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HC2 Holdings, Inc. (HCHC: $3.85)

Situation Overview

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Company Description
HC2 Holdings, Inc. (formerly Primus Telecom) is a holding company run by Phil Falcone with a broad mandate to invest in businesses and assets through controlling or minority interests.

HC2's principal investments, at this time, are controlling interests in **1)** Schuff Steel (90.6% interest, until completion of anticipated short-form merger, which will increase interest to 100%), a leader in the North American steel fabrication and erection industry; and **2)** Global Marine (97% interest), a global leader in the subsea cable industry. In addition to Schuff and Global Marine, HC2 has investments in smaller telecommunications, life sciences, technology, and utility companies.

Figure 1. HC2 Holdings, Inc.—Select Securities, Prices as of 1/22/16

Security	IC Rating	Coupon	Amt. Outst.	Priority	Maturity	Price	YTM	Current Yield	Moody's/ S&P	Next Call Date	Next Call Price
Secured Bonds	NR	11.00%	$305.0	Holdco Sec.	12/01/2019	85.00	16.4%	12.9%	Caa1/B-	12/01/16	108.25

Common Equity

Security	Ticker	IC Rating	Price Target	Shares [1,2]	Price	Market Cap. [1,2]	52 Week High	52 Week Low
Common Equity	HCHC	NR	None	47.1	$3.85	$181.4	$13.28	$3.40

Preferred Equity

Security	IC Rating	Price Target	Coupon	Amt. Outst.	Auto Conversion	Conv. Price [3]	Converted Shares Initial	Converted Shares Current (10/30/15)
Series A Convertible Preferred	NR	None	7.50%	$30.0	5/29/2021	$4.00	7.5	7.2
Series A-1 Convertible Preferred	NR	None	7.50%	$11.0	5/29/2021	$4.25	2.6	2.4
Series A-2 Convertible Preferred	NR	None	7.50%	$14.0	5/29/2021	$8.25	1.7	1.7

Financial Data

Pro Forma YTD Annualized Ended 9/30/15											
Revenue	EBITDA	Cash [2]	CapEx [4]	Int. Exp.	FCF	Total Debt	Net Debt	Total Leverage	Net Leverage	TEV [1,2]	TEV/ PF EBITDA
$983.9	$70.7	$132.0	$18.0	$37.1	$15.6	$417.4	$285.40	5.9x	4.0x	$466.85	6.6x

(1) Shown assuming conversion of preferred to common equity.
(2) Pro forma for equity issuance in 4Q15; see Figure 7.
(3) Subject to modification based on equity raise.
(4) Imperial Capital estimate.
Sources: Bloomberg, company filings, and Imperial Capital, LLC.

Financial Summary

As of 9/30/15, HC2 Holding, Inc. (HCHC) had $417.4mn of total debt, consisting of $305.0mn of 11.0% Secured Notes and $112.4mn of subsidiary debt (including $27.7mn of underfunded pension obligations at its Global Marine subsidiary). Pro forma for the issuance of 8.45mn common shares at $7.00 per share in November 2015, the company has total cash and short-term investments of $132.0mn (net debt of $285.4mn). Below the debt, HC2 has $55.0mn face value of 7.5% convertible preferred equity securities at three different strike prices (representing 11.2mn common shares upon conversion) and a $138.3mn market capitalization (excluding converts) based on a recent equity price of $3.85 per share – just $0.45 above its 52-week low.

Overview

We believe the entire capital structure is undervalued. Recent broad market de-risking has added to anomalous company-specific technical pressures to create a situation where market valuations for HC2 securities have diverged meaningfully from underlying fundamentals. We believe HC2 is supported by significant asset value and led by a seasoned investor with a long track record of value creation (Phil Falcone). In our view, HC2's core businesses are stable and unrealized portfolio value is substantial, providing coverage for HC2's bonds and considerable upside for the equity securities. We do not have investment ratings on the debt or equity securities of HC2 Holdings.

Rationale

Significant net asset value (NAV). Based on a sum-of-the-parts analysis, we believe the intrinsic value of the equity is around $382mn or $7.79 per share at mid-case (vs. $181.4mn current public market capitalization at $3.85 per share assuming conversion of preferred equity), or around 2.0x the recent trading level. Notably, this valuation does not ascribe any upside to the book value of other investments of approximately $60mn, which we believe could be highly accretive over time, nor do we give valuation credit for a significant NOL balance ($61.1mn carryforward).

Attractive credit attributes. At recent market trading levels, the bonds create the company for $240mn, and are supported by a $181mn market capitalization (assuming conversion of preferred equity), or a cushion of 49% of TEV. The midpoint our valuation implies almost 3.0x enterprise value coverage over the bonds, an equity cushion of 64% of TEV. The bonds also have notable financial maintenance covenants sparsely seen in the broader high yield market, including: **1)** a minimum liquidity covenant (required to maintain sufficient cash to cover all interest and preferred dividend requirements over the next 12 months) and **2)** a collateral coverage covenant (loan collateral to consolidated secured debt must be at least 1.25 to 1.00).

