

Company Registration No. 04285073

Houlihan Lokey (Europe) Limited

Strategic Report, Directors' Report and Financial Statements

For the year ended 31 March 2020



Houlihan Lokey (Europe) Limited

Strategic report, Directors' report and financial statements

31 March 2020

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Houlihan Lokey (Europe) Limited

Strategic report

The directors present the strategic report for the year ended 31 March 2020.

Principal activity

The company is an investment holding company whose operating subsidiaries provide corporate financial advisory services in Europe.

Review of the business and future prospects

The company has continued to invest in its activities throughout the year and the directors are confident about its future prospects.

The company made a profit after tax of £13,254,893 (31 March 2019: £12,315,658) for the year. During the year, the company made no political or charitable donations (31 March 2019: £nil) and did not incur any political expenditure (31 March 2019: £nil). During the year no dividend was paid (31 March 2019: £nil).

During the year the company received a discretionary profit share of £18,190,160 (2019: £14,987,374) in regards to its partnership interest in Houlihan Lokey EMEA, LLP.

The company's profitability is as disclosed above, given the straight forward nature of the business, the directors do not consider any other KPI's are needed to understanding of the development, performance or position of the business.

During the year, on 5 November 2019, the company acquired a new subsidiary, Houlihan Lokey (Corporate Finance), S.A.U. (formerly Fidentiis Capital, S.A.). This entity was acquired to extend the group's corporate finance and advisory presence in Spain.

Going concern

Notwithstanding net current liabilities of £20,498,797 as at 31 March 2020 (31 March 2019: £27,623,544), the financial statements have been prepared on a going concern basis. Management are comfortable that the company can continue to operate for the foreseeable future at the minimum for a period of at least 12 months from the date of approval of these financial statements, and specific consideration has been given to the going concern assumption in regards to the following:

Group liabilities

Management consider that, taking account of reasonably possible downsides, the company will have sufficient funds, to meet its liabilities as they fall due for that period. This is dependent on the company's ultimate parent company Houlihan Lokey, Inc. and subsidiary company Houlihan Lokey EMEA, LLP, not seeking repayment of the amounts currently due from the company, which at 31 March 2020 amounted to £10,371,032 and £10,588,893 respectively. Houlihan Lokey, Inc. and Houlihan Lokey EMEA, LLP have indicated that they do not intend to seek repayment of these amounts for a period of at least 12 months from the date of approval of these financial statements. As with any company placing reliance on other group entities for financial support, management acknowledges that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

UK Exit from the European Union ("Brexit")

Management does not consider that the UK's scheduled exit from the European Union ("Brexit") following the end of the current transitional period, on 1 January 2021 will have a material impact on the company's ability to remain a going concern.

Economic Impact of Global Pandemic ("Covid-19")

Management has considered the impact of the ongoing pandemic and has determined that it will not have a material impact on the company's ability to remain a going concern. Given the diversified business models of the company's operating subsidiaries across the corporate finance, financial valuation advisory and financial restructuring business lines they are able to remain profitable in most economic environments, including that seen as a result of the current pandemic. Management's internal forecasts continue to show the operating subsidiaries as profitable for the foreseeable future demonstrating that Houlihan Lokey (Europe) Limited will be able to operate at adequate levels of both liquidity and capital for the next 12 months, and the current balance sheet provides the company with sufficient liquid assets with which to continue settle its obligations as they fall due. The company also benefits from being part of the wider Houlihan Lokey Group which is well placed to deal with the challenges of the current economic environment due to its strong financial restructuring practice and global footprint.

Risk management and management of business

The risks of, and funding to support the business and operations of the subsidiaries are monitored on an ongoing basis. More information about risks facing the company and how they are managed can be found in note 14 to the annual financial statements.

The company's business model results in a limited number of risks. The company's operating subsidiaries provide advisory services across varied geographical environments and business units to a variety of clients. These business lines are diversified such that the subsidiaries and hence the company should be profitable in most economic environments. Capital requirements are monitored in relation to the external requirements of its subsidiaries and investments and any working capital needs they may have.

