The Different Roles of Fairness Opinions in Different Types of Deals

Organismo Italiano di Valutazione
4th Annual International Conference

30 November 2015

CORPORATE FINANCE
FINANCIAL ADVISORY SERVICES
FINANCIAL RESTRUCTURING
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Introduction

Fairness opinions and their roles in corporate transactions can differ widely for different types of deals, influencing nearly every aspect of the practitioner's approach to the engagement.

This presentation will discuss a few of the more common types of fairness opinions—as well as some of the less common types—and will address issues such as:

- the role of the fairness opinion
- typical opinion conclusion formulations
- who the opinion typically “runs to”
- the basis on which the opinion will be supported
- core valuation analyses used in fairness opinions
- other commonly-used analytical procedures
- factors driving requests for opinion disclosure
- how the type of fairness opinion can drive variation in opinion fees

General Types of Fairness Opinions

Sell-Side Opinion

Whether the Consideration to be received by the holders of Target Company stock in the Transaction is fair to such holders from a financial point of view

Buy-Side Opinion

Whether the Consideration to be paid by the Acquiror for all of the outstanding shares of common stock of the Target in the Transaction is fair to the Acquiror from a financial point of view

Stock-for-Stock Opinion

Whether the Exchange Ratio provided for in the Transaction is fair to the holders of Target Company stock from a financial point of view

Non-standard Opinions

- Financing opinions
- Indenture-related opinions
- Recapitalization transactions
- Relative fairness opinions
- Not-for-profit conversion opinions

The Many Roles of the Fairness Opinion

Fairness opinions in corporate transactions function in multiple roles; some intended, and some unintended (from the perspective of the opinion issuer):

Intended (Valid) Roles:

- To inform the board whether the proposed consideration to be received (or paid) is fair, from a financial point of view, to the party receiving (or paying) such consideration
- To provide the board of directors with an independent analysis of a proposed transaction
- To aid in the board's decision making

Unintended (Valid) Roles:

- To demonstrate the board has attempted to fulfil its fiduciary duties—particularly the duty of care
- To mitigate the risk of litigation

Unintended (Invalid) Roles:

- To inform the board as the fairness of aspects of the proposed Transaction other than the consideration
- To enhance the company's communication with its shareholders
- A recommendation that the board vote to approve a potential transaction
- A tool to influence shareholder approval of a potential transaction
- A tool to deter shareholder approval of a potential transaction

Sell-Side Opinion (Cash Only)

Typical Opinion Conclusion	• Whether the Consideration to be received by the holders of Target company stock in the Transaction is fair to such holders from a financial point of view
Basis for the Opinion	• Compares the proposed transaction consideration with the value ranges indicated by valuation analyses of the target company
Core Valuation Analyses	• Selected public companies • Selected transactions • Discounted cash flow
Additional Analyses	• Premiums paid analysis • Present value of future stock price • Trading history analysis • LBO analysis
Disclosure	• Disclosure is generally required if target is a listed company • Disclosure triggers: "going private" (13e-3) transactions; requirement for stockholder approval
Opinion Fee	• Non-contingent (fixed) fee • Increased fee triggers: disclosure, transaction size, control stockholder, affiliate transaction, no sale process

Premiums Paid Analysis

Premiums Paid Analysis

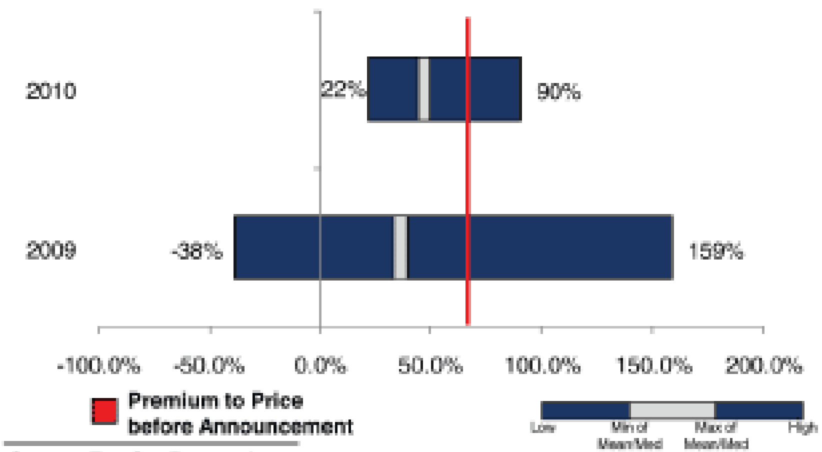
- Raymond James analyzed premiums paid by buyers in transactions involving public targets in all industries with the following criteria:
  - Completed transactions announced since January 2009
  - Enterprise values between $20 million to $100 million

