What next?

Creating and protecting value in live events after COVID-19

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PLURAL

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Introduction

Prior to the COVID-19 pandemic, the B2B events sector enjoyed 15 years of growth, broken only by the global financial crisis. In contrast to the disruption seen in other traditional media formats, exhibitions and conference organisers have been net beneficiaries of technology, and the core events proposition has seen only gradual change in the digital era. However, most organisers have seen business heavily impacted by the COVID-19 pandemic and, whilst the industry is expected to return to growth, it is likely that the virus will leave an enduring impression on the sector.

In the near term although regulatory barriers to live events are expected to lift, ongoing health concerns and travel restrictions will impact profitability, adding to the cash pressures operators have already suffered due to mass cancellations. There have been some noteworthy capital raises in response, and while we anticipate most organisers of scale to be supported by shareholders and lenders, it is inevitable that significant numbers of operators, particularly smaller independents and associations will be financially exposed by the crisis. This may in turn lead to a cycle of consolidation.

Consolidation is a longstanding feature of the sector and B2B events M&A has been particularly buoyant since 2013. Increasing private equity activity and the availability of debt financing have contributed significantly a steady rise in valuation multiples over this period. However, the crisis has seen sector public market valuations drop sharply, particularly in respect of those businesses with relatively high levels of debt.

Strong B2B events have a track record of relatively rapid recovery from previous disruption, both operational and economic, and the long-term fundamentals of the sector remain attractive. Foremost amongst these is the key position events enjoy in the B2B marketing mix, which is unlikely to be structurally impacted by COVID-19.

However, the crisis will likely accelerate change in elements of the events business model. In particular organisers will seek to ramp up their digital capabilities, expanding their interaction with customers outside the event dateline, and to prioritise growth of non-F2F revenue streams. Ultimately one product of the crisis may be more resilient business models that play a significant role in driving the next phase of industry growth.

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Operational Reaction

Large-scale B2B events were among the first parts of the economy to be shut down, initially in China and thereafter across Asia and then globally. Subsequent lockdowns observed by most countries have caused vast swathes of the events calendar to be postponed or cancelled. Those that have not been shuttered by government decree have taken place in a reduced setting, or not at all, due to self-policing amid pressure from participant withdrawals and travel restrictions.

While event cancellation is not itself unusual – for example due to extreme weather conditions or terrorist threat – the industry has no precedent for disruption on the current scale, and many organisers are experiencing severe financial strain as a result. Few B2B events organisers have pandemic insurance, and while some are able to deploy digital substitutes for cancelled events, typically these are less lucrative than their live equivalents. In this environment each passing week of cancelled revenue creates further financial pressure, which is compounded by continuing uncertainty over when events can be relied upon to take place.

Most immediate operational responses have focused on rescheduling and cost management. The degree of disruption encountered by three global players, Informa, Emerald and Hyve is illustrative, with each reporting more than one-third of revenues impacted by cancellation or postponement.

Emerald is a rare example of a B2B organiser with extensive pandemic insurance, which may account for their higher share of cancelled vs postponed events. For the majority of organisers, however, rescheduling is the priority as this alleviates the immediate pressure of providing customer refunds for outright cancellation, together with associated cash flow burden. There may additionally be strategic benefits through creating customer goodwill and protecting one's future revenue base: where suppliers rely on an event as their primary route to market rescheduling (rather than cancelling) can provide a lifeline to those customers.

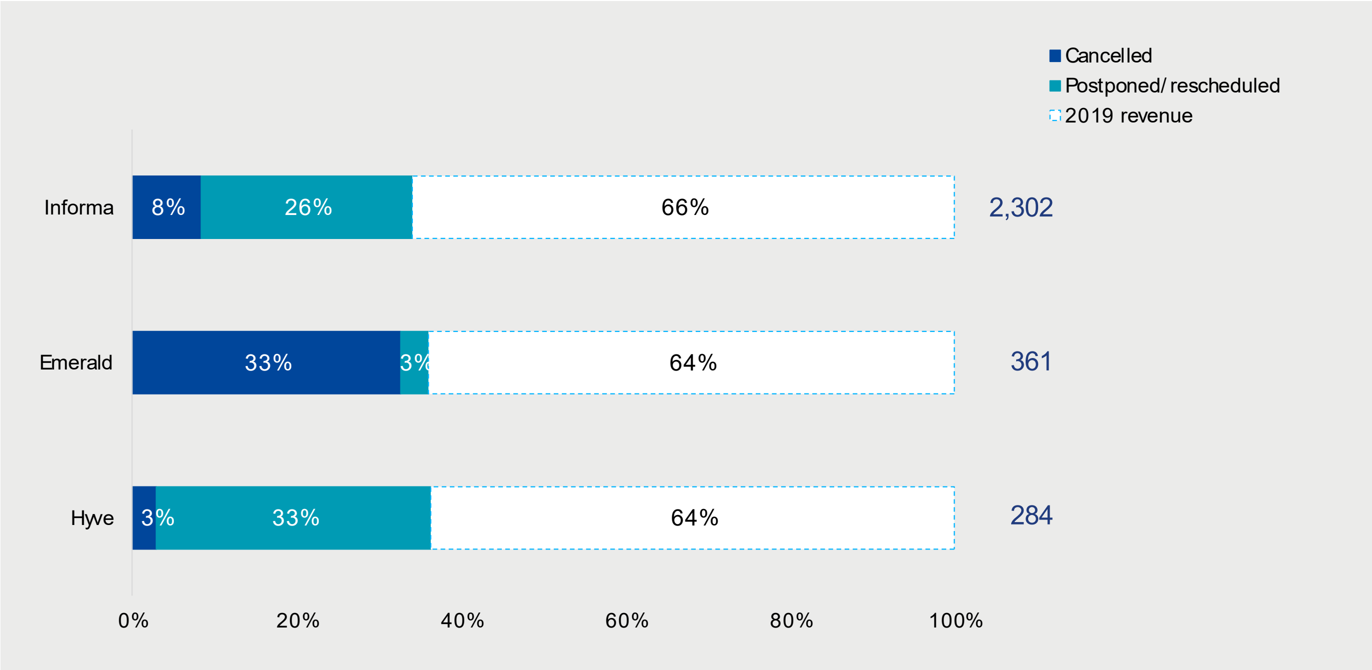
However, the intricacies of venue calendars can make postponement a complicated exercise, particularly for larger events and trade shows. With continuing uncertainty over the impact of the pandemic, organisers' preference has been to reschedule to Autumn 2020 (or later) in order to reduce the probability of further cancellation. However, many exhibitions venues already operate at close to full capacity during the peak September-November period. While alternative venues may be readily available for some smaller scale conferences, this will rarely be the case for larger events and trade shows.

Many organisers have responded to cancellations by creating virtual alternatives. In this regard shorter, focused formats – such as 1-2-1 buyer-seller meetings, roundtables, and smaller conferences – have had an advantage. This is in part due to the relative simplicity of the technology and offering for users: facilitating broadcast content delivery and small group networking virtually is achievable using formats and technology that are widely available and familiar to participants.

By contrast virtual versions of larger conferences and trade shows have gained more limited traction. One advantage that larger formats enjoy in their live form, in particular their ability to provide participants with a variety of value propositions – from education, product discovery and sales discussions to serendipitous networking and career advancement – is proving a challenge when pivoting to virtual. Participants are often willing to devote several days traveling to and taking part in a live event in order to achieve some or all of the above objectives; they are less willing to devote similar time and attention to a single online event. Furthermore, the technology solutions to deliver multiple value propositions simultaneously online are still relatively immature and unfamiliar to the majority of the audience.

