

## Discovery Group

# Dropping Coverage of HC2 Holdings, Inc. due to a Reallocation of Resources

Sarkis Sherbetchyan

310-689-5221

ssherbetchyan@brileyfin.com

STOCK DATA			
Market Cap (mil)			\$251.6
52-Week Range			\$1.29 – \$4.75
3-Month ADTV			722,240
Shares Outstanding (mil)			73.1
Dividend Yield			0.00%
Float (%)			61.9
Short Interest			2,602,507
Enterprise Val. (mil)			\$817.2
Adjusted Enterprise Value (mil)			\$797.7
Fiscal Year-End			December
EARNINGS DATA			
EBITDA (mil) Operating	2019A	2020E	2021E
1Q	\$2.8	\$1.4A	\$(2.0)
2Q	\$27.7	\$15.2A	\$2.3
3Q	\$23.6	\$11.9A	\$10.2
4Q	\$36.7	\$8.1	\$10.8
FY	\$90.8	\$36.6	\$21.3
EV/EBITDA	9.0x	22.3x	38.4x
<i>Total HC2 adj. EBITDA excluding "Insurance" segment</i>			
FINANCIAL DATA			
FY	2019A	2020E	2021E
Rev. (mil)	\$1,984.1	\$1,465.1	\$1,092.0
ROE	(0.1)%	(0.3)%	(0.1)%
Debt/Capital	64.3%	56.8%	58.7%
BV/Share	\$6.38	\$8.47	\$5.14
BALANCE SHEET DATA			
			3Q20
Cash & Equivalents			\$163.6
Accounts Receivable			\$252.3
Accounts Payable			\$298.6
Long-Term Debt			\$633.8
Total Debt			\$646.4
Shareholders' Equity			\$371.8
Debt/Cap			63.0%
<i>\$ in millions unless otherwise specified. Cash &amp; equivalents includes ~\$115M in "Insurance" segment.</i>			

### Summary and Recommendation

We are dropping coverage of HC2 Holdings, Inc. (HCHC) due to a reallocation of resources. Our final rating on HCHC is Buy, with a final price target of \$5.00 based on a sum-of-the-parts (SOTP) analysis. Our investment thesis on HCHC included the board/management team walking down the path of monetizing assets and positioning the company for a successful debt refinancing event. Regarding the former, HCHC has recently sold its clean energy segment, and has strategically divested non-core assets at the segment level, as evidenced by the sale of four broadcast stations at the spectrum subsidiary. We believe there is more to come, with HCHC's insurance division having been under strategic review since the beginning of 2020, and while we believe HCHC's life sciences portfolio has tremendous potential, in our view the holding company could and should eventually monetize those assets to further simplify HCHC's investment thesis. Most importantly, the recent asset sales and HCHC's prior ~\$65M common stock rights offering set the stage for a successful refinancing of the HoldCo debt. In this regard, HCHC priced an upsized private offering of \$330M in 5-year senior secured notes due in 2026 at par in January. The new notes have an 8.5% coupon versus an 11.5% coupon on the company's prior notes. Recall, HCHC held ~\$342M of 11.5% senior secured notes due in 12/2021 and has ~\$15M outstanding on the revolver at the HoldCo as of 3Q20. The new notes were used to fully redeem the existing senior secured notes. We therefore anticipate the refinancing event to drive significant interest expense savings for the HoldCo. Pro forma for the offering, and the repayment described above, we anticipate annualized interest expense at the HoldCo to decline from ~\$45M to ~\$32M. Finally, we think the board/management team should provide a clear, thoughtful, and concise roadmap for HCHC's go-forward strategy, which we believe both credit and equity investors are itching to learn in greater detail.

### Key Points

- Sells clean energy segment.** On 12/31, HCHC announced the sale of the company's clean energy segment, Beyond6, to Mercuria Investments for a total enterprise value of ~\$169M. The transaction was completed in January. After considering ~\$57M of segment level debt, and HCHC's 61% fully diluted equity ownership of Beyond6, HCHC received ~\$70M of cash. As a reminder, the proceeds received for HCHC's equity stake compare favorably to our SOTP valuation analysis, which assumed ~\$34M of equity value contribution for this segment (~\$92M invested cost basis less ~\$57M of segment level debt). Therefore, the segment sale is accretive to our net asset value per share assumption by ~\$0.30 per share on a fully diluted basis (all else being equal).
- Spectrum subsidiary monetizes four broadcast stations.** On 1/4, the company's spectrum subsidiary, HC2 Broadcasting Holdings, sold three full power television station assets and one low power translator for ~\$35M. Proceeds from this transaction were used to reduce segment level debt, which stood at ~\$92M as of 9/30. Pro forma for this transaction, segment level debt is expected to be ~\$57M (all else being equal). We estimate ~\$3M of annual interest expense savings at the segment level. This sale is in line with management's stated objective of selling non-core stations in select markets to reduce debt. We believe the valuation for these four assets are constructive relative to the total value described in our SOTP valuation analysis for HCHC's total spectrum assets, which we value at investment cost of ~\$180M.
- Continued on page 2...**