Capitalization

Figure 2. HC2 Holdings, Inc.—Capitalization as of 9/30/15, Prices as of 1/22/16

PF LTM Revenue	**(9/30/15)**	**983.9**	**Debt Face**		**Net Debt Face**		**Net Debt Market**			**Price / YTM Analysis**			**Interest Exp. Analysis**	
PF YTD Annualized Adj EBITDA	**(9/30/15)**	**70.7**												
PF LTM EBITDA %	**(9/30/15)**	**7.2%**												
Settlement Date		**1/27/16**	**Cum.**	**LTM EBITDA**	**Net Cum.**	**LTM EBITDA**		**Net Cum.**	**LTM EBITDA**					
	Rating	**Balance**	**Debt**	**70.7**	**Debt**	**70.7**	**Debt**	**Debt**	**70.7**				**Rate/**	**Est.**
	Moody's/S&P		**Face**	**Mult.**	**Face**	**Mult.**	**Mkt**	**Mkt**	**Mult.**	**Price**	**YTM**	**Mat.**	**Coup.**	**Int. Exp.**
PF Cash + ST Investments [1]		**132.0**												
Secured / Subsidiary Debt														
GMSL Secured Notes Payable		13.4								**100.00**		2019	L+3.65%	0.6
Schuff Revolver ($50mn)		2.0								**100.00**			L+5.25%	0.1
Schuff Real Estate Notes Payable		4.2								**100.00**		2019	L+4.00%	0.2
Schuff Secured Notes Payable		11.0								**100.00**		2019	L+4.00%	0.5
ANG Secured Notes Payable		0.7								**100.00**		2018	5.500%	0.0
GMSL Capital Lease Obligations + Other		53.4								**100.00**			4.000%	2.1
GMSL underfunded pension		27.7								**100.00**				N/A
Total Secured / Subsidiary Debt		**112.4**	**112.4**	**1.6x**	**(19.6)**	**NMF**							**Snr Int**	**3.6**
HoldCo Debt														
HoldCo Secured Notes	Caa1 / B-	305.0					**259.3**	**239.7**	**3.4x**	**85.00**	16.40%	12/1/19	11.000%	33.6
Total HoldCo Debt		**305.0**	**417.4**	**5.9x**	**285.4**	**4.0x**		**% of TEV:**	**51.3%**					
Market Value of Equity														
HC2 Pfd shares (@ $4.00/$4.25/$8.25) [2]		43.1								**$ 3.85**	**11.2**	**Shs**	7.500%	4.1
PF Common Stock [1]		138.3								**$ 3.85**	**35.9**	**Shs**	**Interest**	**41.2**
Total Equity Value		**181.4**	**598.8**	**8.5x**	**466.8**	**6.6x**								

(1) Pro forma for November 2015 equity raise less transaction fees and expenses and less cash payment for Continental Insurance of $7.0mn.
(2) Preferred shares pay 7.5% cash coupon and PIK at 0% - 4% based on financial metrics; shown as converted ($55M face).
Sources: Bloomberg, company filings, and Imperial Capital, LLC.

Rationale (continued)

Technical pressure. Trading levels have been pressured by extraordinary issues amongst its holder base, including forced selling by concentrated holders (hedge funds) given declining market conditions and fund LP redemptions. The company's previous largest holder, HRG Group, Inc., also sold its shares over the course of the past several months (which was expected) – removing a significant source of negative technical pressure and improving the overall liquidity profile of the equity security.

Strong free cash flow generation. At normalized levels for HC2's operating companies, we calculate that the consolidated company generates approximately $0.60 of free cash flow per share, representing a 15.0% free cash flow yield per share (see Figure 8). Excluding SG&A, FCF per share would increase to around $1.00 per share, or a 26% FCF yield. Free cash flow is bolstered by a significant NOL balance, which we believe will shield the company from cash taxes for the next couple of years. The FCF profile strikes us as particularly attractive given there is negligible EBITDA generation from its smaller, early-stage portfolio investments that have tremendous optionality. Further, we believe management is interested in acquiring another operating business that will be able to generate significant free cash flow and eliminate any cash burn at the holding company level.

Significant levers for outsized growth. While not factored into our valuation analysis, we believe HC2's portfolio is teeming with identifiable upside opportunities. In the Schuff business, we believe that contracts for such high profile projects as the Apple Headquarters, the Wilshire Grand, and the Tesla factory position it well to win the mandate for the new Los Angeles Rams stadium, which likely will be the most expensive stadium complex ever built. In Global Marine, a non-compete recently expired, allowing it re-entry into the offshore wind power market; this market will be bolstered by global climate change policies such as the U.K.'s target of having 15% of energy consumption delivered from renewable sources by 2020. Of HC2's portfolio of smaller investments, we highlight its $1.4mn investment in BeneVir; Amgen recently received FDA approval for a similar drug, Imlygic, which was acquired by Amgen for around $1.0bn in 2011 (both drugs actually have the same inventor).

Impressive management talent across entities. HC2 is led by billionaire investor, Phil Falcone, who rose to prominence buying distressed debt and has a long track record of value creation. That is well understood by the market, but less well known, we believe, is the impressive bench of management talent that Mr. Falcone has curated to manage HC's various portfolio investments (see Figure 13 for selected management bios).

- Schuff International is led by Rustin Roach, who is a 15+ year veteran of the company, where prior to his role as CEO he was President of the Western region.
- Dick Fagerstal joined Global Marine in 2014 from SEACOR, where he was SVP of Corporate Development and Finance.
- To head its new insurance platform, the company has tapped Jim Corcoran, former Superintendent of the New York Insurance Department.
- Its DMi investment is led by Tom Dusenberry, founder and former CEO of Hasbro Interactive.
- HC2 recently added Sue Swenson to the team as CEO of Novatel; most recently, Ms. Swenson was CEO of Sage North America and has more than a decade of leadership experience in the telecommunications industry, including tenure as COO at T-Mobile USA. Ms. Swenson also serves on a number of boards, including the board of Wells Fargo.

Over the past twelve months, HC2's public equity has traded in a range between a low of $3.40 (on 1/14/16) and a high of $13.28 (on 3/26/15) while business fundamentals have remained largely unchanged. We believe the current equity value (down by more than 70% from its peak; see Figure 10) has become disconnected from underlying NAV by anomalous technical factors and a broad market de-risking that has disproportionately impacted small cap stocks (see Russell 2000).

$250mn of HCHC 11.0% Secured Notes were issued in November 2014 at a price of 99.05, and a tack-on was done in March 2015 at 100.5 ($5.0mn of additional notes were issued in August to certain holders of Series A Preferred Stock). The notes slipped from par price context late in August 2015, and dropped to recent levels more recently; we believe this is fairly consistent with the trend seen in general high yield market outflows, exacerbated by redemption activity across the hedge fund space.

We believe the current technical dynamic provides a nice entry point for an investment with an asymmetric return profile at recent levels.

Company Overview

In January 2014, Harbinger Group (HRG) acquired a 40.5% interest in a liquidating entity, PTGi (Primus Telecom). The company had filed for bankruptcy in 2009 and was selling assets for the benefit of stakeholders. In April 2014, the company changed its name to HC2 Holdings, and became a new acquisition platform for HRG. The company's strategy revolves around pursuing internally sourced investment opportunities – as opposed to being dragged into bidding contests in well-shopped deals.

In May 2014, HC2 acquired a 65% interest in Schuff International (SHFK), which it later bolstered to 90.6% through a tender offer and open market purchases.

Through 2014, HC2 completed several more investments: American Natural Gas in August, Global Marine and Novatel in September, and a number of smaller investments.

In November 2014, Phil Falcone decided to step down as Chairman and CEO of HRG to focus on building HC2.

