March 23, 2018

Sterling Construction Co Inc.: (STRL)

Emilien MARY

Sector: Materials
Industry: Infrastructure Construction
Current Price: $11.35
Target Price: $15.00

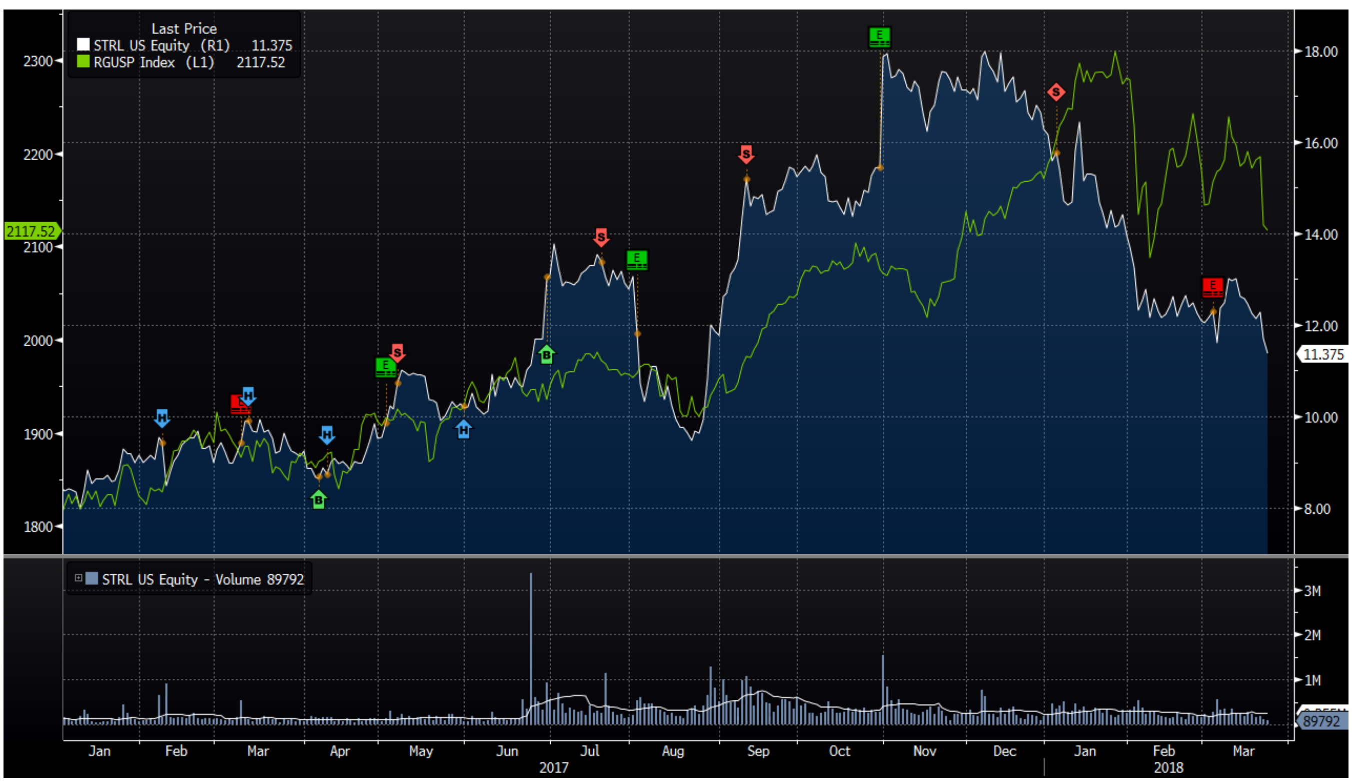
Company Description: Sterling Construction company specializes in the building, reconstruction, and repair of transportation and water infrastructure. It is a heavy civil construction based company and its main market is the infrastructure construction for public sector clients from California to Texas.

BUY

Current Price:	$11.30
Target Price:	$15.00
Market Cap:	299.54M
Beta:	1.10
YTD Change/%	-5.20/-31.94%
OPM	2.7%
Prtx Mrgn	1.7%
ROA	3.0%
ROE	9.3%
T12M EPS	0.43
Est EPS	0.90
Next Announcement Date	05/01/18

Conclusion:

- Efficient management who revert the negative earnings to positive earnings for the first time since 2010.
- Margin Upside: Diversification of their revenue and customers with higher margin work in 2017.
- Long-term Revenue Upside: US market is stimulate by the Trump's government fiscal policy and the requirement of maintenance of infrastructures.



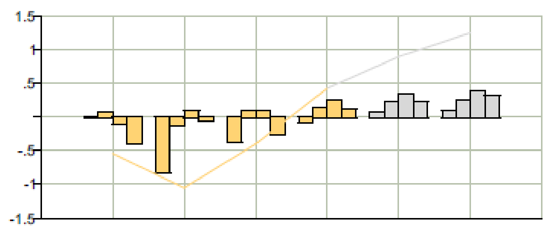
Thesis:

The recent turning strategy of the company with more diversification products through higher margin work and financial improvements reflect the stabilization of the company and its ability to catch future opportunity growth in the coming years. Its huge presence on growing market from California to Texas permit to the company to be well positioned for the forecasting growth.

Earnings Performance:

Due to significant issue to obtain a positive net income during the last years, the company has reported bad earning performance except for the last year where the EPS FY was 0.43, a positive earnings for the first time in many years.

Earnings Per Share



	2014	2015	2016	2017	2018	2019
FY	-0.54	-1.05	-0.40	0.43	0.90	1.25
Q1	0.01	-0.82	-0.37	-0.08	0.08	0.10
Q2	0.07	-0.12	0.09	0.15	0.24	0.27
Q3	-0.09	0.09	0.10	0.26	0.36	0.39
Q4	-0.39	-0.06	-0.25	0.11	0.23	0.33

As the result of their effort to reduce their cost and to improve their bid discipline, the company has generates a positive EPS of $0.43. This is an increase of 83 cents compared to 2016. This gain is mainly due to the acquisition of Tealstone in April 2017 which provide a product diversification and higher margin product.

Financial improvement:

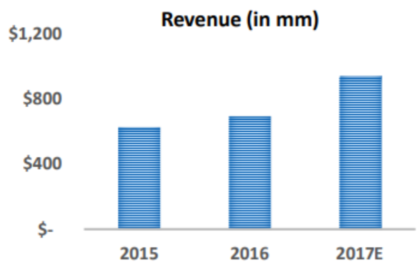
The financial improvement of the company reflects the improvement operated by the company after many years of negative income.

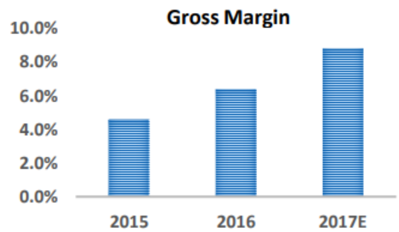
In 2017, the company has declared a positive adjusted net income of $12.1 million, an increase of $21.3 million compared to the -$9.2 million adjusted net income of 2016. The last adjusted positive net income of the company was in 2011 with an amount of $5.5 million.

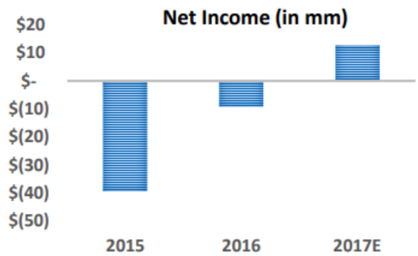
During the last two years, Sterling Construction Company has focused its effort on solidifying the core business of the company and it has led to significant improvement in financial performance.

Their focusing was on the improvement of their bidding process that result in higher margin, a stronger execution in sterling's core heavy highway business, cost reductions, liquidity and balance sheet improvements, and the acquisition of residential business.

As a result of Sterling efforts, the revenue has significantly increased to a point the company now creates profit for a first time since 2011 with a positive net income of $12.1 million.







The restructuration of the debt with an $85 million senior secured term loan credit facility will provides flexibility, liquidity and improved cost to sustain their future growth.

By 2019, the company forecast to diversify its revenue with higher margin products and to reach 50%Non-heavy highway-50% heavy highway in 2019. The current part of heavy highway revenue, is around 65%.

In addition to internal improvement, the company forecast to enter into new market area such as the Gulf Coast area, a growing market. This strategy will increase the footprint of the company into southern states. Its facility at proximity of this area may greatly contribute to the expansion into adjacent markets.

Margin Upside:

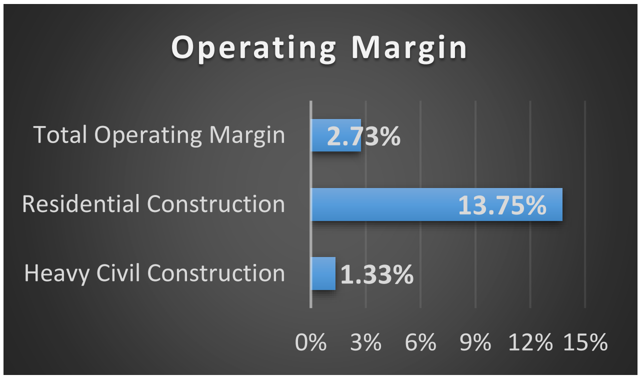
The acquisition of Tealstone in April 2017 is a significant move for the company profitability with benefit already incorporated in the 2017 results.