Approved by the Board of Directors
and signed on behalf of the Board by



JA Cowan
Director
19 November 2020

Houlihan Lokey (Europe) Limited

Directors' report

The directors submit their report and the audited financial statements for the year ended 31 March 2020.

Directors

The directors of the company throughout the year and as at the date of this report were:

DA Preiser
JA Cowan
R Hotz

Going Concern

These financial statements have been prepared on a going concern basis. Management are comfortable that the company can continue to operate for the foreseeable future, and specific consideration has been given to going concern given current market conditions. Please refer to the strategic report on page 3 for specific details.

Directors' interests

The directors do not have any shareholding in the company.

Directors' insurance and indemnities

The directors have the benefit of the indemnity provisions contained in the Company's Articles of Association ('Articles'), and the company has maintained throughout the year directors' liability insurance for the benefit of the company and the directors. The company has entered into qualifying third party indemnity arrangements for the benefit of all its directors in a form and scope which comply with the requirements of the Companies Act 2006 and which were in force throughout the year and remain in force.

Registered Office

83 Pall Mall
London
SW1Y 5ES

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant information of which the auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant information and to establish that the auditors are aware of that information.

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Approved by the Board of Directors
and signed on behalf of the Board by



JA Cowan
Director
19 November 2020

Company Registration No. 04285073

Houlihan Lokey (Europe) Limited

Statement of directors' responsibilities in respect of the strategic report, the directors' report and the financial statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HOULIHAN LOKEY (EUROPE) LIMITED

Opinion

We have audited the financial statements of Houlihan Lokey (Europe) Limited ("the company") for the year ended 31 March 2020 which comprise the Strategic Report, Directors' Report and Financial Statements, and related notes, including the accounting policies in note 3.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Richard Rawstron (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL

19 November 2020

Houlihan Lokey (Europe) Limited

Statement of financial position at 31 March 2020

	Notes	Year ended 31 March 2020 £	Year ended 31 March 2019 £
Assets			
Non-current assets			
Investments in subsidiaries	4	107,068,906	99,439,537
Deferred tax assets	5	6,096,667	6,344,055
Total non-current assets		113,165,573	105,783,592
Current assets			
Cash and cash equivalents	7	7,876	9,033
Current tax assets		440,521	-
Total current assets		448,397	9,033
Total assets		113,613,970	105,792,625
Liabilities			
Non-current liabilities			
Other financial liabilities	9	1,251,653	-
Total non-current liabilities		1,251,653	-
Current liabilities			
Amounts owed to related parties, repayable on demand	6	20,905,925	25,929,170
Other current liabilities	8	41,451	45,231
Current tax liabilities		-	1,658,176
Total current liabilities		20,947,376	27,632,577
Total liabilities		22,199,029	27,632,577
Net assets		91,414,941	78,160,048
Equity			
Share capital	10	971,200	971,200
Share premium		15,183,865	15,183,865
Capital contribution reserve		25,071,464	25,071,464
Foreign currency translation reserve		(2,050,978)	(2,050,978)
Retained earnings		52,239,390	38,984,497
Total equity attributable to shareholders	11	91,414,941	78,160,048

The notes on pages 12 to 18 form an integral part of these company financial statements.

These financial statements were approved by the Board of Directors on 19 November 2020 and were signed on its behalf by:



JA Cowan
Director

Company Registration No. 04285073

Houlihan Lokey (Europe) Limited

Statement of profit or loss and other comprehensive income for the year ended 31 March 2020

	Notes	Year ended 31 March 2020 £	Year ended 31 March 2019 £
Share of profit from partnership interest	6	18,190,160	14,987,374
Finance income	12	-	11,232
Finance expenses	12	(567,456)	(746,044)
Administrative expenses		(236,509)	(176,068)
Impairment	4	-	(595,687)
Gains on financial liabilities at fair value through profit or loss	9	452,480	-
Profit on ordinary activities before taxation		17,838,675	13,480,807
Taxation	5	(4,583,782)	(1,165,149)
Profit after taxation		13,254,893	12,315,658
Other comprehensive income, net of income tax			
Total other comprehensive income, net of income tax		-	-
Total comprehensive income for the year		13,254,893	12,315,658

The results for the year ended 31 March 2020 and 31 March 2019 are derived from continuing operations.