HC2's current principal investments are controlling interests in **1)** Schuff (90.6% interest, until completion of anticipated short-form merger, which will increase interest to 100%), a leader in the North American steel fabrication and erection industry, and **2)** Global Marine (97% interest), a global leader in the subsea cable industry. In addition to Schuff and Global Marine, HC2 has investments in smaller telecommunications, life sciences, technology, and utility companies, and very recently closed on the acquisition of an insurance portfolio (see ahead for more detail).

Schuff (now "Manufacturing" reporting segment): The company fabricates and erects structural steel for commercial and industrial construction projects, including high and low-rise buildings and office complexes, hotels and casinos, convention centers, sports arenas, shopping malls, hospitals, dams, bridges, mines, and power plants. Examples of some of the many projects Schuff has completed include the Cosmopolitan Resort Casino, Arizona Cardinals Stadium, and the San Diego Airport. Current projects under construction include the signature main building on Apple Campus 2 in Cupertino, CA, the Wilshire Grand Center in Los Angeles, CA, and the Tesla "Gigafactory" near Sparks, NV.

Backlog was $381.6mn as of 9/30/15, but it was disclosed by management that it stood at $480mn in November 2015.

Figure 3. HC2 Holdings, Inc.—Schuff Historical Financial Summary, 2006–9/30/15

										YTD		LTM
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**9/30/14**	**9/30/15**	**9/30/15 [1]**
Revenue	$494.0	$736.0	$682.0	$421.0	$288.0	$369.8	$427.0	$416.1	$526.1	$369.9	$380.8	$537.0
Growth %	-	*49.0%*	*(7.3%)*	*(38.3%)*	*(31.6%)*	*28.4%*	*15.5%*	*(2.5%)*	*26.4%*		*2.9%*	
EBITDA	54.0	103.0	98.0	53.0	12.0	13.8	20.3	27.1	45.8	NA	37.4	51.6
EBITDA Margin %	*10.9%*	*14.0%*	*14.4%*	*12.6%*	*4.2%*	*3.7%*	*4.8%*	*6.5%*	*8.7%*	NA	*9.8%*	*9.6%*
CapEx	$5.0	$14.0	$25.0	$24.0	$11.0	$3.4	$4.0	$10.0	$10.9	$10.7	$3.1	$3.3
Backlog		$417.0	$364.0	$220.0	$173.0	$253.0	$186.0	$427.0	$357.0	$409.7	$381.6	$381.6

1. Annualized; see Figure 7 for calculation.
Source: Company filings.

Global Marine (now "Marine" reporting segment): A global offshore engineering company focused on specialist subsea services across three sectors: telecommunications, oil & gas, and offshore power. Global Marine is a pioneer in the subsea cable industry having laid the first subsea cable in 1860 and installed the first transatlantic fiber optic cable (TAT-8) in 1988. Over the last 30 years, Global Marine estimates that it has installed approximately 300,000 kilometers of cable, which management believes represents almost a quarter of all the fiber optic cable on the global seabed today.

Global Marine operates one of the largest specialist cable laying fleets in the world, consisting of seven vessels (five owned, two operated through long-term leases). As of 12/31/14, Global Marine's fleet had an estimated fair value of approximately $140mn (with approximately $75.7mn of associated vessel financing) and are all manned by Global Marine employees or long-term contractors.

Figure 4. HC2 Holdings, Inc.—Global Marine Historical Financial Summary, 2011–9/30/15

					YTD		LTM
	2011	**2012**	**2013**	**2014**	**9/30/14**	**9/30/15**	**9/30/15 [1]**
Revenue	$133.4	$162.2	$154.9	$163.6	$132.2	$105.9	$137.3
Growth %	-	*21.6%*	*(4.5%)*	*5.6%*		*(19.9%)*	
Adj. EBITDA	27.5	40.9	46.7	43.0	NA	32.3	45.9
EBITDA Margin %	*20.6%*	*25.2%*	*30.1%*	*26.3%*	*NA*	*30.5%*	*33.4%*
Maintenance capex	5.8	3.9	7.1	NA	NA	NA	NA
Growth capex	23.9	30.0	8.0	NA	NA	NA	NA
Total Capex	$29.7	$33.9	$15.1	$3.3	$4.2	$10.2	$9.3

2. Annualized; see Figure 7 for calculation.
Source: Company filings.

HC2's remaining two reporting segments are Telecommunications and Utilities, neither of which contributed significantly to EBITDA in the LTM period. See the company overview table below for a summary of HC2's portfolio of investments.

Figure 5. HC2 Holdings, Inc.—Company Overview, as of 9/30/15

HC2

Manufacturing: Schuff

- LTM Revenue (9/30/15): $537.0mn
- Operates as an integrated fabricator and erector of structural steel and heavy steel plate
- Select projects include:
  - Wilshire Grand Hotel
  - Apple World Headquarters
  - Sacramento Kings Arena
  - Tesla "Gigafactory"

Marine Services: GMSL

- LTM Revenue (9/30/15): $137.2mn
- Provides offshore marine engineering and underwater services for subsea cable installation, maintenance, and cable protection requirements
- Has installed roughly 23% of the world's subsea fiber optic cable

Utilities: ANG

- YTD Revenue (9/30/15): $5.4mn
- ANG designs, builds, owns, operates, and maintains compressed natural gas ("CNG") fueling stations
- The segment is building a network of publicly accessible CNG fueling stations throughout the United States to serve fleet customers
- Plan to have 60 fueling stations by 2017 (10 currently complete)

Telecom: PTGi ICS

- YTD Revenue (9/30/15): 302.8mn
- International wholesale telecom service company providing voice and data call termination to the telecom industry worldwide
- The only remaining business from legacy Primus Telecom
- Restructured in 2014 and achieved profitability in FY15

Life Sciences: Pansend

- **BeneVir Biopharm, Inc.**
  - Focused on immunotherapy; holds an exclusive worldwide license for a patent-protected novel compound
- **R2 Dermatology**
  - Developing dermatological medical device using novel technology
- **Genovel Orthopedics**
  - Developing two novel knee replacement implants
- **MediBeacon**
  - Recently completed human clinical trials on non-invasive real-time kidney function monitoring system

Other Holdings

- **Novatel Wireless:**
  - Global provider of wireless and SaaS solutions for the Internet of Things (IoT)
- **Continental Insurance Group:**
  - Acquisition closed 12/24/15; Continental is a $1.4bn insurance portfolio with $85mn of statutory capital, which HC2 intends to utilize to build a platform of insurance businesses
- **Gaming Nation:**
  - Provides online sports entertainment gaming, including a fantasy sports portal and sites that provide information to fans whom play online games
- **Dusenberry Martin Racing (DMi):**
  - Owns licensing rights to the NASCAR brand for interactive gaming, including mobile, console, and PC games
- **Nervve:**
  - The company has developed video search technology that is able to search an hour of video in less than five seconds

Sources: Company filings.

