

Recasting Financials for COVID – What's standard & accepted

Nearly every business has been impacted in some way by COVID and the resulting economic shutdown. There are a fortunate few that are operating in sectors that saw an increase in business. However, most have experienced challenges in the form of lost or delayed revenues, lost productivity, staffing shortages, supply chain problems, and new costs associated with remote working and safe reopening requirements. For many of these companies, economic stimulus, primarily in the form of forgiven PPP loans, have helped to offset some (if not all) of these losses.

One year ago, shortly after the beginning of the shutdown, we published [an article](#), advising owners to document with as much detail as possible the financial impact of the shutdown on their business. With 2020 behind us and a strong M&A market for sellers, we are now working with our business owner prospects and clients to help them “normalize” the presentation of their earnings for prospective buyers. In comparison to 2019, many have lower revenues without corresponding reductions in expenses, and almost all show income from PPP loans that were forgiven prior to the end of 2020.

Crafting this presentation in a realistic way, supported by data, is key to maintaining credibility with buyers. It requires really digging into the company's numbers, its industry dynamics, and the many factors that may have impacted performance during this time. Including PPP income in the final presentation of profit and expecting buyers to value the company based on that will raise eyebrows. This will likely bring a quick end to the conversation. Buyers want to truly understand the impact that the shutdown had on the business and, more importantly, what the company will look like going forward – after all, they are buying the future, not the past.

The areas where we are seeing the greatest impact, and requiring documented support include the following:

- **Incremental Expenses** - Any expenses that your business incurred that it would not have otherwise incurred but for COVID-19. These might include video conference services, legal fees for COVID-related HR issues, technology, sanitation costs, etc.



- **Capital Expenditures** - Did you invest in any assets that you would not have if it were not for COVID-19 such as laptops for remote workers, video conference equipment, etc.?
- **Loss of productivity** – Did you capture any costs that you incurred that did not generate any return for the company such as paying employees with no work, loss of deposits for travel, conferences, vendor and supplier issues that impact company productivity, etc.?
- **Loss of Revenue** – While this may be more difficult to quantify for some, try to document cancelled orders/projects or any other data that can help you quantify lost revenue such as stalled pipeline or prospects who no longer have a budget to buy your products or services.

We are talking with buyers every day. As such, we can help you create a presentation that will let their attention and pique their interest in your business. If you have any questions, please don't hesitate to reach out. The first step to your ultimate exit is just a phone call away! Give SEA a call today.