



HOULIHAN LOKEY

DIGITAL MEDIA

OTT MARKET UPDATE | SPRING 2020



Houlihan Lokey OTT Industry Market Update

Dear Friends and Partners,

In recent weeks, the coronavirus has sent shock waves through markets globally. Since mid-February, the outbreak has accelerated and infections have become widespread, resulting in significant market dislocation that could continue in the near-term. Substantial disruption to business operations has occurred across all sectors of the economy, including the media industry.

As a consequence of the outbreak, many people are now finding themselves confined to their homes and spending more time watching TV on a variety of screens. In particular, in the absence of live sports, consumers are likely to flock to local news and streaming services like Netflix, Hulu, and Disney+. It is against this backdrop that we would like to share our perspectives on the over-the-top (OTT) industry with you.

We have included industry insights and recent strategic developments to help you stay ahead in this fast-moving, dynamic, and constantly evolving sector. Driven by rapidly growing levels of consumer consumption and evolving business models, M&A activity, and investments in new OTT platforms continue to transform the competitive industry landscape. We expect activity to remain high for the foreseeable future, even in this volatile market environment, as the sector continues its rapid growth trajectory and the key players refine their operating strategies, in particular with the emergence of ad-based video on demand (AVOD).

We hope you find this update to be informative and that it serves as a valuable resource to you in staying abreast of the market in these turbulent times. Of course, in this fast changing market environment, we would be happy to discuss these developments in real time and look forward to staying in touch with you.

Regards,



Roy Kabla
Managing Director
Global Co-Head of TMT
RKabla@HL.com
212.497.4193



Daniel Gossels
Managing Director
DGossels@HL.com
212.497.7979



Ronald de Gier
Vice President
RDeGier@HL.com
212.497.4157



Zrinka Dekic
Vice President
ZDekic@HL.com
310.788.5371

Technology, Media, and Telecom Subverticals Covered

Adventure Tours
Advertising Services
Audio Entertainment
B2B Events
Broadcasting
Casino Gaming
Digital Content
Digital Marketing
Digital Music
Digital Publishing
Digital Signage
E-Gaming

E-Sports
Fiber Networks
Fixed and Mobile Broadband
Hosting and Data Centers
Leisure, Entertainment, and Lodging
Live Entertainment
Music B2B Services
Music Recording and Publishing
Online Casino Technology
OTT Video
Out-of-Home Entertainment
Out-of-Home Advertising

Podcasting
Sports Betting
Sports Leagues, IP, and Content
Sports Franchises and Venues
Sports Data and Technology
Satellite Communications
Talent Agencies
Theme Parks
Video Content and Entertainment
Video Games
Wholesale and B2B Telecom Services

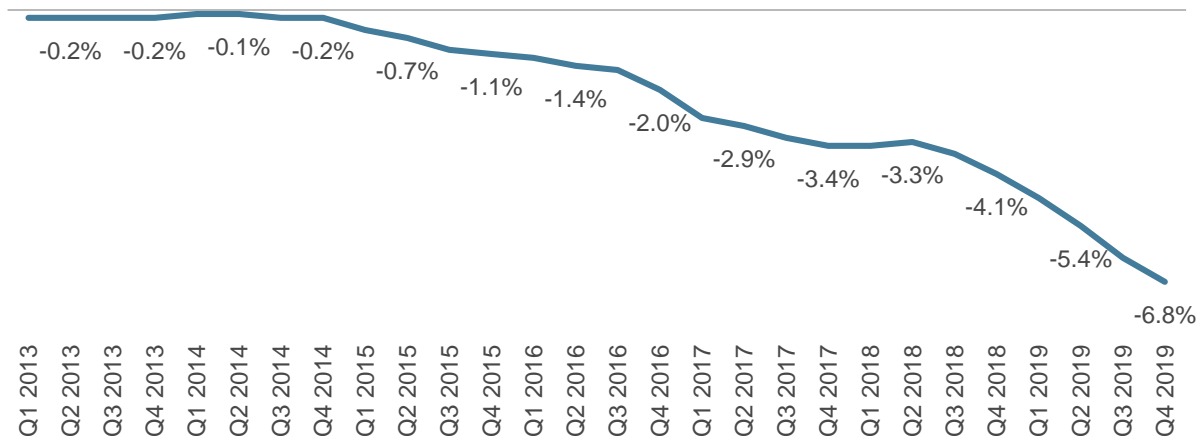
The Media Industry Is at an Inflection Point

Pay TV is facing unprecedented declines, driven by the rise of streaming services like Netflix and the emergence of virtual multichannel video programming distributors (vMVPDs).

