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STONEHENGE PARTNERS

M&A MARKET UPDATE

PREPARED FOR:

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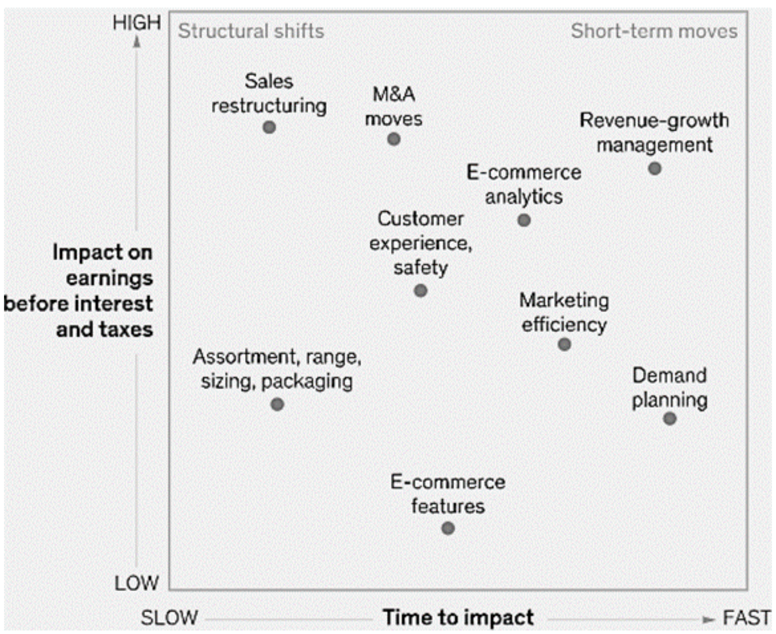
JUNE 2020

CONSIDERATIONS

- Valuations and markets reached all-time highs immediately prior to the COVID-19 pandemic.
- Once we are through the trough of COVID-19, we may see challenges aligning valuation expectations between buyers and sellers due to increased volatility.
- Current COVID-19 environment may cause sellers who experienced the 2008-09 downturn to accept a lower valuation with certain structural enhancements such as earnouts, seller note, stock, etc.
- Markets correct themselves over time – new equilibrium between cash offers and valuation.
- Buyers should be cautious about analyzing cost reduction efforts in connection with COVID-19 and should ask:
  - Are these reductions temporary or permanent?

REVENUE RECOVERY



CHANGES TO DEAL STRUCTURE

- Buyers may offer more cash upfront in exchange for lower valuation expectations.
- Until markets are stabilized, we will see a shift in deal structure focus towards:
  - Stock
  - Earnouts
  - Purchase Price Adjustments
  - Minority Equity

COVID-19 IMPACT ON M&A TRANSACTION PROCESS

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CURRENT IMPACT

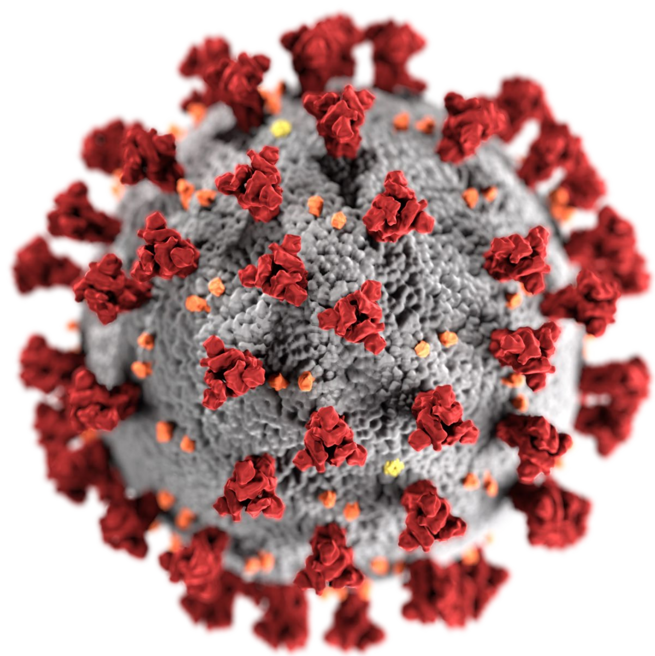
- Negotiations will take longer – large in person meetings are currently not possible.
- Longer process to complete due diligence.
- Will require more time to obtain third-party consents (landlords, customers, and IP licensors).
- Delays in antitrust or other regulatory approvals.
- The DOJ has asked firms involved in M&A to add 30 days to deal timing agreements.
- Internal justification for deal making will need to be compelling at this time.
- Financing delays for buyers due to state of debt markets and available liquidity.
- Increased closing risk for both sides as M&A lenders seek more stringent closing conditions.
- Proper valuation is challenging.

