



# WELLVEST CAPITAL

Wellness Investing™

## TAKE ACTION - LEVERAGE FINANCIAL PARTNERS AND ADVISORS

May 19, 2020

During this period of upheaval, the value of financial partners and external advisors cannot be underestimated or over utilized. The Health and Wellness (H&W) sector has generally held up well during the COVID-19 crisis. Although this is welcome news to the many consumer brands, manufacturers, distributors, and ingredient suppliers in the sector, it has not come without major challenges. All market participants have had to address major disruptions to employee safety, working-from-home, supply chain issues, volatile customer demand and a host of other professional and personal challenges.

The COVID-19 crisis has changed the rules across business, public policy, and society; the relationship between companies and their advisors is not exempt. Wellvest has reflected on how these relationships, both formal and informal, can be best utilized now and in the days ahead.

### Actionable Opportunities to Utilize Financial Partners

Now more than ever, a solid network of advisors; investors, Board of Directors, accountants, lawyers, investment bankers and consultants are very helpful resources and most importantly augment management teams in a time when these teams are already stretched. This group has deep financial and operational skill sets, experience, relationships, and capabilities that can be utilized now to help address many of today's unprecedented business challenges and opportunities. Five ways to utilize these external resources follow:

#### *#1 Validate and Update Cash Flow Assumptions*

Within the H&W sector the sudden and expansive impact of COVID-19 has resulted in significant cash flow changes, positive or negative depending on specific H&W subsectors. At the start of the crisis, many if not all, companies reevaluated their cash flow projections and assumptions. As the "next normal" settles in and more information becomes available, now is the time to assess if cash flow projections and assumptions are still accurate. External advisors have broad information resources that can help fill the gaps and provide additional perspective. Given the portfolio of businesses they interact with, they will have valuable ground level, near real time information regarding how other companies and industry peers are reacting including approaches to A/R, A/P, inventory and most importantly sources of short/long term capital.

#### *UTILIZE RESOURCES TO:*

- Validate and Update Cash Flows
- Revise Growth Strategy
- Assess Capital Structure
- Review Use of Government Programs
- Confirm Re-Opening Plan

*Proactively addressing strategy and capital needs will ensure future opportunities are maximized.*

Furthermore, they can assist management with assessing the level of risk, from a cash flow perspective, that is appropriate during this stage of the crisis.

### *#2 Revise Growth Strategy*

Every company must rethink their growth strategies and financial forecasts. Opportunities within the H&W sector have expanded across multiple channels, categories, and sectors; direct-to-consumer, healthcare professional, healthy food, supplements, digital fitness, and mental health are all hot. Others such as gyms, vitamin and sports nutrition retailers are struggling. As companies course correct to take advantage of this shift, outside advisors and especially investment partners are a key resource and a critical asset to facilitate execution. The fast pace of change and competing priorities makes it difficult for management teams to thoughtfully reflect on the revised strategy's strengths and weaknesses. External feedback can provide valuable perspective and validate leaderships' new plan, while investors and bankers can provide financial backing where necessary.

### *#3 Assess Capital Structure*

The impact of changes to cash flow and strategy could have a material impact on companies' balance sheets, in some cases providing the perfect opportunity to optimize the capital structure. Where possible the capital structure should be aligned to the new strategy, cash flow and capital requirements of the business. Alternatives exist in situations where additional working capital is required, and profitability has improved – for example, a company's ability to support Asset Base Lending (ABL) as an alternative to additional equity or mezzanine debt may be a viable path. In instances where cash flow is strained and debt payments are challenging, a recapitalization replacing debt with equity could be the long term solution. Timely and candid conversation with investment partners and key financial advisors will lead to a coordinated effort that improves outcomes, optimizes the current environment, and positions companies for growth.

### *#4 Government Financial Support Programs*

Many companies, their investors and Boards have already determined whether to participate in the *Paycheck Protection Program* and other government sponsored financial support programs. The circumstances at the time of the decision to participate (or not) and whether to pay it back may have changed. The optics and perceptions of these programs to employees, customers, trade partners and the general public have been volatile and varied. During these times of heightened anxiety and social media firestorms, it is prudent for companies, ownership and their advisors to frequently review and validate their approach and messaging regarding the use of these programs, as course corrections may be necessary as the situation evolves.

### *#5 Confirm "Re-Opening" Plan and Messaging*

Now and in the days ahead, States are beginning to allow businesses to reopen. Employees, customers, and key stakeholders need to know how businesses will reopen and what measures will be taken to ensure their safety. Management is tasked with determining and communicating the plan; fragmented and at times conflicting information from policy makers and health experts are making this very challenging. Given their broad reach, investment partners and companies

network of advisors can provide key insights on emerging best practices and possibly coordinate cross collaboration between key industry participants and stakeholders. Once again providing a foundation of information, insights, and consistency to support companies' navigation of this difficult task.

*Coil the Spring – be prepared*

COVID-19 has brought unprecedented rapid change that will be felt for years to come. The health and wellness landscape is rapidly evolving, presenting opportunities that previously did not exist for market participants only weeks ago. Realizing these opportunities will require leveraging all available resources including those of financial investors and external advisors who can augment already stretched management teams. Wellvest's experience, grounded in historical evidence, confirms that taking proactive steps during upheavals produces very fruitful long-term results.