The first notifiable improvement of the company's margin is with its most important segment: Heavy civil construction. In 2017, operating income for this segment turn to be positive at $11.322 billion compared to a loss of $4.729 billion in 2016. The second improvement is directly related to the acquisition of Tealstone.

Segment Results

	Year Ended December 31,			
	2017	% of Total	2016	% of Total
Revenue				
Heavy Civil Construction	$ 849,966	89%	$ 690,123	100%
Residential Construction	107,992	11%	—	—%
Total Revenue	$ 957,958		$ 690,123	
Operating Income (Loss)				
Heavy Civil Construction	$ 11,322	43%	$ (4,729)	100%
Residential Construction	14,854	57%	—	—%
Total Operating Income (Loss)	$ 26,176		$ (4,729)	

The operating margin provided by its heavy civil construction segment is at 1.33%, while its operating margin for residential construction is at 13.75%. The residential segment is the new source of revenue provided by the acquisition of Tealstone. This acquisition provided 11% of the total revenue of the firm in 2017. However, due to higher margin work, the residential construction account for 57% of the operating income with operating income of $14.854 million for the year ended December 31, 2017 resulting of an operating margin of 13.75% compared to the operating margin of 1.33% for the heavy civil construction segment.



The low risk and complexity and the high margin work combined with a strong exposure to high growth residential markets provide immediate business and long term strategic investment to Sterling Construction Company.

Their strategy of focusing on risk mitigation, improving bid discipline, execution, and further reducing costs in all business units is going to continue the improvement of the margin of the heavy civil construction.

As a result, the margin of the company should significantly improve during the following years and provide higher operating margin to the company with an increase estimated at 100-120 bps in operating margin and profit margin.

Long-term Revenue Upside:

The government transportation spending has been decreasing under Obama's administration to $82.7 billion in 2016 from $86.0 billion in 2013 (source: federal-budget.insidegov.com). As a result, the gap between the requirement fund needed for surface transportations and the fund allocated has significantly increased to 1.1 trillion dollars needed for the period 2016-2025 (source: ASCE). This underinvestment leads to additional cost of maintenance such as more frequent inspection on aging infrastructure.

However, the first year of the Trump's government has marked a turning point in the industry. This emphasis the logic of the trump's government policy to increase the transportation spending with an increase of 6.65% in 2017 to $88.2 billion and to prepare an infrastructure bill around $1.1/1.7 trillion, a cash cow for this industry if the bill is approved. The materials industry is now able to see a bright future, one of the first time since the crisis, a decade ago.

And this industry growth has already started. The Fast Act, Fixing Americas Surface Transportation Act, is the first long-term transportation funding bill signed by the government for a decades. It will provide long-term contract with funding of $305 billion between 2016 and 2020. Public and private bridge spending is forecast to increase from $149.7 billion to $167.2 billion.

In addition, States have taken measure to increase future spending in transportation and infrastructure and this result are planned to impact the market in the coming years. In 2017, Texas approved two laws that increased transportation from $4.0 to $4.5 billion annually. In 2016, Utah approved a gas tax increase of five cents/gallon that should result in an increase of over $75 to $85 million in additional spending. In addition, the state of Utah also approved in 2017 a $1 billion bond package for infrastructure improvements. In California, the states approved in 2016 a $3 billion bill a year for local road, bridge and transit projects.

All these law approvals are long-term opportunities for the infrastructure market and Sterling Construction Company Inc. and they will drive the long-term growth to the business over time.

In addition to the heavy civil construction market, Sterling Construction operates through residential construction market primarily in Texas, the Dallas-Fort Worth area and its surrounding communities.

The residential market is forecasted to grow at a faster rate than before. For the next two years, the growth in building permits monthly averages is forecasted to be between 5.65% to 5.81%, compared to a 3.94% growth in 2017. For residential construction, southern and western region growth was at 21.07% and 5.85%, respectively. This growth is supported by employments gains, rising GDP (target of 2.2%/year for 2014-2024), low mortgage rates, and growing populations (#1: California, #2: Texas, #10: Arizona).\

The company should benefits from the residential market through of its recent acquisition of Tealstone to diversify its revenue and customer base with higher margin work. Their strategy to extend their operating into Houston area is another driver for the company long-term revenue upside for 3 years or more period.

Upcoming Catalysts:

Forward looking projections that call for positive/negative outlook that will strengthen your thesis. Example:

- Short Term (within the year): Margin expansion through improvement of financial performance such as improving bid discipline, execution, and reducing costs in all business units and the expansion in adjacent residential market.
- Mid Term (1-2 years): Diversification into higher margin markets with the leverage opportunities with Residential Construction.
- Long Term (3+): It will depend of their ability to combine high margin products and expand into adjacent markets.

Management Profile:

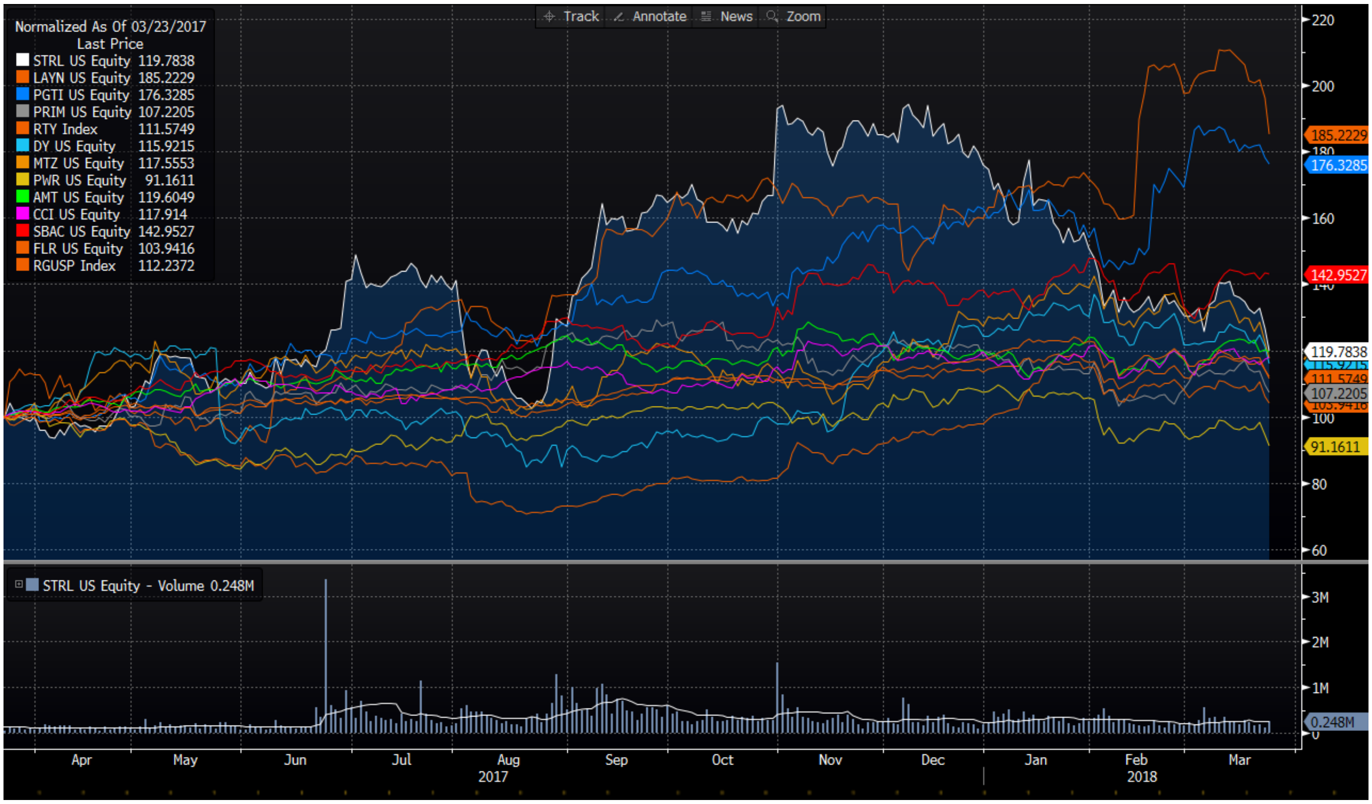
The recent performance of the company is tightly link to the new management team. They have made major progress in the financial consolidation of the company with a significant turning point during the last 2 years with a significant improvement of the financial statement and a new strategic business that provide higher margin.

Mr. Cutillo, 52 years old, has recently been promoted CEO of Sterling Construction Company, Inc in April 2017. Prior to that, he joined the company has VP of strategy and business development. He has a strong understanding of emerging opportunities in heavy civil construction, industrial, and water infrastructure markets, key area for Sterling Construction Company.

Ms. Davenport, 64 years old, is the Executive Director of Genesys Works since 2014 and her committees are Corporate Governance and Nominating (Chair) Compensation. She contributes to improvement of the company through her excellent background as a lawyer, with experience in corporate governance and securities compliance.

Competitors Comparison:

Sterling Construction is a small cap company compared to its peers. Compared to its peers over the last year, Sterling Construction was ranked #4 over 13 with a 1 yr. total return of 19.78%. LAYN and PGTI, to other small caps, are far above the industry average with 1 yr. total return of 85.22% and 76.33%, respectively.