- Traditional pay TV penetration of occupied households has been falling since Q1 2010⁽¹⁾
 - It has fallen 22.2% over that time and is poised to continue this decline
- Forecasts for traditional pay TV declines are increasingly deep and long-lasting, with current forecasts calling for approximately (7.0%) YoY declines in pay TV subscriptions each quarter through 2023⁽¹⁾
- Factors contributing to this decline are (1) the increasing price of pay TV packages, (2) superfluous hidden fees, (3) users' low perceived value, and (4) the widening availability of streaming replacements, such as Netflix, as well as vMVPDs like Hulu Live and YouTube TV that seek to digitally replicate pay TV

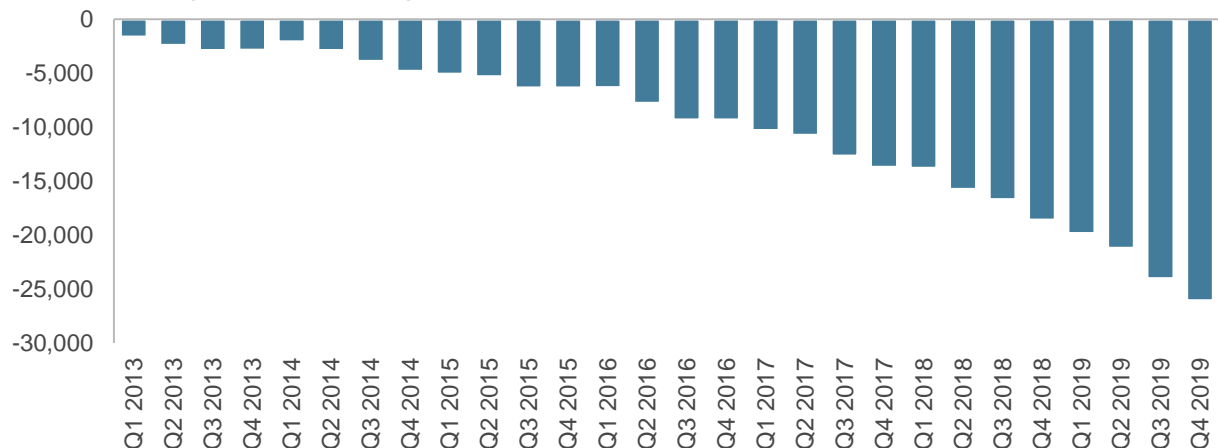
Traditional Distributors: Pay TV Subscriber Growth⁽¹⁾

(YoY)



Cord Cutters and Cord Nevers Exceed 26M⁽¹⁾

Cumulative change in non-subscribing HHs millions (cord cutters/cord nevers)



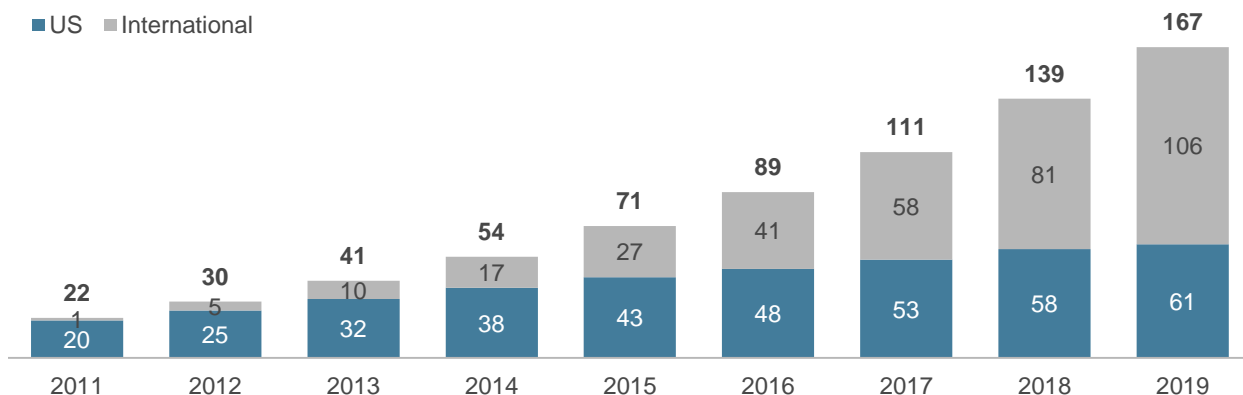
Source: (1) Wall Street research estimates and analysis

Consumers Are Flocking to Streaming Services

- Netflix, the pioneer of D2C streaming, has grown its global subscriber base to approximately 167 million in 2019 (with approximately 61 million subscriptions in the U.S. alone)
- Global OTT revenues (subscription, advertising, pay-per-view) are showing a similar growth trend, and are expected to more than double by 2024 to \$159 billion, up from \$68 billion in 2018⁽¹⁾
- vMVPDs supplement the overall OTT market by providing consumers with the feel and breadth of a pay TV offering, but through a digital platform
- The virtual live TV landscape has grown significantly and now includes both offerings from large media companies, such as Hulu Live TV and YouTube TV, as well as smaller upstarts like fuboTV and Philo
- Among homes in the U.S. that have OTT streaming capabilities, 19% of TV time in the fourth quarter of 2019 was spent on streaming⁽²⁾

