16.0	$9.5	$10.8	$10.6	$10.0	$12.0	$12.4	$12.0	$15.0	$12.6	$15.0	$20.0	$17.7
BUYOUT/ LBO	$64.0	$44.5	$29.0	$67.5	$64.0	$70.0	$70.0	$100.0	$80.0	$97.4	$140.0	$175.0	$221.5	$171.7
ALL	$50.0	$30.0	$16.5	$32.0	$32.7	$35.0	$31.9	$40.0	$34.0	$35.0	$50.0	$50.0	$79.1	$40.0

*As of April 30, 2020

FIGURE 14: Median Revenue at Time of IT PE Deal
United States, 2007–2020 YTD ($ Million)



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020*
PE	$24.2	$16.0	$17.1	$28.2	$40.9	$50.0	$72.9	$75.0	$64.7	$70.0	$100.0	$91.5	$100.0	$61.0

*As of April 30, 2020

> "PE firms with the most successful portfolios throughout the duration of this pandemic will likely be those that were most heavily focused on operations."

– Cheryl Teeter-Balin

Much of what was observed earlier for venture investors applies to PE firms navigating the current environment. The additional layer of complexity for PE firms is in portfolio management; liquidity issues might stem more from savvily managing debt loads as opposed to sheer lack of revenue, particularly for tech companies. To that end, PE firms are even more focused on portfolio management.

> "PE vehicles are injecting more capital into their portfolio companies, which will be a drag on internal rates of return."

– Cheryl Teeter-Balin

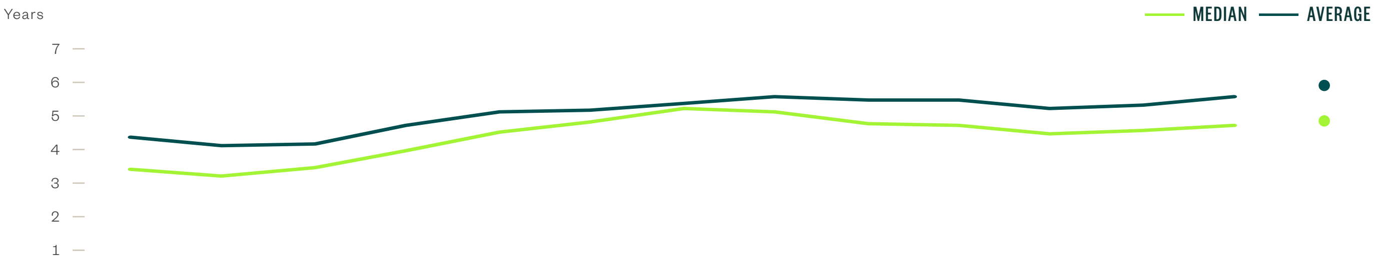
PE portfolio companies will need to prioritize lender relationships and existing agreements; any significant expenditures that need to be made will have to be notified early so they can undergo review. In the meantime, PE fund managers will work with their holdings to assess balance sheets with an eye on working capital, looking to obtain a consistent source of crucial metrics in a timely manner. Fund managers will need to strike a delicate balance between prioritizing business health while reducing leverage profiles without affecting longer-term prospects for returns.

> "Expenses can be easier to estimate, but companies should also expect to break down receivables one by one in terms of collectability and timing. The standard historical term of 30 days doesn't necessarily apply anymore."

– Gassen Mosbahi

Fortunately, there've been anecdotes of lenders being flexible on existing covenants and giving holidays for principal payments. Overall, as time goes on, there will likely be pressure for lenders to pick winners and losers amid their credit portfolios, and there will likely be an overall increase in the cost of capital. Lenders would be wise to prepare now even if current pressures aren't yet at high pitch. PE firms will have to coordinate shoring up or renegotiating longer-term and larger-established relationships with lenders because both parties could come under increasing pressure.