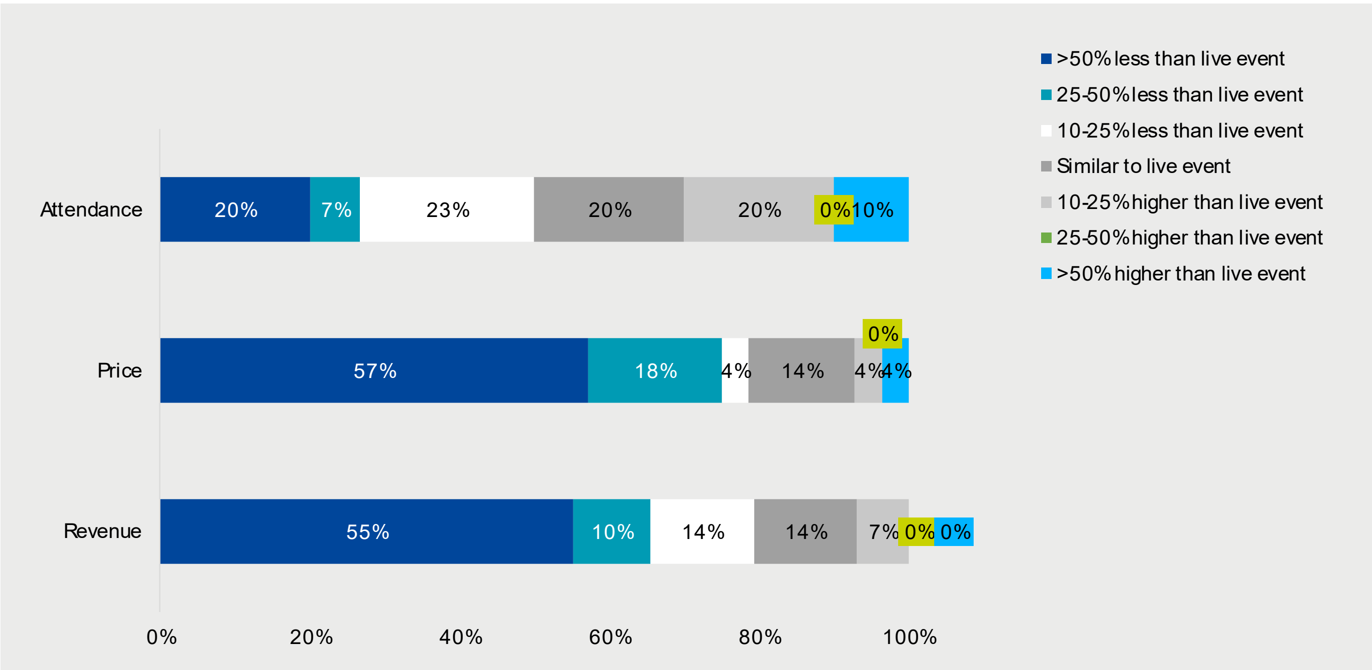
While virtual events appear unlikely to fully substitute the face-to-face ('F2F') format, they may play a part in organisers' future strategies as a compliment to the live event. As events emerge from lockdown, we expect a hybrid model to be a prominent feature, in particular to meet the needs of those unable to attend due to travel or other restrictions. These virtual elements will likely feature those formats that have been more successful thus far, for example streaming educational content or pre-arranged online buyer-seller meetings. Similarly, some virtual event formats can be expected to remain part of organisers' portfolios post-COVID-19, particularly in verticals where organisers have the ability to deliver high value educational content. While typically delivering lower yield than live equivalents, savings on venue and delivery costs mean this format can still be a profitable option. As well as freedom from venue commitments, the shorter digital format provides organisers with greater options to align their offering with participant diaries and availability, and the potential to substantially increase frequency beyond once a year.

Figure 1: 2020 cancelled/postponed events by revenue, selected organisers, % of 2019 revenues, $m



Note: Informa and Hyve report in £; average rate of GBP:USD for 2019 used (GBP = 1.285)
Source: Company Q1 investor releases, Plural analysis

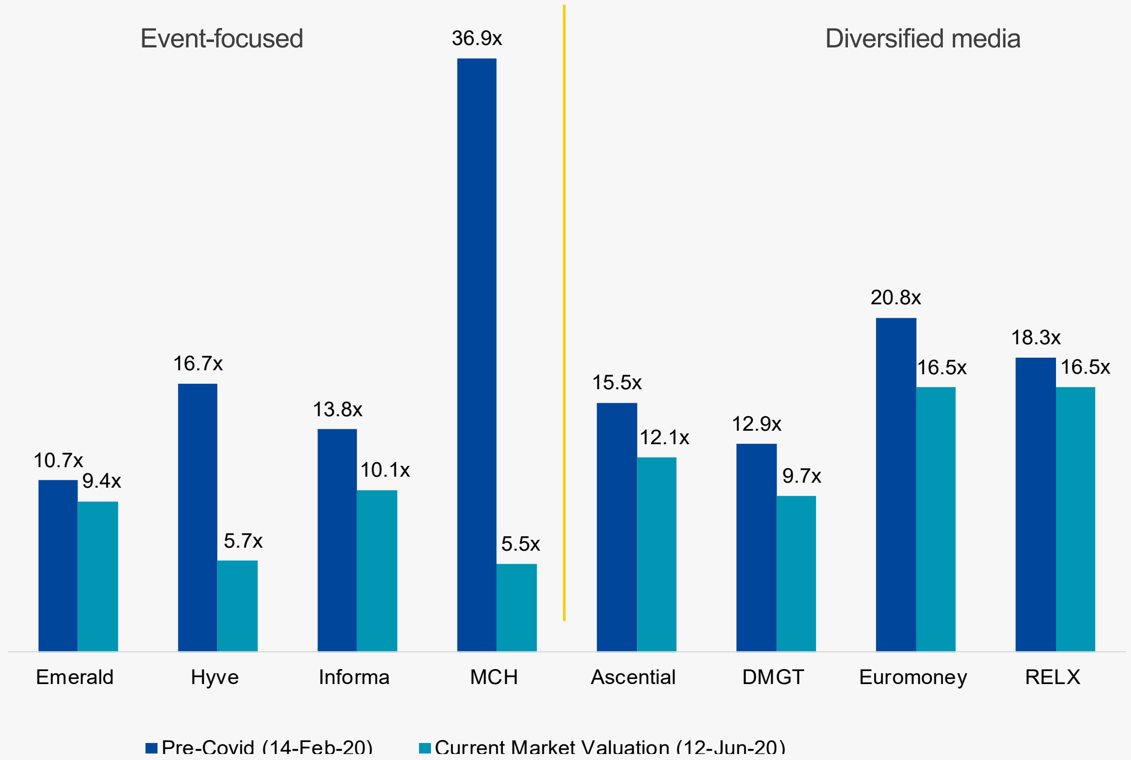
Figure 2: Performance of virtual vs live events, selected metrics



Note: Question to event organisers who have organised a virtual event in the last 12 months "How did your virtual event perform in comparison to your live event?" N = 30
Source: SmartXpo, Plural analysis

Financial Markets Reaction

Figure 3: Global quoted event operators



	Emerald	Hyve	Informa	MCH	Ascential	DMGT	Euromoney	RELX
Proprietary Events (% of total revenue)	92%	100%	65%	51%	26%	8%	31%	16%
No. Events	142	130	600	28	7	50	33	500
Average Size (£m)	1.7	1.7	3.1	6.3	15.4	2.1	2.4	2.5
Concentration (largest event %)	6.0%	2.3%	n.d	2.8%	n.d	16.5%	n.d	n.d
Revenue Impact (est. in-year impact as % historic revenue)	-45.5%	-36.2%	-39.1%	n.d	n.d	n.d	n.d	-4.6%
Valuation Impact	-23%	-66%	-38%	-86%	-37%	-9%	-43%	-1%

Note: Valuation for Hyve as at 06-May-20 prior to rights issue announcement
Source: Arrowpoint Advisory analysis, S&P CapitalIQ

Public Equity Markets

Public equity markets reacted decisively to COVID-19. Whilst overall valuations have recovered substantially from their low point in March, the live events industry has shared only modestly in this recovery; listed event operators are now on average trading at a 40% discount to valuations at the beginning of January 2020. This compares to 24% and 11% reductions in the FTSE-350 and S&P 500 over the same period.

Listed event operators of scale fall into two categories: event-focused groups for whom live events are the majority of revenue, and diversified media groups for whom live events are a smaller part of their business. Whilst valuations have fallen across the industry, diversified media groups have traded in line with the market, declining 23% on average, whilst event-focused groups have seen valuations reduced by an average of 53%.

These movements in valuation go beyond pricing the immediate operational disruption and loss of earnings arising directly from COVID-19, and the valuation impact on a number of event-focused operators appears to reflect significant changes – actual or expected – in capital structure and perceived risk profile.

RELX stands alone in being almost unscathed with its share price practically equal to its level at the start of January 2020, despite its very substantial exposure to B2B events through Reed Exhibitions. The anticipated ability of RELX's business information products to continue to deliver year-on-year growth in this challenging environment has largely protected the overall valuation of the group.

