

COVID-19 impact on Private Equity – Bain POV

March, 2020

DRAFT

BAIN & COMPANY 

Disclaimer

This material and the analysis contained herein was prepared by Bain & Company, Inc. or its affiliates (“Bain”) over a limited time period in order to summarize insights and best practices in response to COVID-19. The analysis and the content of the document is based on publicly available data, which is subject to change, as well as on Bain’s judgement, estimates and experience. The document contains general insights and best practices but has not been tailored to any specific client situation and may therefore not be relied on.

No responsibility or liability whatsoever is accepted by any person including Bain & Company, Inc. or its affiliates and their respective officers, employees or agents for any errors or omissions herein.

Context of the document

- **COVID-19 is impacting us all** – both the humanitarian challenges and the impact on the business world
- Although the humanitarian challenges are the most pressing, COVID-19 has evolved from a looming threat to a **real and present danger for private equity investors and their portfolio companies**
- As global leaders in advising Private Equity firms and portfolio companies, we are in daily contact with our clients during this turbulent time and see and hear of **a number of immediate and longer-term PE challenges**
- While no one can predict the scale and duration of the pandemic, we see an **urgent need to share what we see as the most critical actions private equity investors need to be taking** – both in the short-term to stabilize business, and in the longer-term to operate in the new normal
- **This document focuses the immediate actions required to help private equity investors** triage where attention is required and mitigate risk accordingly (e.g. which portfolio company is most exposed to COVID-19 impact?)
- **We will be developing additional perspectives in coming days and weeks** that will focus on additional actions Private Equity firms need to do to manage their own business in these dynamic times, cost related actions to take, and opportunities to drive commercial momentum
- **We hope that you find this helpful and please let us know in case you have any reactions** – as always, we value your feedback and thoughts and working together

The key implications of COVID-19

/ MARCH 2020

- **COVID-19 is a rapidly evolving situation**; traditional 'crisis response' approaches will not be sufficient as the span of outcomes is great and is seemingly changing by the day
- The process of 'containment' and 'slowing the spread' in each country **has already created major disruption in many countries**, forcing economic activity to grind to a halt through local shutdown and quarantine measures
 - Actions have included strict lockdowns of regions/countries, creating significant near-term revenue cliffs with unknown rebound periods
 - As companies face these realities on the top line, they are concurrently facing operational challenges from protecting their employees safety, to engaging customers remotely, to ensuring sufficient supply from vendors
- **Private Equity investors and their portfolio companies need to prepare for the worst**, and be hopeful it doesn't eventuate; **A 'wait and see' approach is a non-starter**
 - **PE firms** need to **adjust daily operations**, address impact on **investment approach**, and consider **impact on fund raising**
 - **Portfolio companies** will experience unseen challenges in for example **supply and demand disruption**, and **potential liquidity crises**
 - **As owners it will be more important than ever to support portfolio companies in these challenging and dynamic times** – offering necessary centralized support and continuously sharing best-practices
- The **recovery profile will differ across industries**, and so it is important to tailor an action plan for each portfolio company
- **This brief will walk through the most important actions to take now**, including best practices in establishing an emergency response team and systematic evaluation of the risk of different macro scenarios across different levers of your portfolio companies' business to **prepare tactical action plans across your portfolio**
- It is critical for you to be out in front with a **planned cascade of possible actions for your firm and your portfolio** based on how impact of COVID-19 unfolds

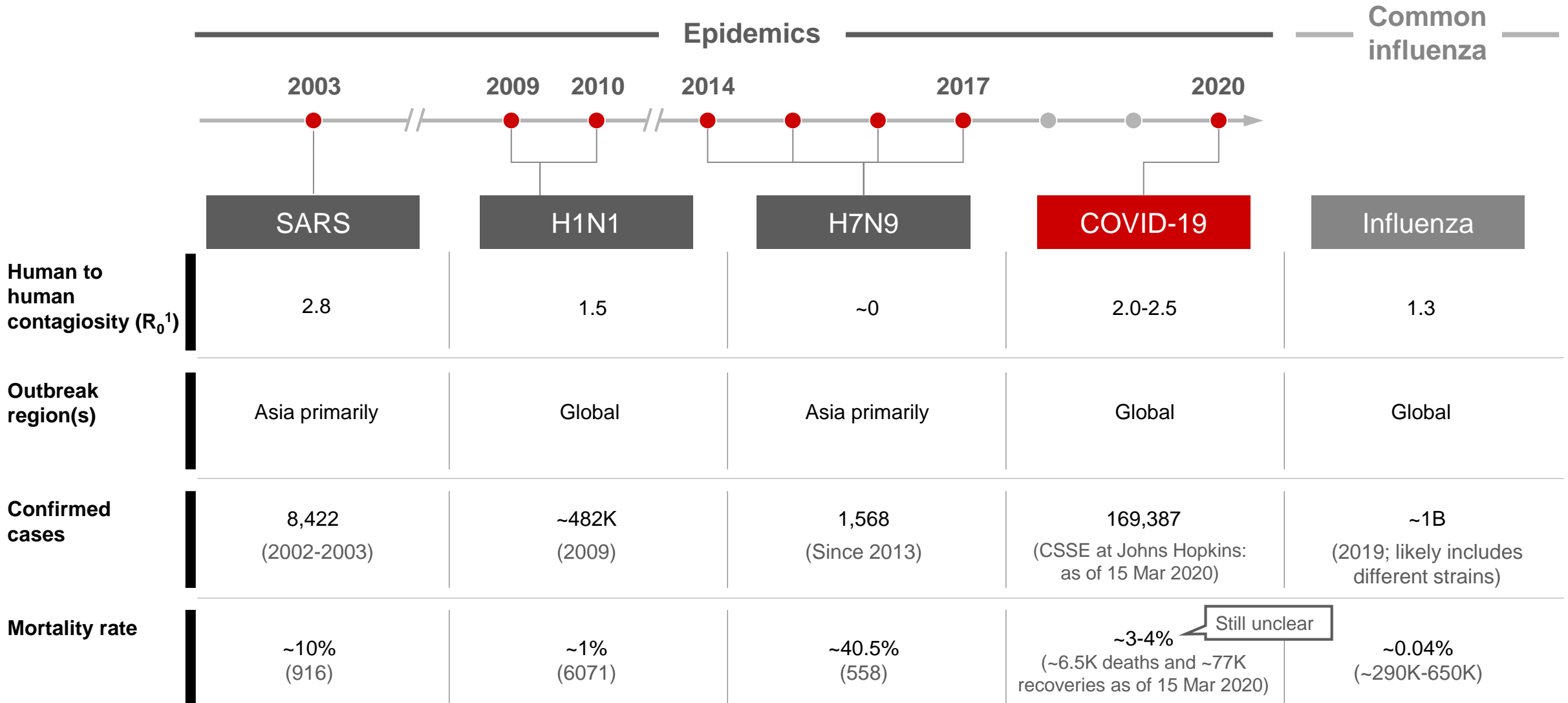
AGENDA

COVID-19 evolving situation

Immediate imperatives for you and your companies

Preparing tactical action plans across your portfolio

COVID-19 is unlike any other pandemic since it has driven restrictions on social interactions across the globe, leading to significant economic uncertainty



Note: 1. R_0 : number of people, on average, each infected person goes on to infect

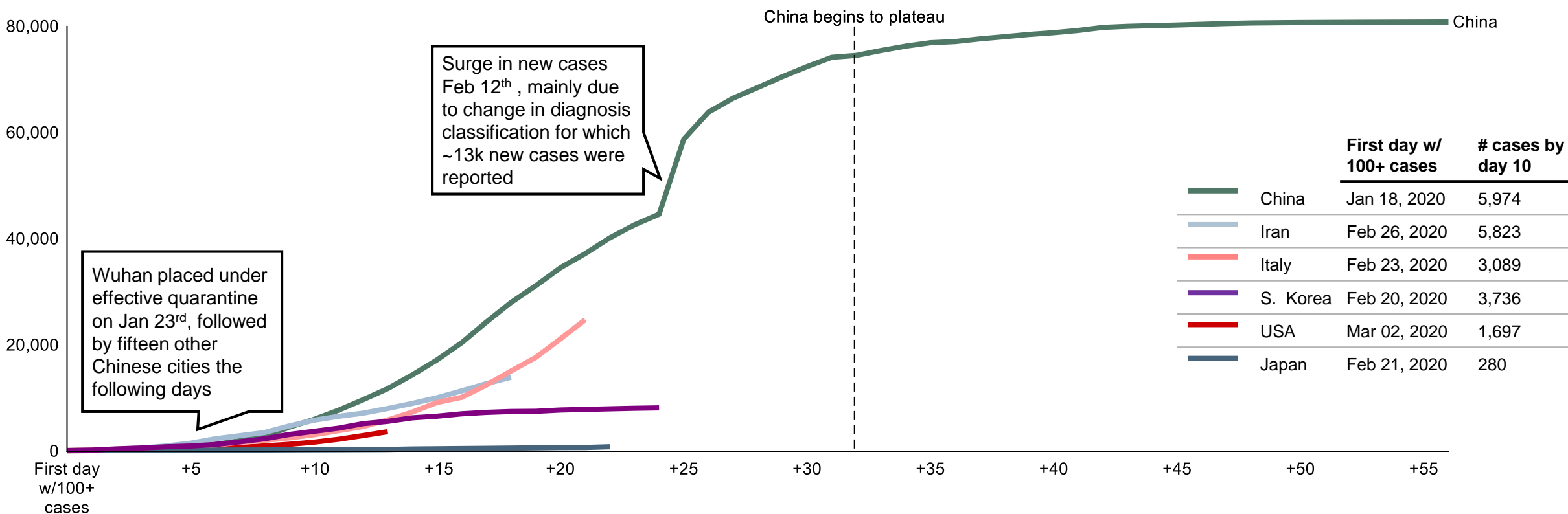
Source: National Health Commission of the PRC; WHO; FAO; IFPMA; Market Watch; Lit research