FIGURE 15: Years from PE Entry—Growth or Buyout—to Exit in IT
United States, 2007–2020 YTD (Years)



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020*
AVERAGE	4.37	4.13	4.18	4.75	5.15	5.19	5.39	5.62	5.52	5.51	5.28	5.35	5.59	6.00
MEDIAN	3.46	3.23	3.50	3.99	4.57	4.85	5.27	5.17	4.78	4.75	4.50	4.61	4.77	4.92

*As of April 30, 2020

"It's difficult in general for PE firms to get any government funding for their portfolio companies."

– Gassen Mosbahi

There's been an uptick in hold times for PE-backed tech companies that have been sold so far in 2020. However, more promising news is that, by and large, hold times remained steady throughout the past decade—that is, firms were successful in offloading portfolio companies at a steady clip. Liquidity pressures will largely be business-related, as there was no buildup of companies ready to be exited.

All in all, PE companies will simply have to allocate much more time and potentially significant capital reserves to ensure portfolio companies can achieve a reasonable rate of health. The supporting ecosystem of advisors will play a critical role in terms of shouldering some of the additional workload.

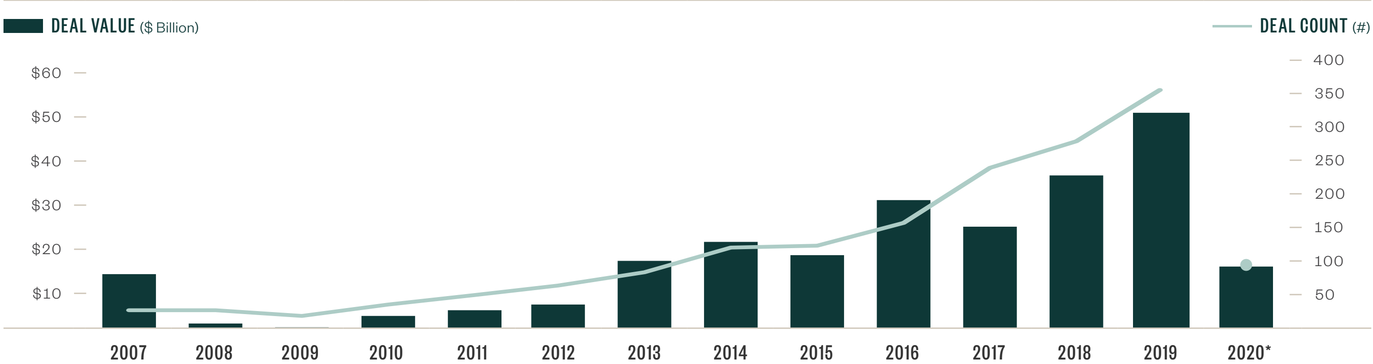
But that doesn't leave PE firms wholly focused on extant portfolios. As in any crisis, opportunities can crop up.

SECTION FOUR

The Opportunity

In the United States, it's still early enough in the COVID-19 pandemic that a 100-day plan could more than cover the pandemic's impact thus far. As in early-stage responses to any crisis, triage on the part of investors and their portfolio companies was prioritized. But for eager fund managers, the pandemic presents potential opportunities in the current landscape. With that said, if the pandemic goes on long enough, not a single arena will go unscathed—meaning firms will have to juggle competing priorities as a matter of course.

