

Grow or stagnate in a virtual world? The choice is yours

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In the 1999 sci-fi thriller *The Matrix*, Neo is presented with a choice by Morpheus to take either a blue or red pill. Take the blue pill, and Neo remains in the matrix built by the machines, blissfully ignorant but hampered by the reality that the machines have actually imprisoned the human race. Take the red pill, and Neo awakens to the unsettling truth that the world created by the machines is not real. However, this seemingly more difficult path of enlightenment and acceptance gives him the chance to learn how to use the virtual world to his advantage to ultimately prevail over the machines.

Much like the machines in *The Matrix*, the spread of COVID-19 has forced U.S. businesses into a battle for their survival. With the pandemic's consequential effects foreseeably dampening the economy well into 2021, like Neo,

U.S. businesses have a stark choice to make: (1) (blue pill) take the path of least resistance and batten down the hatches, while the pandemic slowly but surely chips away at their bottom line, or (2) (red pill) muster up the courage to honestly face the harsh reality of the situation head on, while simultaneously embracing the chance to navigate this new normal and retooling so that they can exploit opportunities even in this virtual world we now inhabit.

Many executives we have observed this year have opted for the red pill. Here are a few enduring lessons we have learned from watching them.

Build a reputation that stands the test of time

Trusting relationships are at the core of most successful deals, but for now, gone are the hotel lobbies, the dim-lit restaurants and golf courses where relationships are built and deals are typically imagined, negotiated and consummated. The ability to "read the room" as is custom in traditional in-person interactions is not present in the virtual world. No doubt, the old adage that trust is best built through in-person gatherings rings hollow today. With more than 50% of the U.S. workforce currently remote, and stay-at-home advisories limiting business travel, the pandemic has

required dealmakers to take a different approach to building trust.

Despite the upheaval, we have seen many business leaders effectively continue to deepen relationships during this period. Their style of leadership embraces new virtual technologies while staying true to traditional relationship-building virtues. They have demonstrated respect to counterparties through their thoughtful behaviors by consistently delivering on promises they have made, taking the extra time and care to explain their rationale if they need to change course, recognizing the impact of their decisions on others, and continuing to invest in relationships even when a deal is not imminently on the horizon.

Even in a global deal making environment, the world is still small, and there is a positive chatter that makes its way around about those who demonstrate an authenticity in their approach. No matter the platform, delivering for others and engaging in sincere communication at regular intervals leads to synergistic relationships.

Thoughtfully approach virtual due diligence

Though the pandemic may limit a business's ability to conduct an on-site due diligence assessment, there are unique

ways to utilize the virtual environment to meet the objectives of a full review. Businesses that have reimagined due diligence through data management, record digitization and video teleconference applications will have the advantage over businesses that still require on-site document and personnel review.

For example, in lieu of onsite visits, companies have utilized drone-assisted virtual tours to take real-time videos of properties or factory floors, conducted physical inventory audits by remote video (with inventory reconciliation post-closing), and held remote Q&A interviews with key personnel. Fortuitously, using these virtual tools in place of onsite visits is likely to provide collaborators not only a cost-savings benefit (no travel expenses), but also a time-savings benefit (not subject to travel schedule).

Financial anomalies discovered during due diligence have made proper valuation of target businesses more difficult during the pandemic. Consequently, creative dealmakers are opting to include more future payout structures in their transactions, including earnouts and similar deferred compensation mechanisms. Many buyers and sellers are collaborating in good faith to craft formulas and mechanisms that allow a seller to be fairly paid if the

business achieves certain milestones post-closing.

Solidify your business culture

Integration within the virtual environment presents unique challenges, especially given that the majority of the workforce is remote. Building a corporate culture for newly acquired employees requires business leaders to consistently and clearly communicate objectives, set realistic timelines and devote the necessary resources to ensure a smooth transition, while simultaneously recognizing certain impediments that are inherent with working remotely such as child care and technology concerns.

Strong relationships matter at every organizational level. Empathetic and accommodating businesses are positioned to develop more loyalty from their teams, a powerful advantage that should not be underestimated.

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