



Financial Services Group
Investment Banking and Capital Markets Sector

U.S. MARKET UPDATE

WINTER 2022

U.S. Investment Banking and Capital Markets Sector

Introduction

With best wishes for 2022, Houlihan Lokey's Financial Services Group welcomes you to a new installment of this semiannual report on the U.S. investment banking and capital markets sector.

When we published our previous report in summer 2021, the market was at the crest of a broad-based upswing as the economy moved past the depths of the pandemic. While growth continues in certain pockets, and 2021 fee pools will look strong on a year-over-year basis, many areas of the market are trending toward a more “normalized” 2022 outlook.

M&A Advisory

The overall M&A environment was exceptionally active in a “risk-on” 2021, with favorable macro dynamics encouraging consolidation for both acquirers and targets. However, mega-cap strategic deals trailed off over the course of the year; the number of announced \$5+ billion acquisitions declined in every consecutive quarter of 2021. Buyers may be focusing on integration after their transformative acquisitions, while heightened antitrust scrutiny (e.g., Aon/Willis Towers Watson; NVIDIA/Arm) has introduced new risk to strategic M&A. On the other hand, private equity moved upmarket, with the \$30+ billion club buyout of Medline representing a post-2008 financial crisis high-water mark. The middle market also accelerated throughout the year, as founders eyed potential 2022 capital gains tax hikes, while capitalizing on rebounding post-pandemic financial performance. A continued fee pool shift in favor of the middle market may entice more players traditionally focused upmarket to invest in dedicated coverage groups; Goldman Sachs and Guggenheim reportedly launched major initiatives.

ECM Underwriting

While ECM underwriting fees ended 2021 up moderately vs. 2020, the market was truly a story of two halves. Each of the core post-COVID-19 ECM drivers—small-cap biotech, SPACs, software, and Chinese cross-border listings—hit its own unique headwind. Equities trading similarly reverted to more normalized levels, after lucrative retail volume shifted from meme stocks in Q1 to crypto by summer and NFTs by fall.

PE Involvement

On the industry consolidation front, commercial banks continue aggressively adding M&A and fixed income capabilities, though we'd like to highlight the recent proliferation of less traditional acquisitions. PE investors are constant users of investment banking services but rarely acquire investment banks themselves. However, Audax announced its acquisition of Stout in October, and Atlas Merchant Capital made a growth equity investment in MarshBerry several weeks ago. Given the fierce battle for attractive assets in a heated M&A market, we expect further PE activity in the financial advisory space, particularly targets like Stout and MarshBerry that have scale, a well-diversified revenue origination process, and an element of nontransactional revenue.

Brokerage IPOs

Some expected \$0 retail equity commissions would become the death knell for brokers, but 2021 proved that public markets are extremely receptive to new listings. Incumbents and upstarts—including TradeZero, TradeStation, Robinhood, and eToro—announced IPOs through SPACs and regular-way offerings this year. With scale at a premium in a fragmented, low-margin market, newly public brokers will likely use M&A to accumulate accounts, enhance crypto offerings, and add specialized solutions for lucrative day traders.

U.S. Investment Banking and Capital Markets Sector (cont.)

Institutional Equities

Even the institutional equities space, which has been relatively quiet for several years, joined the 2H 2021 dealmaking bonanza. Notably, Citizens Financial acquired JMP Group as the latest step in its aggressive investment banking expansion, and Kazakhstan's Freedom Holdings acquired MKM as a beachhead in the United States. SVB Financial and Piper Sandler each acquired independent equity research boutiques in Q4, showing that the value of differentiated, independent research can endure in the face of MiFID II upheaval.

Crypto Dealmaking

While this report focuses on securities, we would be remiss if we didn't touch on crypto, which reached \$3 trillion in aggregate market cap this past fall as the locus of demand continues shifting from enthusiast retail to mass retail to institutional. As institutional investors increasingly view crypto as a critical element of a diversified portfolio, especially in a newly inflationary environment, they will increasingly demand the institutional-grade reporting, clearing, hedging, financing, and execution they rely on in traditional securities markets. Ironically, the infrastructure build-out that will enable the maturation of crypto marketplaces and DeFi applications will heavily leverage these same traditional securities markets. Players that recently raised mega-VC rounds like FTX and BlockFi have publicly discussed potential 2022 IPOs, and a wave of M&A commonly follows a wave of IPOs. Indeed, 2021's crypto IPO trailblazer Coinbase announced its first acquisition as a public company in January 2022, acquiring FairX to launch a derivatives offering.