Valuation

Based on our sum-of-the-parts analysis, we arrive at a total enterprise value of $667.6mn at the midpoint, which implies an equity value of $382.2mn, or $7.79 per share vs. a current share price of $3.85 per share (~2.0x multiple-of-money). At $3.85 per share, the equity is trading near the bottom of our valuation range of $3.26 per share, which implies a highly asymmetric return opportunity for investors.

Figure 6. HC2 Holdings, Inc.—Sum-of-the-Parts Valuation, Prices as of 1/22/16

	Position	Parameter					TEV Contribution			HC2	HC2's Share			HC2's Per Share $		
			Low	High	Low	High	Low	Mid	High	%	Low	Mid	High	Low	Mid	High
Schuff	Equity (consolidated)	Mid-cycle EBITDA	$45.0	$60.0	5.0x	8.0x	$225.0	$352.5	$480.0	90.6%	$203.9	$319.4	$434.9	$4.16	$6.51	$8.87
Global Marine	Equity (consolidated)	Mid-cycle EBITDA	35.0	50.0	5.0x	8.0x	175.0	287.5	400.0	97.0%	169.8	278.9	388.0	3.46	5.69	7.91
Continental Insurance	Equity (consolidated)	Statutory Capital	85.0	85.0	0.6x	0.9x	51.0	63.8	76.5	100.0%	51.0	63.8	76.5	1.04	1.30	1.56
PTGi	Equity (consolidated)	Mid-cycle EBITDA	1.5	5.0	3.0x	4.0x	4.5	12.3	20.0	100.0%	4.5	12.3	20.0	0.09	0.25	0.41
Novatel	Equity + warrants	Share Price	1.1	1.1	-25.0%	25.0%	43.0	57.4	71.7	24.1%	10.4	13.8	17.3	0.21	0.28	0.35
Gaming Nation	Convertible bond	Book value									12.3	12.3	12.3	0.25	0.25	0.25
American Natural Gas	Convertible preferred	At cost					30.4	30.4	30.4	51.0%	15.5	15.5	15.5	0.32	0.32	0.32
R2 Dermatology	Convertible preferred	At cost									9.9	9.9	9.9	0.20	0.20	0.20
DMi	Equity (consolidated)	At cost									6.0	6.0	6.0	0.12	0.12	0.12
MediBeacon	Preferred equity	Book value									2.8	2.8	2.8	0.06	0.06	0.06
NerVve	Preferred equity	Book value									4.6	4.6	4.6	0.09	0.09	0.09
DTV America	Equity + warrants	Book value									5.3	5.3	5.3	0.11	0.11	0.11
Benevir	Preferred equity	Book value									1.4	1.4	1.4	0.03	0.03	0.03
Kaneland	Equity	Book value									1.2	1.2	1.2	0.02	0.02	0.02
mParticle	Convertible bond	Book value									0.5	0.5	0.5	0.01	0.01	0.01
Corporate Expense [1]		Normalized	(20.0)	(20.0)	3.0x	5.0x	(60.0)	(80.0)	(100.0)	100.0%	(60.0)	(80.0)	(100.0)	(1.22)	(1.63)	(2.04)
Consolidated cash		Book Value									132.0	132.0	132.0	2.69	2.69	2.69
Gross Value											**$571.0**	**$799.6**	**$1,028.2**	**$11.64**	**$16.30**	**$20.97**
Less: Subsidiary Debt + Underfunded Pension												112.4			2.29	
Value for HoldCo Debt											**$458.6**	**$687.2**	**$915.8**	**$9.35**	**$14.01**	**$18.67**
HoldCo Bonds												**305.0**			**6.22**	
Bond Coverage											**1.5x**	**2.3x**	**3.0x**	**1.5x**	**2.3x**	**3.0x**
Value for Equity											**$153.6**	**$382.2**	**$610.8**	**$3.13**	**$7.79**	**$12.45**
Diluted Shares [2]											47.13	49.04	50.76			
Value per Share											**$3.26**	**$7.79**	**$12.03**			
HCHC Current Sh Px												$3.85				
Cash-on-Cash											0.8x	2.0x	3.1x			

(1) Adjusted to exclude non-cash GAAP expenses related to equity method investments and normalized for elevated costs related to higher than steady-state acquisition diligence activity.

(2) Assumes share count dilution from preferred equity conversion and RSUs, but excludes out-of-the-money options as applicable; pro forma for 4Q secondary offering and shares issued to acquire Continental Insurance; treasury stock method utilized for option dilution.

Sources: Bloomberg, company filings, Imperial Capital, LLC.

Valuation Notes

Schuff: Schuff was acquired in several transactions beginning May 2014 for an implied TEV of $138.2mn. The transaction was sourced internally by HC2. Revenues grew 26.4% on a pro forma basis in FY14 due to a ramp-up of several major projects that began in 2014. Revenues have grown in 2015 and margins have improved as the company has been able to achieve cost savings. The business has traded at 7.0x on a 3-year average basis, with comps trading in the 7.0–10.0x context – comparable company Canam Group (CAM CN) currently trades at 7.9x 2015E EBITDA and 6.7x 2016P EBITDA and comparable ADF Group (DRX CN) is at 12.4x 2015E and 7.2x 2016P.

The segment's backlog in November 2015 stood at $480mn vs. $357.0mn at 12/31/14 (+34.5%) and management has noted capacity utilization of around 85-90%.

While not factored into our analysis, we make note of the high profile projects that Schuff has been engaged on and speculate that Schuff has good prospects to receive the mandate for the new Los Angeles Rams stadium – the preliminary estimated cost for the project is $2.6bn, a billion dollars more expensive than the current most costly stadium in the US (New Jersey's Met Life Stadium). A win of this contract has enormous potential for Schuff.

We also note potential outsized growth from additional phases of the Tesla factory, which have not yet been announced.

