



HOULIHAN LOKEY

FINANCIAL SERVICES

MARKET UPDATE | COVID-19

2 APRIL 2020





- The outbreak of COVID-19 has resulted in a global health emergency, which is expected to have a significant impact on range of financial services. The following tables detail the impact this has had on specific financial subsector share price performance.
- In addition to share prices, we show the impact on price earnings multiples and, for those that are balance-sheet businesses, on the price-to-book/RoE regression line using historic and previously published analyst forecasts. As no meaningful reports have been produced since the market slump, there has been a material contraction in multiples. However, financial performance is bound to be materially, adversely affected, so the “real” multiples are likely to be much higher than those shown below. We have yet to see whether the effect of COVID-19 will be seen mainly in near-term financials or will have a longer term effect.
- We note that the regulators have encouraged listed companies to delay the announcement of results for December 2019 year-ends to better assess the impact of the disruption of profitability and reduce pressure on staff. Time will tell whether these statements will be able to provide market participants with sufficient guidance to inform more meaningful valuations.

Lawrence Guthrie

Managing Director
LGuthrie@HL.com
 +44 (0) 20 7907 4245

Christian Kent

Managing Director
CKent@HL.com
 +44 (0) 20 7907 4272

Paul Tracey

Director
PTracey@HL.com
 +44 (0) 20 7907 4225

Specialty Finance and Banks

Many **specialty finance (SpecFin)** firms and **banks** are reducing or pausing lending for the time being, as it is now hard to assess affordability given the uncertainties on prospective income levels and employment status. It is too early to assess the effect on potential arrears and the extent to which companies will be expected to show forbearance. Property asset prices may also be affected. The impact of this on property secured lenders may be less severe than following the global financial crisis, as LTVs in general are much lower now.

	Country	Market cap (£m)	Av. daily volume		P/E (today)		P/E (1 Jan 2020)		Share price change		Reporting dates		
			This week	2019	2019	2020	2019	2020	1 month	1 year	Last	Next	
Banks	Banca Farmafactoring	IT	731	0.564	0.399	8.4x	7.9x	9.4x	8.8x	(17.7%)	(14.4%)	10/02/20	08/05/20
	Banca IFIS	IT	436	0.248	0.349	6.0x	5.2x	9.2x	8.0x	(38.2%)	(37.5%)	11/02/20	07/05/20
	Banca Sistema	IT	82	0.837	0.451	3.2x	3.0x	5.2x	4.8x	(38.0%)	(23.9%)	06/02/20	31/07/20
	Bank Norwegian	NO	590	1.840	0.453	4.0x	3.7x	9.3x	8.7x	(56.1%)	(39.0%)	20/02/20	30/04/20
	Cembra Money	CH	2,156	0.163	0.082	15.5x	14.0x	18.9x	17.1x	(27.1%)	(6.3%)	21/02/20	23/07/20
	Close Brothers	GB	1,635	0.513	0.319	8.3x	8.3x	12.1x	12.2x	(19.2%)	(23.5%)	24/09/19	
	Collector	SE	124	1.308	0.131	2.4x	5.5x	8.2x	18.6x	(44.9%)	(69.7%)	13/02/20	
	Komplett Bank	NO	63	1.105	0.286	2.8x	3.7x	7.9x	10.4x	(43.6%)	(64.8%)	12/02/20	13/05/20
	Metro Bank	GB	162	1.193	1.528	nm	nm	nm	nm	(49.5%)	(87.8%)	26/02/20	
	OneSavings Bank	GB	1,119	2.076	0.888	4.0x	5.0x	6.9x	8.7x	(38.2%)	(33.0%)	19/03/20	
	Paragon	GB	848	0.896	0.449	6.5x	6.2x	10.7x	10.2x	(32.4%)	(23.8%)	26/11/19	20/05/20
	PCF Bank	GB	40	0.130	0.170	5.2x	4.4x	11.5x	9.6x	(50.0%)	(52.9%)	04/12/19	
	Provident Financial	GB	551	1.756	0.805	4.6x	4.4x	9.6x	9.2x	(51.2%)	(57.7%)	27/02/20	29/07/20
	Resurs Holding	SE	507	1.372	0.614	5.1x	4.6x	9.7x	8.9x	(42.7%)	(45.1%)	04/02/20	
	Sbanken	NO	378	0.482	0.090	6.7x	6.4x	10.9x	10.4x	(30.6%)	(41.7%)	14/02/20	01/04/20
	Secure Trust Bank	GB	176	0.009	0.029	5.4x	4.6x	9.1x	7.8x	(34.8%)	(30.9%)	07/08/19	30/03/20
TF Bank	SE	115	0.023	0.014	6.6x	5.7x	11.7x	10.0x	(42.9%)	(26.3%)	06/02/20	16/04/20	
Virgin Money	GB	876	12.470	3.589	2.7x	2.6x	8.4x	8.0x	(63.0%)	(69.0%)	28/11/19	06/05/20	
Nonbanks	1pm	GB	13	0.582	0.196	2.2x	2.0x	5.2x	4.8x	(48.6%)	(66.5%)	25/09/19	
	Amigo	GB	69	0.993	1.292	0.8x	0.8x	3.9x	3.7x	(73.6%)	(91.6%)	28/11/19	
	Fellow Finance	FI	18	0.006	0.008	32.0x	nm	46.1x	nm	(21.3%)	(61.1%)	14/02/20	28/08/20
	Ferratum	FI	78	0.005	0.000	3.6x	nm	8.3x	nm	(63.1%)	(64.9%)	18/03/20	20/05/20
	Funding Circle	GB	178	0.165	0.393	nm	nm	nm	nm	(36.2%)	(87.0%)	12/03/20	06/08/20
	H&T Group	GB	103	0.058	0.041	6.4x	5.3x	8.3x	6.9x	(24.6%)	(17.5%)	10/03/20	
	International PF	GB	164	0.313	0.239	2.6x	2.5x	5.7x	5.5x	(54.7%)	(60.5%)	26/02/20	
	Morses Club	GB	53	0.078	0.234	3.2x	2.9x	11.0x	9.8x	(65.8%)	(76.6%)	10/10/19	30/04/20
Non-Standard Fin.	GB	40	0.791	1.006	3.1x	2.3x	5.2x	3.8x	(50.4%)	(76.7%)	20/08/19	28/04/20	
S&U	GB	193	0.012	0.004	6.7x	6.1x	8.8x	8.1x	(30.0%)	(15.8%)	24/09/19		

