



HOULIHAN LOKEY

FACILITY SERVICES

MARKET UPDATE | COVID-19



Facility Services Market Update: COVID-19

The outbreak of COVID-19 has resulted in a global health emergency and has sent financial markets into a frenzy. Houlihan Lokey presents an assessment of the impact of the virus on the facility services industry below.

Market Update

In recent weeks, COVID-19, better known as coronavirus, has sent shockwaves through markets globally 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 in the near-term. Substantial disruption to business operations has occurred and all sectors of the economy have been impacted, including the facility services industry.

The general outlook of the facility services industry is varied, 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 Firms across the entire services landscape are being forced to re-evaluate company policies to help protect their hourly workers, encouraging them to stay home if they are sick or symptomatic and reviewing sick leave policies. In addition, a bill is circulating in Congress that would address some of these issues and help protect workers whose livelihoods are being affected by the coronavirus—but it's unclear what employers would be excluded (e.g., businesses with more than 500 employees) and ultimately how many workers would be covered;
- 2 The postponement or cancellation of major sporting events/leagues, shut down of in-person classes at college campuses, growing number of companies asking employees to work from home, and accelerating call for "social distancing" in general is having a material negative impact on companies providing services to stadiums, universities, corporate campuses, and other buildings in which large groups of people typically assemble;
- 3 In addition, firms providing services at airports and hotels face a difficult and evolving new reality in the wake of the travel ban, restrictions on corporate travel, airline capacity cuts, and layoffs/furloughs across the travel and hospitality sectors. To help combat these challenges, the U.S. airline industry has asked for more than \$50 billion of government assistance in the form of grants, loans, and tax relief;
- 4 However, some firms—such as those providing janitorial and hygiene services—are actually seeing increased demand as businesses and organizations focus on enhanced cleaning processes to keep their customers and employees safe.

At this point, it is impossible for us to predict how long the outbreak and shutdown will last, as well as the lingering effects on businesses, the economy, and the credit and M&A markets. The U.S. Centers for Disease Control and Prevention (CDC) recently recommended no gatherings with 50 people or more take place for the next eight weeks. Earlier this week, President Trump said it may take until July/August for the U.S. to get the outbreak under control. We will continue to monitor this rapidly evolving situation and its impact on the facility services industry.

Houlihan Lokey Facility Services



Jeff Ackerman
Director
JAckerman@HL.com
212.497.7866



Larry DeAngelo
Head of Business Services
LDeAngelo@HL.com
404.495.7019



Jon Harrison
Managing Director
JHarrison@HL.com
+44 (0) 20 7747 7564

Questions and Considerations

Volatile market conditions have created many questions for businesses. 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 90% 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 facility services industry along with 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. Houlihan Lokey's substantial buyside expertise and leading Capital Markets Group positions 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 to 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 2000–2019.

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**

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