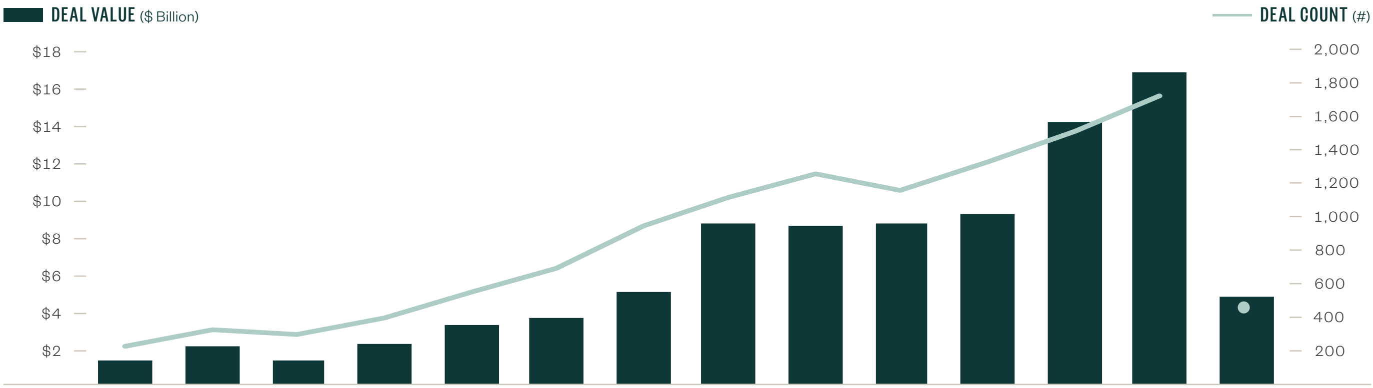
FIGURE 16: IT PE Activity in Business and Productivity Software
United States, 2007–2020 YTD ($ Billion)



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020*
VALUE	$12.6	$1.6	$0.9	$3.2	$4.6	$5.9	$15.6	$20.2	$17.0	$29.5	$23.4	$35.0	$49.3	$14.4
COUNT	30	30	22	40	54	67	87	126	127	161	244	284	362	100

*As of April 30, 2020

FIGURE 17: IT VC Activity in Business and Productivity Software
United States, 2007–2020 YTD ($ Billion)



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020*
VALUE	$1.40	$2.08	$1.35	$2.27	$3.34	$3.71	$5.10	$8.82	$8.71	$8.79	$9.30	$14.31	$16.99	$4.77
COUNT	244	341	311	408	565	710	959	1,139	1,274	1,177	1,350	1,540	1,746	478

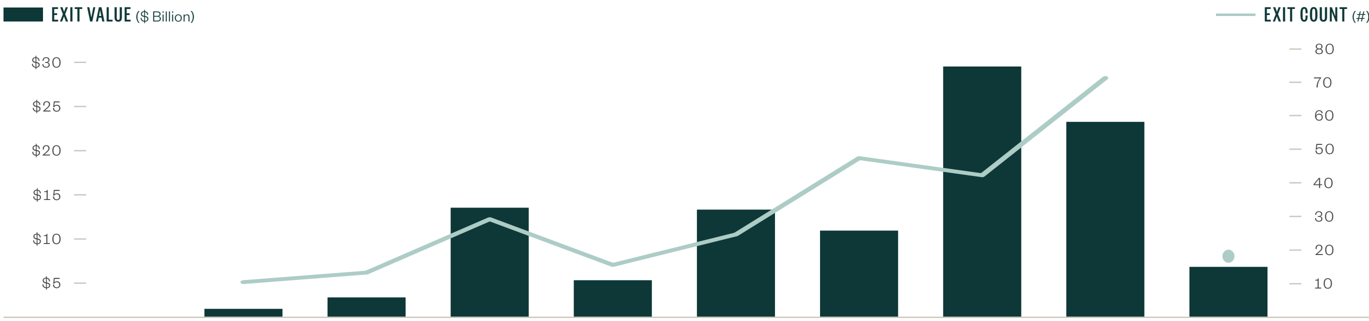
*As of April 30, 2020

> “Funds are pulling down all available credit and are reviewing capital call facilities to bridge the time between making investments and receiving capital contributions from investors. In these uncertain times, some are recommending whether or not to convert uncommitted capital call facilities into committed ones.”
>
> – Cheryl Teeter-Balin