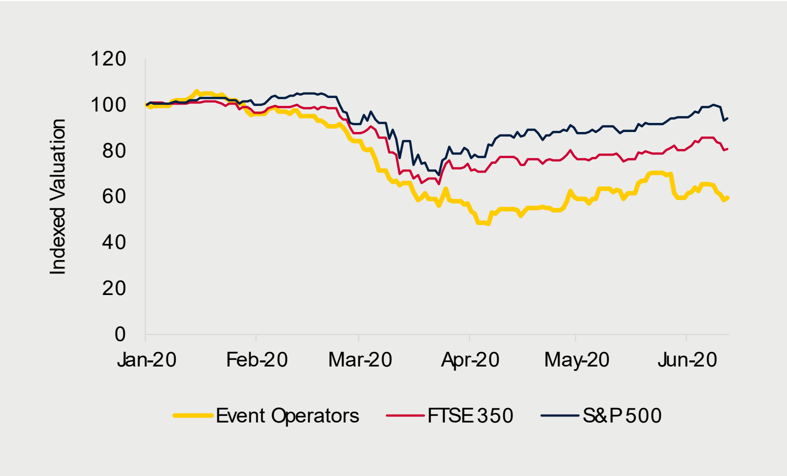
Amongst the event-focused groups there is evidence of a 'flight to quality' as the valuation impact generally decreases as average scale of events increases, indicating the disproportionate value of the strongest market positions amongst exhibitions in particular in an uncertain environment.

In the case of certain very large events this positive effect of scale appears to be offset by the concentration risk that they bring to their organisers. The distinction between impacts that are temporary and those that may become permanent has attracted particular attention, and this point has been exemplified by the uncertainty surrounding Baselworld, the market-leading watch fair which has cancelled its 2021 edition following loss of support from key exhibitors.

While high profile cancellations of this nature are rare in the industry, this well publicised episode serves to highlight the potential risks when the close collaboration between organiser and customer is disrupted. As we highlight below, in the current environment we expect organisers will seek to listen especially carefully to their customers as both parties seek a return to trading in far from optimal circumstances.

These movements in valuation go beyond pricing the immediate operational disruption and loss of earning arising directly from COVID-19

Figure 4: Public equity markets



Source: Arrowpoint Advisory analysis, S&P CapitalIQ

Debt Markets

Due to the strong perceived quality of earnings and cash flow inherent to B2B events, significant levels of debt have generally been used by B2B event organisers of scale. In the period preceding the pandemic, the availability of debt funding for live events business models has been good, with over £3 billion of lending to fund private equity deals in the sector within Western Europe over the past five years.

Coming into 2020, leverage for operators of scale averaged c. 4x EBITDA. Publicly listed operators were in general below this level, and private equity owned operators above it.

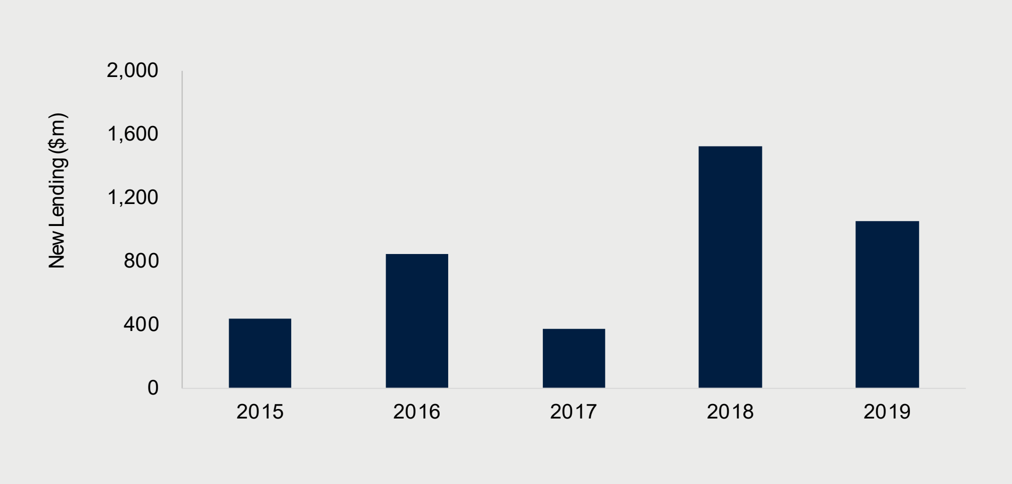
By creating an instant 'hole' in cash flows together with material uncertainty regarding the timing and profile of recovery, COVID-19 presented an immediate challenge for lenders to B2B event operators. A range of strategies have been used to the mitigate the effect on debt funding of a temporary loss of earnings and cash flow.

Listed companies have suspended dividends, covenant reset processes with lenders have been widespread, and in some cases significant new equity has been injected by shareholders.

As part of this process of 'resetting' capital structures a common feature of amendment to existing debt facilities has been a focus on the pathway to return to pre-COVID-19 levels of leverage in the short to medium-term.

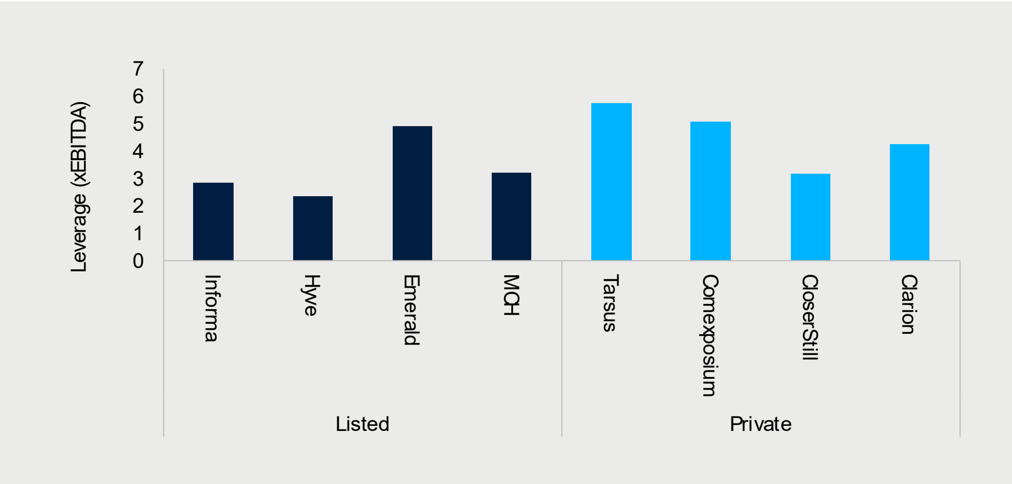
The actions of credit rating agencies and the secondary market for corporate debt provide real-time indicators of the market reaction to this, and these demonstrate that, in an environment of pressure on debt capacity, relatively small differences in credit profile can become significant.

Figure 5: New lending to event operators (Western Europe)



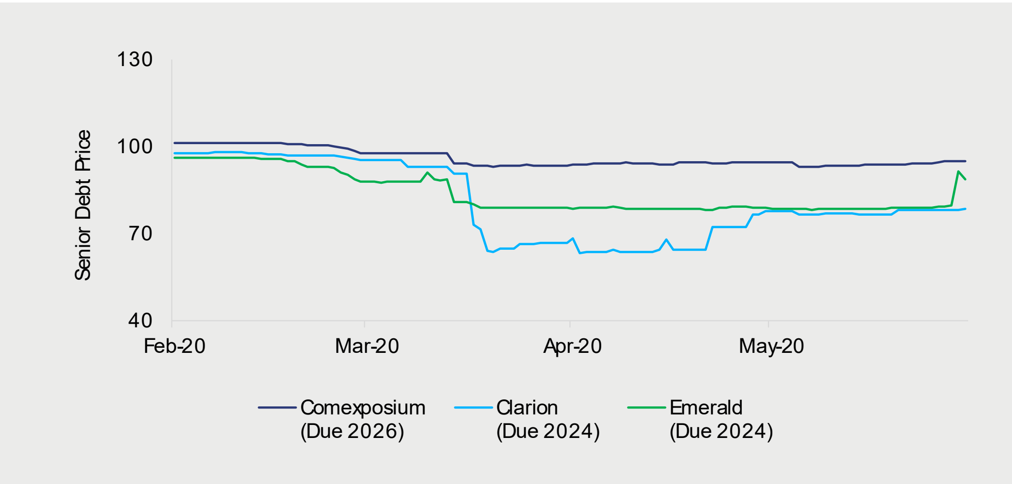
Source: Arrowpoint Advisory analysis, Debtwire

Figure 6: Pre-COVID-19 Senior leverage



Source: Arrowpoint Advisory analysis, S&P CapitalIQ

Figure 7: Senior debt secondary market pricing



Source: Arrowpoint Advisory analysis, IHS Markit

Operational Outlook

Near-Term

Organisers face four potential hurdles to re-starting events: regulatory restrictions, customer demand, the lifting of travel restrictions and profitability in the context of social distancing restrictions. Of these, ongoing travel restrictions and profitability of the event model under social distancing requirements are expected to act as the most significant barriers to the industry ramping up.

