



HOULIHAN LOKEY

Managing Liquidity and Interim Revenue Declines Amid COVID-19

Marketing Services Industry Update



Managing Liquidity and Revenue Declines

The economic impact of COVID-19 is unlike any previous crisis, rendering traditional “wait and see” approaches for operators insufficient due to the very unique and direct revenue impact that is being experienced by many businesses. Moreover, the process of COVID-19 containment is creating a major disruption itself, irrespective of the ultimate health risks and medium-term economic challenges posed by the virus. This high likelihood of short-term revenue disruption will lead to a liquidity crisis for many operators across the marketing services sector, making proactive liability management an essential strategy, especially amid the growing range of more “creative” solutions that we are seeing certain operators negotiate across everything from rental abatements and creditor management to creative compensation structuring.

Marketing Services General Observations

- 1 A number of shorter- and immediate-term action plans have arisen for marketing services firms as the sector continues to digest the magnitude of impact and ultimate duration of the COVID-19 crisis.
- 2 A set of key strategies has emerged for leaders in the space, such as establishing designated COVID-19 “battle teams,” forecasting and stress-testing short-term and long-term exposure scenarios, and proactively increasing the frequency of dialogue with lenders.
- 3 In addition, we are witnessing an array of sector-specific actions that marketing firms are leveraging to quickly pivot their workforces and technical capabilities to adapt to the ongoing situation—these include leveraging account based marketing (ABM) initiatives and the overall realignment of digital and customer-specific priorities.



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Houlihan Lokey - Recent Marketing and Information Services Transactions

Healthcare Marketing	Healthcare Marketing	Market Research	Event Marketing	Healthcare Marketing	Data-Driven Marketing	Digital Media	Healthcare Marketing	Data/Analytics	Digital/Agency	Data-Driven Marketing
 has acquired medical knowledge group a portfolio company of WINDROSE Bye Side Advisor	 a portfolio company of AR has been acquired by MSOUTH	 Term Loan, Delayed Draw Term Loan & Convertible Note Refinancing and Dividend Recapitalization Exclusive Placement Agent	 a portfolio company of GLAUBSTONE INVESTMENT Capital has been acquired by MSOUTH Bye Side Advisor	 has successfully completed an initial public offering Merely S. and Preferred and Member Equity Advisor	 a portfolio company of INVESTCORP has been acquired by AURORA CAPITAL Partners Bye Side Advisor	 has sold to Consumer Information Businesses Progressive Digital Media Group, PBC Bye Side Advisor	 has completed a control transaction with SUMMIT PARTNERS Financial Advisor	 has been acquired by accenture Bye Side Advisor	 has acquired VISION7 Bye Side Advisor	 ABM, Revenue & Term Loans Refinancing Exclusive Placement Agent

Managing Liquidity and Revenue Declines (cont.)

Amid the COVID-19 landscape, expect erratic changes in customers' behaviors, often in non-reversible ways that will accelerate prior trends. Bold action now on the liability, cash, and even revenue management fronts can establish a baseline for success through the downturn.



Establish a Senior Battle Team

- Many companies are appointing a senior, fully dedicated COVID-19 specialist team internally that is dedicated to the effort.
- In addition to staying updated on the various health and related aspects of the virus, alongside the CEO, they are proactively managing and thinking through strategies.



Forecast Your Exposure

- Modeling out financial performance scenarios, with specific detail around customer performance and potential payment delays, is an important exercise in establishing a near-term strategy and conveys confidence to lenders, etc.
- Given the unique uncertainty of the current situation, stress testing the scenarios and including “extreme” cases will help prepare for various outcomes.



Communicate Frequently With Lenders

- This is when the “partnership” concept that your lender told you about when times were good comes into play.
- Although your lender knows your business, the transparency, frequency, and even tone/confidence in your discussions with them can have a meaningful impact on your liquidity in the months ahead.
- In addition to being a source of supplementary short-term bridge liquidity (often when you'd least expect it), the openness of your discussions around a potential coming covenant breach or similar with him or her can have a material influence on the lender's flexibility in many situations.