Countries are still on very different **stages of the COVID-19 growth curve**

/ DATA AS OF 3/15 / PRELIMINARY

Cases in China began to plateau ~30 days after the 100th case in country was confirmed

Confirmed COVID-19 cases in countries with high infection levels, as of 03/15/20



Note: Excludes non-mainland China; First day marked when each country reached 100 confirmed cases; Many factors drive differential growth rates and categorizations; Japan count for day 16 triangulated through average of days 15 and 17
 Source: Center for Systems Science and Engineering (CSSE) at Johns Hopkins University (JHU); WorldOMeter

Countries are pulling **varying levers to contain the virus**, creating significant disruption



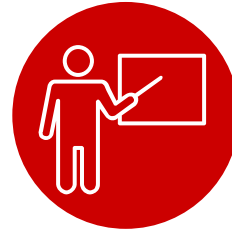
Quarantines

Isolating anyone potentially infected by the virus



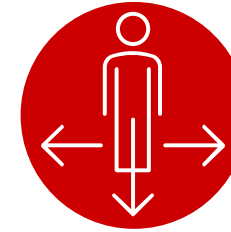
Travel restrictions

Limiting non-essential travel domestic and abroad



School and office closures

Shifting to online classes and work-from-home models



Social distancing

Efforts to reduce crowded public gatherings



Screenings

Precautionary testing for diseases symptoms before permitting certain travel



Dedicated health facilities

Building or dedicating healthcare facilities exclusively for COVID-19 patients



Widespread testing

Large-scale testing efforts and/or targeted testing of risk groups



Smartphone alerts

Applications built to notify users of potential COVID-19 risk and track health outcomes



Societal effort

Campaigns asking for the support of everyone in society by doing their part to stop the virus's spread

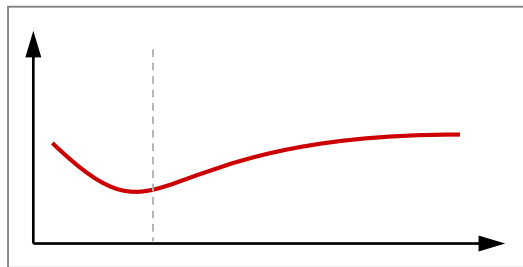


Criminal charges

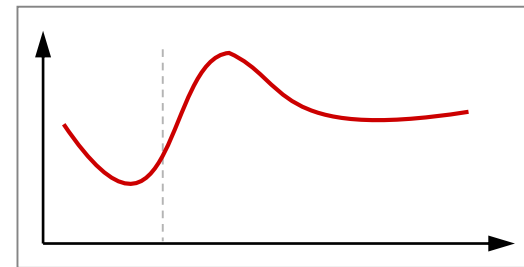
Fines and potential jail-time for violators of COVID-19 containment regulations

Industries are expected to experience differing demand profiles as COVID-19 levers get rolled out, regardless of disease outcome

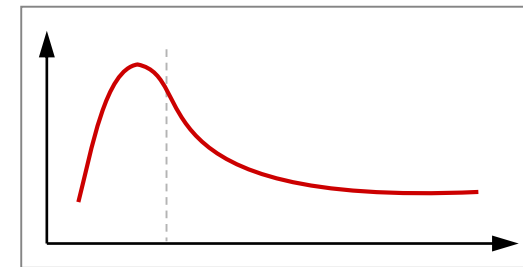
1 Hit in short-term, recover in long-term



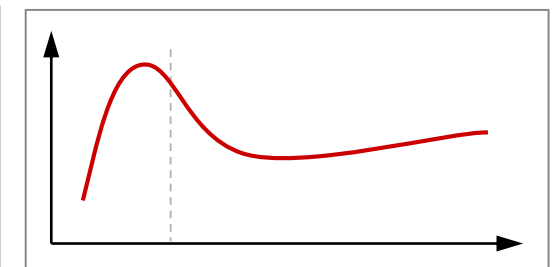
2 Hit in short-term, bounce back or grow faster in long-term



3 Spike in short-term, stabilize in long-term



4 Spike in short-term, keep growth momentum in long-term



Definition

Demand suppressed during outbreak, to **slowly recover to pre-COVID-19 levels**

Demand suppressed during outbreak, **to bounce back** to even higher consumption level because of “**revenge buying**” or **mindset change**

Demand stimulated because of **panic stockpile** and **staying at home**, to **return to normal level and stabilize** after outbreak

Demand stimulated because of **treatment need** and **staying at home**, **may keep growth momentum** because of **mindset and behavior change**

Industry examples

- Restaurant & food service
- Transportation
- Hospitality and tourism
- Entertainment & education (offline)
- Traditional retail and commercial real estate
- Automotive

- Apparel & beauty products
- Retail health (e.g., physical therapy, dentistry, optometry)
- Household appliances
- Insurance

- Grocery and household goods
- Mobile and fixed broadband
- Telecommunication

- Distance learning
- Online entertainment
- E-commerce
- Telecommuting tools
- Healthcare

AGENDA

COVID-19 evolving situation

Immediate imperatives for you and your companies

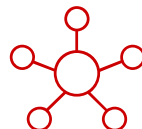
Preparing tactical action plans across your portfolio

Call to action: Private equity firms need to proactively manage their core business



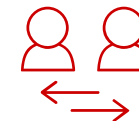
Protect own and portfolio company employees

- **Implement the best known guidelines** available for employees – overinvest in protection
- **Monitor global health guidelines** and action taken by other companies, and continue to fine tune
- **Over-communicate** with full transparency to avoid questions and/or fear amongst own and portfolio company employees



Establish emergency response team

- **Establish a dedicated central “core” team attached to key decision makers** to track COVID-19 related activities internally and empowered to make recommendations
- **Over-communicate** relevantly and consistently to all stakeholders
- **Scan the market and listen** to absorb best practice and respond quickly to regulatory or market changes



Engage with investors

- **Reinforce investor relation teams** with additional resources (internal and external as required)
- **Install a communication drumbeat** including weekly e-mails, common and consistent communication formats, scripted calls / webinars
- **Communicate with full transparency** impact on portfolio, and specific portfolio companies



Focus topic in upcoming Point of View



Protect your Employees and Customers (partial checklist)

Employee Safety

- Follow the **most conservative CDC protocols**
- Follow official advice **on deep cleaning and sanitization of most used areas/facilities in offices**
- Implement requirements for frequent **hand-washing**
- Equip employees with any needed sanitary or **personal protection equipment** (disinfecting wipes, masks, gloves, etc.)
- Re-iterate the importance of **staying home** if you are feeling ill
 - Consider **screening employees for symptoms** (temperature, etc.) and sending home staff that display signs of illness
 - **Policies around sick and personal time may need to be relaxed** during this time in order to ensure employee and customer safety
- Consider shifts to **alternative working arrangements** (e.g. working remotely) and leverage best practices and infrastructure to engage employees (e.g. videoconferences)
- Reduce or eliminate all **non-essential travel**
- Cancel non operationally-critical **gatherings of 20 people** or more
- **Regulate/minimize visits from third-parties to offices**; implement visit declaration forms and visitor screening policy

Customer safety

- Follow CDC guidance on customer facing operations and **frequently communicate potential impacts to customers**; shift online where possible (sales and servicing)
- **Reach out to key accounts** and maintain open lines of communication; implement **voice of customer monitoring / social listening** to understand consumer and customer experience and sentiment
- Prepare **communications plan** to re-assure customers on product and operational safety concerns and communicate measures to monitor
 - Maintain consistent “brand image”

CSR efforts
















- Mobilize **impactful donations / supplies** to provide assistance to epidemic-ridden geographies
- Support **epidemic limiting efforts** in any way possible