We hope you've been able to enjoy a restful holiday season with family and friends after an incredibly busy 2021, and we welcome the opportunity to discuss trends and strategies with you in the year ahead.

Warmest Regards,



HOULIHAN LOKEY

Financial Services Group

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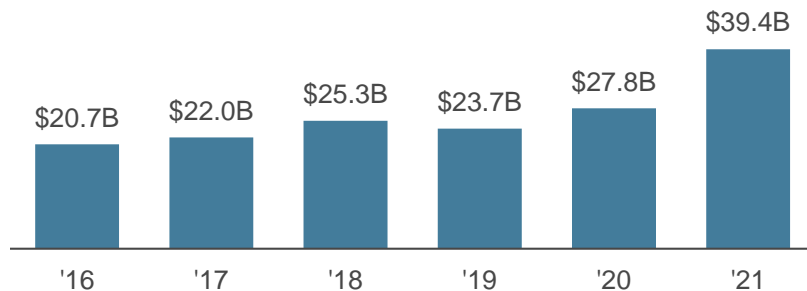
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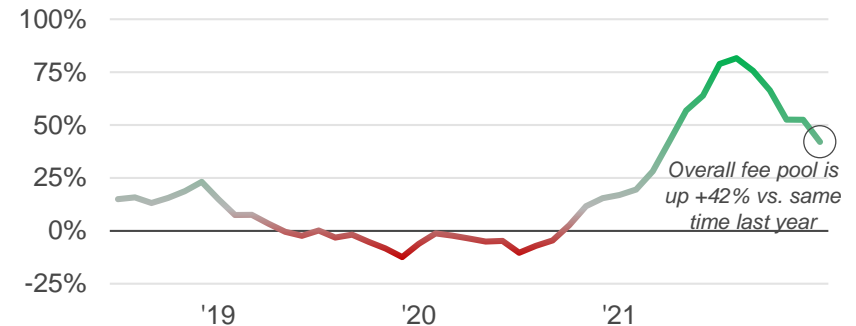
Banner Year for M&A Drives Fees +42% to New Record

- Though megadeals above \$5B in value decelerated somewhat from 1H 2021's torrid pace, growth continued across virtually all segments of the M&A market throughout 2021, spurred by post-pandemic optimism, elevated corporate earnings, record stock prices, inexpensive debt financing, potential capital gains tax hikes, and an influx of SPAC capital seeking targets.
- The \$34B acquisition of Medline by a PE consortium was the largest LBO since the 2008 crisis; in a more hostile antitrust setting, PE may gain an edge vs. strategics on megadeals.
- Fees from the industrials sector—a relative underperformer in 2020—nearly doubled in 2021, led by transportation/infrastructure deals (e.g., Kansas City Southern, First Transit) and an explosion of electric/autonomous vehicle SPAC mergers (e.g., Lucid, Aurora, Joby).
- The consumer and retail and natural resources sectors, saddled with significant lingering uncertainty coming out of COVID-19, were the only sectors with declining fee pools.

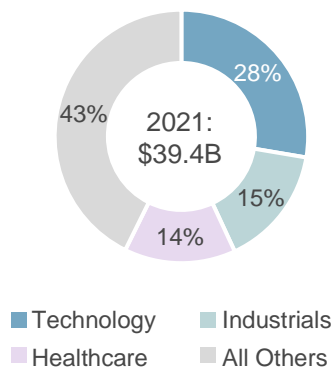
M&A Advisory Fee Pools (\$ billions)



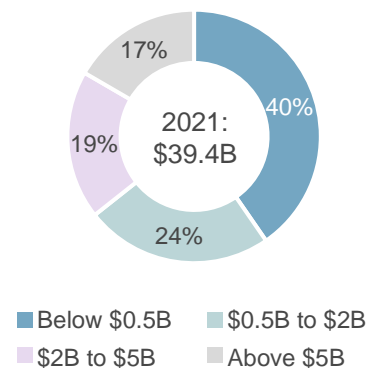
Rolling Y/Y Fee Pool Growth



Sector Breakdown



Deal Size Breakdown



Growth by Sector

Industrials	90%
RE and Gaming	73%
Financials	64%
Technology	56%
Services	48%
Media and Telecom	43%
Healthcare	34%
Cons. and Retail	-4%
Natural Resources	-11%
All Sectors	42%

Growth by Deal Size

Below \$0.5B	17%
\$0.5B to \$2B	75%
\$2B to \$5B	85%
Above \$5B	40%
All Deal Sizes	42%

