Published on August 7, 2020
Alvarez & Marsal | Management Consulting | Professional Services (https://amglobal.pulsecreative-clients.com)

The Software & Technology (S&T) sector has been somewhat insulated from the negative financial and operational impact of COVID-19, however, the virus has brought about certain risks and altered the way we perform due diligence for most S&T deals. At Alvarez & Marsal (A&M) we have a dedicated financial, tax, and operational team that focus exclusively on the due diligence of S&T companies. Since March, we have encountered several transactions with COVID-19-related risks or issues. Whether you are an experienced S&T investor or just starting to look at the space, you will want to be aware of these risks and understand how to best mitigate them through diligence and structuring of the purchase agreement.

During the COVID-19 pandemic, software sales have slowed overall, but not evenly across different industry verticals and software types. As one might expect, heavily impacted verticals (e.g., hospitality, travel, retail) have declined more than less-impacted verticals (e.g., finance, insurance). Likewise, we have seen sales impacted unevenly based on the type of software — sales of marketing and sales software has decreased, whereas sales on video conferencing, remote learning, and collaboration solutions have increased. With lower costs and barriers to entry, adoption of software as a service (SaaS) has also increased with the growth of remote work.

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