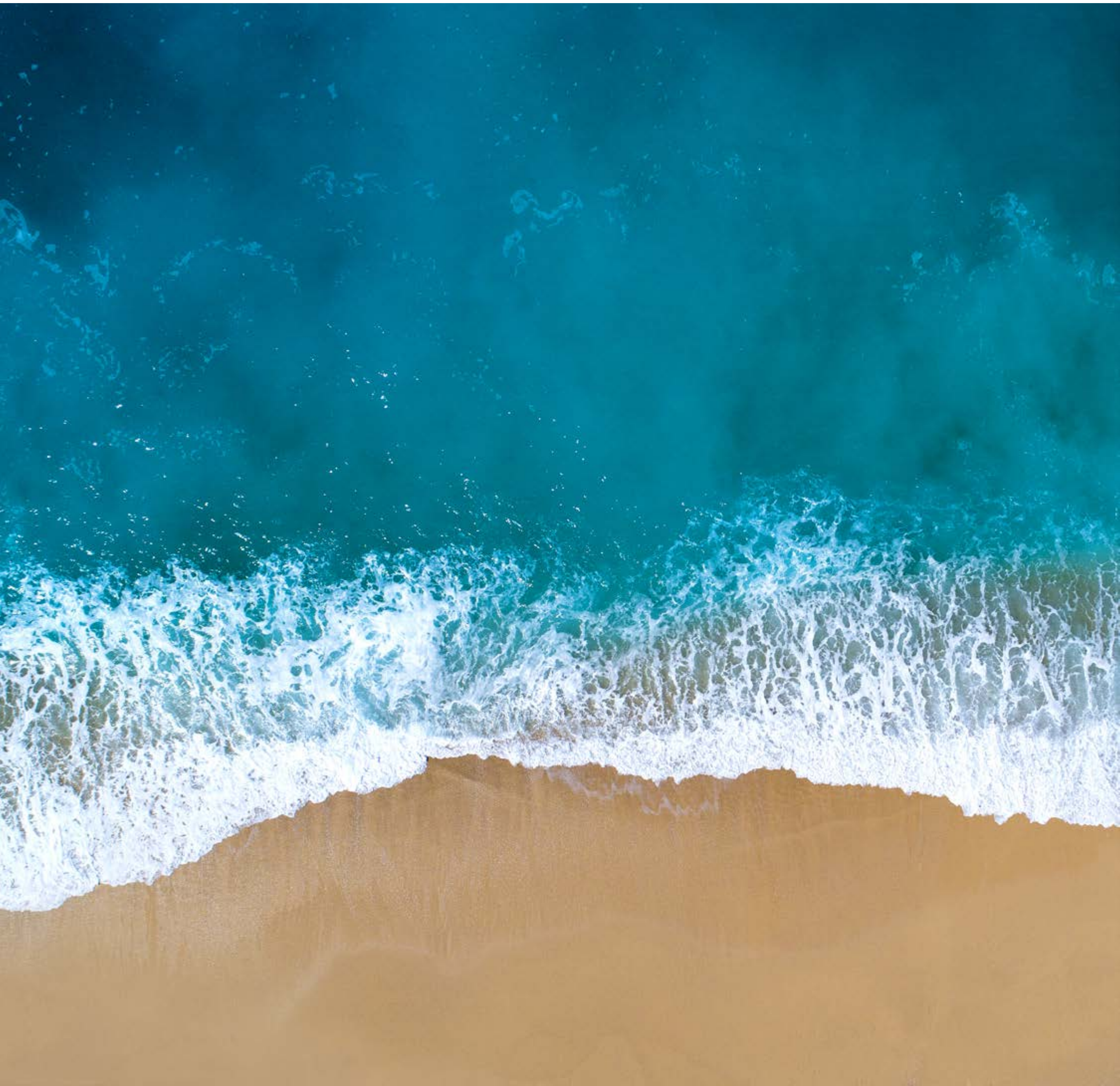
HOULIHAN LOKEY

ENVIRONMENTAL SERVICES

SECTOR UPDATE | **SPRING 2020**



Practice Overview

The environmental services sector serves multiple end markets and is a large part of the economy. With an addressable market of more than $400 billion(1), the sector has shown significant resilience during the COVID-19 pandemic. We define the sector as companies that focus on keeping their customers:

- ✓ ***Environmentally compliant***
- ✓ ***Operating efficiently and safely***
- ✓ ***Focused on sustainable initiatives***

Select Coverage Categories

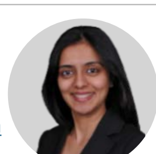
- Air-Pollution Control
- Cleaning and Maintenance
- Decommissioning and Deconstruction
- Emergency Response
- Environmental Consulting
- Facility Services
- Industrial, Hazardous, and Specialty Waste
- Recycling and Resource Recovery
- Remediation
- Safety and Compliance
- Soil Treatment
- Solid-Waste Management
- Specialty-Equipment Rental
- Waste Hauling and Transportation
- Waste-to-Energy
- Water and Wastewater Treatment

Broad Applications and End Markets

- **Commercial**
- **Industrial**
- **Government/Municipalities**
- **Marine**
- **Oil and Gas**
- **Power and Utilities**
- **Residential**
- **Retail/Restaurant**
- **Transportation**

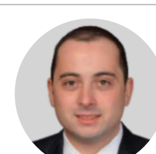
Houlihan Lokey Environmental Services Contacts

Scott Sergeant
Managing Director
212.497.4275
SSergeant@HL.com



Disha Mehta
Director
212.497.4249
DMehta@HL.com

Jordan Mendel
Vice President
646.259.7465
JMendel@HL.com



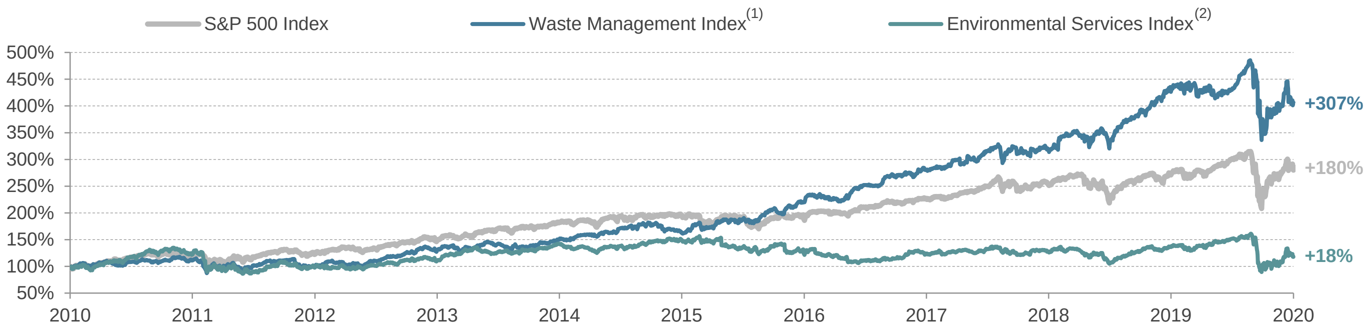
Leon Vayntraub
Vice President
212.497.7899
LVayntraub@HL.com