We can see the revenue growth of the company is the highest with a 1 yr. growth of 38.81%. Otherwise, the company's margin ratios are always below the industry's median. This below ratios combined with the significant improvement of the margin emphasis the upside potential of the company.

	Name (BICS Best Fit)	Mkt Cap↑ (USD)	Last Px	Rev - 1 Yr Gr:Y	EPS - 1 Yr Gr:Y	P/E	Rtrn on CE Adj:Y	Grs Mrgn Adj:Y	OPM:Y	EBITDA Mrgn Adj:Y	NI Mrgn Adj:Y
	Median	3.74B	45.20	14.76%	16.31%	28.45	12.95%	13.12%	5.95%	8.80%	3.38%
100)	STERLING CONSTRUCTIO...	299.54M	11.08	38.81%	--	25.89	9.73%	9.30%	2.73%	4.51%	1.26%
101)	LAYNE CHRISTENSEN COM...	289.59M	14.54	-11.86%	17.61%	--	-41.41%	16.60%	-4.02%	0.45%	-7.25%
102)	PGT INNOVATIONS INC	908.95M	18.25	11.46%	10.10%	31.64	19.64%	31.21%	12.63%	16.45%	5.92%
103)	PRIMORIS SERVICES CORP	1.27B	24.66	19.18%	175.58%	16.81	13.62%	11.70%	4.06%	6.84%	3.01%
104)	DYCOM INDUSTRIES INC	3.22B	103.97	14.76%	15.01%	31.00	24.01%	21.59%	8.97%	13.79%	4.81%
105)	MASTEC INC	3.74B	45.20	28.67%	55.27%	16.67	17.69%	13.04%	5.95%	8.80%	3.38%
106)	QUANTA SERVICES INC	5.12B	33.21	23.72%	37.02%	20.27	7.27%	13.12%	4.67%	6.95%	2.74%
107)	FLUOR CORP	7.67B	54.85	2.54%	-8.81%	18.84	12.29%	3.17%	3.52%	4.67%	2.04%
108)	SBA COMMUNICATIONS C...	19.67B	168.87	5.79%	2.25%	149.31	--	74.17%	29.38%	66.60%	7.92%

Conclusion:

Sterling Construction Company Inc. has efficiently management its financial performance over the last 2 years and revert the negative earnings to positive earnings in 2017, the first time since 2011. The margin upside of the company is significant through their new strategy of diversification of their revenue and customers with higher margin work (acquisition of Tealstone in April 2017). The close locations of all their facilities permits to the company to provide complementary products in each of their area. In addition, the long-term revenue upside is stimulate by the expansion of the US infrastructure market mainly drive by the Trump's government spending and the requirement of the investment in infrastructure.

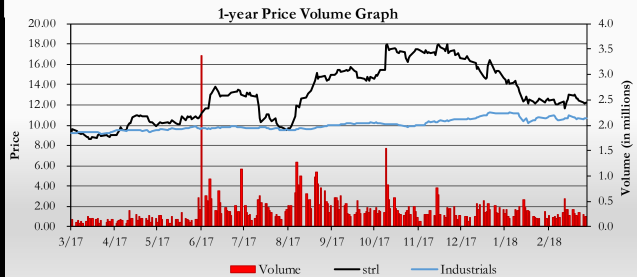
Sterling Construction Company, Inc. (strl)

CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

Analysis by Al Capone	Current Price:	$11.31	Intrinsic Value	$12.72	Target 1 year Return: 32.63%
3/23/2018	Divident Yield:	0.0%	Target Price	$15.00	Probability of Price Increase: 100%

1-year Price Volume Graph



Description

Sterling Construction Company, Inc., together with its subsidiaries, operates as a heavy civil and residential construction company in Arizona, California, Colorado, Hawaii, Nevada, Texas, Utah, and other states in the United States.

General Information	
Sector	Industrials
Industry	Construction and Engineering
Last Guidance	February 12, 2018
Next earnings date	May 1, 2018

Market Assumptions	
Estimated Equity Risk Premium	5.00%
Effective Tax rate	21%

Market Data	
Market Capitalization	$316.57
Daily volume (mil)	0.10
Shares outstanding (mil)	27.03
Diluted shares outstanding (mil)	26.71
% shares held by institutions	109%
% shares held by investments Managers	57%
% shares held by hedge funds	18%
% shares held by insiders	5.05%
Short interest	3.69%
Days to cover short interest	3.69
52 week high	$18.90
52-week low	$8.54
Volatility	52.02%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
12/31/2016	0.21%	73.53%
3/31/2017	13.64%	18.33%
6/30/2017	7.84%	22.96%
9/30/2017	15.37%	-4.11%
12/31/2017	14.84%	-36.45%
Mean	**10.38%**	**14.85%**
Standard error	1.1%	5.1%

Market and Credit Scores

Recommendation (STARS) Value--0
Recommendation (STARS) Description--0
Quality Ranking Value--C
Quality Ranking Description--Lowest
Short Score--1
Market Signal Probability of Default % (Non-Ratings)--10.513%
CreditModel Score (Non-Ratings)--b+

Industry and Segment Information

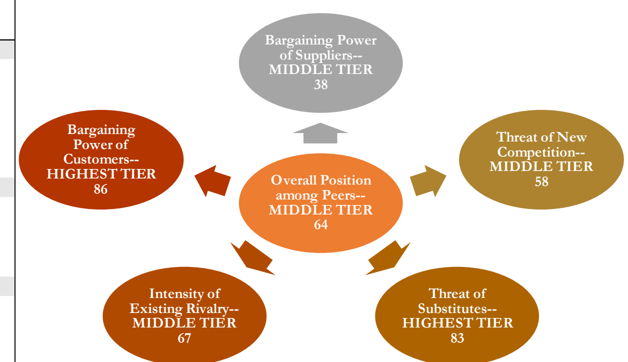
LTM Revenues by Geographic Segments	LTM Revenues by Business Segments
United States--100%	Residential Construction--11%
--	Heavy Civil Construction--89%
--	--
--	--
--	--

Peers

Aegion Corporation	IES Holdings, Inc.
Primoris Services Corporation	Dycom Industries, Inc.
Granite Construction Incorporated	Great Lakes Dredge & Dock Corporation
Layne Christensen Company	Willbros Group, Inc.
Orion Group Holdings, Inc.	Black Peony (Group) Co., Ltd.

Management	Position	Total Compensations Growth	Stock Price Growth During Tenure
Cutillo, Joseph	CEO, President & Director		0% per annum over 0y
Ballschmiede, Ronald	Executive VP, CFO, Chief Accounting Officer & T	12.51% per annum over 1y	39.14% per annum over 1y
Wadsworth, Con	Executive VP & COO	-100% per annum over 1y	39.14% per annum over 1y
Blair, Kevan	Senior Vice President of Corporate Finance	-100% per annum over 1y	39.14% per annum over 1y
Maxwell, Jennifer	Director of Investor Relations		
Chandler, Richard	Executive VP, General Counsel & Secretary		

Porter's 5 forces (Scores are percentiles)

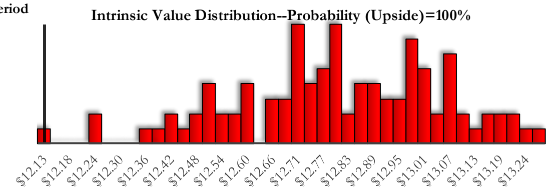


Profitability	strl (LTM)	strl Historical	Peers' Median (LTM)
Return on Capital (GAAP)	23.0%	-6.57%	3.48%
Operating Margin	2%	-1.67%	7.22%
Revenue/Capital (GAAP)	9.20	3.94	0.48
ROE (GAAP)	8.7%	1.3%	10.3%
Net margin	1.0%	0.3%	4.1%
Revenue/Book Value (GAAP)	8.92	3.78	2.54
Invested Funds	**strl (LTM)**	**strl Historical**	**Peers' Median (LTM)**
Cash/Capital	37.5%	10.7%	14.8%
NWC/Capital	1.8%	12.6%	23.1%
Operating Assets/Capital	22.7%	38.3%	49.5%
Goodwill/Capital	38.0%	38.4%	12.6%
Capital Structure	**strl (LTM)**	**strl Historical**	**Peers' Median (LTM)**
Total Debt/Market Capitalization	0.46	0.14	0.48
Cost of Debt	20.5%	40.8%	8.0%
CGFS Rating (F-score, Z-score, and default Probability)	B		
WACC	25.8%	45.1%	11.1%

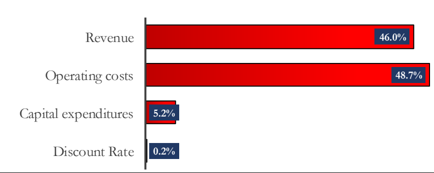
Valuation

Forecast Assumptions	Explicit Period (14 years)	Continuing Period
Revenue Growth CAGR	13%	2%
Average Operating Margin	4%	4%
Average Net Margin	2%	2%
Growth in Capital CAGR	11%	2%
Growth in Claims CAGR	3%	2%
Average Return on Capital	13%	12%
Average Return on Equity	14%	12%
Average Cost of Capital	17%	18%
Average Cost of EquityKe	19%	19%

Intrinsic Value Distribution--Probability (Upside)=100%



Sensitivity Attribution Analysis



March 23, 2018

GameStop: (GME)

David Blanco

Sector: Consumer Discretionary
Industry: Computer and Electronic Retail
Current Price: $14.01
Target Price: $15.26

Gamestop is a videogame retailer specialized in videogame hardware and software. It has expanded to sell consumer electronics. It currently is expanding its technology brands segment, consisting of Spring Mobile and Simply Mac.