Finally, we believe Schuff will benefit from the sophisticated management team in place at HC2, as historically it had been run as a standalone family business.

Global Marine: Global Marine was acquired in September 2014 for an implied TEV of $260.0mn or 6.1x Global Marine's FY14 EBITDA of $42.9mn. The deal was sourced internally by HC2. The business grew top line by 5.6% in FY14, largely as a result of foreign exchange fluctuations. Current annualized EBITDA is around $45mn with further potential upside beyond 2015 from reentry into the wind power market following recent expiry of a non-compete in November 2015. While there are no publicly-traded direct comparables, companies with similar drivers trade around 7.0–10.0x TEV/EBITDA – comparable company SEACOR (NYSE:CKH) currently trades at 8.5x 2015E EBITDA and 6.8x 2016P EBITDA.

Global Marine's revenues are approximately 50% maintenance and 50% new installation. Customers include companies engaged in telecommunications, oil and gas exploration and production, and offshore power.

Given global climate change policies, despite a low commodity price environment, we believe the offshore wind power market represents a considerable opportunity for Global Marine. We highlight climate change policies such as the U.K.'s target of having 15% of energy consumption delivered from renewable sources by 2020, which could drive this market growth.

Continental Insurance: In April 2015, HC2 signed a definitive agreement to acquire American Financial Group's (AFG) long-term care and life insurance businesses for $14.9mn. The transaction closed on 12/24/15. Continental is a $1.4bn insurance portfolio with $85mn of statutory capital, which HC2 intends to utilize to build a platform of insurance businesses. The $14.9mn consideration consists of $7.0mn in cash, $2.0mn in 11% Notes, and 1.01mn shares of HCHC common equity, then-valued at $5.9mn in aggregate – AFG also received warrants to purchase up 2.0mn of HCHC shares at $7.08 per share.

HC2 may be required to pay AFG up to an additional $13.0mn conditioned on the release of certain statutory reserves.

Due to a significant tax benefit from the sale, AFG expects to receive total after-tax proceeds of $110-115mn from the transaction.

We potentially see a parallel from this to Mr. Falcone's 2011 acquisition of Fidelity & Guaranty Life for around $350mn; an agreement was announced in November valuing the business at $1.6bn (4.6x). Mr. Falcone has considerable expertise in the space, and has appointed Jim Corcoran as Executive Chairman: Mr. Corcoran served as Superintendent of Insurance at the New York Department of Insurance, and most recently was Executive Vice President at American General (AIG).

PTGi: This is the only remaining legacy segment from Primus Telecom. HC2 announced in 2Q15 that the segment had achieved profitability after HC2's team spent approximately a year restructuring the business. The segment is currently generating less than a 1.0% EBITDA margin, on $302.8mn of revenue. We believe, over time, that both revenues and margin will improve from continued traction of restructuring initiatives (particularly related to its sales force) and the benefit of operating leverage, but have given the segment a relatively conservative valuation until observing further progress of a turnaround.

Novatel (MIFI): HC2 owns around 24% of the publicly-traded common equity of MIFI and warrants. We assumed an increase of 25% in the equity in a high case scenario and a decline of 25% in a low case. Novatel's public equity price has traded down recently; however, on the 3Q15 earnings call, Mr. Falcone noted that Novatel has a new CEO (Sue Swenson) and he continues to believe strongly in the upside of the investment.

Novatel is most known for its MiFi mobile hotspot product (customers include Verizon, AT&T, and Sprint), but is attempting to remake itself into the premier Internet of Things (IoT) hardware and software provider, and hopes to capitalize on the growing trend for connected products – including uses in wearables, connected cars, connected homes, and transportation fleets. For reference, Novatel purchased DigiCore on 10/15/15, a South African IoT company, for $87mn, or around 10x TEV/EBITDA. The best U.S. comp, Fleetmatics, trades at greater than 20.0x TEV/LTM EBITDA.

Given the potential size of the market for IoT, our estimate of 25% on the upside is significantly lower than management's expectation.

Other: The remaining businesses make up a small proportion of total invested capital, and HC2 provides only limited disclosure, as such, for valuation purposes, we value these assets at cost or book value. Please see Figure 5 as well as in management's most recent investor presentation for more detail: http://hc2.com/events-presentation/

We note, however, that we believe there is significant value potential in these assets and highlight just a sampling of the opportunity set:

American Natural Gas (ANG): ANG is building a network of compressed natural gas (CNG) fueling stations in the United States. ANG believes it offers a compelling value proposition, with CNG pricing generally $1.00-2.00 cheaper per gallon than gasoline and diesel. ANG currently has 10 fueling stations with the plan to have 60 by 2017. The company recently attained breakeven profitability despite a low oil price environment. ANG is poised to benefit from increased environmental protection policies and a recovery in oil prices. Given cost savings for its customers, we believe the value proposition of the offering is indisputable, and we believe demand begets demand as there is a network effect: when customers begin to believe the level of penetration is sufficient that it will have easy access to fueling sources, demand will increase (which will prompt further station development, and in turn further demand, etc.).

BeneVir BioPharm: The company is developing a pipeline of cancer immunotherapy drugs. The treatments are called oncolytic viruses. The viruses enter tumors and destroy cancer cells while evading detection by the body's immune system, so they can continue to destroy the cancer cells without being purged by the body's anti-viral T-cells. The virus also triggers an immune response in the body, so that the immune system aids the virus in destroying the cancer cells.

The idea was developed by Dr. Ian Mohr of NYU, and licensed to BeneVir. Dr. Mohr previously licensed a related formula to BioVex, which used the concept to develop a cancer immunotherapy product similar to what is being developed at BeneVir. BioVex was acquired in 2011 by Amgen for approximately $1bn (including milestones). The drug being developed, Imlygic (previously T-VEC), recently announced that it has received FDA approval – making it the only oncolytic virus to successfully complete a US Phase 3 clinical trial. Imlygic has been approved for the treatment of melanoma.

Dr. Mohr now works on BeneVir's advisory board. We believe that his continued involvement and proof of concept from Amgen's success provide strong circumstantial support for the viability and potential for the technology. While we have chosen to conservatively value the business at book value, the parallel illustrates the blockbuster potential of the technology – particularly if BeneVir is able to develop the product for other types of cancer beyond melanoma.