Banks	Mean	4.7x	4.9x	7.7x	8.7x	(40.0%)	(41.5%)
	Median	5.2x	4.8x	9.3x	9.1x	(40.5%)	(38.3%)
Nonbanks	Mean	6.7x	3.1x	11.4x	6.1x	(46.8%)	(61.8%)
	Median	3.2x	2.5x	8.3x	5.5x	(49.5%)	(65.7%)
Total	Mean	5.3x	4.4x	8.9x	7.9x	(42.4%)	(48.8%)
	Median	4.6x	4.6x	9.1x	8.7x	(42.8%)	(49.0%)

Wealth Management

Wealth managers are likely to experience income decline, which could arise as a result of client fund redemptions and where revenue is derived as a percentage of AUA/AUM; this will be a strong test of the resilience of each company's business model. In this environment, we may also see attempts to limit the damage to profit through a mixture of raising fee levels, cutting costs, and consolidation.

	Country	Market cap (£m)	Av. daily volume		P/E (today)		P/E (1 Jan 2020)		Share price change		Reporting dates	
			This week	2019	2019	2020	2019	2020	1 month	1 year	Last	Next
AFH Financial	GB	103	0.064	0.073	7.9x	6.9x	11.6x	10.1x	(35.1%)	(27.5%)	20/01/20	
AJ Bell	GB	1,236	0.881	0.816	39.3x	37.9x	55.8x	53.8x	(18.8%)	(3.8%)	05/12/19	
Brewin Dolphin	GB	611	1.233	0.519	10.1x	9.3x	18.2x	16.7x	(39.4%)	(33.2%)	27/11/19	13/05/20
Brooks Macdonald	GB	233	0.033	0.016	11.7x	10.1x	17.1x	14.8x	(28.4%)	(13.4%)	12/09/19	
Charles Schwab	US	34,828	18.137	8.219	12.4x	14.0x	17.6x	19.8x	(18.9%)	(21.3%)	16/01/20	
Charles Stanley	GB	108	0.006	0.015	9.6x	7.9x	14.6x	12.0x	(37.1%)	(22.3%)	21/11/19	
Curtis Banks Group	GB	117	0.448	0.041	11.5x	11.0x	19.2x	18.4x	(34.8%)	(27.4%)	18/03/20	
Focus Financial	US	849	0.487	0.241	9.9x	7.8x	13.1x	10.3x	(23.6%)	(36.1%)	20/02/20	
Frenkel Topping	GB	14	0.041	0.028	7.7x	6.7x	13.8x	12.0x	(51.2%)	(27.3%)	10/04/19	09/04/20
Hargreaves Lansdown	GB	6,430	2.250	1.024	25.3x	24.6x	36.1x	35.1x	(17.4%)	(25.6%)	31/01/20	
IntegraFin	GB	1,405	0.857	0.387	35.6x	30.6x	37.4x	32.1x	(16.0%)	24.0%	18/12/19	
Kingswood	GB	47	0.010	0.047	108.0x	8.6x	103.5x	8.3x	(18.5%)	107.7%	15/04/19	
LPL Financial	US	3,371	1.118	0.660	8.1x	9.0x	14.1x	15.6x	(36.5%)	(23.8%)	30/01/20	
Mattioli Woods	GB	172	0.115	0.020	16.1x	15.1x	20.2x	19.0x	(24.9%)	(18.5%)	03/09/19	
MLP	DE	428	0.129	0.043	13.3x	14.5x	17.0x	18.5x	(17.7%)	(1.9%)	05/03/20	14/05/20
OVB	DE	190	0.000	0.000	20.2x	18.7x	24.0x	22.3x	(12.4%)	(9.7%)	30/03/20	07/05/20
Quilter	GB	2,188	7.735	3.751	11.2x	15.7x	15.5x	21.7x	(28.0%)	(18.7%)	11/03/20	
Rathbone Brothers	GB	813	0.055	0.043	11.4x	11.4x	16.4x	16.2x	(18.2%)	(33.3%)	20/02/20	29/07/20
St. James's Place	GB	4,097	4.373	2.083	20.7x	15.8x	31.4x	23.8x	(29.0%)	(24.4%)	27/02/20	30/04/20
Taaleri	FI	150	0.036	0.012	11.8x	8.3x	16.8x	11.9x	(37.0%)	(18.5%)	12/02/20	13/08/20
Tatton	GB	110	0.061	0.061	17.4x	13.6x	23.9x	18.6x	(31.6%)	(3.9%)	11/11/19	
VZ Group	CH	2,111	0.007	0.003	24.6x	22.0x	23.1x	20.6x	(9.1%)	20.7%	28/02/20	
Total			Mean		20.2x	14.5x	25.5x	19.6x	(26.5%)	(10.8%)		
			Median		12.1x	12.5x	17.9x	18.4x	(26.4%)	(20.0%)		

Receivables Management

Receivables management firms are likely to experience reductions in collections through increased debtor financial stress, collection teams being obliged to home work, and, in many countries, an unprecedented temporary cessation of recoveries through the courts. This has led to dramatic falls in share prices, though US firms have held up better so far. There is hope that, in time, this may lead to a price reset for NPL portfolios and a period of much higher portfolio IRRs, which has been the experience of previous market downturns.

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			This week	2019	2019	2020	2019	2020	1 month	1 year	Last	Next
Arrow Global	GB	205	2.738	0.373	3.5x	3.2x	7.7x	7.0x	(54.8%)	(46.1%)	12/03/20	14/05/20
Axactor	NO	77	2.408	0.325	52.6x	35.7x	186.7x	126.7x	(61.2%)	(71.5%)	12/02/20	21/04/20
B2Holding	NO	119	1.188	0.997	12.4x	2.7x	31.6x	6.8x	(46.4%)	(69.3%)	28/02/20	30/04/20
doValue	IT	403	0.267	0.076	7.0x	21.7x	15.0x	46.7x	(52.2%)	(52.2%)	13/02/20	12/05/20
Encore Capital Group	US	691	0.929	0.270	4.7x	4.1x	6.0x	5.2x	(10.7%)	0.4%	26/02/20	
Hoist Finance	SE	167	0.987	0.571	3.7x	3.0x	7.9x	6.5x	(54.0%)	(37.5%)	12/02/20	06/05/20
Intrum	SE	1,275	3.381	0.286	4.9x	3.7x	11.4x	8.5x	(53.7%)	(54.8%)	04/02/20	06/05/20
KRUK	PL	255	0.130	0.046	3.8x	3.9x	9.3x	9.5x	(56.0%)	(55.0%)	05/03/20	07/05/20
PRA Group	US	1,024	0.549	0.242	15.4x	10.3x	19.9x	13.3x	(20.3%)	4.1%	27/02/20	07/05/20
Total			Mean		12.0x	9.8x	32.9x	25.6x	(45.5%)	(42.4%)		
			Median		4.9x	3.9x	11.4x	8.5x	(53.7%)	(52.2%)		

