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Deal Due Diligence Adapted for Lockdown – 3 Tips

All types of due diligence analysis were impacted when restricted air travel, shelter-in-place, and social distancing rules hit in March 2020. As new deals and financing opportunities arose, NXT Capital pivoted to find ways to continue practicing vigilant due diligence. With so many diligence aspects to consider – financial, operational, human capital, etc. – we sought to adapt the core attributes of our robust underwriting process. Below we highlight three core practices leveraged during the cycle.

1 Partnered with private equity (“PE”) groups that have a record of successful strategy execution

Without air-travel and limited invitations to in-person meetings, partnering with PE sponsors where we have a long-term relationship became even more important. Having worked with the sponsor in the past, we were well informed of their operating knowledge, business strengths and diligence acumen. We also knew firsthand about a sponsor’s specialties such as industry knowledge, operational expertise, execution of investment and operational plans, and experience of the investment team.

Prior to closing a new platform acquisition, the sponsors we work with found ways to meet with target management teams and visited sites which provided us comfort. Having a relationship with the sponsor allows us to understand the level of depth the PE team conducts when performing management interviews, the clarity of analyses completed and what they consider to be red flags or opportunities while touring the facility or speaking with management. While the ability to leverage the sponsor’s work was critical, we also conducted our own diligence.

2 Leaned into Technology

In all aspects of life, technology has been a huge resource during the pandemic. In a world mostly limited to remote due diligence, the increased use of technology-enabled-tools facilitated processes immensely. The underwriting teams at NXT Capital leaned into technology to help bridge the uncertainty around not being able to tour facilities or meet the management teams in person. Video conferencing has been used for management meetings, facility tours and operational discussions. With video conferencing and the ability to screen share, access to the management team and their information was uninterrupted. Both the target company and sponsor played a key role in making remote due diligence efficient, including a shift to digital collection of business documentation, contracts, and financial data. Companies have also been creative with their materials to include videos of their products, product tutorials as well as recordings of team member biographies. While we do not see in-person meetings going away, with the right resources and skills to collaborate online, we do see benefits of the technology-enabled tools. Technology allows for more opportunities in sustainable business practices, the ability to break down physical and logistical barriers and improvement in deal timelines.

3 Reviewed Third-Party Due Diligence Reports

Always a critical part of the process, third-party due diligence reports did not fundamentally change during the pandemic. NXT Capital has always required third-party service provider reports, quality of earnings, and applicable industry or environmental reports. As some providers were limited to how they could collect data (as in not being onsite), they provided details about their practices and procedures in order to bring a level of comfort on how information was collected, verified and ultimately signed off on. NXT Capital underwriters have always had the ability to set-up “Industry Expert” calls to learn more about an industry, product offering, or business model and these calls were used even more during the pandemic. Fortunately, the pandemic did not materially hinder third-party diligence.

Throughout the pandemic deal participants learned how to interact and safely conduct business by leveraging relationships, using technology and reviewing third-party due diligence reports. As much of the world has had to adapt, deal due diligence was no different.

About NXT Capital

NXT Capital, based in Chicago with about 100 professionals, is a leading provider of senior structured financing solutions to the U.S. middle market. Since inception to 3/31/2021, the company has originated approximately \$22.4 billion in total direct lending financing volume spread over 935 transactions. NXT Capital also manages capital for third parties through its broad platform with multiple funds and separate accounts. Investment programs are managed by NXT Capital Investment Advisers, LLC, which is registered with the SEC as an investment adviser. Registration with the SEC does not imply a certain level of skill or training.



Dan Green
Managing Director &
Regional Credit Officer

Dan leads the underwriting and portfolio risk management for NXT Capital's East and South Region Sponsor teams, where he structures, underwrites,

negotiates and manages investments for the firm.

Dan brings 10 years of leverage finance experience to NXT Capital. Prior to joining NXT Capital, Dan structured, underwrote and managed traditional senior secured and unitranche investments as a member of GE Antares Capital. Dan began his career as an auditor with Deloitte and held positions at LaSalle Bank.

Dan earned a B.S. in Accounting from DePaul University and an M.B.A. from the J.L. Kellogg Graduate School of Management at Northwestern University.



Andrea Tunick
Managing Director &
Regional Credit Officer

Andrea leads the underwriting team for the West Region of the Direct Lending Group. She focuses on structuring, underwriting and closing cash flow loans for new platforms,

as well as monitoring the loan portfolio.

Andrea has 15 years of underwriting and due diligence experience. Prior to joining NXT Capital, Andrea was an Assistant Vice President at GE Antares Capital and Merrill Lynch Capital.

Her background also includes completing financial due diligence for private equity transactions in KPMG's transaction services group.

Andrea earned a B.S. in Finance from the University of Illinois.

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