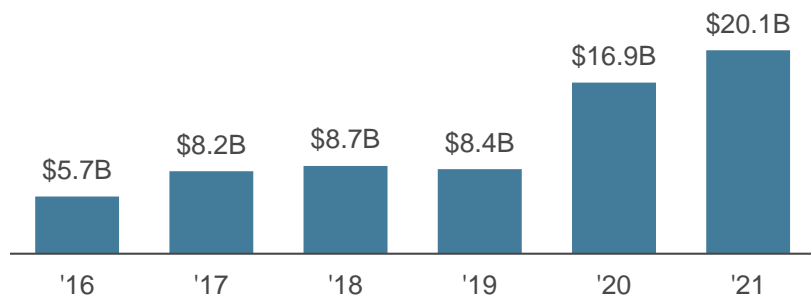
Source: Refinitiv.

Note: Based on announcement date and includes potential fees from pending transactions.

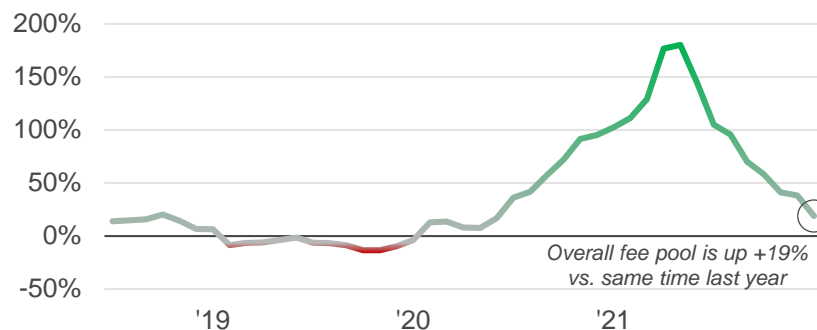
What Next After Two Years of Unprecedented ECM Activity?

- The 2021 ECM underwriting fee pool stands at ~2.5x pre-pandemic levels. However, the market is clouded by major question marks entering 2022.
- SPAC IPOs recovered modestly from midyear doldrums, but the number of deals *and* the average deal size in Q4 are each roughly half the Q1 level, resulting in a fee pool roughly one-quarter as large. With the SEC taking action against Stable Road in July and probing enhanced disclosure requirements, today's more conservative environment should continue into 2022.
- Healthcare/biotech is typically the largest ECM segment (and particularly critical for small-cap investment banks) but lost momentum after a COVID-19-driven surge of demand in 2020.
- Unlike SPACs and healthcare, the tech fee pool expanded throughout 2021, but a December sell-off led by inflation fears may create a challenging backdrop for new issues in 2022.
- Regulatory pressure slammed the market shut for Chinese listings in the U.S.; these deals generated \$600+ million in fees in 1H 2021, compared to just ~\$40 million in 2H.

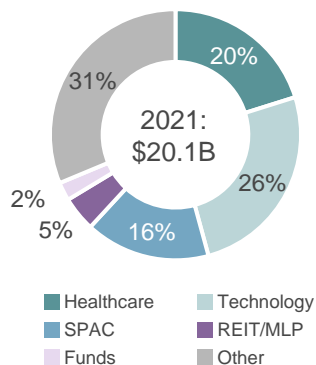
ECM Underwriting Fee Pools (\$ billions)



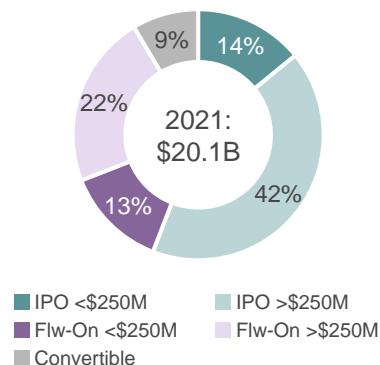
Rolling Y/Y Fee Pool Growth



Sector Breakdown



Structure Breakdown



Growth by Sector

Funds	68%
Technology	60%
REIT/MLP	29%
Other	28%
SPAC	14%
Healthcare	-18%
All Sectors	19%

Growth by Structure

IPO <\$250M	58%
IPO >\$250M	51%
Flw-On <\$250M	6%
Flw-On >\$250M	-12%
Convertible	-12%
All Deal Sizes	19%

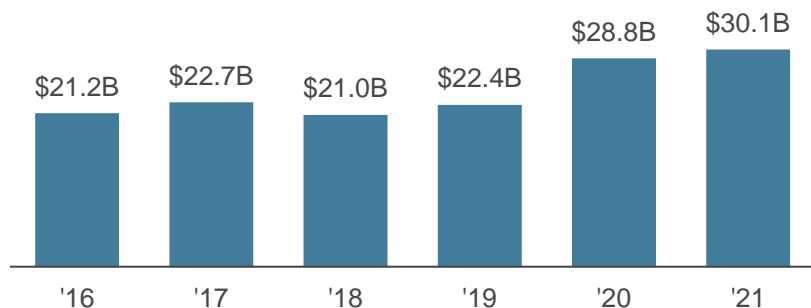
Source: Refinitiv.