Looking at the three largest B2B events markets globally – the US, China and Germany – regulatory trends are broadly positive, with final decision-making devolved to local and regional administrations. In China events can already take place under social distancing rules and regional governments will be key decision makers in further roll out.

In Germany the federal government has recognised exhibitions and conferences as events categories that can resume from June; again the final green light will be given at regional level, and announcements from the Bundesländer point to restart dates between June and September. In the US the picture will vary by region, with continuing uncertainty over the course of the pandemic likely to delay re-opening in some states. Las Vegas is the leading US trade show destination and is expected to emerge first following the recent reopening of casinos and the World Market Center. The Javits Center in New York is expected to host trade shows from Q4 2020.

Overall it is expected that regulatory barriers to the re-opening of the events industry will be largely lifted by September or October 2020, subject to social distancing restrictions. A recent survey of events organisers conducted by SmartXpo found that a majority support this view.

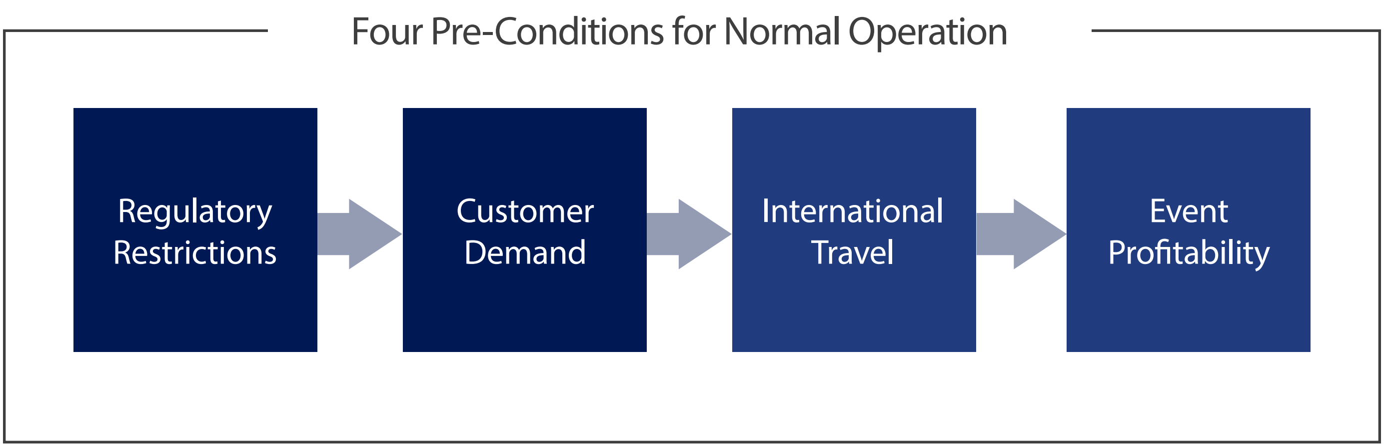
Once events return a structural shift in demand for F2F from participants is unlikely, although as discussed below, selected verticals will be slower to recover from the economic impact of the crisis than others.

Exhibitors and sponsors will be keen to resume a critical sales and marketing platform, while sourcing, education, and networking needs will not have abated on the attendee side. Enigma Research's Return to Live Events Survey found that 59% of US trade show and conference attendees are willing to return to attending events within 4 weeks of large gatherings resuming.

However, travel remains an issue, particularly cross-border. While heavily reliant on domestic air travel, the US market has very low reliance on overseas participation and is therefore relatively well positioned in this respect. Corporate travel bans remain a challenge, however these are expected to ease; The Global Business Travel Association survey of US corporate travel bookers found that 59% of respondents expected to resume normal domestic business travel by August.

Outside the US, larger events are more reliant on international travel, and we expect events in major trade show hubs such as Singapore, Hong Kong, Dubai, and Frankfurt to be heavily impacted while international travel restrictions remain in place.

Figure 8: Four pre-conditions for normal operation



The final near-term hurdle facing B2B events is profitability. Even as travel restrictions lift, social distancing requirements will impact participant numbers. As well as requiring lower attendee density, regulations will likely require a redrawing of floor plans for exhibitions, with larger spaces between booths and wider aisles. Reducing attendee numbers significantly will risk disrupting the value experienced by exhibitors.

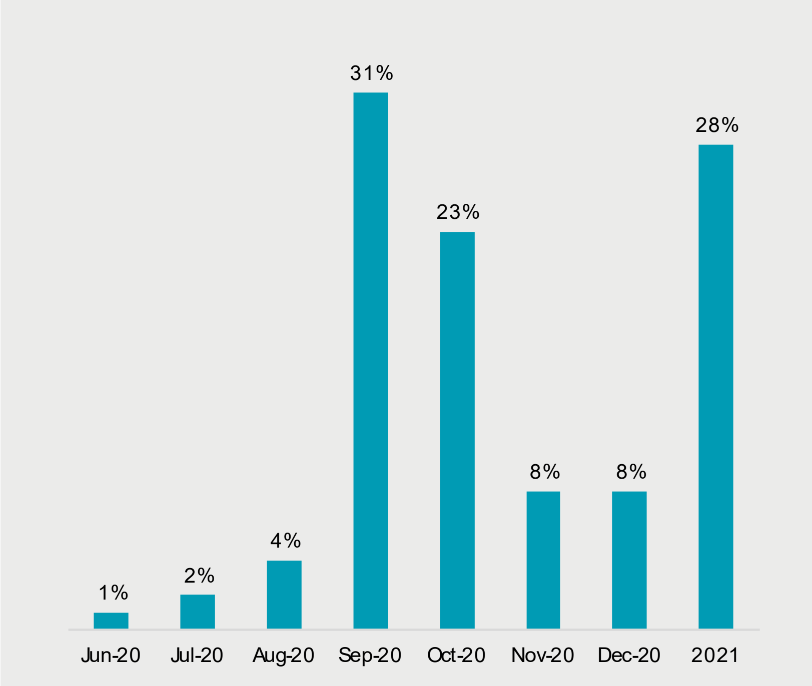
While it is in theory possible to prioritise the attendance of higher value attendees, in practice it will be difficult to ensure that it is this segment which actually attends a socially distanced event.

As a result, both the amount of saleable space and the price organisers can charge for it are likely to come under pressure. Venues, as discussed above, are likely to experience a demand spike in Q3/4 which may reduce their flexibility on rental prices. Exhibition organisers could therefore see event profitability come under pressure from multiple directions and may need to make decisions on a case by case basis as to whether to hold an event.

Whilst immediate cash flow requirements will factor in their decision-making, events depend on long-term customer relationships, and organisers will be mindful of the impact that a poor customer experience could have on future editions. It is likely therefore that this period will see particularly high levels of interaction between exhibition organiser and customer to decide the best way forward under challenging conditions.

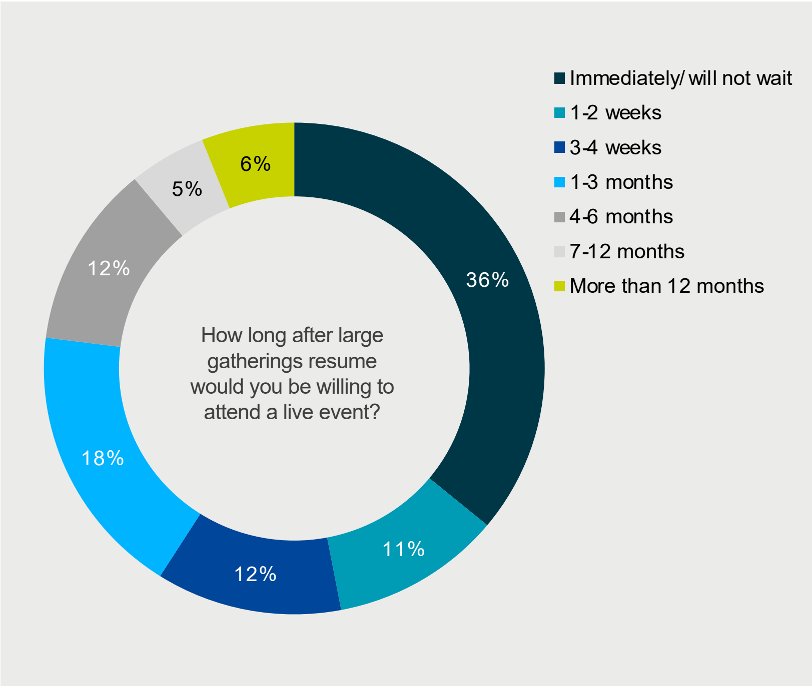
With comparable dynamics in operation, we expect conference organisers to be similarly mindful, albeit with one advantage versus trade show organisers. As discussed above conference organisers are able to deliver a greater proportion of their inventory online than trade show organisers. This may make the decision to hold an event virtually rather than live in the near term a degree easier, ameliorating the financial impact versus outright cancellation.