However, the salient opportunities are becoming clearer. Some trending sectors are included in the accompanying list, but it’s worth noting the degree to which PE- and VC-fund investments in business and productivity software have paid off in the past decade:

1. **Digital infrastructure.** It’s imperative to secure business-critical and sensitive aspects of information flows and operations that shifted to being wholly online and remote.
2. **On-demand consumer services.** Consumers will still buy, and producers will still sell; the challenge is how to circumvent challenges of proximity. Edtech, virtual conferencing, delivery, and more are already being analyzed as potential hot spaces.
3. **Remote-enabling operations.** Any tool that eases the flow of digital commerce and interaction, such as telemedicine, will enjoy surges in interest.

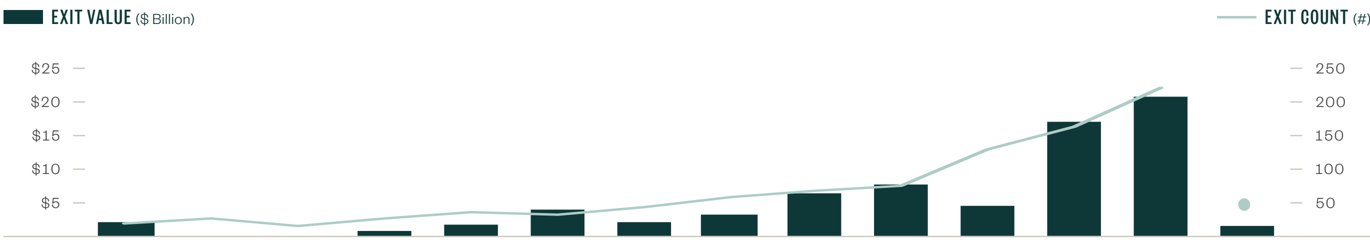
FIGURE 18: IT PE Exits in Business and Productivity Software
United States, 2007-2020 YTD ($ Billion)



	2012	2013	2014	2015	2016	2017	2018	2019	2020*
EXIT VALUE - EXTRA	$1.21	$2.47	$12.49	$4.34	$12.29	$9.86	$28.39	$22.18	$5.89
EXIT VALUE - ACTUAL	$0.45	$1.23	$8.86	$2.65	$10.24	$5.10	$24.11	$14.90	$4.22
EXIT COUNT	11	14	30	16	25	48	43	72	19

*As of April 30, 2020

FIGURE 19: IT VC Exits in Business and Productivity Software
United States, 2007–2020 YTD ($ Billion)



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020*
VALUE	$2.31	$0.30	$0.08	$1.02	$1.87	$4.11	$2.37	$3.28	$6.48	$7.67	$4.58	$16.51	$20.11	$1.69
COUNT	21	28	17	28	37	34	45	58	68	75	126	159	214	53

*As of April 30, 2020

> “The key factor for all companies that are successful right now is simple: demand for their products or services. But the duration of their success could be short-lived if the ramifications of the pandemic get bad enough.”
>
> – Gassen Mosbahi

From an asset-class perspective, private credit will see an uptick in demand for distressed debt as time progresses and, unfortunately, many businesses will likely come under intolerable pressure. Venture debt will likely be as active as ever as startups are unable to engage any levers pertaining to direct equity, and government funds aren't an option. Control investors are also increasing allocations to minority investments, bridge loans, and working capital lines of credit—a blend of additional exposure to best-positioned assets and defensive tactics.

"Deal flow and capital introductions are more important than ever. Nonmonetizable support from professional service providers is at a premium. Clients want to know what we can share about their peer group's actions, latest thinking, and collective wisdom."

– Cheryl Teeter-Balin

In the end, the pressures that companies, investment firms, and associated personnel are facing will affect change, in the short term and permanently. There will be opportunities to buy and reinvest, fine-tune operations and streamline processes, endure cutbacks and trim budgets, but this unprecedented time is primarily an opportunity for resilience—no matter the situation or challenge.

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