Analyst certification and important disclosures can be found on pages 6 - 9 of this report.

This document represents an abbreviated discussion of the subject issuer and should not be used as the sole basis for an investment decision. Contact your B. Riley Securities representative for complete research concerning the subject issuers, including research briefs and reports.

- **Insurance segment received \$90M indication of interest.** As a reminder, on 12/10, HCHC director Michael Gorzynski made a non-binding indication of interest to acquire HCHC's insurance segment for ~\$90M. The insurance division has been under strategic review since the beginning of 2020. In our view, a potential sale of the insurance segment could further simplify the holding company.
- **Final estimates.** Our final 2021 adjusted EBITDA forecast is \$21M. Our model contemplates: \$65M of adjusted EBITDA contribution from the infrastructure segment, adjusted EBITDA loss contribution of \$3M from the spectrum division and loss of \$40M from the life sciences division, as well as \$15M of corporate overhead and \$3M of contribution from other investments. Note: our FY21 adjusted EBITDA forecast includes \$11M of contribution from Beyond6, which has since been sold and would be removed from HCHC's P&L going forward.
- **Final rating and price target.** Our final rating on HCHC shares is Buy, with a final price target of \$5, which is based on a SOTP valuation analysis.

## Valuation

Our price target of \$5 is based on a sum-of-the-parts analysis.

### Sum-of-the-Parts Valuation Analysis:

Business Unit	Financial Statistic Description	Statistic (Ms)	Multiple	Est. Valuation
DBM Global	FY21E EBITDA - 92.5% ownership	\$65	7.0	\$455
HMN JV 19% stake put-option	19% interest under 2-year put-option (\$285M or FMV)	\$285	19%	\$54
Pansend Life Sciences	Cost basis of total investments below (per HCHC filings):			
Medi Beacon	42% ownership	\$300	42%	\$125
R2 Technologies	56% ownership	\$80	56%	\$45
BeneVir Biopharm Inc.	Potential payments to HC2 from milestone achievements	\$512	10%	\$51
Genovel Orthopedics	75% ownership	\$4	0.0	\$0
Triple Ring Technologies	27% ownership	\$3	0.0	\$0
Continental Insurance Group	Total adjusted capital of \$374M	\$374	0.2	\$90
American Natural Energy (ANG)	69% ownership; valuing at investment cost	\$92	1.0	\$92
HC2 Broadcasting Holdings	Cost basis of total investments (per HCHC filings)	\$179	1.0	\$179
Total Sum of the Parts				\$1,090
Minus:				
Corporate expenses	FY21E Corporate Expenses	\$15.0	6	\$90
Total debt (3Q 2020)				\$665
Less: cash, cash equivalents, restricted cash, ~\$115M insurance co. cash, & ~\$63M proceeds from rights				\$112
Net debt (cash)				\$553
Less: \$55M conv. notes	Assume conversion into ~12.6M shares of HCHC stock			(\$55)
Preferred stock (\$10M)	Assume conversion into ~2.2M shares of HCHC stock			\$0
Noncontrolling interest				\$53
Total HCHC equity value				\$450
Est. diluted shares	Includes ~14.8M shares of HCHC stock assumed from conversions above			90.6
Est. HCHC Net Asset Value				\$4.96

\$ in millions.

## Risks

**Acquisition/Integration.** The company actively evaluates potential acquisitions as part of its growth strategy. Acquisitions pursued by the company could be dilutive to financial results and result in a difficult, dilutive, or expensive integration.

**Acquisition/Integration.** The company recently completed acquisition(s). If the company fails to successfully integrate the acquisition, the deal may lead to disappointing returns.

**Growth plan.** There are many factors that may impact the company's ability to achieve its stated growth objectives.

**Insider ownership.** Directors and executive officers collectively own a significant percentage of the company. While this may align interest with other shareholders, investors might view a future sale by any director or officer negatively.

