Houlihan Lokey, Inc. (HLI)

Updated August 26th, 2023, by Tiago Dias

Key Metrics

Current Price:	$102	**5 Year CAGR Estimate:**	-12.8%	**Market Cap:**	$6.9 B
Fair Value Price:	$52	**5 Year Growth Estimate:**	-5.0%	**Ex-Dividend Date:**	08/31/2023
% Fair Value:	196%	**5 Year Valuation Multiple Estimate:**	-12.6%	**Dividend Payment Date:**	09/15/2023
Dividend Yield:	2.2%	**5 Year Price Target**	$40	**Years Of Dividend Growth:**	6
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Rating:**	Sell

Overview & Current Events

Houlihan Lokey, Inc. (HLI) is a global independent investment bank with expertise in mergers and acquisitions (M&A), capital markets, financial restructurings, and financial and valuation advisory. Founded in 1972, this $7 billion market cap company has raised its dividend for the past 6 years.

Houlihan Lokey, Inc. reported Q1 2024 earnings on July 27th, 2023. For the quarter, earnings-per-share equaled $0.90, lower than the $1.03 the company reported in Q1 2023. The company has announced a new $0.55 dividend to be paid on the 15th of September. This dividend is well covered by the company's earnings.

The first quarter in fiscal year 2024 has continued to see strength in financial restructuring and softness in the M&A market, the sixth quarter in a row where these dynamics have presented themselves. However, recently, the company has started to see some improvements in the M&A environment and the management team is hopeful that this momentum will remain for the foreseeable future.

The company has continued to invest in its people and infrastructure for the last 18 months in anticipation of improved market conditions, and the management team believes they are well positioned to capitalize when they occur.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	--	--	$1.10	$1.63	$2.36	$2.42	$2.80	$4.55	$6.41	$3.98	***$4.00***	***$3.10***
DPS	--	--	$0.30	$0.71	$0.80	$1.08	$1.24	$1.30	$1.82	$2.12	***$2.20***	***$2.31***
Shares	--	--	65	67	68	65	65	68	67	68	***68.0***	***68.0***

HLI is an investment bank, and the bulk of its business is related to consulting and other investment advisory services, rather than the trading that some investment banks engage in. This has benefits and drawbacks, over the past couple of years this focus on advisory services has helped them do well, given the increase in mergers, acquisitions and in particular the SPAC boom of 2020.

On the other hand, now that interest rates are rising, and capital isn't as cheap anymore, this boom has begun to stall out, and that will drag down the company's business going forward. While this isn't by any means a deathblow to the company, it does help characterize the cyclicality of the business, and its prospects in an environment with a hawkish Federal Reserve. For these reasons we expect that over the next 5 years the company's earnings will shrink at a rate of around 5% per year, and we estimate that its EPS in 2029 will be around $3.10 per share.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	--	--	20.4	16.4	17.0	18.7	17.0	13.6	14.0	21.6	***25.5***	***13.0***
Avg. Yld.	--	--	1.3%	2.7%	2.0%	2.4%	2.6%	2.1%	1.7%	2.5%	***2.2%***	***5.7%***

HLI has traditionally traded at around 16 times earnings, however with the more hawkish Federal Reserve constraining their activities going forward, we expect that this ratio will shrink to around 13 times earnings by 2029, in line with its worsening fundamentals.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	--	--	27%	44%	34%	45%	44%	29%	28%	53%	***55%***	***75%***

