



HOULIHAN LOKEY

Navigating Troubled Waters

Retail Technology Industry Update | June 2020



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Houlihan Lokey is the trusted advisor to more top decision-makers than any other independent global investment bank.

Corporate Finance

2019 M&A Advisory Rankings All U.S. Transactions

Advisor	Deals
1 Houlihan Lokey	184
2 Goldman Sachs & Co	167
3 JP Morgan	141
4 Morgan Stanley	122
5 Evercore Partners	112

Source: Refinitiv (formerly known as Thomson Reuters)

Financial Restructuring

2019 Global Distressed Debt & Bankruptcy Restructuring Rankings

Advisor	Deals
1 Houlihan Lokey	76
2 PJT Partners Inc	43
3 Moelis & Co	36
4 Lazard	29
5 AlixPartners	19

Source: Refinitiv (formerly known as Thomson Reuters)

Financial and Valuation Advisory

2000 to 2019 Global M&A Fairness Advisory Rankings

Advisor	Deals
1 Houlihan Lokey	1,057
2 JP Morgan	929
3 Duff & Phelps	734
4 Morgan Stanley	621
5 Bank of America Merrill Lynch	612

Refinitiv (formerly known as Thomson Reuters). Announced or completed transactions.

No. 1 U.S. M&A Advisor

Top 10 Global M&A Advisor

**Leading Capital Markets
Advisor**

**No. 1 Global Restructuring
Advisor**

**1,000+ Transactions Valued
Over \$2.5 Trillion**

**No. 1 Global M&A Fairness
Opinion Advisor Over the Past 20
Years**

**1,000+ Annual Valuation
Engagements**

Selected Transactions

 a portfolio company of  has been acquired by  Sellside Advisor	 has received a significant growth investment from  Financial Advisor	 a portfolio company of  has been acquired by  Financial Advisor	 has been acquired by  Sellside Advisor	 has been acquired by Williams-Sonoma, Inc. Sellside Advisor	 has received an equity investment from  a portfolio company of  Financial Advisor	 has been acquired by   Sellside Advisor	 has been acquired by  Sellside Advisor*
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Tombstones included herein represent transactions closed from 2013 forward.

*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.

Houlihan Lokey Retail Technology Marketing Update

The outbreak of COVID-19 has resulted in a global health emergency and has sent the markets into a frenzy. The retail sector is among one of the most impacted industries by the crisis.

Houlihan Lokey Market Observations

- The COVID-19 outbreak has had far-reaching impacts on the retail technology industry, but the impact moving forward will not be uniform. It depends on several factors, including product focus, capital structure, and competitive positioning leading up to the crisis.
- As the crisis continues to evolve, we see companies falling into the following major categories:
 - Companies with robust balance sheets and competitive positioning that can take advantage of the market dislocation to consolidate and increase market share;
 - Companies pursuing mergers with competitors to become a single, stronger entity without the need for a capital outlay today;
 - Companies hit hard by the current crisis that will need to seek liquidity events despite compressed valuations and challenging capital market conditions; and
 - Companies that are enforcing greater financial discipline and simply hope to weather the storm.

Retail—General Observations

- Retail sales in the U.S. dropped 16.4% month over month in April 2020 following a 8.7% drop in March 2020, each the worst drop in three decades at the time of release.
- Many are concerned these sudden changes to the retail landscape will have lasting impacts on the industry and consumer behavior.

① Retail

- Grocery, pharmacy, big-box, and e-commerce segments of the market have provided consumers with essential goods while prioritizing safety measures for their customers and employees.
- Non-essential businesses have struggled with significant declines in sales, making difficult decisions to close locations, furlough or layoff employees, or restructure as consumers cut down on spending.
- Major retailers, such as J. Crew and Neiman Marcus, have declared bankruptcy, with many other retailers anticipated to follow.

② Restaurant

- Many restaurants have tried to quickly adapt to accelerating online ordering and curbside service, but have been unable to fully replace sales.
- Restaurants have seen declines across the board with fast casual and fast food seeing a 51% and 42% decline in sales respectively, and midscale, casual dining and fine dining each seeing 70%+ declines in sales.

