



Middle Market businesses adapt their strategy in response to COVID-19

We have surveyed business owners and operators for insight as to how they are making adjustments to their operational and capital strategies in times of uncertainty.



Key Themes in this report include:

- **Preparing for a New Normal...***Business owners adjust their strategy – as many prepare for a New Normal*
- **Bracing for Impact...***Business owners are expecting heavy financial losses for calendar year 2020*
- **Containing Costs...***Business owners examine their financial plans as they look to cut costs*
- **Timing the Market...***Business owners share changes to their M&A and liquidity timelines*
- **Creating Opportunity...***Business owners find opportunity despite times of uncertainty*



Collecting the Data

In order to compile this report, we have reached out to over 200 owners and operators of businesses in the middle market. The final data and conclusions represent the completed survey information from 59 respondents, mostly in the Mid-Atlantic. The survey results were finalized on June 15, 2020.

We hope that you find the responses both relevant and interesting as we all continue to navigate this new reality together.





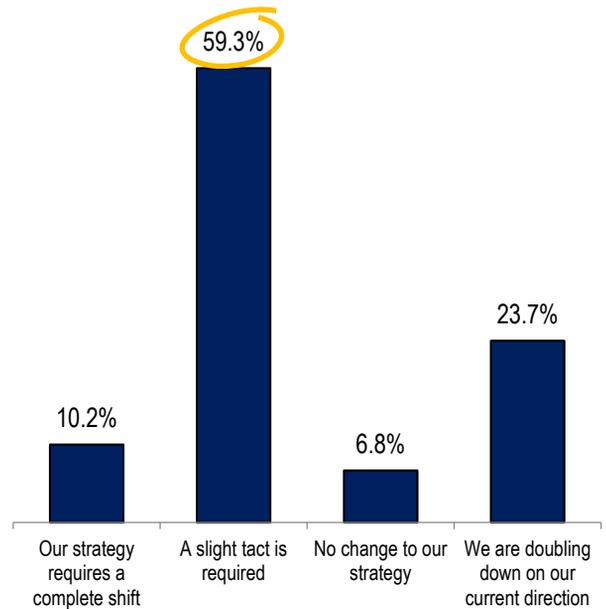
Preparing for a New Normal

Business owners adjust their strategy – as many prepare for a New Normal

At CCA it is critical for us to understand how the COVID-19 pandemic has impacted our clients, and how we can provide insight and leadership as they navigate changing economic conditions.

Q: How has COVID-19 impacted your current business strategy?

- **Adapting Quickly** – It is not surprising to see that over 70% of the business owners surveyed have recognized the need to shift their current strategies due to the COVID-19 pandemic. Most (59.3%) expect a slight shift in strategy to be sufficient, while the remaining 10% are considering a complete change to their plans.
- **Doubling Down** – It is interesting (but encouraging) to see that almost a quarter of the survey participants are opting to “double down” on their current strategic direction. These companies likely have a sound business model and confidence in their ability to remain competitive despite the global economic uncertainty. Likewise, another 6.8% of the survey participants do not intend to make any strategic adjustments.



Q: When do you anticipate your industry to return to a pre-COVID-19 state?

14%	Less than 6 Months
36%	7 – 12 Months
19%	12 – 24 Months
32%	Planning for a New Normal



Preparing for a New Normal

Many of the survey participants have been preparing for a “New Normal”. As they develop new plans, we would expect business owners and investors to continue to place higher premiums on revenue and cash flow that is both sustainable and insulated from risk.





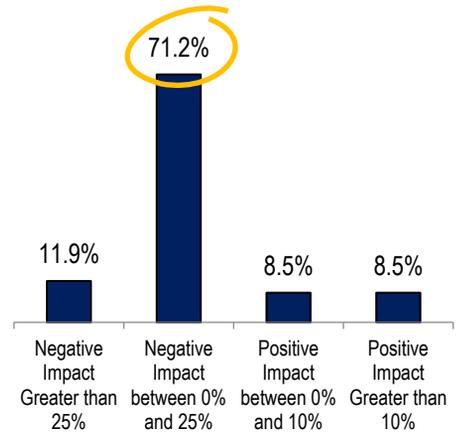
Bracing for Impact

Business owners are expecting heavy financial losses for calendar year 2020

COVID-19 has had a significant financial impact on the middle market. Most businesses have been affected negatively in terms of both revenue loss, unforeseen expenses and resulting losses in profitability and cash flow.