(1) Source: Environmental Business Journal

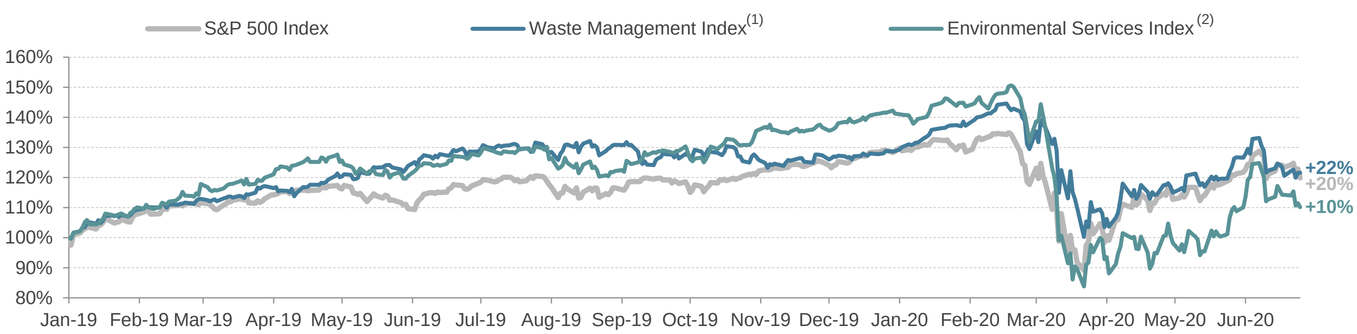
Public Company Performance

Waste management businesses have significantly outperformed the broader market, both over the past decade and more recent time periods, while environmental services businesses have lagged the market in the past few years, primarily due to exposure to oil and gas and automotive end markets.

Long-Term Market Performance – Last 10 Years



Recent Market Performance – Since January 1, 2019



Key Takeaways

Long-term resilient markets are driven by:

1. **Essential, non-discretionary business models with predictable revenue streams**
2. **Regulatory support at the local, state, and federal levels**
3. **Large numbers of diverse demand drivers**

Note: Multiples and financial statistics calculated as of 6/26/2020.
Source: S&P Capital IQ.
(1) WM Index includes: CWST, GFL, RSG, WCN, WM.
(2) ES Index includes: CLH, CVA, HSC, HCCI, SRCL, ECOL, VEOEY.

Public Company Valuation

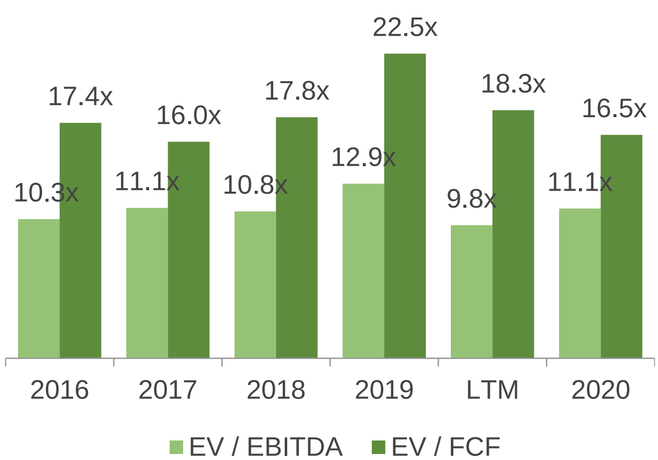
Valuations in the sector have seen strong and consistent increases in the past several years, primarily due to the cycle-resistant nature and growth potential of the companies.

- All 12 of the companies below reported earnings for the quarter ended March 31, 2020.
- Given the uncertain market environment, many companies have suspended guidance for full-year 2020.
- LTM earnings through March 2020 remained strong; however, stock prices negatively adjusted in mid-March, leading to artificially depressed multiples for the Environmental Services index.
- Using analyst-consensus estimates for forward earnings leads to a slightly lower EBITDA multiple for waste management companies; however, both indices are trading higher than historical levels.

Environmental Services

Clean Harbors, Covanta, Harsco, Crystal Clean, Stericycle, US Ecology, Veolia

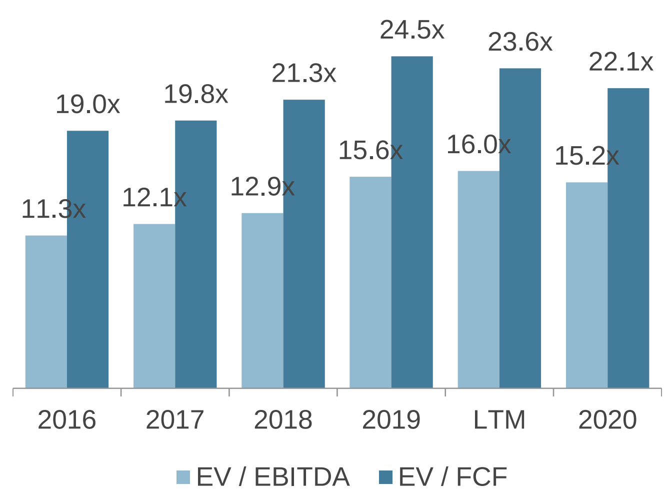
Historical Averages (2016 – LTM):
EV / EBITDA: 11.0x
EV / FCF: 18.4x



Waste Management

Casella, GFL Environmental(1), Republic Services, Waste Connections, Inc., WM Waste Management

Historical Averages (2016 – LTM):
EV / EBITDA: 13.6x
EV / FCF: 21.6x



Average Financial Metrics(2)

	LTM EBITDA Margin	LTM FCF Margin	2016A – 2019A EBITDA CAGR
Environmental Services	16%	9%	5%
Waste Management	25%	13%	9%

Source: S&P Capital IQ.
Note: Multiples and financial statistics calculated as of 6/26/2020. Multiples represent average LTM figures over the course of the stated year. 2020 figures based on consensus estimates per S&P Capital IQ.
(1) Includes impact of GFL Environmental, Inc., since IPO on the NYSE in March 2020.
(2) FCF defined as EBITDA less Total Capex.

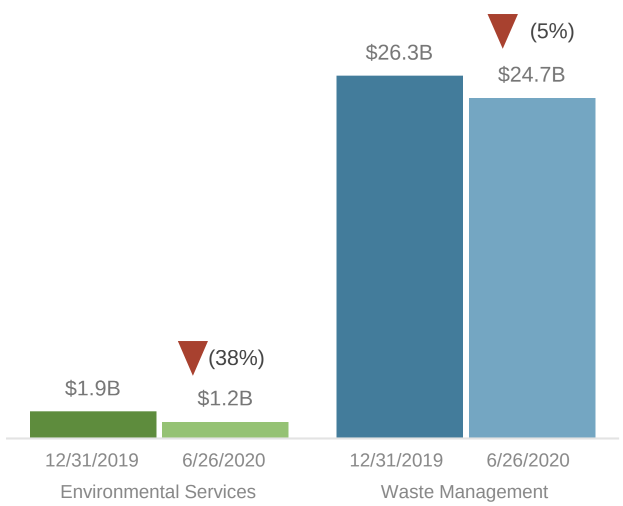
Valuation Outlook: COVID-19

Despite recent recovery, COVID-19 has been a slight net negative to the public value of sector companies. However, relative to forward earnings, environmental services companies are minimally down, while waste management names are trading at a premium to prior valuation.