SELL

Current Price:	$14.01
Target Price:	$15.26
Market Cap:	1.42B
Beta:	1.0
Other key Metrics/Ratios	

Thesis:

A statement culminated from an analysis of catalysts, financial review, pro-forma indications, and other aspects of your decision as to why the stock is over/under/fairly priced. Your argument.

Catalysts:

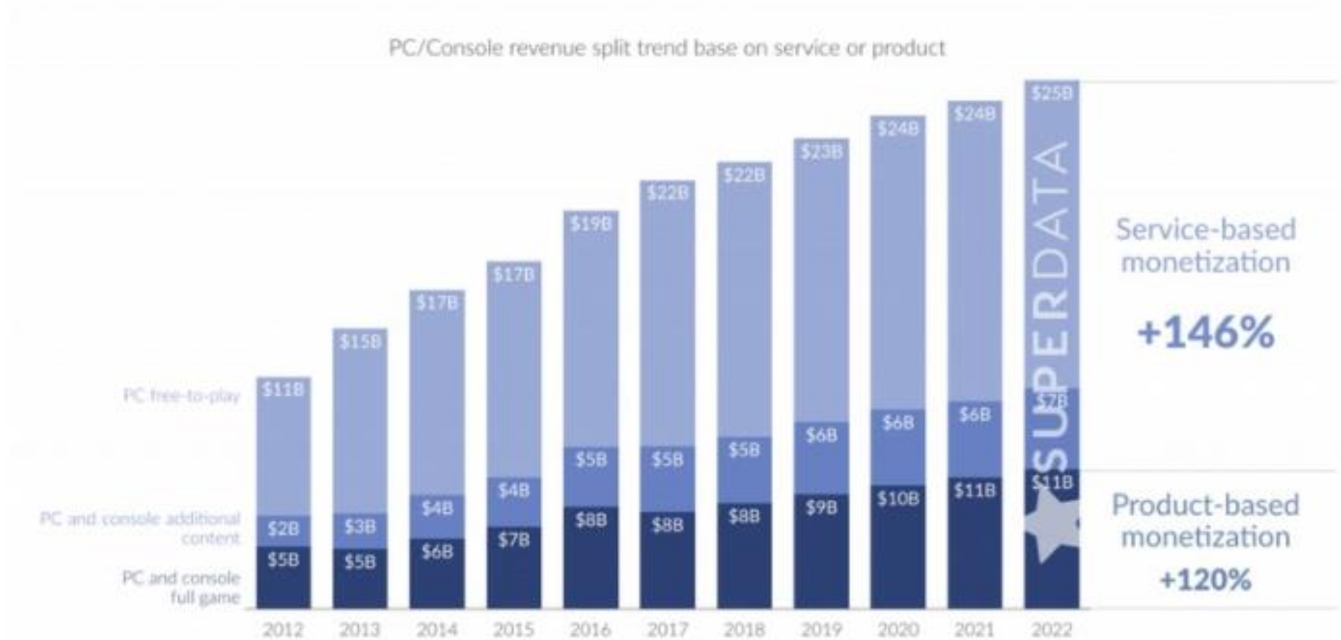
- Short Term (within the year): Decreasing physical sales of video games and related products.
- Mid-term (1 year): Movement towards digital video game sales

Industry Trends:

GameStop has seen its price plummet since November 2015, when its Q3 results dramatically underperformed estimates. Since then, GameStop's price has moved opposite to the S&P 500 Computer and Electronics Index. The videogame entertainment industry has been blooming for the past three years, yet GameStop is not only not profiting from these industry changes but is continuing to drop. Before 2015, GameStop was closely related to the Electronics Index since a large portion of videogame sales was done through physical distributors, of which GameStop was the undisputed leader in America. However, technological innovation has led to a popularization of digital sales over physical sales. By 2021, digital sales are to account for nearly 93% of all game sales.[1]

Since GameStop's model revolves around physical sales, it seems evident why investors have viewed GameStop negatively. This does not mean that GameStop has not attempted to diversify. It has pushed for digital sales using gift cards of all kinds and sales of games through codes. It has managed to partner with developers to push promotions such as downloadable content for videogames if they buy through the store, yet its revenue continues to decrease; it is evident that the convenience of digital sales is ever growing, with online payment methods such as PayPal and credit card information becoming easier and more streamlined.

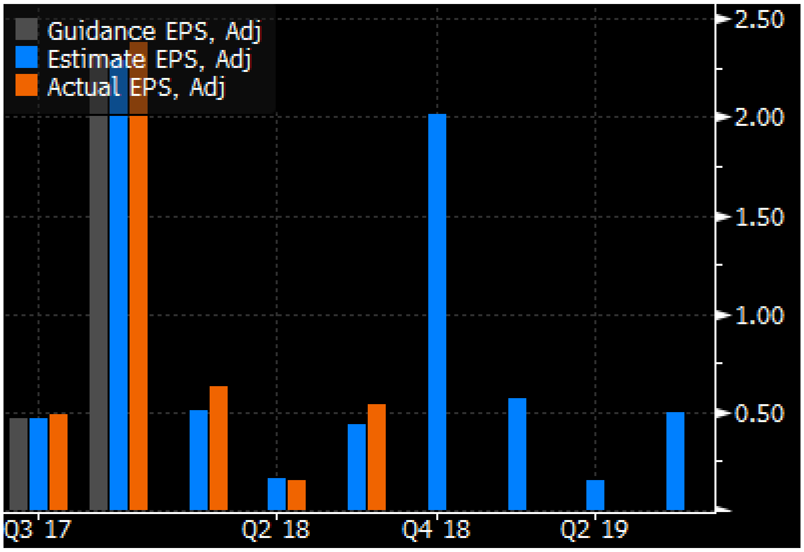
Another industry trend that has increased revenues for the electronics entertainment industry but cannot be translated into the business model of GameStop is the growth of micro transactions and DLC.



Micro transactions and DLC along with other services are becoming the predominant source of revenue for videogame sales, having tripled since 2012.[2] The previous model of full-priced $60 games has slowly been decreasing and the free-to-play (with fees included) has continued to grow. Other increasingly popular model like subscription based models have also become popular with triple AAA developers, yet they naturally remove the middleman from the long-term transaction, that being GameStop. As it stands, industry trends seem to overwhelmingly hurt GameStop. Other factors, such as increasing download speed have made digital sales not only easier, but also more convenient than physical purchases. GameStop's central business model is becoming obsolete by the year, and their decreasing revenue reflect that fact.

[1] http://business.financialpost.com/technology/gaming/digital-sales-to-account-for-nearly-93-of-all-game-sales-by-2021-report

[2] https://www.gameprime.org/2017/12/pc-console-dlc-revenue-tripled-2012/



Since 2015, analysts have taken these factors into account. The estimate vs actual adjusted EPS shows two crucial facts about GameStop. The first is that GameStop has been able to marginally beat the predictions due to slightly higher revenue than expected. However, the issue remains that estimate EPS continues to drop, as does the price of the stock. Revenue continues to drop as industry trends make GameStop irrelevant, as GameStop cannot jump into digital sales. Its last attempt in this market was the push for digital sales through gift cards and redeemable codes. However, nowadays it is just as easy to simply purchase the game directly online, making going to GameStop an unnecessary hassle.

AT&T:

GameStop has attempted to maintain revenue growth by diversifying into mobility stores. In 2013, it acquired Spring Mobile, an authorized AT&T retailer, and have since then expanded from the original 90 stores to 1,403 in 2017. These decisions have had limited, yet successful results.