The notes on pages 12 to 18 form an integral part of these financial statements.

Houlihan Lokey (Europe) Limited

Statement of changes in equity for the year ended 31 March 2020

	Notes	Share capital £	Share premium £	Capital contribution reserve £	Foreign currency translation reserve £	Retained earnings £	Total £
Balance at 1 April 2018		971,200	15,183,865	25,071,464	(2,050,978)	26,668,839	65,844,390
<i>Comprehensive income:</i>							
Profit for the year		-	-	-	-	12,315,658	12,315,658
Balance as at 31 March 2019	10, 11	<u>971,200</u>	<u>15,183,865</u>	<u>25,071,464</u>	<u>(2,050,978)</u>	<u>38,984,497</u>	<u>78,160,048</u>
Balance at 1 April 2019		971,200	15,183,865	25,071,464	(2,050,978)	38,984,497	78,160,048
<i>Comprehensive income:</i>							
Profit for the year		-	-	-	-	13,254,893	13,254,893
Balance as at 31 March 2020	10, 11	<u>971,200</u>	<u>15,183,865</u>	<u>25,071,464</u>	<u>(2,050,978)</u>	<u>52,239,390</u>	<u>91,414,941</u>

The notes on pages 12 to 18 form an integral part of these company financial statements.

Houlihan Lokey (Europe) Limited

Statement of cash flows for the year ended 31 March 2020

	Notes	Year ended 31 March 2020 £	Year ended 31 March 2019 £
Cash flows from operating activities			
Profit before tax for the year		17,838,675	13,480,807
Adjustments for non-cash movements:			
Impairment	4	-	(595,687)
Gains on financial liabilities at fair value through profit or loss	9	(452,480)	-
Foreign exchange losses through profit and loss	12	4,084	1,039
Operating profit before changes in working capital		17,390,279	12,886,159
Decrease in amounts owed by related parties, repayable on demand		-	854,276
Decrease in amounts owed to related parties, repayable on demand		(5,023,245)	(2,808,737)
Decrease in other liabilities		(3,780)	(156,483)
Tax paid		(6,439,175)	(2,841,580)
Net cash inflow from operating activities		5,924,079	7,933,635
Cash flows from investing activities			
Investment in subsidiaries		(5,925,236)	(58,685,281)
Net cash outflow from investing activities		(5,925,236)	(58,685,281)
Net decrease in cash and cash equivalents		(1,157)	(50,751,646)
Cash and cash equivalents at the beginning of the year		9,033	50,760,679
Cash and cash equivalents at the end of the year	7	7,876	9,033

The notes on pages 12 to 18 form an integral part of these financial statements.

Houlihan Lokey (Europe) Limited

Notes to the financial statements

1. General Information

Houlihan Lokey (Europe) Limited is a private limited company domiciled in the United Kingdom. The company is an investment holding company and the company's registered office is at 83 Pall Mall, London, SW1Y 5ES.

2. Basis of preparation

2.1 Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU') at the balance sheet date, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

At 31 March 2020, there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the company. Accordingly, the company's financial statements for the year ended 31 March 2020 are prepared in accordance with IFRSs as issued by the IASB.