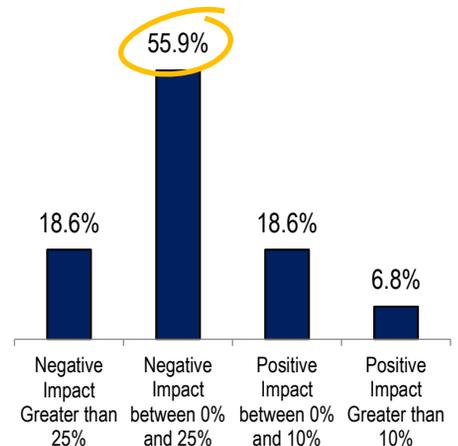
Q: What impact will the COVID-19 pandemic have on company revenue in 2020?

COVID-19 Impact on Revenue	%
Negative Impact Greater than 25%	11.9%
Negative Impact between 0% and 25%	71.2%
Positive Impact between 0% and 10%	8.5%
Positive Impact Greater than 10%	8.5%
	100%



Q: What impact will the COVID-19 pandemic have on company earnings in 2020?

COVID-19 Impact on Earnings	%
Negative Impact Greater than 25%	18.6%
Negative Impact between 0% and 25%	55.9%
Positive Impact between 0% and 10%	18.6%
Positive Impact Greater than 10%	6.8%
	100%



Bracing for Impact

Over 70% of the survey participants are bracing for revenues up to 25% less than they had previously planned for, and an additional 12% of the participants expect it could be even higher than 25%. Fortunately, it appears that some companies have been able to make adjustments to mitigate substantial losses in cash flow.





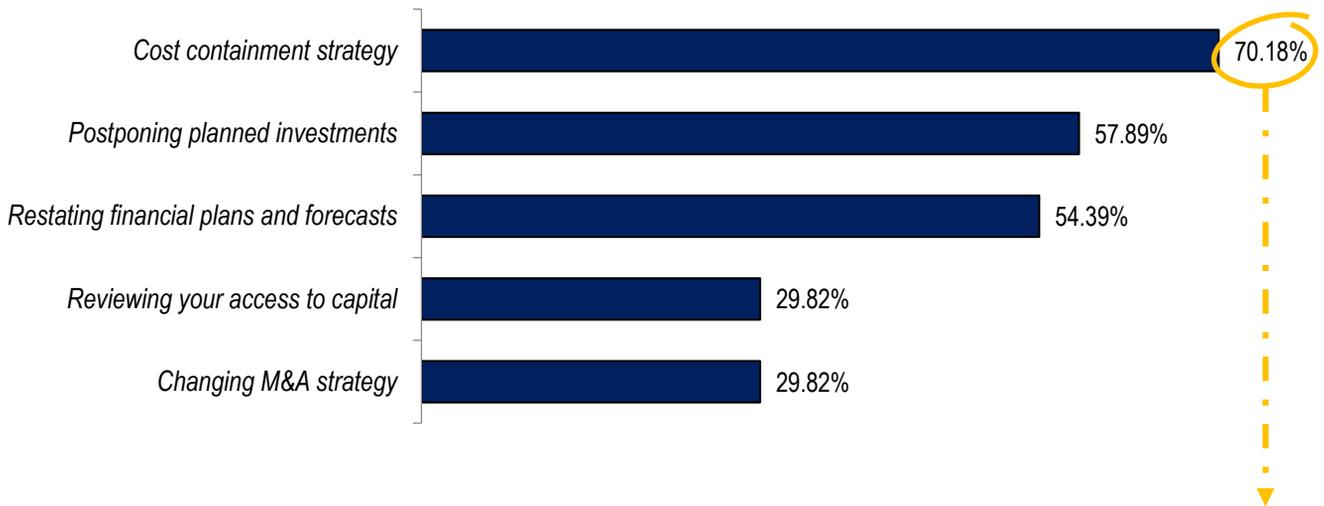
Containing Costs

Business owners examine their financial plans as they look to cut costs

For the businesses that have been affected negatively by COVID-19, reviewing financial plans and implementing a cost-management strategy is imperative.