Figure 9: “When will live events return?” – Event organiser expectations



Source: SmartXpo survey conducted May 2020, Plural analysis

Figure 10: Attendee intention to return to live events



Note: Question to tradeshow & conference attendees in the last 24 months, “How long will you want to wait to return to events once large gatherings resume?”
Source: Enigma Research, Return to Live Events Survey, Plural analysis

Post-COVID-19

As the pandemic gives rise to an economic contraction the recovery of the events sector will inevitably be impacted in the short-term. Global organisers are likely to be best positioned against cyclical impact due to the high proportion of "must-have" events in their portfolios, in both exhibition and conference formats. Organisers of challenger or second-tier events may be more heavily impacted as their models on average have a greater dependence on discretionary spend, and are likely therefore to be slower to recover.

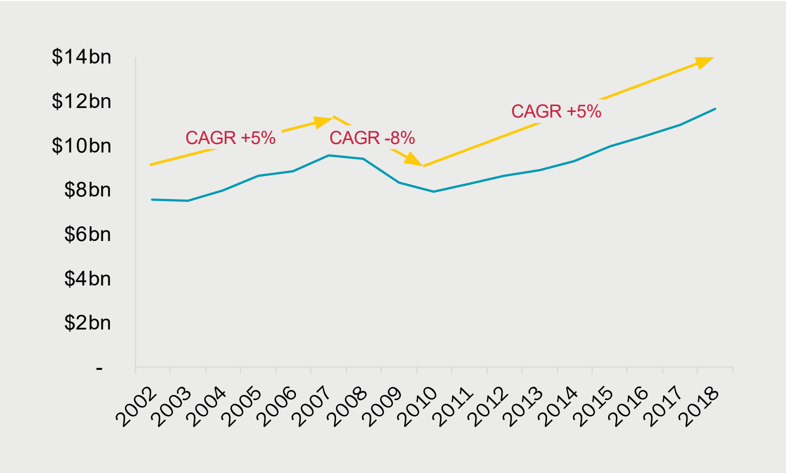
On an individual event-level there may be brands that do not recover fully or at all. Typically, market-leading events enjoying "must-have" status in their industries would be expected to return to their former health due to customers' high level of dependency. However, the interruption may offer an opportunity to challenge leaders with pre-existing underlying issues. This is particularly the case for events relying on brand heritage and customer inertia without being able to demonstrate sufficient value. Events serving verticals subject to structural impacts from COVID-19 and other macroeconomic trends (e.g. travel, oil & gas) may also be slower to recover.

The cyclical performance of the sector as a whole is examined in further detail below. However, the structural outlook for the industry remains positive. Prior to the COVID-19 outbreak the events sector enjoyed 15 years of growth, broken only by the global financial crisis. This performance was underpinned by the fact that, despite the rise of digital channels, F2F interactions have retained their value to marketers.

In contrast to the disruption experienced by other traditional media formats in the digital era, the events industry has generally benefitted from technology. Not all formats have benefited equally: in particular conferences whose primary value proposition is content which is neither unique nor business critical for its audience have lost share to digital channels. However, across the industry as a whole, technology has enabled growth in the value obtained from events by sponsors and exhibitors, the primary source of revenues for the sector. Both marketing technology and attendees' ability to more effectively "self-select" through browsing or researching online, have progressively filtered out lower value or irrelevant F2F interactions, axiomatically increasing the value per interaction. This in turn has been reflected in the long-term growth of the industry both in absolute value terms, as well as events' performance in the overall marketing mix.

It is expected that the trend towards higher value interactions will continue, as the enabling technology continues to evolve and its adoption by organisers grows. Indeed, COVID-19 may amplify this trend through its longer-term impact on organiser strategies.

Figure 11: US B2B exhibition industry revenues, 2003-2018, $bn



Source: CEIR, BEA, Plural analysis

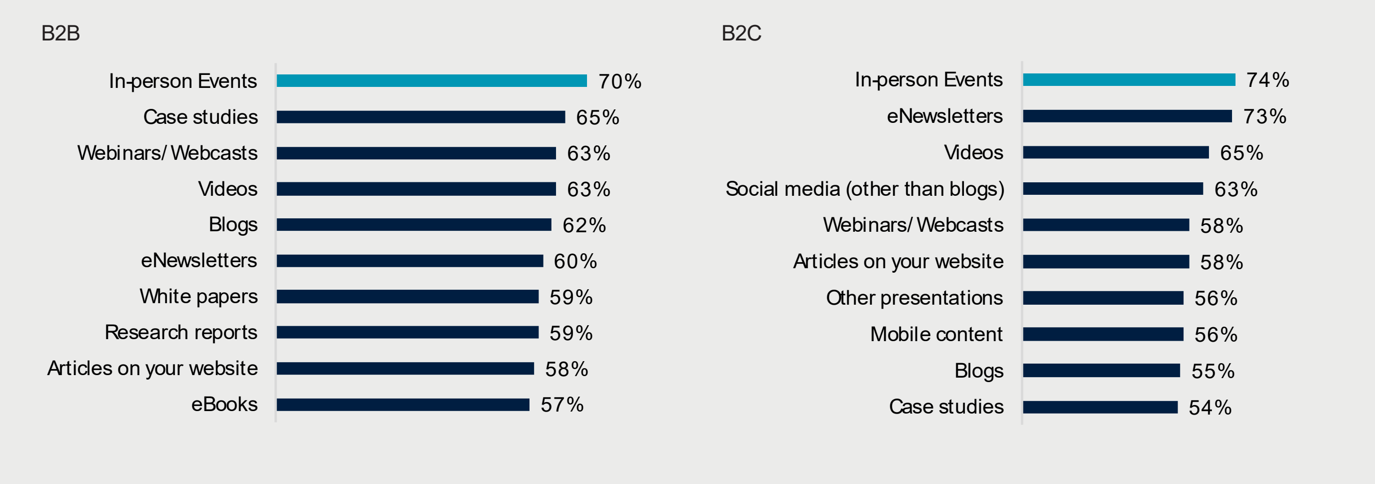
Long-term Impact

It is expected that the crisis will promote a re-assessment of the "events first" strategy broadly favoured by organisers over the past decade. This has been exemplified by previously diversified media businesses looking to maximise profitability through divesting lower margin media formats in favour of a focus on F2F, as well as pursuing M&A strategies strongly focused on pure-play F2F. Given the degree of financial exposure this strategy has led to as a result of COVID-19, it is likely to be revised.

In spite of the value technology has driven in events, as discussed above operators have in part been passive beneficiaries of this, and one may observe that the business model has seen limited change in 20 years. It appears likely that COVID-19 will lead to a more pronounced adjustment. Although operators will see B2B events as a cornerstone, they will increasingly seek to complement F2F revenues with digital revenue streams, while at the same time bolstering their technology capability. As well as creating year-round (rather than annual) customer touchpoints, this approach will lead to more strategic use of operators' customer datasets; greater customer and market insight in turn should enable a more tailored product offering.

