CCA's Response to COVID-19
Maintaining Focus on Shareholder Value During Extraordinary Times

Prepared by:
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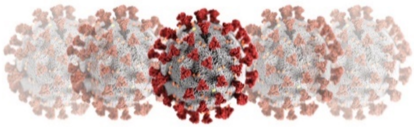
March 2020



COVID -19

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March 27, 2020

Dear Friends:

I want to start by passing on my best to you, your staff and your families during these extremely unprecedented times. None of us had much time to prepare for COVID-19. It came on fast and with vengeance. Who could have predicted a pandemic in 2020? It is fair to say, we are all responding through these times with significant anxiety and less than adequate information about the future. We are truly all in this together.

While we at CCA made an early decision to work remotely, we have been careful as to what we have released to our clients/ prospects/ strategic relationships given our responsibility as advisors and given the rapidly changing world. We have spent hours over the past weeks gathering information from our strategic relationships (i.e. clients, prospects, capital sources, corporate attorneys, governmental agencies, etc.) and have summarized this information for you to hopefully provide you valuable and actionable intelligence to address the business impacts of this terrible virus.

COVID-19 is different than other major crises, including September 11th and the financial meltdown of 2008. With these previous calamities, as a people we were called to rally, were called to be united and called to physically gather. Today our enemy is invisible, and we are again called to unite but this time to do so alone, sheltered in place and with no clear answer for how long. Likewise, in our business life, we are called to rally and respond, but to do so remotely, sheltered in place and to rely on Zoom or Go to Meeting as our gathering spot. Indeed, a new paradigm.

From a business perspective we ask ourselves two questions every day: How long? How deep? No one knows the answers.

What we know from past experiences is that the leadership teams that communicate, collaborate, develop a plan of action and execute without hesitation will be the ones who will do the best during this unprecedented time of risk and uncertainty.

The entire CCA team remains available to discuss this information and available to assist you in developing responsive strategies in these extremely challenging times.

Sincerely,

Charles L Maskell

Charles L. Maskell
Managing Member

CCA's Response to COVID-19

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There is a significant probability of a dramatic decrease in revenues leading to liquidity issues for many businesses. Uncertainty is driving the capital markets, conditions on the ground, as well as Federal and State level guidance which will drive many of our business decisions. We need to plan and think ahead in new and creative ways. In this short COVID-19 response document, we at CCA, with our unique perspective and competencies, have outlined a six (6) part approach for facing the financial challenges ahead of our clients.

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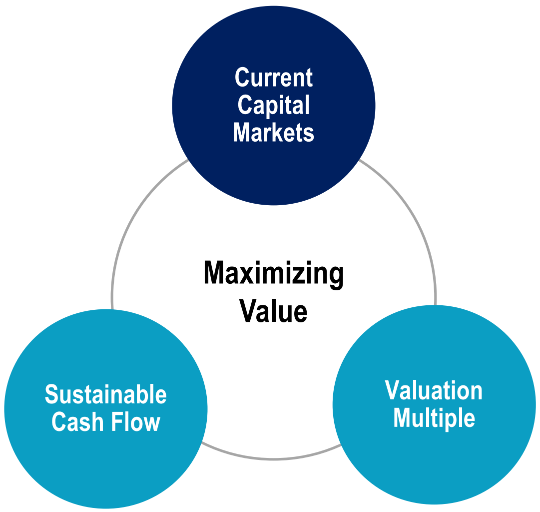
We are constantly monitoring this evolving situation, and we are available for consultation during this time of uncertainty.