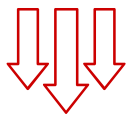
Ensure you are over-communicating with full transparency to employees and customers

Quickly triage your portfolio companies to understand the impact of COVID-19 and what actions to take

<p>High <i>(ability to adjust offering, channel, and main costs)</i></p> <p>Controllability</p> <p>Low <i>(large uncontrollable fixed costs)</i></p>	<p>Adapt to new behavior</p> <ul style="list-style-type: none"> Shift go-to-market (people and ads) to new channels Adjust sourcing volumes to new demand (up/down) <u>Example:</u> Consumer Products 	<p>Targeted growth initiatives</p> <ul style="list-style-type: none"> Investment to meet new customer needs (e.g. new offer / online) Focus on customer experience to build loyalty <u>Example:</u> Grocery retail 	<p>Invest to grow</p> <ul style="list-style-type: none"> Quickly scale operations to capture momentum and gain market share Focus on customer experience to build loyalty Consider new pricing and acquisition models to enable new user adoption <u>Example:</u> Working remote software, healthcare
	<p>Focus on saving cash</p> <ul style="list-style-type: none"> Present spend handbrakes Secure financing plan Reduce (if need) longer term cost position <u>Example:</u> Airlines, Hospitality industry 	<p>Plan contingencies</p> <ul style="list-style-type: none"> Observe impact and identify potential upside / downside scenarios Develop contingency plan <u>Example:</u> Utilities 	
	Severe decrease	Mild impact	Increase
	Demand impact of COVID-19		

Call to action: When triaging your **portfolio companies** there are a set of key areas to assess

Areas to assess	Example actions to take	Illustrative scoring for a portfolio company	
		Impact	Ability to control
 Model demand reduction scenarios	<ul style="list-style-type: none"> ❑ Stress test the P&L by developing downside cases based on scenarios (e.g. social distancing, full lockdown, and different durations) and impact to revenue ❑ Create an action plan against each scenario on mitigating actions and defend revenue loss 		
 Determine supply chain exposure	<ul style="list-style-type: none"> ❑ Stand-up cross-functional command center and establish cadence to manage situation ❑ Determine your supply exposure and immediately lock-in most critical supply ❑ Build contingency operational plans for all aspects of business (e.g. front line facilities, variable labor staffing) 		
 Enable talent and labor productivity	<ul style="list-style-type: none"> ❑ Enable talent and labor to be productive given current operating circumstances (e.g., A/B teams in shifts, telecommunications tools, operating norms, and cadence) ❑ Shift resources to highest value use if normal operations are disrupted (e.g., physical sales to online, undisrupted channels, or longer-term relationship and business development) 		
 Plan urgent cost take-out + drive liquidity	<ul style="list-style-type: none"> ❑ Immediately and fully draw down credit lines ❑ Manage business to raise cash (e.g., triage payables, cancel longer-term capex) ❑ Prepare aggressive 'break glass' cost actions triggered by more extreme revenue scenarios. This may be about saving the company – no ideas are too extreme 		
 Develop offensive plan	<ul style="list-style-type: none"> ❑ Diagnose near-term organic growth opportunities and how to outperform competitors ❑ Prepare for 'bounce-back' and recovery (e.g. marketing investment, leveraging macro trends for "if, then" moves, scan M&A for opportunities) ❑ Launch recovery plans reflecting any longer-term shift in customer demand 		



Demand reduction: Assess downside risk in demand disruption




There will be critical “triggers” where more aggressive actions will be needed

/ ILLUSTRATIVE
Increasingly worse outcomes

RUN DOWNSIDE SCENARIOS

LEVEL OF IMPACT FOR YOUR BUSINESS

EXAMPLE ACTIONS YOU SHOULD TAKE

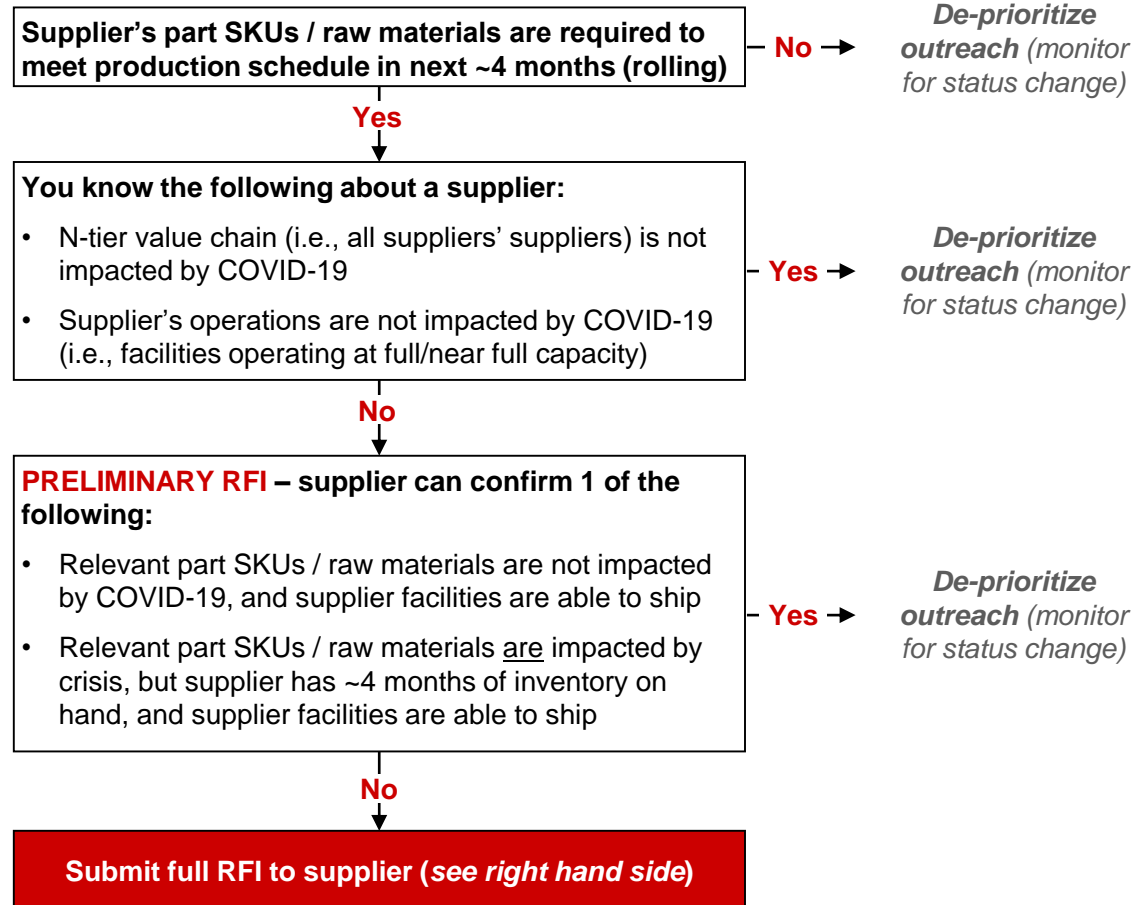
		“Missing the plan”	“Severe disruption”	“Liquidity crisis”
		<p><i>Customers change behaviors creating headwinds to business</i></p> <ul style="list-style-type: none"> Noticeable changes in customer behavior driven by shifting priorities and/or local guidelines Manageable disruption in operations and business continuity <p style="text-align: center;"></p> <p><i>Revenue headwinds manage</i></p>	<p><i>Local mandates create temporary revenue cliff disrupting business</i></p> <ul style="list-style-type: none"> Certain BU's, geos, channels have significant revenue cliff (e.g., local mandates restrict operations) Uncontrollable operational disruptions emerge <p style="text-align: center;"></p> <p><i>Sharp and sudden revenue decline; unknown recovery period</i></p>	<p><i>Prolonged disruption creates liquidity crunch</i></p> <ul style="list-style-type: none"> Severe drop in revenue and negative cash risking near term liquidity Operations ‘paralyzed’ by supply chain or local mandates <p style="text-align: center;"></p> <p><i>X% cash shortfall triggers default of debt obligations</i></p>
	Defend against revenue declines	<ul style="list-style-type: none"> Shift marketing spend to optimize demand 	<ul style="list-style-type: none"> Shift business to channels or geos that are not on “lockdown” 	<ul style="list-style-type: none"> Conduct portfolio review and consider shutting down non-core ops
	Stabilize operations to “new normal”	<ul style="list-style-type: none"> Ensure security of supply to maintain ops and high demand areas 	<ul style="list-style-type: none"> Temporarily close impacted locations to manage expense 	<ul style="list-style-type: none"> Right size operations to go-forward core; sell non-critical assets
	Manage cash position	<ul style="list-style-type: none"> Implement spend handbrakes and no-regrets cost reduction 	<ul style="list-style-type: none"> Implement aggressive “break glass” reductions to drive cash 	<ul style="list-style-type: none"> Conserve cash levels for potential controlled default
	Be ready to play offense	<ul style="list-style-type: none"> Invest in areas of “new” or “changed” customer demand to gain share 	<ul style="list-style-type: none"> Engage with customer to win loyalty and trust when situation improves 	<ul style="list-style-type: none"> Re-invent company around new core value proposition



Supply chain exposure: Determine your supply exposure

Identify your exposure across multiple tiers of your supply base

Evaluate production exposure risk as result of COVID-19 and prioritize outreach to impacted suppliers



Key questions for impacted suppliers to assess production impact and create contingency plans

- **What is your production capacity** now for our part SKUs, relative to before COVID-19? When do you anticipate 50%, 75%, 100%?
- For vendor-managed inventory suppliers: **when do you anticipate that we will run out of inventory**, assuming no additional production?
- Of the part SKUs you manufacture for us, **what is your inventory on-hand?** How long would it take to prep air freight for those items?
- **Do you have comparable SKUs in inventory** that could work as a substitute in our finished goods?
- **We want to be at the top of your queue when you resume production** – how can we ensure that ends up happening?

