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MIDDLE MARKET

Growth

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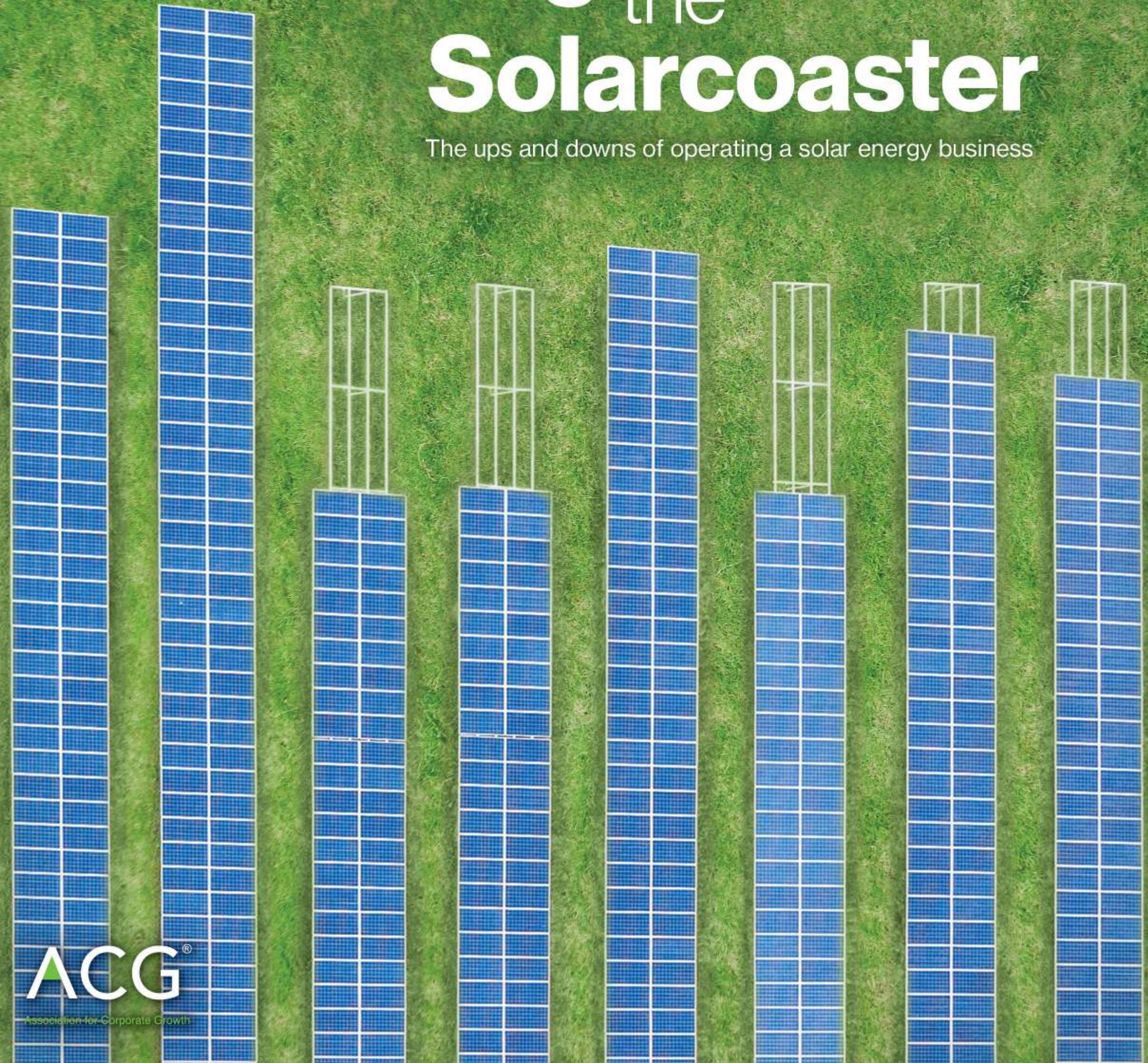
Riding the Solarcoaster

The ups and downs of operating a solar energy business



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Theories about the potential shape of the post-COVID-19 economic recovery span the alphabet—L, U, V, W and Z, along with their cousin, the Nike "swoosh."

The likely reality is that each sector will experience its own economic journey to a new normal. While travel and tourism, hospitality, oil and gas, and enterprise health care must fight their way back in their own ways, investors and company owners say that specialty sectors might enjoy a "J"-shaped recovery in which they not only bounce back but reach new heights.

Not every business has suffered as a result of the coronavirus. Zoom and Netflix are two well-known examples of companies that prospered while everyone was stuck at home. Midsize companies that proved to be "essential" during the crisis and those with strong technology platforms are likely to be attractive targets for mergers and acquisitions.

