



HOULIHAN LOKEY

Maximizing Shareholder Value Against the Backdrop of a Pandemic

TICC INDUSTRY UPDATE | COVID-19



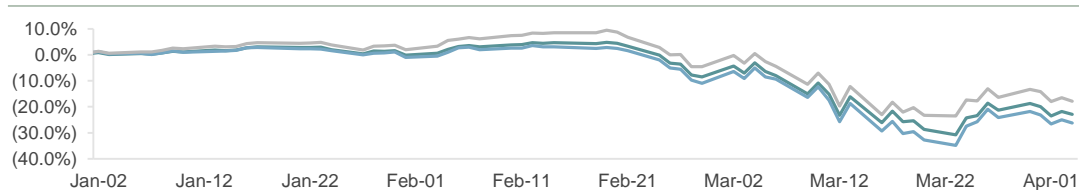
Global Market and Sector Perspectives: COVID-19

Global markets have reacted to the immediate and perceived economic impacts of the coronavirus (also known as COVID-19) health crisis. Current economic weakness is expected to continue in the near term driven by substantial and developing shocks to supply and demand dynamics and associated operational challenges across sectors.

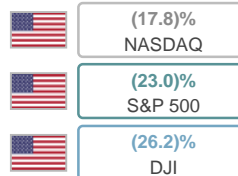
Certain sectors, noticeably subsectors of the testing, inspection, certification, and compliance (TICC) market, have exhibited resiliency in reacting to these dynamics and have outperformed overall indices.

These challenges are also displaying strategies that businesses can implement to navigate existing market conditions, differentiate from competitors, and ensure that shareholder value is maximized for the long term.

