



Houlihan Lokey, Inc. (HLI)

Updated June 9th, 2024, by Tiago Dias

Key Metrics

Current Price:	\$130	5 Year CAGR Estimate:	-16.8%	Market Cap:	\$8.8 B
Fair Value Price:	\$52	5 Year Growth Estimate:	-5.0%	Ex-Dividend Date:	06/03/2024
% Fair Value:	250%	5 Year Valuation Multiple Estimate:	-16.7%	Dividend Payment Date:	06/15/2024
Dividend Yield:	1.8%	5 Year Price Target	\$40	Years Of Dividend Growth:	7
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 \$8.8 billion market cap company has raised its dividend for the past seven years.

Houlihan Lokey, Inc. reported Q4 and full year 2024 earnings on May 8th, 2024. For the quarter, earnings-per-share equaled \$1.18, higher than the \$0.88 the company reported in the same period the year before. For the full year the company reported diluted earnings per share of \$4.11, above the \$3.76 reported in the 2023 fiscal year. The company has announced a new \$0.57 dividend to be paid on June 15th. This increased dividend is well covered by the company's earnings.

The company ended 2024 with its highest fourth quarter revenues ever, up 17% year over year, which was a good result in a challenging market. The results for the quarter and fiscal year are a reflection of the company's diversified business model and the firm's stability through the cycles.

As the company enters fiscal year 2025 the management team reflected on the good momentum in the business, and the talented work force, but the CEO has nonetheless warned of the sluggish M&A environment.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	--	\$1.10	\$1.63	\$2.36	\$2.42	\$2.80	\$4.55	\$6.41	\$3.98	\$4.11	\$4.00	\$3.10
DPS	--	\$0.30	\$0.71	\$0.80	\$1.08	\$1.24	\$1.30	\$1.82	\$2.12	\$2.20	\$2.28	\$2.40
Shares	--	65	67	68	65	65	68	67	68	68	68.0	68.0

Houlihan Lokey 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 cyclicity of the business. The hawkish Federal Reserve and tighter monetary policy could significantly harm the bank's prospects. For these reasons we expect that over the next five years the company's earnings per share 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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Avg. P/E	--	20.4	16.4	17.0	18.7	17.0	13.6	14.0	21.6	20.9	32.5	13.0
Avg. Yld.	--	1.3%	2.7%	2.0%	2.4%	2.6%	2.1%	1.7%	2.5%	2.6%	1.8%	6.0%

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 2030, in line with its worsening fundamentals.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	--	27%	44%	34%	45%	44%	29%	28%	53%	54%	57%	77%

