



HOULIHAN LOKEY

# SPECIALTY CONSULTING AND RISK SERVICES (SC&R)

MARKET UPDATE | Q1 2021



# Sector Coverage and Recent Deals



- ✓ 210 U.S. M&A Deals in 2020
- ✓ 1,500+ Employees

- ✓ 23 Locations
- ✓ ~45% Employee-Owned

## SC&R Team Leaders



**James Rekas**  
*Director*  
[JRekas@HL.com](mailto:JRekas@HL.com)  
 703.714.1768



**Larry DeAngelo**  
*Head of Business Services*  
[LDeAngelo@HL.com](mailto:LDeAngelo@HL.com)  
 404.495.7019



**Jon Harrison**  
*Managing Director*  
[JHarrison@HL.com](mailto:JHarrison@HL.com)  
 +44 (0) 20 7747 7564



## Recently Announced Transactions (2020)



Dispute resolution boutique focused on construction claims, partially owned by a founder, management team, and private equity.



Founder-owned dispute resolution boutique focused on labor and employment as well as commercial litigation.



Founder-owned corporate services business focused on registered agent, state-level compliance, and corporate formation services.

## Areas of Focus Within SC&R

Dispute Resolution Services

Enterprise Risk Management, Investigations, and Compliance

Financial Compliance Services

Finance, Accounting, and Transaction Consulting

Management Consulting

Trust and Corporate Services

Cyber Risk Services

Cost Recovery and Pricing Consulting

Operational and Restructuring Consulting

# An Interview With Nick Nardone

CFGFI

CFGFI



Mr. Nardone is the Co-Founder and Co-CEO of CFGFI, a corporate finance and accounting advisory firm comprising top-tier Big Four professionals. Over the firm's approximately 20-year history, he and his team have built a national brand with more than 500 professionals in eight offices and over 1,000 clients. We sat down with Mr. Nardone to learn more about how CFGFI is supporting its clients today.

## What inspired you to start CFGFI?

In 2000, my Co-Founder Shane Caiazza and I were working together as auditors at PricewaterhouseCoopers, serving the CFOs of technology companies. During the late 1990s, companies were growing rapidly, raising capital, and going public at a very fast pace. Many of these businesses required external support to get their transactions successfully completed, and there was no good solution out there to meet these needs.

So Shane and I set out to start a pure accounting and finance advisory services firm comprised of the highest level "Big Four" talent. We brought our one-of-a-kind service offerings to companies without the restrictions of auditor independence and other conflicts that come with engaging a large public accounting firm.

CFGFI was immediately met with enthusiasm in the CFO community. We filled the crucial role of being a true partner to the CFO's team, helping to lead their most critical projects to completion. CFGFI has been growing and expanding our brand across the country ever since.

## What does a typical CFGFI client look like?

CFGFI has a broad set of service offerings and industry expertise; we can service any need within the office of the CFO at any business, and as such, we don't have one typical client. Our clients span from startups to Fortune 500 businesses. What is common among our clients is that they call on CFGFI when the CFO team has a mission-critical project that needs a high level of expertise to lead that project to resolution.

## What service offerings does CFGFI offer?

CFGFI operates from eight offices across the country offering the following services:

Private Equity	Accounting Advisory	Corporate Tax and Valuation	Interim Management	Robotic Process Automation
Finance Transformation	Restructuring	IPO Readiness	Risk Management	Cybersecurity Services

## How is CFGFI helping its clients in the pandemic and current economic climate?

Our clients have experienced a wide variety of new issues since the onset of the COVID-19 pandemic; some clients have experienced sharp declines in their business and others have seen a very positive impact and rushed to the IPO market to raise capital in the public equity markets. So our support for clients is dependent upon how all this has impacted their business.

With respect to struggling clients, we are helping them with cash flow forecasting and management, optimizing their cost structure, dealing with the impairment of assets, and accounting for government assistance. For those businesses that are doing well, we are supporting them on projects such as refinancing debt, digitally transforming operations, and readiness to become a public company.

The spectacular rebound in the equity markets has really driven a ton of our clients to go public. CFGFI is the leading provider of the vast services businesses need to undergo this process. Our client relationships have strengthened during this unprecedented time, as CFGFI was there first and foremost to help our clients through their issues that have come from this pandemic.

## What sets CFGFI's culture apart from other firms?

What makes CFGFI so successful is the culture of the team we have built. Our culture is one of passion for working together to help clients succeed, coupled with a thirst for new challenges and continual learning and growing in our careers. We do not have silos, and our team members not only work to support our clients but also to support one another as a single team. It amazes me to see such an intelligent, talented group of professionals seamlessly working together for the same goal. It really is this collaborative environment and sharp focus on leading clients' issues to successful resolution that makes us such a powerful tool for any CFO and their team.