Maximizing Shareholder Value Remains an Imperative

- *In order to best preserve and maximize shareholder value during this period of uncertainty, Company leaders must focus on the following critical initiatives:*



- *Implement a business continuity plan that stays true to the Company's overall strategy. Establish frequent and consistent communication protocols.*
- *Assess current and future revenue vulnerabilities. Look for new opportunities as markets evolve rapidly.*
- *Manage costs and invest carefully to preserve EBITDA and operating margins.*
- *Strengthen existing relationships with customers, suppliers and other critical stakeholders.*
- *Leverage key people and technology to maximize Company potential and gain efficiencies.*

While we cannot control the current capital market conditions, a well-executed strategy will provide business owners with the best opportunity to maximize sustainable cash flow and preserve their multiple despite difficult global economics.

Impact on Revenue and Profitability

The COVID-19 pandemic is unlike any previous crisis facing leaders in our business community. Crisis response techniques that have been used in the past will not be adequate. There is a high probability of a decrease in revenues leading to liquidity issues in many businesses. Leaders should consider their Company's current position based on the following three scenarios and continue to reassess as they obtain new information.

TAP THE BREAKS

- *Flat to mild revenue decline.*
- *Manageable disruption.*
- *Manage workforce and suppliers.*
- *Scalpel approach to cost reduction.*
- *Work with bank to secure additional financing.*

SEVERE DOWNTURN

- *Sudden and dramatic impact on P&L with seemingly uncontrollable losses.*
- *Focus on significant cost reductions – reduction in workforce.*
- *Consider alternative customer retention strategies - aggressive contract terms.*
- *Maintain regular communications with your lenders.*
- *Explore non-traditional sources of funding operations.*

CASH CRISIS

- *Revenue drop and earnings loss leading to liquidity crisis.*
- *Immediate cost reductions to include key staff and core offerings.*
- *Daily discussions with lenders, suppliers and customers.*

Price Reduction Considerations

Lower prices carefully – studies from the 2009 recovery indicate a high rate of failure during the recovery due to locked in bad contracts.

Address each customer separately – working with a customer on price and contract terms will engender trust and appreciation.

Examine your pricing and cost structure – consider extending terms on critical services and look for alternatives to the supply chain.

Offer a 'new' product or service – distinct from the original offering in order to protect the brand for future sales.

Managing Cash Flow During Uncertainty

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Liquidity is critical. Therefore, cash flow should be tracked and forecasted. *A two week daily forecast should be built, and 30-60-90 day forecasts should be developed with best case, medium case, worst case scenarios for each.*

To create a comprehensive cash flow model, balance sheet items need to be analyzed…

- ***Cash and investments*** *– Quantify current liquidity position including current value of any financial investments (CD's, stocks, bonds). Make sure to consider any fees associated with breaking an investment before the end of its contractual term (for example, a CD).*
- ***Accounts Receivable*** *– Estimate when each item on the A/R aging will be collected - on time, delayed, at risk to ever be collected. Communicate with customers to gain insight and reassure them. Consider expanding the current A/R coordination to include salespeople and/or others to contact customers.*
- ***Accounts Payable*** *– Review A/P aging to determine which items need to be paid timely and which can be delayed without causing major risk. Communicate with key vendors to gain insight and reassure them.*
- ***Loans*** *– Make a list of each outstanding loan including the actual payments that will be due over the next three months, broken out between principal and interest.*
- ***Non-Core Assets –*** *Consider selling non-core or non-operating assets to improve liquidity position.*

…then overall cash inflows and outflows can be forecasted:

Cash Inflows/Outflows Forecast:

Cash Inflows

1. Forecast cash that will be collected based on the collection of existing accounts receivable.
2. Forecast cash to be collected based on future sales estimates (keeping in mind 100% will not be collected and sales will likely decline from prior run rates).
3. Consider any other cash inflows, such as liquidation of investments and outside cash infusions (for example bank loan proceeds, money "put in" by owners).

Cash Outflows

1. Forecast cash expenditures to pay current accounts payable.
2. Forecast cash expenditures to pay accounts payable created as a result of future sales or obligations.
3. Forecast outflows for non-accounts payable items like rent, payroll and loan payments.

