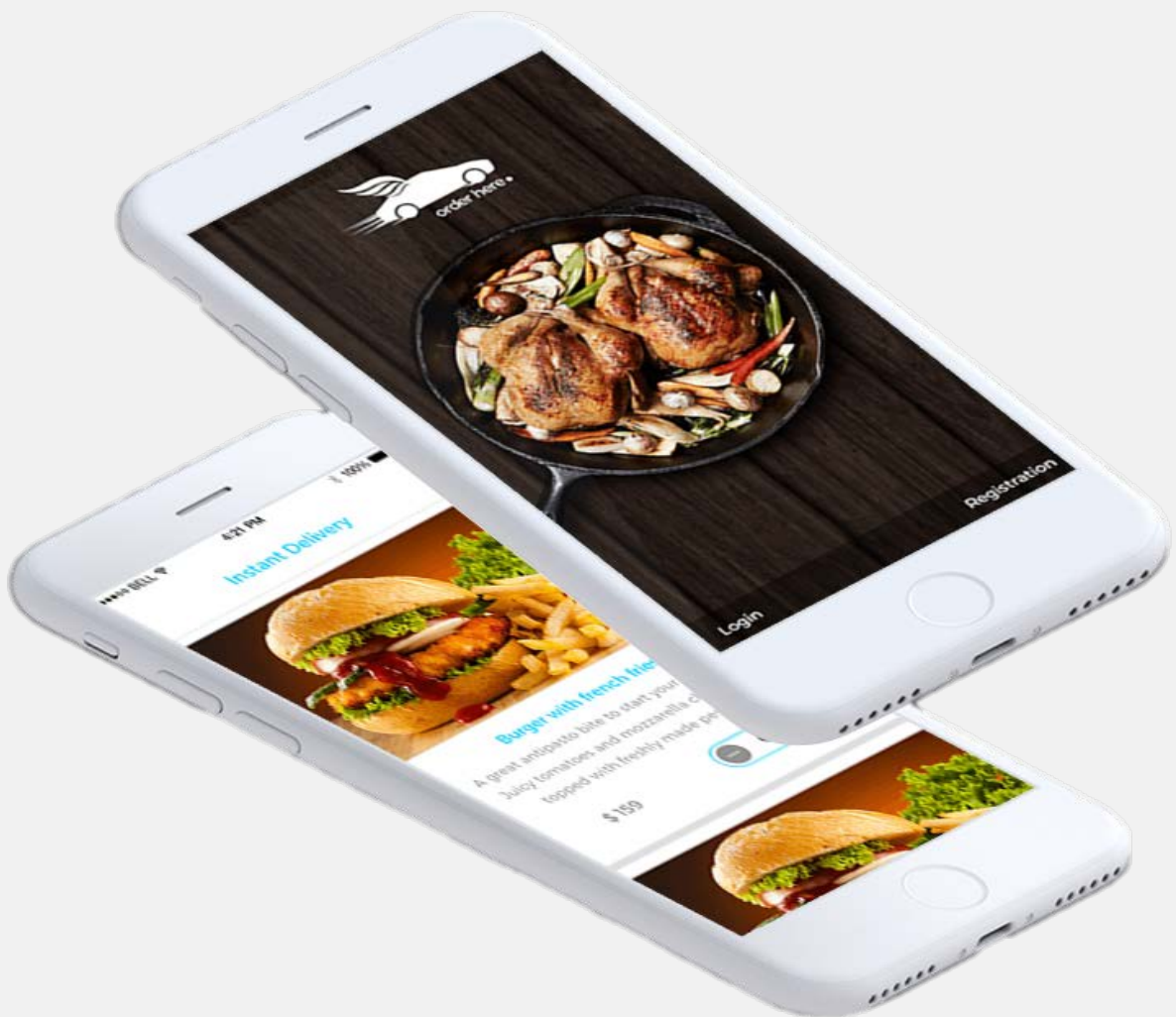




HOULIHAN LOKEY

CONSUMER, FOOD, AND RETAIL

RESTAURANT INDUSTRY UPDATE | COVID-19



Restaurant Industry Update: COVID-19

The COVID-19 outbreak and resulting impact on the economy has devastated financial markets. Houlihan Lokey presents a preliminary assessment of the impact of the virus on the restaurant industry below.