	1-Day	1-Week	1-Month
High	158.6	170.3	245.3
Mean	41.9	44.4	59.1
Median	35.8	30.9	37.9
Low	-38.5	-41.8	-36.4

Premium Analysis – Current

	Price	Implied Premium
Current (8/9/10)	$7.25	17.2%
One week prior (8/2/10)	$7.25	17.2%
One month prior (7/9/10)	$7.25	17.2%
Three months prior (5/7/10)	$6.00	41.7%
52 week high (8/5/10)	$7.25	17.2%
One month average	$6.70	26.8%
Three month average	$6.34	34.2%
52 week average	$5.17	64.5%

One Day Prior Premiums, by Year



Source: FactSet Research

Premium Analysis – Day Prior to Announcement

	Price	Implied Premium
Announcement (3/22/10)	$5.00	70.0%
One week prior (3/15/10)	$4.75	78.9%
One month prior (2/22/10)	$5.50	54.5%
Three months prior (12/22/09)	$5.94	43.1%
52 week high (11/20/09)	$6.50	30.8%
One month average	$5.18	64.0%
Three month average	$5.18	64.2%
52 week average	$4.15	105.0%

PV of Future Stock Price Analysis

Illustrative Future Value of Share Price[1]

Illustrative Present Values of 2015 Stock Price[2]

Illustrative P/E Multiple	Illustrative Cost of Equity 13.0%	13.5%	14.0%	14.5%	15.0%
5.5 x	$ 7.61	$ 7.51	$ 7.42	$ 7.32	$ 7.22
6.0 x	$ 8.31	$ 8.20	$ 8.09	$ 7.98	$ 7.88
6.5 x	$ 9.00	$ 8.88	$ 8.76	$ 8.65	$ 8.54
7.0 x	$ 9.69	$ 9.56	$ 9.44	$ 9.32	$ 9.19
7.5 x	$ 10.38	$ 10.25	$ 10.11	$ 9.98	$ 9.85

(US$ per share, US$ mm)	2012A	2013E	2014E	2015E	2016E	2012A – 2016E CAGR
Non-GAAP EPS [3]	1.15	1.18	1.46	1.79	2.00	14.7%

Note: Non-GAAP adjustments exclude depreciation, amortization and SBC related expenses
Source: Management Projections
[1] Based on projected non-GAAP EPS multiplied by P/E. Share price as of May 8, 2013
[2] Present value is discounted to the beginning of 2013. 2016E Non-GAAP Income of $149.0mm. Refer to appendix for illustrative cost of equity calculation
[3] Diluted shares outstanding of 74.6 million as of May 8, 2013

Trading History Analysis

Share Price Performance and Volume (Since July 2007 Listing)

	Price	Bain Capital's Offer Premium/(Discount)
Price as of May 13, 2011	$7.25	24.1%
1M VWAP	$6.94	29.7%
3M VWAP	$6.53	37.7%
6M VWAP	$6.62	36.0%
12M VWAP	$8.20	9.8%
52 week low (Mar 24, 2011)	$5.23	72.1%
52 week high (May 18, 2010)	$14.79	(39.1%)

Source: FactSet and company announcements

Leveraged Buy-Out (LBO) Analysis

Assumptions

- Assumes a 8/27/11 transaction at $9.25/share
- Assumes operating model based on Shakespeare Board case and management guidance through balance of projection period
- Assumes ultimately will be financed with ~$300mm of Term Loan @ L+450, with LIBOR floor of 125bps
  - Undrawn revolver of $50mm, with 0.50% commitment fee on undrawn portion of the facility
- Assumes $65mm of minimum cash which results in approximately $70mm of cash used toward financing the transaction
- Assumes financing sources used to retire existing floating rate notes, pay expenses and purchase equity
- Pro forma for the transaction, Shakespeare will be levered at 4.2x with a 4.1x coverage ratio, based on 8/27/11 LTM EBITDA