LONG-TERM IMPACT

- Increased use of virtual meetings and tours (especially for the Middle Market).
- Fewer in-person meetings with management and/or smaller groups.
- Buyers and sellers will be more cautious as the market environment remains volatile.
- Certain comparable transactions will not be applicable.

IMPACT ON SELLERS

- Many sellers are fatigued with the latest disruption and evaluating the option to sell as they can't imagine going through another crisis.
- Timing could be right to sell for those businesses that performed well through the pandemic.
    - Sellers can take advantage of a window where there are few competing deals in the market while showing strong performance through COVID-19.
- You don't have to sell 100% - the right minority equity partner can provide capital and insight to effectuate meaningful growth both organically and through acquisitions.
    - Competitors might be distressed presenting an opportunity to consolidate.



Source: Forbes

M&A ACTIVITY

NOTABLE TRANSACTION UPDATES

- **June 24:** Ally Financial and CardWorks mutually agreed to back out of their $2.65 billion merger agreement due to COVID-19 and it being in the best interest of their customers and stakeholders.
- **June 9:** AstraZeneca is no longer pursuing a merger with Gilead Sciences, a transaction that would have been the largest healthcare deal ever.
- **June 5:** Buyout firm Bridgepoint restarted the sale process of Rovensa, an Iberian agrochemical company. This sale could bring more than $1.3 billion.
- **May 4:** L Brands agreed to end the sale of Victoria' Secret to Sycamore Partners, days after the buyout firm disclosed it had walked away from the $525 million deal.
- **April 30:** Boeing called off its $4.2 billion agreement to buy the commercial jet-making operations of Embraer, but the agreement forbade either party from calling it off due to a pandemic. Boeing claimed Embraer failed to meet unnamed conditions.
- **March 31:** Xerox abandoned $35 billion hostile bid for HP to focus on coping with coronavirus pandemic.

OTHER TERMINATED DEALS

Target	Acquirer	Value	Terminated In
Woodward	Hexcel	$7,500M	April
Independent Bank	Texas Capital Bancshares	3,000	May
Front Yard Residential	Amherst	2,300	May
Park Place Dealerships	Asbury Automotive	1,000	March
Verano	Harvest Health	850	March

Source: Bloomberg Figures show deal values including debt at time of announcement Numbers may have been rounded

M&A STATISTICS AND OUTLOOK

- Global M&A volumes have almost halved this year as companies focus on surviving the pandemic.
- Announced M&A volume in April and May combined barely topped $100 billion.
  - This is the lowest two-month period in 22 years.
- More than $15 billion of transactions have been terminated due to the impact of COVID-19.
- Anticipated future deal volume for Q2-4 2020 will be substantially reduced.

DEAL FINANCING

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IS THERE FINANCING AVAILABLE TO COMPLETE A DEAL THIS YEAR?