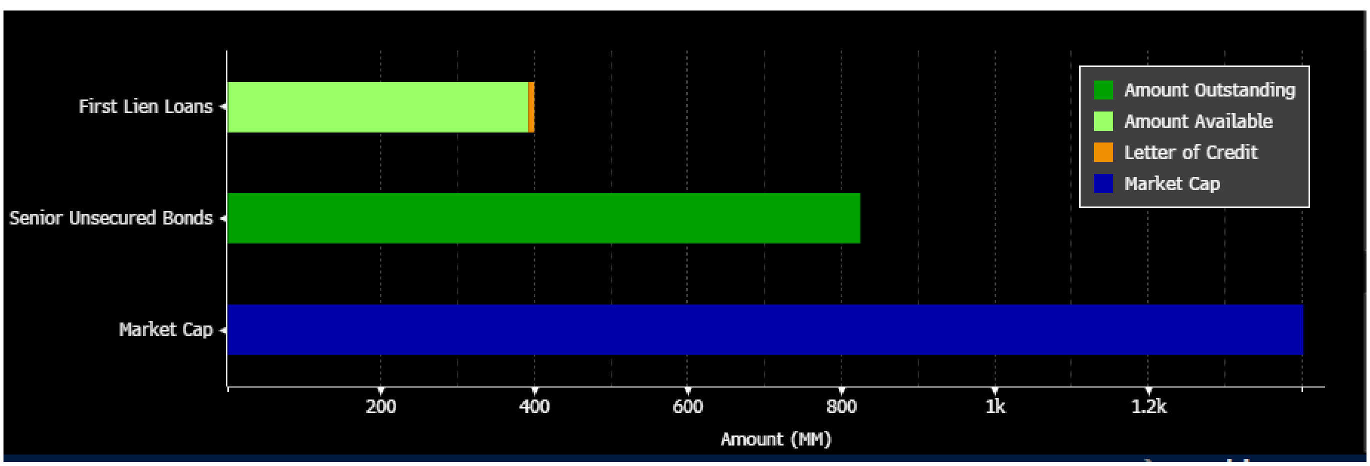
In Millions of USD except Per Share	2016 Y	2017 Y	Last 12M	2018 Y Est	2019 Y Est
12 Months Ending	01/30/2016	01/28/2017	10/28/2017	01/31/2018	01/31/2019
Revenue	9,363.8	8,607.9	8,767.5	8,960.2	8,838.9
+ Sales & Services Revenue	9,363.8	8,607.9	8,767.5		
- Cost of Revenue	6,445.5	5,598.6	5,744.0		
+ Cost of Goods & Services	6,445.5	5,598.6	5,744.0		
Gross Profit	2,918.3	3,009.3	3,023.5	3,051.7	3,030.0
+ Other Operating Income	0.0	0.0	0.0		
- Operating Expenses	2,247.1	2,400.4	2,471.9		
+ Selling, General & Admin	2,108.9	2,252.6	2,317.3		
+ Research & Development	0.0	0.0			
+ Depreciation & Amortization	156.6	165.2	153.5		
+ Other Operating Expense	-18.4	-17.4	1.1		
Operating Income (Loss)	671.2	608.9	551.6	549.4	532.4
- Non-Operating (Income) Loss	23.0	53.0	56.0		
+ Interest Expense, Net	23.0	53.0	56.0		

	Fiscal Year 2016		Fiscal Year 2015		Fiscal Year 2014	
	Net Sales	Percent of Total	Net Sales	Percent of Net Sales	Net Sales	Percent of Net Sales
New video game hardware(1)	$ 1,396.7	16.2%	$ 1,944.7	20.8%	$ 2,028.7	21.8%
New video game software	2,493.4	29.0	2,905.1	31.0	3,089.0	33.2
Pre-owned and value video game products	2,254.1	26.2	2,374.7	25.4	2,389.3	25.7
Video game accessories	676.7	7.9	703.0	7.5	653.6	7.1
Digital	181.0	2.1	188.3	2.0	216.3	2.3
Technology Brands(2)	814.0	9.5	534.0	5.7	328.6	3.5
Collectibles	494.1	5.7	309.7	3.3	75.8	0.8
Other(3)	297.9	3.4	404.3	4.3	514.7	5.6
Total	$ 8,607.9	100.0%	$ 9,363.8	100.0%	$ 9,296.0	100.0%

Revenue is expected to increase marginally, moved primarily by these new businesses. These charts indicate that GameStop's market segments other than collectibles and technology brands (Spring Mobile) are decreasing. Revenue is expected to increase while gross profit expected to remain relatively similar due to higher COGS. However, EPS is expected to fall as GameStop themselves recognize the technology brand segment requires higher S&A costs, decreasing the EBITDA margin. GameStop indicated that it aims to have less than 50% of its revenue come from videogame sales, meaning they are trying to reduce their main business due to how much it is shrinking. However, it is clear that the company is in a dire situation, with its best-case scenario being becoming AT&T's retail seller, with a reduced EBITDA margin and lower EPS. This not only has negative cash implications, but it restricts the company's ability to grow. GameStop itself indicated how its stores are restricted to sell exclusively AT&T related products by contract, and thus it is unable to profit from selling its competitors' products. Therefore, its best-case scenario is essentially becoming AT&T's retail subsidiary.

Debt:

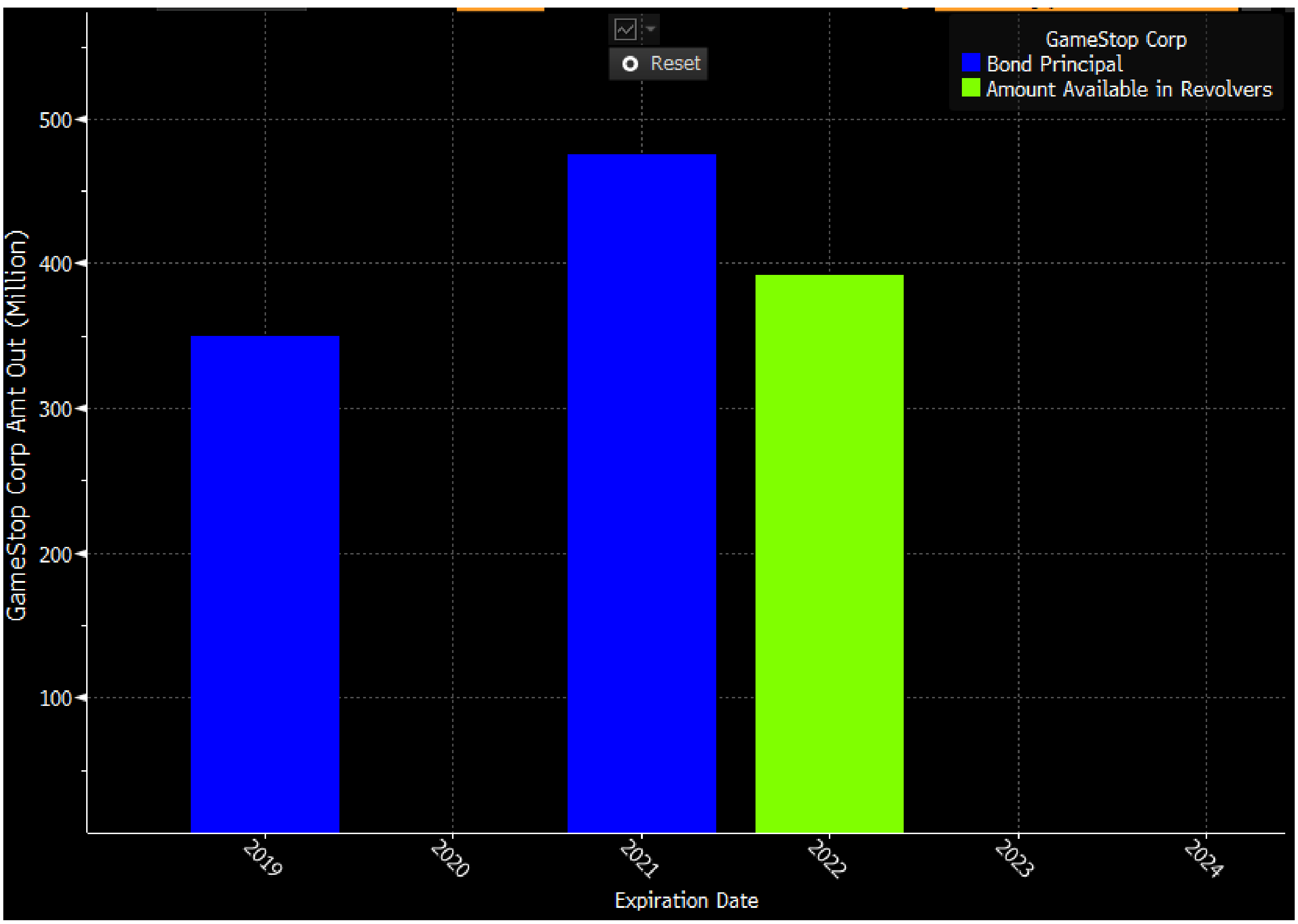
This best-case scenario, however, may not be as feasible as it appears.