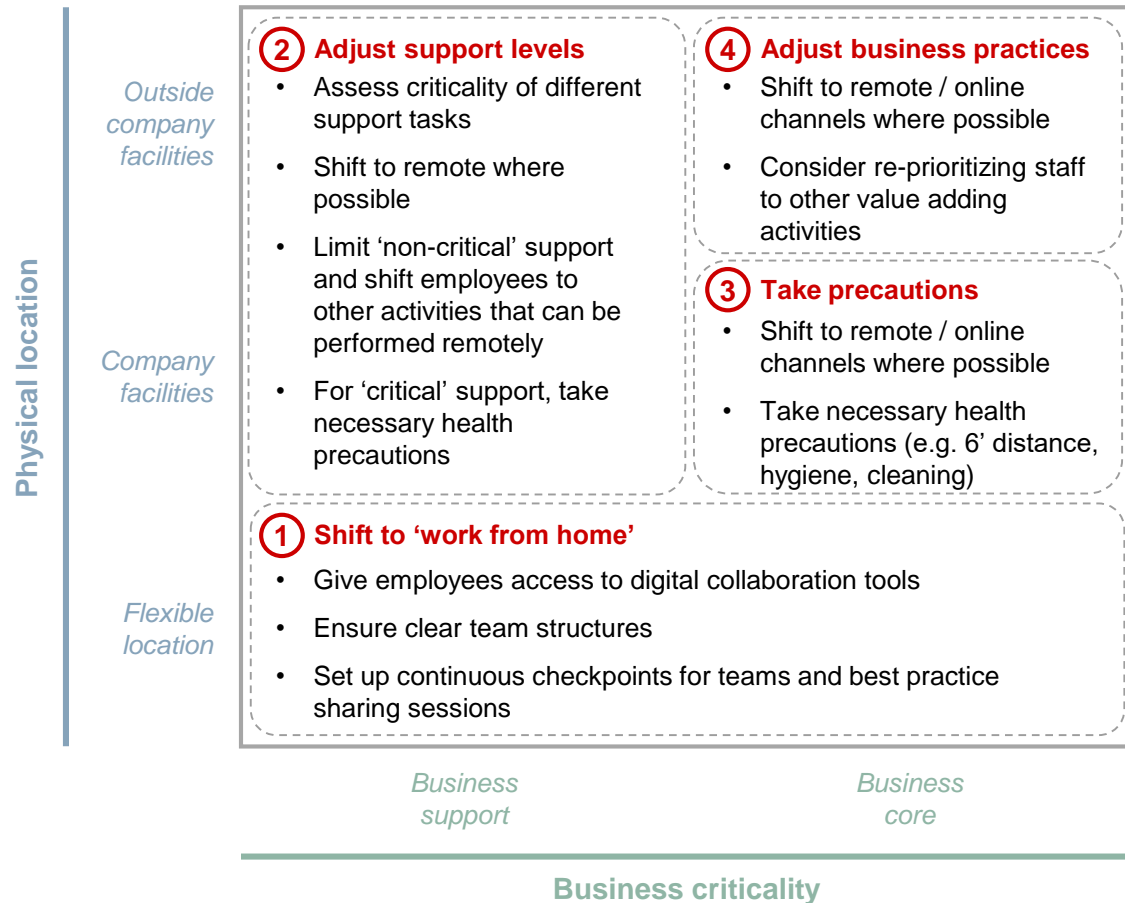


Talent/labor productivity: Assess how to protect and enable employees

Policies should be targeted based on location and criticality

4 approaches for protecting and enabling employees

/ ILLUSTRATIVE



Examples of employee groups suited for each approach

Employee group approach	Example groups of employees
① Shift to 'work from home'	<ul style="list-style-type: none"> Management HR, Finance, marketing & legal Sales & consulting
② Adjust support levels	<ul style="list-style-type: none"> Technical support Facility management Call-centre customer support
③ Take precautions	<ul style="list-style-type: none"> Production workers Retail employees
④ Adjust business practices	<ul style="list-style-type: none"> Face-to-face sales Field service employees



Cost take out and drive liquidity: Stress test short term liquidity

Pull handbrake on spend to conserve cash and prepare structural cost take out

Perform balance sheet stress test with emphasis on short term liquidity and potential need for structural cost takeout

Key to conserve cash – cash is king in a crisis like this



Spend handbrakes

- **Freeze hiring** plans as relevant
- **Cancel all travel and/or training** that is not operationally-critical
- **Pause/furlough** contingent workforce
- **Freeze marketing / advertising** selectively
- Stop **non-critical consulting engagements**
- **Extend payables** with suppliers to preserve cash
- **Postpone** major investments



Drive liquidity into the business

- **Immediately and fully draw down credit lines**
- **Triage payables**, and manage supplier payment accordingly
- **Take-out any cost that translates to immediate cash** (and does not impact customer)
- **Cancel capex** and re-capture down payments
- Look to **turn fixed assets to cash** where feasible
- **Delay tax payments**
- **Seek principal payment holidays**
- Demand **rent reductions**



“Break glass” decisions

- Determine future **crisis milestones** that would trigger **additional corrective actions** (e.g. store closures, geography exits etc.)
- **Line up owners and build blueprint** for each corrective action to be ready to deploy once milestones are reached
- **Benchmark proposed action plans / milestones** with competitors to ensure timely responses are planned



Improvement in long term cost position

- Assess cost position and build longer-term roadmap of **cost saving opportunities**, without cutting ‘muscle’
 - **Optimize supply chain** to reduce cost of logistics / storage / labor
 - Drive **procurement savings program** to reduce spend with vendors
 - Right size **G&A costs**
 - Establish **Zero Based Budgeting**
- Put the financial house in order: diligently manage **liquidity** and **balance sheet**



Plan to go on the offensive: Seek growth opportunities

Plan for shifts in behaviour and define how to gain market share



Define how you will outperform competitors and take share

- **Enact bold actions now** to help outpace competitors in recovery
 - M&A consolidation roadmap
 - Strategic product, customer intimacy, or service investments
- Review pitfalls and update supply chain to achieve **greater agility** and **increased capabilities**
- In case of persistent low consumer demand, lay out a path to build **sustained relative cost advantage**
- Ensure **balance sheet is robust** enough to create a safety net and resilience against hostile approaches



Prepare for 'bounce-back' and recovery

- Continue **sales, marketing, and R&D** investments to maintain market share; **prepare supply chain for bounce-back**
- **Leverage macro trends** and industry signals to identify **comeback point**; have clear "if, then" moves identified in advance
- Learn from this crisis to '**build the resilience muscle**' for **future external shocks** (economic downturns, terror attacks, natural disasters)
- Invest in the **teams, tools, systems and redundancies** that will protect your business going forward
 - E.g. implement **Agile ways of working**, adaptive risk planning into operations



Plan for and leverage a 'leap-frog' change in behaviors and tech.

- **Plan for and leverage sustainable shifts** in customer behaviors
 - E.g. digital solutions, automation
- **Act swiftly with investments** to maintain competitive advantage as **customers 'leap-frog' through traditional S-curve progression**

Longer-term, COVID-19 market disruption will also likely create **investment opportunities** in as customer demands change

COVID-19 leading to underlying trends potentially favouring certain industries and companies...



Services from home

- Social distancing increases demand for services from home such as entertainment, food etc.



