Varied Effects of COVID-19 Across Facilities Services Sectors

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The Coronavirus Disease 2019 "Coronavirus (COVID-19)" crisis is an incredibly fast-moving and unprecedented challenge that has had widespread effects on the global economy and M&A activity in the middle market. Over the last few weeks, many U.S. states and countries around the world have ordered the closure of nonessential businesses. While the exact definition varies around the world, selected "essential" enterprises include but are not limited to grocery stores, healthcare operations, hardware stores, gas stations, post offices and shipping businesses, transportation businesses, and other businesses that allow essential services and supply chains to operate. For companies deemed essential that continue to operate, the safety and welfare of employees are of the utmost importance, followed by the continued support of customers' critical needs in these challenging times. Across the Facilities Services sector, several companies have created operational task forces to address the entire spectrum of mission-critical, essential services, while ensuring employee safety and complying with the recommendations and guidelines from the Centers for Disease Control and Prevention (CDC), the World Health Organization (WHO), the Occupational Safety and Health Administration (OSHA).

The effects of COVID-19 have varied within the facilities services sector depending on the service type and end-markets served. For example, the hospitality industry which includes hotels, restaurants and catering have all been severely impacted driven by government and voluntary actions taken to limit the spread of COVID-19. Conversely, demand for services in areas such as food production, food retailing, and healthcare have seen increased demand as well as specialist hygiene services, particularly hygiene disinfection services.

Service providers continue to support clients' critical operations and are closely monitoring trends and making investments in adjacent products and services where demand is high to support

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customers throughout the pandemic and during the recovery phase. For example, as the pandemic evolves, Rentokil Initial is responding to the increased global demand for hygiene services (requiring specialist personal protective equipment and Coronavirus-specific training) and precautionary disinfection risk assessment surveys, by training its staff to help support this COVID-19-driven demand. These services will help customers throughout this challenging period, and Rentokil believes that global standards in hygiene will likely be heightened on an ongoing basis.

Given the unprecedented uncertainly around the impact of COVID-19, the facilities services M&A market is slowing down in real-time as companies focus attention on current operations, and several publicly traded firms are withdrawing financial guidance for 2020. Within facilities services and the market as a whole, M&A is expected to decline for several reasons, including:

- Private equity groups, who are often buyers, are focusing efforts on current portfolio operations
- Lenders have pulled back significantly, especially for debt related to new platform investments
- Public companies are largely focused on internal operations and protecting profitability, liquidity and cash flow while seeking to ensure they are well-positioned when the recovery takes place.

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Going forward, the M&A market is expected to remain relatively quiet until the impacts of COVID-19 have primarily subsided, and the capital markets begin to operate normally again. We believe the facilities services industry will likely draw substantial interest from investors within the services sector due to its relative stability as shown both over the long term historically, and over the last few weeks during challenging economic times.

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