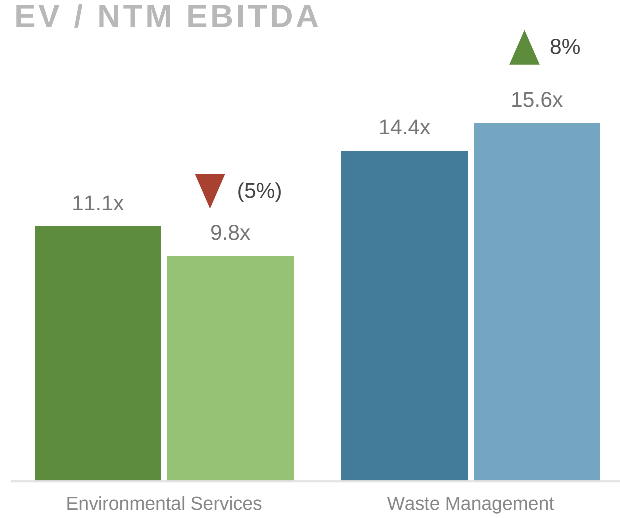
YE 2019 | 3/31/2020*

Enterprise values used for these bars as of 6/26/2020. NTM EBITDA/FCF figures reflect latest analyst consensus estimates.

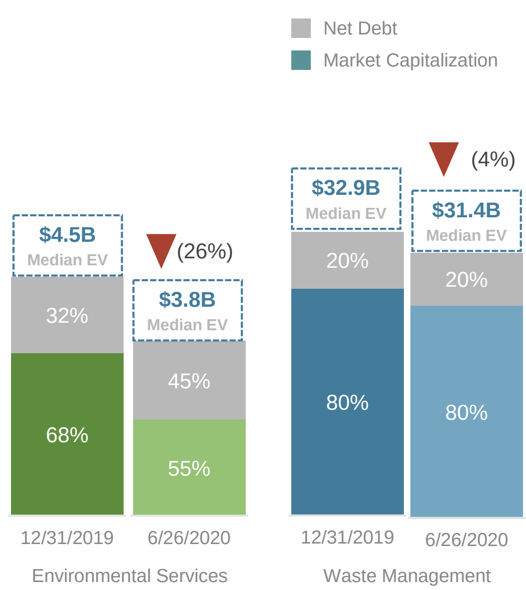
MARKET CAPITALIZATION



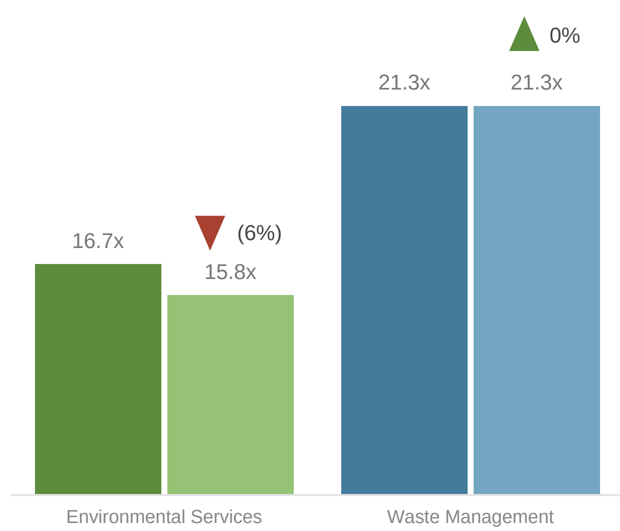
EV / NTM EBITDA



MARKET CAPITALIZATION AS A % OF EV



EV / NTM FCF(1)



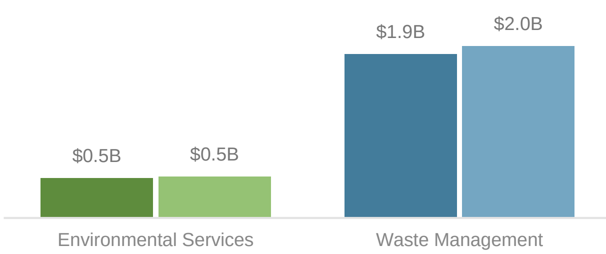
Source: S&P Capital IQ. Note: Statistics represent median figures. For consistency, all forward numbers are based on analyst consensus estimates and may conflict with specific company guidance.
(1) Excludes HCCI and CWST.

COVID-19 Impact on Q1 Performance

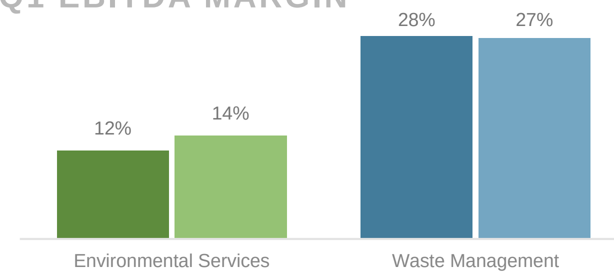
While the COVID-19 pandemic began to have an impact on results by mid-March, most companies point to Q2, and specifically April, for when they will see the peak impact of the pandemic.

Q1 2019 Q1 2020

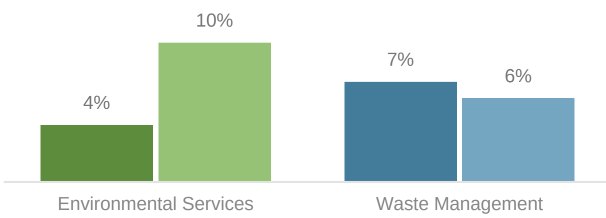
Q1 REVENUE



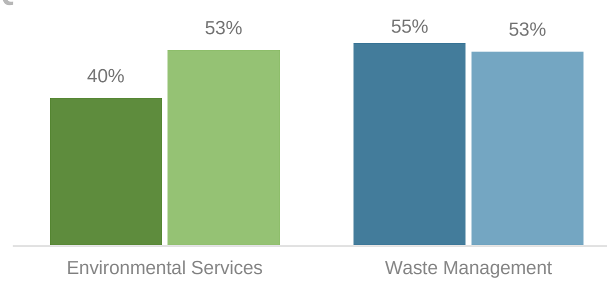
Q1 EBITDA MARGIN



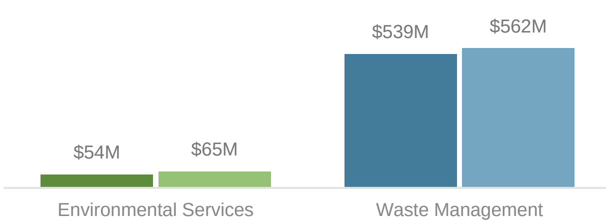
Q1 REVENUE GROWTH



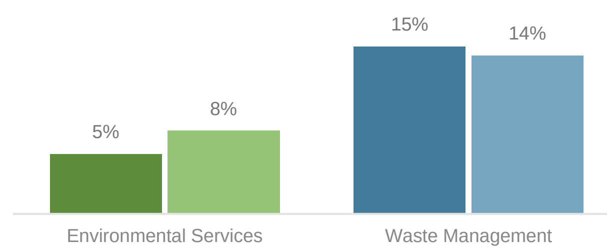
Q1 FCF CONVERSION[2]



