



HOULIHAN LOKEY

HUMAN CAPITAL MANAGEMENT

MARKET UPDATE | COVID-19



HCM COVID-19 Update

(Vol. II – March 31, 2020)

Key Questions

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Historical context for steep decline in public HCM share prices?

Market Perspectives and Observations

As the COVID-19 pandemic continues to spread unabated across the globe, firms within the HCM industry are uniquely positioned to play a key role in both the management of, and recovery from this crisis. As unemployment begins to rise and new pockets of demand crop up in response to this new reality, the ability and expertise to connect labor to employment, optimize workforce management strategies, and help clients attract, recruit, retain, and engage their employees and contractors will remain in high demand.

As the market environment has shifted, so too have our conversations with clients. A pre-crisis focus on sell-side M&A has given way to discussions regarding i) debt capital markets, ii) liquidity preservation, and iii) opportunistic buy-side M&A strategies.

Considerations and Strategies for Navigating the Current Environment

Stress Test P&L With Extreme Scenarios

Build cascading contingency plans now for worst-case scenarios; waiting to plan will be too late

Stay Close to Group of Key Clientele

Monitor large clients to stay ahead of any client liquidity issues, be well positioned for vendor rationalization

Optimize Business for Bull Market

Stay vigilant and plan for the future; opportunistic hiring of talent, enhance efficiency, and develop integration plans for tuck-in M&A, etc.

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Themes From the HCM Executive Suite

As the COVID-19 pandemic has accelerated, the Houlihan Lokey HCM team has held hundreds of discussions with founders, owners, executives, and investors across the HCM landscape.

Although circumstances vary by geography, solution, and specialty, certain themes have been consistently highlighted by executives/investors across staffing, VMS/MSP, RPO, and direct hire/search.

Summary Commentary on Business Performance

I Prior to the onset of the pandemic, many companies highlighted strong and near-record performance in February, early March (outside of APAC)

II Contract has been fairly stable, while direct hire has experienced more softness, although pockets of strength, such as specialty IT and healthcare, do exist

III Professional skill sets (i.e., IT) have been surprisingly resilient (minimal stops; new starts at slowing rates), however the week of 3/23 has shown some change

IV Healthcare staffing firms are seeing increases in orders and activity, although the labor market remains very tight with limited supply and recruitment challenges

Summary Commentary on Customers and Operations

I Cuts to internal FTEs are not yet widespread, although firms are in a hiring freeze and are evaluating strategies to right-size cost structures if the crisis lingers

II Executives struggling to understand obligations under revised employment regulations (state and federal) passed in the U.S. to provide COVID-19 relief

III Some clients have initiated talks around rate reductions and/or revised payment terms, although such discussions are not yet widespread

IV Work-from-home shift has been seamless for majority of firms; logistical challenges with client ability to deploy new headcount remotely are common

Preserving and Managing Liquidity

To help business owners and management teams take appropriate action during uncertain times, Houlihan Lokey has developed a Liquidity Preservation Checklist designed to aid internal conversations around maintaining and enhancing liquidity.

Liquidity Preservation Checklist

I Liability Management

- ✓ Navigating current covenants and working with existing lenders to secure amendments to existing credit agreements
- ✓ Opportunistically managing securities in your current capital structure: repurchases, tenders, debt-for-debt exchanges, debt-for-equity exchanges
- ✓ Navigating liquidity opportunities for current shareholders: incurrence covenants, restricted payments covenants, etc.

II Accessing Incremental Capital

- ✓ Short term, bridge, or gap financing
- ✓ Minority or structured equity
- ✓ Holdco financing structures
- ✓ Rights offerings
- ✓ Non-core asset/subsidiary sales

III Liquidity Management and Maximization

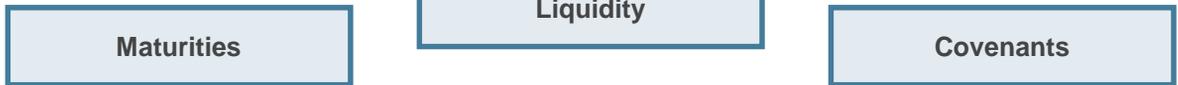
- ✓ Liquidity evaluation and cash flow forecasting: Evaluation of current position, plus identifying steps to be taken to establish additional sources of liquidity and generate cash (13-week cash flow)
- ✓ Working capital review: Discuss alternatives, and conduct performance assessment and recommendations
- ✓ Insurance policy review: Claim preparation and filing strategy
- ✓ Hedging strategies: Review of existing derivative hedge instruments and potential restructuring to alleviate pressures on cash

Considerations for Lender Discussions

We anticipate capital structure challenges concerning liquidity and the maintenance of covenant compliance will become more prevalent in the coming months.

The process below highlights for owners and executives the critical steps to identify, assess, and mitigate potential lender, bank, and leverage issues.

