

# Houlihan Lokey (NYSE: HLI)

Sector: Financial Services



HOULIHAN LOKEY

Target Price	Current Price	52w High	52w Low	P/E	Market Cap	Dividend Yield	Beta
\$52.95	\$47.67	\$50.00	\$34.32	18.96	\$3.13B	2.63%	.98

## Business Description:

Houlihan Lokey, Inc. (HLI) is an American investment bank which provides M&A Advisory, Restructuring Advisory and Financial Advisory services to mid-to-large cap companies across the world. The company is headquartered in Los Angeles, CA and has offices in 22 locations across the globe including Australia, Dubai, Germany, Hong Kong, Japan, Singapore, Spain and the United Kingdom.

## Industry Trends:

Restructuring activity has been relatively stable in recent quarters, with Chapter 11 filings rising 19% in 1H19 versus 1H18. Further, a comparison of Corporate Credit Rating Distributions from 2007 versus 2019 shows a significant shift in U.S. corporates towards riskier credit profiles. For M&A, U.S. deals in the \$1-5B range have risen for three consecutive quarters, while long-term trends in M&A activity indicate stable growth moving forward. From a geographic perspective, American investment banks have outperformed European investment banks over the past five years - and with American banks increasing headcount abroad while European banks are downsizing, this trend is likely to continue

## Investment Thesis:

Houlihan Lokey is a strong investment due to the firm's growth prospects, distinguished track record and its ability to add significant diversification to our portfolio. HLI has acquired nine firms over the past ten years, developed 3 strategic partnerships and has increased total headcount by 24% over the last three years. This expansion increases their footprint in European markets and allows them to handle a greater volume of transactions. Weak economic growth throughout Western Europe has presented a hurdle to European investment bank growth at home and abroad. HLI, among other U.S. based investment banks, have been able to capitalize on this trend, increasing their market share by revenue from 46% to 52% between 2007 and 2018, compared to a decline from 39% to 26% for their European competitors. Between 2015 and 2018, HLI was recognized by Thomas Reuters as the No. 1 M&A advisor for all U.S. Transactions, while they have ranked as the No. 1 Global Restructuring Advisor for five of the past ten years. HLI diversifies our portfolio by increasing our financial sector allocation, which to date represents only 5.88% of our portfolio, the lowest among all sectors in which we are actively invested.

## Valuation Assumptions:

WACC: **9.0%**      Margin of Safety: **11.1%**  
Perpetuity Growth Rate: **3.0%**

## 5-Year Share Price Performance:



## Competitive Advantage and Analysis:

Houlihan Lokey's key competitive advantage is its reputation as a premier investment bank for restructuring transactions, having advised on more deals than any other investment bank in 2018, in addition to having advised on 12 of the 15 largest U.S. corporate bankruptcies in the last 20 years. Despite their notoriety for restructuring, HLI derives more than half its revenue from non-restructuring related services. They also support a diverse client base, with no industry accounting for more than 23% of fees and no single transaction accounting for more than 3% of fees. This diverse mix of revenue streams provides HLI with significant growth opportunity moving forward, having the capability to capitalize in periods of both growth and recession. Houlihan Lokey has recently been expanding its global reach with 9 acquisitions over the past decade, mainly into European markets, which are expected to provide additional opportunities for growth.

## Risks:

An economic downturn would likely hurt demand for investment banking services; however, HLI's presence in the restructuring space would hedge some of this risk due to the counter-cyclical nature of restructuring activity. Houlihan Lokey is susceptible to its talent being poached by other investment banks, which could harm their reputation and limit their transaction volume moving forward. Investment banks operate in a highly-regulated industry, which may limit their ability to grow.

## Corporate Social Responsibility Highlights:

- Give a Day to Charity Program
- Social contributions to various charitable organizations such as Make-A-Wish Foundation, the Leukemia & Lymphoma Society and UNICEF

## Report Prepared By:

John Brindisi and Justin Wagner on 11/19/2019