**Liquidity and solvency.** The company has a significant debt load and interest expense, which may hamper its ability to invest in the business. Also, the company may need to raise additional capital in the future, and access to such capital is difficult to predict.

**General industry.** The company could miss our estimates and/or its financial guidance.

**Competition.** The company operates in a highly competitive environment for acquisition opportunities, including from public companies with similar business strategies, investment partnerships, blank-check companies, private equity firms, among others.

**Economy.** A decline in economic growth or economic disruptions could have a negative impact on the company's operating units and financial results.

**Foreign currency risk.** The company has operations outside of the U.S., primarily in the U.K., exposing the company to foreign currency exchange rate fluctuations, which could adversely impact the company's operations and/or financial condition.

**Holding company.** The company is a publicly traded holding company, and its equity interests in operating subsidiaries and other investments comprise primarily all of its assets. As a result, the company's principal revenue and cash flow is distributions from subsidiaries, which may be limited by law or by contract in making certain distributions to the holding entity. Further, the holding company's ability to service debt and/or to finance future acquisitions are dependent on the ability of subsidiaries to make upstream cash distributions.

**Insurance operations.** The company's insurance operations are subject to legal restrictions and regulatory requirements, including the amount of statutory capital that must be held to maintain financial strength. Further, financial results from the insurance operations could be negatively affected if actual performance differs from management's assumptions and estimates.

**International operations.** The company operates in international markets and could in the future pursue additional investments in foreign entities. Exposure to international laws, regulations, politics, taxes, and currency poses risk to the company's operations.

**Minority investments.** The company owns a minority interest in a number of entities, over which the company does not exercise control and/or has little to limited influence. As a result, the company may be unable to direct or manage those operations to drive value.

**Loss of key personnel.** The current management team will be instrumental in executing the company's growth strategy. The resignation or loss of a key member of management would have a negative impact on the company.

**Significant stockholder security sales.** Future sales of substantial amounts of common stock by holders of preferred stock, or by other significant stockholders, could adversely impact the market price of the company's common shares.

**Pandemic.** The global spread of the novel coronavirus (labeled COVID-19) has created significant uncertainty and economic disruption (both in the near term and, potentially, long term). The extent to which a pandemic could affect the company's operations, financial condition, and supply chain is difficult to predict and depends on evolving factors, including: duration, scope, government actions, and other social responses. The company could, therefore, experience material/adverse impacts to its business and financial results.

**HC2 Holdings, Inc. - HCHC**

Model (\$ in 000s)

B. Riley Securities

[ssherbetchyan@brileyfin.com](mailto:ssherbetchyan@brileyfin.com)