Working remotely

- As offices and schools close down, rising need for enabling services to work from home



Healthcare

- Accelerated innovation and surge of demand for healthcare (especially COVID-19 e.g. vaccine development)



Security and defence

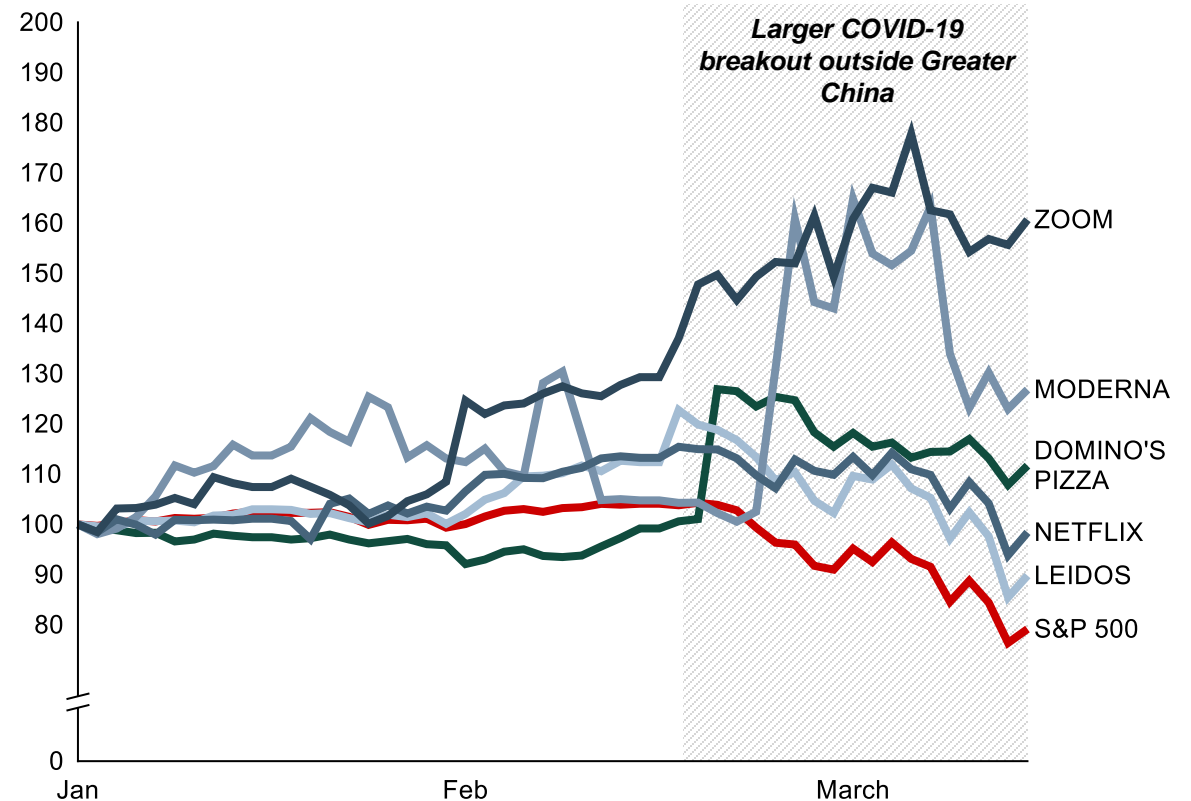
- Fear and uncertainty increasing demand for services enabling security and defence operations



...examples of companies outperforming S&P 500 since outbreak

Stock development (2020, base in 100 Jan 6st)

/ DATA AS OF 3 / 13



AGENDA

COVID-19 evolving situation

Immediate imperatives for you and your companies

Preparing tactical action plans across your portfolio

COVID-19 Triage Team: goal to identify and address #1 issue for most impacted portfolio companies, leading to portfolio triage and resource prioritization

Most PE firms are here

Set-up	Assess impact on portfolio companies and commence action on agile basis		
<p>1 Set-up Emergency Response Team</p> <p><u>Align senior team with magnitude of COVID-19 impact</u></p> <ul style="list-style-type: none"> • “All hands on deck” senior leader workshop / brainstorm on impact <p><u>Set up a dedicated Emergency Response Team “war room” setting</u></p> <ul style="list-style-type: none"> • Right team composition, encompassing all functions • Set up workstreams (IR, comms, funding, portfolio, etc.) • Agree on coordination / decision rights vs. in-line functions • Set-up tracking tool to continuously monitor COVID-19 impact 	<p>2 Assess and continuously monitor risks for each PC company & identify most pressing / addressable issues</p> <p><u>Set COVID-19 impact scenarios</u></p> <ul style="list-style-type: none"> • Understand potential macro impact scenarios and signposts for evolution across scenarios • Select current scenario (different by geography, given variability in government reactions) <p><u>Assess COVID-19 impact on each PC under multiple scenarios to ensure readiness given evolving situation</u></p> <ul style="list-style-type: none"> • Rapid risk assessment (questionnaire) & prioritization <ul style="list-style-type: none"> – Demand, Supply chain & ops, Labor & talent, Financial stability – Understand risk changes across macro impact scenarios • In-depth risk assessment for highest impact risks (data and mgmt. interviews driven) <ul style="list-style-type: none"> – Model financial impact: demand curve, revenue / profit / P&L / cash-flows – Agree on #1 addressable issue to tackle 	<p>3 Triage & prioritize portfolio for action</p> <p><u>Triage portfolio & prioritize resources for support</u></p> <ul style="list-style-type: none"> • Aggregate risk assessment for portfolio; monitor / update as situation changes • Triage portfolio companies to prioritize/phase support <ul style="list-style-type: none"> – Risk level – Controllable value at stake (equity, ownership duration, ability to address risks, etc.) • Mobilize resources to support priority PCs • Identify best practices & share across portfolio 	<p>4 Develop action plan & commence execution</p> <p><u>Define and launch custom action plans</u></p> <ul style="list-style-type: none"> • Develop custom action plan for prioritized portfolio companies <ul style="list-style-type: none"> – Financial, labor, operational requirements for successful implementation • Develop action plans for other high risk issues • Create phased execution roadmap • Commence execution • Establish structure for continuous follow up
<ul style="list-style-type: none"> • Run agile Program Management Office to coordinate COVID-19 response across the firm and portfolio companies • Run Communications and Engagement program • Identify and start executing “no regret” actions (e.g. liquidity analysis) across portfolio companies 			

1 Best practices on how to run a Emergency Response Team “war room”

Who to involve

Example: Best Demonstrated Practice



- **Central PE response team** (*PE firm focused*): 6-8 people including key roles such as fund head(s), region heads (if appl.), finance, HR, and IR
- **PC support teams** (*PC focused, one per PC*): One deal team member per PC, finance, and HR

What cadence

- Daily:**
- 1 hr check-in with Central PE response team to flag internal or PC risks
 - 1 hr check-in with PC support team to review latest PC risks/actions
- Weekly:**
- Communication to PE firm employees
 - Meeting with extended response team

How to run it virtually

- **Establish virtual set-up and awareness of “war room”**
 - Set-up platform enabling shared content
 - Assign relevant access rights to platforms, folders or files between war room team members and other individuals requiring information
 - Utilize collaboration tools that already are up and running
 - Provide necessary home office equipment and trainings
- **Define working norms**
 - Agree on team norms e.g. available hours, reporting format (e.g. email, sms)
 - Plan and allocate work, and create clear accountability inc. decision rights
 - Define values and create a fostered ‘online culture’
- **Maintain team engagement and adjust to new learnings**
 - Uphold standing check-ins with full team - deprioritize other non-business critical meetings for full attendance to ensure information flow
 - Drive social intimacy and schedule face-to-face time
 - Institutionalize “health checks” to observe stress level of team
 - Be agile, share learnings, capture challenges and address them quickly

Key things to consider



- Do we need to adjust who to involve or cadence depending on investment size, industry, or time to exit;
 - Do we need to adjust given how the macro situation has evolved?
 - Do we have enough flexibility to quickly respond?
 - What are the potential trade-offs?
 - To what extent should central PE response team engage and cooperate with PC support team?
-
- **Technical enablers**
 - Can we leverage existing platforms and tools to;
 - > Support easy content creation and sharing of documents?
 - > Enable coordination, updates, and online meetings?
 - > Ensure productivity, collaboration and project management?
 - Do we need to invest in any new technology?
 - Do we have necessary home office equipment (e.g., PCs, screens, headsets, phones) and infrastructure (e.g., VPN bandwidth, remote app access, firewalls, DMZ, protection tools)?
 - **Decision making**
 - Can we fast-track and shorten decision making?
 - > Can we ease any processes or decrease involved people?
 - > Can we identify key decisions and prioritize accordingly?
 - > Can we decrease time to action after a decision is made?
 - **Responsiveness**
 - How can we quickly create new ways of working and execute on learnings?

