

April 7th, 2017,

KLX Inc.: KLXI

Benjamin Bouin

Sector: Industrial Goods

Industry: Aerospace/Defense Products& services

Current Price:

Target Price: \$52.15

KLX Inc. is the world's leading provider of aerospace fasteners, consumable and logistics services. It also provides oilfield services and rental equipment across North America. It proposes services such as provider of inventory management solutions for the commercial, business jet, and defense original equipment manufacturers, airlines, maintenance, repair and overhaul operators, and fixed based operators. The energy branch provides technical services and related rental equipment to oil and gas exploration and production companies.

BUY

Current Price: \$44.81
 Target Price: \$52.15
 Market Cap: \$2.4B
 Beta: 2.65



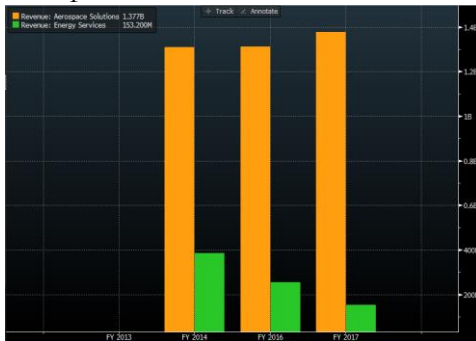
Catalysts:

- **Short-Term(within the year):** New contract sign with the Corpus Christi Army Depot
- **Mid-Term (1-2 years):** New future contracts signed with commercial airlines.
- **Long-Term (3+):** Trump administration and higher Bizjet revenues, new aircraft introduction.

Thesis: KLXI is refocusing its business around the aerospace. In fact, oil and gas services segment stands for 10% since a couple of years ago it represented more than 20% of KLX's total revenue. Furthermore, the company is investing a lot into its plants facility and also on acquisitions in order to propose a larger product line to increase its cash flow. Finally, the company has signed several important contracts but also is going to face an increase in revenue from the commercial airlines since most of their planes are 7 to 8 years old which imply a mandatory maintenance, which is KLX's business.

Cash Flow:

KLX Inc. is a company specialized on the aerospace solutions but also on the oil and gas solutions. The part of the oil and gas solution has decreased through the last few years. In fact, in 2014, it represented 22.7% of their total revenue, in 2016, it represented 16.3% and in 2017 it only represents 10%. The explanation can be that the crude oil has seen its price decreasing the last couple of years but also because the renewable energies market is becoming more important than gas and oil. The company has decided to refocus its business on the aerospace.

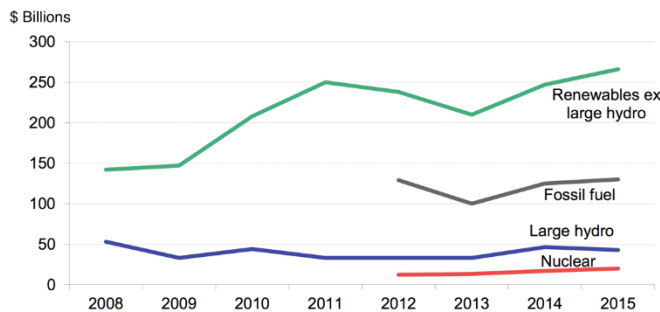


In fact, the 2016 revenue has been impacted by the extreme weather that happened during the year. XTI has great expectations for the coming year. In fact, most of the planes owned by American Airlines, Delta Airlines are planes 7/8 years old, which means that the airlines companies are going to have to realize important mandatory maintenance on their planes which is KLX Inc.'s business. What can also explain the lower revenue is that the military manufacturing such as the F-18 and the F-16 has been declining but with the \$577 billion increase of military budget are going to make increase the planes

manufacture. The company holds an important amount of cash on hands, this can be explained by two reasons, the first one is that the company is repurchasing their outstanding shares by also it is ready for a business opportunity on the M&A side.

Renewable Energies vs Oil and Gas:

In fact, oil and gas energies are losing market shares and start to be a lot less profitable than the renewable energies market. Even the most important oil and gas companies are starting to invest into the renewable energies. As we can see on the graph, the oil and gas companies bet on the fact that the oil energy will disappear at the profit of the wind and sun energy.



Furthermore, the renewable energies become much more efficient and also the price decrease. For example, Total S.A. which is one of the biggest energy company in Europe has decreased its investment in fossil energy and has boosted its investment into the renewable energies. This explain KLX Inc's choice to decrease its business concerning the oil and gas energy services and focus today on the aerospace business.

Which one is less profitable but on a long term it will permit them to continue to grow.