- Adjusted timelines to obtain financing due to increase in market uncertainty.
  - There may be delays in the availability of key information for lenders such as interim financial statements, financial models and projections.
- PPP loan process could cause lender delays.
- Banks may use this time to critically review lending portfolios.
- Interest for new loans will be driven by prior relationships and by the type of business.
- Compliance challenges with financial and other covenants in debt agreements.
  - Especially as more liquidity is critical for corporate priorities such as payroll and other debt obligations.
- Headroom Analysis- Current level of undrawn borrowing capacity continues to become more critical. Companies must closely examine headroom in covenants.
  - Previous forecasts may need recalculated. Adjustments could lead to renegotiating covenants or signing new credit agreements with the potential for future liquidity events such as a sale.
- Given the economic downturn, sellers are being incentivized by cash payments rather than stock.
  - 63% of announced deals in 2020 have been cash only compared to 52.5% in 2019.
- Buyers aligned with cash deal structure as they take the advantage of decreased interest rates to finance via debt
  - 10 Yr. Yield as of 6/26/19: 2.05%
  - 10 Yr. Yield as of 6/26/20: 0.64%

Sources: Dealogic, JD Supra

PAYCHECK PROTECTION PROGRAM (PPP)

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WHAT DOES PPP MEAN TO M&A?

- No concrete guidance on what would happen if a company to be acquired took cash.
  - Potential closing delay.
  - We believe they would be unable to prevent M&A for the duration of the PPP loan repayment due to the needs of many distressed companies coming out of the crisis.
- Overall, PPP loans should not slow M&A.
  - Unforgiven PPP loans will just be considered incremental debt that must be paid-off at closing
  - Prior to forgiveness, accommodations can be made to escrow agreements.

Another perspective - how management teams react to the current environment can be observed to see how teams react in a crisis. Those that took advantage of this unique liquidity enhancement likely will be positioned for future M&A opportunities.

WORKER ADJUSTMENT AND RETRAINING NOTIFICATION (WARN ACT)

- Careful compliance with relevant federal and state laws impacting employment is essential.
- The WARN Act generally requires employers to provide written notice at least 60 days in advance of significant layoffs, other covered activities (such as plant closure), or pay in lieu of such notice.
- Layoffs of less than six months in duration do not constitute a mass layoff. However, sellers will need to be careful to comply as soon as practicable if a delay in reactivating a furloughed workforce brings the WARN Act into effect.
- Safest course of action for a company involved or likely to be involved as a seller in an M&A transaction is to simply comply with the WARN Act. Buyers will not want the risk that a claim of an exception might be challenged by government for affected employees following the closing.

Compliance with employee-related laws and regulations will clearly be an area of increased due diligence by buyers in the new business environment.

Source: Forbes

WHAT DOES THIS MEAN?

- Companies will likely face issues with closing in-progress deals as they evaluate projected cost and revenue synergies and immediate liquidity needs.
- **Material Adverse Changes (MAC)** – contractual provision allowing buyers to walk away from a deal if there is an adverse change in the target's business.
  - Must be specific to a company so a global pandemic may not qualify. This will lead to potential litigation.
  - Sellers may begin including COVID-19 and other pandemic related clauses in MAC clauses in the future.

Due-Diligence	• Buyers inclined to undertake a more detailed due diligence in order to better understand the scope and dependencies of a target's operations and how COVID-19 or similar events in the future may affect their business. • Extensions in due diligence as buyers seek to delay closings until they have a better understanding of the economic recovery and post-COVID business outlook.
Valuation and Purchase Price Adjustments	• More use of buyer favorable language as they become more assertive in agreements and negotiations. • Buyers may look to go back on previously agreed upon purchase prices/valuations to compensate for potentially overpaying in the previous seller’s market.
Earnouts	• Increased uncertainty around a target’s projected fiscal year could lead to alterations in deal structure. There may be a trend towards less offered up front with the rest deferred and based on the acquired business hitting certain targets in the future. • Potential rise in disputes over closed deals with earnouts that are still being settled.