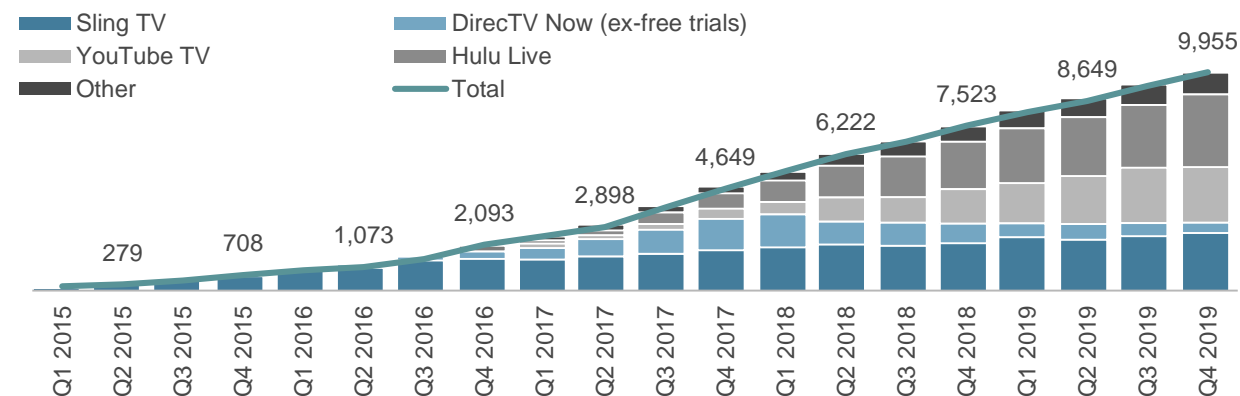
Netflix Subscriber Growth⁽³⁾

Netflix's paid subscribers in millions



Global OTT Revenue Forecast⁽⁴⁾

USD in billions



Source: (1) Digital TV Research, June 2019 (2) Nielsen Total Audience Report, February 2020 (3) Netflix's Annual Reports (4) Company reports, Wall Street research estimates and analysis

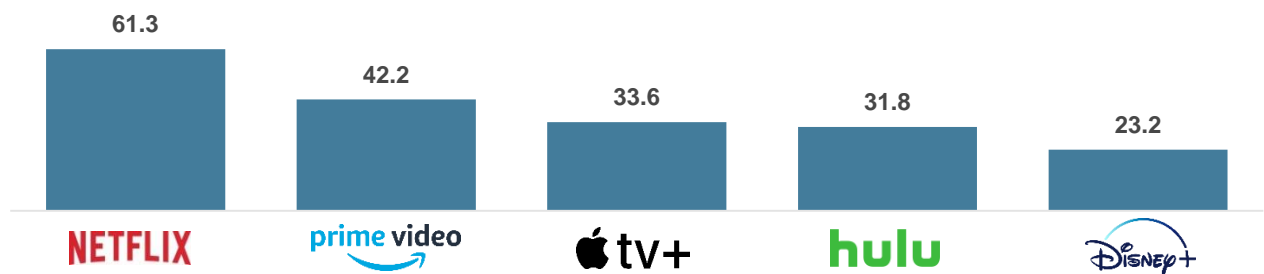
SVOD Streaming Wars Are Heating Up...

Dominated by large media and tech companies, including Disney, Apple and Amazon.

- Despite being the first-mover and revolutionizing streaming, Netflix is now facing competition from deep-pocketed media and tech companies such as Disney, Comcast, Alphabet, Apple, ViacomCBS, and Amazon
- Disney, armed with its strong content library and IP, and Apple, with the promise of an all-encompassing ecosystem, have taken the streaming market by storm with the introduction of Disney+ and Apple TV+, respectively in November 2019
- Apple TV+ has gained subscribers aggressively through partnerships and promotions, as 50% of Apple TV+ customers gained access through a promotional package⁽¹⁾—it is unclear what portion of their estimated 33.6 million subscribers are currently on a free-trial
- While Disney also focused on partnerships (notably Verizon), its launch strategy was more centered around the promise of its premium library (something Apple severely lacked) and new attractive originals, such as *The Mandalorian*
- The entry of additional streaming platforms from large players like Comcast and ViacomCBS will continue to drive competition in the subscription video on demand (SVOD) space

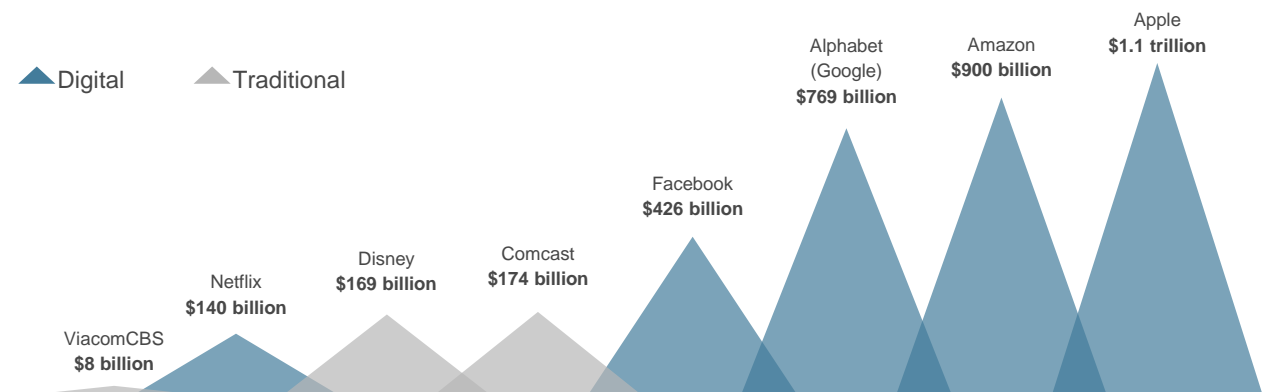
Top Subscription Services in the U.S.⁽²⁾

