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Beneficient (BENF-NASDAQ)

BENF: Public Stockholder Enhancement Transactions Set Valuation Floor for the Stock, and Represent Key Catalyst for New Business

Research Note

Landmark agreement: Following BENF's de-SPAC in June 2023, the stock came under intense pressure – mostly a function of investor concerns around de-SPACs more broadly, and ongoing GWG selling (down from ~70% at the time of the closing to ~5% of total Class A common stock outstanding at present). Analysis and discussions on ways to counteract the stock's decline and provide downside protection for shares issued via ExchangeTrust transactions started in earnest in late 2023 and culminated in the announcement of the Public Stockholder Enhancement Transactions in late December 2024. At a high level, the transactions drive meaningful Tangible Book Value (TBV) accretion for public company stockholders, and serve as a key catalyst for reaccelerating and sustainable growth for BENF's core liquidity business, we believe.

More specifically, the agreement provides public company stockholders with preferential treatment (previously reserved for Preferred Equity holders) in the event of a liquidation. Digging a bit deeper, BENF shareholders accrue 10% of the first $100 million distributed to equity holders upon liquidation, and 33.3% of the Net Asset Value of up to $5 billion of alternative assets added to BENF's balance sheet in connection with liquidity transactions completed after December 22, 2024.

Separately, the transactions include a Customer Relations Initiative in which entities/affiliates controlled or owned by Chief Executive Officer Brad Heppner and current/former employees of the company agreed to waive rights to up to $400 million of equity exchangeable into BENF common stock. The foregone equity transfers into an incentive pool for existing and future customers in the form of securities exchangeable for common stock. Assuming a portion of clients decline participation in the Customer Relations Initiative (to be determined in the next few months), the residual rights will accrue to the benefit of public company stockholders.

The closing of the Public Stockholder Enhancement Transactions is subject to approval, and is expected to be completed in 1H25.

From our perspective, key takeaways from the pending transactions include:

1. **Key catalyst for new business:** Beginning in the fourth quarter of last year when stockholder enhancement negotiations ramped up, senior executives put new business discussions with potential clients for normal course liquidity transactions on hold, thereby pausing ExchangeTrust transaction activity. Following the announcement of the Public Stockholder Enhancement Transactions, management is actively reengaging with prospective customers previously in the pipeline and relaunching sales/marketing efforts – likely resulting in reaccelerating origination volumes in short order. Indeed, Beneficient recently announced the closing of a $1.36 million

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primary capital commitment for a private equity fund managed by 8F Asset Management in exchange for Convertible Preferred Stock – reinforcing the efficacy of the company's public stockholder enhancement transactions.

Stepping back, global alternative assets under management totaled $16.3 trillion at the end of 2023 and are forecast to reach $24.5 trillion over the next five years fueled by rising allocations and strong investment returns. Of the total, medium-to-high net worth (MHNW) individuals and small-to-midsized institutions (STMIs) in the U.S. hold a growing $2+ trillion of related assets. Taking it a step further, simple math suggests annual demand for liquidity of ~$50 billion based on estimated turnover rates of 2% to 3%. Assuming mid-teen percentage CAGRs, Beneficient's Total Addressable Market (TAM) related to early liquidity likely more than doubles to $100+ billion over the next five years. On top of that, the company's GP Solutions and Primary Commitment Program businesses target private funds with identifiable liquidity and fundraising needs. In aggregate, related funds represent north of $400 billion of potential new business. As such, even a fractional win rate likely translates into meaningful transaction volumes and TBV/earnings accretion for BENF.

2. **Shoring up Tangible Book Value:** Pro forma the transactions, BENF's TBV attributable to public company stockholders rises from breakeven to ~$9.8 million as of September 30, 2024. Moreover, pro forma TBV inches up to $10.2 million, or $1.22 per share, following the closing of the $1.36 million primary capital commitment, with the onboarding of assets immediately accretive to book value. Going forward, ~33% of the Net Asset Value of incremental liquidity closings involving the issuance of equity (i.e., ExchangeTrust transactions up to $5 billion) will accrue to BENF's tangible book value. Put another way, the next $20 million of deals – seemingly reasonable in the context of the $1 billion of liquidity transactions completed in the company's first two years of operations – will drive $6.6 million of TBV accretion, or more than BENF's current market cap.

3. **Valuation floor:** At current levels, BENF is trading at a 47% discount to tangible book value – seemingly unsustainable in our view, particularly in light of recent moves to restructure the capital stack. Moreover, at 0.53x TBV, BENF continues to trade well below comparable stocks. At the low end of the peer group, select stocks currently trade at ~4x TBV. Applying a similar multiple to BENF's pro forma tangible book value translates into a fair value for the stock of around $5.00 – consistent with our earnings-based price target.

   Our primary valuation construct revolves around the Board's adopted ExchangeTrust Product Plan to complete up to $5 billion of loans backs by alterative assets. More specifically, our model incorporates seemingly conversative assumptions around interest rates, credit losses, fees, and margins, calculates pro forma EPS based on incremental share issuance to fund $1 billion of liquidity transactions, and applies a peer group average P/E multiple to our estimates.

   In our minds, the stock's ongoing underperformance provides investors with an attractive entry point for BENF as awareness and appreciation of the company's business model, more shareholder-friendly capital structure providing downside protection, reaccelerating growth prospects, and unique positioning increasingly take hold.

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