Notwithstanding net current liabilities of £20,498,797 as at 31 March 2020 (31 March 2019: £27,623,544), the financial statements have been prepared on a going concern basis. Management are comfortable that the company can continue to operate for the foreseeable future at the minimum for a period of at least 12 months from the date of approval of these financial statements, and specific consideration has been given to the going concern assumption in regards to the following:

Group liabilities

Management consider that, taking account of reasonably possible downsides, the company will have sufficient funds, to meet its liabilities as they fall due for that period. This is dependent on the company's ultimate parent company Houlihan Lokey, Inc. and subsidiary company Houlihan Lokey EMEA, LLP, not seeking repayment of the amounts currently due from Houlihan Lokey (Europe) Limited, which at 31 March 2020 amounted to £10,371,032 and £10,588,893 respectively. Houlihan Lokey, Inc. and Houlihan Lokey EMEA, LLP have indicated that they do not intend to seek repayment of these amounts for a period of at least 12 months from the date of approval of these financial statements. As with any company placing reliance on other group entities for financial support, management acknowledges that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

UK Exit from the European Union ("Brexit")

Management does not consider that the UK's scheduled exit from the European Union ("Brexit") following the end of the current transitional period, on 1 January 2021 will have a material impact on the company's ability to remain a going concern.

Economic Impact of Global Pandemic ("Covid-19")

Management has considered the impact of the ongoing pandemic and has determined that it will not have a material impact on the company's ability to remain a going concern. Given the diversified business models of the company's operating subsidiaries across the corporate finance, financial valuation advisory and financial restructuring business lines they are able to remain profitable in most economic environments, including that seen as a result of the current pandemic. Management's internal forecasts continue to show the operating subsidiaries as profitable for the foreseeable future demonstrating that Houlihan Lokey (Europe) Limited will be able to operate at adequate levels of both liquidity and capital for the next 12 months, and the current balance sheet provides the company with sufficient liquid assets with which to continue settle its obligations as they fall due. The company also benefits from being part of the wider Houlihan Lokey Group which is well placed to deal with the challenges of the current economic environment due to its strong financial restructuring practice and global footprint.

The financial statements were approved by the board on 19 November 2020.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention except for other financial liabilities which have been measured at fair value.

2.3 Functional and presentation currency

These financial statements are presented in sterling, which is the company's functional currency. Except as indicated, financial information presented in sterling has been rounded to the nearest pound.

2.4 Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS as adopted by the EU requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods.

Management uses estimates and applies judgements in determining the discount rate and forecasted cash flow inputs to the value in use method that is used in the impairment assessment of its investment in subsidiaries, and in determining the likelihood of available future taxable profits necessary for the recognition of deferred tax assets. Refer to note 3.5 and 3.6 and respectively for more information. There are no other material estimates applied in the company's financial statements.

In the opinion of the directors, the use of estimates does not present a significant risk of material adjustments to the carrying amounts of assets and liabilities in these financial statements.

2.5 Basis of exemption from preparing consolidated financial statements

The company is exempt from the obligation to prepare consolidated financial statements as its ultimate parent company, Houlihan Lokey, Inc. (listed in New York) prepares consolidated financial statements. The company and all of its subsidiaries will be incorporated in the parent company's consolidated group financial statements. The financial statements present information about the company as an individual undertaking. All requirements for exemption as per Section 401 of the Companies Act 2006 have been met. See note 6 for further details.

2.6 Newly effective and forthcoming standards

There are a number of standards, interpretations and amendments issued by the IASB that are effective for financial statements during this reporting period and future reporting periods. The most significant of these are:

IFRS 16: 'Leases'; effective for periods beginning on or after 1 January 2019 (endorsed 31 October 2017). The new standard replaces IAS 17 'Leases' and significantly revises the way that entities will account for leases. It will result in most leases being accounted for on-balance sheet recognising a new category of right-of-use asset and liability based on discounted future lease payments. As the company does not have any relationships as either a lessor or lessee, the new standard has no material impact on the financial statements.

Houlihan Lokey (Europe) Limited

Notes to the financial statements

3. Significant accounting policies

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial.