U.S. subscribers in millions as of Q4 2019



Battle of the Balance Sheets (Traditional vs. Digital)⁽³⁾

The new breed of tech/digital media titans have market valuations that dwarf those of traditional media giants



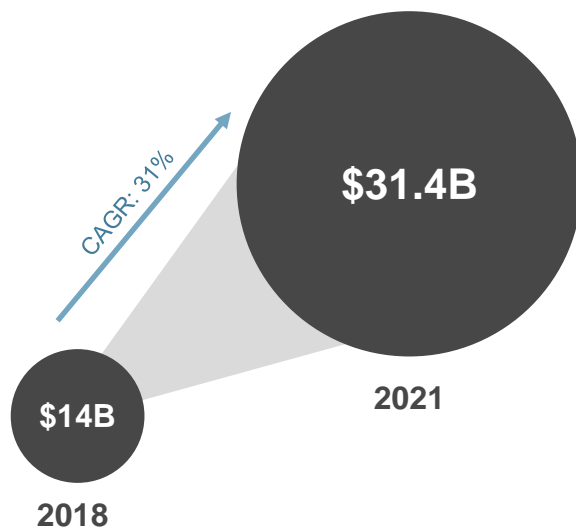
Source: (1) HarrisX, Wall Street research estimates and analysis (2) Ampere Analysis, January 2020
(3) S&P Capital IQ as of March 17, 2020.

Will the 2020s Be AVOD's Decade?

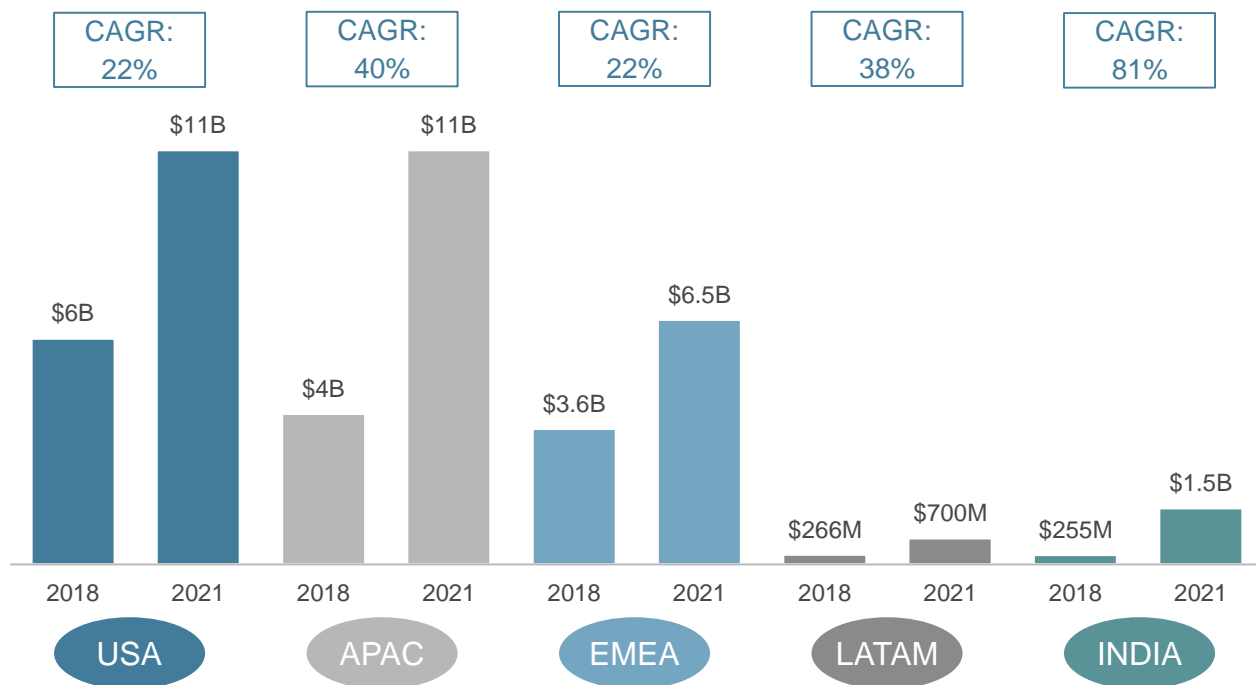
Many market observers believe AVOD growth is about to accelerate.