	2017(A)	2018(A)	2019(A)	Q1-Mar	Q2-Jun	Q3-Sep(A)	Q4-Dec(E)	2020(E)	Q1-Mar	Q2-Jun	Q3-Sep	Q4-Dec	2021(E)
<b>Net revenues</b>	<b>1,634,124</b>	<b>1,976,700</b>	<b>1,984,100</b>	<b>444,800</b>	<b>377,000</b>	<b>393,300</b>	<b>250,000</b>	<b>1,465,100</b>	<b>251,700</b>	<b>272,400</b>	<b>283,100</b>	<b>284,800</b>	<b>1,092,000</b>
Cost of revenue - services	0	0	0	0	0	0	0	0	0	0	0	0	0
Cost of revenue - sales	1,313,069	1,585,205	1,424,900	346,100	262,100	278,700	128,400	1,015,300	135,300	150,400	153,400	154,500	593,600
Insurance benefits and acquisition expenses	108,695	197,324	234,400	72,400	63,000	59,600	65,000	260,000	65,000	65,000	65,000	65,000	260,000
SG&A expenses	182,880	218,442	214,300	52,300	48,100	45,200	45,000	190,600	48,375	49,675	49,475	49,475	197,000
D&A	31,315	31,669	32,000	600	1,100	2,400	7,100	11,200	8,200	8,200	8,200	8,200	32,800
(Gain) loss on sale or disposal of assets	(704)	(86)	(5,600)	200	(2,200)	9,500	0	7,500	0	0	0	0	0
Lease termination costs	0	0	0	0	0	0	0	0	0	0	0	0	0
Asset impairment expense	0	0	55,000	0	0	0	0	0	0	0	0	0	0
<b>Total operating expenses</b>	<b>1,635,255</b>	<b>2,032,554</b>	<b>1,955,000</b>	<b>471,600</b>	<b>372,100</b>	<b>395,400</b>	<b>245,500</b>	<b>1,484,600</b>	<b>256,875</b>	<b>273,275</b>	<b>276,075</b>	<b>277,175</b>	<b>1,083,400</b>
<b>Income (loss) from operations</b>	<b>(1,131)</b>	<b>(55,854)</b>	<b>29,100</b>	<b>(26,800)</b>	<b>4,900</b>	<b>(2,100)</b>	<b>4,500</b>	<b>(19,500)</b>	<b>(5,175)</b>	<b>(875)</b>	<b>7,025</b>	<b>7,625</b>	<b>8,600</b>
Interest expense	(55,098)	(75,662)	(95,100)	(21,300)	(21,400)	(19,700)	(18,331)	(80,731)	(18,331)	(18,331)	(18,331)	(18,331)	(73,325)
(Gain) loss on extinguishment or restructuring of debt	0	102,141	0	(5,800)	(3,400)	(4,200)	0	(13,400)	0	0	0	0	0
Contingent rights valuation	0	0	0	0	0	0	0	0	0	0	0	0	0
Other income (expense), net	(1,361)	196,309	7,100	2,800	64,000	7,300	0	74,100	0	0	0	0	0
Income (loss) from equity investees	17,840	15,355	2,200	(2,500)	(200)	(1,300)	0	(4,000)	0	0	0	0	0
<b>Income (loss) from continuing operations, before taxes</b>	<b>(39,750)</b>	<b>182,289</b>	<b>(56,700)</b>	<b>(53,600)</b>	<b>43,900</b>	<b>(20,000)</b>	<b>(13,831)</b>	<b>(43,531)</b>	<b>(23,506)</b>	<b>(19,206)</b>	<b>(11,306)</b>	<b>(10,706)</b>	<b>(64,725)</b>
Income tax benefit (expense)	(10,740)	(2,363)	20,600	12,600	(15,400)	(1,600)	3,458	(942)	5,877	4,802	2,827	2,677	16,181
<b>Income (loss) from continuing operations</b>	<b>(50,490)</b>	<b>179,926</b>	<b>(36,100)</b>	<b>(41,000)</b>	<b>28,500</b>	<b>(21,600)</b>	<b>(10,373)</b>	<b>(44,473)</b>	<b>(17,630)</b>	<b>(14,405)</b>	<b>(8,480)</b>	<b>(8,030)</b>	<b>(48,544)</b>
Gain (loss) from discontinued operations	0	0	0	(60,000)	0	0	0	(60,000)	0	0	0	0	0
Net income (loss)	(50,490)	179,926	(36,100)	(101,000)	28,500	(21,600)	(10,373)	(104,473)	(17,630)	(14,405)	(8,480)	(8,030)	(48,544)
Attributable to noncontrolling interests	3,580	(17,915)	4,600	17,900	(15,400)	4,300	1,000	7,800	1,000	1,000	1,000	1,000	4,400
Net income (loss) to HC2 Holdings	(46,910)	162,011	(31,500)	(83,100)	13,100	(17,300)	(9,373)	(96,673)	(16,630)	(13,405)	(7,480)	(7,030)	(44,544)
Less: Preferred stock dividends and accretion	2,767	6,409	0	400	400	400	400	1,600	400	400	400	400	1,600
<b>Net income (loss) to common stock</b>	<b>(49,677)</b>	<b>155,602</b>	<b>(31,500)</b>	<b>(83,500)</b>	<b>12,700</b>	<b>(17,700)</b>	<b>(9,773)</b>	<b>(98,273)</b>	<b>(17,030)</b>	<b>(13,805)</b>	<b>(7,880)</b>	<b>(7,430)</b>	<b>(46,144)</b>
Basic shares	42,824	44,300	44,800	45,900	46,800	46,900	49,286	47,222	76,587	76,687	76,787	76,887	76,737
Diluted shares	42,977	46,800	54,857	58,400	46,900	47,353	49,739	50,598	77,040	77,140	77,240	77,340	77,190
<b>GAAP EPS</b>	<b>(\$1.16)</b>	<b>\$3.32</b>	<b>(\$0.70)</b>	<b>(\$1.82)</b>	<b>\$0.27</b>	<b>(\$0.38)</b>	<b>(\$0.20)</b>	<b>(\$2.08)</b>	<b>(\$0.22)</b>	<b>(\$0.18)</b>	<b>(\$0.10)</b>	<b>(\$0.10)</b>	<b>(\$0.60)</b>
<b>Adj. EBITDA By Segment:</b>													
Infrastructure	51,588	60,853	75,700	9,000	19,100	17,700	15,000	60,800	9,500	13,500	21,000	21,000	65,000
