

Clear Vision: Santa Monica-based Clearlake Capital sees gains from inclusion efforts.



the end of 2019 from 312 one year earlier, and that group of firms has grown at a compound annual growth rate of 29% since 2014, according to **Fairview Capital Partners Inc.**

In order to increase those numbers even more, it's important to look at why they're low in the first place. One reason, Greene said, is hiring managers at private equity firms have an innate tendency to hire who they know, the people in their social networks.

Many times, it's not even a conscious decision, but if those networks are narrow — which they can often be in the PE world — then it's difficult to bring that diversity in, Greene said.

"We attempt to self-select in the industry what pathway is going to lead to great outcomes, instead of looking at what skill sets and attributes — singularly regardless of background — will lead to great outcomes," he said.

"What it really is akin to is a lack of appreciation for what people of different backgrounds have had to achieve, and how successful they can be when given a true fair opportunity," Greene added.

A certain look?

Additionally, it can be difficult to make PE more diverse because there are fewer jobs in the space than in other areas of business. People also tend to have a belief that private equity professionals look a certain way.

"It doesn't require a person to look a certain way or to have played lacrosse, or to be

on the swim team at an Ivy League school, yet those are elements that factor into the hiring decision," Greene said.

In addition to breaking out of that pattern, another path to change is to understand that there isn't just one pathway to success, such as going to Ivy League schools and then

“Sometimes just asking yourself the question makes the difference.”

JOSÉ FELICIANO
Clearlake Capital

working at a well-known financial institution.

Another indirect, yet effective, approach taken by NAIC and other organizations is to help firms led by women or minorities perform well. "In doing so, they become an exemplar and an archetype of what's possible," Greene said.

It would also help tremendously, Khodadad said, if limited partners demand more diversity within their organizations. This could have an impact similar to recent developments in the ESG space where investors have called on companies to be more environmentally and socially responsible. Companies have listened because, after all, investors have the money.

"It has to start with the pocketbooks of investors to actually set the policies," Khodadad said.

Moonsail Capital

FOUNDED: 2017
HEADQUARTERS: Downtown
MANAGING PARTNERS: Joseph Acevedo, Rafael Ortiz and Carlos Rodriguez
EMPLOYEES: 5

NOTABLE: Moonsail targets health care, business services and niche consumer services such as fitness, wellness, coffee roasters, specialty food products, nutritional supplements and postsecondary education. The firm's typical transaction is lower middle market, founder and family owned, EBITDA \$2 million to \$6 million, and primarily control buyouts, though it will consider minority and other structured debt and equity investments.

ROCA Partners

FOUNDED: 2015
HEADQUARTERS: Beverly Hills
MANAGING PARTNER: Ravi Yang Sarin
EMPLOYEES: 6-10

NOTABLE: ROCA targets technology-enabled services companies in education, financial services, health care, media, retail, and travel and leisure. In June the firm co-led a \$25 million raise for San Francisco-based executive recruiting firm Riviera Partners.

CUSTOM CONTENT

M&A Activity Post COVID-19

COVID-19 has created uncertainty and resulted in major economic changes, which has had a chilling effect on the economy, M&A deals and capital market transactions. Deals and financings (including IPOs) that were in process at the beginning of this year are now paused. Companies and investors are looking for answers about how to prepare for the future.

Before COVID-19 hit, M&A was on a roll, driven by an 11-year bull market, but with the pandemic onset, companies moved quickly into a triage situation as revenues rapidly declined and physical offices shut down due to stay-at-home orders and viability uncertainty. Meanwhile, banks have sent conflicting messages about lending.

With the new COVID-19 reality, companies need to reassess their situations and pivot appropriately by maximizing cash flow, re-forecasting earnings and defining mid-term and long-term activities and strategies.

MAXIMIZE CASH FLOW

As management teams and dealmakers are slammed with conflicting information and still determining priorities, there is an opportunity to assess financials and cash flow.

Companies should analyze profit and loss (P&L) statements to understand revenues, costs and expenses and reassess sales seasonality for products or services. Mostly importantly, companies need to project a short-term (13 weeks) and midterm cash-flow analysis. Collecting receivables, using available credit facilities and making rational expense decisions are all necessary in uncertain times. Companies should look where sales or other income sources are coming from and their profitability and review cost of goods sold. Some of these expenses could be reduced. A review of fixed versus variable overheads is need to evaluate what decisions need to be made. Net income and profit margin should also include variable levers to configure as needed, such as with labor, materials or advertising.

Many vendors and creditors are willing to negotiate payment terms and extend them over longer periods or lower interest rates. Similarly, businesses should review bank covenants and discuss changes with lenders. Stress testing revenue and expense scenarios to highlight potential covenant or payment challenges will arm owners with actionable information. It is often natural in these times to make emotional decisions that have the greatest immediate cash-flow impact. However, consulting advisors helps owners make necessary and balanced decisions. Outside advisors offer a fresh perspective and remove emotions from hard decisions. Decisions made during these uncertain times will have long-term effects well past the end of this crisis.

RE-FORECAST NEAR-TERM EARNINGS

For the foreseeable future, earnings will change. Looking at profitability and cash flows will help in decision-making. Businesses should look at existing short-run forecasts and P&L to help reassess expenses. There will be areas that can be trimmed or changed to maximize earnings projections.

DEFINE MID-TERM AND LONG-TERM ACTIVITIES

Companies should also be looking at ways to improve financials and operations for the new reality that will result from COVID-19.

• **Value Planning:** Companies should access what they thought they had versus



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what they actually have. It helps define, clarify and agree on a clear hierarchy of what is most important for success in the future, plus it helps assess cost sources and limitations.

• **Revenues:** Assess whether products are addressing all of the markets they could access, determine if new customers can be gained due to competitive disarray, realign sales organizations and assess R&D functions to determine if new products under development are still relevant and can be rapidly deployed.

• **Supply Chain:** Companies may be getting low-cost materials from places overseas that have been severely impacted by COVID-19, and this would be a good time to re-think lost profit versus long-term profitability. Supply chains will realign after this is all over; management teams are well advised to be in front of that realignment.

• **Business Re-Tooling:** When possible, companies could consider downsizing facilities and embracing virtual work. This frees up operating cash flow and may change the mix of employees needed to run the business. It is also a good time to look at existing vendors and make decisions on adding new vendors at better terms. It is also appropriate to reassess capital sources and structure.

With the M&A market changing, buyers have opportunities to adjust terms and sellers may need to accept a lower valuation. For all, it is best for business leaders to take emotion out of the equation and take a hard look at operations and financials.

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