DMi (Dusenberry Martin Racing): In December 2014 DMi completed a $6.0mn asset purchase agreement to acquire worldwide exclusive licensing rights to the NASCAR brand for interactive gaming, including mobile, console, and PC games. The license also extends to NASCAR racetracks and all the leading NASCAR race teams and drivers.

DMi is currently working on several games, including an all-new NASCAR racing simulation game for PlayStation 4, Xbox One, PC, and mobile games that are expected to be released in 2016.

By comparison, the Madden NFL video games have earned over $4.0bn over the history of the franchise and the FIFA soccer video game franchise earned around $385mn for its parent (Electronics Arts) for FY14 alone.

Pro Forma Financial Summary

Figure 7. HC2 Holdings, Inc.—Pro Forma Financial Results, FY14–9/30/15

Revenues	Quarter-ended						
	Mar-15	**Jun-15**	**Sep-15**	**FY14**	**LTM**	**YTD14**	**YTD15**
Telecommunications	46.7	104.0	116.9	162.0	302.8	126.7	267.6
Manufacturing	126.9	131.0	122.9	526.1	537.0	369.9	380.8
Marine Services	27.0	43.9	35.1	163.6	137.2	132.3	105.9
Utilities	1.2	1.4	1.8	1.8	5.4	0.9	4.4
Other	-	0.8	0.8	-	1.5	-	1.5
Total PF Net Revenue	**201.8**	**281.0**	**277.5**	**853.5**	**983.9**	**629.9**	**760.3**

EBITDA	Quarter-ended				YTD		
	Mar-15	**Jun-15**	**Sep-15**	**FY14**	**Annual'd [1]**	**YTD14**	**YTD15**
Telecommunications	(0.1)	0.2	0.8	(1.2)	1.5		1.0
Manufacturing	9.0	14.0	14.4	45.8	51.6		37.4
Marine Services	5.3	16.8	10.3	43.0	45.9		32.3
Corporate & Other	(8.3)	(11.5)	(11.5)	(18.6)	(42.8)		(31.3)
Total PF EBITDA	**5.9**	**19.5**	**14.1**	**69.0**	**56.2**		**39.4**
Non-Cash Expenses in Corporate & Other [2]			5.7		14.5		14.5
PF Adjusted EBITDA			**19.8**		**70.7**		**53.9**

Note: Pro forma prior year EBITDA has not been disclosed.
(1) Annualized is June and September quarters extrapolated to 4Q plus actual 1Q, given seasonally lower 1Q [Annualized = (2Q+3Q)*(3/2) + 1Q].
(2) Adjustment is a YTD figure – potentially larger if able to be annualized. Addbacks are GAAP expenses related to equity interests that are actually non-cash.
Sources: Bloomberg, Company filings, Imperial Capital, LLC.

Figure 8. HC2 Holdings, Inc.—Free Cash Flow Analysis

	Run-Rate	Structure Agnostic
Schuff EBITDA	$51.6	
Global Marine EBITDA	45.9	
Telecom EBITDA	1.5	
Segment EBITDA	**$99.0**	
Schuff Capex	(7.5)	
Global Marine Capex	(5.0)	
Other Capex	(2.5)	
Segment Capex	**($15.0)**	
Segment EBITDA-Capex	**$84.0**	
Est. Upstreamable	40.0	84.0
Normalized Corporate SG&A[1]	(20.0)	(20.0)
Bond Interest	(33.0)	(33.0)
Preferred Interest	(4.1)	(4.1)
FCF	($17.1)	$26.9
Diluted Share Count		47.13
FCF per Share		$ 0.57
FCF Yield %		14.8%
Share Price		$ 3.85

Current cash balance:	$132.0
Implied run-rate liquidity runway:	7.7 yrs

- Despite removal from subsidiary-level credit agreements of restrictive upstream dividend language, there remain some structural limitations on the ability to upstream cash, including an underfunded pension restriction at Global Marine and net working capital requirements of both primary operating subsidiaries; we estimate that approximately $40.0mn per year can be upstreamed, which implies around $17.0mn of cash burn at the holding company level
- Given current balance sheet liquidity, we believe HC2 has ample cash runway to bridge its portfolio company investments to profitability
- Further, we note the negligible EBITDA generation from its smaller, early-stage portfolio investments that have tremendous optionality. We believe management is interested in acquiring another operating business that will be able to generate significant free cash flow and eliminate any cash burn at the holding company level

1. SG&A is currently elevated by legal and diligence costs related to high level of deal sourcing and evaluation activity.
Sources: Bloomberg, Company filings, Imperial Capital, LLC.

Figure 9. HC2 Holdings, Inc.—Pro Forma Adjustments (Share Count + Cash)

Pro Forma Diluted Share Count (mn)

Reported Share Count (9/30/15)	25.59
Restricted Stock Units (RSUs)	0.87
Shares issued to AFG for Insurance Deal	1.01
Shares Issued in Secondary Offering	8.45
Preferred Share Dilution	11.21 <------
Pro Forma Fully Diluted Shares	**47.13**

	Series A	Series A-1	Series A-2
Preferred (face, $mn)	$ 30.0	$ 11.0	$ 14.0
Initial Conversion ($ per share)	$ 4.00	$ 4.25	$ 8.25
Initial shares from conversion	**7.50**	**2.59**	**1.70**
Current shares from conversion	**7.15**	**2.36**	**1.70**
Total	**11.21**		