Clean energy	2,911	5,457	17,000	3,800	4,200	3,700	4,000	15,700	2,625	2,725	2,825	2,825	11,000
Telecom	6,929	5,258	3,400	400	200	400	0	1,000	0	0	0	0	0
Life Sciences	(22,366)	(14,909)	(11,800)	(4,200)	(4,500)	(5,900)	(8,000)	(22,600)	(10,000)	(10,000)	(10,000)	(10,000)	(40,000)
Spectrum	0	(16,884)	(6,300)	(1,000)	(1,100)	(200)	(200)	(2,500)	(1,075)	(875)	(575)	25	(2,500)
Other	(3,139)	(2,180)	0	(1,600)	900	(100)	800	0	700	700	700	700	2,800
Corporate	(29,153)	(25,785)	(17,900)	(5,000)	(3,600)	(3,700)	(3,500)	(15,800)	(3,750)	(3,750)	(3,750)	(3,750)	(15,000)
<b>Total adj. EBITDA, ex. Insurance</b>	<b>50,797</b>	<b>44,534</b>	<b>90,800</b>	<b>1,400</b>	<b>15,200</b>	<b>11,900</b>	<b>8,100</b>	<b>36,600</b>	<b>(2,000)</b>	<b>2,300</b>	<b>10,200</b>	<b>10,800</b>	<b>21,300</b>
<b>Common Size:</b>													
Gross margin	13.0%	9.8%	16.4%	5.9%	13.8%	14.0%	22.6%	13.0%	20.4%	20.9%	22.9%	22.9%	21.8%
SG&A	11.2%	11.1%	10.8%	11.8%	12.8%	11.5%	18.0%	13.0%	19.2%	18.2%	17.5%	17.4%	18.0%
D&A	2.2%	2.0%	2.1%	0.7%	0.9%	1.2%	2.8%	1.2%	3.3%	3.0%	2.9%	2.9%	3.0%
<b>Adj. EBITDA margin, ex. Financial Services</b>	<b>3.4%</b>	<b>2.5%</b>	<b>5.5%</b>	<b>4.4%</b>	<b>5.1%</b>	<b>3.8%</b>	<b>4.8%</b>	<b>3.2%</b>	<b>9.7%</b>	<b>1.2%</b>	<b>5.0%</b>	<b>5.3%</b>	<b>2.8%</b>
Tax rate	-27.0%	1.3%	36.3%	23.5%	35.1%	-8.0%	25.0%	-2.2%	25.0%	25.0%	25.0%	25.0%	25.0%
<b>Selected Balance Sheet Data:</b>													
Cash, cash equivalents, and restricted cash	97,885	325,000	239,000	186,900	203,800	163,600	105,367	105,367	95,420	100,088	96,666	96,732	96,732
Accounts receivable, net	322,446	379,200	337,800	333,300	261,200	252,300	204,569	204,569	173,087	180,815	174,983	178,889	178,889
Accounts payable and other current liabilities	347,492	344,900	339,600	334,400	283,000	298,600	244,260	244,260	210,960	228,560	218,736	221,688	221,688
Total debt (incl. capital lease obligations)	593,172	743,900	839,300	686,000	633,800	646,400	648,467	648,467	650,533	652,600	654,667	656,733	656,733
Preferred stock	26,296	20,300	10,300	10,300	10,300	15,900	16,300	16,300	16,700	17,100	17,500	17,900	17,900
HC2 stockholders' equity	73,171	88,100	349,800	14,100	319,300	371,800	428,810	428,810	415,264	404,942	400,546	396,600	396,600
Total stockholders' equity	216,027	222,000	465,200	79,100	383,900	435,600	493,010	493,010	479,864	469,942	465,946	462,400	462,400
<b>Valuation:</b>													
Price	\$3.44	\$3.44	\$3.44	\$3.44	\$3.44	\$3.44	\$3.44	\$3.44	\$3.44	\$3.44	\$3.44	\$3.44	\$3.44
<b>Market cap</b>	<b>147,842</b>	<b>160,992</b>	<b>188,709</b>	<b>200,896</b>	<b>161,336</b>	<b>162,895</b>	<b>171,104</b>	<b>174,058</b>	<b>265,017</b>	<b>265,361</b>	<b>265,705</b>	<b>266,049</b>	<b>265,533</b>
Total debt (incl. capital lease obligations)	593,172	743,900	839,300	686,000	633,800	646,400	648,467	648,467	650,533	652,600	654,667	656,733	656,733
Less: cash, cash equivalents, and restricted cash	<u>97,885</u>	<u>325,000</u>	<u>239,000</u>	<u>186,900</u>	<u>203,800</u>	<u>163,600</u>	<u>105,367</u>	<u>105,367</u>	<u>95,420</u>	<u>100,088</u>	<u>96,666</u>	<u>96,732</u>	<u>96,732</u>
Net debt (cash)	495,287	418,900	600,300	499,100	430,000	482,800	543,099	543,099	555,113	552,512	558,001	560,001	560,001
Preferred stock	26,296	20,300	10,300	10,300	10,300	15,900	16,300	16,300	16,700	17,100	17,500	17,900	17,900
Noncontrolling interest	<u>114,951</u>	<u>105,600</u>	<u>93,800</u>	<u>46,400</u>	<u>45,900</u>	<u>40,900</u>	<u>40,900</u>	<u>40,900</u>	<u>40,900</u>	<u>40,900</u>	<u>40,900</u>	<u>40,900</u>	<u>40,900</u>
<b>Enterprise value</b>	<b>784,376</b>	<b>705,792</b>	<b>893,109</b>	<b>756,696</b>	<b>647,536</b>	<b>702,495</b>	<b>771,403</b>	<b>774,357</b>	<b>877,730</b>	<b>875,873</b>	<b>882,106</b>	<b>884,850</b>	<b>884,334</b>
Net debt (cash) per share	11.52	8.95	10.94	8.55	9.17	10.20	10.73	10.73	7.21	7.16	7.22	7.24	7.25
EV/Sales (TTM)	0.5	0.4	0.5	0.4	0.4	0.4	0.5	0.5	0.7	0.8	0.8	0.8	0.8
EV/EBITDA (TTM)	15.4	15.8	9.8	8.5	8.4	10.8	21.1	21.2	26.4	43.1	47.4	41.5	41.5
P/BV - HC2 stockholders' equity	2.0	1.8	0.5	14.2	0.5	0.4	0.4	0.4	0.6	0.7	0.7	0.7	0.7

