



HOULIHAN LOKEY

PAYMENTS

MARKET UPDATE | COVID-19



Payments Market Update: COVID-19

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

Market Update

In recent weeks, COVID-19, better known as 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 payments. The general outlook of the payments industry is positive relative to other industries, though uncertainty is likely to persist until the duration and overall impact of COVID-19 can be determined. There are key trends and industry characteristics that demand attention:

- 1 Payments businesses take on various forms (e.g., merchant acquirers, processors, ISOs, ISVs, VARs, gateways, money transfer/remittance, B2C/B2B/P2P, etc.), but share common business model characteristics that serve as stabilizers for the industry, particularly in uncertain times. Specifically, payments companies benefit from recurring (and/or re-occurring) revenues, high operating leverage/low fixed costs, robust cash flow generation, and mission-critical infrastructure status.
- 2 The industry continues to benefit from the mass migration from paper (i.e., cash and checks) to electronic payments (i.e., credit, debit, prepaid cards, gift cards, mobile payments, etc.). According to the December 2019 Nilson Report, purchase volume on credit, debit, and prepaid cards in the United States was approximately \$7.1 trillion in 2018 and is estimated to reach nearly \$9.8 trillion by 2023, a compound annual growth rate of 6.8%. Furthermore, earlier this month, The World Health Organization warned that cash could be spreading COVID-19.
- 3 The virtual shutdown of major global industries (i.e., travel and hospitality), the postponement or cancellation of major events (e.g., NCAA March Madness, MLB spring training, NHL regular season play, the Masters, the Boston Marathon, etc.), and localized “shelter-in-place policies” will adversely affect transaction activity and volume in the near term. Payments companies with diverse industry and geographic exposure will be best positioned. Going forward, expect M&A acquirers and investors to approach end-market diversification with heightened sensitivity during due diligence. Companies with vertical or regional focus may become more attractive to fill the “gaps” for the consolidators and/or may be better positioned for the long term as part of a larger platform.

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- ④ The growing number of companies asking employees to work from home, the shutdown of in-person classes at college campuses, and the accelerating call for “social distancing” in general are having a material impact on how and where people transact. The growth in online and mobile transactions across industries is not a new trend, but recent events will likely accelerate the continued shift away from brick-and-mortar commerce. Additionally, we expect more attention on contactless payments methods, which have been slow to adopt in the United States. Omnichannel solutions are more important than ever.

At this point, it is impossible for us to predict how long the outbreak and shutdown will last, as well as the lingering effects on businesses, the economy, and the credit and M&A markets. We will continue to monitor this rapidly evolving situation and its impact on the payments industry.

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Questions and Considerations

Volatile market conditions have created many questions for businesses. Houlihan Lokey's significant product and end-market expertise positions us to help review a variety of strategic alternatives.

How have the syndicated loan 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).

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 a sale?



Our relationships in the fintech 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.

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 buy-side expertise and leading Capital Markets Group positions us to provide guidance and capital 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 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 private equity, 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

- ✓ **Deep, Industry-Specific Expertise**
- ✓ **Significant Experience With Financing Markets**
- ✓ **Senior-Level Commitment and Dedication**
- ✓ **Dominant in Special Situations and Restructuring**
- ✓ **Superior Work Product/Technical Abilities**
- ✓ **Creativity, Imagination, Tenacity, and Positivity**

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