



Impact of COVID-19 on the Data Analytics and Infrastructure Software Sector

HOULIHAN LOKEY PERSPECTIVES

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Houlihan Lokey's Fully Integrated Team

Fully integrated team, with deep industry and sector knowledge in data analytics

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Preliminary Perspectives on Impact of COVID-19 to Enterprise Software Providers

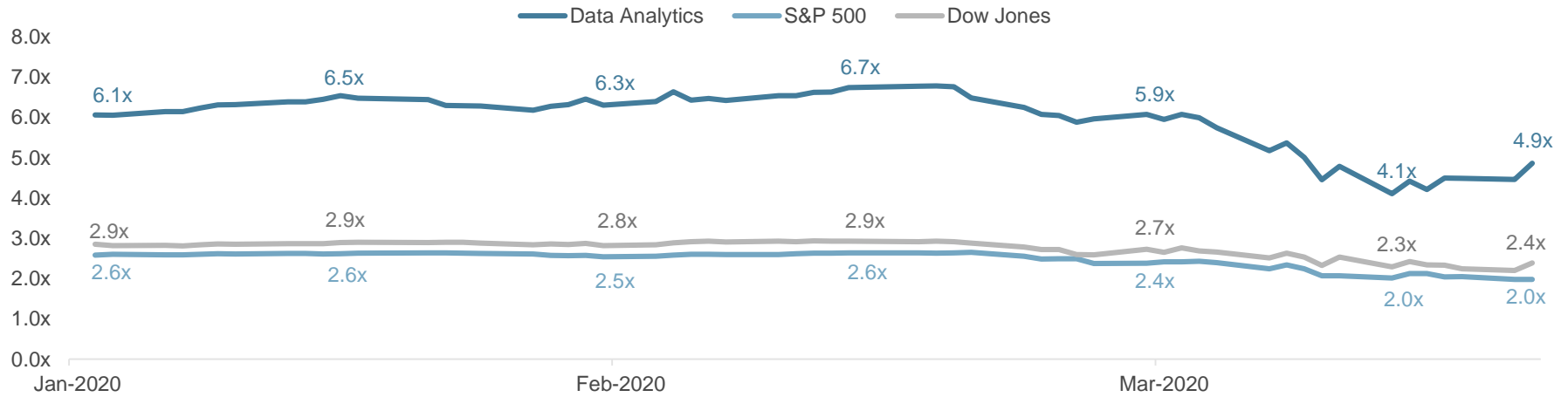
The outbreak of COVID-19 has resulted in a global health emergency and severely dislocated financial markets. Houlihan Lokey presents an assessment of the virus' impact on the enterprise software sector, specifically highlighting key investor focus areas

Secular Drivers and Near-Term Impact	<ul style="list-style-type: none">▪ Long-term secular drivers and medium-term business trends appear to be intact, but near-term deal slippage expected; risk of potential deal slippage in March/April
Percentage Mix of Recurring Revenue	<ul style="list-style-type: none">▪ Recurring revenue mix a key risk variable; business models that have the highest mix of subscription revenue are more attractive
Renewed Focus On Profitability	<ul style="list-style-type: none">▪ Investors have very little tolerance for inflexible burn models that are dependent on growth and new bookings for near-term cash flow
SMB Exposure	<ul style="list-style-type: none">▪ Investors will value a high-quality customer base; SMB exposure seen as a risk
Existing Customer Contribution to Revenue vs. New Logos	<ul style="list-style-type: none">▪ Assuming travel disruptions have a bigger impact on new logos vs. customer expansion▪ Investors focused on percentage revenue derived from expansions, renewals, and upsells into existing customers versus percentage revenue from new logos
Big Deal Exposure	<ul style="list-style-type: none">▪ Greater potential risk with sales deals that heavily involve on-site direct sales representatives and longer sales cycles, lengthy implementation cycles, and longer time to value (higher ARPC)▪ While larger deals are (longer term) a net positive to the business, investors are seeing execution risk in near-term for companies with heavy exposure to large deals
Macro-Sensitive End Markets	<ul style="list-style-type: none">▪ Given energy, hospitality, retail, and travel being particularly impacted, investors are focusing on software companies with meaningful exposure to macro-sensitive verticals
International Mix	<ul style="list-style-type: none">▪ With APAC and EMEA being high-risk regions, investors prefer companies with a more U.S.-centric business model