Pro Forma Capitalization Table

($ in millions)

	Status Quo	LBO Adj.	Pro Forma
Cash	**$135.4**	**($70.4)**	**$65.0**
Existing Sr. Secured FRNs	$55.1	($55.1)	$0.0
Term Loan	0.0	300.0	300.0
Total Debt	**$55.1**	**$244.9**	**$300.0**
Shareholders' Equity	338.4	(6.1)	332.4
Total Capitalization	**$393.5**	**$238.9**	**$632.4**
LTM Data (as of 8/27/11)			
EBITDA	$71.6		$71.6
Cash Interest Expense	1.3		17.3
Capital Expenditures	28.2		28.2
Credit Stats			
Total Debt / EBITDA	0.8x		4.2x
Total Debt / (EBITDA - Capex)	1.3x		6.9x
EBITDA / Cash Interest	55.9x		4.1x
(EBITDA - Capex) / Cash Interest	33.9x		2.5x
Total Debt / Total Capitalization	14.0%		47.4%

Sources and Uses

($ in millions)

	$ mm	% of Total	Multiple of LTM EBITDA	Multiple of FTM EBITDA
Sources of Funds				
Excess Target Cash	$70.4	9.9%	1.0x	1.0x
Debt				
Term Loan	300.0	42.0%	4.2x	4.3x
Equity				
Common - Sponsor	324.3	45.4%	4.5x	4.6x
Employee Rollover	19.6	2.7%	0.3x	0.3x
Total Sources	**$714.2**	**100.0%**	**10.0x**	**10.2x**
Uses of Funds				
Equity Purchase Price				
Existing Shareholders	$625.6	87.6%	8.7x	8.9x
Employee Rollover	19.6	2.7%	0.3x	0.3x
Other Uses				
Refinance Debt	55.1	7.7%	0.8x	0.8x
Expenses & Fees	14.0	2.0%	0.2x	0.2x
Total Uses	**$714.2**	**100.0%**	**10.0x**	**10.2x**

Exit IRR Analysis

	Adjusted FTM EBITDA Exit Multiple		
	4.0x	**4.5x**	**5.0x**
Year 3	5.8%	11.6%	16.9%
Year 5	14.0%	16.8%	19.4%
Year 7	16.7%	18.4%	20.0%

Source: Management projections.
Note: Assumes interest rate of L+450 on Term Loan, with LIBOR floor of 125bps. IRR calculated assuming on completion of transaction on 8/27/2011. 8/27/11 cash balance based on management guidance. Assumes $65mm minimum cash. Assumes $1.9mm of public company cost savings per management guidance. Transaction expenses and fees include M&A fees and prepayment of existing senior rate notes at 101, per management guidance.

Buy-Side Opinion (Cash Only)

Typical Opinion Conclusion	• Whether the Consideration to be paid by the Acquiror for all of the outstanding shares of common stock of the Target in the Transaction is <u>fair to the Acquiror</u> from a financial point of view
Basis for the Opinion	• Compares the proposed transaction consideration with the value ranges indicated by valuation analyses of the target company
Core Valuation Analyses	• Selected public companies • Selected transactions • Discounted cash flow
Additional Analyses	• Synergies analysis • Accretion/dilution analysis • Premiums paid analysis
Disclosure	• Disclosure is not generally required • Disclosure triggers: requirement for stockholder approval; issuance of [20%] of new equity
Opinion Fee	• Non-contingent (fixed) fee • Increased fee triggers: disclosure, transaction size, control stockholder, affiliate transaction, comprehensive sale process

Synergies Analysis

- Synergies achievable following the completion of Novartis purchase from Nestlé are included in the Novartis standalone financial forecasts
- Incremental synergies achievable through 100% ownership have been valued separately
- Valuation assumptions
  - – Novartis assumes incremental cost synergies of US$100m for 100% ownership
  - – Synergies phased in over first three years post-acquisition (33% in 2011, 71% in 2012 and 100% from 2013 onwards)
  - – Restructuring / other costs associated with synergies assumed in each of the first four years
  - –Synergies discounted at a WACC of 8.0% and EBITDA exit multiple of 8.0x based on Novartis valuation assumptions
  - –Tax rate of 25% based on Novartis valuation assumptions