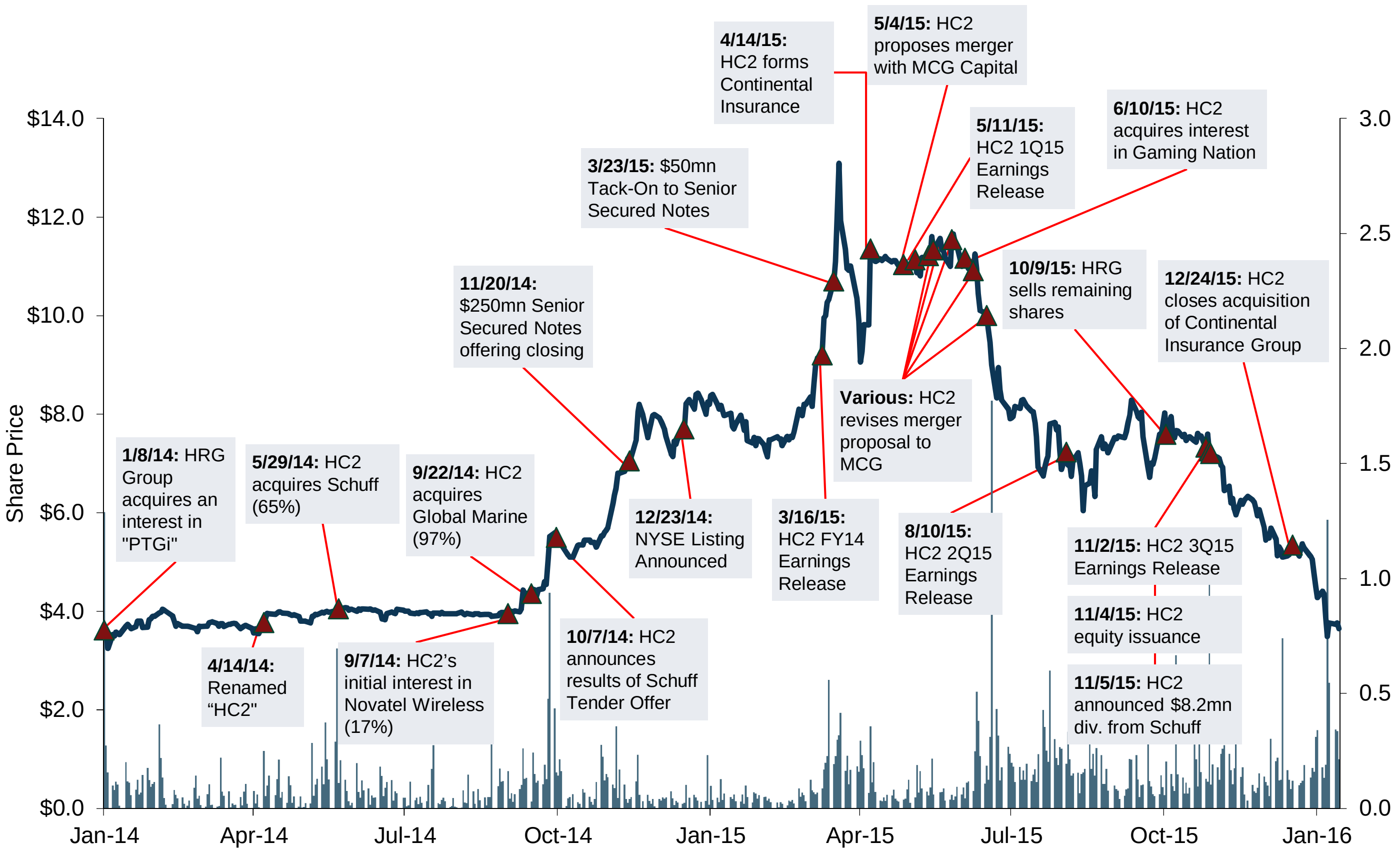
Pro Forma Cash Balance ($mn)

Cash + Short-term Investments	$84.7	
Cash to AFG for Insurance Deal	(7.0)	
Gross Cash from Secondary Offering	59.2	<------ 8.45mn shares x $7.00 per share
Less: Estimated transaction fees/expenses	*(4.9)*	
Pro Forma Cash Balance	**$132.0**	

Note: at 9/30/15 HC2 had 4.22mn of out-of-the-money options with a $5.02 weighted average exercise price; in 4Q15 the company issued 2.3mn warrants implying a fully-diluted share count of 53.6mn shares (before Treasury Stock Method adjustments); current potential share dilution figures for preferred from 11/5/15 prospectus supplement as of 10/30/15.
1. Imperial Capital estimate.
Sources: Company filings and Imperial Capital, LLC.

Appendix

Figure 10. HC2 Holdings, Inc.—Historical Equity Trading Performance, January 2014-January 2016



Sources: Company filings and Imperial Capital, LLC.

Figure 11. HC2 Holdings, Inc.—Summary of Key 11.0% Secured Note Terms[1]

Face Amount:	$300.0mm
Borrower:	HC2 Holdings, Inc.
Trustee:	U.S. Bank National Association
Maturity:	December 1, 2019
Security:	Secured by first-priority on substantially all assets and the assets of Subsidiary Guarantors
Coupon:	11.000%
Call Protection:	Prior to 12/1/16 Make-whole 12/1/16 - 11/30/17 108.250% 12/1/17 - 11/30/18 105.500% 12/1/18 & thereafter 100.000%
Change of Control Protection:	101%, upon a sale of substantially all assets or upon a change in ownership of more than 50% of voting rights
Negative Covenants:	Restrictive covenants including ability to incur liens; borrow money; make certain investments; repurchase stock; repay certain debt; enter into certain change of control transactions; enter into certain affiliate transactions; etc.
Financial Covenants:	Maintenance of Liquidity: - Required to maintain unrestricted cash and cash equivalents sufficient to cover all interest and preferred dividend obligations over the next twelve months with Collateral Coverage Ratio below 2.0x; at 2.0x or greater Collateral Coverage Ratio the requirement is for six months Collateral Coverage Ratio: (calculated as the ratio of Loan Collateral to Consolidated Secured Debt) Required to maintain a minimum coverage of 1.25 : 1.00
Permitted Indebtedness:	- Any additional pari indebtedness such that the Collateral Coverage Ratio is not less than 1.50 : 1.00 - Other permitted debt: - Intercompany debt (must be unsecured/subordinated if not at Subsidiary Guarantor) - Unsecured debt with maturity outside of Notes maturity and Collateral Coverage Ratio is not less than 1.25 : 1.00 - Permitted refinancings (maturity outside Notes) - General basket not to exceed the greater of $15.0mn and 5% of the Loan Collateral - Capital leases up to $10.0mn - Schuff debt up to the greater of $70.0mn and the Borrowing Base under its Credit Agreement - Global Marine debt up to 75% if the cost of acquisition or construction of vessels - ANG debt up to 65% if the cost of acquisition or construction of distribution facilities and related assets - Restricted Subsidiary debt up to 1.0x that Restricted Subsidiary's EBITDA - Debt of Restricted Subs. that are not Subsidiary Guarantors up to the greater of $15.0mn or 5.0% of Loan Collateral - Other customary exemptions (hedging, ordinary course letters of credit, financing of insurance premiums, etc.)
Permitted Liens:	- Liens securing Permitted Indebtedness - Other liens securing obligations incurred in the ordinary course of business + $5.0mn for other liens
Restricted Payments:	Company may make Restricted Payments with Collateral Coverage Ratio beyond 1.5x up to 50% CNI basket + $5.0mn freebie; with Collateral Coverage Ratio below 1.5x, the company has a $10.0mn basket
Approvals Required for Amendment / Waiver:	>50% of principal amount (release of collateral requires 66.67%; sacred rights require 100% approval)

1. Although we believe it to be accurate, this Summary of Key 11.0% Secured Note Terms is not meant to represent the complete terms of the subject securities. Investors should read all of the source documents in their entirety before making any investment decision.