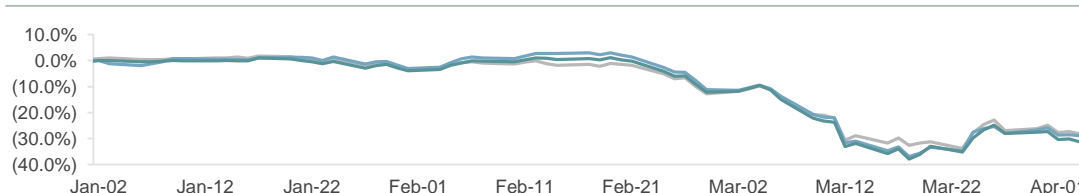
Major U.S. Indices⁽¹⁾



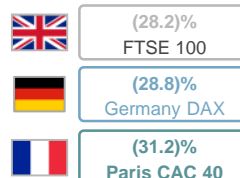
YTD PERFORMANCE



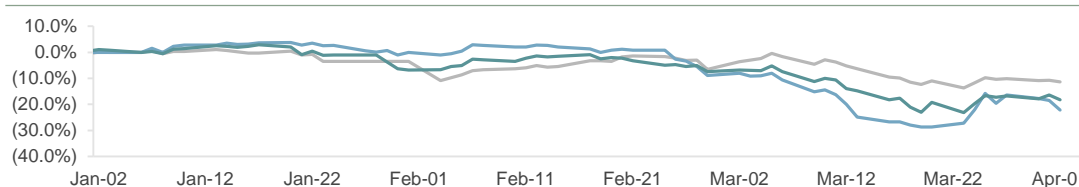
Major European Indices⁽¹⁾



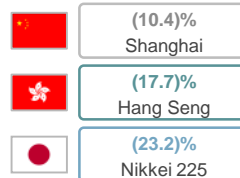
YTD PERFORMANCE



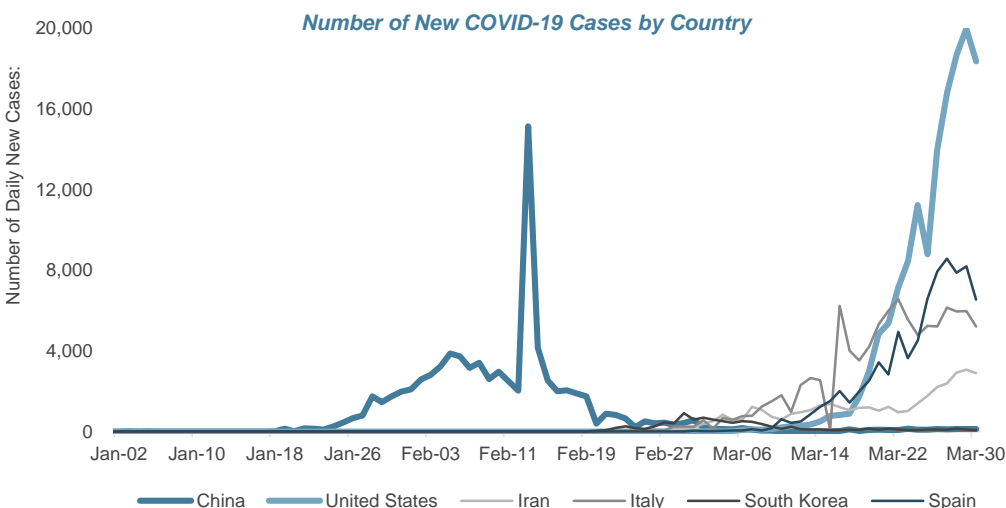
Major Asian Indices⁽¹⁾



YTD PERFORMANCE



COVID-19 Case Trajectory⁽²⁾



China is furthest along in its case trajectory and has begun to see declines in new case trends and partial recoveries in their public markets.

Although new cases in the U.S. continue to trend upwards, it is expected that the U.S. trajectory will begin to flatten, albeit at a slower pace than China as a result of less stringent quarantining and health precautions.

(1) Market data as of 04/03/20.

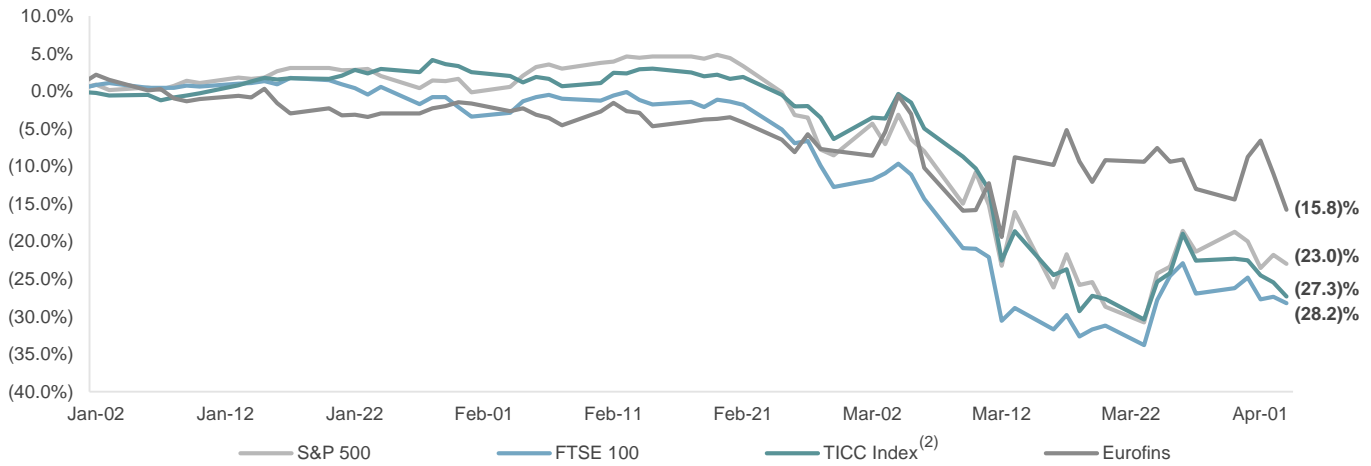
(2) Data as of 03/30/20. Source: European CDC.