Market Update

In recent weeks, COVID-19, better known as coronavirus, has globally sent shock waves through markets and captured the attention of the world. Since mid-February, the outbreak has accelerated and infections have become widespread, resulting in significant market volatility that is expected to continue for the foreseeable future. Substantial disruption to business operations has occurred and all sectors of the economy have been impacted, with a disproportionate impact on the restaurant industry.

The near-term outlook for the restaurant industry is deeply concerning, and uncertainty is likely to persist until the duration and overall impact of COVID-19 can be determined. However, there are key trends in the space that demand attention:

- 1 The accelerating call for “social distancing” across America is having a devastating impact on restaurant traffic, with states more heavily impacted by the virus (e.g., NY, WA, CA, NJ, and FL) experiencing greater traffic declines. Recent state-mandated operating restrictions, restaurant closures, and shelter-in-place orders have accelerated traffic declines.
- 2 Recent reports and our ongoing discussions with industry executives indicate traffic is down between 40% and 80% across the industry; franchisors and concepts with significant off-premise and drive-thru sales are performing better in this environment, but virtually all segments, geographies, and concepts are feeling the pain.
- 3 Due to current market volatility, many opportunistic refinancing transactions have been shelved as issuers and underwriters opt to wait to understand how the financial performance will be impacted and for stable markets. Despite recent outflows, market liquidity remains stable and opportunities to refinance are being evaluated based on the situation.
- 4 With the demand for broader food and grocery increasing, food supply chains are globally facing pressure. Manufacturers are taking actions to protect employees and ensure there is business continuity, while distributors and wholesalers are realigning logistics and redirecting shipments toward grocery stores and restaurants.
- 5 Operators are maximizing liquidity by drawing on lines of credit and evaluating all cash outflows, including rent expenses, labor costs, and debt payments; cash flow is further compromised by the typical nature of restaurant operators having negative working capital, which creates a cash need when locations are closed.
- 6 Widespread furloughs are announced daily, impacting mostly hourly workers (those most in need). A bill is circulating in Congress that would address some of these employees, but details are unclear. The National Restaurant Association has asked for hundreds of billions in government assistance in the form of grants, loans, and tax relief to provide the necessary liquidity and targeted financial support during this tumultuous time. The restaurant industry comprises approximately 10% of the U.S. workforce and 4% of the GDP, so the negative impact to the U.S. economy is expected to be massive.

At this point, it is impossible for us to know how long the outbreak and shutdown will last or the lingering effects on businesses, the economy, and the credit and M&A markets. However, we are hopeful that recent actions—including accelerated development of possible treatments and shelter-in-place measures, as recently announced in several major markets (including statewide in California and New York as of March 20, which together cover 20% of the U.S. population)—will have the positive effect of “flattening the curve” for new cases in the short term. However, these measures will continue to have a dramatic negative impact on restaurant traffic.

We understand the anxiety created by these uncertain times, and we are here to share our perspective based on our real-time conversations with industry executives and our comprehensive views on the markets—M&A, public equities, and credit. We will continue to monitor this rapidly evolving situation and its impact on the restaurant industry.

Restaurant Investment Banking



Jason Abt
Head of Restaurant Practice
JAbt@HL.com
415.273.3606



David Scheid
Senior Vice President
DScheid@HL.com
415.273.3611

Capital Markets



Chris Hebble
Managing Director
CHebble@HL.com
310.788.5204

Questions and Considerations

Volatile market conditions have created many questions for businesses. We recognize that our clients and partners are navigating this challenging environment and we are available to help. Houlihan Lokey's significant product and end-market expertise positions us to help review a variety of strategic alternatives.

How have the syndicated loan markets been affected by COVID-19?



Syndicated loan markets sold off to 80% of par, and new issuances have slowed to a trickle. Private market issuances are open, but on a case-by-case basis. Lenders are willing to provide financing, but are starting to seek higher yields and more structure on terms (i.e., covenants and definitions).

Can/should I refinance my existing capital structure? What about other options, such as a dividend recapitalization?



Due to current market volatility, opportunistic refinancing transactions have been shelved as issuers and underwriters opt to wait to understand how the financial performance will be impacted and for stable markets. Despite recent outflows, market liquidity remains stable and opportunities to refinance will be available once volatility cools down.

What should I do if my covenants are tightening or my lenders are being difficult?



There are a number of alternative capital providers willing to engage in refinancing discussions. Please reach out to us directly to discuss your particular situation.

What should I do if I'm considering a sale?