3.1 Impairment

Management reviews receivables and other assets, including property, plant and equipment, for indications of impairment regularly. An impairment loss is recognised whenever the carrying amount of the asset exceeds its recoverable amount. Any impairment is recognised immediately in the income statement. Refer to note 3.5 and note 4 for impairment information and assessment of investments in subsidiaries and note 3.2 for impairment information re financial assets and liabilities.

3.2 Financial assets and liabilities

(a) Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit and loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(b) Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

The company's financial assets include amounts owed from related parties and cash at bank. All these financial assets are measured at amortised cost.

Subsequent measurement and gains and losses:

Financial assets at amortised cost - These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Impairment

The company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost.

The company measures loss allowances at an amount equal to lifetime ECL, except for bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured as 12-month ECL.

The material financial assets of the company measured at amortised cost are amounts owed from related parties.

The risk of default is extremely low in the case of amounts owed from related parties as the balances are with related parties and there has been no history of default. These balances are also of short term nature, therefore, no loss allowance for ECLs are recognised as they are nil.

Financial liabilities

Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

3.3 Finance income and expenses

Interest income and expense are recognised in the income statement using the effective interest rate method.

3.4 Foreign currency transactions

Transactions in foreign currencies are translated to the functional currencies of the group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies, are retranslated to the functional currency at the exchange rate at the date that the cost was determined. Foreign currency differences arising on retranslation are recognised in the income statement.

3.5 Investment in subsidiaries

Investments in subsidiaries are measured at cost less any impairment loss. A subsidiary is defined in IAS 27 *Separate Financial Statements* as an entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent). The investments in subsidiaries are reviewed for impairment as discussed below and in note 4.

Management reviews its investments in subsidiaries for indications of impairment regularly. The analysis is performed on a value in use basis. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of the asset exceeds its recoverable amount. Any impairment is recognised immediately in the income statement.

Houlihan Lokey (Europe) Limited

Notes to the financial statements

3. Significant accounting policies (continued)

3.6 Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

4. Investment in subsidiary undertakings

	Year ended 31 March 2020	Year ended 31 March 2019
	£	£
Carrying value at the beginning of the year	99,439,537	40,158,569
Additions	7,629,369	59,876,655
Impairment	-	(595,687)
Carrying value at the end of the year	<u>107,068,906</u>	<u>99,439,537</u>

Impairment losses

The company performed impairment testing on all investments in subsidiaries as at the balance sheet date given there were deemed to be indicators of impairment in the current market environment as a result of the global Covid-19 pandemic which has impacted markets world-wide. Based on analysis performed on the investments in subsidiaries, the company did not identify any impairment charges where the carrying value of investments exceeded the recoverable amount (2019: impairment loss of £595,687 was recognised on the investment in the associated entity Houlihan Lokey (España), S.A.). Any impairment charges are shown separately on the statement of comprehensive income.

The discount rate utilised in the value in use calculations were between 11.50% and 16.50% (2019: between 13.0% and 13.5%) which were calculated using third party market estimates, market data and data derived from comparable companies. A long-term growth rate of 3% (2019: 3%), based on long-term inflationary growth rates, has been used. Budgeted earnings before interest and tax (EBIT) are based on company forecasts. Assumptions based on market comparables have been utilised where appropriate. These fair value measurements are all categorised in level 3 of the fair value hierarchy.

The value in use calculations include a sensitivity analysis of the key variables and it was determined no specific sensitivity analysis disclosure was required in the financial statements. As of the measurement date, the recoverable amounts of the investments, based on their value in use, are higher than the carrying amounts relevant for the impairment tests and management believes none of the anticipated changes in key assumptions which can rationally be expected to occur would cause the carrying amount of the investments to exceed the recoverable amounts.