At the same time, those that took a beating but stand a good chance of recovering after the dust settles could be strong candidates for M&A, if they play their cards right.

"As investors, we're looking at companies that will take a hard hit but that will probably bounce back," says Jeff Sands, a managing partner at turnaround firm Dorset Partners, based in Dorset, Vermont.

Companies that trim their sails to get through the storm will earn investors' trust and dollars, while those that try to outrun the gale will likely fail. "Some companies will try to hold on to the past," he says. "But a few will find a way forward and survive."

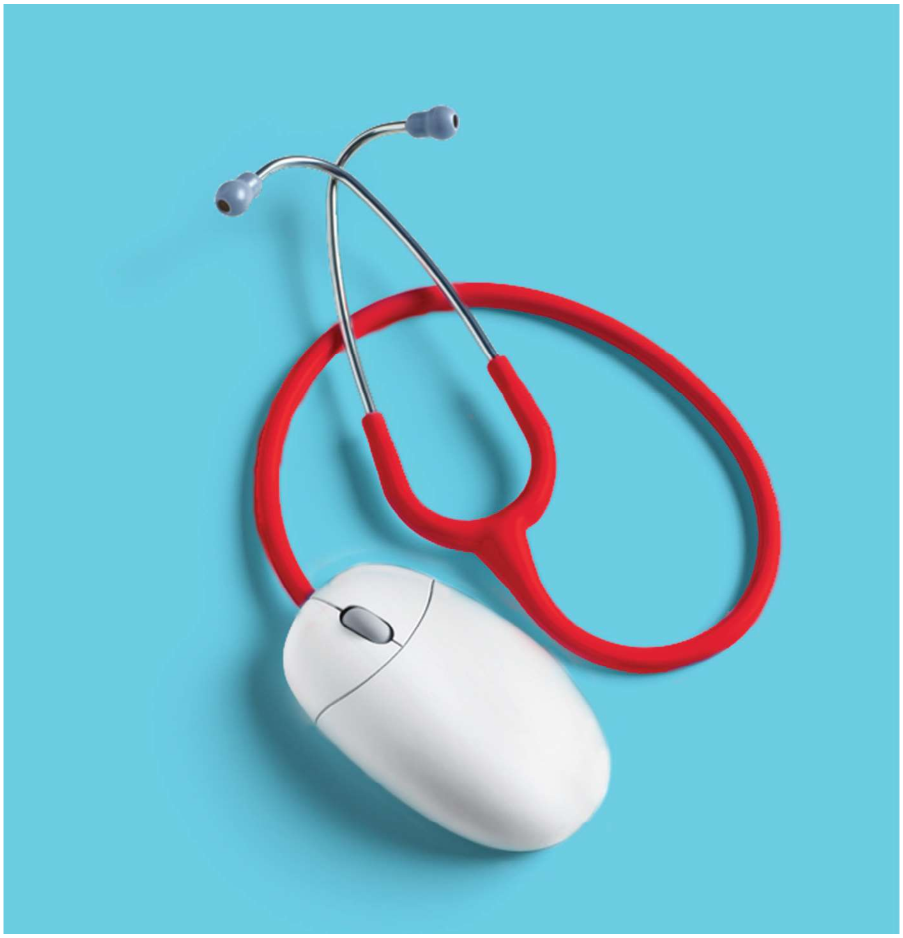
NO-TOUCH, HIGH-TOUCH

The coronavirus pandemic put most new deals on ice as the disease spread across the U.S. this spring. But one sector that remained relatively active was technology, media and telecommunications, according to Michael Fanelli, a partner in the Transaction Advisory Services practice at accounting firm RSM US LLP.

Deals involving companies that sell software, software-as-a-service and financial technology products accounted for the greatest share of M&A activity observed by RSM during the crisis, he said during an interview with ACG's GrowthTV in May.

For many businesses that have been slow to digitize, COVID-19 is the shove they needed to enter the virtual age, say investors and analysts. Interest in technology and related infrastructure is expected to continue among investors and corporate acquirers, even after the pandemic ends.

The immediate migration to home-based work, daily online commerce and endless digital entertainment is a glimpse into the likely economic justification for the rapid rollout of 5G broadband, not to mention 6G, says Roald Nashi, a partner with the Washington, D.C., office of law firm Kirkland & Ellis.



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October. FCR operates nine customer experience centers in the United States, serving clients in a range of industries, including e-commerce, gaming, health care, retail and more.

HEALTH CARE GOES THE DISTANCE

Contactless meetings aren't just for customer service consultations or staff meetings. Increasingly, patients are meeting with their physicians over a screen, too.

The spread of the coronavirus created even more demand for health care delivered remotely, known as telemedicine, as a way to avoid hospitals and the risk of infection. Medicare announced on March 6 that it would cover telemedicine, drawing virtual care further into the mainstream.

