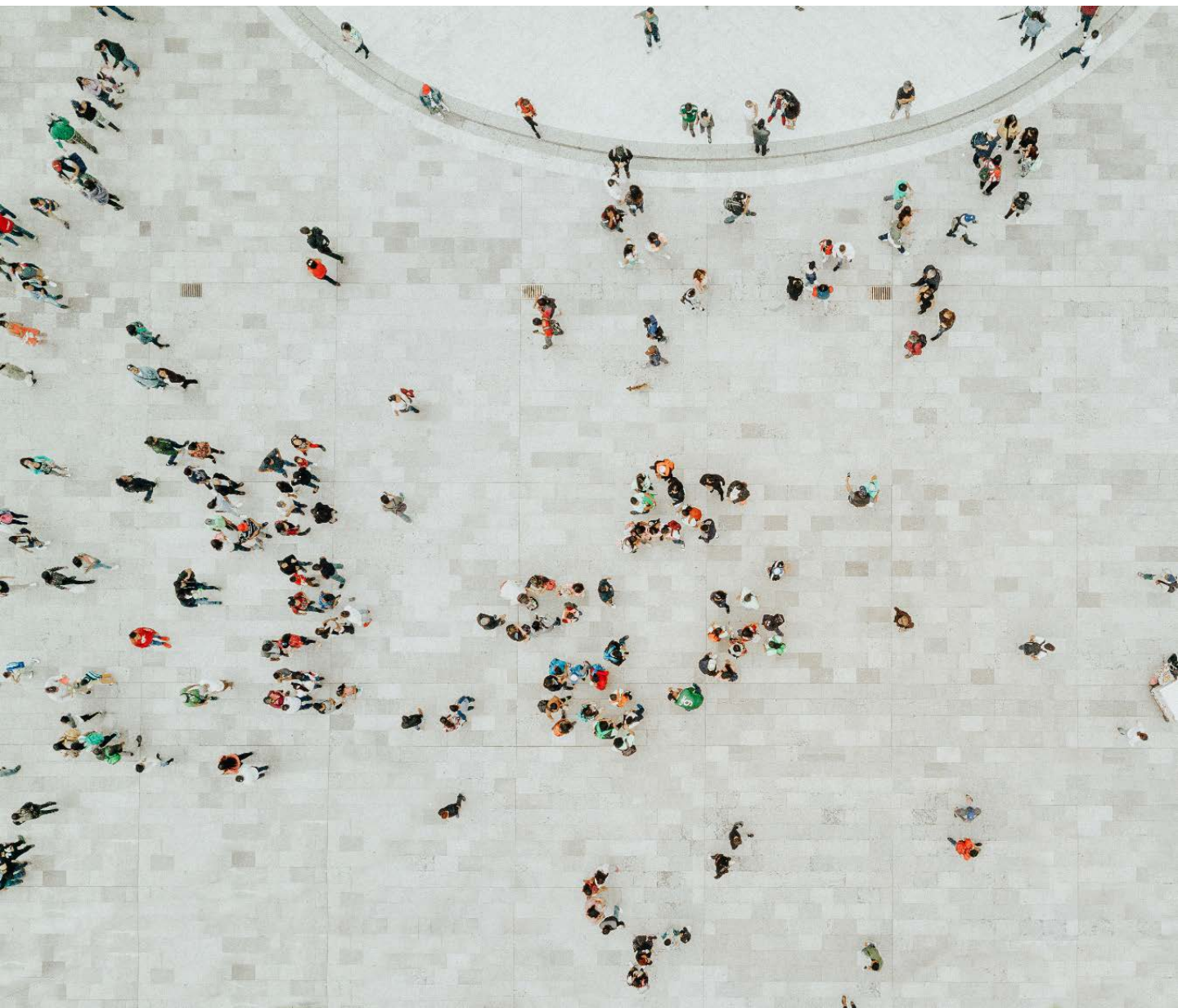




HOULIHAN LOKEY

Will COVID-19 Accelerate Marketing Modernization?

Marketing Services Industry Update | March 2020



Marketing Services Update: COVID-19

Over the past week, the American and global economies have realized the true extent of the coronavirus (also known as COVID-19) health crisis that is sweeping the globe. Last Wednesday, the World Health Organization declared COVID-19 a pandemic, a watershed moment that elevates the disease beyond an epidemic after it appeared on every continent except Antarctica. The resulting market volatility that is currently underway is expected to continue in the near-term, causing substantial disruption to business operations across all sectors of the economy, including the marketing services industry. The general impact of this crisis on the marketing services industry is complicated, and uncertainty will persist until the duration and overall impact of COVID-19 can be determined. However, there are key trends in the space that demand attention across both operational and acquisition-related fields.

Marketing Services—General Observations

- ① Uncertainty and fear are having real-world impacts, with public markets declining, shrinking marketing and advertising plans, and the abrupt cancellation of the world's most consistent, marquee events.
- ② Spending on virtual events and increasingly advanced digital engagement capabilities is likely to increase further, compensating for short-term fallout in event participation and safeguarding against future disruptions.
- ③ The purchasing and procurement teams that consume marketing services around the world are likely to reshape every aspect of the marketing supply chain, implementing more flexible strategies that move companies away from the fully-integrated supply chains of today in order to mitigate risk in the future.
- ④ Marketing services firms in more resilient end-markets and those with specializations that are less impacted by the current market dynamic (healthcare marketing platforms, firms servicing online technology firms, etc.) are already gearing up for the ability to make opportunistic acquisitions.
- ⑤ Remote work has become the norm, with a dramatic rise in demand for not only nimble client management methods and employee engagement, but a newly-evolving need for effective content insertion via augmented reality (AR) and similar digital-friendly technologies to supplement the loss in face-to-face interaction.