- During the 2010s, SVOD platforms transformed content consumption habits by enticing subscribers away from traditional pay TV models, with premium content and a cheaper access-anywhere service
- However, as consumers are expected to limit the number of paid subscription services, AVOD platforms are in a position to seize opportunities and potentially have their breakthrough moment
- Helping the case for AVOD growth is cheaper, commoditized video infrastructure costs and a vast improvement in ad targeting technology
- AVOD platform providers are now looking to mimic free-to-air commercial broadcasters by delivering a large range of content online for free, in one convenient place that can be complementary to SVOD offerings

Worldwide AVOD Growth⁽¹⁾



Global AVOD Market Growth Projections Are Strong⁽¹⁾



Multiple Factors Are Contributing to Near-Term AVOD Growth...

Consumers are starting to suffer from SVOD overload, providing ad-supported platforms opportunities to grow.

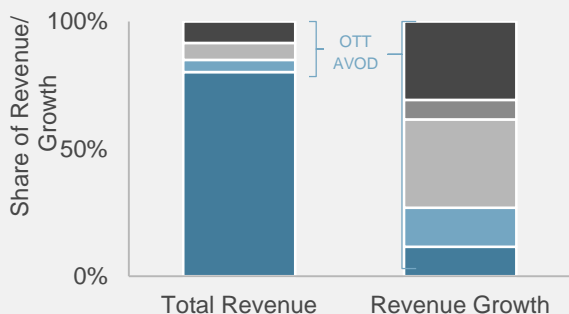
2.5

Average number of SVOD streaming services per household

\$10.22

Average monthly payment per subscription

■ Other OTT AVOD ■ Facebook
■ YouTube ■ Broadcaster AVOD
■ Net Total TV Advertising



SVOD App Overload⁽¹⁾

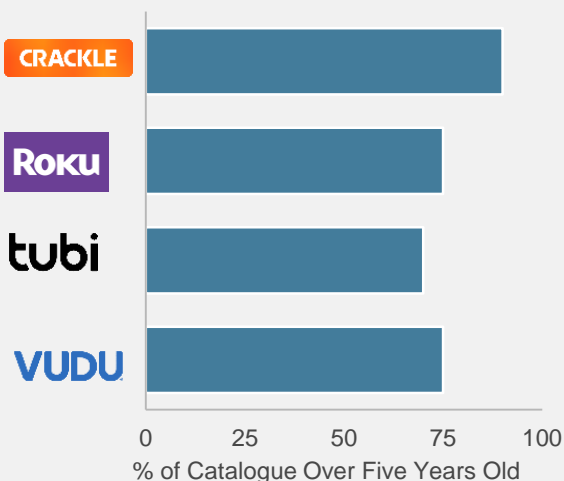
- The average U.S. household now subscribes to more than two SVOD services per month, which is starting to cause “subscription overload”
- Consumers are looking for quality content to complement these services, without paying a monthly subscription fee

Acceleration of a Shift of Ad Dollars From Traditional TV to OTT⁽²⁾

- AVOD revenue growth was expected to eclipse that of global traditional TV advertising in 2019
- Broadcasters were predicted to take just 16% of 2019's new OTT AVOD ad dollars as they struggle against the scale, targeting options, innovative ad formats, and growing quality of content on YouTube and other newer OTT-first platforms

Consumers Still Want Oldies⁽³⁾

- While starting with older content, SVOD players are gradually replenishing their libraries with their own originals and newer acquisitions
- This is freeing up a long tail of older content for the AVOD players
 - On average nearly 80% of the AVOD catalogues is at least five years old by title count
 - In the case of Crackle, 70% of its content is more than 10 years old



But There Are Factors That Could Limit Further Acceleration

How often do you try to skip ads?

69% of workers **waste up to 60 minutes** a day navigating between apps



That's up to **32 days** a year



68%

Toggle between apps up to **10 times** an hour

General App Overload⁽¹⁾

- Two-thirds of workers spend at least 60 minutes a day toggling back and forth between apps. That adds up to more than a month every year
- When discussing SVOD app overload, the same could happen with AVOD
 - AVOD services are not just an alternative to SVOD—there are many other free apps (games, social media etc.) that continue to proliferate and compete for user time

verizon
Disney+ on us.

apple
tv+

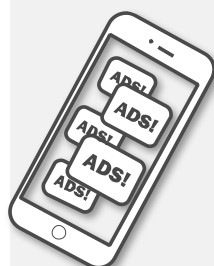
Your new iPhone includes
1 year of Apple TV+

Enjoy 1 Year Free

12 months free, then \$4.99/month

Hard to Compete With Low-Priced SVOD Offerings⁽²⁾

- With Netflix, HBO Max, Hulu, Amazon Prime, Disney+, Apple TV+, and others all in a battle for subscribers, we expect to continue to see providers offering large discounts in order to grow and maintain subscribers
- Highly-subsidized and relatively inexpensive offerings allow for consumers to purchase more services and remain within their target monthly spend
 - As long as “paid” services provide significant discounts, AVOD services could face difficulty growing their viewer base



The longest five seconds
in anyone's life is...