② A range of lock-down measures have been implemented across the globe – it is **critical to understand the current situation** and potential scenarios to assess risk

☑ Moderately Likely ☑ Highly Likely **/ ILLUSTRATIVE**
Primarily self-imposed restrictions ← Full-lockdown

	Actions taken	Examples ¹ :	Majority of US and European countries	New York, California, Denmark, Norway	China, Italy, Spain, South Korea, Singapore, France
Negative Factors	All Industries	Self-imposed social distancing	☑	☑	☑
		Required "work from home"	☑	☑	☑
		Reduced hours of operations for companies (e.g. retailers, manufacturers)	☑	☑	☑
		Gov. restrictions on large group events	☑	☑	☑
		Gov. closure of public services (e.g., schools, public transport)		☑	☑
	Transportation	Closure / severe limitation of country borders		☑	☑
		Gov. mandated curfew for citizens, decrease or closure of interstate travel		☑	☑
		Gov. enforced "shelter in place" (i.e., citizens only allowed to leave home for essential activities)		☑	☑
	Retail / Hospitality	Closure of dine-in restaurants (takeout / delivery only)		☑	☑
		Full closure of all physical retail / restaurants (excl. grocery stores and pharmacies)		☑	☑
Healthcare	Gov. mandates companies to produce supply constrained goods (e.g., PPE, medical supplies)		☑	☑	
Financials	Stock market closure			☑	
Manufacturing	Production / operations closed / slowed down (e.g., factory staff restrictions)		☑	☑	
Mitigating Factors	All Industries	Central bank rates lowered / further easing actions taken	☑	☑	☑
		Tax collection deferred	☑	☑	☑
		Moratorium on lease / rent / mortgage payments		☑	☑
		Targeted Gov. support to exposed industries and individuals (e.g. UBI)	☑	☑	☑

Note: ¹Examples based on current restrictions as of 3/20/20





② Risk assessment should be completed for each potential COVID-19 impact scenario to ensure readiness as the impact evolves

Take the PE COVID-19 Risk Assessment Survey [HERE](#) to get started

Select portfolio company risk level

High-level risk assessment questions

(see appendix for additional questions to help answer key questions below)

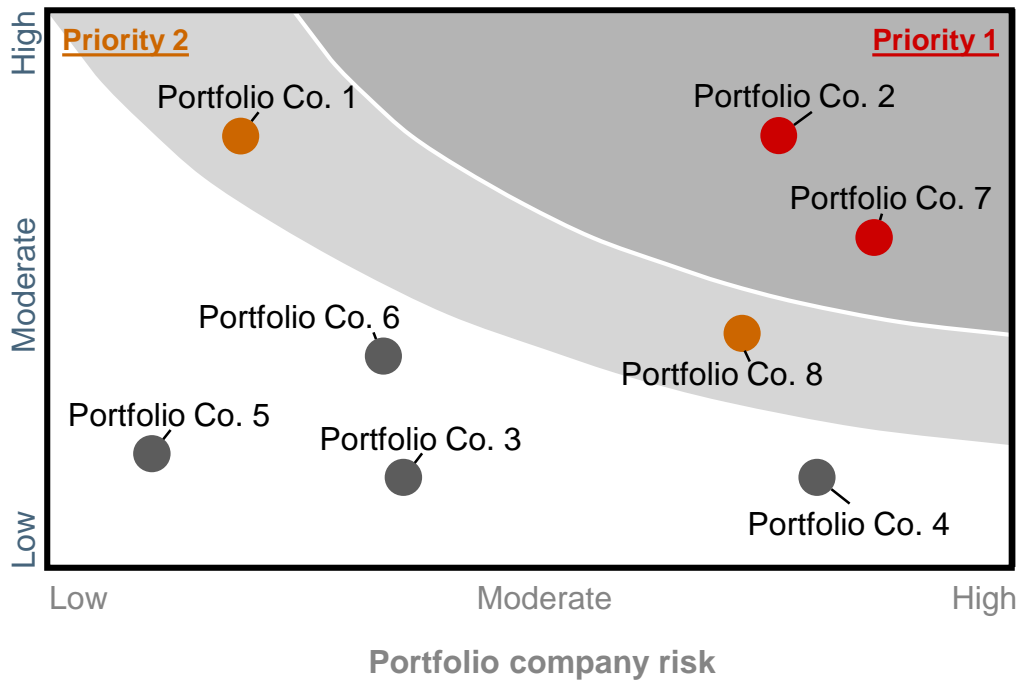
		Risk scale				
		1 – Very low	2 - Low	3 - Moderate	4 - High	5 – Very high
Demand reduction exposure 	Do we expect demand for our core business to be resilient ?	Minimal impact				Significant decline
	If there are sales declines, can we refocus on different channels and / or customers ?	Strong ability to refocus				Minimal to no ability to refocus
	If there are sales declines, can we pivot to more resilient products or services ?	Strong ability to pivot				Minimal to no ability to pivot
Supply chain & ops exposure 	Do we have access to enough inventory on hand to continue normal operations?	Sufficient access				Limited access
	Can we continue producing output (e.g., manufacturing of products or delivery of services)?	Sufficient production				Limited production
	Can we continue shipping / delivering output to our customers?	Minimal impact				Significant impact
Labor & talent risks 	Can we readjust workforce to new situation (e.g., work from home, shift to other activities)?	Strong ability to readjust				Minimal to no ability to readjust
	Can our leaders effectively manage the company (e.g., sufficient oversight)?	Easy management				Difficult management
	Can we maintain efficient communication internally?	Easy communication				Difficult communication
Financial strength of company 	Can we remain solvent and meet debt / covenant obligations ?	Strong ability to meet obligations				Minimal to no ability to meet obligations
	Can we issue new debt to meet obligations?	Strong ability to issue new debt				Minimal ability to issue new debt
	Can we improve cash generation from operations (e.g., cutting variable and fixed costs, divest non-core assets)?	Strong ability to improve				Minimal to no ability to improve



③ Portfolio companies can then be triaged based on portfolio company risk and controllable value at stake for the fund

Couple portfolio company risk assessment with controllability to guide priorities

Controllable value at stake



Priority 1: Large at risk PCs with problem(s) that can be addressed

Priority 2: PCs that have lower risk with issues that can be addressed

Factors for 'Controllable value at stake'

Ability to impact Can fund help mitigate the risks?

Share of fund What share of fund does PC make up (e.g., as a percentage of AUM)?

Factors for 'Portfolio company risk'

Demand reduction exposure

Supply chain & ops exposure

Labor & talent risks

Financial strength

Fund's next steps

- **Develop custom action plans to address key risk for prioritized portfolio companies** (e.g. financial, labor, operational requirements for successful implementation)
- **Develop action plans for other high risk issues**
- **Create phased execution roadmap** to drive change while keeping focus on high priority actions
- **Commence execution** in line with roadmap
- **Establish structure for continuous follow up** of initiatives
- **Identify best practices & share across portfolio** based on successful actions taken
- **Mobilize resources to support priority portfolio companies** (e.g., OPEX / CAPEX injections, project staff / consultants)

③ Example: Risk assessment results in a heatmap clearly indicating which portfolio companies and risk areas to prioritize

Illustrative heatmap of portfolio companies' risk profile

Risk assessment		PC 1	PC 2	PC 3	PC 4	PC 5	PC 6	PC 7	PC 8	PC 9	PC 10
Demand reduction exposure	Do we expect demand for our core business to be resilient?	Low	Moderate	Low	High	Moderate	Moderate	High	Moderate	High	Low
	If sales decline, can we re-focus on different channels / customers?	Moderate	Low	High	High	Low	Moderate	High	Low	Moderate	High
	If sales decline, can we pivot to more resilient products or services?	Low	Moderate	Moderate	High	High	Moderate	High	Moderate	High	Moderate
Supply chain & ops exposure	Do we have access to sufficient inventory ?	High	Low	Low	High	Low	Low	High	High	Low	Low
	Can we continue producing output?	Low	Low	Moderate	High	Low	Moderate	Moderate	Moderate	Low	Moderate
	Can we continue shipping / delivering output to our customers?	Moderate	High	Low	High	Low	High	High	Low	Low	Low
Labor & talent risks	Can we readjust workforce to new situation?	Moderate	High	High	Low	High	High	High	High	High	High
	Can our leaders effectively manage company (e.g. sufficient oversight)?	High	Low	Low	High	High	Low	High	High	Low	High
	Can we maintain efficient communication internally?	Low	Low	Low	High	Moderate	Low	High	Low	Low	Low
Financial strength	Can we remain solvent and meet debt / covenant obligations?	Low	High	Moderate	High	Low	Low	High	Low	Moderate	Moderate
	Can we issue new debt to meet obligations?	Low	Low	Moderate	Low	High	High	Low	Low	Moderate	Low
	Can we improve cash generation from operations (e.g. cut costs)?	High	Low	High	Priority	Moderate	High	Priority	High	High	High