\*Closing price of last trading day immediately prior to the date of this publication unless otherwise indicated.

## Important Information

**This report has been prepared by B. Riley Securities, Inc. (“B. Riley Securities”) and may be distributed by its affiliates and subsidiaries as third-party research pursuant to FINRA Rule 2241. National Holdings Corporation, parent company to National Securities Corporation (“National Securities”), is a subsidiary of B. Riley Financial, Inc., which is the parent company to B. Riley Securities and its affiliate B. Riley Wealth Management, Inc. (“B. Riley Wealth”). As such, each of National Securities and B. Riley Wealth may distribute B. Riley Securities research pursuant to Rule 2241 and by mutual agreement.**

B. Riley Securities, B. Riley Wealth, and National Securities are broker-dealer registered with the SEC and are members of FINRA, SIPC, and the NASDAQ stock market.

The principal business address of B. Riley Securities is 11100 Santa Monica Blvd., Suite 800, Los Angeles, CA 90025.

The principal business address of B. Riley Wealth is 40 S. Main Street, Suite 1800, Memphis, TN 38103.

The principal business address of National Securities is 200 Vesey Street, 25<sup>th</sup> Floor, New York, NY 10281.

## Company-Specific Disclosures

B. Riley Securities, Inc. (f/k/a B. Riley FBR, Inc.) acts as a market maker or liquidity provider for HC2 Holdings, Inc.'s securities.

For up-to-date B. Riley Securities, Inc. company disclosures, please click on the following link or paste the URL in a web browser: <https://brileysecurities.bluematrix.com/sellside/Disclosures.action>.

## General Disclosures

### Information about the Research Analyst Responsible for this report:

The primary analyst(s) covering the issuer(s), Sarkis Sherbetchyan, certifies (certify) that the views expressed herein accurately reflect the analyst's personal views as to the subject securities and issuers and further certifies that no part of such analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the analyst in the report. The analyst(s) responsible for this research report has received and is eligible to receive compensation, including bonus compensation, based on B. Riley Securities, Inc.'s (f/k/a B. Riley FBR, Inc.) overall operating revenues, including revenues generated by its investment banking activities.