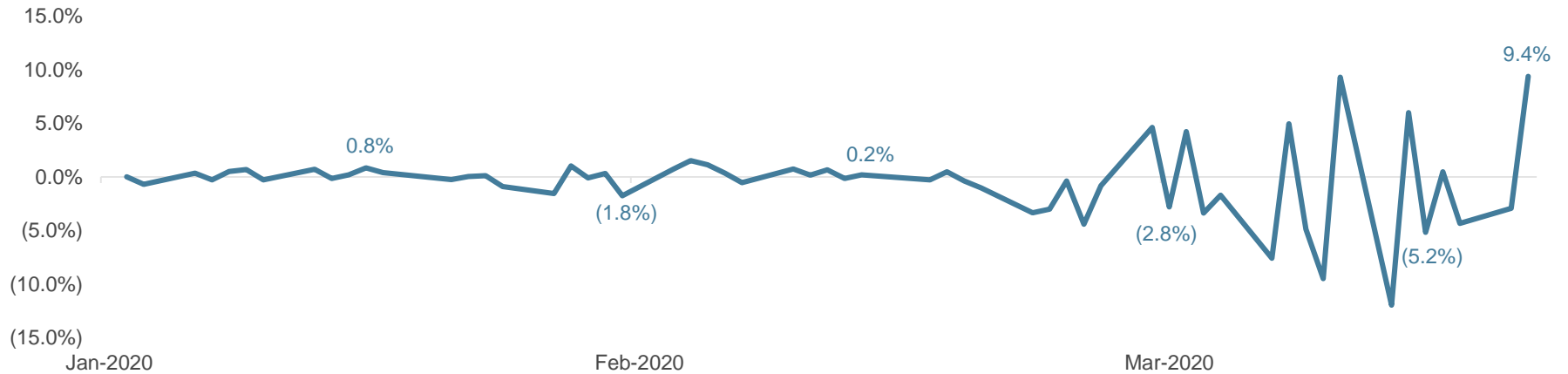
Impact of COVID-19 on Valuations

EV/NTM revenue data analytics valuation multiples have decreased by approximately 20% over the past month

EV/NTM Revenue



S&P 500 Daily Percentage Change in Trading Value



Data Analytics Companies by Enterprise Value

\$ in billions

	Enterprise Value	% of 52-Week High	EV/2020E Revenue	EV/2020E EBITDA	'19-'20E Revenue Growth	2020E EBITDA Margin	
Data Analytics/Infrastructure	splunk >	\$19	68.7%	7.3x	NM	10.7%	10.7%
	mongodb	\$8	73.8%	15.1x	NM	26.9%	26.9%
	alteryx	\$7	64.5%	11.9x	NM	43.6%	43.6%
	elastic	\$4	52.8%	8.0x	NM	40.6%	40.6%
	TERADATA	\$2	43.2%	1.3x	7.4x	0.0%	0.0%
	cloudera	\$2	60.8%	2.3x	11.4x	10.6%	10.6%
	MicroStrategy	\$1	64.8%	1.2x	8.6x	9.1%	9.1%
	talend	\$1	38.6%	2.2x	NM	12.5%	12.5%
BPM/Ops Management	opentext	\$12	67.0%	3.5x	9.5x	15.5%	15.5%
	PEGA	\$6	67.8%	5.3x	NM	15.5%	15.5%
	New Relic	\$3	42.9%	3.8x	31.9x	17.6%	17.6%
	Appian	\$2	59.6%	8.2x	NM	12.5%	12.5%
	box	\$2	58.0%	2.7x	18.0x	11.4%	11.4%

Questions and Considerations

Volatile market conditions have created many questions for businesses. Our significant product and end-market expertise position us to help review a variety of strategic alternatives.

How have the debt 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).

What should I do if I'm considering an equity raise in the near term?



Given the dislocation caused by COVID-19, some investors have modified their investment criteria and others have paused their capital deployment plans. Please reach out to our team to discuss how the criteria for equity investment have evolved and how we can be helpful with your particular situation.

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



Our relationships in the software 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.

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 the virus moving forward (current customers, pipeline, workforce, etc.)

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 an acquisition?



As companies analyze inorganic growth opportunities, it is 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 buyside 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 constantly help clients analyze, structure, negotiate, and execute the best possible solutions from both strategic and financial perspectives.

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
 - Transaction Advisory Services
 - 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**

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