Cash Is King

- A deep understanding of the company's cash and working capital requirements are critical, especially as it pertains to understanding your borrowing base and any potential covenant breaches that could incur for debt and liabilities.
- Approaching lenders, landlords, and other creditors proactively helps add stability around some of the more volatile and onerous aspects of your expense base.

Managing Liquidity and Revenue Declines (cont.)

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Working Capital Requirements Evolve in Crises

- Similar to gaining an in-depth understanding of cash needs, stress testing your working capital needs for upcoming swings in days payable and days sales outstanding can avoid future surprises on that front.
- With customers looking to extend payment terms or downright defer current payments into the foreseeable future, timing can be paramount for this exercise.



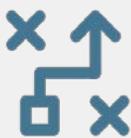
Leverage Account Based Marketing (ABM)

- Take initiative to leverage ABM technology to broadly and proactively contact potential new prospects, given the high return rate associated with this channel of outreach.
- Customers also benefit from ABM in the form of a better experience, whereas buyers prefer the more personalized interactions that ABM supports.
- Can also improve efficiency and cost savings by effectively removing unqualified targets.



Proactively Manage Revenue Declines

- Review business outlook in detail and focus attention on revenue/profitability mix of specific customers and segments.
- Use this opportunity to pivot and reallocate resources to digital/online pockets of growth.



Play Offense Too

- Times of crisis provide opportunities for further differentiation from competitors (e.g., more rapid digital or data focus, selectively hiring key talent that may have been previously unavailable, considering targeted M&A to supplement organic growth, and/or expand into key geographic segments).
- Be aware of ways that your firm is advantageously positioned in the specific areas of the market and leverage those strengths.

Liquidity Preservation Checklist

In this time of unprecedented and rapid change in the capital markets and business environment, there are several levers businesses and owners can pull to ensure adequate liquidity and defend against a capital shortage.

Houlihan Lokey—a leader in M&A, private capital markets, and restructuring transactions—is uniquely positioned to help clients navigate the current liquidity landscape.

To help business owners and management teams take appropriate action during this time, we have developed a *Liquidity Preservation Checklist* as outlined below. This checklist is designed to aid internal conversations around maintaining and enhancing liquidity. Please do not hesitate to reach out to our **Marketing and Information Services** team to discuss any of the potential strategies included herein.

Liquidity Preservation Checklist

1. Liability Management

Are you doing everything you can to maximize flexibility within your current capital structure?

- Navigating current covenants and working with existing lenders to secure amendments to existing credit agreements
- Opportunistically managing the securities in your current capital structure: repurchases, tenders, debt-for-debt exchanges, and/or debt-for-equity exchanges
- Maximizing or protecting the value of operating assets or IP: unrestricted subsidiary asset transfers, asset financings, and/or SPV financings
- Navigating liquidity opportunities for current shareholders: incurrence covenants, restricted payments covenants, etc.

2. Accessing Incremental Capital

Will your business need access to more capital in the near-term?

- Mezzanine/structured equity
- Minority equity
- Holdco financing structures
- Rights offerings
- Non-core asset/subsidiary sales

3. Liquidity Management and Maximization

Other areas to assess in order to maximize liquidity

- Liquidity evaluation and analysis; cash flow forecasting
 - Evaluation of current position and identifying steps that can be taken to establish additional sources of liquidity and generate cash
- Working capital review and alternatives discussion
 - Performance assessment and recommendations
- Property insurance recovery: policy review, claim preparation, and filing strategy
 - Typical coverages or clauses where the events of COVID-19 might apply are business interruption/business income, contingent business interruption, event cancellation, and/or civil authority
- Hedging strategies
 - Review of existing derivative hedge instruments and potential restructuring to alleviate pressures on cash

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