# Developing an SC&R Investment Thesis

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Recent multiples and value-creation events are largely driven by the following dynamics:

## Nondiscretionary Revenue Drivers

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- Various federal, state, and local government agencies demand performance by all businesses against a set of growing regulations:
  - Federal: FCPA, AML, OFCCP, EEOC, SarBox, Dodd-Frank, IRS, etc.
  - State: Business registrations and formation, state taxes, corporate law, solvency requirements (e.g., insurance).
  - Local: Business licenses, zoning, wage and hour laws, taxes, etc.
- Management teams and boards are increasingly outsourcing these requirements to experts, given the increasing cost of noncompliance, and specialization required to competently navigate the regulatory environment.
- The regulatory and litigation cycle is uncorrelated to the financial cycle.

## High Returns on Incremental Capital

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- Organic Growth:
  - New hires, new office openings, team lifts/"Acqui-hires."
  - New hire and "Acqui-hire" economics are often north of 40% IRR.
- Inorganic Growth:
  - Significantly fragmented industry where multiple arbitrage is widely available.
  - Many niches contain a deep opportunity set of "mom-and-pop" lifestyle businesses looking for an exit.
- Limited requirements for maintenance capital.

## Multiple Sources of Enduring Competitive Advantage (*subsector- and business-dependent*)

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- Expertise
  - Difficult to replicate given the time, experience, and professional networks required.
  - High bill rates (more than \$600 at the Partner level) are achievable in fields where the cost of failure is meaningful and uncertainty is high (e.g., litigation, M&A, insolvency).
- Focus
  - Maximizes the advantages of specialization, compounding of knowledge, experience, and credentials.
- Technology
  - Codifying expertise and compliance workflows into software creates additional stickiness, lowers costs, and enhances scalability.
- Culture
  - A point of significant differentiation in "people" businesses from recruiting, brand, and therefore, growth perspectives.

## Clear and Well-Capitalized Opportunities for Exit

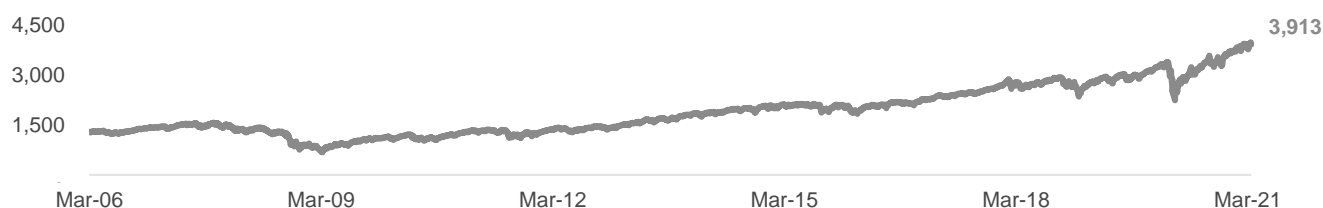
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- Private Equity: Increasingly attracted to the economics of regulatory and compliance-focused businesses.
- Strategics: Increasingly backed by private equity; searching for areas of growth and countercyclicality.
- Dividend Recapitalizations: The debt capital markets are wide open.
- IPO/SPACs: Record issuance and a public market that is extremely optimistic.

# Market and Valuation Perspectives

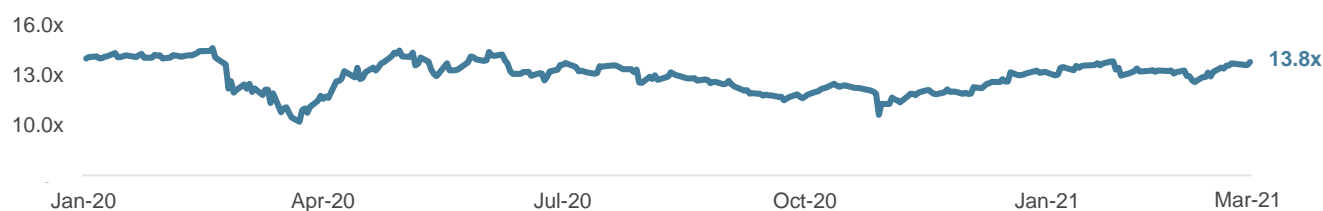
## Public Valuations Are at All-Time Highs

S&P 500 Index Value (March 1, 2006 – March 19, 2021)



## The SC&R Sector Has Fully Recovered to Pre-COVID-19 Valuation Levels

SC&R TEV/Forward EBITDA (January 1, 2020 – March, 19 2021)