Note: Deferred fees on SPAC IPOs fully recognized on IPO date.

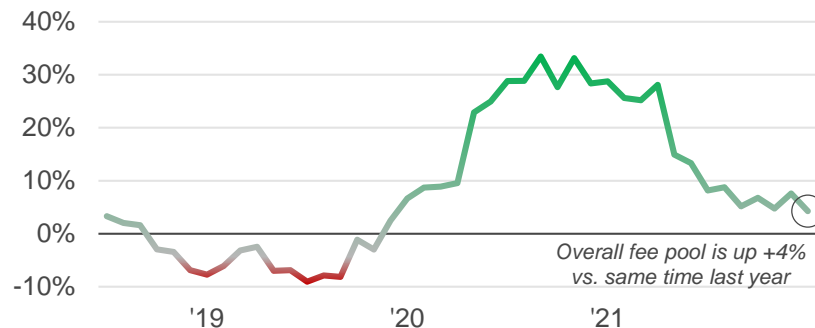
Leveraged Finance Heats Up as Bond Boom Fades

- A record \$1+ trillion in PE spending in 2021, paired with record CLO issuance (new quarterly records set in Q1, Q2, and Q3 2021) created a perfect leveraged finance supply/demand storm.
- The supportive market led to further loosening of terms; a record 33% of loans originated in 2021 had a leverage ratio above 6x EBITDA. However, the reappointment of Janet Yellen as Fed Chair could potentially cast the regulatory spotlight on highly leveraged loans again, as Yellen oversaw the promulgation of the original leveraged lending guidance in 2013.
- Regulatory pressure on bank lending would provide a further boost to the “shadow banking” ecosystem of BDCs, credit funds, and non-BHC investment banks. Already growing quickly, these direct lenders have captured the attention of acquirers looking to add a platform (e.g., CIFIC/LBC), or to scale up to lower funding costs (e.g., Barings BDC/Sierra Income).
- On the other hand, investment-grade corporate and agency bond issuance has paused, as rising rates narrow the window of opportunity for institutional and retail borrowers to refinance.

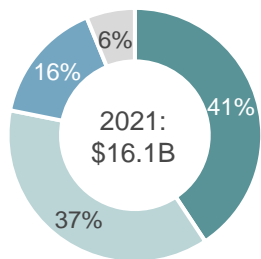
Bond and Synd. Loan Origination Fee Pools (\$ billions)



Rolling Y/Y Fee Pool Growth

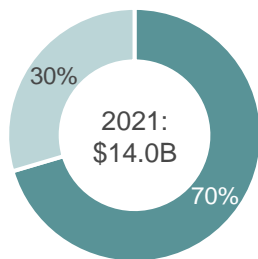


Bond Breakdown



■ Inv. Grade Corp. ■ High-Yield Corp.
■ Structured Credit ■ Agency

Loan Breakdown



■ Leveraged ■ Nonleveraged

Bonds by Segment

Inv. Grade Corp.	-31%
High-Yield Corp.	5%
Structured Credit	52%
Agency	-33%

All Bonds -12%

Loans by Segment

Leveraged	32%
Nonleveraged	37%
PE-Sponsored	64%
Non-sponsored	17%
Acquisition-Related	60%
Refi / Other	21%

All Synd. Loans 33%

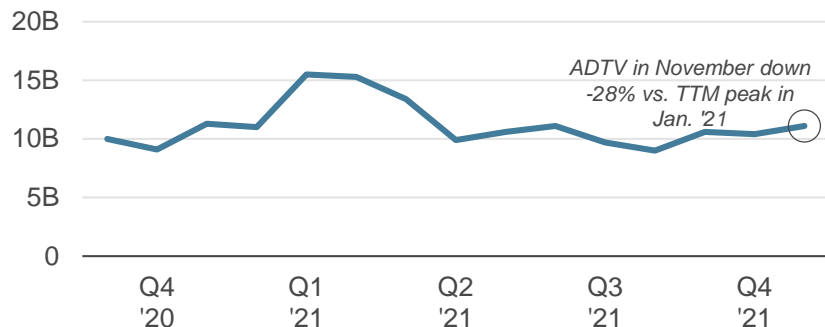
Sources: Refinitiv, S&P Global.