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Houlihan Lokey's Recent Marketing and Information Services Transactions

Healthcare Marketing	Healthcare Marketing	Market Research	Event Marketing	Healthcare Marketing	Data-Driven Marketing	Digital Media	Healthcare Marketing	Data/Analytics	Digital/Agency	Data Driven Marketing
 a portfolio company of has been acquired by Salside Advisor	 has acquired a portfolio company of Bayside Advisor	 Tom Loan, Delated Drew Tom Loan & Connectable News has been acquired by Exclusive Placement Agent	 a portfolio company of has been acquired by Salside Advisor	 has successfully completed an all-stock restructuring Macey D. and Prithvi Reddy Macey's Equity Advisor	 a portfolio company of has been acquired by Salside Advisor	 has sold to Consumer Information Businesses Progressive Digital Media Group LLC Salside Advisor	 has completed a control transaction with Financial Advisor	 has been acquired by Salside Advisor	 has acquired Bayside Advisor	 All, Reviver & Tom Loan Referring Exclusive Placement Agent

*Selected transactions were executed by Houlihan Lokey professionals while at other firms acquired by Houlihan Lokey or by professionals from a Houlihan Lokey joint venture company.

Tombstones included herein represent transactions closed from 2014 forward.

A Forced Turning Point in the Evolution of the Marketing Industry: COVID-19

The marketing industry is no stranger to disruption. However, the abrupt arrival of COVID-19 has ushered in a “forced” rise in key trends and adaptations across the marketing services ecosystem—although some have already been well underway, each has undergone an unprecedented surge in sense of urgency and importance over the past week.



Dawn of the Virtual Event

- Expect to see virtual events and increasingly advanced, data-driven digital engagement continue to dominate future initiatives, compensating for short-term fallout in event participation and safeguarding against future disruptions.
- Even prior to the COVID-19 crisis, marketers have chosen to focus more and more on local events, sometimes at the expense of massive single events, given the generally higher levels of personal engagement experienced at these smaller productions.



Proliferation of the “Hybrid Strategies”

- The unprecedented flood of private equity investment within the marketing services ecosystem and resulting success of many of these modernized marketing platforms has served as a stark contrast to the struggle observed within public holding companies.
- Expect to see continued, opportunistic acquiring from these new “hybrid strategics” across 2020 as they continue to evolve and fill the structural void left in the wake of struggling advertising holdcos.



Stability Within Pharma and Healthcare Marketing

- Stable demand for services and technologies acts as a protective barrier for healthcare as a sector, and marketing within that sector, in particular—expect to see private investment capital continue to flood into marketing platforms that align themselves with these unique end-market trends.
- This certainly applies to the orphan and cancer drug space, as well as broader commercialization efforts, in which there is currently tremendous growth in terms of the number of new drug approvals, and therefore, the need for continuing investment in medical affairs and promotional materials.



Immediate Shift to E-Commerce

- Intuitively, the frequency of digital touchpoints amidst the COVID-19 is only expected to expand as brick-and-mortar shopping continues to decline and people avoid person-to-person contact.
- Similarly, marketing companies poised to benefit from not only implementing and enacting these touchpoints, but also those that specialize in the measurement and analysis of these efforts, will be in increasingly higher demand.



Resurgence in TV Advertising, For Now

- The TV advertising market is poised to remain uncharacteristically strong, benefitting from short-term growth in its consumption base as consumers are forced to stay home.
- A disproportionate amount of current TV advertising expenditures continue to be driven by the 2020 Olympics—all eyes remain on this key event as stakeholders await updates on how the COVID-19 crisis may impact its future.

Managing Through a Crisis: COVID-19

As the COVID-19 situation continues to unfold, a number of key strategies and considerations will present themselves to business owners and executives alike in the marketing services ecosystem.

Key Crisis Management Strategies

Stability/Resilience

- Focus on employee/customer retention
- Strong execution on existing projects
- Heightened prioritization of operational execution
- Revenue/margin preservation

Business Optimization

- Evaluate key terms for debt/revolvers, vendor contracts, etc., for selective renegotiation
- Freeze/reevaluate hiring
- Enhance tracking of KPI's and performance data, as these will be core focus areas for ongoing management, as well as areas of focus for future investors

Growth

- New customer wins/cross-selling of existing services
- Junior staff and lateral dialogue/hiring
- Opportunistic M&A initiatives and continued focus on integrating recent acquisitions

Key Considerations for Shareholders/Executives

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

Syndicated loan markets sold off more than 10% on a principal basis and there haven't been any new issuances. The private market is also very slow; however, lenders are willing to provide financing but are seeking higher yields and more structure on terms (i.e., covenants and definitions).

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 marketing 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 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 may be a great time to accelerate M&A dialogue. Houlihan Lokey's substantial buy-side expertise and leading Capital Markets Group position us to provide guidance and capital in the current environment.

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 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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