



HOULIHAN LOKEY

ENVIRONMENTAL SERVICES

SECTOR UPDATE | COVID-19



Environmental Services Sector: Current Market Overview

The outbreak of COVID-19 has resulted in a global health emergency and caused significant disruption to the financial markets. Houlihan Lokey presents a preliminary assessment of virus' impact on the environmental services sector.

Market Update

In recent weeks, markets have been facing significant volatility due to COVID-19. Substantial disruption to business operations has occurred, and all sectors of the economy have been impacted to varying degrees.

The general outlook of the environmental services industry remains positive due to the essential nature of services provided, but uncertainty persists until the full impact of COVID-19 can be determined. Due to our leading industry practice and multiple touchpoints with participating companies and financial sources, the following summarize some of our industry observations:

- 1 Companies across the sector are focused on overall health and safety of their employees, given the labor intensity of the businesses;
- 2 Waste collection and transportation is widely considered an essential service, resulting in continued employment for workers and delivery of such services. While residential waste volumes are expected to remain consistent to higher, shelter-in-place mandates in large cities and populations working from home have resulted in meaningfully lower commercial waste volumes for a period of time;
- 3 Last week, the Department of Homeland Security CISA listed "essential critical infrastructure workers during COVID-19 response" to help state and local officials as they work to protect their communities—while ensuring continuity of functions critical to public health and safety—as well as economic and national security, which lists other sectors such as water and wastewater systems, emergency services, energy, and nuclear waste. As such, environmental services companies anticipate remaining open for business and continuing their operations during the COVID-19 response period, pending any changes or disruptions;
- 4 Environmental businesses with meaningful exposure to the oil and gas sector are facing a "double-whammy" impact to valuation, due to the precipitous drop in oil prices over the last few weeks;
- 5 Businesses related to disposal of medical and hazardous materials are seeing an increased demand for services and scrambling to meet needs while keeping employees safe;
- 6 Emergency response businesses and industrial cleaning sectors are proving resilient as businesses and facilities focus on cleaning. In fact, many other environmental services businesses are diverting workforce to these sectors to ensure utilization and provide employment to hourly workers;
- 7 Due to volatility in the credit markets, the direct lending community continues to be a focus as the syndicated market has seen an effective shutdown. A limited number of unitranche providers will opportunistically invest in new companies with potential for higher return over the long term;
- 8 Most sponsors are foremost focused on their existing portfolio companies, while also seeking opportunities to deploy significant dry powder in their funds to meet liquidity and balance-sheet needs and seek value and dislocation opportunities.

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 industry.

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Environmental Services Sector: Public Markets and Sentiments

The environmental services sector comprises companies that provide essential services to keep their customers environmentally compliant; operating efficiently and safely; and focused on their sustainability initiatives. These companies are critical to keeping our air, water, and soil clean and our communities healthy

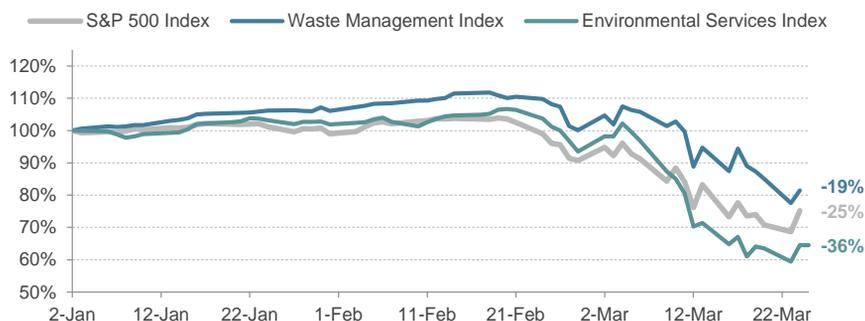
Long-Term Market Performance—Last 10 Years



Key Takeaways

- Long-term resilient markets driven by:
 - ✓ Flight to safety—relatively cycle-resilient businesses with predictable revenue streams
 - ✓ Proven and essential business models
 - ✓ Multiple and diverse demand drivers

Recent Market Performance—YTD 2020



Key Takeaways

Waste Management Index:

- Generally well insulated from market decline, yet currently seeing declining volume-based sales due to shutdowns

Environmental Services Index:

- Decline attributed to companies with meaningful exposure to oil prices

Recent Sector News

March 2: "GFL Environmental Inc. raised about \$1.4 billion in its initial public offering, pricing it below the target range in a conservative step to ride out market volatility in the wake of the coronavirus outbreak. The Canadian waste management company priced its IPO at \$19 per share, compared to the target range of \$20 to \$21 per share, giving it a market value of \$6.08 billion. The pricing of its IPO comes a day earlier than expected amid a sharp rebound in equity markets following last week's steep sell-off."

Reuters

March 9: "Clean Harbors today announced that its Safety-Kleen subsidiary and all of its waste oil collections businesses are upwardly revising their pricing related to managing the collection of used engine and industrial oils... These rate changes are the necessary result of two major external conditions affecting our business. First, the new IMO 2020 regulation... Second, the coronavirus is creating major disruptions in the crude and base oil markets, driving significant price declines and unpredictable demand for both."

Craig Linington, EVP of Safety-Kleen Oil

March 18: "Garbage removal giant Waste Management said Wednesday it cannot move as quickly as projected in taking over a solid waste disposal company [Advanced Disposal] for \$4.9 billion due to coronavirus-related delays in antitrust reviews conducted by the U.S. Department of Justice... 'the company now anticipates closing the merger mid to late second quarter,' Waste Management said."

Law360

March 22: "[Waste Management CEO] Jim Fish told employees the company will continue to pay them for 40-hour workweeks regardless of whether their hours are cut or services are curtailed... 'What I did not want is to have any of our 45,000 teammates worry about how am I going to pay my rent or feed my family... We know it will be costly for the company but that doesn't matter.'"

Jim Fish, CEO of Waste Management (per the Wall Street Journal)

Questions and Considerations

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

Debt Market Update

Are private credit markets open for new investments?



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).

What are the effects of market volatility on existing credits?



Amid uncertainty, there has been a recent trend amongst borrowers to draw down on revolving credit facilities to provide additional liquidity. Lenders that hold revolving credit commitments have typically reserved capital to satisfy their obligations in respect to undrawn lines of credit, which is now further supported by an emergency \$1.5 trillion repurchase offering implemented by the New York Fed on March 12.

Sellers

Are sellers launching new processes?



Sellers are expected to hit “pause” on new deal launches as companies reprioritize and focus on addressing near-term business needs. That said, a number of existing auction processes are moving forward, but parties are proceeding slowly and cautiously in light of the limited financing availabilities with the hope of improved market stability by the time they are ready to sign.

Are valuations going to fundamentally change?



Market volatility will continue to drive depressed valuations as buyers are discouraged by performance, business uncertainty, and deal risks. Recession-resistant businesses and industries may be valued at a premium to market.

Equity Market

How are financial sponsors thinking about portfolios?



Sponsors have shifted focus to addressing near-term business and liquidity needs for existing portfolio companies to “weather the storm.”

Are financial sponsors looking at new deals?



Many sponsors continue to evaluate new opportunities with a potential setup for a “buyer’s market.” Where target fundamentals remain intact, previously unavailable deals may become actionable at bargain prices if valuations experience a “reversion to mean” and strategics and more conservative bidders remain on sidelines.

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 a 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

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 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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