Synergies valuation analysis

(US$ in millions)

	2011E	2012E	2013E	2014E
Synergies - 100% ownership	33	71	100	100
Transaction fees	(20)	–	–	–
Restructuring costs	(43)	(95)	(114)	(52)
Total synergies	**(30)**	**(24)**	**(14)**	**48**
Taxes	7	6	3	(12)
Tax rate	*25.0%*	*25.0%*	*25.0%*	*25.0%*
Total synergies net of tax	**(22)**	**(18)**	**(10)**	**36**

NPV 4-Yr cash flow	**(18)**
Perpetuity value	**577**
Total	**559**
NPV per share	**1.82**

Synergies value per share

EBITDA exit multiple	WACC 7.0%	7.5%	8.0%	8.5%	9.0%
7.0x	1.66	1.62	1.59	1.56	1.52
7.5x	1.78	1.74	1.71	1.67	1.64
8.0x	1.90	1.86	1.82	1.79	1.75
8.5x	2.02	1.98	1.94	1.90	1.86
9.0x	2.15	2.10	2.06	2.02	1.98

Accretion/Dilution Analysis

Exchange Ratio	0.510 x
Purchase Price per Share ($) as of 13-Dec-2013	$ 12.74
Premium to Kevin Market Price	33.7 %
Premium to 3 month VWAP ($9.86)	29.2
Premium to 6 month VWAP ($10.16)	25.4

Accretion / (Dilution)	Roger Metric	
AT Economic Net Income ($)		
2014E	$ 2.47	$(0.04)
2015E	2.72	(0.04)
AT Economic Net Income (%)		
2014E		(1.7)%
2015E		(1.4)
AT FRE ($)		
2014E	$ 0.50	$(0.11)
2015E	0.55	(0.12)
AT FRE (%)		
2014E		(21.6)%
2015E		(21.0)
AT Distributed Earnings ($)		
2014E	$ 1.36	$ 0.11
2015E	1.52	0.11
AT Distributed Earnings (%)		
2014E		7.8 %
2015E		7.6

Note: Key assumptions (1) Financial statements as of 30-Sep-2013 (2) Roger projected financials for 2014E/2015E as per average of selected analyst estimates as approved for our use by Roger management dated 09-Dec-2013, Kevin financials as per Roger management projections dated 14-Dec-2013. Synergies adjust for reduction of FRE, added back as Investment Income, G&A savings, tax impacts, and pro forma reduction of cash balance as well as impact of change in dividend policy between Kevin standalone and pro forma, as provided by Roger management. (3) Transaction date of 31-Dec-2013 (4) Transaction fees of approximately $40mm per Roger management.

Stock-for-Stock Opinion (Fixed Exchange Ratio)

Typical Opinion Conclusion	• Whether the Exchange Ratio provided for in the Transaction is fair to the holders of Target Company stock from a financial point of view
Basis for the Opinion	• Compares the proposed transaction share exchange ratio with the exchange ratio ranges indicated by relative valuation analyses of both companies
Core Valuation Analyses	• Selected public companies • Discounted cash flow
Additional Analyses	• Trading history analysis • Relative contribution analysis
Disclosure	• Disclosure is generally required for a listed company
Opinion Fee	• Non-contingent (fixed) fee • Increased fee triggers: control stockholder; need to analyze both parties

Relative Contribution Analysis

Income Statement (After-tax)	Roger		Kevin		
	$	%	$	%	Total
2014					
Fee Related Earnings	$ 358	100.0 %	$ 0	0.0 %	$ 358
Incentive Earnings	728	100.0	0	0.0	728
Investment Earnings	696	76.0	220	24.0	916
Economic Net Income	$ 1,782	89.0 %	$ 220	11.0 %	$ 2,002
Distributed Earnings[1]	$ 944	85.6 %	$ 159	14.4 %	$ 1,103
2015					
Fee Related Earnings	$ 402	100.0 %	$ 0	0.0 %	$ 402
Incentive Earnings	842	100.0	0	0.0	842
Investment Earnings	747	74.8	252	25.2	999
Economic Net Income	$ 1,990	88.8 %	$ 252	11.2 %	$ 2,242
Distributed Earnings[1]	$ 1,072	85.1 %	$ 188	14.9 %	$ 1,260