### Information about B. Riley Securities, Inc.'s Conflicts Management Policy:

B. Riley Securities, Inc.'s (f/k/a B. Riley FBR, Inc.) Research conflicts management policy is available at: <https://brileyfin.com/conflicts-management-policy/>.

### Information about investment banking:

In the normal course of its business, B. Riley Securities, Inc. (f/k/a B. Riley FBR, Inc.), or any of their affiliates seek to perform investment banking and other services for various companies and to receive compensation in connection with such services. As such, investors should assume that B. Riley Securities, Inc., or any of their affiliates intend to seek investment banking or other business relationships with the companies covered in their research reports.

### Information about our recommendations, holdings and investment decisions:

The information and rating(s) included in this report represent the long-term view as described more fully below. The analyst may have different views regarding short-term trading strategies with respect to the stocks covered by the rating(s), options on such stocks, and/or other securities or financial instruments issued by the company, and such views may be made available to all or some of our clients from time to time. Our brokers also may make recommendations to their clients, and our affiliates may make investment decisions that are contrary to the recommendations contained in this research report. Such recommendations or investment decisions may be based on the particular investment strategies, risk tolerances, and other investment factors of

that particular client or affiliate. From time to time, B. Riley Securities, Inc. (f/k/a B. Riley FBR, Inc.), its affiliated entities, or their respective directors, officers, employees, or members of their immediate families may have a long or short position in the securities or other financial instruments mentioned in this report.

We provide to certain customers on request specialized research products or services that focus on covered stocks from a particular perspective. These products or services include, but are not limited to, compilations, reviews, and analysis that may use different research methodologies or focus on the prospects for individual stocks as compared to other covered stocks or over differing time horizons or under assumed market events or conditions. Readers should be aware that we may issue investment research on the subject companies from a technical perspective and/or include in this report discussions about options on stocks covered in this report and/or other securities or financial instruments issued by the company. These analyses are different from fundamental analysis, and the conclusions reached may differ. Technical research and the discussions concerning options and other securities and financial instruments issued by the company do not represent a rating or coverage of any discussed issuer(s). The disclosures concerning distribution of ratings and price charts refer to fundamental research and do not include reference to technical recommendations or discussions concerning options and other securities and financial instruments issued by the company.

Our analysts' short-term views, recommendations by our brokers, views contained in products and services provided to customers on an individualized basis, and/or strategies, analysis, or decisions made by B. Riley Securities, Inc. or its affiliates and their respective directors, officers, employees, or members of their immediate families may be different from those published by the analyst in this report and could impact the price of the securities mentioned in this report.

#### Information about our rating system:

B. Riley Securities, Inc. (f/k/a B. Riley FBR, Inc.) uses the following three-tiered rating system for securities covered in their research reports:

- **Buy:** We generally expect "Buy" rated stocks to have an above-average risk-adjusted total return over the next 12 months. We recommend that investors buy the securities at the current valuation.
- **Neutral:** We generally believe "Neutral" rated stocks will have an average risk-adjusted total return over the next 12 months.
- **Sell:** We generally expect "Sell" rated stocks to have a below-average risk-adjusted total return over the next 12 months. We recommend that investors reduce their positions until the valuation or fundamentals become more compelling.

B. Riley & Co., LLC and FBR Capital Markets & Co. (before the merger of the broker dealers) adopted this rating system on August 9, 2017. A description of the prior ratings system for each Firm can be found at <http://www.brileyfin.com/fbr-ratings-system-from-1072002-to-882017/>.

Rating	B. Riley Securities, Inc. Research Distribution <sup>1</sup>	B. Riley Securities, Inc. Banking Services in the past 12 months <sup>1</sup>
BUY [Buy]	79.76%	36.58%
HOLD [Neutral]	19.53%	32.53%
SELL [Sell]	0.71%	66.67%

(1) As of midnight on the business day immediately prior to the date of this publication.