The cash inflow and cash outflow estimates should be analyzed on a spreadsheet that includes a line for each inflow and outflow, Total Cash Inflows, Total Cash Outflows and the Net Difference between the inflows and the outflows for each period being forecasted (daily, 30-60-90 days).

How Lenders are Reacting

- Banks are sending a consistent message – **they are willing to work with Borrowers,** and regulators are allowing Banks flexibility to do so. This includes:
  - Allowing term loans to be converted to interest only for a period of time.
  - Extending additional credit to support cash flow shortfalls.
  - Waiving covenant violations.
- **It is imperative that Borrowers communicate openly with their lenders.** Banks are considering modifications on a case by case basis, so Borrowers should prepare:
  - A comprehensive plan of action outlining how business has been impacted and the changes and contingencies that have been put in place.
  - Financial projections including balance sheet, income statement and cash flow.
    - Consider adding an expense line item called COVID-19 to track all COVID-19 related expenses, including staff and personnel time spent dealing with the crisis, additional supplies, etc. This will help quantify the one time expenses that are incurred as a result of COVID-19.
  - A collateral review. Be prepared to discuss requests for additional collateral such as personal guarantees (if not already in place) and/or other non-business assets.
  - If possible, have a specific request that would cover the next 90-120 days – for example, interest only for “x” months or a specific amount of additional borrowing.
- Additional Federal government stimulus and aid will be available when the CARES Act is signed into law. There are also several federal, state and private loan/ grant programs designed to help businesses. Information can be found at the following websites:
  - For information on SBA Disaster Assistance Loans visit **sba.gov.**
  - For information on how Maryland is supporting businesses visit **businessexpress.maryland.gov/coronavirus**.
  - Additional relief coming with the **Coronavirus Aide, Relief, and Economic Security (CARES) Act**.
- **Additional Federal government stimulus and aid will be available when the Keeping American Workers Paid and Employed Act is signed into law.**

What Impact is COVID-19 Having on Valuations?

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An Evolving Situation with Case-by-Case Implications on Valuation

While the outbreak of COVID-19 may bring new dynamics to the M&A landscape, the fundamental aspects of business valuation have not changed. The vast majority of all transactions are valued using the very basic equation shown below, but investors will look at the underlying cash flow and multiple assumptions differently due to COVID-19.

Enterprise Value	Example
Sustainable Cash Flow (generally EBITDA)	$1,000
Times: Multiple	5.0x
Equals: Enterprise Value	$5,000

Revisiting Sustainable Cash Flow Assumptions

- *Is the Company able to quantify or specifically carve out the financial impact of COVID-19, either by demonstrating lost revenues or additional expenses that may have been incurred.*
- *Does historical financial information and current operating results still accurately reflect future sustainable cash flow potential?*
- *Have proper considerations been made for any changes in working capital requirements (supply chain disruptions, unusual levels of inventory, collectability of receivables, etc.)?*
- *Do the financial projections and their underlying assumptions take into consideration the new reality of COVID-19 economics?*

COVID-19 Impact on EBITDA	Impact	Value
Threats to Existing Revenue	High	↓
Threats to Future Revenue Growth	High	↓
Threats to Operating Margins	High	↓
Supply Chain Disruptions	High	↓
Collectability of Receivables	Moderate	↓
New Revenue Opportunities	Moderate	↑

COVID-19 Impact on Multiple	Impact	Value
Economic Uncertainty	High	↓
Volatility in the Capital Markets	High	↓
Recession Concerns	High	↓
Unemployment Concerns	High	↓
Political Uncertainty	Moderate	↓
Capital Costs (all-time lows)	Moderate	↑

While fundamental metrics have not changed, we expect investors will look at the underlying cash flow and multiple assumptions very differently given all that has happened since the COVID-19 outbreak.

What Impact is COVID-19 Having on M&A Activity?

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We started 2020 with Brexit, global trade wars, geo-political tensions and a pending US Presidential election as the concerns for the upcoming year. Seemingly out of nowhere, COVID–19 is upon us and has changed daily life for every US citizen.