Insurance

Insurance distribution was recently dominated by the announced acquisition by Aon of Willis Towers Watson; M&A from business or team spin-offs or mandatory divestments for competition reasons is likely to emerge.

Share price performance of **insurance underwriters** has been more mixed, as the market attempts to differentiate between lines where losses for interruption and COVID-19 may bite versus those who should be more insulated given their focus.

	Country	Market cap (£m)	Av. daily volume		P/E (today)		P/E (1 Jan 2020)		Share price change		Reporting dates	
			This week	2019	2019	2020	2019	2020	1 month	1 year	Last	Next
Distribution	Aon	GB	31,025	1.325	0.711	18.1x	15.9x	22.8x	20.0x	(25.7%)	(2.2%)	31/01/20
	Arthur J. Gallagher	US	12,246	3.394	0.981	22.4x	19.4x	26.7x	23.1x	(22.8%)	3.9%	30/01/20
	Marsh & McLennan	US	34,689	2.614	0.875	18.4x	16.9x	24.0x	22.1x	(24.1%)	(8.0%)	30/01/20
	Willis Towers Watson	GB	17,340	1.621	0.912	15.3x	13.9x	18.4x	16.8x	(18.2%)	(4.5%)	06/02/20
Underwriters	Admiral	GB	6,460	28.041	10.695	15.2x	16.7x	15.7x	17.1x	0.2%	4.3%	05/03/20
	Allianz	DE	57,004	16.010	6.044	8.3x	7.7x	11.8x	10.9x	(28.3%)	(22.1%)	21/02/20 12/05/20
	Aviva	GB	10,526	2.938	1.689	4.7x	4.9x	7.3x	7.6x	(29.3%)	(34.0%)	05/03/20 06/08/20
	AXA	FR	33,019	0.168	0.139	5.7x	5.5x	9.2x	8.9x	(31.3%)	(30.4%)	20/02/20 05/05/20
	Beazley	GB	2,075	8.712	5.190	11.7x	9.3x	16.5x	13.1x	(28.7%)	(22.8%)	06/02/20 14/05/20
	Chesnara	GB	390	1.324	0.893	8.1x	13.1x	9.8x	16.0x	(14.0%)	(31.9%)	29/03/19 15/04/20
	Direct Line	GB	3,877	1.063	0.908	10.2x	11.2x	11.2x	12.2x	(11.2%)	(19.0%)	03/03/20 04/08/20
	Hastings	GB	1,124	0.633	0.423	15.7x	12.2x	16.6x	12.9x	(1.4%)	(21.3%)	27/02/20 05/08/20
	Hiscox	BM	2,660	48.164	17.107	49.8x	15.6x	77.0x	24.1x	(29.1%)	(40.9%)	02/03/20 03/08/20
	Lancashire	BM	1,263	3.774	1.593	16.3x	9.7x	19.9x	11.9x	(19.1%)	(5.0%)	13/02/20 30/04/20
	Legal & General	GB	12,427	3.402	1.377	6.8x	6.6x	9.9x	9.6x	(27.5%)	(23.2%)	04/03/20 05/08/20
	Munich Re	DE	22,839	16.352	5.869	9.2x	9.1x	13.3x	13.2x	(28.4%)	(12.8%)	28/02/20 07/05/20
	Phoenix Group	GB	4,746	6.276	3.283	8.9x	8.0x	10.1x	9.1x	(11.7%)	(1.1%)	09/03/20 06/08/20
	Prudential	GB	26,802	1.905	0.573	7.1x	7.4x	9.9x	10.4x	(27.5%)	(32.4%)	11/03/20 11/08/20
	RSA	GB	4,438	1.375	0.505	10.9x	9.1x	14.4x	12.0x	(19.3%)	(14.5%)	27/02/20
	Sabre Insurance	GB	742	0.618	0.358	15.9x	16.5x	16.5x	17.1x	(1.2%)	3.8%	30/07/19
	Swiss Re	CH	17,307	1.408	0.507	15.3x	10.5x	23.5x	16.2x	(28.5%)	(27.0%)	20/02/20 30/04/20
	Zurich	CH	40,338	3.980	1.329	12.3x	11.3x	15.0x	13.9x	(20.5%)	(1.4%)	13/02/20 14/05/20
Total			Mean			13.9x	11.4x	18.2x	14.5x	(20.3%)	(15.6%)	
			Median			12.0x	10.8x	15.4x	13.1x	(23.4%)	(16.8%)	