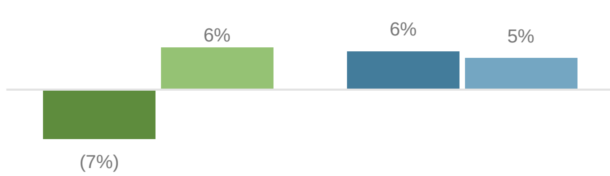
Q1 EBITDA



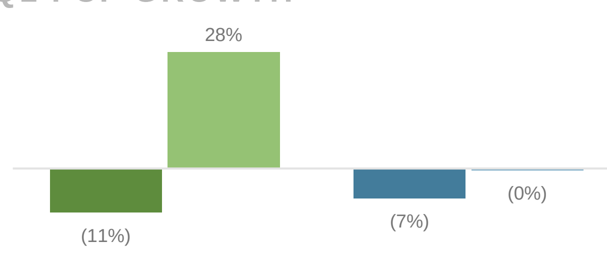
Q1 FCF MARGIN



Q1 EBITDA GROWTH[1]



Q1 FCF GROWTH[3]

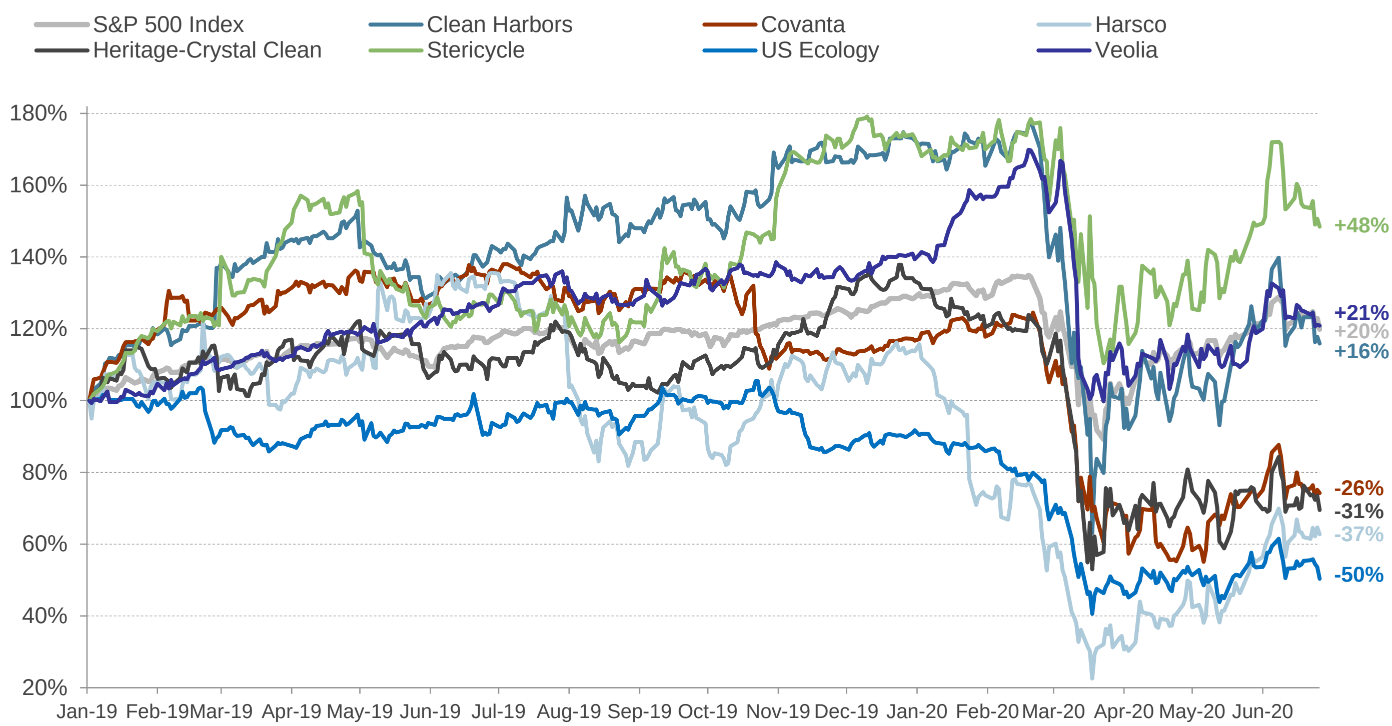


Source: S&P Capital IQ. Note: Statistics represent median figures. Growth percentages represent percent change from prior year's Q1 results. For consistency, all forward numbers are based on analyst consensus estimates and may conflict with specific company guidance.
(1) Excludes HCCI and ECOL; (2) Excludes HCCI; (3) Excludes CVA, HCCI, and SRCL.

Environmental Services:
Company-Level Market Performance

While all environmental services names have declined with the broader market since March, relative performance has been largely correlated to key end market exposure, with names tied to healthcare (Stericycle, Veolia) holding up better than those with oil and gas or automotive customers (Harsco, US Ecology).

Environmental Services – Market Performance Since 2019



1 There was upward index momentum until the recent market downturn and volatility in 2020.

2 Decline is attributed to companies with meaningful exposure to oil prices. For example, a material portion of Clean Harbors' revenue is directly or indirectly related to the price of oil.

3 Risk-averse investors have continued to follow the flight to safety, shifting capital to essential sectors of the economy, including environmental services.

Note: Financial statistics calculated as of 6/26/2020.
Source: S&P Capital IQ.

Environmental Services:
Key Themes

Based on recent earnings, a number of common themes regarding the approach to operations and capital allocations have emerged across environmental services companies.

1 Depth and duration of business disruption are dependent on regional and local specifics.

- Asian industrial activity is approaching pre-COVID levels, with Europe close behind.
- Key metrics point to U.S. activity bottoming in early April, with signs of recovery, albeit slow.
- Within the U.S., the area of operation is impacting results, with coastal and Midwestern-centric businesses impacted more than Southeastern and Southwestern states.

2 Industrial and in-plant service providers are redirecting resources to COVID-related decontamination work.

- Lack of industrial activity is expected to cause an overall decrease of up to 20% in revenue during the pandemic.
- Scheduled spring turnarounds are being delayed due to customers conserving cash and the complexity of coordination in the current environment.
- Decontamination work is expected to persist beyond initial stay-at-home orders as facilities grow accustomed to ensuring safe and healthy workplaces.