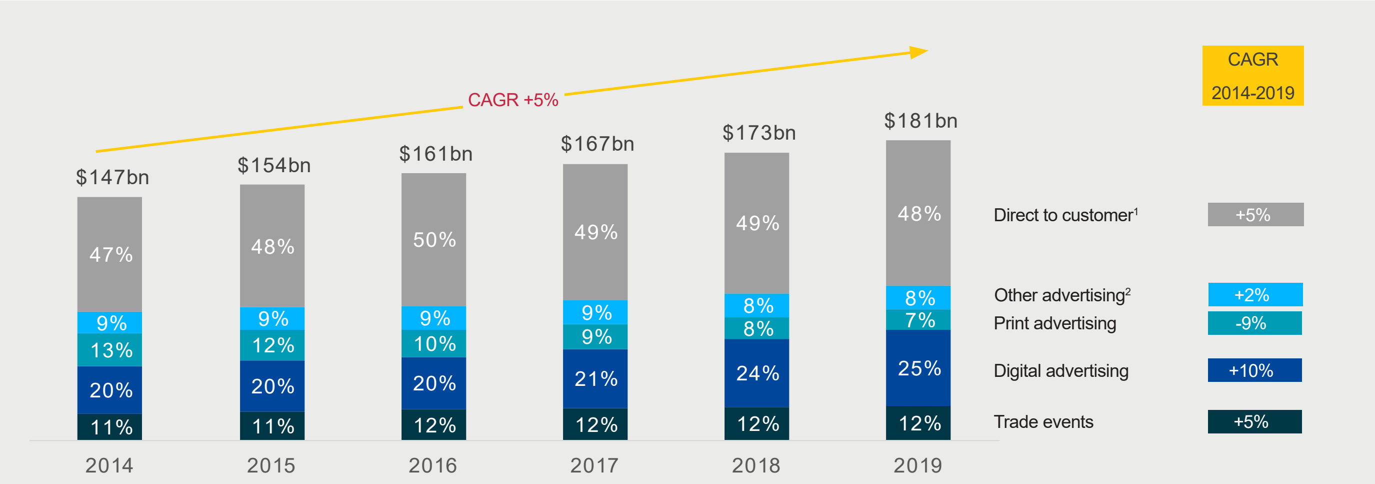
This vertical – rather than format – focused strategy has long been subject to debate across events industry boardrooms, however it has not to date been aggressively pursued. COVID-19 could well become a catalyst for a significant shift in adoption.

Figure 12: Effectiveness of marketing channels – (% marketers rating the channel most effective)



Source: B2B/B2C Content Marketing Trends - North America: Content Marketing Institute/Marketing Profs., Plural analysis

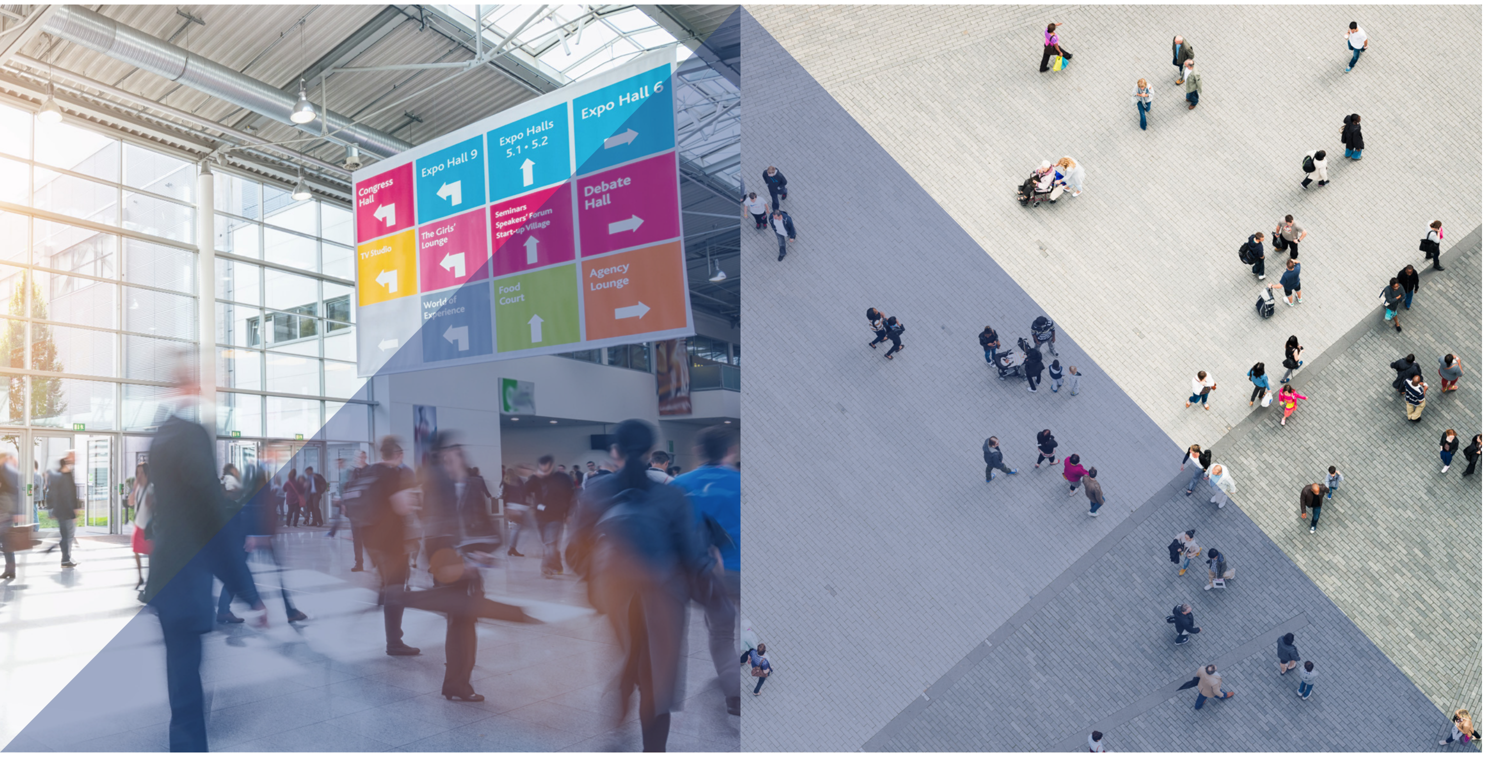
Figure 13: US B2B marketing spend by media 2014-2019, $bn



1 Direct to Customer includes: company website, email marketing, webinars, own social engagement, direct mail, custom print, hosted events; 2 includes: TV, radio, PR and OOH

Source: Outsell, eMarketer, CEIR, PwC, Forrester, Connectiv, Plural analysis

M&A Market Outlook



Fundamental drivers of consolidation remain

Powerful efficiencies of scale at the level of the individual event and synergies across global portfolios in both exhibition and conference formats have provided the motive force for growth and consistent consolidation of the industry historically. This is likely to continue for as long as F2F interaction remains an important part of human behaviour and commercial interaction.

Consolidators have focused attention on growing B2B markets such as technology, industrial processes, and healthcare, which saw the majority of acquisition activity in recent years.

Once the disruption of COVID-19 has passed the underlying growth drivers in most of these markets are not expected to diminish, and in some cases they may be accelerated by the crisis. It is expected that the vibrant community of entrepreneurial event organisers will continue to seek out un-met needs in growing B2B markets, as they have in the past, and provide the raw material for continued consolidation by global organisers.

Looking at the longer-term perspective, through the last major recession B2B event operators demonstrated a relatively rapid recovery from the impact of a cyclical downturn on valuations. This was followed by a longer-term appreciation as an increasing share of marketing spend and relative immunity to digital disruption delivered sustained growth and margin expansion.

Capital structure and product mix will shape M&A post COVID-19

Amongst the operators of scale who have been active in consolidating the live events market over recent years, there are clear differences in ownership, capital structure, and strategy. Certain factors will be accentuated by the challenges of COVID-19 and are expected to play a larger role in shaping the approach to further consolidation, and M&A generally. Private equity owned groups and the lenders to them will have an important role to play; this is explored in greater detail later in this section.

Despite mitigating actions most groups with high levels of revenue exposure to F2F formats are likely to come under significant financial strain, and access to capital will be key through this period. Whilst both Informa and Hyve Group have raised substantial sums in the public markets since the crisis began (£1bn and £100m respectively – equivalent to c. 2x 2019 operating profits in each case) only a small number of B2B events organisers enjoy the backing of institutional shareholders.

Where organisers of scale have reacted to the crisis by putting in place new debt structures that require – or strongly incentivise – de-leveraging, this is expected to have an impact on capital allocation in the short-term. For the industry as a whole this will result in a reduction in capital committed to acquisitive growth over the next couple of years, and this is likely to be accompanied by some non-core divestments. During this period some of those whose capital structures provides greater flexibility will continue proactively to seek acquisitive growth and benefit from a less competitive M&A market.