Software and Services

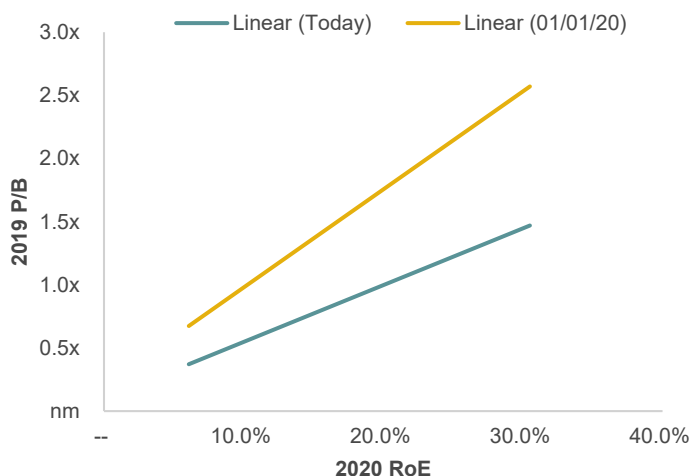
Recurring revenue businesses less impacted through the last month versus those that are more transactional or consulting in nature. Arguably, part of the sector—where they are embedded in their underlying ecosystem or have contractually recurring revenue or software at the heart of their propositions—now looks cheap.

	Country	Market cap (£m)	Av. daily volume		P/E (today)		P/E (1 Jan 2020)		Share price change		Reporting dates	
			This week	2019	2019	2020	2019	2020	1 month	1 year	Last	Next
AFM Consulting	GB	119	0.240	0.107	8.8x	7.9x	18.8x	16.9x	(47.8%)	(51.8%)	20/11/19	
Alfa Financial	GB	195	0.290	0.268	24.5x	26.7x	45.3x	49.4x	(24.6%)	(57.3%)	07/03/19	
Equiniti	GB	630	0.919	0.816	9.5x	9.6x	11.3x	11.4x	(17.1%)	(16.1%)	12/03/20 30/07/20	
GoCo Group	GB	235	1.053	0.779	12.4x	10.4x	23.0x	19.3x	(34.7%)	(29.0%)	03/03/20 30/07/20	
JTC	JE	457	0.121	0.103	19.8x	17.3x	19.7x	17.2x	(6.3%)	40.2%	17/09/19 01/04/20	
LendingTree	US	2,020	0.241	0.161	32.0x	27.7x	50.5x	43.7x	(33.7%)	(44.7%)	25/02/20	
MoneySuperMarket	GB	1,541	2.460	1.685	15.9x	15.1x	18.3x	17.4x	(12.0%)	(21.9%)	20/02/20	
Mortgage Advice Bureau	GB	294	0.076	0.067	20.0x	31.1x	27.2x	42.3x	(28.8%)	(1.2%)	24/03/20	
Sanne Group	JE	869	0.319	0.429	25.4x	23.0x	28.7x	25.9x	(4.2%)	14.3%	19/03/20	
SimplyBiz	GB	133	0.091	0.077	11.0x	9.7x	19.6x	17.4x	(36.5%)	(32.4%)	10/03/20	
XPS	GB	234	0.198	0.275	11.7x	11.2x	13.9x	13.4x	(19.6%)	(15.8%)	27/06/19	
Total			Mean			18.7x	18.8x	27.0x	27.1x	(23.2%)	(18.6%)	
			Median			19.8x	17.3x	23.0x	19.3x	(24.6%)	(21.9%)	