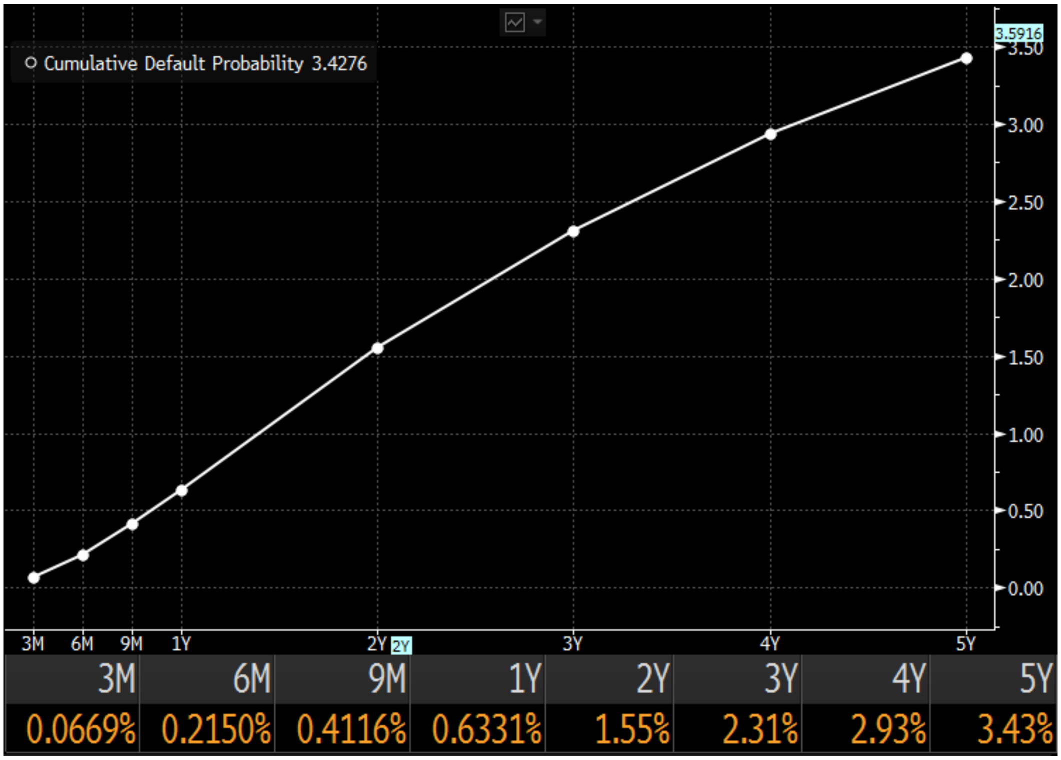
A large portion of GameStop's operations is financed through long-term debt. In 2017, GameStop was forced to reissue its senior unsecured debt of $475M after payment and had to issue an additional $400M. Given how their latest annual fiscal year produced only $537M in net cash proceeds, GameStop would need to radically increase its operating cash inflows by 2021 to payback its debt.

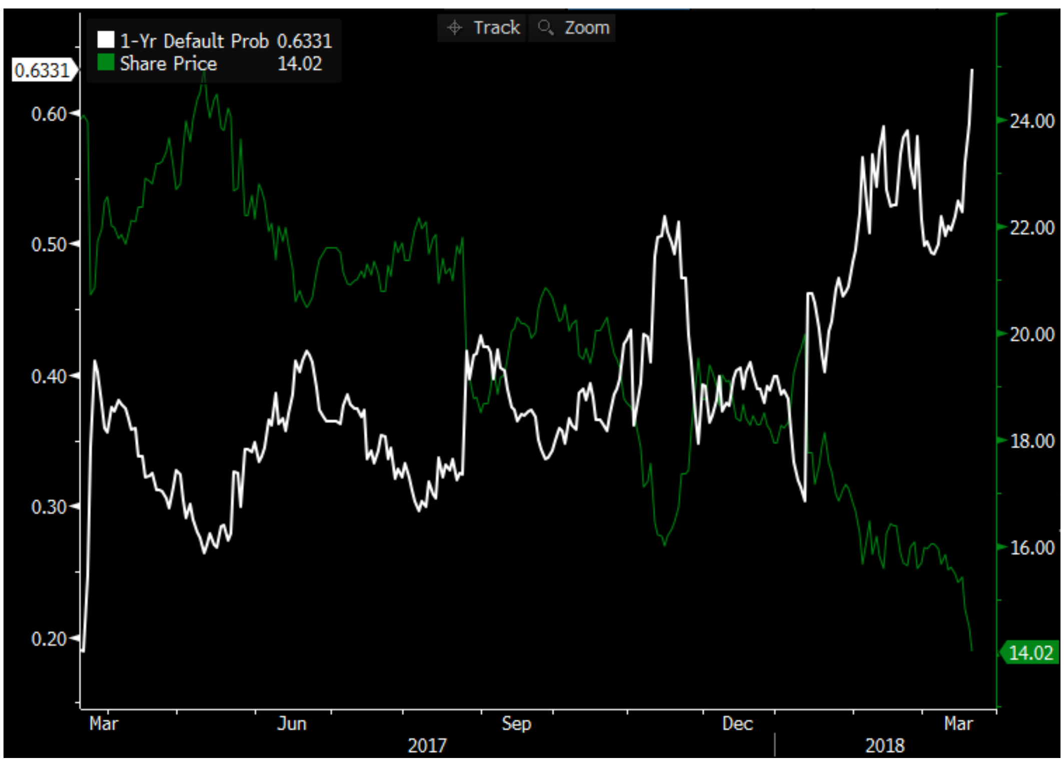
In Millions of USD except Per Share	2014 Y	2015 Y	2016 Y	2017 Y	Last 12M
12 Months Ending	02/01/2014	01/31/2015	01/30/2016	01/28/2017	10/28/2017
Cash from Operating Activities					
+ Net Income	354.2	393.1	402.8	353.2	349.3
+ Depreciation & Amortization	169.2	156.5	158.2	166.7	154.9
+ Non-Cash Items	54.7	24.6	21.8	42.8	32.7
+ Stock-Based Compensation	7.0	15.8	25.5	18.6	17.0
+ Deferred Income Taxes	-2.7	9.2	-1.5	-37.2	
+ Other Non-Cash Adj	50.4	-0.4	-2.2	61.4	29.9
+ Chg in Non-Cash Work Cap	184.6	-93.7	74.0	-25.6	-148.5
+ (Inc) Dec in Accts Receiv	-1.4	-44.3	-58.1	-43.9	-19.9
+ (Inc) Dec in Inventories	-86.9	-24.8	-49.2	14.7	-217.8
+ Inc (Dec) in Other	272.9	-24.6	181.3	3.6	89.2
+ Net Cash From Disc Ops	0.0	0.0	0.0	0.0	0.0
Cash from Operating Activities	762.7	480.5	656.8	537.1	388.4

However, operating cash inflows are not expected to increase. Currently the LTM indicate over $200M lower cash inflows, which are mostly attributed to Q4's usual high performance due to holiday sales, but even by normalizing said decrease in inventory, operating cash inflows are not expected to change significantly. While they are expanding into its technology brand, it is mostly to offset the decrease in revenue in its other segments. However, as stated before, this new segment is expected to be less profitable.

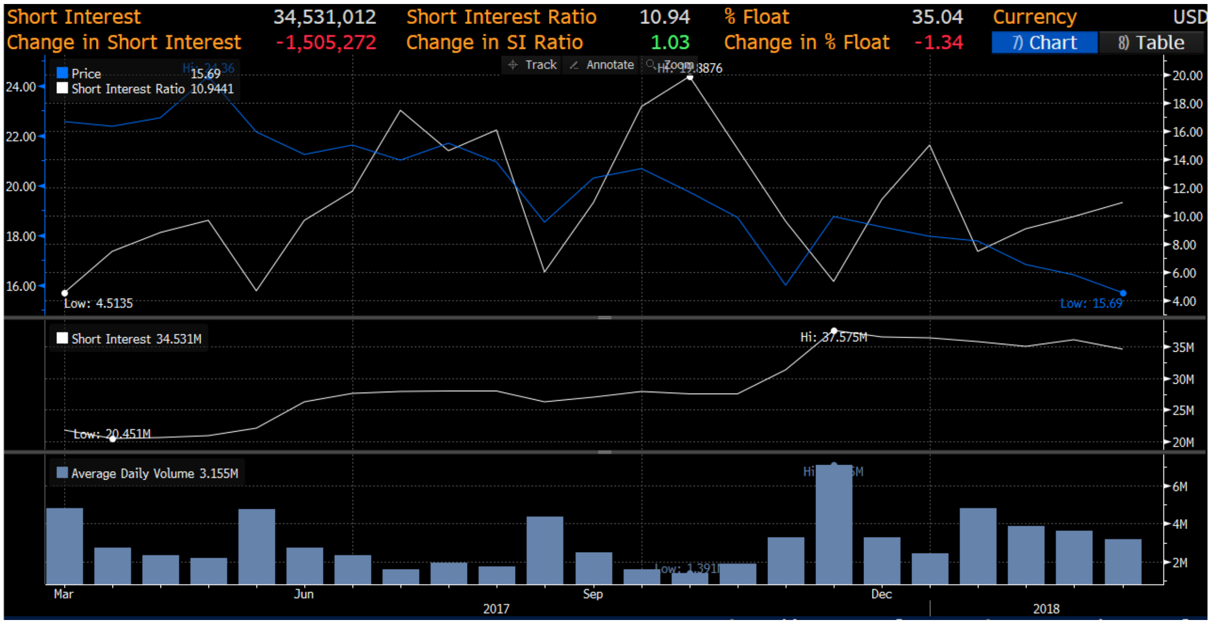


By 2021, GameStop's revolving credit facility won't be able to refinance GameStop's debt, and given how GameStop's bond yield continue to increase, it is becoming increasingly probable that GameStop will become unable to rely on debt, perhaps even repay it. Currently, GameStop holds a Ba1 rating on its senior unsecured looks, but S&P has already indicated a negative outlook for the company. With its increased debt and lack of growth indicators, it is no surprise GameStop's probability of default is increasing.





Its share price continues to drop as fear of default continue to increase. While the price has decreased in the past three years due to its reduced income due to its business model, I argue that its price will continue to drop as its long-term financial stability will become weaker by the year is nothing changes.



GameStop's short interest continues to increase, even after its price's significant decrease in the past quarter.