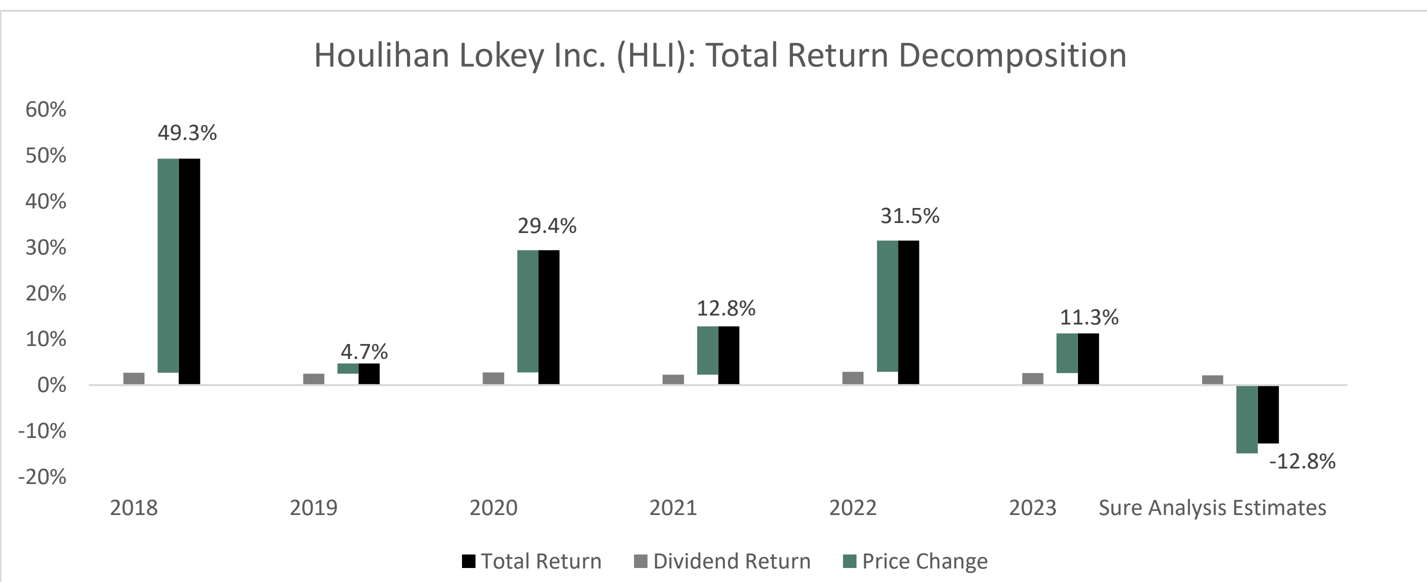
Houlihan Lokey Inc. is a well-established business with global operations and given its focus on advisory services over the traditional trading that many investment banks engage in, they are well positioned for a drawdown in their business, thanks to their lack of leverage. Indeed, leverage is often the cause of investment bank failures, and HLI is almost entirely insulated from such failure modes.

While it is concerning that macro-economic factors are currently moving against the company, the lack of leverage, long term debt commitments and the highly dynamic business model that HLI is engaging in means that they are well prepared to be able to cut costs and maintain profitability even in a difficult economic environment. Their geographical diversification also gives them some optionality going forward.

Final Thoughts & Recommendation

With a 2.2% dividend yield, we are forecasting total return loss of 12.8% per annum, driven primarily by a shrinkage of their advisory and M&A business as a result of macro-economic factors and a reversion to the mean. We expect their valuation ratios to decrease in the future; particularly given the difficult environment they are operating in. As a result, their shares earn a sell rating.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue		592	681	694	872	963	1,084	1,159	1,525	2,270
Gross Profit		178	206			327	392	422	554	861
Gross Margin		30.0%	30.2%	0.0%	0.0%	33.9%	36.2%	36.4%	36.3%	37.9%
SG&A Exp.		53	62	525	649	91	126	135	102	150
D&A Exp.		6	6	7	9	8	14	17	15	49
Operating Profit		103	129			214	219	230	408	613
Op. Margin		17.4%	18.9%	0.0%	0.0%	22.3%	20.2%	19.8%	26.8%	27.0%
Net Profit		61	80	70	108	172	159	184	313	438
Net Margin		10.4%	11.7%	10.1%	12.4%	17.9%	14.7%	15.9%	20.5%	19.3%
Free Cash Flow		163	192	2	238	243	218	267	566	728
Income Tax		44	52	56	70	46	65	52	96	166

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets		1,061	1,230	1,071	1,386	1,419	1,426	1,677	2,426	2,887
Cash & Equivalents		109	89	166	300	207	286	380	847	834
Acc. Receivable		51	57		121		71	81	108	144
Goodwill & Int.		643	653	717	715	723	795	813	866	1,318
Total Liabilities		346	404	417	655	566	535	693	1,043	1,443
Accounts Payable		36	37		42		55	54	67	126
Long-Term Debt		-	-	-	33	-	9	5	1	1
Total Equity		712	823	651	727	853	891	984	1,384	1,444
LTD/E Ratio		-	-	-	0.04	-	0.01	0.00	0.00	0.00

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets			7.0%	6.1%	8.8%	12.3%	11.2%	11.8%	15.2%	16.5%
Return on Equity			10.4%	9.5%	15.7%	21.8%	18.2%	19.6%	26.4%	31.0%
ROIC			10.4%	9.4%	15.3%	21.3%	18.2%	19.5%	26.4%	31.0%
Shares Out.				65	67	68	65	65	68	67
Revenue/Share		9.80	11.26	10.93	13.10	14.53	16.47	17.64	22.21	33.25
FCF/Share		2.69	3.17	0.04	3.57	3.66	3.30	4.06	8.24	10.66

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.