The company has holdings in group undertakings as follows:

Name of company	% holding 2020	% holding 2019	Country of incorporation	Principal activity
Held directly				
McQueen Holdings Limited	100%	100%	United Kingdom	Holding company
Houlihan Lokey (España), S.A.	100%	100%	Spain	Corporate finance advisory
Houlihan Lokey EMEA, LLP	100%	100%	United Kingdom	Corporate finance advisory
Houlihan Lokey (Corporate Finance) Limited	100%	100%	United Kingdom	Corporate finance advisory
Houlihan Lokey (Corporate Finance), S.A.U.	100%	0%	Spain	Corporate finance advisory

The company holds a direct membership in the entity Houlihan Lokey EMEA, LLP. The membership interest gives the company rights to 100% of the partnership assets of that entity, with the exception of the individual capital contributions made by other members to the partnership. Similarly, the other members of the partnership do not hold any rights to the partnership assets, other than for their own capital contributions and any amount owing to them as designated under profit shares. Given this, the ownership of Houlihan Lokey EMEA, LLP is considered to be 100% directly held by the company.

The company acquired a new subsidiary on 5 November 2019, Houlihan Lokey (Corporate Finance), S.A.U. (formerly Fidentiis Capital, S.A.), based in Spain.

Houlihan Lokey (Europe) Limited

Notes to the financial statements

	Year ended 31 March 2020 £	Year ended 31 March 2019 £
5. Tax on profit on ordinary activities		
a) Analysis of tax charge on ordinary activities		
Taxation is based on the profit/loss for the period and comprises:		
Current taxation		
UK current tax	3,918,603	4,275,098
Prior year adjustment	421,875	(350,588)
	<u>4,340,478</u>	<u>3,924,510</u>
Deferred taxation		
Origination and reversal of temporary differences	(361,769)	(923,126)
Tax on profits expected to be recognised in future periods	605,072	(1,836,235)
	<u>243,303</u>	<u>(2,759,361)</u>
	<u>4,583,782</u>	<u>1,165,149</u>
b) Factors affecting the tax charge for the current period		
The tax charge for the period is lower than that resulting from applying the standard rate of corporation tax in the UK (19%).		
The difference is explained below:		
Profit on ordinary activities before tax	17,838,675	13,480,807
Tax charge at 19% thereon (2019: 19%)	<u>3,389,348</u>	<u>2,561,353</u>
Effects of:		
Expenses not deductible for tax purposes	82,055	112,593
Expenses deductible for tax purposes	-	(33,739)
Non-assessable income	(3,542,102)	(2,847,600)
Tax on share of partnership profits in Houlihan Lokey EMEA, LLP	5,173,344	3,337,114
Impairments not deductible for tax purposes	-	113,180
IFRS15 revenue adjustment	-	(196,419)
Deferred tax asset recognised / (utilised)	(361,769)	(923,126)
Prior year adjustment	421,875	(350,589)
Offsets for tax paid in foreign jurisdictions	(533,034)	(477,043)
Group relief from tax losses	(45,935)	(130,575)
Tax charge for the period	<u>4,583,782</u>	<u>1,165,149</u>
c) Deferred tax balance for the company is as follows:		
Opening balance	6,344,055	3,585,739
Temporary differences	361,769	923,126
Foreign exchange movement	(4,084)	(1,039)
Tax on profits to be recognised in future periods	<u>(605,072)</u>	<u>1,836,229</u>
Closing balance	<u>6,096,667</u>	<u>6,344,055</u>

A UK corporation rate of 19% (effective 1 April 2020) was substantively enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19% to 17%. This will increase the company's future current tax charge accordingly. The deferred tax asset at 31 March 2020 has been calculated at 19% (2019: 19 or 18%).

Houlihan Lokey (Europe) Limited holds a partnership interest in Houlihan Lokey EMEA, LLP and has control over the partnership. Houlihan Lokey EMEA LLP is considered as a transparent entity (being that it does not pay tax) and that share of its profit is determined for corporation tax purposes in accordance with the partnership's profit-sharing arrangements. As a result, the company is responsible for all tax on its profit share, as well as on its own profit and loss.