Retail Industry: Highlights/Lowlights in the End-Customer Market

Observations of Technology Trends in Retail

Technology investments leading the path forward

Many of the trends previously underway in the retail segment will likely be accelerated due to the current crisis. Retailers will prioritize investments in automation technology, omni-channel experience, contact-free shopping, analytics, e-commerce capabilities, AR, and last-mile capabilities to remain competitive.

Importance of technology that supports an efficient supply chain and e-commerce channels

As consumers are faced with continued health and safety uncertainty, the prevalence of e-commerce channels will expand across essential and nonessential markets; the importance of the omni-channel experience will also increase as brick and mortar stores try to recreate their identities.

Business models relying on percentage of payments seeing dramatic reductions

Due to the significant reduction in sales, many business models relying on payments revenue are seeing a sharp decline. For example, a restaurant point-of-sale solution provider which derives an estimated 70% of its revenue from payment processing, cut 50% of its staff in an attempt to control costs and weather the crisis.

Customers asking to suspend SaaS payments through the crisis

The sudden shift in the economy has resulted in many companies asking technology platforms to pause subscription SaaS payments as they look for every cost cutting option to help their business survive.

Shift to online ordering, curbside pickup, and other adaptations

Many retail stores and restaurants have quickly ramped up their contactless services. Companies are trying to protect the population and employees while trying to meet consumer needs and adapt to driving sales in less traditional manners.

Deals Are Still Possible

Despite the uncertainty, M&A deals are still possible and expected to accelerate as the crisis stabilizes. We expect to see the consolidation of smaller players, mergers of equals and acquisitions of new business models to increase, **particularly around the expansion of digital capabilities**, as more stable players and industry stakeholders uncover opportunities.

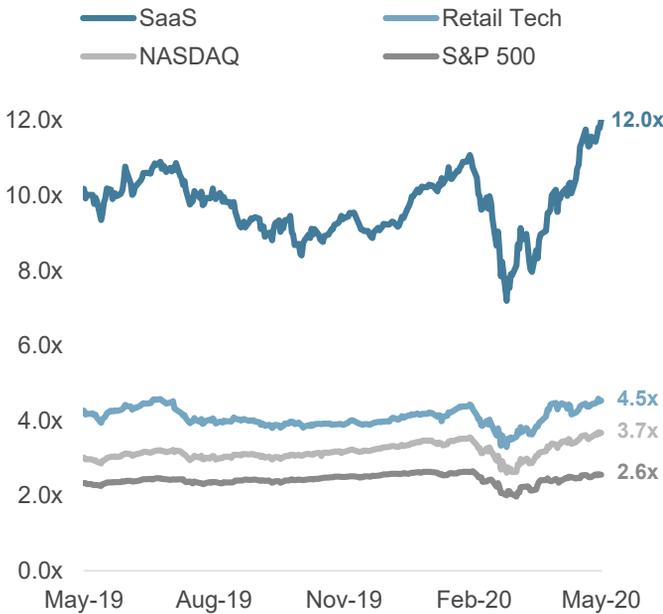
Deal Market Observations

Despite market uncertainty, the M&A and capital markets remain open and are working to adapt to the unprecedented new world order.

Despite market volatility, capital is still available	<p>Many large strategics and financial sponsors continue to look at acquisition and investment opportunities.</p> <ul style="list-style-type: none">▪ Private equity funds have record levels of dry powder▪ Many private equity funds have recently closed large funds or remain active in their process of raising new funds▪ Billions of cash on public company balance sheets▪ Lenders are willing to provide financing, but are seeking higher yields and more structure on terms given the market uncertainty (i.e., covenants and definitions)▪ Leverage levels are lowering for acquisition and add-on financings▪ Many strategics and financial sponsors see a window for opportunistic investments and acquisitions given the volatile climate▪ Many investors, after prioritizing their current portfolio's needs, are looking to be guided by long-term outlook theses, invest in familiar industries/companies and opportunistically pursue roll-up strategies for many of their portfolio companies▪ Strategics will prioritize highly synergistic and value purchase opportunities
Preliminary deal dynamics in an uncertain market	<p>Despite market uncertainty, investors are open for business and trying to adapt to the current economic conditions.</p> <ul style="list-style-type: none">▪ Investors broadly are struggling with how to value acquisitions/investments while companies are challenged with trying to provide forecasted financial results despite high level of uncertainty▪ Given the economic volatility, many investors will come up with creative structures around their investments as well as look to make less concentrated bets▪ Deal processes will look to remain flexible as buyers/investors run diligence processes remotely and experience leverage uncertainty▪ High recurring revenue models with demonstrated financial model discipline and strong unit economics will be favored in these more uncertain market conditions▪ Despite availability of capital, Q1 2020 saw a drop in M&A and investment activity with further declines anticipated in Q2 2020 given broad global uncertainty▪ PIPE investment activity has picked up substantially and special situation and rescue financing deal flow has ramped up in sectors most impacted by the lockdown