3 Other than direct oil and gas exposure, commodity-dependent markets are beginning to find balance.

- Oil re-refiners are preserving spreads by transitioning to pay-for-collection of used motor oil, with evidence that this shift may be permanent.
- Businesses with direct upstream E&P exposure face longer recoveries from deeper troughs.

4 Industrial / hazardous waste pricing is stable, despite lower volume.

- Recent industry consolidation has created a market of well-capitalized, rational competitors (ECOL / NRCG, HSC / Clean Earth / ESOL, GFL / SoilSafe, etc.).
- While core hazardous waste volumes have substantially held up, stock prices have been disproportionately hit due to the diversified nature of the larger platforms and their exposure to other end markets (namely oil and gas).

5 Companies are taking advantage of CARES Act provisions available to them.

- Most are deferring 2020 payroll taxes to future years.
- Carry-back of NOLs to higher-tax years for immediate cash refunds
- Accounts receivables are being closely monitored for signs of customer distress.
- Thus far, most companies have not expressed a need for liquidity beyond existing credit facilities, and some have drawn down on revolvers to secure near-term cash buffers.

Environmental Services:
Market Commentary

The following select excerpts from Q1 2020 earnings calls highlight key sentiments and operational initiatives from public companies within the environmental services space in response to the COVID-19 pandemic.

Environmental Services

Topic	Commentary		
COVID-19 Impact	"We are seeing pressure on commercial MSW and profile waste volumes, which is largely generated from industrial and the manufacturing sources." "We don't get paid on the volume of waste; we get paid for our services. So from a financial standpoint, [COVID-19 has not been] a big impact to Covanta, but certainly there has been more residential waste going the curb…New York City is probably one of the exceptions [as people have left because it became such a COVID-19 hotspot]." COVANTA	"Domestic Environmental Services performed well in most markets and experienced an uptick in COVID-19 decontamination services in March." "Weakness in the upstream energy services worsened during the quarter, with the direct impact of the COVID-19 pandemic compounded by the production war that drove oil prices to historic lows." US ecology	"A lot of our Environmental Services customers have been open, our utilities, our refineries, our chemical companies, the pharmaceuticals … the businesses that have really been more shuttered that impact us are on the Safety-Kleen side." CleanHarbors
COVID-19 Response	"Conducted vendor assessments to ensure continuity of critical supplies and materials. We extended payment terms to vendors and instituted tighter customer credit controls." "From a re-refinery perspective, with lower demand for our base oil, we have decreased the run rate at the re-refinery to approximately two-thirds of our normal run rate. In order to take advantage of this demand weakness, we're planning on moving up the timing of our fall extended turnaround into next month." Crystal Clean	"Reduced travel, lower routine operational purchasing, lower spending on consultants, fleet reductions and the renegotiation of key sourcing contracts and leases." "Managed our staff expense using multiple levers, including a freeze on hiring, merit increased deferrals, reduction in overtime, and by furloughing approximately 2,300 team members." Stericycle	"In early March, each business unit and the corporate function began taking cost reduction actions, including hiring freezes, travel restrictions, and deferring discretionary spending." "We plan to defer certain cash payments for taxes and pension contributions." HARSCO
Strategic Outlook	"I am convinced that our strategic program, Impact 2023, presented at the end of February, remains completely relevant. Of course, its implementation is delayed and its planning will be adapted." VEOLIA	"Covanta operates critical infrastructure, providing essential services for our host communities, and we've continued to do so with minimal operational disruptions." "Our initiatives to grow the business are unchanged, and we remain focused on these opportunities." COVANTA	"We have a strong belief in the value of the underlying assets, the markets we serve, and believe the growth opportunities will be there, just over a longer-time horizon." "We expect that our Environmental Services business will weather the current market conditions due to the collection of irreplaceable, permitted facilities and resilient business model." US ecology

Sources: Company earnings calls, press releases.

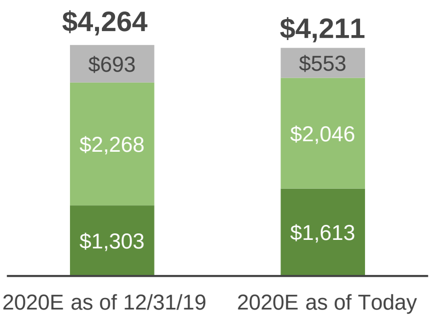
Environmental Services:
Capital Allocation Strategy

Companies in the environmental services sector have reallocated cash flows in response to COVID-19, with a focus on restricting future spending and investment to apply cash toward managing leverage. Capital spend estimates for the year, however, remain higher than 2019A levels. Harsco's acquisition of the ESOL business from Stericycle in April represents a prominent acquisition completed in the space this year.

Figures represent breakdown of capital spend estimates per company.

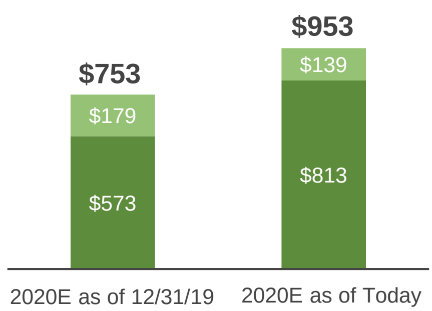
Debt Paydown/(Borrowings) | Net Cash Acquisition Costs | Share Repurchases | Cash Dividend Payouts | Capital Expenditures

VEOLIA *($ in millions)*



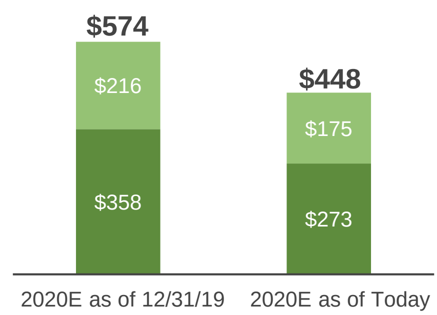
Reduced capex plans

Stericycle *($ in millions)*



Proceeds from ESOL divestiture used to pay down debt

CleanHarbors *($ in millions)*

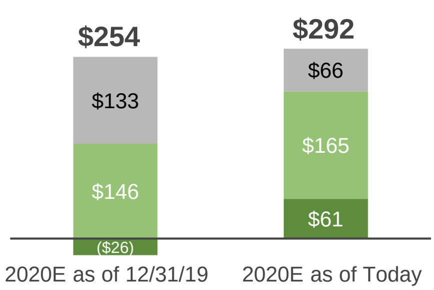


Suspended all material and nonessential capex

($ in millions)