Balance Sheet	Roger		Kevin		
	$	%	$	%	Total
30-Sep-2013					
Book Value	$ 7,208	77.2 %	$ 2,133	22.8 %	$ 9,341

Pro Forma Ownership	Roger Unitholders'		Kevin Shareholders'		
	mm	%	mm	%	Total
30-Sep-2013					
Shares Oustanding[2]	715.8	87.2 %	105.1	12.8 %	820.9

Source: Roger projected financials for 2014E/2015E as per average of selected analyst estimates as approved for our use by Roger management dated 09-Dec-2013, Kevin financials as per Roger management projections dated 14-Dec-2013

[1] Represents realized income for Kevin.

[2] Based on total of Roger's diluted units outstanding and Roger Group Partnership Units outstanding of 715.8mm as of 30-Sep-2013; and shares issued based on Kevin's diluted units as of 30-Sep-2013; applies a 0.51x exchange ratio.

Financing Opinion

Typical Opinion Conclusion	• Whether the Consideration to be received by the Company in the Financing Transaction is fair to the Company from a financial point of view
Basis for the Opinion	• Compares the proposed financing consideration with the value ranges indicated by valuation analyses of the to-be-issued securities
Core Valuation Analyses	• Selected public companies • Selected transactions • Discounted cash flow • Liquidation analysis
Additional Analyses	• Equity allocation analysis
Disclosure	• Disclosure is generally not required • Disclosure triggers: requirement for stockholder approval; issuance of [20%] of new equity
Opinion Fee	• Non-contingent (fixed) fee • Increased fee triggers: disclosure, transaction size, financial distress, control stockholder, affiliate transaction, no transaction process

Liquidation Analysis

($ in thousands)

	Book Value	Range of Recovery Rates		
		60%	70%	80%
Accounts Receivable	$11,747	$7,048	$8,223	$9,398
		40%	50%	60%
Inventory	$2,006	$802	$1,003	$1,204
		60%	70%	80%
Net Fixed Assets	$2,321	$1,393	$1,625	$1,857
		84%	84%	84%
Cash and Short Term Investments	$11,901	$10,023	$10,023	$10,023
Less: Transaction Costs (2)		(963)	(1,044)	(1,124)
Net Assets		**$18,303**	**$19,830**	**$21,357**
Face Value of Debt		$0	$0	$0
Accounts Payable		$2,044	$2,044	$2,044
Accruals & Other Current Liabilities		$2,490	$2,490	$2,490
Surplus / (Deficit)		**$13,768**	**$15,295**	**$16,822**
Fully Diluted Common Shares Issued and Outstanding		5,471,232	5,471,232	5,471,232
Implied Per Share Range (USD)		$2.52	$2.80	$3.07

(1) Duff & Phelps assumed that in a liquidation, goodwill and intangible value were negligible.

(2) Transaction costs are estimated to be 5% of recoverable assets.

Note: Balances as of December 31, 2011

Equity Allocation Analysis

(figures in millions, except per share data)

	Common Shares	Common Equivalents	Percentage of Value in Range Allocable to Each Security					
			$0.0 $80.0	$80.0 $145.7	$145.7 $154.4	$154.4 $200.6	$200.6 $267.2	$267.2 & Greater
Series A Preferred Stock	34.8	34.8	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%
Series B Preferred Stock	131.4	131.4	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%
Series C Preferred Stock	154.9	154.9	100.0%	0.0%	0.0%	0.0%	0.0%	33.5%
Common Stock	154.0	154.0	0.0%	0.0%	0.0%	100.0%	50.0%	33.3%
Options Issued	154.0	154.0	0.0%	0.0%	0.0%	0.0%	50.0%	33.3%
Total	633.1	633.1	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