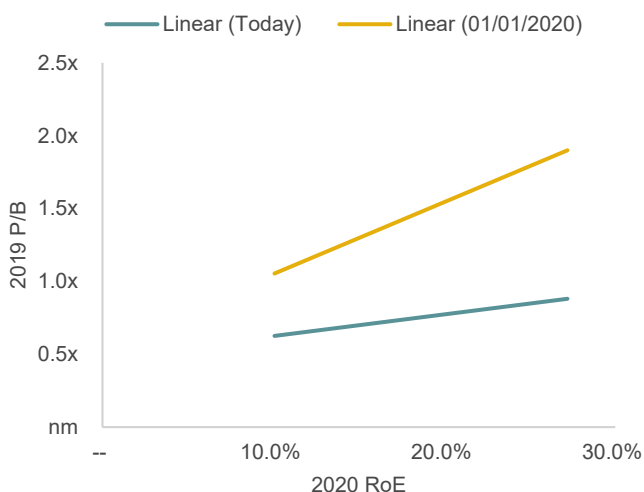
Spotlight – P/B vs. RoE

- In balance sheet-driven businesses, there is typically a strong correlation between P/B multiples and return on equity
- Recent market events have put downward pressure on industry valuations, which have been reflected in the regression lines generated by these businesses
- This has been most evident in SpecFin, banking, and receivables management firms