Phase 1: Evaluate Capital Structure and Identify Potential Challenges



Phase 2: Conduct a Market Assessment and Strategic Review of Business Activity



Phase 3: Deploy a Tailored Strategy to Address and Manage Each Unique Situation

| | | | | |
|-------------|---|---------------------------|----------------------------------|-----------------------------|
| Amendments | Up-Tier Exchanges | Incurrence Baskets | Off Balance Sheet/SPV Financing | Mezzanine/Structured Equity |
| Consents | Debt-for-Debt Exchanges | Asset Financings | Bridge Facilities | Holdco Financing |
| Repurchases | Debt-for-Equity Exchanges | FILO Facilities | Backstopped/Anchored Syndication | Fund Leverage |
| Tenders | Unrestricted Subsidiary Asset Transfers | Last-Out/Junior-Lien Debt | Rights Offerings | Asset Sales/JV/Mergers |

Houlihan Lokey Tools and Capabilities to Address Capital Structure Challenges

Public Equity Markets

Assessing Recent Volatility and Performance

A Review of 2020 Staffing Sector Performance

Shares of non-healthcare staffing firms have been particularly hard hit in recent weeks, significantly underperforming the broader market; Houlihan Lokey's custom Staffing Index is down 42.0% YTD, compared to a 22.0% decline in the S&P 500.

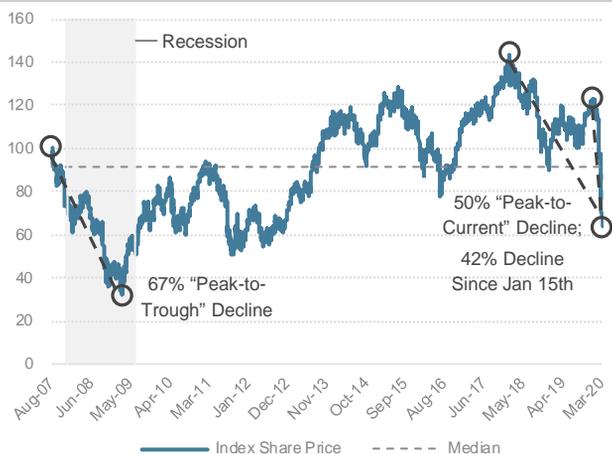
While uncertainty and volatility will persist until the duration and economic impact of COVID-19 become more clear, an evaluation of recent trading relative to the Great Recession may provide helpful context around public market sentiment.

As shown below, the recent percent declines in both share price and EV/EBITDA trading multiples are the most dramatic in over a decade, and are nearing the "peak-to-trough" percent declines observed during the Great Recession, albeit in a more condensed time frame (EV/LTM EBITDA multiples declined 61.2% from Aug-07 to Mar-09 vs. 44.1% from Jan-20 to Mar-20).

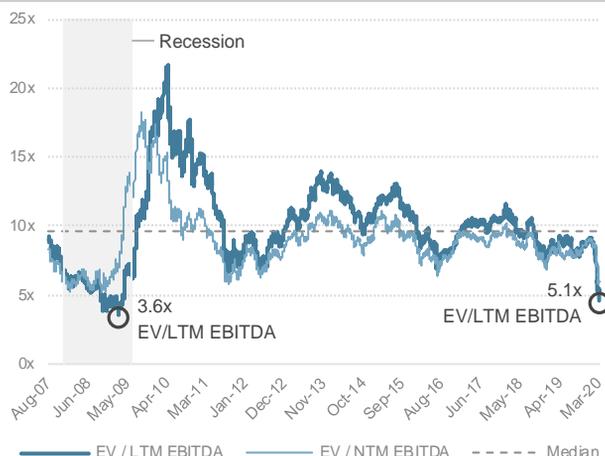
Key Takeaway

Current prices reflect a strong negative sentiment, and public staffing equities may be somewhat "oversold" if the economic ripples of COVID-19 prove to be less severe than those felt in 2008 and 2009.

Non-HC Staffing Index⁽¹⁾ – Share Price



Non-HC Staffing Index⁽¹⁾ – EV Multiples



| Historical Price and Valuation Multiples | Index Price Performance | Great Recession (20 mos) | '18-'20 Period (26 mos) | COVID-19 (3 mos) |
|--|---------------------------|--------------------------|-------------------------|------------------|
| | "Peak" Price | 100.00 | 143.49 | 123.09 |
| | "Trough"/Current Price | 32.67 | 71.30 | 71.30 |
| | % Decline | (67.3%) | (50.3%) | (42.1%) |
| | EV/LTM EBITDA | | | |
| | "Peak" Multiple | 9.3x | 11.6x | 9.1x |
| | "Trough"/Current Multiple | 3.6x | 5.1x | 5.1x |
| % Decline | (61.2%) | (56.1%) | (44.1%) | |

(1) Non-HC Staffing Index includes ENXTAM:RAND, SWX:ADEN, NasdaqGS:KELY.A, NYSE:MAN, NYSE:TBI, NasdaqGS:KFRC, NYSE:RHI, NYSE:ASGN
Source: S&P 500 Index; analysis reflects market prices as of closing on March 27, 2020

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 to 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 2000–2019.

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



Most Active Advisor



Significant Experience With Financing Markets



Dominant in Special Situations and Restructuring



Deep, Industry-Specific Expertise



Superior Work Product/Technical Abilities



Creativity, Imagination, Tenacity, and Positivity

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