Note: Loan fees only include upfront arrangement fees on broadly syndicated loans; excludes directly placed loans, project finance, tax-free munis.

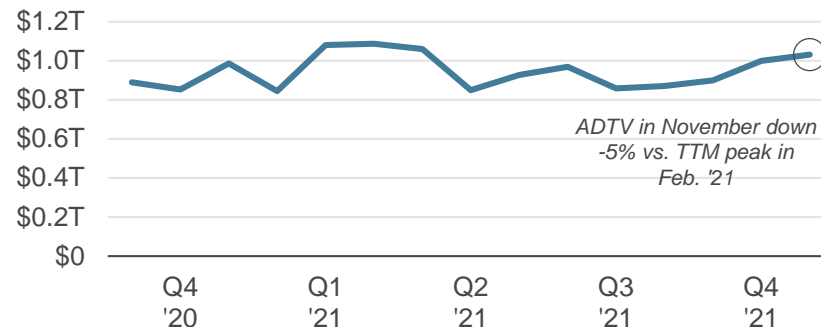
As Market Settles Post-Q1, Brokers Pursue Deals of Their Own

- While equities volumes ticked up in Q4 due to renewed volatility in growth stocks, volumes stayed well below Q1 levels as retail traders shifted from stocks to crypto and NFTs.
- However, the market's growing awareness of the active trading opportunity led to a surge in retail brokerage IPO announcements, including TradeStation, TradeZero, eToro, and Robinhood.
- On the institutional side, many questioned the viability of sellside research in a world driven by index funds and algorithmic execution. However, the value of independent, differentiated research was validated in acquisitions of Zelman, Cornerstone Macro, MoffettNathanson, JMP, and MKM within the last several months.
- Like equities, fixed income volumes experienced a Q4 bump from mid-2021 levels; interest rate volatility spiked trading in treasuries to post-March-2020 heights. On the other hand, more lucrative corporate bond trades trended downward in 2H, with the new issue downturn spilling over to trading volumes.

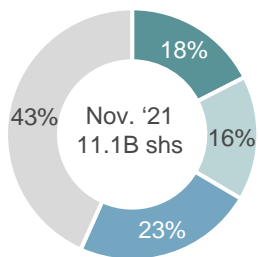
Equities Monthly ADTV (share volume in billions)



Fixed Income Monthly ADTV (\$ volume in trillions)

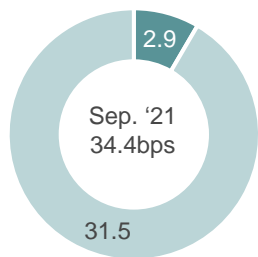


ADTV by Venue



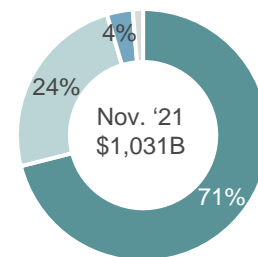
■ NYSE/Arca ■ Nasdaq
■ Other Exchanges ■ Off Exchange

Average Trade Cost



■ Commission
■ Implementation Shortfall

ADTV by Product



■ Treasuries ■ Agency MBS
■ Corporates ■ Other

Current vs. TTM Peak

Treasuries	17%
Agency MBS	-19%
Corporates	-11%
Munis	8%
Private MBS	-14%
Federal Agency Secs	-32%
ABS	-13%
All Fixed Income	-5%

Houlihan Lokey Coverage and Capabilities

Recent Houlihan Lokey Capital Markets Sector Transactions

Houlihan Lokey Financial Services Group

Asset and Wealth Management

Banking and Depositories

Capital Markets

Financial Technology

Insurance

Mortgage and Related Services

Spec. Finance and Challenger Banks

- With the legacy Freeman & Co. team, Houlihan Lokey is **the most active advisor in the space**, with 20+ deals closed since 2019.
- Unmatched reputation as the **“banker’s banker”** on transactions in the investment banking/financial advisory sector.
- The professionals involved in every broker-dealer/capital markets transaction executed by Freeman & Co. are still leading Houlihan Lokey’s coverage today—an **unprecedented 25+ years of continuity**.