Ownership Type	03/12/17	Curr	Change
11) Investment Advisor	75.80	84.47	+8.67
12) Hedge Fund Manager	12.07	6.89	-5.18
13) Pension Fund	3.39	2.19	-1.20
14) Bank	2.83	2.00	-0.83
15) Individual	2.27	1.72	-0.55
16) Sovereign Wealth Fund	0.93	0.97	+0.04
17) Insurance Company	0.97	0.78	-0.19
18) Private Equity	0.28	0.44	+0.16
19) Brokerage	0.45	0.28	-0.17
20) Government	0.82	0.13	-0.69
21) Endowment	0.06	0.04	-0.02

* Based upon publicly reported holdings, not total shares outstanding

Added to this, hedge fund managers have pulled out significantly from the company, indicating a negative outlook in the short term for the company. Therefore, the company is expected to perform poorly in the short-term, its long-term solution is essentially changing to a new subindustry will lower EBITDA margins and restricted growth to only AT&T products, and the company might not even have the long-term financial strength to invest into the lower-performing business. As it stands, GameStop will continue to deteriorate if nothing changes.

Management:

On the human side, GameStop does not seem to perform well. Its longtime CEO Paul Raines stepped down in November and was declared deceased in March due to his battle with cancer.[3] Mr. Raines had an excellent reputation within the company, and while his death was detrimental for the company, it was an opportunity for GameStop to reshape how they work. However, GameStop has been struggling to indicate any positive changes, with both its COO and executive vice president both fired without any reason provided by the company.[4]

The new CEO, Michael Mauler, has not addressed GameStop's turnover issues and reputation of its company strategy "Circle of Life". It relies on customers buying games, selling them back, and use in-store credit to buy more games.[5] The main issue is that customers are dreadfully aware how profitable this business is, and instead of trying to find a way to reshape or even rebrand the strategy has left to both customers and staff dissatisfied. GameStop has the infamous reputation of being one of the worst companies to work, with employees believing the company's aggressive stance on the "Circle of Life" angers customers and punishes staff for being unable to reach the impossible goals.[6] Anonymous employees and storeowners are being vocal about how this is a management issue that has been unaddressed and continues to hurt the company.[7] Given how management continues to shuffle and the new CEO refuses to acknowledge that its most profitable model is the biggest detriment to customer relations and employee satisfaction, it seems GameStop management cannot be trusted to pull a Hail Mary and successfully pull out the company from its dire situation, with a serious possibility of default in the not-so-distant future.

Default:

Given the industry GameStop operates, a default would not be as terrible for shareholders. It has significant investment in land and property, and its inventory is highly liquid. However, given its significant goodwill and other intangible assets, not everything is salvageable. By knocking out these items and valuing its real estate value at roughly $2.1B (as well as adjusting other asset items by their liquidity), after all debt is paid for, GameStop would still have a net $546M in cash. Currently, there are 101.3M shares outstanding, indicating the liquidation return per share would be $5.40. This price serves as the lower limit for this proposal, as reaching a price per share lower than this would be impossible even if GameStop declared bankruptcy. Given how the price continues to drop, if nothing changes, this means a short on GameStop could potentially be as high as 61%.

[3] https://www.dallasnews.com/business/retail/2018/03/05/former-gamestop-ceo-paul-raines-dies-after-a-battle-with-cancer
[4] https://www.wsj.com/articles/gamestop-fires-two-executives-days-after-naming-new-ceo-1518188472
[5] https://kotaku.com/we-are-all-scared-for-our-jobs-gamestop-employees-talk-1791963185
[6] https://kotaku.com/5934095/report-gamestop-is-one-of-the-worst-places-to-work-in-america
[7] https://www.forbes.com/sites/erikkain/2017/02/02/rumors-of-gamestops-terrible-circle-of-life-program-may-be-overblown/#6539ac7d3683

Conclusion:

GameStop is a perfect indication of how technological innovation can make a middleman obsolete. GameStop has been unable to exploit any other means of business and is currently trying to exit the market. However, its debt obligations and decreasing operating cash inflows may make their entry into AT&T retailing impossible. Even if they somehow make it, the firm will by them have shrunk significantly by exiting its main business and is impeded from growth as its long-term contract with AT&T forces them to sell its products exclusively. If they somehow manage to exit exclusivity clause without ending relations, GameStop will be in a business with lower EBITDA margin in which it holds a small market share. As a whole, GameStop short-term outlook is stable, but any improvement are unlikely looking at GameStop's management. In the worst-case scenario, GameStop could seriously be looking at bankruptcy, with potential return for a short being as high as 61%.

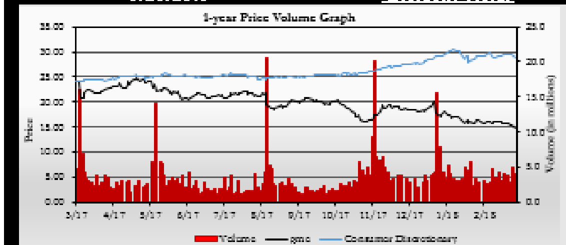
SIENAcollege BJORKLUND FUND

Output:

GameStop Corp. (gme) — CENTER FOR GLOBAL FINANCIAL STUDIES — NEUTRAL

Analysis by Blanco	**Current Price:**	$14.02	**Intrinsic Value**	$85.79
3/23/2018	**Divident Yield:**	10.5%	**Target Price**	$15.26

Target 1 year Return: 19.37%
Probability of Price Increase: 100



Description

GameStop Corp. operates as an omnichannel video game retailer.

General Information

Sector	Consumer Discretionary
Industry	Specialty Retail
Last Guidance	February 12, 2018
Next earnings date	March 28, 2018

Market Assumptions

Estimated Equity Risk Premium	5.10%
Effective Tax rate	21%

Market Data

Market Capitalization	$1,420.29
Daily volume (mil)	4.39
Shares outstanding (mil)	101.30
Diluted shares outstanding (mil)	101.78
% shares held by institutions	109%
% shares held by investments Managers	93%
% shares held by hedge funds	13%
% shares held by insiders	2.73%
Short interest	34.09%
Days to cover short interest	9.55
52 week high	$25.31
52-week low	$14.35
Volatility	38.57%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
10/29/2016	-1.87%	9.07%
1/28/2017	0.26%	-9.86%
4/29/2017	4.81%	-0.65%
7/29/2017	3.41%	1.68%
10/28/2017	0.99%	6.46%
Mean	1.52%	1.34%
Standard error	1.0%	5.1%

Market and Credit Scores

Recommendation (STARS) Value--4
Recommendation (STARS) Description--Buy
Quality Ranking Value--B
Quality Ranking Description--Below Average
Short Score--5
Market Signal Probability of Default % (Non-Ratings)--5.753%
CreditModel Score (Non-Ratings)--bbb-

Industry and Segment Information

LTM Revenues by Geographic Segments	LTM Revenues by Business Segments
#VALUE!	United States--64%
#VALUE!	Canada--4%
#VALUE!	Australia--7%
#VALUE!	Europe--15%
#VALUE!	Technology Brands--9%

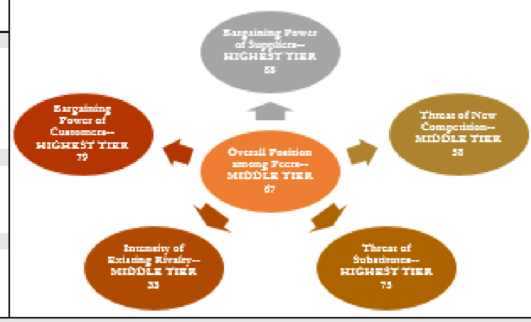
Peers

Activision Blizzard, Inc.	Staples, Inc.
Electronic Arts Inc.	Bic Camera Inc.
Best Buy Co., Inc.	Zynga Inc.
AutoZone, Inc.	JB Hi-Fi Limited
Fnac Darty SA	Microsoft Corporation

Management	Position	Total Compensation Growth	Stock Price Growth During Tenure
DeMatteo, Daniel	Co-Founder & Executive Chairman	-100% per annum over 4y	9.22% per annum over 4y
Raines, J.	Former CEO & Director	-100% per annum over 4y	9.22% per annum over 4y
Lloyd, Robert	Chief Financial Officer and Executive Vice Pres	-100% per annum over 4y	9.22% per annum over 4y
Mauler, Michael	CEO & Director	-100% per annum over 2y	-12.15% per annum over 2y
Crawford, Troy	Chief Accounting Officer and Senior Vice Presi		
Kaufman, Daniel	Executive VP, Chief Legal & Administrative Off		

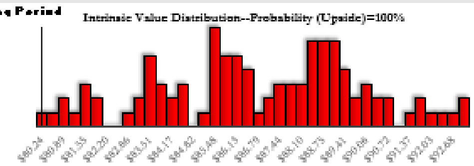
Profitability	gme (LTM)	gme Historical	Peers' Median (LTM)
Return on Capital (GAAP)	10.2%	12.60%	15.20%
Operating Margin	6%	5.97%	12.63%
Revenue/Capital (GAAP)	1.77	2.11	1.20
ROE (GAAP)	20.7%	22.2%	-1.1%
Net margin	5.2%	5.1%	6.0%
Revenue/Book Value (GAAP)	3.97	4.32	-0.18
Invested Funds	**gme (LTM)**	**gme Historical**	**Peers' Median (LTM)**
Cash/Capital	15.3%	12.7%	27.7%
NWC/Capital	-3.3%	-6.4%	-6.7%
Operating Assets/Capital	51.8%	54.7%	52.3%
Goodwill/Capital	36.2%	39.0%	26.8%
Capital Structure	**gme (LTM)**	**gme Historical**	**Peers' Median (LTM)**
Total Debt/Market Capitalization	0.53	0.44	0.53
Cost of Debt	7.0%	7.1%	4.0%
CGFS Rating (F-score, Z-score, and default Probabilit	BB		
WACC	12.1%	11.6%	8.4%