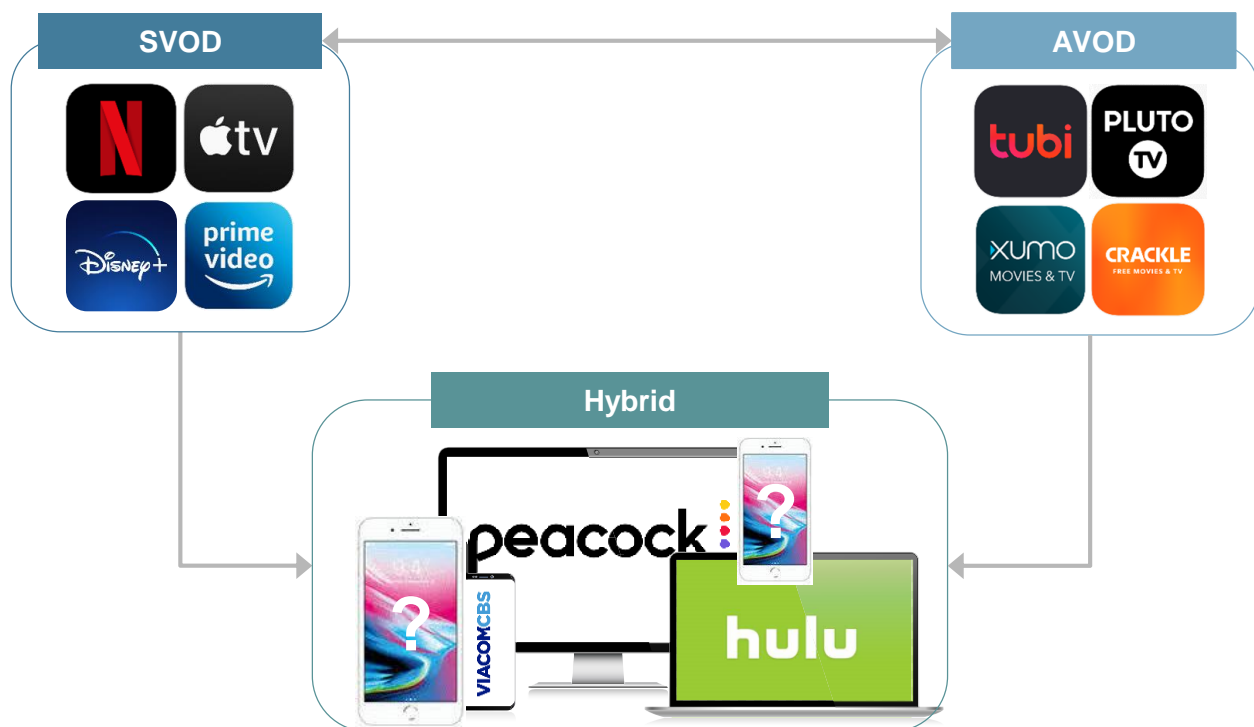
We still hate ads!⁽³⁾

- People are far less tolerant of advertising today—subscription options appeal to audiences who like the choice and no interruptions
- At some point consumers may rebel at AVOD ad targeting and we may see video ad blocking technology proliferate, just as we saw on search

What's Next? OTT Strategy Shifts and Hybrid Models

- Although services are currently mainly focused on either SVOD or AVOD, strategies are likely to change in the next few years as competition for viewership time intensifies
- Companies could switch from SVOD to AVOD (or vice versa) or, more likely, launch hybrid models
- Hulu was the first high profile hybrid model—we are starting to see more hybrids emerge, such as NBC's Peacock OTT offering

Company	Strategy	Commentary
	■ Shift	■ YouTube shifted its Premium video strategy for its Originals from SVOD to AVOD in 2019; All new YouTube Originals are now accessible to approximately two billion of YouTube's logged-in users worldwide
	■ Shift	■ iflix shifted away from SVOD towards AVOD due to market demands in Asia
	■ Hybrid Launch	■ NBCUniversal is launching Peacock, a hybrid OTT model that will offer a free ad-supported tier, a \$4.99 per month subscription tier with ads and an ad-free subscription tier that will cost \$9.99 per month
	■ Hybrid Launch	■ ViacomCBS is reportedly planning an expansion of CBS All Access into a service that would bring together assets from Pluto TV, Nickelodeon, BET, MTV, Comedy Central, and Paramount Pictures; the service is expected to have both an advertising-focused tier and a premium ad-free component



New Streaming Services to Watch in 2020

Comcast's Hybrid OTT Offering: Peacock

Future Pricing

Offering	Premium Content?	Ads?	Price to Comcast Customers	Price to Everyone Else
Free	Limited	Yes	Free	Free
Premium 1	Yes	Yes	Free	\$4.99
Premium 2	Yes	No	\$4.99	\$9.99

Proprietary Content

NBCUniversal



FOCUS ILLUMINATION
FEATURES ENTERTAINMENT

- Over time, previous licensing deals with its competitors will expire and Peacock will be able to regain exclusive access to its premium content

Peacock's vast content offering and dual pricing model (and preferential Cable customer pricing) will capture a wide range of customers with varying levels of willingness-to-pay.