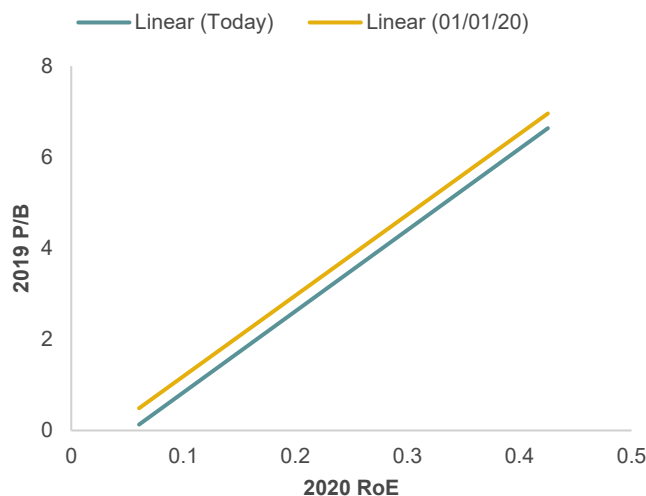
SpecFin – P/B vs. RoE



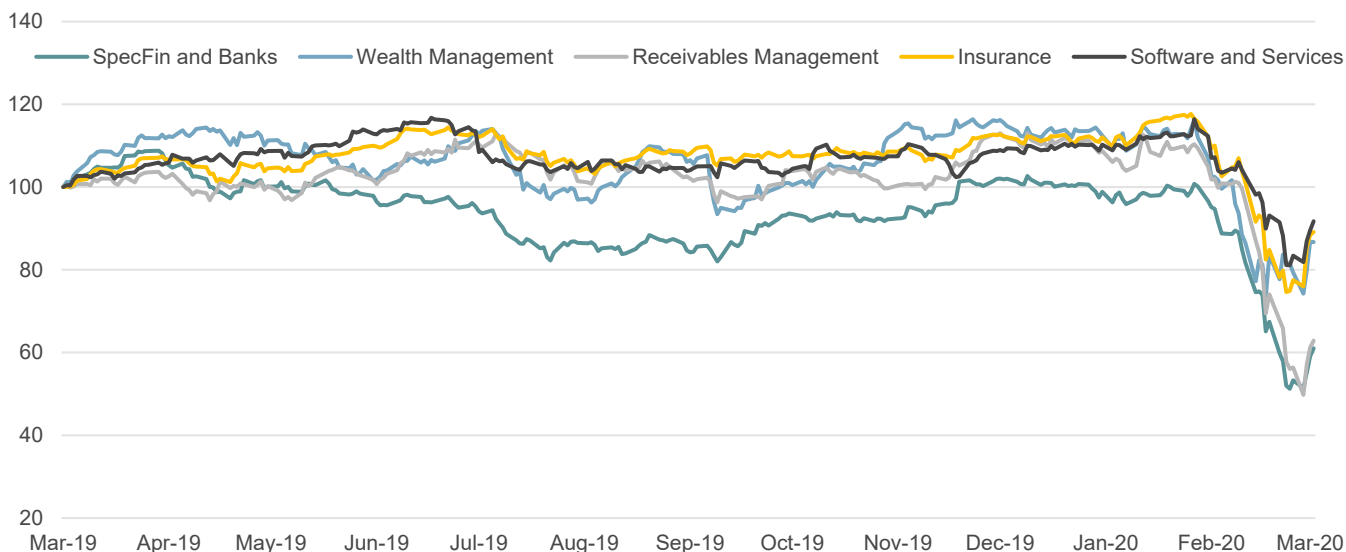
Receivables Management – P/B vs. RoE



Insurance – P/B vs. RoE



Relative Industry Performance – One Year



European Financial Services/Fintech Recently Completed Deals

Banking and Specialty Finance	Insurance	Wealth Management and Pensions	Payments and Markets
<p>pepper European Servicing Advised Pepper European Servicing on sale to Link Group LINKGroup Date: Feb 2020</p> <p>silverfleet capital Advised Silverfleet on majority stake in Collectia Collectia Date: Feb 2020</p> <p>ARNDT & SOHN Advised on tier 2 capital raise PROVENTUS Date: Jun 2019</p> <p>TotallyMoney Financial advisor to TotallyMoney on investment received ELLIOTT SEP Date: Dec 2018</p> <p>optimumcredit Advised on the sale of Optimum Credit to Pepper pepper Date: Oct 2018</p>	<p>BRIDGEPOINT Advised Bridgepoint on a growth minority investment in Reassured reassured Date: Feb 2020</p> <p>SUCSEZ GROEP Advised Sucsez Groep on its sale to Five Arrows Rothschild Date: Jul 2019</p> <p>ROBIDUS Advised Avedon Capital on the sale of Robidus to Aegon EGON Date: Jul 2019</p> <p>BIK BROKERS Advised on the sale of BIK Brokers to Pollen Street Capital Pollen Street Capital Date: Jul 2018</p>	<p>Phoenix Equity Partners Advised on acquisition of Redington Limited REDINGTON Date: Dec 2019</p> <p>Goodbody Advised shareholders of Goodbody on the sale to Bank of China Bank of China Date: Nov 2019</p> <p>IFG GROUP PLC Advised Epiris of its acquisition of IFG Group epiris Date: Aug 2019</p> <p>Phoenix Equity Partners Provided strategic advice to Phoenix Equity Partners on acquisition of Mobius Life MOBIUS Date: May 2019</p>	<p>ROCKALL Advised Rockall on its sale