Source: Mayer Brown LLP

MARKET OUTLOOK 2020-2021

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MARKET EXPECTATIONS

- Given the current uncertainty there are no real reliable forecasts currently. The market hit its bottom on March 23, which was down 34% from a record high a month earlier, then recovered 95% of those losses by June 8.
  - GDPNow estimates a 45.5% annualized decline in Q2 GDP and Wall Street estimates a 20-40% decline.
  - Wells Fargo is forecasting S&P 500 EPS will decrease by 30% and the index will end the year near 3,250 (6/17 closed at 3,113).
- Until companies can forecast their earnings with some degree of certainty, traditional consolidation likely will not return.
- Due to global shutdowns, the M&A pipeline remains patchy and will likely be dominated by restructurings, rescue deals, and nationalizations as governments and central banks try to shore the economy up.
- In order to expand deal flow opportunities, many larger PE funds have begun to provide growth and minority capital.
- Q2 earnings and GDP reports should provide more clarity of the depth of the economic downturn.

"In short, it's my view that if you're experiencing something that has never been seen before, you simply can't say you know how it'll turn out."

Howard Marks, Director & Co-Chairman of Oaktree Capital Management

BANKRUPTCIES

- Retailers among the hardest hit, however, have recently seen a boost in sales.
- Notable bankruptcy filings:
  - **June 28:** Chesapeake Energy
  - **May 23:** The Hertz Corporation
  - **May 15:** J.C. Penney
  - **May 7:** Neiman Marcus
  - **May 4:** J. Crew Group Inc.
- Based on credit ratings, stock volatility, financial metrics and other data 16 retailers have a 4-10% chance of filing bankruptcy in the next 12 months (Notable: L Brands, Wayfair, and Chewy).
- 9 retailers have a 10—50% chance of filing bankruptcy within 12 months (see next slide).

Source: Reuters, NBC, Forbes, ThinkAdvisor

AT-RISK BANKRUPTCIES

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RTW retailwinds

Party City

J.Jill

ascena RETAIL GROUP INC.

Stein Mart®

GNC

RITE AID®

GameStop®

KIRKLAND'S®

MEET THE PRESENTERS

ANDY HAYS: PRESIDENT & CO-FOUNDER, COPPER RUN CAPITAL

Mr. Hays is the President and co-founder of Copper Run Capital LLC and oversees all client services and group operations. He has extensive experience in investment banking, accounting and consulting. Mr. Hays has worked with hundreds of separate companies, both public and private, on various engagements. He previously operated a boutique investment bank focusing on the transportation and logistics sector.

Prior to that Mr. Hays worked in, and helped found, Cantor Fitzgerald's investment banking group on Wall Street. While at Cantor, Mr. Hays focused on the oil & gas industry along with REITs and he was involved with a variety of capital raisings, advisory projects, and managing up to $150 million in proprietary investments. Prior to Cantor, Mr. Hays worked for Ernst & Young in Cleveland, working with companies in the banking, manufacturing, and technology areas. Mr. Hays has completed over $7 billion of transactions during his career.

Andy holds a BSBA with honors in Accounting and an MBA from the Fisher College of Business from The Ohio State University. He holds his FINRA Series 7, 63, and 79 licenses and a non-practicing CPA. Mr. Hays is a member of the Ohio Oil & Gas Association and board member for the Association for Corporate Growth (ACG) and The Entrepreneurship Institute. Andy was named "20 Under 40" by Oil & Gas Investor in 2014 for his work with middle market energy companies.

KEITH BISHOP: MANAGING DIRECTOR, STONEHENGE PARTNERS

Mr. Bishop is responsible for negotiating transaction terms, performing due diligence, and providing analytical support for Stonehenge transactions and, for existing investments, working with Portfolio Company management teams and monitoring Portfolio Company performance.

Prior to joining Stonehenge Partners, Mr. Bishop was a Financial Analyst with GBQ Consulting in Columbus, Ohio, participating in the group's business valuation and mergers and acquisitions consulting services. Before joining GBQ, he was a senior commercial credit analyst with Huntington National Bank.

Mr. Bishop received his B.A. in Mathematics/Economics, magna cum laude, from Denison University