Telemedicine enables diagnostics from a distance and connects health specialists with patients, regardless of where they're physically located. Its growth depended on the evolution of regulations and payment systems, plus increasing comfort with technology among patients and doctors. Those elements were in place in the spring of this year, when the coronavirus pandemic sparked widespread use of telemedicine, says Ali Ardakani, managing director of Novateur Ventures Inc., a global advisory, investment and incubation firm based in Vancouver, British Columbia.

"COVID-19 is going to do something we could not force ourselves to do: It's going to force us to be efficient," he says.

With the option for remote appointments, on-site visits to a health care provider can be saved for higher-stakes evaluations. "You don't need to go see the doctor every time you have an aching back," Ardakani says.

New deals involving telemedicine providers have closed since the start of the pandemic. Private equity firm New Capital Partners announced on March 30 that it was investing in TeleHealth Solution, a provider of virtual medical and health care support for patients in hospitals and senior living facilities, based in Charlotte, North Carolina. New Capital has a long history of backing virtual health care businesses. In 2005, the firm invested in Teladoc, one of the earliest telemedicine companies.

In other cases, private equity-backed health care businesses have developed their own virtual health care capabilities in response to the COVID-19 outbreak. Vybe Urgent Care, for example, announced a new telemedicine service at the end of March. Vybe is part of investment firm NewSpring Capital's portfolio.

Adoption of telemedicine will be encouraged by insurance companies seeking savings to offset coronavirus expenses and as a way to manage medical practice risks. Ardakani expects fresh infusions of capital will support services related to telemedicine, including electronic records management, health applications and devices that patients can use at home to share health data with their doctors.

Research by Markets and Markets, a market research firm, predicts that the global telehealth market will grow at a 16.9% compound annual rate, reaching $25.4 billion by 2025.

ON THE REBOUND

Even as the coronavirus outbreak has boosted some industries, others face the disastrous effects of the economic turmoil wrought by the disease. That has thrust companies into uncharted territory, but they nevertheless face a classic recovery arc, says Mark Simoncelli, senior vice president of Americas consulting for research firm Frost & Sullivan.

First, businesses must take steps to keep the lights on, literally. Then, they have to plot how they'll reset to keep customers. After that, they need to scope out their rebound, which involves identifying the best growth opportunities, including those that might not have existed save for the economic trauma.

Selling all or part of the business will be one path for owners looking toward the next phase of growth. Private capital investors are already picking through the rubble for gems, especially diamonds created in the economic crucible, says Scott Bingham, leader of the U.S. Transactions practice for FTI Consulting.

"Many of our clients have been interested in certain sectors for years, but the multiples have been too high," he says, citing health care and pharma in particular. "For the past several years, investors have been doing roll-ups and buying distressed assets because they couldn't afford down-the-middle assets."

One strategy likely to emerge out of this crisis, says Bingham, is blending assets that work in concert with each other—for example, pairing an investment in broadband technology with another in film or music libraries to support robust streaming services. "There will be better ways to combine things," he says.

The pandemic offers businesses a rare opportunity to reap fast returns from investing in digital upgrades—especially tools that equip managers with forward-looking metrics, says Simoncelli. He recommends looking at emerging trends and potentially buying assets or aligning with adjacent operations that can stabilize supply chains—for instance, acquiring specialty manufacturers of hard-to-source components, to minimize reliance on overseas suppliers. "Then it's much easier to weather a storm like COVID and other seismic events," he says.

Telecommuting and virtual work invite exploration of automated tools and more expansive dashboards for all kinds of industries. Ultimately, the urgency of responding to the virus lockdown forced many change-resistant executives to move faster than they thought they would or could, says Brian Kushner, leader of the Private Capital Advisory Services practice for FTI Consulting.

A willingness to move forward and evolve is fundamental to survival, and it's at the heart of the advice Dorset Partners' Jeff Sands has for businesses: Be a cockroach.

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Sands has lived through a few recessions, including a searing experience in 2008 and sweeping personal and business losses in the wake of Hurricane Katrina. He knows that the flash of a bomb is only the first indicator. "The shock waves are going to keep coming," he says of the head-on economic crash caused by the spread of the coronavirus and shelter-in-place mandates.

Some businesses that succumb to the shock will be swept up by investors seeking turnaround or distressed opportunities. But until a clear shape emerges from the alphabet soup of recovery options and the U.S. economy begins its rebound, M&A deal-makers seeking healthier businesses will need to make their best guesses about which ones will weather the storm.

To business owners, Sands offers these words of wisdom: "You need to say fully, 100%, 'I am the cockroach. I am the one who will survive.'" //

Joanne Cleaver has been covering entrepreneurship and business growth for over 30 years for national media, as both a staff and freelance journalist.