Five Deals Announced Since December 2021

<p>FOCALPOINT</p> <p>has been acquired by</p> <p>RILEY Financial</p> <p>Sellside Advisor</p> <p><i>Multi-Sector Advisory</i></p>	<p>Transaction Pending</p> <p>MIZUHO</p> <p>has agreed to acquire</p> <p>Capstone Partners</p> <p>Buyside Advisor</p> <p><i>Fund Placement Advisory</i></p>	<p>MARSHBERRY</p> <p>has received a growth capital investment from</p> <p>ATLAS MERCHANT CAPITAL</p> <p>Sellside Advisor</p> <p><i>Insurance & Wealth Mgmt. Advisory</i></p>	<p>REGIONS</p> <p>has acquired</p> <p>Clearsight Advisors Investment banking</p> <p>Buyside Advisor</p> <p><i>Technology Advisory</i></p>	<p>Transaction Pending</p> <p>MKM PARTNERS</p> <p>has agreed to be acquired by</p> <p>FREEDOM HOLDING CORP.</p> <p>Sellside Advisor</p> <p><i>Institutional Equities</i></p>	<p>trade informatics</p> <p>has been acquired by</p> <p>AbelNoser</p> <p>a portfolio company of</p> <p>ESTANCIA CAPITAL PARTNERS</p> <p>Sellside Advisor</p> <p><i>Equities Trading and TCA</i></p>	<p>H2C Hammond Hanlon Camp LLC</p> <p>has been acquired by</p> <p>FIFTH THIRD BANK</p> <p>Sellside Advisor</p> <p><i>Healthcare Advisory</i></p>	<p>MGEX Minneapolis Grain Exchange</p> <p>has been acquired by</p> <p>MH MIAMI INTERNATIONAL HOLDINGS INC.</p> <p>Financial Advisor</p> <p><i>Exchanges</i></p>
<p>theValenceGroup</p> <p>has been acquired by</p> <p>PIPER SANDLER</p> <p>Sellside Advisor</p> <p><i>Chemicals Advisory</i></p>	<p>SIP SHARESPOST</p> <p>has been acquired by</p> <p>Forge</p> <p>Sellside Advisor</p> <p><i>Private Securities Marketplace</i></p>	<p>KippsDeSanto INVESTMENT BANKING</p> <p>has been acquired by</p> <p>CapitalOne</p> <p>Sellside Advisor*</p> <p><i>Aerospace and Defense Advisory</i></p>	<p>ETC</p> <p>has been acquired by</p> <p>PEAK6 the parent company of</p> <p>APEX Clearing*</p> <p>Sellside Advisor*</p> <p><i>Clearing and Mini-Prime</i></p>	<p>MERCURY CAPITAL ADVISORS and its wholly-owned subsidiary</p> <p>MERCURY iFunds have been acquired by</p> <p>INVESTCORP</p> <p>Sellside Advisor*</p> <p><i>Fund Placement Advisory</i></p>	<p>Janney</p> <p>has acquired</p> <p>FIG Partners</p> <p>Buyside Advisor*</p> <p><i>Full-Service Financial Services Inv. Bank</i></p>	<p>TraderTools a portfolio company of</p> <p>edisonpartners has received a minority investment from</p> <p>Undisclosed Investor Group</p> <p>Sellside Advisor*</p> <p><i>FX Liquidity Platform</i></p>	<p>PetskyPrunier INVESTMENT BANKERS</p> <p>has been acquired by</p> <p>CG/canaccord Genuity</p> <p>Sellside Advisor*</p> <p><i>Technology Advisory</i></p>

*Selected transactions were executed by Houlihan Lokey professionals while at other firms acquired by Houlihan Lokey.

Case Study: FocalPoint

Houlihan Lokey Advises FocalPoint on Its Sale to B. Riley Financial

- On January 18, 2022, FocalPoint, a leading independent investment bank based in Los Angeles, agreed to be acquired by B. Riley Financial (NASDAQ:RILY) (B. Riley) for total consideration of up to \$175 million.
- Founded in 2002, FocalPoint specializes in M&A, private capital advisory, financial restructuring, and special-situation transactions. The firm includes approximately 50 investment banking professionals with deep industry specialization in high-growth sectors.
- The transaction, which will create revenue synergies for both companies, comes as FocalPoint is experiencing significant momentum with \$17 billion in closed transactions spanning a successful 20-year history.
- B. Riley provides collaborative capital-raising and business advisory solutions spanning investment banking and institutional brokerage, private wealth and investment management, financial consulting, corporate restructuring, and more.
- The combination is expected to more than quadruple B. Riley's pro forma M&A advisory business, while enhancing its debt capital markets and financial restructuring capabilities.
- Further, the combination builds on the momentum and execution capabilities of both firms and is in line with B. Riley's stated intent to expand in M&A advisory and fixed income.
- Strategic and financial sponsor clients will now have access to both firms' proven execution capabilities and a full suite of end-to-end services from a single platform.



