



HOULIHAN LOKEY

TRANSPORTATION AND LOGISTICS

INDUSTRY UPDATE | COVID-19



Houlihan Lokey Transportation and Logistics Update

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

Sector Observations/Recent Activity

In recent weeks, COVID-19 (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 transportation and logistics (T&L) sector.

The general outlook of the T&L industry is varied, and uncertainty is likely to persist until the duration and overall impact of COVID-19 can be determined. However, there are key trends across several T&L verticals that demand attention:

- 1 Social distancing—while theoretically effective in “flattening the curve” of the coronavirus—is putting a strain on e-commerce supply chains as consumers increasingly order food and key household items online. E-commerce fulfillment companies face the dual challenge of meeting this surging demand while keeping front-line employees safe.
- 2 The food supply chain is facing unique challenges brought on by surging demand for “pantry items.” While the nation’s largest retailers, dairy farmers, and meat producers assure the food supply chain remains intact, participants throughout the supply chain have had to rethink their demand planning, logistics strategy, and operations. For example, some retailers have reduced hours to allow employees more time to stock shelves and perform cleaning and sanitizing.
- 3 The Federal Motor Carrier Safety Administration (FMCSA) has relaxed certain hours-of-service (HOS) regulations for motor carriers involved in coronavirus-related relief efforts, such as hauling medical supplies, testing equipment, masks, gloves, hand sanitizer, food, and personnel.
- 4 On March 18, the U.S. and Canada announced they will temporarily close their shared border to nonessential travel, while continuing to allow goods to move between the countries, to slow the spread of the coronavirus.
- 5 Passenger air travel has cratered in the last few weeks, causing the U.S. airline industry to lobby for \$50 billion in assistance from the federal government. Airlines are increasingly redeploying passenger planes to air freight applications, running charter flights to cater to shippers who need to move packages or pallets.
- 6 Ocean shipping is dealing with two simultaneous black swan events: (i) virus-induced demand fallout for containerized goods and bulk commodities and (ii) Saudi Arabia’s surprise decision to flood the market with crude.

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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 86% of par, and the high-yield new issue market has shut down.

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, many 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 are being evaluated based on the situation.

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 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

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 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 help 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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