Our relationships in the restaurant industry, along with having Wall Street's best private equity coverage group, gives us unmatched, real-time insights into current buyer sentiment and potential diligence and other concerns related to COVID-19 that directly inform our ability to construct a sale process roadmap to maximize value.

What should I do if I'm considering an acquisition?



As companies analyze inorganic growth opportunities, it's important to understand risks to target businesses posed by COVID-19, in addition to understanding the ideal structure for a potential acquisition. Now is a great opportunity to accelerate M&A dialogue. Our substantial buy-side expertise and leading Capital Markets Group position us to provide guidance and capital in the current environment.

Do I need to discuss COVID-19 as it relates to due diligence in a sale or financing process?



Yes. COVID-19 is part of the world we now live in. It is crucial to have a clear description of COVID-19 protocols in place, a plan of attack to ensure employees are safe, and an understanding of potential business impacts from COVID-19 moving forward.

How Houlihan Lokey Can Help

Our firm is extremely well equipped to help our clients navigate uncertain times. We respond quickly to challenging situations and are constantly helping clients analyze, structure, negotiate, and execute the best possible solutions from both a strategic and a financial perspective.

What We Offer

- 1 Corporate Finance**
 - Mergers and Acquisitions
 - Capital Markets
 - Private Funds Advisory
 - Board Advisory Services
- 2 Financial Restructuring**
 - Company Advisory
 - Financial Restructuring
 - Distressed M&A
 - Liability Management
 - Creditor Advisory
- 3 Financial and Valuation Advisory**
 - Portfolio Valuation and Fund Advisory
 - Transaction Opinions
 - Corporate Valuation Advisory Services
 - Tech+IP Advisory
 - Real Estate Valuation and Advisory
 - Dispute Resolution Consulting

Corporate Finance
 We are widely recognized as a leading M&A advisor to the middle market and have long-standing relationships with capital providers, including commercial banks and other senior credit providers, insurance funds, asset managers, and mezzanine fund investors. Few other investment banks maintain the breadth of relationships and capital markets intelligence that we do.

Financial Restructuring
 We have the largest restructuring practice of any global investment bank. Since 1988, we have advised on more than 1,000 restructuring transactions (with aggregate debt claims in excess of \$2.5 trillion). We served as an advisor in 12 of the largest 15 bankruptcies from 2000 to 2019.

Financial and Valuation Advisory
 For nearly four decades, we have established ourselves as one of the largest financial and valuation advisory firms. Our transaction expertise and leadership in the field of valuation helps inspire confidence in financial executives, boards of directors, special committees, investors, and business owners we serve.

Why We're Different

- ✓ **Dominant in Special Situations and Restructuring**
- ✓ **Significant Experience With Financing Markets**
- ✓ **Senior-Level Commitment and Dedication**
- ✓ **Deep, Industry-Specific Expertise**
- ✓ **Superior Work Product/Technical Abilities**
- ✓ **Creativity, Imagination, Tenacity, and Positivity**

Houlihan Lokey Consumer, Food, and Retail Leadership

Food and Beverage

Consumer Health and Nutrition

Consumer Products

Retail

Restaurants

Chicago

- Jay Novak – *Managing Director and Group Head*
- Matthew Kaczmarek – *Managing Director*
- Timothy Larsen – *Managing Director*

San Francisco

- Jason Abt – *Managing Director*

Amsterdam

- Robert Oudman – *Managing Director*

Tokyo

- Ryuta Fujino – *Managing Director*

Singapore

- Rahul Jaisingh – *Managing Director*

New York

- Steven Tishman – *Managing Director and Global Head of M&A*
- Susan Roddy – *Managing Director*
- Randy Chao – *Director*

London

- Shaun Browne – *Managing Director Co-Head of U.K. Corporate Finance*
- Garyth Stone – *Managing Director*
- James Scallan – *Managing Director*
- Michael Collinson – *Managing Director*

Frankfurt

- Ulrich Graebner – *Managing Director*

Hong Kong

- Weimin Chen – *Managing Director*

Sydney

- Kees Stapel – *Managing Director*

Dallas

- Mark Dufilho – *Managing Director*
- Nate Pund – *Managing Director*
- Jeff Wilson – *Managing Director*
- Adam Greenway – *Director*

Milan

- Matteo Manfredi – *Managing Director*
- André Pichler – *Managing Director*
- Tommaso Lillo – *Director*
- Salvatore Palazzo – *Director*

Madrid

- Manuel Martínez-Fidalgo – *Managing Director*

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