Margins:

Name (BICS Best Fit)	OPM LF	T12M EBITDA Mrgn:Q	NOPAT T12M	GM:Q
Median	10.00%	14.89%	192.88M	23.68%
100) KLX INC	9.55%	14.27%	112.78M	24.19%
101) TRIUMPH GROUP INC	6.53%	13.97%	-1.02B	22.69%
102) HEICO CORP	18.80%	23.98%	191.86M	36.52%
103) NORTHROP GRUMMAN CORP	12.99%	14.89%	2.49B	23.09%
104) BOEING CO/THE	9.37%	11.86%	5.03B	16.41%
105) TELEDYNE TECHNOLOGIES...	12.19%	17.08%	192.88M	38.35%
106) HEXCEL CORP	17.99%	22.62%	265.88M	28.05%
107) TEXTRON INC	8.99%	12.05%	1.06B	18.27%
108) AAR CORP	4.79%	7.23%	49.49M	15.45%

As we can see on the table, KLX Inc. is not the best company among its competitors. In fact, the company's CAPEX are still very high in order to create an important facility plant in Florida in order to increase their efficiency and their profitability. In fact, today they are working between three warehouses, lately they will be able to work into a single warehouse which will increase their productivity. Furthermore, the fact that KLX will have several new contracts in order to make the maintenance of different commercial airlines will make increase the margins. In fact, the maintenance is more profitable than creating several pieces for planes.

Capital Allocation:

	ROIC (NOPAT/IC)			WACC	
	History	LTM		History	LTM
KLXI	4.3%	3.0%	KLXI	8.9%	9.6%
Competitors	45.1%	-20.6%	Competitors	9.4%	9.2%

As we can see, KLX's return on invested capital is less important than its weighted average cost of capital, which means that KLX is doing value destruction. In fact, this can be explained by the fact that the company is investing a lot on several projects such as improving their plants but also because KLX is involved into several project of acquisitions. Since KLX is leaving slowly the business of oil and gas services, the company is looking at acquire several companies which will permit to increase their product line.

Conclusion:

To conclude, we can see that KLXI is refocusing its business around the aerospace. In fact, oil and gas services segment stands for 10% since a couple of years ago it represented more than 20% of KLX's total revenue. Furthermore, the company is investing a lot into its plants facility and also on acquisitions in order to propose a larger product line to increase its cash flow. Finally, the company has signed several important contracts but also is going to face an increase in revenue from the commercial airlines since most of their planes are 7 to 8 years old which imply a mandatory maintenance, which is KLX's business.

KLX Inc. (KLXI)

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NEUTRAL

Analysis by Benjamin Bunn
4/3/2017

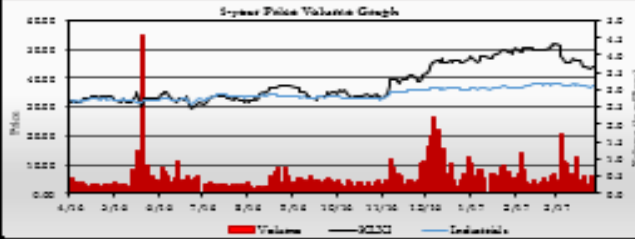
Current Price:
Dividend Yield:

\$44.91
0.0%

Intrinsic Value:
Target Price:

\$64.90
\$52.15

Target 1 year Return: 16.39%
Probability of Price Increase: 9%



Description
KLX Inc., together with its subsidiaries, provides newspaper facilities, consumables, and logistics services worldwide.

General Information
Sector: Industrials
Industry: Newspaper and Printing
Last Guidance: November 3, 2015
Next earnings date: N/A
Estimated Country Risk Premium: 5.25X
Efficient Tax rate: 48X
Efficient Operating Tax rate: 34X

Market Data

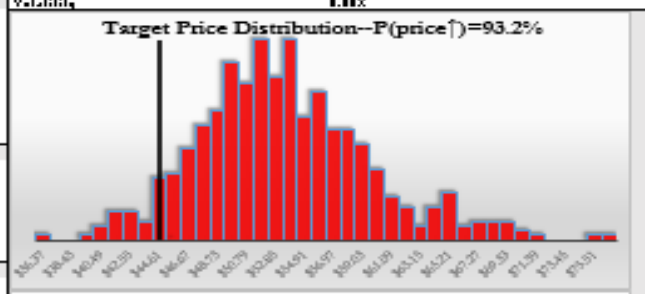
Market Capitalization	\$2,352.92
Daily volume (mil)	8.51
Shares outstanding (mil)	52.51
Diluted shares outstanding (mil)	52.28
X shares held by institutions	74X
X shares held by institutional Managers	85X
X shares held by hedge funds	14X
X shares held by insiders	1.32X
Short interest	7.44X
Days to cover short interest	7.53
52 week high	\$52.48
52-week low	\$28.65
Levered Beta	1.27
Volatility	0.88X

Quarter ending

Quarter ending	Revenue	EBITDA
1/31/2016	-11.35X	-75.45X
4/30/2016	-4.64X	-15.82X
7/31/2016	-5.63X	-12.42X
10/31/2016	-1.34X	N/A
1/31/2017	-4.52X	-13.52X
Mean	-5.74X	-38.35X
Standard error	1.7X	15.1X

Peer

Wynn Resorts Holdings, Inc.	-18X
HEICO Corporation	-18X
Heard Corporation	-18X
Estimote Technologies Corporation	-18X
TransDigm Group Incorporated	-18X
D/E Newspaper, Inc.	-18X
Orkital RTK, Inc.	N/A
The Boeing Company	N/A