WnderCo's OTT Offering: Quibi

Future Pricing

Offering	Ads?	Price
Ad-Supported	Yes	\$4.99
Ad-Free	No	\$7.99

Proprietary Content

- Raised \$1.75B to launch its platform and fund original programming
- Plans to have 175 shows and 35 movies, mostly in 7–10 minute installments
- Formed partnerships with celebrities and notable directors/ producers to create exclusive shows for Quibi's platform

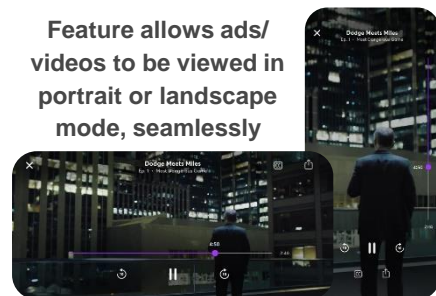
Advertising Strategy

- Quibi has sold out its first year in ads—\$150 million in revenue
- It has limited its ad partners to 10 corporations—each are the sole company within its industry vertical

Quibi introduces a new unique kind of streaming service that offers short installments or “quibis” (short for quick bites) of programming specifically made for smartphones.

“Turnstile Viewing/Advertising”







Feature allows ads/ videos to be viewed in portrait or landscape mode, seamlessly



New Streaming Services to Watch in 2020 (Cont.)

ViacomCBS's Hybrid OTT Offering

Current OTT Offerings' Pricing

	Offering	Ads?	Price
Core Offerings		Yes	Free
	 Tier 1	Yes	\$5.99
	 Tier 2	No	\$9.99
Additional Offerings		No	\$5.99
		No	\$10.99
		No	\$9.99

Proprietary Content



- In time, ViacomCBS will regain exclusive access to its content

ViacomCBS plans to lever all assets gained in the merger of Viacom and CBS and find synergies in combining the content by expanding CBS All Access and offering a three-tiered strategy, including AVOD (Pluto TV), ad-free premium, and “broad pay” premium (access to all content under ViacomCBS umbrella).

VIX's Latin AVOD Service

Leading Independent Latin-Focused AVOD/OTT Platform

- Fastest growing AVOD platform for U.S. Hispanic, Mexican, Brazilian, and Latin American audiences
- Available on 300 million devices across all major OTT and social platforms, plus VIX.com
- Latin American populations are rapidly growing, representing a \$20 billion video advertising opportunity

Multiple Content Channels



Licensed and Owned Content

- Largest Latin digital content library with 16,000+ hours of AVOD/OTT content
- Content includes movies, telenovelas, and original short-form content

Film, TV, and Short-Form Content

































VIX has grown its OTT audience by 30x since August 2019 by funneling its large social and web audiences to its AVOD platform.

Valuation Environment

Notwithstanding recent macro volatility, the current environment is conducive to strategic activity on potentially attractive terms under the right circumstances.


Dollars in Millions

	Notable M&A Transactions										
Company	          										
Date	Mar-20	Mar-20	Feb-20	May-19	Apr-19	Mar-19	Mar-19	Jan-19	Aug-18	Mar-18	Aug-17
Acquirer											
Valuation	\$700.0	\$440.0	\$100.0	\$27,500.0	\$200.0	\$141.0	\$60.0	\$340.0	\$1,000.0	\$250.0	\$3,760.0
EV/Revenue	--	--	--	9.2x	4.0x	3.2x	2.5x	3.5x	--	2.6x	--


	Notable Financing Transactions							
Company								
Date	Jan-20	Jun-19	Nov-18	Sep-18	Jul-18	Jul-18	Apr-18	May-17
Investor	Undisclosed Investors	Bertelsmann Digital Media Investments, Causeway Media Partners, DCM Ventures, Discovery, Fertitta Capital, WWE	Blum Capital Partners, TimesSquare Capital Management	IVP, Javelin Ventures, NEA, Advancit Capital, Atomico, Evolution Media	AMC Networks, Discovery, Viacom	Aser	21 st Century Fox, AMC Networks, Discovery, Luminari Capital, Northzone Ventures	Jump Capital, Foundation Capital, Danhua Capital, Cota Capital
Investment	\$400.0	\$47.0	\$140.0	\$80.0	\$40.0	\$28.0	\$75.0	\$20.0
Valuation	--	--	--	--	--	\$180.0	--	--

Expertise at the Nexus of Digital Media, OTT, and Entertainment

Houlihan Lokey professionals have unparalleled experience in advising media companies across a wide range of transactions.




has been acquired by




Sellside Advisor

Mediabox, LLC

has acquired



and



Buyside Advisor




has successfully completed the spin-off of




Houlihan Lokey provided financial opinions to the Board of Directors of both Twenty-First Century Fox and Fox Corporation.

Financial Opinion



has been acquired by



Sellside Advisor




Valuation of a film library for collateral lending purposes in connection with SoundPoint Capital Management's acquisition of Relativity Media.