#### General Information about B. Riley Securities, Inc. Research:

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable but is not guaranteed as to accuracy and does not purport to be complete. Opinions are as of the date of the report unless labeled otherwise and are subject to change without notice. Updates may be provided based on developments and events and as otherwise appropriate. Updates may be restricted based on regulatory requirements or other considerations. Consequently, there should be no assumption that updates will be made. B. Riley Securities, Inc. (f/k/a B. Riley FBR, Inc.) or any of their affiliates disclaim any warranty of any kind, whether express or implied, as to any matter whatsoever relating to this research report and any analysis, discussion, or trade ideas contained herein. This research report is provided on an "as is"



basis for use at your own risk, and B. Riley Securities, Inc. or any of their affiliates are not liable for any damages or injury resulting from use of this information. This report should not be construed as advice designed to meet the particular investment needs of any investor or as an offer or solicitation to buy or sell the securities or financial instruments mentioned herein, and any opinions expressed herein are subject to change. Some or all of the securities and financial instruments discussed in this report may be speculative, high risk, and unsuitable or inappropriate for many investors. B. Riley Securities, Inc. or any of their affiliates make no representation as to the suitability or appropriateness of these securities or financial instruments for individual investors. Investors must make their own determination, either alone or in consultation with their own advisors, as to the suitability or appropriateness of such investments based upon factors including their investment objectives, financial position, liquidity needs, tax status, and level of risk tolerance. These securities and financial instruments may be sold to or purchased from customers or others by B. Riley Securities, Inc. or any of their affiliates acting as principal or agent.

Securities and financial instruments issued by foreign companies and/or issued overseas may involve certain risks, including differences in accounting, reporting, and registration, as well as foreign currency, economic, and political risks.

This report and the securities and financial instruments discussed herein may not be eligible for distribution or sale in all jurisdictions and/or to all types of investors. This report is provided for information purposes only and does not represent an offer or solicitation in any jurisdiction where such offer would be prohibited. Commentary regarding the future direction of financial markets is illustrative and is not intended to predict actual results, which may differ substantially from the opinions expressed herein.

B. Riley Securities, Inc. utilizes a tiered approach to service its clients. The services provided by B. Riley Securities, Inc.'s research analysts to clients vary based upon a variety of factors, including, but not limited to, client preferences and the extent of a client's total relationship with the Firm. B. Riley Securities, Inc. does not provide any of the Firm's clients with access to unpublished research opinions. B. Riley Securities, Inc. provides clients across all tiers equal access to research reports.

#### **Paired Trade Disclaimer**

From time to time, B. Riley Securities, Inc. Research Analysts will offer short-term trading ideas, including identifying a paired trade. In a paired trade, an investor buys the securities of one company and sells the securities of another company. The idea to buy the securities of one company and sell the securities of the other company is based on the expected short-term price move or relative value between the two companies mentioned in the paired trade, not between the companies and any other companies. In contrast, the recommendations in a Research Analyst's published report reflect the Research Analyst's views on a company over the long term (i.e., the next 12 months) relative to other companies covered by the Research Analyst. The trade idea in a paired trade is unrelated to the Research Analyst's long-term view of the companies as expressed in the Research Analyst's most recently published research report. A paired trade idea to sell a company that is rated as Neutral or higher, or to buy a security that is rated Neutral or lower, is not inconsistent because the call to sell or buy the company is relative to the other company mentioned in the paired trade over the short term; it is not a long-term view relative to other companies covered by the Research Analyst.

#### **Important information for B. Riley Securities, Inc. Clients with French Addresses and Potential Investors:**

Addresses and potential investors based in France expressly acknowledge that they have not been subject to any kind of solicitation by B. Riley Securities, Inc. or its affiliates, as defined under Article L.341-1 and seq. of the French Monetary and Financial code.

The above analyses have not been prepared in the context of a public offering of financial instruments in France within the meaning of Article L.411-1 and seq. of the French Monetary and Financial code and shall not be deemed to be drawn up for the purpose of providing investment services as defined under Article L.321-1 and seq. of the French Monetary and Financial code. In this respect, the above analyses shall not be qualified as personalized investment advice related to financial instruments under French law and shall, therefore, not be deemed to be qualified as investment advice provided by B. Riley Securities, Inc. or its affiliates.

Addresses and potential investors based in France may initiate the first contact with B. Riley Securities, Inc. in order to get additional information on financial analyses and services provided by the latter. By doing so, addresses and potential investors based in France expressly acknowledge that the banking and financial solicitation regime as defined under Article L.341-1 and seq. of the French Monetary and Financial code shall not be applicable.

#### **Information for Clients of B. Riley Securities, Inc.:**



This publication has been approved by B. Riley Securities, Inc. (f/k/a B. Riley FBR, Inc.) which accepts responsibility for its contents and its distribution to our clients. Any B. Riley Securities, Inc. client who receives this research and wishes to effect a transaction in the securities or financial instruments discussed should contact and place orders with a B. Riley Securities, Inc. Sales representative.

Copyright 2021 B. Riley Securities, Inc.