Macro Market Snapshot

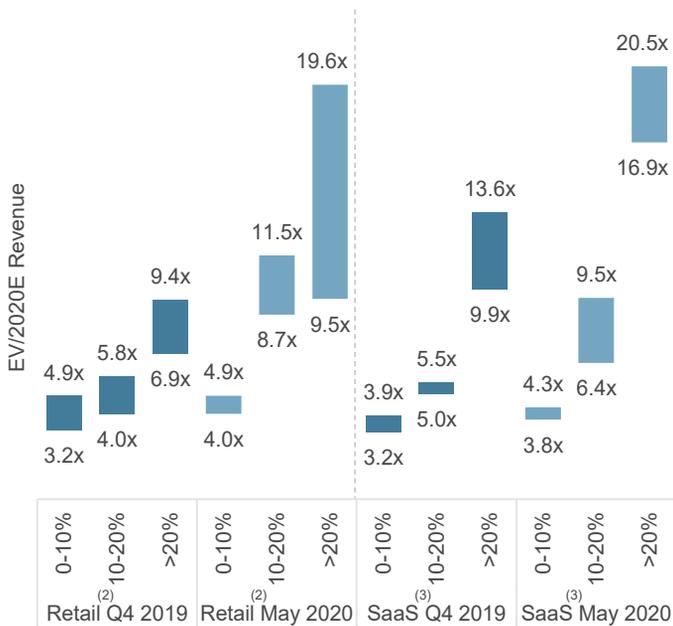
EV/NTM Revenue by Index



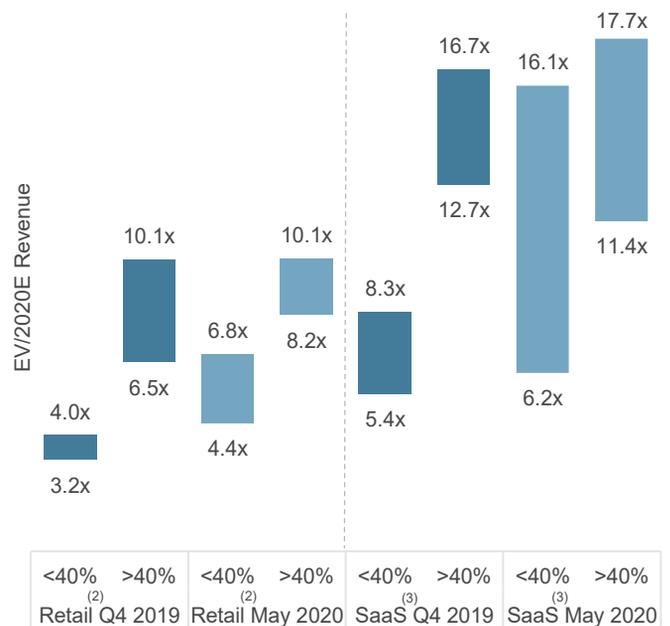
Share Price Weighted by Market Cap



Valuation Is Closely Tied to Revenue Growth⁽¹⁾



Rule of 40: Premium on Growth + Profitability⁽¹⁾



Sources: S&P Capital IQ – Data as of 5/22/2020.