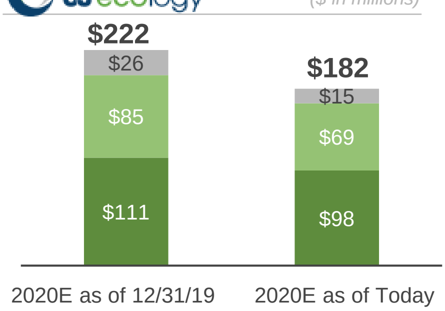
	Veolia	Stericycle	Clean Harbors
2019A Capital Spend[1]	**$3,533**	**($224)**	**$218**
Variance vs. 2019A[2]	**19%**	**NM**	**105%**
Variance vs. 2020E as of 12/31[2]	**(1%)**	**27%**	**(22%)**

COVANTA *($ in millions)*



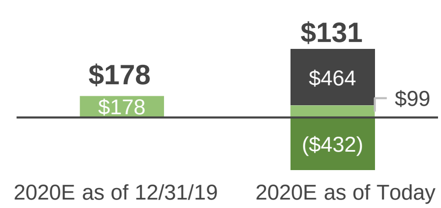
Lowered dividend to focus on managing leverage

US ecology *($ in millions)*



Suspended dividend program

HARSCO *($ in millions)*



Acquired ESOL from SRCL in April

($ in millions)

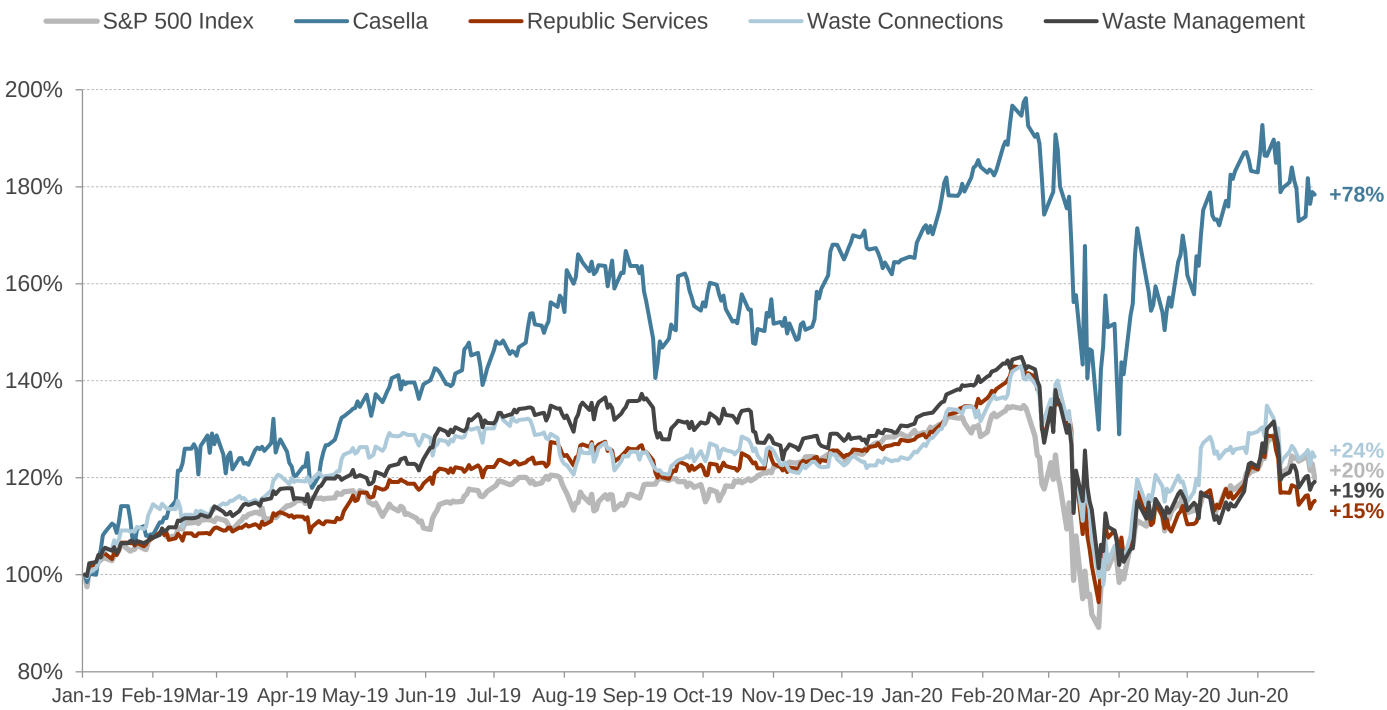
	Covanta	US Ecology	Harsco
2019A Capital Spend[1]	**$190**	**$7**	**($49)**
Variance vs. 2019A[2]	**54%**	**NM**	**NM**
Variance vs. 2020E as of 12/31[2]	**15%**	**(18%)**	**(26%)**

Sources: Company earnings releases, equity research reports, and Thomson Reuters Eikon. Note: HCCI has been omitted, as projections are not publicly available. For consistency, all forward numbers are based on analyst consensus estimates and may conflict with specific company guidance.
(1) Capital spend figures are net of debt borrowings and asset divestitures.
(2) Figures represent the percent change between 2020E estimates as of today against the time periods referenced; 2019A capital allocation split not shown on this page.

Waste Management:
Company-Level Market Performance

Waste management companies have all shown a strong performance and rapid recovery from March lows, and residential-focused names have experienced the strongest rebound (Casella). While trading history is limited, GFL's stock price has already bounced back to above its March 3 IPO price.

Waste Management – Market Performance Since 2019(1)



1

Performance has been generally well insulated from economic cycles due to the essential nature of services.

2

While commercial volumes have been impacted, roll-off business has performed better, with both temporary and permanent pulls showing resilience.

3

Stock prices are experiencing a strong recovery, boosted by consistent residential volumes and signs that restrictions on industrial customers are beginning to lift.

Note: Financial statistics calculated as of 6/26/2020.
Source: S&P Capital IQ.
(1) Excludes GFL Environmental due to limited trading data (IPO in March 2020).

Waste Management:
Key Themes

Based on recent earnings, a number of common themes regarding approach to operations and capital allocations have emerged across waste management companies.

1 Tale of two markets: There has been a broad-based decline in commercial volumes, with residential volumes up ~15% due to stay-at-home orders.

- Total commercial volumes are temporarily down 15%–20% due to restaurants, retail, commercial offices, and education sectors being completely shut down.
- The shift over time to pay-per-service contracts has limited the ability to pass through increased costs of residential collection related to increased volumes.
- Some special waste streams have been dramatically hit, with E&P waste volume down by 40%–50%.

2 Companies are moving quickly to flex variable costs, which make up 40%–60% of total.

- Overtime hours have decreased, including moving personnel into different roles.
- Route optimization and parking of excess vehicles are saving on fuel and maintenance costs.
- Companies are deferring non-essential capex, especially around landfill cell development in a decreased-volume environment.

3 Long-term capital allocation priorities remain unchanged.

- Cash-flow production will remain positive for industry participants.
- Companies are committed to M&A goals when possible and are ready to take advantage of potentially lower acquisition prices.
- Dividends remain largely intact, while share repurchase programs will be more opportunistic.