Identify practices / processes that can be implemented across the portfolio

e.g. work from home / virtual collaboration tools, digital sales tactics, salary payment practices for unutilized / underutilized employees

Add extra support for companies identified as high priority

- Develop custom action plans to address high risk issues, create detailed roadmap, and commence execution

Legend: Risk assessment for PC

Low risk	Moderate	High risk
----------	----------	-----------

4 Once risk assessment is complete and potential actions are identified, **prioritize actions for each portfolio company (Retail Health Co)**

Example situation



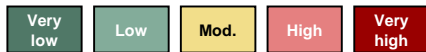
Portfolio company:

- Retail health clinic chain focused on primary care with 50 clinics in 3 European countries
- Recent roll-up of smaller clinic groups

Scenario:

- Government imposed full lock-down

Legend: Risk assessment for PC



Legend: Risk controllability



Risks assessed with Bain framework under various scenarios to ensure readiness as the situation changes

Risk assessment		Self-imposed restrictions	Full-lockdown	Controllability*
Demand reduction exposure 	Do we expect demand for our core business to be resilient ?	Yellow	Red with 3	None
	If sales decline, can we re-focus on different channels / customers ?	Green	Green	None
	If sales decline, can we pivot to more resilient products or services ?	Yellow	Yellow	None
Supply chain & ops exposure 	Do we have access to sufficient inventory (e.g., clinical supplies)?	Yellow	Red with 1	None
	Can we continue producing output (e.g. clinic personnel present)?	Yellow	Red	None
	Can we continue shipping / delivering output to our customers?	Green	Green	High
Labor & talent risks 	Can we readjust workforce to new situation?	Red	Red with 2	None
	Can our leaders effectively manage company (e.g. sufficient oversight)?	Green	Red	None
	Can we maintain efficient communication internally?	Yellow	Yellow	None
Financial strength 	Can we remain solvent and meet debt / covenant obligations ?	Yellow	Yellow	None
	Can we issue new debt to meet obligations?	Yellow	Yellow	None
	Can we improve cash generation from operations (e.g. cut costs)?	Red	Red with 4	None
PORTFOLIO COMPANY OVERALL		Yellow	Red	None

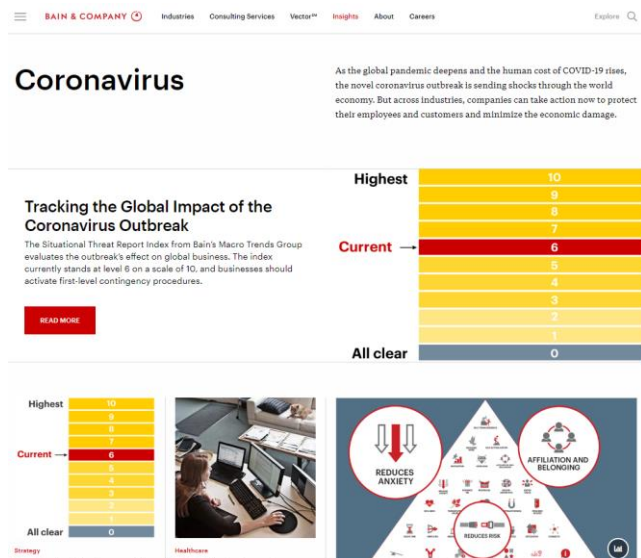
Top priorities targeting addressable risks in “Full-lockdown” scenario

- Secure supply of clinical material**
 - Identify critical inputs and find alternative suppliers
- Ensure staff defense & plan for reallocation**
 - Contract additional staff in advance
 - Prepare re-allocations to respond to outbreak trends
 - Consider terminating part-time labor
 - Re-assess salary levels
- Prevent short-term demand/revenue drop**
 - Inform on opening routines and safety pre-cautions
 - Increase focus on tele-health
 - Explore COVID-19 offerings (e.g. testing support)
- Take actions to improve cash flow**
 - Demand rent & lease reductions
 - Reach out to payers and push for early payments

* To what extent risk can be mitigated through actions: No controllability = no / minimal ability to address risk and High controllability = strong confidence in being able to mitigate risk

We are here to help you mitigate COVID-19 impact

For more up-to-date information visit
Bain's COVID-19 microsite



Bain COVID-19 site

<https://www.bain.com/insights/topics/coronavirus/>

Bain Macro Trends

<https://www.bain.com/insights/topics/macro-trends/>

We can help you **accelerate and amplify your response**



COVID-19 Triage Team: guidance for BDPs in standing-up and running Triage team and coordinating with PCs



Portfolio triage: robust approach to identify portfolio companies in need of most support based on risk level and controllable value at stake



Portfolio company risk assessment: rapid and data-driven approach to identify and mitigate key addressable issues via custom action plan

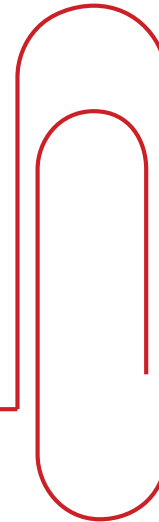


Portfolio company targeted support: function-specific value creation levers, such as cost optimization, performance improvement, and commercial excellence

Take the PE COVID-19 Risk Assessment Survey [HERE](#) to get started

If any further questions, reach out to BainPECOVIDsupport@bain.com

Risk assessment survey details





Risk assessment & key actions

Demand reduction exposure

	Example questions* (more “yes”->lower risk)	Risk level	Potential actions (include relevant actions from lower levels if in moderate/high scenarios)
Do we expect demand for our core business to be resilient?	<input type="checkbox"/> Is customer demand resilient (e.g. groceries, pharma, remote-working tools, home entertainment)? <input type="checkbox"/> Can customers access our offerings in regular channels (and can we reach them there)? <input type="checkbox"/> Are there sales & marketing efforts that could improve demand for our current offering (e.g., rebates, bundled offerings)?	Low (1-2)	<ul style="list-style-type: none"> Take customer centric view: proactively reach-out to reaffirm “business continuity” and inform of “extraordinary actions” (e.g. health measures, waiving cancellation fees)
		Moderate (3)	<ul style="list-style-type: none"> Stress test P&L by developing downside revenue cases based on macro scenarios Create an action plan for each scenario on mitigating actions to defend revenue loss Continuously evaluate opportunities to re-focus core ops in line with new business environment
		High (4-5)	<ul style="list-style-type: none"> Revise price strategy (but avoid slashing prices indiscriminately as can take 2+ years to recover) Review portfolio and reduce / cut non-core offerings
Can we re-focus on different channels and / or customers?	<input type="checkbox"/> Could our core offering be made relevant through alternative channels or to other customers ? <input type="checkbox"/> Can we quickly implement new tailored approaches to meet needs in new channels / to different customers ? <input type="checkbox"/> Would the potential new approaches support / align with the company’s mission / strategy ?	Low (1-2)	<ul style="list-style-type: none"> Engage with customers to win loyalty and trust when situation improves Explore stronger links with core customers (favorable prioritization, additional discounts etc.)
		Moderate (3)	<ul style="list-style-type: none"> Shift marketing spend to optimize demand to high-conversion channels (online and beyond) Execute targeted account management / marketing campaigns geared towards high risk segments to proactively address segment specific concerns Shift business to channels or geographies that are not on “lockdown” Align reactive actions with long-term strategy of the company
		High (4-5)	<ul style="list-style-type: none"> Stop serving customers segments with worst economics until situation improves
Can we pivot to more resilient products or services?	<input type="checkbox"/> Can we shift offering to other, more resilient products and services items in short time? <input type="checkbox"/> Can we re-prioritize new offering development to launch high potential offerings in short time ?	Low (1-2)	<ul style="list-style-type: none"> Re-assess portfolio: focus on products and services which we’re well-positioned to sell and which have higher / more resilient demand
		Moderate (3)	<ul style="list-style-type: none"> Plan for a ‘leap-frog’ offering change given new customer behaviors and technology Re-ignite company around new core value proposition
		High (4-5)	<ul style="list-style-type: none"> Pivot resources to new offerings with potential for current and future growth

ⓘ Ask these questions for all potential macro scenarios you are considering (i.e. different length and magnitude of impact)