A deferred tax asset (2019: asset) has been recognised in respect of the share of partnership profits subject to current tax and expected to be recognised as income by Houlihan Lokey (Europe) Limited in future periods.

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Notes to the financial statements

6. Related parties

Parent and ultimate controlling party

Houlihan Lokey, Inc., a publicly owned United States based international financial services company listed in New York is the ultimate parent company and controlling party of the company. Copies of the financial statements of the parent company may be obtained from Houlihan Lokey, Inc., 10250 Constellation Blvd., 5th Floor Los Angeles, CA 90067.

Company balances and movements

Particulars of transactions, arrangements and agreements involving related parties are as follows:

Immediate parent - HLHZ UK Holdings, LP

There were no transactions with the company's immediate parent.

Dividends

During the period the company paid no dividends (2019: nil).

Other related parties

The company was a party to various related party transactions throughout the year. As per *IAS 24 - Related Party Disclosures* - these parties are related because they are members of the same group, in that they all have the same ultimate parent company - Houlihan Lokey, Inc..

As at the year end, there was a total interest bearing amount owed to the ultimate parent company of £10,588,893 (2019: £9,887,647). The balance is unsecured and repayable on demand. As at the same date, an amount of £10,317,032 was owed to the company's partnership interest, Houlihan Lokey EMEA, LLP (2019: £16,041,524). The balance is unsecured and repayable on demand, with an interest rate of LIBOR plus 1.0% (2019: LIBOR plus 1.0%).

Partnership interests and discretionary profit shares

The company holds a partnership interest in Houlihan Lokey EMEA, LLP and has control over the partnership. During the year the company received a discretionary profit share of £18,190,160 (2019: £14,987,374) in regards to its partnership interest.

	Amounts owed to group entities	
	As at 31 March 2020 £	As at 31 March 2019 £
Houlihan Lokey EMEA, LLP	(10,317,032)	(16,041,524)
Houlihan Lokey, Inc.	(10,588,893)	(9,887,646)
	<u>(20,905,925)</u>	<u>(25,929,170)</u>

There are no provisions for doubtful debts relating to any of the outstanding balances above. Interest income or expenses in relation to the balances is outlined in note 12.

	As at 31 March 2020 £	As at 31 March 2019 £
7. Cash and cash equivalents		
Cash at bank	7,876	9,033
Total cash and cash equivalents	<u>7,876</u>	<u>9,033</u>
8. Other current liabilities		
Other payables and accrued expenses	41,451	45,231
Total other current liabilities	<u>41,451</u>	<u>45,231</u>

Other payables and accrued expenses represent accrued tax and professional fees as at 31 March 2020. In the comparative figures, the amount includes the same.

9. Other financial liabilities

On 5 November 2019, the company acquired 100% of the equity interests of Fidentis Capital, S.A. (renamed Houlihan Lokey (Corporate Finance), S.A.U.). A portion of the consideration is defined as deferred consideration payable in the form of convertible notes that are contingent on the new consolidated Spanish corporate finance team generating sufficient attributable revenues ("The earn-out"). The earn-out is designated as a financial liability measured at fair value through profit and loss. The earn-out is denominated in Euros and revalued at the year-end rate to Sterling for presentation in these financial statements. The original fair value of this financial instrument was €1,917,000 or £1,958,311. The current fair value of this financial instrument is €1,408,000 or £1,251,653. The fair value movement on the earn-out for the year was a gain to the income statement as a result of a decrease in the liability totalling €509,000 or £452,480. This decrease in the liability was driven by a reduction in the expected attributable revenues due to current and forecast market conditions, which result in a lower expected earn-out payment. The remaining movement in the balance year on year is the result of foreign exchange movement when it is translated from Euro to Sterling.