Collateral Valuation

PIXOMONDO

has been acquired by



Sellside Advisor



has sold substantially all its assets through a \$363 asset sale


Secured Lender Advisor



\$28 million financing led by



Financial Advisor



We rendered a valuation opinion for financial reporting purposes to MGM regarding its intangible assets including the MGM film and television library

Financial Opinion



a portfolio company of



has been acquired by




Sellside Advisor

SCREEN MEDIA

has been acquired by



Sellside Advisor




has sold substantially all its assets, pursuant to Section 363 of the U.S. Bankruptcy Code, to



Company Advisor

VIAVIANT

has been acquired by




Sellside Advisor

Dose Media (f/k/a) Spartz Media

DOSE

Series B Convertible Preferred Stock

Led by:



\$25,000,000

Placement Agent

FanDuel

\$275,000,000
Series E Preferred Stock







Placement Agent*

VIACOM

has merged its gaming assets and made an investment into



Financial Advisor*

*Selected transactions were executed by Houlihan Lokey professionals while at other firms acquired by Houlihan Lokey or by professionals from a Houlihan Lokey joint venture company
Tombstones included herein represent transactions closed from 2014 forward.

How Houlihan Lokey Can Help

Our firm is extremely well-equipped to help our clients navigate uncertain times. We respond quickly to challenging situations and are constantly helping clients to analyze, structure, negotiate, and execute the best possible solutions from both a strategic and a financial perspective.

What We Offer

1 Corporate Finance

Mergers and Acquisitions

Capital Markets

Private Funds Advisory

Board Advisory Services

2 Financial Restructuring

Company Advisory

Financial Restructuring

Distressed M&A

Liability Management

Creditor Advisory

3 Financial and Valuation Advisory

Portfolio Valuation and Fund Advisory

Transaction Opinions

Corporate Valuation Advisory Services

Transaction Advisory Services

Real Estate Valuation and Advisory

Dispute Resolution Consulting

Corporate Finance

We are widely recognized as a leading M&A advisor to the middle market and have long-standing relationships with capital providers, including commercial banks and other senior credit providers, insurance funds, asset managers, and mezzanine fund investors. Few other investment banks maintain the breadth of relationships and capital markets intelligence that we do.

Financial Restructuring

We have the largest restructuring practice of any global investment bank. Since 1988, we have advised on more than 1,000 restructuring transactions (with aggregate debt claims over \$2.5 trillion). We served as an advisor in 12 of the largest 15 bankruptcies from 2000–2019.

Financial and Valuation Advisory

For nearly four decades, we have established ourselves as one of the largest financial and valuation advisory firms. Our transaction expertise and leadership in the field of valuation helps inspire confidence in financial executives, boards of directors, special committees, investors, and business owners we serve.

Why We're Different

✓	Deep Digital Media Industry Expertise
✓	Strong Relationships With Key Buyers and Investors
✓	Solution-Oriented Capital Markets Platform
✓	Dominant in Special Situations and Restructuring
✓	Senior-Level Commitment and Dedication
✓	Superior Work Product/Technical Abilities
✓	Creativity, Imagination, Tenacity, and Positivity



Houlihan Lokey is the trusted advisor to more top decision-makers than any other independent global investment bank

- **1,400+** Employees
- **23** Offices Globally
- **~\$1 Billion+** in Revenue
- **~\$3 Billion+** Market Cap

Corporate Finance

2019 M&A Advisory Rankings All U.S. Transactions

	Advisor	Deals
1	Houlihan Lokey	184
2	Goldman Sachs & Co	167
3	JP Morgan	141
4	Morgan Stanley	122
5	Evercore Partners	112

Source: Refinitiv (formerly known as Thomson Reuters)

No. 1 U.S. M&A Advisor
Top 10 Global M&A Advisor
Leading Capital Markets Advisor

Technology, Media & Telecom

2014 to 2019 M&A Advisory Rankings U.S. Technology, Media, Entertainment & Telecom Transactions Under \$1 Billion

	Advisor	Deals
1	Houlihan Lokey	198
2	Goldman Sachs & Co	162
3	Raymond James Financial Inc	155
4	Morgan Stanley	154
5	Evercore Partners	144

Source: Refinitiv (formerly known as Thomson Reuters)

No. 1 M&A Advisor for U.S. TMET
 Transactions Under \$1 Billion Over the
 Past Six Years

33 Completed Transactions in 2019

Financial Restructuring

2019 Global Distressed Debt & Bankruptcy Restructuring Rankings

	Advisor	Deals
1	Houlihan Lokey	76
2	PJT Partners Inc	43
3	Moelis & Co	36
4	Lazard	29
5	AlixPartners	19

Source: Refinitiv (formerly known as Thomson Reuters)

No. 1 Global Restructuring Advisor
1,000+ Transactions Completed Valued
 at More Than \$2.5 Trillion Collectively

Financial and Valuation Advisory

2000 to 2019 Global M&A Fairness Advisory Rankings

	Advisor	Deals
1	Houlihan Lokey	1,057
2	JP Morgan	929
3	Duff & Phelps	734
4	Morgan Stanley	621
5	Bank of America Merrill Lynch	612

Refinitiv (formerly known as Thomson Reuters). Announced or completed transactions.

No. 1 Global M&A Fairness Opinion
 Advisor Over the Past 20 Years
1,000+ Annual Valuation Engagements

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