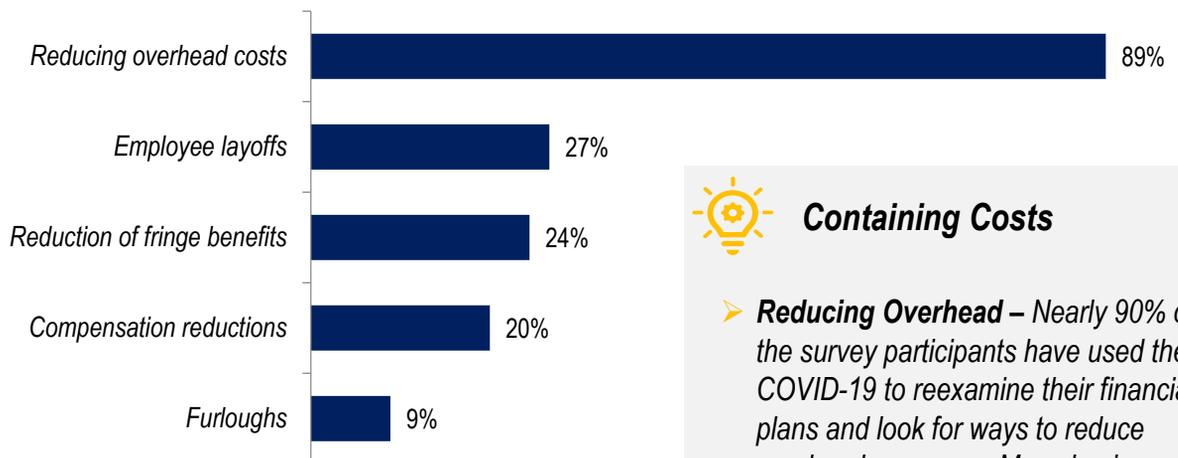
Q:

Which of the following financial actions is your company considering as a result of COVID-19?



Q:

If you have reduced costs, what cost containment strategies have you employed as a result of COVID-19?



Containing Costs

➤ **Reducing Overhead** – Nearly 90% of the survey participants have used the COVID-19 to reexamine their financial plans and look for ways to reduce overhead expenses. Many business owners needed to reduce personnel expenses.



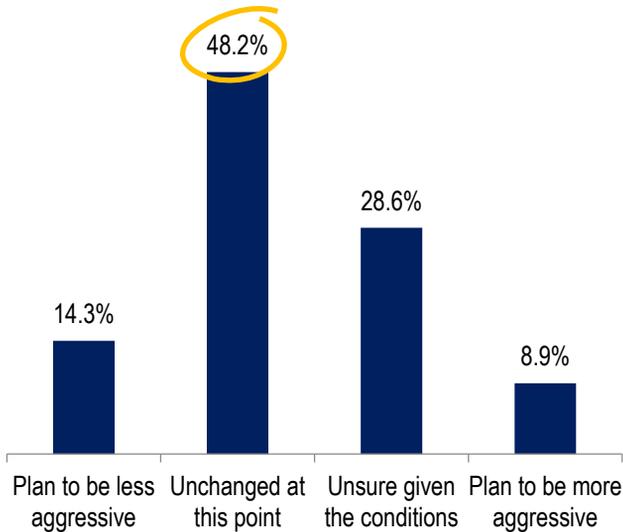


Timing the Market

Business owners share changes to their M&A and liquidity timelines

COVID-19 has created volatility and uncertainty in the capital markets, which are a leading indicator for M&A transactions in the middle market.

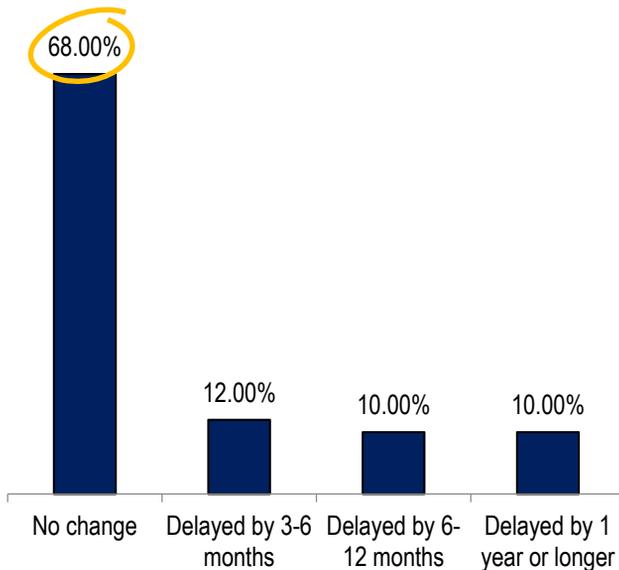
Q: How is COVID-19 affecting your M&A strategy?