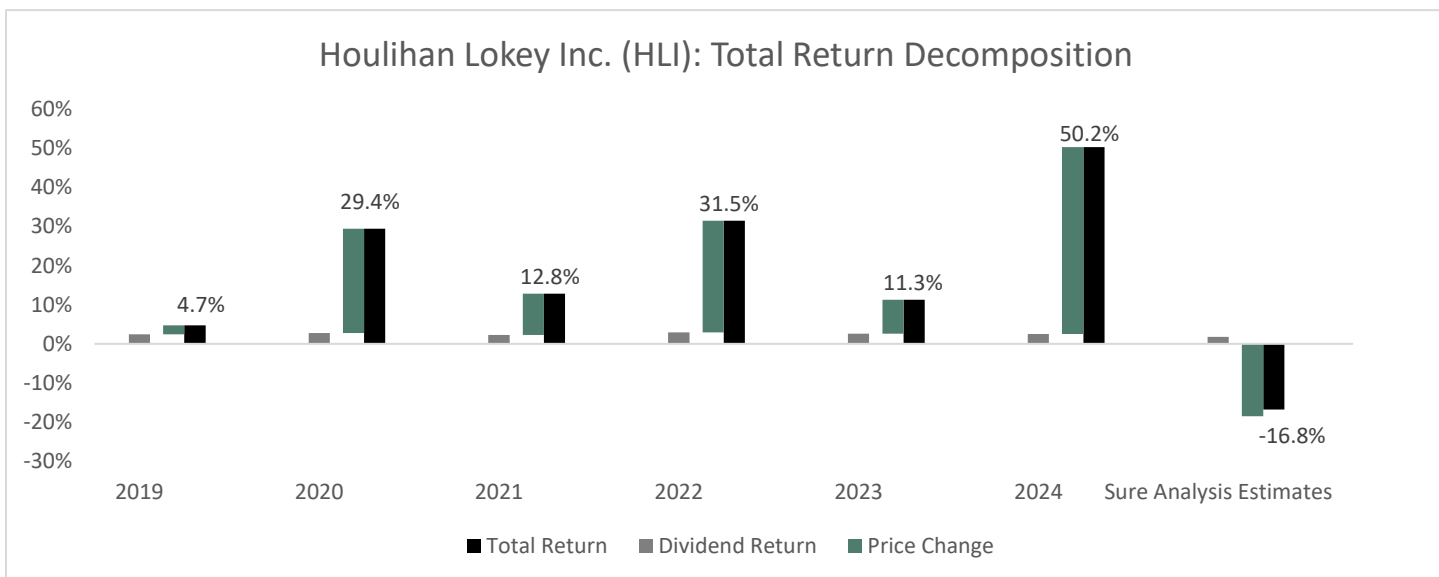
Houlihan Lokey Inc. is a well-established business with global operations and given its focus on advisory services over the traditional trading that many investment banks engage in, they are well positioned for a drawdown in their business, thanks to their lack of leverage. Indeed, leverage is often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

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 1.8% dividend yield, we are forecasting total return loss of 16.8% 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, HLI 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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	681	694	872	963	1,084	1,159	1,525	2,270	1,809	1,914
Gross Profit	206			327	392	422	554	861	662	701
Gross Margin	30.2%	0.0%	0.0%	33.9%	36.2%	36.4%	36.3%	37.9%	36.6%	36.6%
SG&A Exp.	62	525	649	91	126	135	102	150	143	185
D&A Exp.	6	7	9	8	14	17	15	49	58	29
Operating Profit	129			214	219	230	408	613	342	363
Op. Margin	18.9%	0.0%	0.0%	22.3%	20.2%	19.8%	26.8%	27.0%	18.9%	19.0%
Net Profit	80	70	108	172	159	184	313	438	254	280
Net Margin	11.7%	10.1%	12.4%	17.9%	14.7%	15.9%	20.5%	19.3%	14.0%	14.6%
Free Cash Flow	192	2	238	243	218	267	566	728	86	262
Income Tax	52	56	70	46	65	52	96	166	70	110

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	1,230	1,071	1,386	1,419	1,426	1,677	2,426	2,887	2,969	3,171
Cash & Equivalents	89	166	300	207	286	380	847	834	714	721
Acc. Receivable	57		121		71	81	108	144	182	200
Goodwill & Int.	653	717	715	723	795	813	866	1,318	1,291	1,325
Total Liabilities	404	417	655	566	535	693	1,043	1,443	1,356	1,334
Accounts Payable	37		42		55	54	67	126	113	114
Long-Term Debt	-	-	33	-	9	5	1	1	0	0
Total Equity	823	651	727	853	891	984	1,384	1,444	1,613	1,837
LTD/E Ratio	-	-	0.04	-	0.01	0.00	0.00	0.00	0.00	0.00

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	7.0%	6.1%	8.8%	12.3%	11.2%	11.8%	15.2%	16.5%	8.7%	9.1%
Return on Equity	10.4%	9.5%	15.7%	21.8%	18.2%	19.6%	26.4%	31.0%	16.6%	16.3%
ROIC	10.4%	9.4%	15.3%	21.3%	18.2%	19.5%	26.4%	31.0%	16.6%	16.3%
Shares Out.		65	67	68	65	65	68	67	68	68
Revenue/Share	11.26	10.93	13.10	14.53	16.47	17.64	22.21	33.25	26.77	28.09
FCF/Share	3.17	0.04	3.57	3.66	3.30	4.06	8.24	10.66	1.27	3.84

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

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