1) Ranges shown indicate median through top quartile EV/2020E Revenue; Q4 2019 as of 12/31/2019 and May 2020 as of 5/22/2020.

2) Retail Technology Index comprised of Amazon, Oracle, SAP, Adobe, Salesforce, PayPal, eBay, Square, Shopify, GoDaddy, Zebra Technologies, Wix, Yelp, SPS Commerce, Yext, Quotient Technology and ChannelAdvisor.

3) SaaS Index comprised of a sample set of 39 publicly traded SaaS companies.

Assessing Options

Assessing Capital Needs and Options

M&A Options	<ul style="list-style-type: none">▪ For those with the capacity to do so, the market dislocation can provide a compelling opportunity for M&A as others seek to simply stay afloat.▪ The current market shift is the perfect time to seek out new revenue streams, and M&A options may be an efficient way of accelerating growth.▪ Engaging in potential M&A discussions with attractive candidates or those seeking to acquire new assets may yield positive outcomes.▪ Mergers, in particular, may benefit both parties, as companies combine to become a single, stronger entity without the need for a capital outlay today.▪ Be prepared for M&A inbound as many investors/buyers explore creative strategic paths in the new market landscape.▪ Upon receipt of inbound interest, it may make sense to broaden the scope of conversations to understand strategic alternatives available to the company in the current climate.
Capital Considerations	<ul style="list-style-type: none">▪ Evaluate immediately available cash sources such as revolver availability.▪ Review credit agreements to understand permitted investments and basket capacity.▪ Consider new third-party capital alternatives, including debt, equity, and convertible preferred securities.▪ The markets continue to support an appetite for new secured financings at attractive rates, even with challenged high-yield borrowers.

Be Realistic in Assessing Options

Identify the societal and economic shifts	<ul style="list-style-type: none">▪ Identify shifts that matter most to your industry, your customers, and your employees. Be specific and avoid providing a 30,000-foot view assessment. Do your best to prioritize them (this is hard, but best guess).
Adjust your strategy and operating plan	<ul style="list-style-type: none">▪ Meet the new reality of the market. This isn't always a negative thing. There's a unique opportunity here for companies to increase brand awareness by being a visible solution to the new reality of everyday life. But no one can rest on the laurels of an operating plan that was backed months ago.
Communicate and align your various stakeholders	<ul style="list-style-type: none">▪ A plan is just a plan without buy-in. You need to start communicating early and often with employees, customers, partners, investors, and board members. Share with them how your team sees your new reality, get their counsel on how to adjust, and really listen and become a sponge for their input in a way you weren't before.
Focus on your core capabilities, competencies, and assets	<ul style="list-style-type: none">▪ Now is not the time for adjacencies or "nice to haves." Now is the time to use your core capabilities to produce value for an economy and a population that is hurting. Make sure you understand the business you're in and make it a point to figure out how your business can be part of the solution.
Be visible	<ul style="list-style-type: none">▪ Investors want to know you're in control. Customers want to know you'll continue to meet their needs and exceed their expectations. Employees want to know you'll support them in their new reality. Produce content and be out there. Connect the dots for how you're helping and, in turn, drive awareness for your company. Folks are both hungry for content and devoid of leadership right now. Meet the moment for your company.

Assessing Options (cont.)

In this time of unprecedented and rapid change in the capital markets and business environment, there are several levers businesses and owners can pull to ensure adequate liquidity and defend against a capital shortage.

Houlihan Lokey—a leader in M&A, private capital markets, and restructuring transactions—is uniquely positioned to help clients navigate the current liquidity landscape.

To help business owners and management teams take appropriate action during this time, we have developed a *Liquidity Preservation Checklist* as outlined below. This checklist is designed to aid internal conversations around maintaining and enhancing liquidity. Please do not hesitate to reach out to our team to discuss any of the potential strategies included herein.

Liquidity Preservation Checklist

1. Liability Management

Are you doing everything you can to maximize flexibility within your current capital structure?

- Navigating current covenants and working with existing lenders to secure amendments to existing credit agreements
- Opportunistically managing the securities in your current capital structure: repurchases, tenders, debt-for-debt exchanges, debt-for-equity exchanges
- Maximizing or protecting the value of operating assets or IP: unrestricted subsidiary asset transfers, asset financings, SPV financings
- Navigating liquidity opportunities for current shareholders: incurrence covenants, restricted payments covenants, etc.