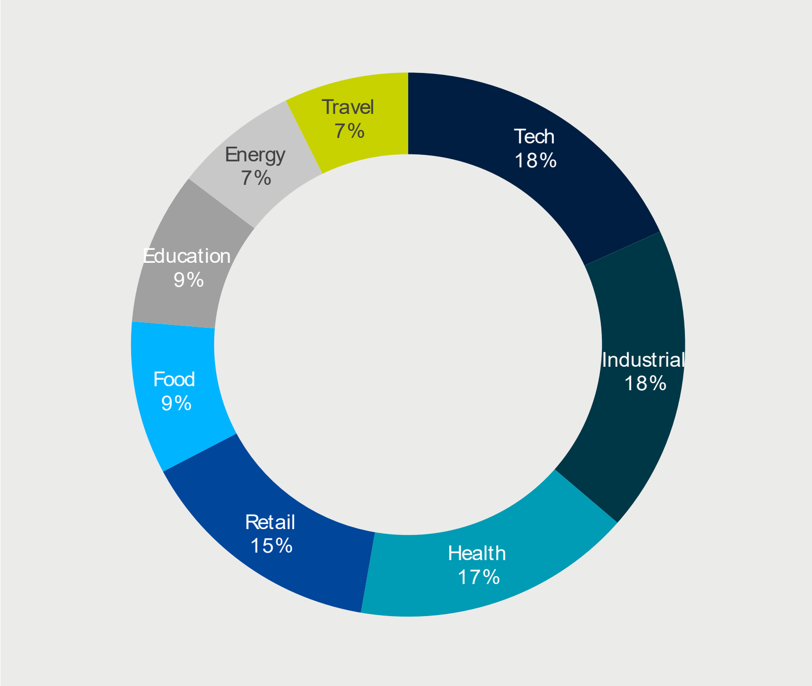
In Europe the majority of the largest exhibitions venues, together with their tenant organisers, are publicly-owned, typically by local or regional administrations. In Germany in particular where the events industry is recognised as a strategic pillar to economic prosperity, it is anticipated that public sector support will continue. Across other EU nations the picture may not be as clear cut, particularly where local government finances are less robust.

Associations representing suppliers, service providers and professional groups comprise another important ownership category. This is especially the case in the US, where over 60 of the top 100 largest exhibitions are association-owned. Often associations' primary source of revenue are events for their members, and a forced cancellation if uninsured could therefore create severe financial pressure.

The mid-sized privately-owned event organisers which have historically been an entrepreneurial engine of growth for the industry are feeling the same operational effects of COVID-19, and for some this may be a catalyst to be consolidated.

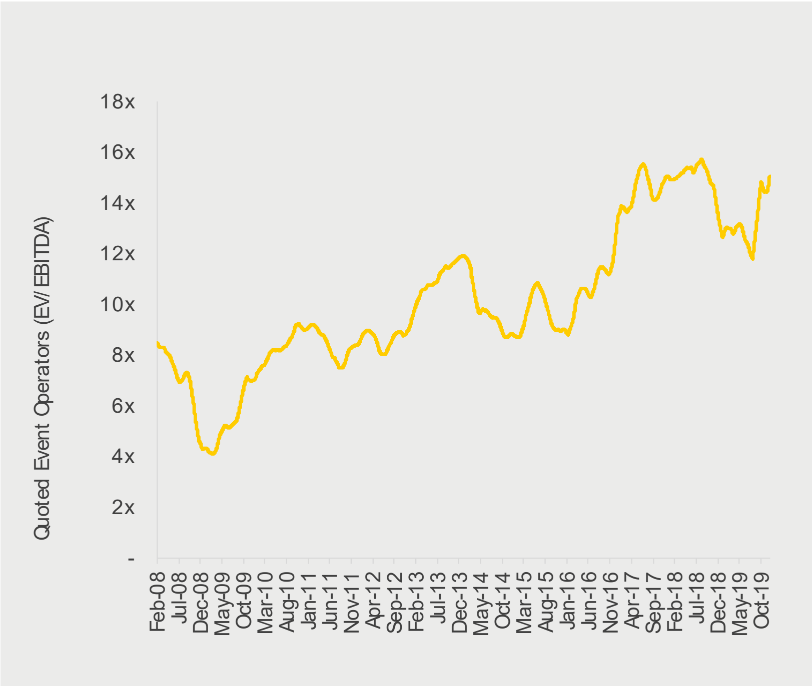
The crisis has brought the value of digital products into sharp focus for many B2B event operators as both a revenue stream insulated from physical disruption and a strategically valuable means to maintain audience relationships. The B2B digital media market remains fragmented and offers many opportunities for event organisers to consolidate adjacent digital media brands. M&A strategies are expected to reflect the shift in emphasis away from pure-play F2F, leading to stronger demand for events businesses with established digital capability, and even pure-play digital businesses.

Figure 14: Acquisition sectoral mix, last five years



Source: Arrowpoint Advisory analysis, Mergermarket

Figure 15: Through-cycle valuation history



Source: Arrowpoint Advisory analysis, S&P CapitalIQ

Short-term Outlook: 6-12 months

As long as the effects of operational disruption remain evident in the financial performance of live events businesses, COVID-19 will temper the appetite of buyers to buy and the willingness of sellers to sell. Therefore M&A activity in the near-term is likely in the near-term to focus on four particular areas:

- Small and mid-sized operators without access to capital who come under financial pressure, and for whom a partnership or full exit provides the best opportunity to maximise value as markets recover.
- Scale operators which may consider non-core divestments as part of a strategy to achieve wider corporate objectives, such as reducing leverage or optimising their own valuation.
- Operators in resilient markets which are able to demonstrate a path to return to normal trading in the near term with a high degree of confidence.
- Providers of digital capabilities whose effectiveness has been proven through the crisis and whose solutions will remain relevant once normal conditions return.

Medium-term Outlook: 12-36 months

Looking further ahead to M&A as COVID-19 recedes it is expected that live event operators will have three dimensions of exposure to the crisis; their communities, their clients, and their business models. It is likely that the opportunities and challenges of doing deals in the post-COVID-19 environment will be shaped by the impact on each of these for each business. All operators whose calendars include dates during the period of disruption will experience a short-term business impact, as live events are cancelled and whilst digital formats may mitigate this to some degree, they will not generally be a full replacement.

Figure 16: COVID-19 business impact scenarios

Community	Clients	Example
✓	✓	Sourcing event for essential product category.
~	✓	Capital goods exhibition for cyclical industry.
✓	~	Product sourcing event for disrupted supply chain.
~	~	Networking event for non-essential category.

If both community and clients (whether exhibitors, sponsors or paying attendees) are resilient to COVID-19, then the ability to demonstrate recovery from the transient operational impact will be the primary area of focus in M&A. Client engagement and support will be the best indicator of this, and for this reason the optimisation of cancellation or re-booking rates despite changes in schedule will be a key driver of value. Community engagement will also be an important indicator of the ability to deliver a sustainable recovery from COVID-19, and in this regard digital channels may have a particularly valuable role to play.

If the client base is resilient and has a strong need whilst the wider community is significantly impacted, then the rebound from operational disruption may be complicated by the need for careful choices about the shape of a sustainable recovery. In this scenario events could be staged that perform well financially in the short-term but deliver reduced community engagement and RoI, with possible consequences for the sustainability of recovery. Both vendors and acquirers should be mindful of the need to understand the extent of possible longer-term effects, and particularly those that may be permanent rather than transient, when transacting post-COVID-19.

In the case that the community is resilient, but the client base is focused on a category or segment that is immediately impacted then this is expected to become rapidly apparent in trading. Where the operational model does not provide scope to mitigate reduced revenues, an immediate reduction in profitability will result.

Whether this impact is transient or permanent will be a key question in this scenario, and because of the scope for divergence in perspective between vendor and acquirer this is a question that would benefit from particularly careful analysis for success in M&A.

If the community and clients together are severely impacted the path to recovery of the market will be the first question for all participants in M&A. When the economics of a business model remain challenged once the operational impact of COVID-19 is passed, then the extent of restructuring required and the trade-offs this can entail between short-term profitability and longer-term value maximisation will be key considerations for owners and acquirers alike.

The consistent factor across all permutations of possible impact is likely to be closer engagement, and the greater insight this brings into communities and end markets will have disproportionate value in M&A during this period of disruption.

Value Expectations

Congruence of value expectations between buyer and seller is of course a fundamental pre-requisite for successful M&A, and the disruption of businesses, end markets, and financial markets arising from COVID-19 has inevitably created uncertainty in this regard. The fact that this disruption has been caused by a clearly identifiable exogenous shock may help to limit scope for divergence in perspectives between buyer and seller and provide a clear basis for the M&A market to adjust.