Risk assessment & key actions

→→→ Supply chain & operations

	Example questions (more “yes”->lower risk)	Risk level	Potential actions (include relevant actions from lower levels if in moderate/high scenarios)
Do we have access to enough inventory on hand to continue normal operations?	<input type="checkbox"/> Can we keep running on available inventory for assumed lockdown timeline? <input type="checkbox"/> Can we get new inventory or inputs from existing suppliers ? <input type="checkbox"/> Can we build safety stock of inventory given current space constraints? <input type="checkbox"/> Can we use our other existing suppliers for inventory inputs not available from current? <input type="checkbox"/> Can we quickly get new suppliers if no existing ones can supply?	Low (1-2)	<ul style="list-style-type: none"> Establish daily risk calls with impacted teams (e.g. sourcing, logistics, manufacturing, engineering) Ensure being at top of queue once supply re-emerges
		Moderate (3)	<ul style="list-style-type: none"> Work with suppliers to conduct a joint risk assessment, including upstream risks and changes to inventory input costs and setup joint process to monitor Assess inventory warehousing and supply intake capabilities
		High (4-5)	<ul style="list-style-type: none"> If inventory can be sourced elsewhere: (1) Seek commitments on supply minimums; (2) Increase stock levels where possible; and (3) Increase delivery frequency to smooth supply
Can we continue producing output (e.g. manufacturing of products)?	<input type="checkbox"/> Can we run operations given situation (e.g. are we allowed to, health / safety considerations)? <u>In case yes:</u> <input type="checkbox"/> Can we operate in a way that ensures the health of our staff ? <input type="checkbox"/> Do we have flexibility required in operations to adjust utilization level? <input type="checkbox"/> Can we obtain necessary inputs to produce? <u>In case no:</u> <input type="checkbox"/> Can we shift to functioning sites (internal / external)? <input type="checkbox"/> Can we reduce scope / change product offerings to maintain operations? <input type="checkbox"/> Can we repurpose staff / operations in short-term?	Low (1-2)	<ul style="list-style-type: none"> Establish daily calls with sales & operations planning teams to track latest capacity requirements and availability Review planned deliveries and develop contingency plans in case demand rapidly decelerates Re-enforce allocation process to optimize operations given existing supply & demand Ensure S&OP team incorporates more volatile situation in planning
		Moderate (3)	<ul style="list-style-type: none"> Assemble fact base to track all inventory / components from at-risk geographies / suppliers / products Review output prioritization if under-capacity (e.g. priority customers) Refine site prioritization if over-capacity (e.g. labor regulations allowing shut-down)
		High (4-5)	<ul style="list-style-type: none"> Assess potential to open new sites (3rd party / temporary internal) Assess operations and business impact of simplifying product portfolio temporarily If inputs cannot be sourced: (1) Seek commitments on supply minimums; (2) Increase stock levels where possible; (3) Increase delivery frequency to smooth supply; and (4) Begin to qualify new suppliers with input from sourcing / engineering
Can we continue shipping / delivering output to our customers?	<input type="checkbox"/> Are our current down-stream partners able to continue delivering our output (e.g. logistics flow and end customer sales channel still open)? <input type="checkbox"/> Can we deliver our output through new partners or channels ?	Low (1-2)	<ul style="list-style-type: none"> Leverage partner relationships for market data (e.g. distributor surveys) to identify issues proactively
		Moderate (3)	<ul style="list-style-type: none"> Work with logistics partners to conduct a joint risk assessment Identify alternative distribution partners Plan for potential bounce-back
		High (4-5)	<ul style="list-style-type: none"> Set up alternative sales / distribution routes with new channels / partners

* Ask these questions for all potential macro scenarios you are considering (i.e. different length and magnitude of impact)



Risk assessment & key actions

Labor & talent

	Example questions (more “yes”->lower risk)	Risk level	Potential actions (include relevant actions from lower levels if in moderate/high scenarios)
Can we readjust workforce to new situation?	<input type="checkbox"/> Can the majority of employees work from home without significant productivity impact?	Low (1-2) Moderate (3) High (4-5)	<ul style="list-style-type: none"> • Ensure feasibility of working from home: (1) Access to communication tools (e.g. phone, computer, internet); (2) Place to work (e.g. desk); (3) Suitable environment to work in (e.g. if sharing apartment and working with sensitive data); and (4) Access to specific equipment (e.g., specialist tools) • Adapt teams & office hours to new ways of working from home (including productivity expectations and potential temporary day care solutions for business critical employees if day care / schools close) • Slow down recruiting and new employee onboarding (as feasible)
	<input type="checkbox"/> Can we work through precautions to ensure health and safety of employees that need to work onsite (e.g., factory, stores)?		
	<input type="checkbox"/> Can we adjust support levels to limit risk on support function employees needed in company facilities?		
	<input type="checkbox"/> Can we scale down our employee base if the crisis is prolonged ?		
Can our leaders effectively manage the company?	<input type="checkbox"/> Is our governance and mandate clear enough to enable quick decisions?	Low (1-2) Moderate (3) High (4-5)	<ul style="list-style-type: none"> • Align senior team with a wake up call • Establish a dedicated cross functional senior team in a “war room” empowered to make recommendations, track progress, and communicate consistently • Establish sufficient safety protocols • Ensure front-line leaders have the ability to execute (clear governance and mandate)
	<input type="checkbox"/> Does our management have up-to-date information to inform decision-making?		
	<input type="checkbox"/> Is our management’s time allocated to the most important issues?		
	<input type="checkbox"/> Do we have an appropriate meeting cadence ?		
	<input type="checkbox"/> Do we have a clear plan for leadership succession if the worst case scenario happens?		
Can we maintain efficient communication internally?	<input type="checkbox"/> Are we able to communicate to all staff regardless of their location?	Low (1-2) Moderate (3) High (4-5)	<ul style="list-style-type: none"> • Establish company wide communication channels (if not existing) including 2-way communication • Establish clear communications structure (e.g., centrally steered, senior leader responsible, define communication cadence) • Over-communicate with full transparency – frequently and with simple messages
	<input type="checkbox"/> Do we have a clear communication structure ?		
	<input type="checkbox"/> Do we have ways to capture employee questions and concerns?		
	<input type="checkbox"/> Do we pass information to employees in a timely manner ?		

*Ask these questions for all potential macro scenarios you are considering (i.e. different length and magnitude of impact)



Risk assessment & key actions

Financial strength

	Example questions* (more “yes”->lower risk)	Risk level	Potential actions (include relevant actions from lower levels if in moderate/high scenarios)
Can we remain solvent and meet debt / covenant obligations?	<input type="checkbox"/> Do we have a view of short term obligations due in the coming weeks and months (e.g. debt, taxes)? <input type="checkbox"/> Are we able to meet these obligations given current cash levels and expected developments in demand scenarios? <input type="checkbox"/> Can some obligations be postponed? <input type="checkbox"/> Can we accelerate capture of short-term receivables?	Low (1-2)	<ul style="list-style-type: none"> Assess risk to receivables and prioritize actions to push for early or timely payment
		Moderate (3)	<ul style="list-style-type: none"> Fully draw down credit lines Set up cash mgmt. office to observe, forecast and stress-test future cash flows Adjust cash terms with suppliers and customers to manage short-term liquidity Consider factoring receivables to raise short-term cash (sell at discount to financing firm)
		High (4-5)	<ul style="list-style-type: none"> Demand rent & lease reductions Review Force Majeure and MAC clauses in commitments
Can we issue new debt to meet obligations?	<input type="checkbox"/> Do we need to raise new debt in short-term? <input type="checkbox"/> Can we issue new debt if needed? <input type="checkbox"/> Do we have access to alternative sources of financing if needed?	Low (1-2)	<ul style="list-style-type: none"> Forecast future need to issue debt in coming 3, 6, 12, and 24 months Continue to monitor potential to issue new debt
		Moderate (3)	<ul style="list-style-type: none"> Assess potential for financing options (incl. principal & amortization holiday) and capital raises Look for alternative source of financing (government funds, accelerate / appeal tax refunds)
		High (4-5)	<ul style="list-style-type: none"> Consider alternative cash generation from e.g. sale of assets (see next question)
Can we improve cash generation from operations or fixed assets?	<input type="checkbox"/> Can some expenses be cut or postponed with limited impact? <input type="checkbox"/> Can we improve our cash conversion cycle and working capital levels? <input type="checkbox"/> Can we reduce our “fixed cost” budgets (salaries, maintenance delays, capex postponements etc.)? <input type="checkbox"/> Do we have clear control of our variable operating expenditure given highly volatile demand situation? <input type="checkbox"/> Do we have non-core assets we could divest if required?	Low (1-2)	<ul style="list-style-type: none"> Re-affirm sourcing team’s focus on cost containment (strict sign-offs, prolong delivery timeline) Review investment roadmap in light of prolonged uncertainty
		Moderate (3)	<ul style="list-style-type: none"> Adjust working capital levels (inventory management, payment terms, etc.) Postpone committing to large fixed cost items (property and machinery) Reduce “fixed cost” components of the operating budget (e.g., close facilities) Look for opportunities to variablize costs (e.g., employee work-time reductions, outsourcing)
		High (4-5)	<ul style="list-style-type: none"> Take-out cost that translates to immediate cash and not impact customers (e.g. deferred comp) Look to turn fixed assets to cash where economically feasible (assessing economic viability and interdependence of each operation) Suspend operations where prudent

* Ask these questions for all potential macro scenarios you are considering (i.e. different length and magnitude of impact)