has been acquired by



Sellside Advisor



HOULIHAN LOKEY

Case Study: Mizuho

Houlihan Lokey Advises Mizuho Americas on Its Acquisition of Capstone Partners

- On January 11, 2022, Mizuho Americas (Mizuho) has signed an agreement to acquire Dallas-based Capstone Partners (Capstone), a leading independent, middle-market placement agent focused on fundraising and advisory services to private equity, credit, real assets, and infrastructure investment firms.
- Founded in 2001, the Capstone team includes 40 experienced professionals globally.
- Mizuho is an integral part of the Japan-based Mizuho Financial Group, one of the largest financial institutions in the world with ~900 offices and 60,000 employees in nearly 40 countries. As of December 31, 2020, its total assets were \$2.1 trillion.
- The deal underscores Mizuho's commitment to enhancing its investment banking offering and furthering the suite of solutions for clients in the alternative investment market, specifically financial sponsors.
- It also reinforces the bank's leading capital-raising and distribution capabilities through Capstone's global network of 1,500+ limited partners across the U.S., Europe, and Asia with expanded opportunities for cross-selling complementary investment banking solutions.
- In recent years, Mizuho has been expanding its investment and corporate banking franchise, leveraging its flagship investment grade bond and loan businesses to grow its noninvestment grade and financial sponsors franchise, lead IPO and SPAC transactions, and provide M&A services on notable transactions.
- The deal is expected to close in the first half of 2022, subject to regulatory approvals.

Transaction Pending



has agreed to acquire



Buy-side Advisor



HOULIHAN LOKEY

Case Study: MarshBerry

Houlihan Lokey Advises MarshBerry on a Growth Investment From Atlas Merchant Capital

- On January 10, 2022, MarshBerry, a leading financial advisory, consulting, and analytics firm serving the insurance distribution and wealth management industries received a significant growth capital investment from Atlas Merchant Capital (Atlas).
- Through a suite of industry-specific services, MarshBerry helps insurance agents and brokers, specialty distributors, private equity firms, and wealth management firms build, enhance, and sustain value.
- Based in New York and London, Atlas was founded by Bob Diamond and David Schamis, who (together with their partners) form a complementary partnership with extensive operating and investing expertise across the financial services landscape.
- The new partnership with Atlas will help MarshBerry accomplish its growth goals by improving and expanding services to create even better outcomes for clients.
- Further, this partnership provides access to additional resources to help execute on strategic growth initiatives, including expanded client solutions and acquisitions domestically and in Europe.



HOULIHAN LOKEY

Case Study: Regions

Houlihan Lokey Advises Regions Financial on Its Acquisition of ClearSight Advisors

- On December 31, 2021, Regions Financial (Regions) acquired ClearSight Advisors (ClearSight), a leading M&A advisory firm serving clients in the technology, professional services, data and information services, and digital and technology-enabled services sectors.
- ClearSight follows a research-driven, thematic approach toward building relationships across the sectors served by the company, enabling it to deliver a deep understanding of market trends and business strategies.
- With \$156 billion in assets, Regions is a member of the S&P 500 Index and is one of the nation's largest full-service providers of consumer and commercial banking, wealth management, and mortgage products and services.
- The acquisition represents another avenue for the bank to broaden its specialty capabilities for existing technology sector clients while reaching new clients that can leverage Regions' experience and resources to help them reach their financial objectives.
- Further, the acquisition is the latest example of Regions building additional revenue diversification by delivering more high-value, fee-based financial services and originations.



has acquired



BuySide Advisor



HOULIHAN LOKEY

Case Study: MKM Partners

Houlihan Lokey Advises MKM Partners on Its Sale to Freedom Holding Corp.

- On December 3, 2021, MKM Partners (MKM), one of the largest trading firms in the U.S. ranked in the top tier in equity research, agreed to be acquired by Freedom Holding Corp. (NASDAQ:FRHC) (Freedom).
- Freedom, headquartered in Almaty, Kazakhstan, conducts retail financial securities brokerage, investment research, investment counseling, securities trading, investment banking and underwriting services, and consumer banking.
- The transaction aligns with Freedom's commitment to growing U.S. services and expanding international distribution capabilities and builds on its acquisition of Prime Executions in January 2021.
- MKM's sales and trading professionals and 1,000+ clients will add to Freedom's 290,000+ retail clients and nearly 600 brokers.
- The transaction demonstrates the power of Houlihan Lokey's global reach and cross-border execution expertise.
- Completion of the transaction is subject to certain conditions, including FINRA approval.