M&A Indecision

- When it comes to making acquisitions, the cloud of uncertainty remains. While nearly half of the survey respondents do not intend to change their M&A strategy, 29% report being unsure given the current conditions. 14% plan to be less aggressive, while 9% plan to seek opportunities execute a more aggressive strategy.

Q: If you've been considering a liquidity event in the next 12 months, has your timing changed?



Cashing Out

- Despite the financial impact of COVID-19, 68% of the survey participants who had been considering a liquidity event have not needed to change their plans for a future exit. 12% expect a slight delay (less than 6 months), while the remaining 20% are less optimistic in the short-term.





Q:

Has COVID-19 provided opportunities for your business?

% of survey respondents

- **Developing New Revenue Sources** – The COVID-19 pandemic has put all business models under a once-in-a-lifetime “stress test”. Over 52% of our survey respondents have been able to create opportunity by developing new sources of revenue.

52%

- **Restructuring Capital** – Costs of capital are at historic lows, and banks and other capital lenders are showing unprecedented flexibility. Nearly 14% of our survey respondents have used this time to restructure their balance sheets.

14%

- **Making Acquisitions** – Companies with a strong balance sheet and a flexible growth strategy see opportunity to make acquisitions amongst the uncertainty. For those with available capital and the appetite for risk, it is a “buyer’s market”.

12%

- **Transferring Ownership** – The pullback in M&A activity and volatility in the capital markets has lowered business valuations and created a favorable environment for ownership transfer and ownership continuity planning.

7%

- **None of the Above** – Over 36% of our survey respondents have found other ways to create opportunity that we had not listed. Anecdotally, we know that Companies are investing internally, using technology more effectively, creating new partnerships and focusing on improving the customer experience (among others).

36%



Creating Opportunity

While no one knows how long this COVID-19 situation will last, or what the “new normal” may look like, it is encouraging to see that many businesses have been to create new opportunities and make the best out of very difficult circumstances. It is times like these that we are reminded that the best strategic plans incorporate both flexibility and fiscal responsibility.

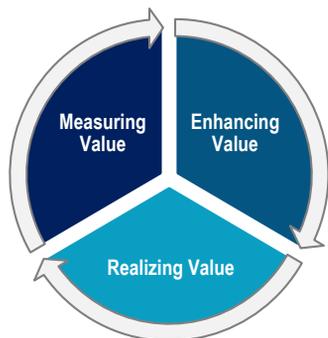


Chesapeake Corporate Advisors (CCA) is a boutique corporate advisory firm that has been successfully serving investor-owned and closely held emerging growth and middle market companies since 2005.

Our firm was formed on the foundation that our clients are our top priority at all times.

At CCA, we use proprietary methodologies deeply rooted in experience, creativity, and comprehensive data analysis to deliver services in the three following areas:

- **Strategy & Corporate Advisory Services**– Chesapeake Corporate Advisors provides a framework for business owners to focus on building sustainable value and to explore their succession and exit alternatives. We use our proprietary tools and methodologies to assess the market and maximize value through strategy.
- **Investment Banking Services** – CCA is a leading investment bank with extensive expertise in mergers, acquisitions, divestitures, and corporate advisory. We use a comprehensive approach to assist clients develop and execute a buy-side, sell-side or recapitalization strategy domestically and in cross-border transactions.
- **Business Valuations & Financial Opinions** – At CCA, understanding shareholder value is at the center of everything that we do. Our analysis considers the feasibility of mergers, acquisitions, divestitures, ESOPs, management buy-outs and recapitalizations. We provide an objective, independent assessment of value that is deeply rooted in qualitative and quantitative analysis using our proprietary methodologies.



Invaluable Partners. Increasing Business Value.

Founded in 2005 by Charlie Maskell, Chesapeake Corporate Advisors, LLC has been successfully serving investor-owned and closely held emerging growth and middle market companies that are looking to create and/or realize shareholder value. Our clients earn revenues generally between \$10 million and \$200 million, and recognize the benefit our unique, three-pronged approach, provides them.

CCA Firm Overview

- Founded in 2005 by Charlie Maskell
- Experienced Leadership
- Proprietary Methodologies

Corporate Advisory Services

- Evaluating Strategic Alternatives
- Ownership Continuity & Exit Planning
- M&A and Capital Advisory
- Valuations & Financial Opinions
- Value Creation Strategy & Implementation Services

Investment Banking Services

- Sell-Side Representation
- Buy-Side Representation
- Merger
- Recapitalization
- Pre-Transaction Preparation