The Dow started 2020 at 28,868 and the S&P started at 3,257 – recent lows were 19,174 and 2,304, respectively – with tremendous volatility along the way. So, what does this mean for US M&A activity for the rest of 2020 and beyond? We have received this very question from many of our clients, prospects and strategic partners. Based on discussions with buyers, investors, lenders and others, we have reached the following conclusions:

1. ***Strategic Buyers are Pulling Back –*** *It is certainly industry and company size dependent but many Strategics are focused on revisiting cash-flow planning, supply chain disruptions and contingency plans. It is likely that for now, this is a pause and not a complete withdrawal from M&A. Also, given the current general devaluation and volatility of equities, the option to use stock as currency is no longer viable, forcing would-be buyers to use cash in a time when liquidity is at a premium.*

2. ***PE Buyers Remain Active but Cautious –*** *Our research reminded us that at the end of 2019, PE firms had nearly $1.5 trillion dollars of cash to invest, also known as "dry-powder." This is good evidence that the PE firms will remain active in pursuing quality investments. We expect to see the following three changing dynamics:*

Valuations – PE firms will be more focused on valuations taking into consideration the impacts of COVID–19 and the related future economic consequences.

Deal Structuring – PE firms will place more focus on "risk sharing" in the deal structures. Investors will ensure that if the future brings eroding financial performance, the impact will be shared by the buyer and the seller.

Due Diligence – Given the increasing travel restrictions, quarantines and other COVID–19 restrictions, due diligence activities will slow down and take longer to complete.

3. ***Deals Currently Under Letter of Intent will Face New Considerations –*** *It is likely that deals under LOI will move to closing, unless due diligence uncovers financial, operational or legal issues. Three considerations that could present challenges given the current environment are:*

Regulatory Approvals – If the deal requires government or regulatory approvals, the approvals could be slowed by the lack of government resources or adjustments to leverage levels or overall deal structure.

Material Adverse Change Provisions ("MAC") – Many LOI's contain MAC provisions to protect against circumstances which could change a deal significantly. An open question remains on whether COVID-19 represents a MAC allowing either party to choose not to proceed with the transaction.

Lenders – We are certain that lenders will be significantly more careful with underwriting and funding deals. If your transaction is dependent on lender financing, be open to potentially new and additional requests for information.

CCA as a Trusted Advisor

We find ourselves in a unique position to lead business owners through this period of economic uncertainty. While we do not know how long the effects of COVID-19 will last, we do know that our disciplined process will be valuable as you navigate these extraordinary times.

How CCA is Responding to COVID-19

- ***Listening –*** *Over the past several weeks, we have been reaching out to our clients, and strategic partners to gain a better understanding of the various challenges they are currently facing. We will continue to listen and will share best practices.*
- ***Advising –*** *Many of these conversations have served as a reminder that our business is not transactional, and we strive to be a "Trusted Corporate Advisor" to each one of our clients, in good times and in bad.*
- ***Assessing –*** *As the COVID-19 situation continues to evolve, we are responding to our clients' daily changing needs so that we can provide more valuable advice and assessment tools to the middle market.*
- ***Planning –*** *During these times of uncertainty, we will continue to rely upon our consistent processes and methodologies as we lead our clients on value preservation and value creation initiatives.*
- ***Implementing –*** *While the M&A landscape may have changed over the past several weeks, we believe that buyers will continue to seek opportunities and sellers will continue to seek liquidity. We are prepared to remain active with our M&A advisory support.*

Our Core Competencies

Our firm was formed on the foundation that our clients are our top priority at all times. We are a culture of professionals passionately dedicated to the success of our Clients and our Firm. Our core values prevail in everything that we do.

We are constantly monitoring this evolving situation, and we are committed to being available to you during this time of uncertainty. Please feel free to contact us for a conversation or for assistance with more complex matters.

- Thank you

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