Transaction Pending

MKM PARTNERS

has agreed to be acquired by

 **FREEDOM**
HOLDING CORP.

Sellside Advisor



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Houlihan Lokey Financial Services Group

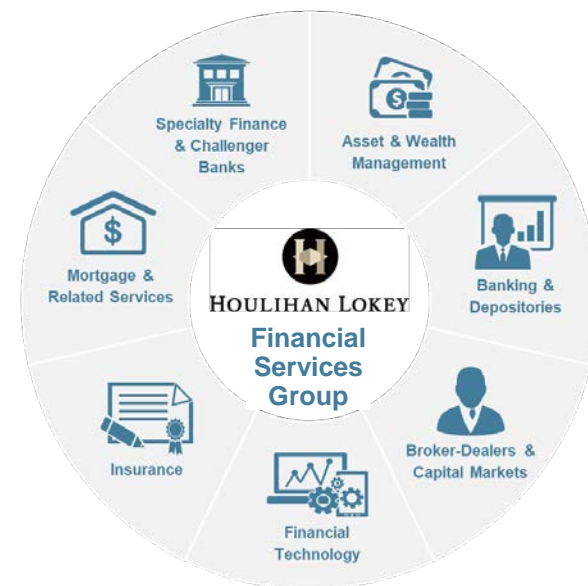
2016–2021 M&A Advisor Rankings North America and Europe Financial Sector⁽¹⁾ Transactions With Disclosed Deal Values up to \$1.0 Billion

Rank	Advisor	Deals
1	Houlihan Lokey	73
2	Barclays Capital	65
3	JP Morgan	55
4	Morgan Stanley	54
5	Piper Sandler	53
6	BofA Securities	49
7	Goldman Sachs	47
8	Raymond James	43
9	Stifel/KBW	42
10	KPMG	40

Source: SNL Financial.
(1) Rankings exclude depository transactions.

No. 1 Ranked M&A Advisor to nondepository financial services companies cumulatively over the last three-, five-, seven-, and 10-year periods.

- **Global:** One of the largest, most experienced and most active financial services teams of any independent investment bank.
- 65+ dedicated financial services/fintech professionals based in New York and London, with additional offices in Miami, Los Angeles, and Boston.
- Exceptional momentum with 150+ completed transactions since 2019.
- Deep domain knowledge and entrenched relationships with marquee clients across every sector of financial services.
- Long-term, relationship-driven approach toward clients with senior participation on all engagements.
- Conflict-free, independent advice hired for our intellectual capital and sector expertise by the industry's highest profile clients despite no lending relationship.



Product Capabilities



The Leading Independent, Global Advisory Firm



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

2,200+ Employees	38 Locations	\$7 Billion+ Market Cap	HLI LISTED NYSE	~\$2 Billion Annual Revenue	~25% Employee-Owned	No Debt
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Corporate Finance

- No. 1 Global M&A Advisor
- Leading Capital Markets Advisor Raising More Than \$100 Billion In Past Five Years

Rank	Advisor	Deals
1	Houlihan Lokey	549
2	Goldman Sachs	511
3	JP Morgan	508

Source: Refinitiv. Excludes accounting firms and brokers.

Financial Restructuring

- No. 1 Global Restructuring Advisor
- \$3.0 Trillion of Aggregate Transaction Value Completed

Rank	Advisor	Deals
1	Houlihan Lokey	63
2	Rothschild	38
3	Moelis	34

Source: Refinitiv.

Financial and Valuation Advisory

- No. 1 Global M&A Fairness Opinion Advisor
- 1,000+ Annual Valuation Engagements

Rank	Advisor	Deals
1	Houlihan Lokey	952
2	JP Morgan	890
3	Duff & Phelps, A Kroll Business	882

Source: Refinitiv. Announced or completed transactions.

Financial Sponsors Coverage

- No. 1 Global Advisor to Private Equity Firms
- 1,000+ Sponsors Covered Globally

Rank	Advisor	Deals
1	Houlihan Lokey	153
2	Lincoln International	103
3	KPMG	99

Source: PitchBook.

Houlihan Lokey acquired GCA in October 2021, significantly expanding the firm's geographic reach in Europe and Asia and creating the most active global M&A advisory firm

Combined Global Presence:

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