The ability to reach consensus on valuation in the short-term is likely to be driven largely by business-specific factors. Whilst all event organisers are likely to be impacted in some way, trading impacts that are clearly transient and reliably quantifiable do not generally pose fundamental issues for valuation. Impacts that are longer-term or more uncertain in nature pose a greater challenge, and sellers will need to take a thoughtful approach to maximising value in such situations.

Private Equity Perspective

Capital committed by private equity funds to the B2B event industry is now at an all-time high with two of the top five global exhibition operators and a significant number of growing mid-sized exhibition and conference operators in private equity ownership. This is a significant shift since the last market downturn in 2008, and the strategic reaction of private equity investors to COVID-19 will play an important role in the future direction of the industry.

Whilst event organisers in private equity ownership generally came into 2020 with higher levels of leverage than their publicly-listed peers the access to capital and close dialogue between business, shareholders, and lenders that private equity ownership provides may be a strategic advantage to them as the industry navigates the uncertainties of returning to normal operation. For this reason, it is likely that private equity platform assets are will play a significant role in the return of activity to the B2B events M&A market.

Closer engagement, and the greater insight this brings into communities and end markets will have disproportionate value in M&A during this period of disruption

The fundamentals of a buyout structure focus attention on the position at entry and then at exit, and as long as the strategy to create value remains intact and lender relationships are good it can provide considerable flexibility in between. In response to the credit crunch of 2008 private equity funds generally lengthened holding periods considerably, providing investee companies with more time to execute strategies in that challenging environment. Holding periods peaked at 6 years in 2014, compared to a long-term average of c. 4½ years.

Investors could well respond to the current disruption in a similar way by holding assets for a year or two longer. As well as allowing recovery from operational disruption this longer time horizon could also provide opportunities to progress execution of successful strategies. For assets nearing their expected exit in particular this situation presents a window to make and integrate further acquisitions under current ownership, and to address important strategic questions regarding options to optimise product and vertical mix for exit in a post-COVID-19 environment.

Third party debt has become an increasingly important part of private equity returns as levels of leverage have grown in recent years, rising c. 1x EBITDA since 2015. This is particularly true of an industry with the credit characteristics of B2B events. If one takes equity return expectations as fixed, then the lower levels of leverage that are likely to be the immediate result of COVID-19 would reduce the valuations private equity investors are able to pay. Mathematically under typical private equity deal structuring parameters each 1x EBITDA reduction in leverage implies a reduction of slightly more than 1x EBITDA in purchase price if equity returns are held constant.

However, the extent to which the real effect of reduced leverage on private equity deal structures plays out remains to be seen.

The market remains competitive with record amounts of un-invested capital (or 'dry powder'), and there is clearly an incentive for investors to find creative solutions to a reduction in available leverage, particularly as this may prove to be temporary.

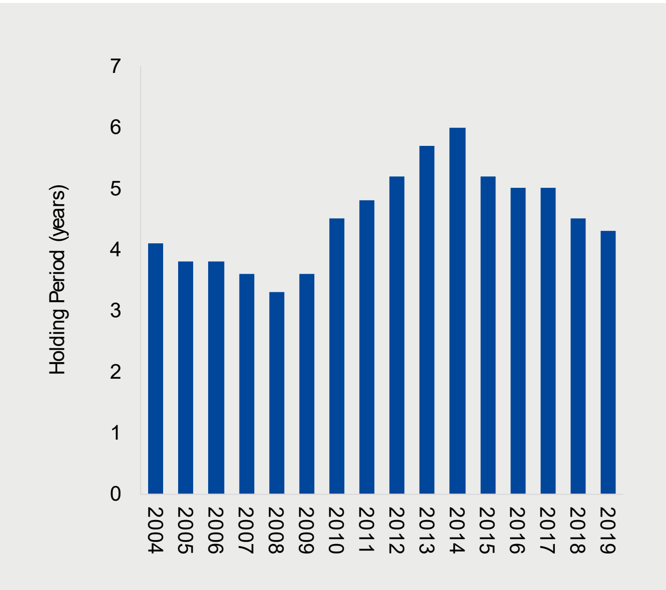
Lender Perspective

As the immediate cycle of covenant reset and facility amendment discussions is completed, and lenders then look ahead to the operational recovery of the industry it is likely that both earnings for structuring purposes and debt capacity will be viewed through a new lens following COVID-19.

Lending to event operators is by nature focused on cash flow rather than assets, and the first step in structuring a debt facility post-COVID-19 will be to establish a highly credible view of profitability (or EBITDA). In an environment where the predictable relationship between recent historical data and the future is in question, the long-established basis of last twelve months (or 'LTM') EBITDA will require significant adjustment. For high quality business models that are able to demonstrate strong recovery in trading and key metrics, especially repeat rates, through the crisis it is likely that this question will be manageable.

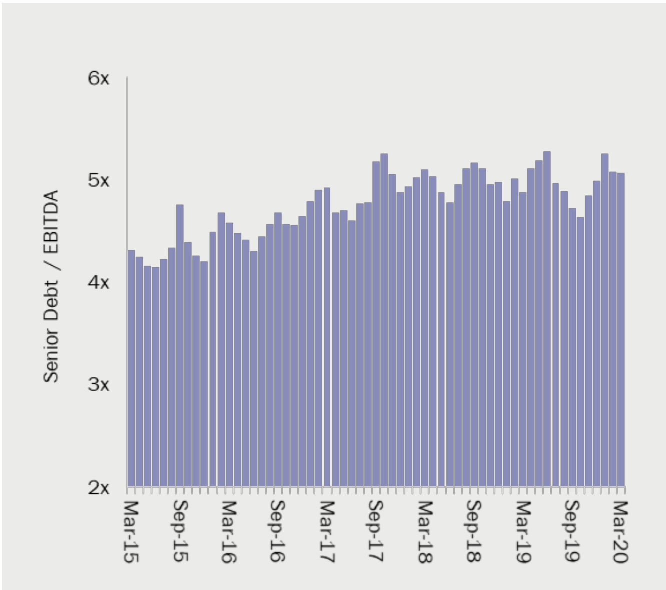
Establishing the level of leverage (expressed as a multiple of EBITDA) that lenders are comfortable with is a more subjective process by nature. So far covenant resets for existing facilities have offered some positive signs in this regard, as a number have focused on the return to pre-crisis leverage as their objective and by implication have not sought to reduce leverage from pre-COVID-19 levels.

Figure 18: Private equity holding period



Source: Arrowpoint Advisory analysis, Preqin

Figure 19: Senior Debt / EBITDA (Buy-outs, Western Europe)



Source: Arrowpoint Advisory analysis, Debtwire

Figure 20: B2B exhibition market indicators, by geography, % growth, 2006-2013

Source: US from CEIR, Germany from AUMA annual reports, GDP from OECD , Plural analysis

Whether lenders view new credits in the same way is yet to be tested. Given the likely uncertainty of the macroeconomic outlook following the operational recovery from COVID-19 the credit process should involve greater focus on downside scenarios, such as the likely trading impact of a future pandemic or recession.

Fortunately good historical data is available on the relative resilience of B2B events during an economic downturn, and this can provide a useful starting point for scenario modelling to support future financing. Historically the industry has largely tracked macro trends. Although a COVID-19 induced recession would impact the sector, subsequent recovery would be expected to lead to an events rebound, with an average 12 month lag.

During the 2008 recession the exhibition market in particular was notable for the shallowness of its revenue decline and speed of recovery. The long sales cycles inherent to many live events are also helpful in providing credible mitigating strategies for a short-term revenue downturn.

As the role of pandemic risk in structuring new debt facilities evolves, approaches are likely to fall into two categories: setting opening leverage to provide sufficient headroom to 'absorb' a future shock or providing for specific remedies to mitigate a loss of cash flow.

Emerald Holdings provides an interesting example in this regard, as it has the distinction of being both the most highly leveraged publicly-listed operator coming into 2020 and the most prescient in its financing strategy for COVID-19. Holding insurance policies exceeding $300 million with express provision for risks related to communicable disease has provided Emerald with substantial non-equity funding to mitigate the trading impact of the current disruption. We expect the availability and terms of such insurance cover to become an area of greater focus in the future, particularly in the context of highly leveraged capital structures.

About Us

Plural Strategy

Plural is a leading strategy consultancy to the media and information industries, operating globally from offices in London, New York and Beijing. We advise the key corporates and investors in the sector on transformational growth and M&A and have provided commercial DD on over 200 M&A deals in the sector since our launch in 2014.

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