Management

Management	Position	Total compensation year to date	Total volume in shareholders
Klaerner, Rein	Chairman and Chief Executive	-188X per annum year to date	-25,54X per annum year to date
McCaffrey, Thomas	President and Chief Operating Officer	-188X per annum year to date	-25,54X per annum year to date
Saif, Michael	Chief Financial Officer, Vice President of Finance	-188X per annum year to date	-25,54X per annum year to date
Franko, Roger	Vice President of Law & Human Resources	-188X per annum year to date	-25,54X per annum year to date
Cowan, John	Vice President and General Counsel	-188X per annum year to date	-25,54X per annum year to date
Hoad, Heather	Principal Accounting Officer	N/A	N/A

Profitability

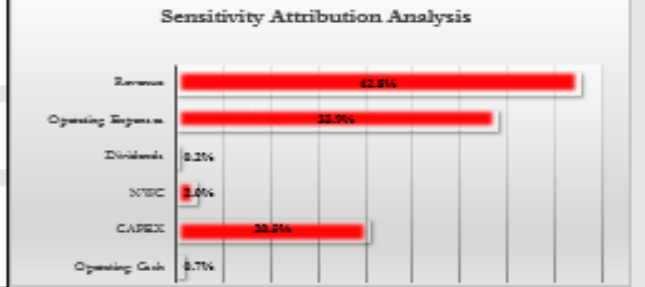
KLXI [LYM]	KLXI [5 years historical average]	Industry [LYM]
ROIC	5.1X	76.15X
HOPAT Margin	18X	8.87X
Revenue/Invented Capital	8.53	8.53
ROE	5.3X	156.83X
Adjusted net margin	7X	7.55X
Revenue/Adjusted Book Value	1.88	28.79

Invented Funds

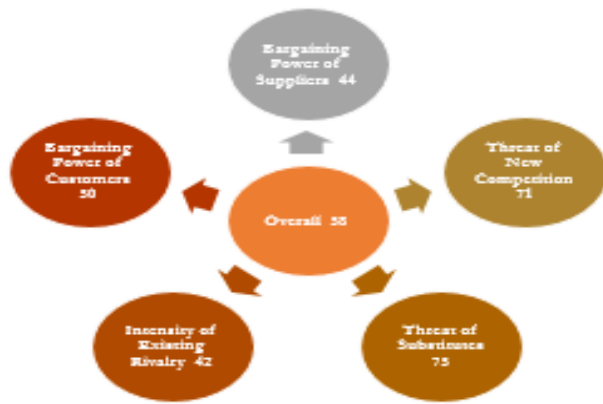
KLXI [LYM]	KLXI [5 years historical average]	Industry [LYM]
Total Cash/Total Capital	4.7X	5.2X
Estimated Operating Cash/Total Capital	3.3X	4.8X
Non-cash working Capital/Total Capital	24.2X	32.8X
Invented Capital/Total Capital	78.7X	53.7X

Capital Structure

KLXI [LYM]	KLXI [5 years historical average]	Industry [LYM]
Total Debt/Common Equity [LYM]	1.58	8.26
Cost of Existing Debt	5.86X	8.32X
Estimated Cost of new Borrowing	4.88X	3.66X
CGPS Risk Rating	D	DD
Unlevered Beta [LYM]	1.87	1.88
WACC	1.53X	3.32X



Porter's 5 Forces (numbers are out of 100)



Period

Period	Revenue growth	ROIC margin	ROIC/WACC
Base Year	-2.3X	5.6X	1.51
1/31/2018	8.5X	11.3X	1.58
1/31/2019	5.2X	12.3X	1.53
1/31/2020	3.6X	15.1X	1.68
1/31/2021	2.8X	15.3X	1.63
1/31/2022	2.3X	15.8X	1.74
1/31/2023	3.1X	15.8X	1.88
1/31/2024	3.3X	15.6X	1.88
1/31/2025	3.5X	15.6X	1.97
1/31/2026	3.7X	15.5X	1.83
1/31/2027	3.3X	15.4X	1.25
Cooling Period	4.1X	15.4X	1.45

Period

Period	Invented Capital	Net Claims	Price per share
Base Year	\$191.38	\$1,451.61	\$58.82
1/31/2018	\$1,455.84	\$2,483.83	\$58.76
1/31/2019	\$1,662.53	\$2,423.42	\$53.42
1/31/2020	\$2,219.33	\$1,481.53	\$75.65
1/31/2021	\$2,897.72	\$765.34	\$58.83
1/31/2022	\$4,674.88	\$42.48	\$183.28
1/31/2023	\$4,447.45	\$-788.54	\$116.31
1/31/2024	\$4,621.38	\$-1,472.37	\$123.32
1/31/2025	\$4,493.25	\$-2,262.16	\$142.18
1/31/2026	\$4,215.28	\$-3,881.44	\$154.86
1/31/2027	\$3,978.18	\$-3,341.83	\$167.23
Cooling Period			