4 Recycling programs are facing challenges, but companies are finding ways to maintain margins.

- Shutdown of municipal collection and sorting facilities over virus fears is creating a shortage of supply.
- While decline in demand has put pressure on certain commodity prices, paper and cardboard have seen price surges due to higher demand from increased e-commerce activity during the pandemic.
- Already under pressure from China's tightened import policies and facing increased commodity price volatility and financial limitations due to the pandemic, many cities have indefinitely suspended recycling and organics collection programs to conserve costs, while others have switched to a fee-for-service model.

5 Companies are focused on proactively supporting small and medium-sized business customers.

- Increased leniency in allowing suspension of service, more infrequent pickups, longer payment terms, etc.
- Multiple companies have created local investment programs, including meal allowances for employees at community restaurants.
- Disciplined approach to pricing, with discounts not being used to maintain or grow market share.

Source: Waste Connections' Q1 2020 earnings call.

Waste Management:
Market Commentary

The following select excerpts from Q1 2020 earnings calls highlight key sentiments and operational initiatives from public companies within the waste management space in response to the COVID-19 pandemic.

Waste Management

Topic	Commentary		
COVID-19 Impact	"[In April], we have experienced volume declines in the higher-margin parts of our business, including commercial collection and disposal." "We have effectively passed on over 90% of the recycling commodity risk back to our customers." "The market dynamics are still very, very strong in that all of the independents have seen tremendous impacts from a disposal standpoint, a recycling perspective."	"The pandemic has had a minimal impact on our [residential collection business] revenue. However, as residents consume more at home and create more recycling and solid waste, our processing and disposal costs will increase." "We expect revenues in the upstream E&P portion of our environmental services business to decrease sequentially."	"Our Q1 results reflect the impacts…as commercial collection activity slowed down due to service reductions or suspensions by customers whose business activity was curtailed by such measures, with third-party disposal volumes following similar patterns to hauling activity." "In general, our smaller, more suburban or rural markets have been less impacted than the larger, more densely populated markets where we operate."
COVID-19 Response	"Limiting hiring, reducing, or eliminating discretionary spending in travel and entertainment and consulting costs, and reducing incentive compensation costs." "In our collection line of business… [we are using technology to] swiftly remove overtime hours and optimize or eliminate routes when customers reduce or suspend service."	"We can reroute or otherwise adjust our operations to reflect lower activity levels. [It] varies by market and depends on the pace and severity of reductions, as well as the expected timing…of any recovery." "We are already realizing savings in many variable costs, including third-party brokerage and disposal, labor, and fuel, along with reductions in discretionary and nonessential expenses."	"Because of the high proportion of our revenues coming from our service-based collection, we have a highly variable cost structure. As volumes slowed, we reduced our operating costs by consolidating collection routes, parking trucks, and reducing overtime hours, while our disposal costs, R&M, and fuel costs naturally flex down with reduced volumes."
Strategic Outlook	"Despite the current pandemic, our balanced approach to capital allocation remains unchanged. We continue to believe that disciplined investment in acquisitions with attractive returns is the best use of free cash flow to increase long-term shareholder value."	"We will never let a good crisis go to waste […] we closed our first major acquisition in September 2008, which sort of reminds me of where we are sitting today. When I look to today, I think there will be good opportunities that come out of this and we've got over [$920 million USD] of liquidity now to be able to execute on those opportunities." GFL announced on 6/24/20 that it had entered into an agreement to acquire divested assets from Waste Management / Advanced Disposal for $835 million.	"Our pipeline remains robust. We do expect acquisition activity to slow in the near term. But over time, we believe there remains a significant opportunity to continue to selectively grow the business in a disciplined manner and further drive free cash flow growth." "The market dynamics are still very, very strong in that all of the independents have seen tremendous impacts from a disposal standpoint, a recycling perspective."

Sources: Company earnings calls, press releases.

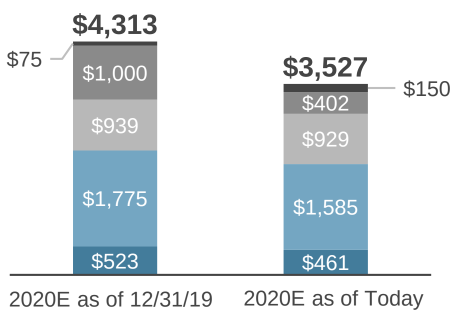
Waste Management:
Capital Allocation Strategy

Waste management companies generally remain fairly bullish about the resilience of the sector and view M&A opportunistically in the wake of the current pandemic, with capital allocation policies continuing to resemble pre-pandemic estimates and companies still expected to outspend their 2019A results.

Figures represent breakdown of capital spend estimates per company.

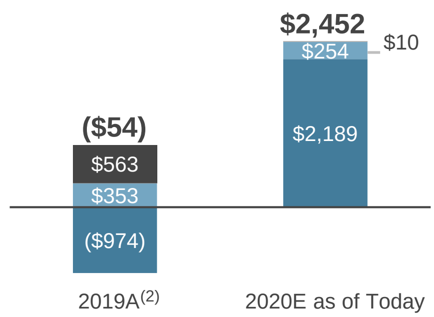
Debt Paydown/(Borrowings) | Net Cash Acquisition Costs | Share Repurchases | Cash Dividend Payouts | Capital Expenditures

(1) ($ in millions)



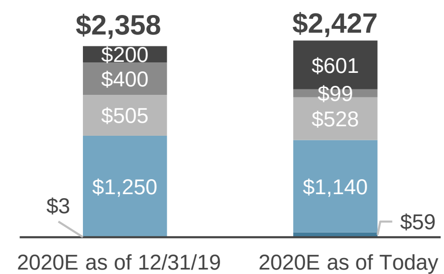
Suspended share repurchase program

(1) ($ in millions)



March IPO proceeds used to pay down debt

($ in millions)

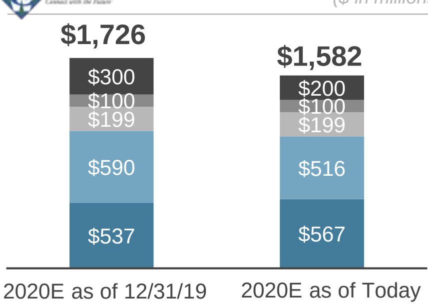


Optimistic on M&A strategy at attractive valuations

($ in millions)

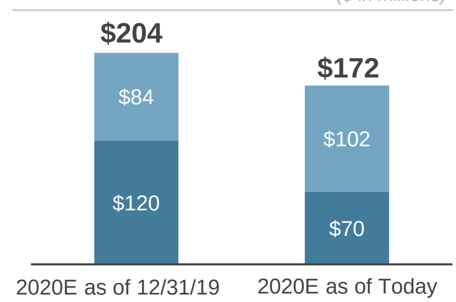
2019A Capital Spend[3]	$3,071	($54)	$1,957
Variance vs. 2019A[4]	15%	NM	24%
Variance vs. 2020E as of 12/31[4]	(18%)	N/A	3%

($ in millions)



Reduced capex estimates

($ in millions)



