



HOULIHAN LOKEY

# SPECIALTY CONSULTING AND RISK SERVICES

## Sector Perspectives | COVID-19



# Specialty Consulting and Risk Practice

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## M&A and Capital Markets Advisory Focused on the Following Subsectors:



**Financial  
Compliance**



**Corporate  
Compliance**



**Corporate  
Investigations**



**Economic and  
Litigation Consulting**



**Operational  
Consulting**



**Cyber  
Services**



**Financial  
Consulting**



**TAS, Due Diligence  
Services, Financial  
Advisory**

## Recently Announced Transaction

January 2020

### Transaction Overview



Resolution Economics (Resolution) is a specialty consulting firm that provides economic and statistical analysis as well as expert testimony to leading law firms and corporations in labor, employment, and commercial litigation matters.

Resolution specializes in highly complex class action lawsuits and, as such, employs a highly technical workforce, including 14 with PhDs and 23 with master's degrees.

The company has more than 70 SAS programmers, and 17 Resolution professionals have served as expert witnesses.

Founded in 1998, Resolution is headquartered in Los Angeles and has additional offices in Washington, D.C., Chicago, and New York.

# Sector Observations

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## Market Perspectives

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**As all can see from capital markets movements—especially in the credit markets—deal activity has slowed significantly, and is likely to remain low for the foreseeable future**

- Potential acquirers have turned inward, focusing on liquidity optimization and business continuity.
- Lending sources are pulling back generally; capital that is being made available in the current environment comes at significant cost.
  - Upcoming waiver and amendment requests are expected to be evaluated on a case-by-case basis.
- Investment committees and public boards are likely to lower their risk tolerance until more certainty returns.
- The “spread” on potential economic and market outcomes is as wide as ever, driven by lack of useful precedents.
  - “[The] S&P 500 will fall to a mid-year low before rallying to 3,200 at year-end.”<sup>(1)</sup>
  - “We are going into a global recession. We are going to see a spread of economic sudden stops... the economic damage is going to last.”<sup>(2)</sup>
- Even in the midst of eye-popping monetary and fiscal stimulus, significant unknowns remain that could impair deal activity for longer than COVID-19 disrupts business, including:
  - Stimulus impacts on share repurchases, unemployment, and consumer and corporate confidence;
  - Impact of likely downgrades to the investment and non-investment grade credit space;
  - Leveraged loan/CLO performance; and
  - Emerging insurance liabilities, including CDS exposures.

## Potential Offensive Actions to Take

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**As with previous national and financial market crises, rules and regulations are likely to proliferate, creating significant long-term tailwinds for regulatory and corporate compliance-focused businesses**

- Most economic and financial crises have spawned dramatic changes to the regulatory landscape.
  - **Great Depression:** Glass-Steagall Act (1933), Securities Exchange Act (1934), and Banking Act (1935)
  - **Dot Com Era:** Sarbanes-Oxley (2002)
  - **The Great Recession:** Dodd-Frank (2010)
  - **COVID-19 Crisis:** ?
- Before reactive legislation is passed, potential areas for near-term growth in the sector include:
  - Stimulus qualifications, interpretations, and consulting;
  - Enforcement workflow/operating plans to adhere to stimulus requirements;
  - Liquidity preservation consulting services;
  - Cost containment consulting services;
  - Insurance recovery consulting;
  - Economic and litigation consulting; and
  - Operational/restructuring consulting services.
- Once the response to the panic is codified in legislation and regulation, a myriad of new service lines will likely be spawned.
- Operators that have liquidity/capital and a clear vision for the future may want to think about going on offense to attract relevant talent (recruiting/acqui-hire) and platforms (acquisition) to consolidate expertise and influence in this competitive space.
  - Business continuity, client service, and liquidity preservation reign supreme in this environment.
  - Opportunistic transactions will likely present themselves as time goes on; think about how you might be able to react.

(1) Goldman Sachs (March 17, 2020)

(2) Mohamed El-Erian (March 12, 2020)

# Preserving and Managing Liquidity

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 **Specialty Consulting and Risk 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, debt-for-equity exchanges
- Maximizing or protecting the value of operating assets or IP: unrestricted subsidiary asset transfers, asset financings, 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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