## M&A in the Sector Continues Apace

Date	Target	Acquirer	Subsector
Mar-21	KPMG U.K. Restructuring	H.I.G. Europe	Operational and Restructuring Consulting
Feb-21	Deloitte U.K. Restructuring	Teneo (CVC Capital Partners)	Operational and Restructuring Consulting
Dec-20	PRGX Global	Ardian	Cost Recovery and Pricing Consulting
Dec-20	Blackrock Expert Services	Duff & Phelps	Dispute Resolution Services
Nov-20	PA Consulting	Jacobs	Management Consulting
Oct-20	Registered Agent Solutions	Lexitas (Apax Partners)	Trust and Corporate Services
Sep-20	AML Rightsource	Gridiron Capital	Financial Compliance Services
Jul-20	WilliamsMarston	Align Capital Partners	Finance, Accounting, and Transaction Consulting
Jul-20	Water Street Partners	Ankura (Madison Dearborn)	Finance, Accounting, and Transaction Consulting
Jun-20	Matrix Economics	AlixPartners	Dispute Resolution Services
May-20	UnitedLex (MDR Business)	Ankura (Madison Dearborn)	Cyber Risk Services
May-20	FTI Consulting	Delta Partners	Management Consulting
Apr-20	Coalfire	Apax Partners	Enterprise Risk Mgmt., Investigations, and Compliance
Feb-20	Corporate Creations	Computershare	Trust and Corporate Services
Jan-20	284 Partners	Ankura (Madison Dearborn)	Dispute Resolution Services
Dec-19	Conway MacKenzie	Riveron	Operational and Restructuring Consulting

# Sector Tailwinds Are Strengthening



## Greater Focus on Regulatory Enforcement in Multiple Arenas

- As the Biden administration reverts to Obama-era enforcement policies, the regulatory pendulum will swing back to prior levels.
- These policies will likely result in a more robust social justice environment over the next four years and beyond.

### Labor and Employment

- Jenny Yang was recently appointed as the new Head of OFCCP under the Biden administration.
- She served on the EEOC during the Obama administration, championed EEO-1 Component 2, and led efforts to push forward anti-discrimination law.
- She is expected to prioritize pay equity and diversity initiatives in her new role.

### Financial Regulation

- Rohit Chopra was nominated to lead CFPB; has been involved since its inception and has been a commissioner since 2018; and is expected to significantly increase enforcement.
- Acting Director David Uejio: “[The CFPB] will also be reversing policies of the last administration that weakened enforcement and supervision.”

### Antitrust

- The Biden administration will step up government efforts to police the marketplace for potential harms to competition.
- FTC Acting Chairwoman Rebecca Kelly Slaughter has advocated a more aggressive stance against vertical deals.

### COVID-19 Relief

- The preliminary analysis undertaken in September 2020 estimated that more than 10,000 PPP loans (approximately \$1 billion in borrowings) went to borrowers who received multiple loans.
- The Small Business Association will be auditing all loans in excess of \$2 million.

POLITICS

## Evidence of PPP Fraud Mounts, Officials Say

## ‘Legal minefield’: Builders fear wave of post-COVID litigation

## ‘Creditor-on-Creditor Violence’ Lands Big Managers in Court

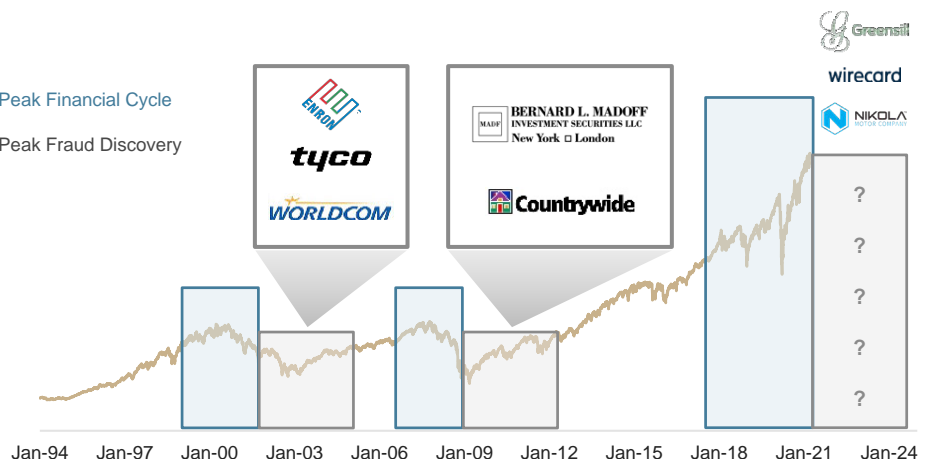
Some leveraged loan providers say their fellow creditors are rewriting the rules to their own advantage.

### The Fraud Cycle Follows the Financial Cycle With a Lag



“We are in the golden age of fraud.”  
Jim Chanos, *Financial Times* (July 2020)

- Peak Financial Cycle
- Peak Fraud Discovery



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