TICC Sector: Market Performance

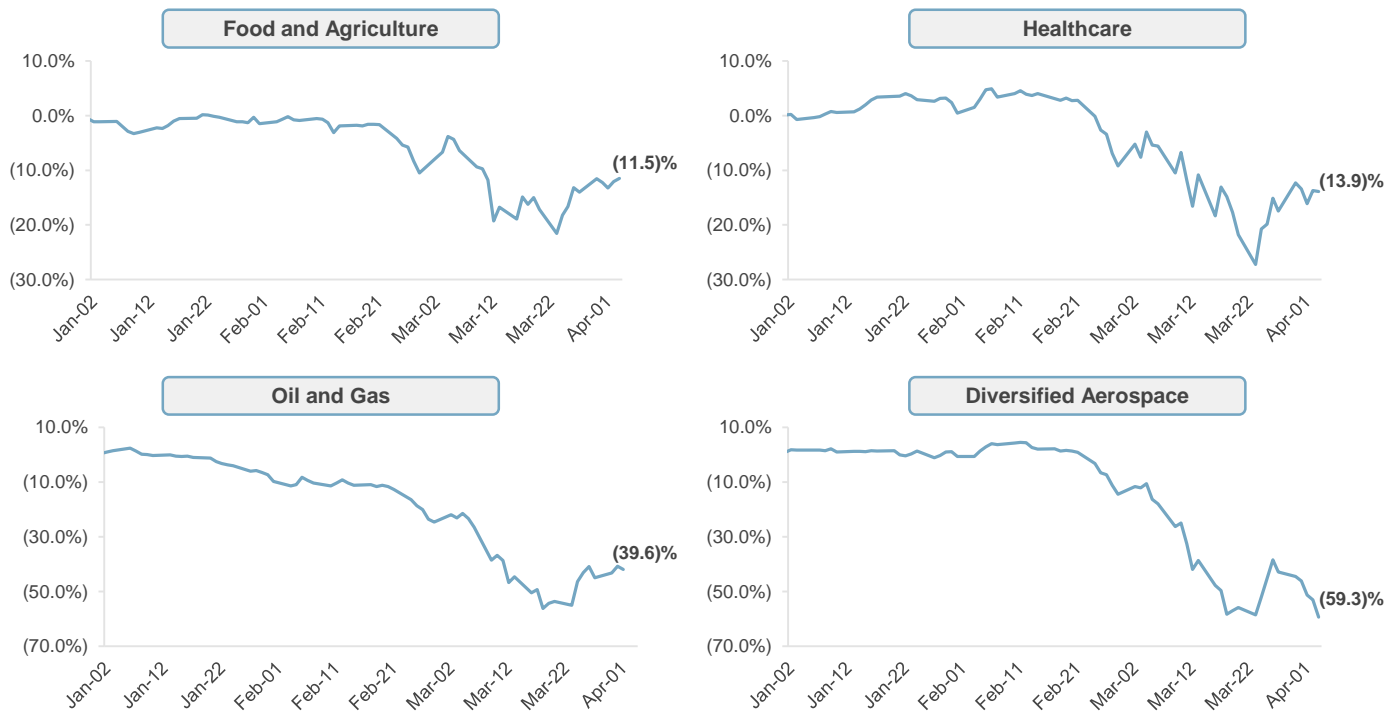
The overall TICC sector has performed roughly in line with the S&P 500 in Q1 2020.

However, food-, healthcare-, and life sciences-focused TICC players (e.g., Eurofins) have performed more favorably than the overall indices.

Market Performance (YTD 2020)⁽¹⁾



Relative End-Market Performance⁽³⁾



(1) Market data as of 04/03/20.

(2) TICC Index includes ALS, Applus, Bureau Veritas, Eurofins, Intertek, Labcorp, Mistras, Quest Diagnostics, SGS, Team Inc.

(3) Market data as of 04/03/20. End-market indices include diversified constituents across a range of sectors that are subject to common end-market supply and demand drivers.

Enduring Market Dynamics

TICC sector participants are adapting to new challenges facing their businesses as a result of COVID-19 by implementing strategies and changes in behavior (select examples below) to sustain service delivery.

Accelerated Focus on Technology

Technology-Enabled Solutions

- TICC players whose solutions are delivered via cloud-based applications or other tech-enabled channels can benefit from sustained client interaction during the COVID-19 crisis.

Transition to Virtual Solutions (e.g., Auditing, Consulting, and Training Solutions)

- TICC sector participants are transitioning to performing solutions virtually by utilizing proprietary or third-party applications; several examples include:
 - Virtual and/or desktop audits to review critical customer procedures, processes, and systems by utilizing connected technology to maintain plant visibility and support remote inspections, as needed.
 - Virtual consulting and training solutions using online, video, and application technologies to continue meeting customers' safety and compliance needs while eliminating in-person interaction and standard travel time and expenses.