Sources: Bloomberg, company filings, and Imperial Capital, LLC.

Figure 12. HC2 Holdings, Inc.—Notes Yield Sensitivity

Maturity	12/1/19
Coupon	11.000%
Price	85.00
YTW	16.40%

		YTC 1	YTC 2	YTC 3	YTM
		12/1/16	12/1/17	12/1/18	12/1/19
Price	**YTW**	108.25	105.50	100.00	100.00
84.00	16.80%	44.67%	24.81%	18.46%	16.80%
85.00	16.40%	42.94%	24.04%	17.94%	16.40%
86.00	16.00%	41.24%	23.27%	17.43%	16.00%
87.00	15.61%	39.57%	22.52%	16.92%	15.61%
88.00	15.22%	37.94%	21.78%	16.43%	15.22%
89.00	14.84%	36.33%	21.05%	15.94%	14.84%
90.00	14.47%	34.75%	20.34%	15.46%	14.47%
85.00	**16.40%**	**42.94%**	**24.04%**	**17.94%**	**16.40%**

Source: Company filings.

Figure 13. HC2 Holdings, Inc.—Select Management Biographies

- We believe the impressive management teams that Mr. Falcone has partnered with provide an important and overlooked positive to the story, the below is just a sampling of the management talent involved throughout the organization.

HC2 Holdings: Phil Falcone

- Current Chairman, President, and Chief Executive Officer of HC2

Previously:
- Chairman of the Board and Chief Executive Officer of HRG Group Inc
- Chief Investment Officer and Chief Executive Officer of Harbinger Capital Partners LLC
- Head of High Yield trading for Barclays Capital

Board memberships:
- Novatel Wireless

Global Marine: Dick Fagerstal

- Current Chairman and Chief Executive Officer of Global Marine

Previously:
- SVP of Corporate Development & Finance of SEACOR (NYSE: CKH)
- EVP, CFO, and Director at Era Group, Inc. (NYSE: ERA)
- SVP, CFO, Secretary, and Director of Chiles Offshore, Inc.

Board memberships:
- Frontier Oil Corporation (Manila, Philippines)

Continental Insurance: Jim Corcoran

- Current Executive Chairman of Continental Insurance Group

Previously:
- Executive Vice President of American General Corp. (AIG) and CEO of American General Life of New York
- Superintendent of Insurance at New York State Insurance Department
- Partner at Cadwalader, Wickersham & Taft

Board memberships:
- Vice Chairman U.S. Life (fomer)

Schuff International: Rustin Roach

- Current President, and Chief Executive Officer of Schuff

Previously:
- Mr. Roach has over 15 years of experience at Schuff, most recently as President of the Western Region

Novatel Wireless: Sue Swenson

- Current Chairman and Chief Executive Officer of Novatel Wireless

Previously:
- President and CEO of Sage North America
- COO of New Motion/ Atrinsic
- COO of Amp'd Mobile
- COO of T-Mobile USA
- President and COO of Leap Wireless
- President and CEO of Cellular One

Board memberships:
- Wells Fargo
- Spirent
- Harmonic
- Chair of FirstNet (U.S. Dept. of Commerce First Responder Network Authority)

DMi: Tom Dusenberry

- Current Chief Executive Officer of DMi

Previously:
- CEO and Founder of Hasbro Interactive
- Previously spent ~18 years at Parker Brothers

Sources: Company filings and Imperial Capital, LLC.

Risk Factors

- Inability to realize value of investment portfolio
- Certain investments are subject to significant cyclicality
- The company may not be able to access capital markets to complete further material acquisitions

Ratings History

Not Rated

Important Disclosures, Certifications and Other Information

Ratings Distribution and Definitions

Equity Ratings Definitions (as of 7/1/09)		
Outperform	62.93%	**Outperform**: TRR expected to exceed basket by at least 10%
In-Line	29.31%	**In-Line**: TRR expected to be in-line with basket
Underperform	7.76%	**Underperform**: TRR expected to underperform basket by at least 10%

This Equity Ratings Distribution reflects the percentage distribution for rated equity securities for the twelve month period 1/1/15 through 12/31/15. Rating definitions are expressed as the total rate of return (TRR) relative to the expected performance of a basket of like securities over a 12-month period. Within the twelve month period ended 12/31/15, IC has provided investment banking services to 2.74% of companies with equity rated an Outperform, 0.00% of companies with equity rated an Underperform, and 2.94% of companies with equity rated an In-Line. As of 12/31/15.

Fixed Income Ratings Definitions and Equity Ratings Definitions (prior to 7/1/09)

Buy: TRR expected to exceed basket by at least 10%
Hold: TRR expected to be in-line with basket
Sell: TRR expected to underperform basket by at least 10%

Rating definitions are expressed as the total rate of return (TRR) relative to the expected performance of a basket of like securities over a 12-month period. Please refer to our publication dated 7/1/09 for details associated with the transition of our Equity Ratings to the current definitions.

For a discussion of the valuation methods used to determine our price target, if any, please see pages 1-12. See page 13 for the risks that may impede achievement of such price target, and page 13 for our ratings history and price chart.

Analyst Certification: *Each research analyst whose name appears in bold on the front page certifies that: (1) the views expressed in this report reflect the analyst's personal views about the subject securities or issuers; and (2) none of the analyst's compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed herein. The analyst(s) responsible for the preparation of this report receive(s) compensation primarily based upon individual performance (e.g., productivity and quality of work) and the overall financial performance of Imperial Capital, LLC, including overall revenues from investment banking activities.*

COMPANY	DISCLOSURE
HC2 Holdings, Inc.	None

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8 IC or its affiliates has received compensation for products or services other than investment banking services from this entity during the past 12 months.
9 IC had a [investment banking services] [non-investment banking securities-related services] [non-securities services] client relationship with this entity during the past 12 months.
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