

When you are in the middle of a storm cloud it's hard to think outside of it, but the only way out of the storm is to ride through it and things will be a lot clearer on the other side -- Jodi Ann Bickley

Pacific Lake CEOs:

As you navigate the challenges of COVID-19 and the economic shock on your company, we are mindful of the fact that you have never been in this position before. You are being asked to make choices without knowing how long this will last. You are quickly making decisions that affect your employees, your customers, and the long-term viability of your company. There is no playbook to read from, and many voices telling you what to do or how to react.

First, let's acknowledge this is hard. You are being given a menu of bad choices to pick from – close your office or put employee health at risk, reduce your workforce or run out of cash. This is not what you dreamed of when you decided to become a search fund CEO. But, remember that is what you are now – the CEO. It's your responsibility, your obligation, to make these difficult decisions. That doesn't belong to anybody else. As investors, we want to support you and your company in those decisions. As friends and mentors, we want to help you and care for you. As a community, we want to work together to preserve the special thing we've built and ensure that the search fund model endures this challenge.

As you make these difficult decisions, we want to remind you of a few things that were true before COVID-19 became part of your everyday life, and that will still be true after it's gone.

WE HAVE YOUR BACK

We backed you because we believe in you, and we saw the underlying potential for you to be a great CEO. That hasn't changed. You are getting a crash course in CEO skills – allocating resources, human capital management, and communicating clear and credible vision to your employees, customers and shareholders. We are here to help you navigate those challenges – as investors and board members, as friends and mentors, and as a community.

The next few months will be hard, really hard. If you step into the void and embrace your role, you will come out the other side of this more experienced, more confident, and more focused. You bought a good business, and you are in this for the long-term – don't lose sight of that in the storm.

BUSINESS QUALITY MATTERS

The qualities of a “good search fund business” remain valuable and enduring in this environment. The investment thesis you had when you acquired the business will be tested, but remember why you targeted the industry and business in the first place. Companies with B2B recurring revenue, high gross margins, limited customer concentration and an asset light business model are well positioned to survive this economic crisis. And the vast majority of industries with strong long-term growth trends will return to growth when fear subsides in the coming months.

BUILD LONG TERM VALUE

Building a great company and creating long-term value takes time. Destroying value and culture can happen quickly. You will need to make quick decisions and take decisive actions to preserve your company in the

short-term but should view every decision with a long-term lens as well. The toughest decisions will be related to employees, investing in customer relationships and new products/solutions.

Employees are likely your largest area of “variable expense”, so reducing employees through layoffs, furloughs or part-time assignments is your quickest area of expense reduction. However, building a great team and hiring talent is one of the most important and time-consuming responsibilities of the CEO. So, retaining talent and continuing to recruit through this crisis is a top priority. If you make the decision to reduce employees, do it with a scalpel, not a hatchet – keep your best talent, do it quickly, be humane, and go deep enough so you don’t have to do it twice.

Your customers are hurting too. They will ask for help – for discounts, for delayed payment terms, for additional services – in general, they need more and they have less. Now is a time to build relationships and invest in your existing customers. Most will not remember exactly what you did, or the policies you put in place, but they will remember how they feel about the relationship. There will be companies that become “partners” and others that become “vendors” – do everything you can to be a partner. There will be opportunities for short-term gains – invest them in long-term value creation and partnership.

Building products and solutions is a balance between the present and the future. Determining how much to invest in new solutions compared to selling or improving existing solutions is a core CEO question. When resources are limited, or cuts need to be made, the CEO must decide how to allocate resources. As you are faced with those decisions now, consider two things. First, seeing what matters and what doesn’t is often easier in a crisis – and it’s amazing how quickly things get done when they have focus, like moving an entire team to remote work or automating manual processes. Second, there is value in deferring big decisions in a rapidly changing environment rather than making decisions that can’t be reversed - delaying the right decision by months is better than making a poor decision quickly.

KNOW YOUR RUNWAY

As you make decisions to preserve long-term value, we realize you are faced with the need to survive the short-term. Your first priority is to ensure the safety of your employees. Second, is to “know your runway” - how much cash and liquidity you have, and how much you need to survive. There is no right amount of runway, obviously more is better, but each company’s situation is different. For companies with less than 90 days of runway, your top priority is extending that runway. The tactics are different for each business, but getting beyond 90 days increases your options and releases pressure. For companies with 3-6 months of runway, maintaining that runway and investing in your employees and customers should be your focus. Be vigilant and prepare for changes (positive or negative), but invest in a culture of talent, customer relationships, and new products and solutions. For companies with more than 6 months of runway, consider playing offense. You have the ball, don’t kneel down just because you don’t know what play to run. Consider ways to go faster, to overinvest in talent and customers, to build lead gen for future sales opportunities, or to accelerate a product or solution that serves a clear market need.

And once the storm is over, you won’t remember how you made it through, how you managed to survive. You won’t even be sure, whether the storm is really over. But one thing is certain. When you come out of the storm, you won’t be the same person who walked in. That’s what this storm’s all about.

--Haruki Murakami