KIN+CARTA
Advise

Resilience in the digital age

Private Equity thought piece 2020

kinandcarta.com

A new normal

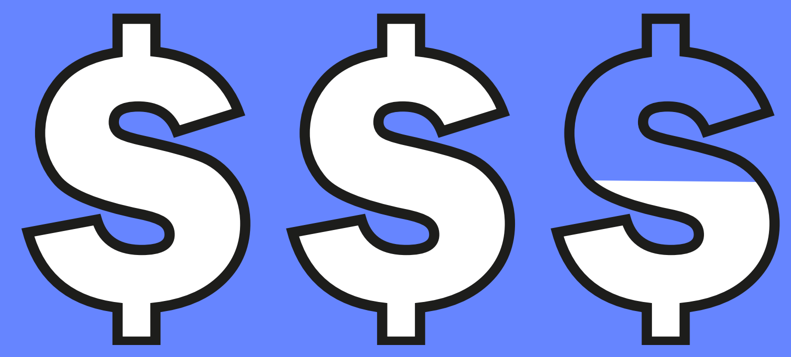
At the start of 2020, Covid-19 evolved into a global pandemic which affected individuals, businesses and sectors around the world. We all have had to adjust to a new way of living and working, and now question what a new normal would look like. This whitepaper is written in collaboration with 15 of our partners who we have interviewed since April 2020. It aims to uncover how private equity (PE) and venture capitalist (VC) firms have responded to this new landscape and the importance of resilience.

The landscape

With $2.5 trillion in dry powder, the PE sector has emerged as one of the most active deal makers in 2020, accounting for 16% of global activity, the highest percentage since 2007[1]. This is against a backdrop where the volume of global M&A deals has decreased. While the sector is at an advantageous position, Covid-19 has created a challenging environment for fundraising due to travel restrictions and lockdowns, resulting in almost 60% of fund closes being delayed to H2 2020[2]. Nevertheless, like so many businesses adjusting to new ways of working, there are signs of investors embracing the use of technology to overcome these hurdles.

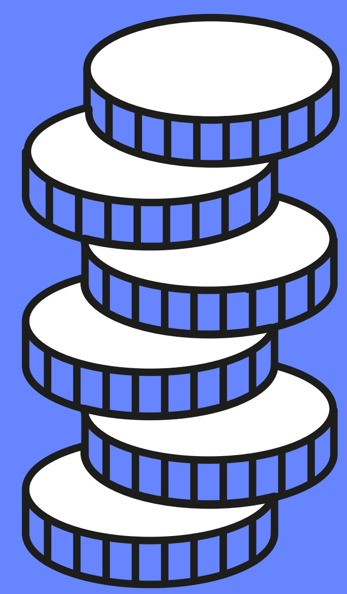
Covid-19 has also challenged a number of sectors, sub-sectors and individual business models, and PE-backed businesses are not immune to this. While many businesses have benefited from government aid in the short-term, there is a need for a longer-term, sustainable solution. Plus, the difficulty in access to loans and affordable debt means that companies have to explore alternative ways of financing. As mentioned earlier, a shift to a new 'virtual life' has determined which sectors were technologically ready for this shift and those who have lagged behind, further accelerating the need for businesses to embrace technology and digital capabilities.

[1] Financial Times
[2] Cebile Capital



$2.5 trillion

in dry powder



60%

of fund closes being delayed to H2 2020

Implications

The amount of undeployed capital means that PE firms are well positioned to explore new deals, especially as stock prices and company valuations are expected to lower and more distressed assets become available.

Impact

92% Of PE professionals believe distressed fund activity will increase after the pandemic[1]

In response to these uncertainties, many firms are also investing smaller amounts and moving away from large buyouts. Instead, bolt on acquisitions are more attractive and easier to scale a business since European bolt-on activity accounted for:

63% Percentage of deal volume in the first quarter of 2020[2]

[1] A recent poll from Intertrust Group
[2] Pitchbook

As not all funds are equal, there will be a number of fully deployed funds that will unfortunately have less leeway to implement strategies to help their respective portfolio companies.

There are a number of sectors that have been directly impacted by shutdowns and lockdowns, and avoided by PE investors, such as travel, tourism, and hospitality sectors that ceased operations almost immediately. While other sectors have not been as severely impacted, many companies that operate in those sectors had to either explore new business models or pivot in order to keep operations afloat.

The sudden drop in revenues and EBITDA has resulted in suppressed EBITDA multiples, making it harder for companies to raise liquidity. In May 2020, one company even introduced a new measure,"adjusted EBITDAC", to add back earnings it would have made during the pandemic in efforts to ease the financing process.

Rise in resilience

The outcome of the conversations we had with our partners is the need for resilience. Now, what does that mean in the context of businesses?

Interviews

The ability to adapt quickly

“Tech-enabled businesses have the resilience and dynamism that can often lack in other business types.”

Richard Pearce, Investment Manager at ECI

There were a number of press articles showcasing the many businesses that had the ability to pivot and adjust to Covid-19 to either keep their businesses afloat or to help produce PPE. This could have been a shift in business model (e.g. B2B to B2C), change in product offering or a change in their proposition that led them to new markets.

The ability to put people at the front

“Leadership skills displayed by CEOs have been remarkable during this time.”

Sarah Turner, CEO & Co-founder at Angel Academy

At a time where job security was no longer guaranteed and tough decisions had to be made, the role of the CEO and leadership roles were even more important during this period. Many CEOs were under pressure to either think about the company from a financial or people standpoint, and were faced with additional challenges around team motivation and morale.

Many CEOs, including Kin + Carta’s J Schwan, were even in the spotlight for putting their own commercial interests aside in the interest of the overall company.

How we can support you

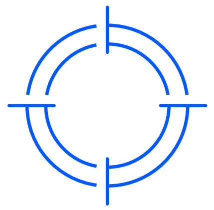
As part of the Kin + Carta group, we hope to support you and your businesses navigate through these challenges with a suite of enhanced solutions.

1. Enhanced due diligence
2. Strategic planning
3. Data driven optimisation
4. Digital service design
5. Enterprise modernisation

If you would like to know more about how we can support, please contact Tom Holt or Jonan Boto. Discover more about Kin + Carta's group of services here.

Strategists

Digitally-native consultants, focussed on the market & commercial viability

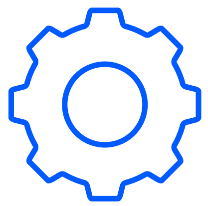


Engineers

Technology experts who build and deploy digital solutions

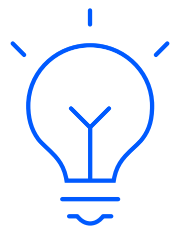
Designers

User-centered design experts who create superior experiences



Data Scientists

Masters of identifying actionable insights in a sea of data



Marketers

Data-driven experts at acquiring and engaging customers

KIN+CARTA
Advise