	Indicated Value			Value of Option to Receive Percentage of Value in Range					
Series A Preferred Stock				$0.0	$80.0	$145.7	$154.4	$200.6	$267.2
Series B Preferred Stock	Per-Share	Per-CSE	Total	$80.0	$145.7	$154.4	$200.6	$267.2	& Greater
Series C Preferred Stock	$0.09	$0.09	$3.3	$0.0	$0.0	$3.3	$0.0	$0.0	$0.0
Common Stock	$0.28	$0.28	$36.7	$0.0	$36.7	$0.0	$0.0	$0.0	$0.0
Options Issued	$0.50	$0.50	$77.7						
	$0.15	$0.15	$22.8	$73.5	$0.0	$0.0	$0.0	$0.0	$4.2
	$0.06	$0.06	$9.6	$0.0	$0.0	$0.0	$13.2	$5.4	$4.2
				$0.0	$0.0	$0.0	$0.0	$5.4	$4.2
Total			$150.0	$73.5	$36.7	$3.3	$13.2	$10.7	$12.6

Assumptions								
Exercise Price of Option			$0.0	$80.0	$145.7	$154.4	$200.6	$267.2
Black-Scholes Option Value		$150.0		$76.5	$39.8	$36.5	$23.3	$12.6
Differential in Black-Scholes Option Value		$73.5		$36.7	$3.3	$13.2	$10.7	$12.6
Value of Equity	$150.0							
Volatility	45.0%							
Time to Liquidity	2.00							
Risk-Free Rate	0.64%							

Note: Risk-Free Rate and Volatility are based on the liquidity time horizon.

Equity Allocation Analysis (cont.)

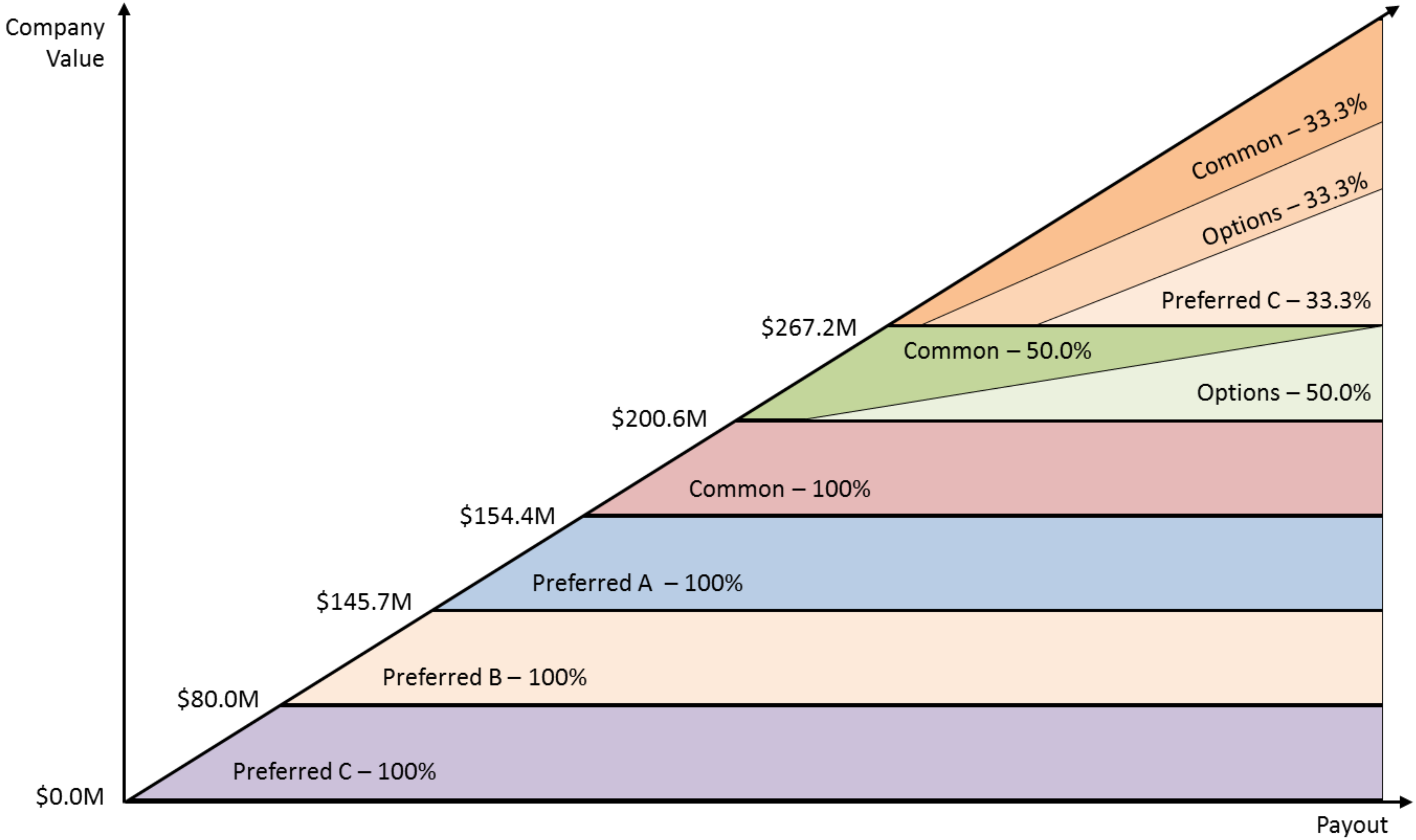
The option pricing method allocates the Company's estimated aggregate equity value to each of its securities. The securities can be viewed as options exercisable in a future liquidity event. For example, in a common-only capital structure, the common stock is analogous to an option with a strike price of $0.00. An option can represent the payoff diagram for all ranges of equity value. Various strike prices are determined by "break-points." A break-point is a company valuation point where the next class of security begins to have value. Break-points can be determined by differing rights and privileges such as liquidation preference and strike prices of options and warrants. The change in option value between these break-points is allocated to the appropriate securities.

