TOP TAKEAWAYS

Markets Under Pressure: Strategies for Restructuring and Risk Management | Top Takeaways

Today's market pressures increase the potential for broken financial covenants. In the final installment of our three-part series, McDermott partners Dale Van Demark and Felicia Perlman discuss steps that digital health companies can take now to prepare for the possibility of restructuring and mitigate associated risks.

1. When facing potential broken covenants or restructuring, digital companies should develop a clear understanding of their financial health. What is the breakdown of the company's equity, debt and venture financing? Are there assets that have not yet been leaned up? What type of relationship does the company have with its financing parties, and what are potential leverage points?

2. Digital health companies should also be honest—with both themselves and their financing entities—about the extent of covenant relief or liquidity they need to reach financial stability. Companies often make the mistake of being overly optimistic about their situation or overly concerned about asking for too much, and end up receiving insufficient relief to recover.

3. Because digital health companies often tie bonuses and compensation to equity, reductions in equity can directly affect employee engagement and retention. Companies should identify the talent that is vital to their continued operations and develop a plan in advance to protect them. Potential tactics include switching bonuses from equity to cash, or providing larger bonuses on an extended timeframe.

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