Focus on Fulfilling Essential Client Demand

Shift in Revenue Mix in Favor of Non-Discretionary Services Deemed Essential

- Those TICC players with exposure to sectors deemed essential (with states taking guidance from Homeland Security's list of essential critical infrastructure), may have those specific services excluded from stay at home orders.
- With a focus on delivering services that "have a reason to exist," TICC players are establishing themselves as a resilient force irrespective of (and oftentimes as a result of) the broader pandemic.

Optimization of Scheduling to Minimize In-Person Interaction and Exposure to At-Risk Areas

- Businesses are reviewing their scheduling procedures to minimize the in-person interaction of their employees with one another and with external parties to ensure continuity of laboratory, field, and office staff.
- This includes proactively limiting non-essential travel activities, particularly to and from at-risk geographies.

Targeted Vendor Negotiations, Strategic Bundling, and Pricing Initiatives

Targeted Vendor Negotiations (e.g., Renewals of Certifications)

- Select industry participants are working with vendors (e.g., certification bodies) to allow for renewal timing extensions related to annual certification cycles which require field-personnel until such a time that deploying field-resources is safe.
- Given compliance requirements, this delay may not result in lost revenue, only shifted volume and associated revenues to later parts of the year; the ultimate success stories will potentially emerge from those companies that are able to retain the capacity to service this heightened level of demand when it resumes.

Strategic Bundling and Pricing Initiatives

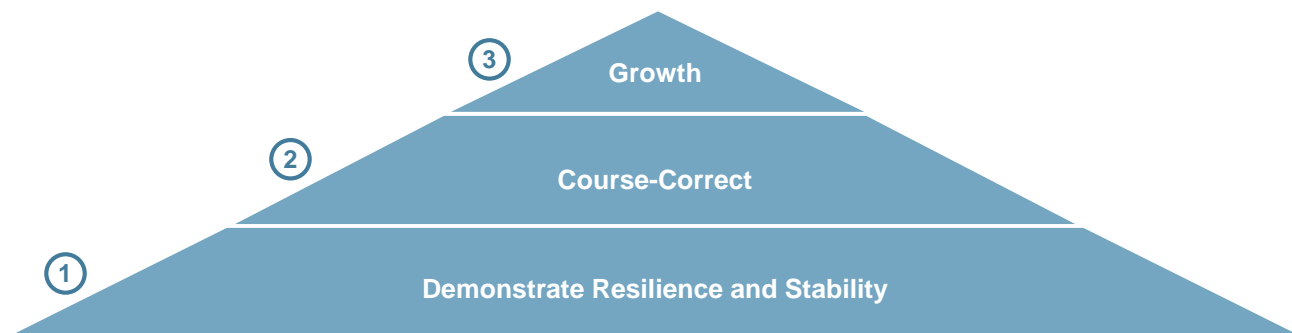
- TICC players, particularly those that offer "one-stop-shop" solutions, can strategically bundle services for customers in an effort to maximize the perceived value proposition. However, pricing is being closely monitored to avoid sweeping pricing cuts, and instead focused on targeted opportunities.

Mergers and Acquisitions

Strategic M&A

- Industry players are evaluating strategic opportunities to acquire less diversified players who will benefit from becoming a part of a larger organization better suited to sustain current market shocks.

Tactics to Support Shareholder Value



Key Considerations for Shareholders/Executives

SHAREHOLDER AREAS OF FOCUS:

HOW CAN COMPANIES RESPOND?