This methodology is based on the Black-Scholes option pricing model. Principal components of this model include the estimated stock price, exercise price, volatility, time to expiration and the risk-free rate.

- The stock price was estimated as the Company's aggregate equity value.
- Volatility was based on the implied volatility of a portfolio of comparable companies.
- Time to expiration was based on the estimated time to a Company liquidity event.
- Exercise prices were based on our analysis of relative rights, privileges and preferences of the securities.
- The risk-free rate was based on the U.S. Treasury note yields.

The Option Pricing Method is appropriate to use when specific future outcomes are difficult to predict.

Equity Allocation Analysis (cont.)



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Mr. Tarbell is a Director in Houlihan Lokey's Financial Advisory Services business. He has more than 25 years of experience providing valuation and financial opinions to private and publicly traded companies. Mr. Tarbell is Head of the firm's Estate and Gift Tax Valuation practice, Co-Head of the firm's Employee Stock Ownership Plan Valuation practice, and a member of the firm's Technical Standards Committee. He is based in the firm's San Francisco office.

Before joining Houlihan Lokey, Mr. Tarbell was the Director of Financial Advisory Services for a national valuation firm. Earlier, he was a Vice President in the M&A group of a boutique investment banking firm.

Mr. Tarbell speaks frequently on securities valuation, capital markets, and other financial issues. He develops and teaches valuation content for the American Society of Appraisers, undergraduate- and graduate-level university courses, Big Four accounting firms, and law firms. He has served as a reviewer, editor, contributing author, or technical advisor for several valuation textbooks and publications, including *Cost of Capital: Applications and Examples, 5th ed.*, by Shannon P. Pratt and Roger J. Grabowski (Wiley Finance, 2014). He is also a member of the Editorial Advisory Board of Business Valuation Update. He has testified in various legal forums, including state and federal courts, the U.S. Tax Court, the U.S. Congress, and the U.S. Department of Labor, as well as in arbitration, mediation, and deposition proceedings. He also frequently serves as a consultant to lawyers during litigation and dispute resolution.

Mr. Tarbell earned a B.S. from the University of Oregon (1990) and an MBA from the University of Chicago Booth School of Business (1997). He is an accredited senior appraiser (ASA), certified in business valuation, of the American Society of Appraisers and an officer of its Business Valuation Committee. He holds the designation of Chartered Financial Analyst (CFA) of the CFA Institute. Mr. Tarbell is a member of the Executive Committee of the International Institute of Business Valuers (IIBV) and the Board of Directors of the Valuation Roundtable of San Francisco. He is the former chair of the Valuation Advisory Committee of The ESOP Association. He is also a member of the Portland Society of Financial Analysts and an associate member of the National Association of Corporation Directors and the American Bar Association.

Qualifications

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