



HOULIHAN LOKEY

TRAINING AND EDUCATION

MARKET UPDATE | COVID-19



Houlihan Lokey Training and Education Market Update

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

Select Sector Observations

In recent weeks, COVID-19 (or, the “coronavirus”) has globally sent shock waves through markets 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 training and education (T&E) industry, which is adapting to a remote workforce and 1.5 billion academic students now learning from home.⁽¹⁾

The T&E market has a fundamentally robust, long-term outlook, which remains unchanged due to ongoing growth in demand, often multi-year revenue visibility, and ongoing innovation. While the near-term outlook for the T&E industry varies by subsector, the rapidly shifting delivery modes resulting from the current disruption may accelerate underlying secular trends.





Early Childhood Education (ECE): The closure of early childhood education centers will pose near-term revenue challenges for the sector. The revenue impact to employer-funded, work-based childcare may be somewhat delayed, since much of that revenue is contracted. However, as unemployment increases, the demand for employer-sponsored childcare may decline. Retail childcare centers are experiencing an immediate revenue hit. Further, cautious parents may be less likely to resume their children’s participation in early childhood programs until the COVID-19 spread is well under control or a vaccination is in distribution. Long term, the sector still possesses strong growth fundamentals, but the spring, summer, and potentially the fall face likely headwinds.





K–12: While parents are still paying fees and tuition, U.S. households are adjusting to the “new normal,” with K–12 schools across the country closing for the remainder of the academic year. Many public and private institutions lack the technological infrastructure to create an eLearning environment that serves as a worthy supplement to a classroom environment. Education technology companies focused on K–12 schools and students may benefit long term, given the amplified need for expanded digital capabilities. Further, companies focused on online tutoring—both curriculum-based and supplemental—could experience positive trends as parents endeavor to supplement their child’s curriculum with online content and programs.

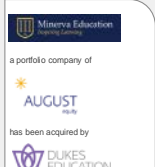



Education Technology: Technology may be able to offer practical solutions to some of the challenges created by school and office closures. Specific solutions like LMS platforms with interactive online classrooms, remote proctoring, and digital content may enable bricks-and-mortar institutions to continue delivering their curriculum outside of classrooms and lecture halls. Similarly, online corporate and B2C learning platforms are seeing a surge in demand. While challenging in the short term, the COVID-19 crisis is likely to accelerate established adoption trends with 58% of education technology businesses⁽²⁾ expecting to see a positive long-term impact from the current disruption.

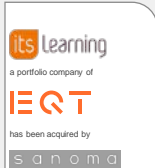




⁽¹⁾ UNESCO; ⁽²⁾ HoloniQ
Tombstones included herein represent transactions closed from 2014 forward. Selected transactions were executed by Houlihan Lokey professionals while at other firms acquired by Houlihan Lokey or by professionals from a Houlihan Lokey joint venture company.

SELECT HOULIHAN LOKEY CREDENTIALS

ECE	K–12
 <p>has been acquired by</p>  <p>Sellside Advisor</p>	 <p>has been acquired by</p>  <p>Financial Advisor & Fairness Opinion</p>

K–12	K–12
 <p>has made an investment in</p> <p>Inspired</p> <p>Financial Advisor</p>	 <p>has divested its Assessment Division to</p>  <p>a portfolio company of</p>  <p>Sellside Advisor</p>

K–12	Education Tech
 <p>a portfolio company of</p>  <p>has been acquired by</p>  <p>Sellside Advisor</p>	 <p>has completed an out-of-court restructuring that resulted in a consensual debt-for-equity exchange of approximately \$140 million of Second Lien debt and the injection of \$35 million of new capital</p> <p>Second Lien Lenders Advisor</p>


Education Tech	Education Tech
 <p>a portfolio company of</p>  <p>has been acquired by</p>  <p>Sellside Advisor</p>	 <p>has been acquired by</p>  <p>Sellside Advisor</p>

Houlihan Lokey Training and Education Market Update (cont.)

Select Sector Observations (cont.)

Post-Secondary: Online education is far more prevalent in the post-secondary space, with nearly 31% of graduate students and 14% of undergraduate students attending fully online programs in the U.S.⁽¹⁾ With the sudden closure of universities across the country, most students are completing the current semester online. We believe that this experience will increase students' comfort with online education. We also believe that online education will become a permanent component of most colleges' offerings, because it will ensure operational continuity going forward. Increased demand for online education favors online program managers (OPMs), service providers, and technology providers that support online education, remote proctoring businesses, and online marketing and tools to enable online enrollment and student engagement. While there has been a temporary reduction in international student mobility, the macro trend of student international travel for education and apprenticeships is expected to continue in the longer term. Many international students seek career-enhancing and life-changing experiences, which cannot be replicated online. Similarly, the expected impact on higher education institutions or language schools is likely more of a delay and postponement. Should a recession occur, post-secondary institutions with graduate programs could also stand to benefit, with a weak job market steering workers to pursue specialized degrees to increase their employability upon reentering the market.

Corporate Training: The corporate training sector will experience a diverse mix of trends in the coming months, depending upon end markets served, digital vs. in-person capabilities, and the ROI of the offering. Digital training offerings with a demonstrable ROI, or those that are required for regulatory compliance or professional licensure requirements, should continue to perform effectively in a recession. In addition, with most companies enacting a work-from-home policy for the next few weeks (potentially longer), corporate training players with advanced digital platforms, value-added content, and/or enhanced tooling capabilities become more critical for corporate customers who will need remote capabilities to enhance talent development. Work-from-home policies also increase spare time for professionally upskilling and using online corporate training programs to engage a workforce outside of the office.

SELECT HOULIHAN LOKEY CREDENTIALS	Post-Secondary	Post-Secondary	Post-Secondary	Corp. Training	Corp. Training	Corp. Training
	 <p>has been acquired by</p> <p>Inflexion</p> <p>Buyside Advisor</p>	<p>Substantially all of the assets of</p> <p>EDMC Education Management Corporation</p> <p>have been acquired by</p> <p>DREAM CENTER EDUCATION HOLDINGS, LLC</p> <p>Sellside Advisor</p>	<p>GLOBAL UNIVERSITY SYSTEMS</p> <p>has acquired</p> <p>The University of Law</p> <p>from</p> <p>Montagu Private Equity</p> <p>Buyside Advisor</p>	<p>Oakley Capital</p> <p>has acquired</p> <p>Seagull</p> <p>Buyside Advisor</p>	<p>alchemy a portfolio company of</p> <p>Riverside</p> <p>has been acquired by</p> <p>intertek</p> <p>Sellside Advisor</p>	<p>KALLIDUS</p> <p>has been acquired by</p> <p>APSE CAPITAL</p> <p>Sellside Advisor</p>

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(1) BMO

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Questions and Considerations

Volatile market conditions have created many questions for businesses

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



Syndicated loan markets sold off to less than 80% 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 hold out 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 an acquisition?



Understand the risk. Now is a great opportunity to accelerate M&A dialogue, but the constructs and due diligence requirements are changing.

Houlihan Lokey can provide M&A guidance and fulfill capital requirements 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 contractors and full-time 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 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

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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