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10. Share capital	As at 31 March 2020	As at 31 March 2019
	£	£
Ordinary shares of £1 each:		
Total issued and fully paid	971,200	971,200
11. Reconciliation of movements in shareholders' funds	As at 31 March 2020	As at 31 March 2019
	£	£
Opening shareholders' funds	78,160,048	65,844,390
Profit for the period	13,254,893	12,315,658
Closing shareholders' funds	91,414,941	78,160,048
The share premium account is non-distributable.		
12. Finance income & expenses	Year ended 31 March 2020	Year ended 31 March 2019
	£	£
Other interest income	-	11,232
Total finance income	-	11,232
Interest paid on amounts owed from related parties	(306,606)	(438,905)
Amortisation of interest costs	(256,766)	(306,100)
Foreign exchange losses through profit and loss	(4,084)	(1,039)
Total finance expenses	(567,456)	(746,044)
13. Profit on ordinary activities before taxation	Year ended 31 March 2020	Year ended 31 March 2019
	£	£
The profit on ordinary activities before taxation is stated after charging:		
Auditor's remuneration	37,500	54,461
14. Financial risk management		
Capital management		
The company manages its capital to ensure it will be able to continue as a going concern. This involves an assessment of the risks inherent in its subsidiaries and investments business models. Share capital and reserves are managed to meet the requirements of its operating subsidiaries, and are disclosed in notes 10 and 11.		
Credit risk		
The company is not exposed to credit risk in relation to external receivables balances. The only other credit risk identified is in relation to credit risk on liquid funds, and this is limited because the company holds limited cash, and the counterparties are banks with good credit-ratings assigned by international credit-rating agencies.		
Currency risk		
The company is not directly exposed to operational currency risks, but does have direct foreign currency exposures through its foreign currency designated assets and liabilities with related parties. The company also has indirect material foreign currency exposures, including with regards to its investments in Houlihan Lokey EMEA, LLP., Houlihan Lokey (Corporate Finance) Limited (both entities interests are exposed to the risk of fluctuations in the Euro : GBP and USD : GBP exchange rates since they manage their business activities in Euros, GBP and USD), Houlihan Lokey (Corporate Finance), S.A.U. and Houlihan Lokey (Espana) S.A (both entities interests are exposed to the risk of fluctuations in the Euro : GBP exchange rates since they manage their business activities in Euros)		
The company's exposure to currency risk	31 March 2020	
	EURO	
	£	
Deferred tax liabilities	(140,327)	
Net balance sheet exposure	(140,327)	
	31 March 2019	
	EURO	
	£	
Deferred tax liabilities	(101,137)	
Net balance sheet exposure	(101,137)	
The following significant exchange rates applied during the year:	Average rate	
	Year ended 31 March 2020	Year ended 31 March 2019
Company		
1 EURO	1.14	1.13

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Notes to the financial statements

14. Financial risk management (continued)

Sensitivity Analysis

A 10% strengthening of Sterling against the Euro at 31 March 2020 would decrease reserves (retained earning and foreign currency translation reserve) on the net balance sheet exposure by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for the year ended 31 March 2019.

Company	Year ended 31 March 2020	Year ended 31 March 2019
	£	£
EURO	12,757	9,194

A 10% weakening of Sterling against the Euro at 31 March 2020 would have had the equal but opposite effect on the Euro to the amounts shown above, on the basis that all other variables remain constant.

Liquidity risk

The liquidity risk within the company is managed centrally in conjunction with the company's parent entity. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient cash on demand to meet its liabilities when due under both normal and stressed conditions. The type of cash instrument used and its maturity will depend on the company's forecasted cash requirements. The group has no external loans and overdrafts, and should any short term funding needs arise, the parent company or other group entities will be sought to provide assistance.

Market risk

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk, currency risk and other price risks. As the company does not undertake securities trading and has no external loans and overdrafts, market risk is limited to currency risk as disclosed

Other risks

The other risks that could potentially affect the group are mainly business and operational in nature. Management are confident that these are mitigated through effective policies and processes and a business model which is designed to operate in all economic environments.

15. Subsequent events

There were no subsequent events between balance sheet date and the date of authorisation of these financial statements requiring disclosure.