Continue to invest capex in recent acquisitions with a portion deferred until 2H 2020

($ in millions)

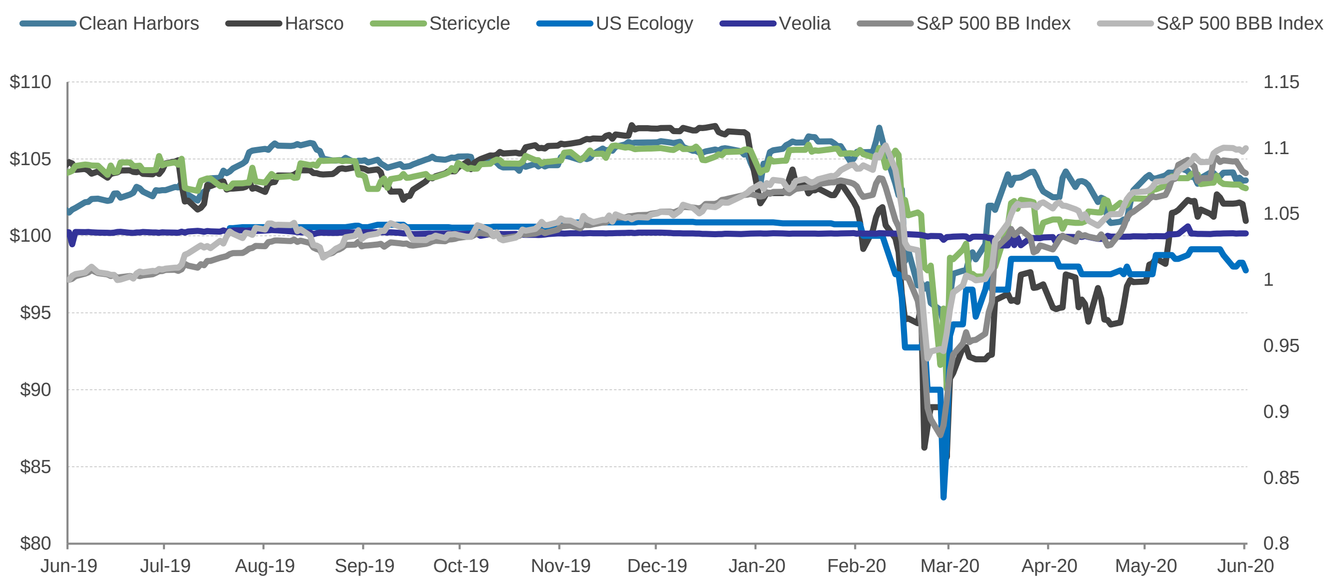
2019A Capital Spend[3]	$1,200	$125
Variance vs. 2019A[4]	32%	38%
Variance vs. 2020E as of 12/31[4]	(8%)	(15%)

Sources: Company earnings releases, equity research reports and Thomson Reuters Eikon.
Note: For consistency, all forward numbers are based on analyst consensus estimates and may conflict with specific company guidance.
(1) Analysis performed prior to the 6/24/20 announcement of GFL Environmental's acquisition of divested assets from Waste Management/Advanced Disposal Services.
(2) 2020E guidance was not publicly disclosed until the IPO in March.
(3) Capital spend figures are net of debt borrowings and asset divestitures.
(4) Figures represent the percent change between 2020E estimates as of today against the time periods referenced; 2019A capital allocation split not shown on this page.

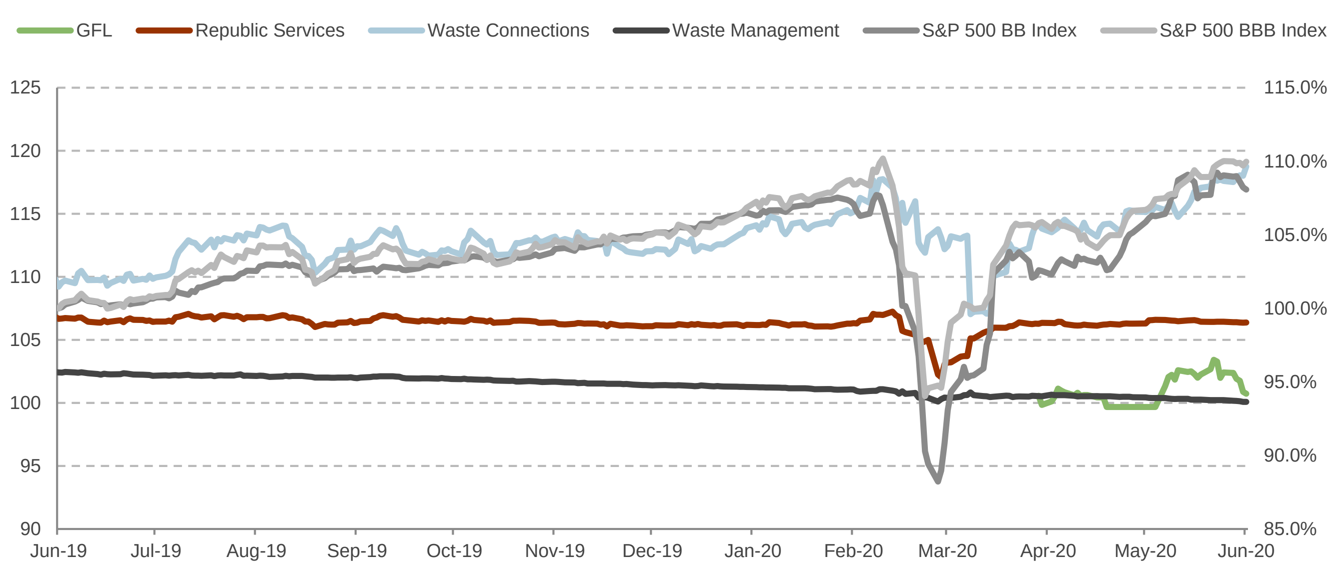
Company-Level Debt Performance

Waste management companies' bonds have proved to be less volatile than the broader credit market, while the environmental services names (with the exception of Veolia) are generally in line with market trends.

Environmental Services[(1)] vs. Investment Grade and High-Yield Bond Indices



Waste Management[(2)] vs. Investment Grade and High-Yield Bond Indices



Note: Financial statistics as of 6/26/2020. Tick marks represent end of respective months.
Sources: S&P Capital IQ, Refinitiv, Bloomberg.
(1) Environmental Services chart includes individual debt instrument closest to maturity for each company: CLH 4.8750 15-Jul-2027 '22, HSC 5.7500 31-Jul-2027 '22, SRCL 5.3750 15-Jul-2024 '21, ECOL (Term Loan B) 01-Nov-2026, VIE 23-Nov-2020 MTN.
(2) Waste Management chart includes individual debt instrument closest to maturity for each company: GLERL 4.2500 01-Jun-2025 '22, RSG 5.2500 15-Nov-2021, WCN 4.2500 01-Dec-2028 '28, WM 4.7500 30-Jun-2020.

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