to Broadridge Broadridge Date: May 2019</p> <p>BARRACUDA Advised Barracuda on its sale to Broadway BROADWAY Date: Apr 2019</p> <p>pirum Advised Pirum on its sale to Bowmark Capital BOWMARK CAPITAL Date: Mar 2019</p> <p>defaqto Advised Defaqto on its sale to SimplyBiz SimplyBiz Date: Mar 2019</p> <p>CompuScan Advised CompuScan on its sale to Experian experian Date: Dec 2018</p> <p>ASSET CONTROL Advised Marlin Equity on sale of Asset Control to Sovereign SOVEREIGN Date: Sep 2018</p> <p>LOWELL Advised Lowell on the sale of its payment business unit to Collector collector bank Date: Nov 2018</p> <p>POTON & PARTNERS Advised Poton & Partners on its sale to BGC Partners BGC PARTNERS Date: Nov 2018</p> <p>Lombard Risk Sale of Lombard Risk to Verweg (Rule 3 advisor) VERMEG Date: Feb 2018</p>
<p>24 deals over the last 24 months...</p> <p>4x Insurance 4x Wealth</p> <p>8x Spec Fin 8x Payments and Markets</p> <p>...a deal a month across all sectors</p>			

The Senior Financial Services and Fintech Team



Mark Fisher
Managing Director
London



Lawrence Guthrie
Managing Director
London



Christian Kent
Managing Director
London



Zam Khan
Managing Director
London



Reinhard Koester
Managing Director
New York



Jeffrey M. Levine
Managing Director
Miami



Michael McMahon
Managing Director
Miami



James Page
Managing Director
New York



Arik Rashkes
Managing Director
New York



Gagan Sawhney
Managing Director
New York



Tim Shortland
Managing Director
London



David Sola
Managing Director
London



Brent Ferrin
Director
New York



Rob Freiman
Director
New York



Kegan Greene
Director
San Francisco



Chris Pedone
Director
New York



Paul Tracey
Director
London



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