2. Accessing Incremental Capital

Will your business need access to more capital in the near-term?

- Mezzanine/structured equity
- Minority equity
- Holdco financing structures
- Rights offerings
- Non-core asset/subsidiary sales

3. Liquidity Management and Maximization

Other areas to assess to maximize liquidity

- Liquidity evaluation and analysis; cash flow forecasting
 - Evaluation of current position and identifying steps that can be taken to establish additional sources of liquidity and generate cash
- Working capital review and alternatives discussion
 - Performance assessment and recommendations
- Property Insurance recovery: policy review, claim preparation and filing strategy
 - Typical coverages or clauses where the events of COVID-19 might apply are business interruption/business income, contingent business interruption, event cancellation, and/or civil authority
- Hedging strategies
 - Review of existing derivative hedge instruments and potential restructuring to alleviate pressures on cash

Managing Liquidity and Revenue Declines

Amid the COVID-19 landscape, expect erratic changes in customer behavior, often in non-reversible ways that will accelerate prior trends. Bold action now on the liability, cash, and even revenue management fronts can establish a baseline for success through the downturn.



Establish a Senior Battle Team

- Many companies are appointing a senior, fully dedicated COVID-19 specialist team internally that is dedicated to the effort.
- In addition to staying updated on the various health and related aspects of the virus, alongside the CEO, they are proactively managing and thinking through the following strategies.



Forecast Your Exposure

- Modeling out financial performance scenarios, with specific detail around customer performance and potential payment delays, is an important exercise in establishing a near-term strategy and conveys confidence to lenders, etc.
- Given the unique uncertainty of the current situation, stress testing the scenarios and including “extreme” cases will help prepare for various outcomes.



Communicate Frequently With Lenders

- This is when the “partnership” concept that your lender told you about when times were good comes into play.
- Although your lender knows your business, the transparency, frequency, and even tone/confidence in your discussions with them can have a meaningful impact on your liquidity in the months ahead.
- In addition to being a source of additional short-term bridge liquidity (often when you’d least expect it), the openness of your discussions around a potential coming covenant breach or similar with him or her can have a material influence on the lender’s flexibility in many situations.



Cash Is King

- A deep understanding of the company’s cash and working capital requirements are critical, especially as it pertains to understanding your borrowing base and any potential covenant breaches that could incur for debt and liabilities.
- Approaching lenders, landlords, and other creditors proactively helps add stability around some of the more volatile and onerous aspects of your expense base.

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

Corporate Finance

1 Mergers and Acquisitions

2 Capital Markets

Private Funds Advisory

Board Advisory Services

Financial Restructuring

Company Advisory

3 Distressed M&A

Liability Management

Creditor Advisory

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

Mergers and Acquisitions

We are widely recognized as a leading M&A advisor to the middle market in general, and the TMT sector in particular. Our deep expertise across the sector, knowledge of the strategic landscape, and long-standing relationships with all relevant strategic and financial buyers make us the M&A advisor of choice for strategic transactions in the digital media industry.

Structured Equity Financing

We have a market leading private capital markets platform focused on the placement of solution-oriented capital for a wide range of financing needs. We have differentiated investor relationships and access to the key decision-makers, allowing us to run a bespoke, high-touch, confidential and efficient process.

Distressed M&A

We have the largest, most experienced financial restructuring advisory of any investment banking firm and are a recognized leader in achieving M&A transactions for distressed companies. Our group employs an interdisciplinary approach to engagements and is accustomed to evaluating complex, highly leveraged situations in short timeframes.

Why We're Different

✓	Deep Retail Technology Industry Expertise
✓	Strong Relationships With the Most Relevant Buyers
✓	Solution-Oriented Capital Markets Platform
✓	Dominant in Special Situations and Restructuring
✓	Senior-Level Commitment and Dedication
✓	Superior Work Product/Technical Abilities
✓	Creativity, Imagination, Tenacity, and Positivity

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