	SHAREHOLDER AREAS OF FOCUS:	HOW CAN COMPANIES RESPOND?
<p>① Demonstrate Resilience and Stability</p>	<p>How did you protect your employees, operations, and customers during this time?</p> <p>How much exposure does the business have to COVID-19 related market dynamics?</p> <p>How did you build or retain market share during this time?</p> <p>How do prospects and initiatives look today versus pre-pandemic?</p>	<p>Over-communicate with employees and implement aggressive safety guidelines.</p> <p>Build downside case scenarios to analyze potential impact on revenue, cost, liquidity, etc.</p> <p>Make investments to transition to alternative delivery models as needed (e.g., tech-enabled).</p> <p>Take stock of growth strategy vis-à-vis any revised prioritization of initiatives.</p>
<p>② Course-Correct</p>	<p>If necessary, were you able to manage your balance sheet (e.g., aggressive working capital tactics)?</p> <p>What leadership actions were taken to shore up existing operations?</p> <p>How was the employee base managed/how variable is the cost structure?</p> <p>What are implications on continued investment in the growth plan?</p>	<p>Consider aggressive receivables/stretch payables, vendor discounts, over-billings, revolver draws, and/or recapitalization.</p> <p>Consider organizational chart and enacting crisis management plan.</p> <p>Track KPI impact to field and out of field staff, and highlight actual or pro-forma utilization.</p> <p>First delay “non-recurring capex” that has clear ROI, but sustain routine expenditures.</p>
<p>③ Growth</p>	<p>Did any aspects of compliance programs stop or start (across segments)?</p> <p>Which customers continued or stopped work; which changed behavior?</p> <p>How did recurring/reoccurring work perform versus new opportunities?</p> <p>Margin preservation at gross, EBITDA, and FCF levels?</p> <p>Is M&A more or less of an opportunity today in light of market and business dynamics?</p>	<p>Pro forma out any specific stoppage or highlight continuity in the face of calamity.</p> <p>Communicate with customers to identify reason for any change in activity.</p> <p>Templatize ongoing tracking of customer data (retention and unit economics).</p> <p>Track any pricing/cost implications of sustaining topline performance.</p> <p>M&A pipeline development—maintain option value with any existing opportunities.</p>

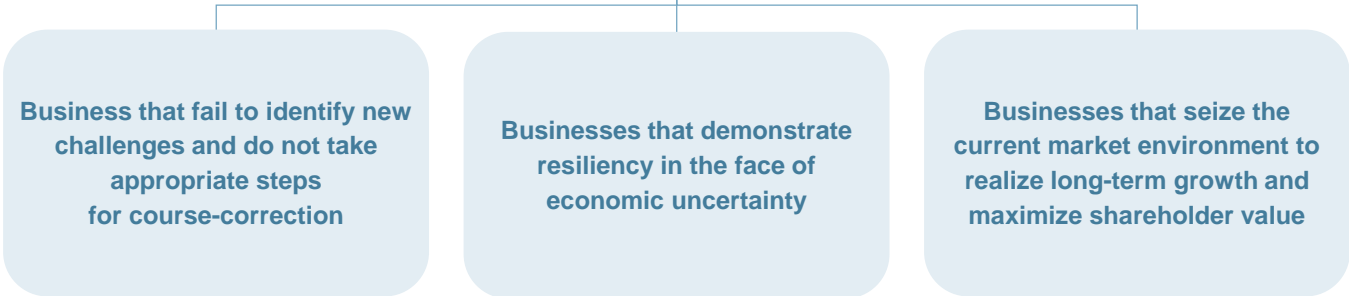
Key Takeaways

① A return to normalcy will happen in quarters and not years.

- A COVID-19 represents a non-systemic disruption to global markets.
- B Certain sectors (e.g., healthcare-, life sciences-, and food-focused TICC supported by increased global attention on safety, health, and compliance) will experience continued momentum in the medium- and long-term.
- C Technology-enabled, non-discretionary business models with operational flexibility will experience business continuity and sector outperformance.

② There are three business outcomes from the COVID-19 crisis:

Three Outcomes for Businesses Following COVID-19



③ Prospective acquirers are looking at performance during the COVID-19 crisis (as opposed to looking back 12 years to the Great Recession) for evidence of resiliency during harsh economic environments.



Those who acted swiftly and positioned themselves for sustainable growth will be aggressively (and rightfully) sought after in the “new normal.”

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

Board Advisory Services

Mergers and Acquisitions

Capital Markets

Private Funds Advisory

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

Transaction Advisory Services

Real Estate Valuation and Advisory

Dispute Resolution Consulting

Corporate Finance

Houlihan Lokey is a market leader in volume of corporate finance activity, with a leading TICC advisory practice.

Expertise includes review of strategic alternatives, access to the capital markets, and deep sector insights into M&A activity. No other investment bank maintains the combination of breadth of relevant relationships, the transaction volume, and capital markets intelligence that we offer.

Financial Restructuring

We have the largest special situations and 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 Uniquely Positioned to Help



Leader 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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