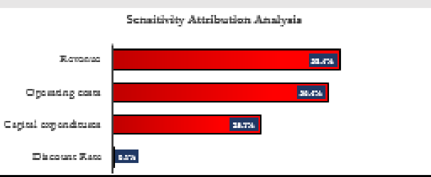
Porter's 5 forces (Scores are percentiles)



Valuation

Forecast Assumptions	Explicit Period (6 years)	Continuing Period
Revenue Growth CAGR	2%	2%
Average Operating Margin	6%	7%
Average Net Margin	3%	4%
Growth in Capital CAGR	4%	2%
Growth in Claims CAGR	0%	2%
Average Return on Capital	9%	8%
Average Return on Equity	9%	7%
Average Cost of Capital	13%	14%
Average Cost of Equity Ke	17%	17%





March 23, 2018

PetMed Express, Inc.

Kristina Gallo

Sector: Consumer Discretionary
Industry: Internet and Direct Marketing Retail

Company Description: **PetMed Express, also known as 1-800-PetMeds, is the largest pet pharmacy in the United States founded in 1996. The company sells non-prescription and prescription pet medications, health products, and supplies for cats and dogs to retail customers. It markets through Internet, telephone contact center, and direct mail.**

BUY

Current Price:	$44.46
Target Price:	$52.30
Market Cap:	965 Mill
WACC:	9%
EBITA Margin:	14%
ROIC:	74.6%

Thesis:
As the trend continues in the United States for society to use e-commerce as the way of retail, PetMed Express will continue to increase their revenues and expand as a company. The company has a competitive advantage being the channel leader in the pet pharmacy industry as well as selling and offering a wide variety of supplies and information. PetMed Express has demonstrated continuous growth in the past and project to continue their profitable growth in the upcoming years.

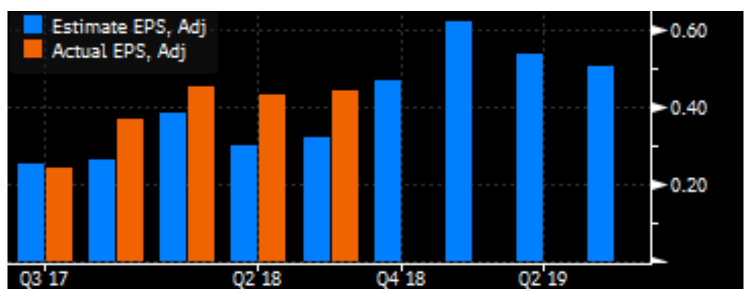
Catalysts:
- Short Term(within the year): Increasing revenue from the effect of the shift from low margin topicals to next-generation medication in conjunction with the new tax law
- Mid Term(1-2 years): Acquiring new customers
- Long Term(3+): Direct relationship with manufacturers along with continuing trend for e-commerce

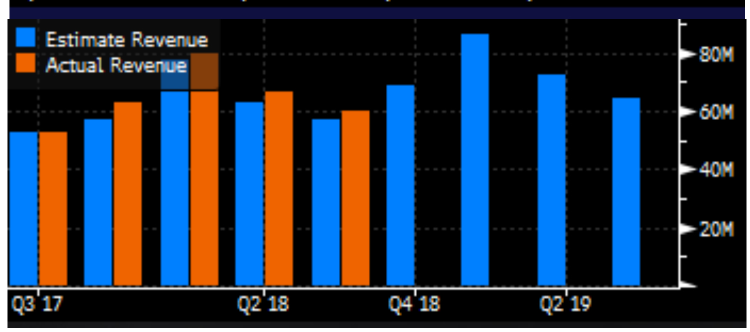
Business Description:

PetMed Express is America's largest pet pharmacy founded in 1996 with its headquarters located in Delray Beach, Florida. They are licensed pharmacy to dispense prescription medications in all 50 states, though 50% of their customers are from New York, California, Georgia, Texas, Pennsylvania, North Carolina, and Virginia. They sell non-prescription products including flea and tick control, bone and joint care, vitamins, treats, nutritional supplements, and hygiene products. They also offer prescription drugs including heartworm preventatives, flea and tick preventatives, arthritis, thyroid, diabetes, pain medications, antibiotics, and other specialty medications, as well as generic substitutes. They will contact the customer's vet in order to make sure the animal needs the medication as well as getting the proper dosage. PetMed Express is always offering discounts as well as offering free shipping with orders that are above $50. They offer a wide variety of productions, including over 3,000 SKUs. The company regularly researches new products to distribute as well as always offering the latest generation of existing products. In March of 2010, they started offering supplies for cats and dogs which includes crates, foods, beds, stairs, strollers, and other supplies offered on their website. They also offer all different kinds of videos and articles with veterinarians that provide a wide range of knowledge on all different sorts of information. Their main source of business is through internet sales but they also generate sales through their telephone center as well as through direct mail. They have recently created a mobile app for people to easily and quickly order and are currently in the stage of creating and launching the second generation of the mobile app.

Earnings Performance:

The earnings performance for the fiscal Quarter 3 in 2017 increased greatly from the prior's years. Mendo Akdag, CEO and President, commented "We are very pleased with our third quarter results, achieving double digits increases in both new order and reorder sales, along with an accelerated increase to operating income for the fourth consecutive quarter." Net sales increased 13.7% from the prior year with 60.1 million from 52.9 million. The increase in sales were due to increases in both new order and reorder sales. New order sales and reorder sales increased by 15.5% and 13.4% respectively from the prior year. For the year, PetMed Express increased their online sales by 15%. The top graph on the right shows that for the next quarters actual earnings per share outperformed the estimates, and for the upcoming quarters, there is much more growth forecast. The bottom graph on the right shows the estimates and the actual revenue the company obtained for the quarters and the projections for the continuing quarters. These graphs show that this company is going to continue to generate revenue growth. There is some seasonality for the company and that is why some quarters are lower than others. They expect both revenues and profits to increase greatly for the spring and summer seasons.





Profitability:

PetMed Express has continuously increased their profitability margins throughout the years and are projected to continue this trend. The table shown below shows their annual growth and margins from 2014 to present and their estimated figures through 2019. The gross profit margin increased 35.3% from the prior year due to increasing the profit margin. This is mainly due to the shift in sales from low-margin topicals to higher margin next-generation flea and tick products. They have continued to see this trend throughout the past 3 quarters and expect it to continue. As the tick and flea populations are growing within the U.S. these products are becoming high in demand. This table shows that this company is highly profitable and will continue to generate profits in the upcoming year.

Revenue, Adj	233.4	229.4	234.7	249.2	269.5	275.0	298.3
Growth %, YoY	2.4	-1.7	2.3	6.2	11.6	10.4	8.5
Gross Profit, Adj	77.6	76.3	76.3	79.3	95.0	97.7	108.3
Margin %	33.3	33.2	32.5	31.8	35.3	35.5	36.3
EBITDA, Adj	29.1	30.0	33.2	38.9	51.9	53.8	59.3
Margin %	12.5	13.1	14.1	15.6	19.3	19.6	19.9
Net Income, Adj	18.0	18.6	20.6	23.8	32.9	36.8	44.6
Margin %	7.7	8.1	8.8	9.6	12.2	13.4	15.0
EPS, Adj	0.90	0.93	1.02	1.17	1.61	1.80	2.22
Growth %, YoY	4.7	3.0	10.3	14.4	50.0	53.4	23.4

MACRO Outlook:

There has been increasing numbers in both the pet industry as well as e-commerce, and it is projected that both numbers will continue to increase for the foreseeable future. The table to the right shows the number of U.S. households that own a pet and which kind of pet they own. Dogs and cats are the top two animals owned in households. Similarly, the table shown to the left, the total U.S pet industry expenditures have steadily increased throughout the years. This data includes food, supplies, over-the-counter medicine, veterinarian care, live animal purchases, and along with grooming and boarding. PetMed Express offers supplies, food, medicine, veterinarian care as well as grooming products for both dogs and cats, indicating there will be more of a demand for all of the products that PetMed Express has to offer. A factor that runs parallel to these numbers and which is crucial for this company, is the e-commerce projections. The graph below shows the revenue in millions of U.S. dollars from the years of 2016 and 2017 and then projects until 2022. These numbers show that there will be a big increase within the industry. Along with rising numbers in pets in the U.S. this will only make PetMed Express more desirable and profitable.

NUMBER OF U.S. HOUSEHOLDS THAT OWN A PET, BY TYPE OF ANIMAL
(millions)

Pet	Number
Dog	60.2
Cat	47.1
Freshwater fish	12.5
Bird	7.9
Small animal	6.7
Reptile	4.7
Horse	2.6
Saltwater fish	2.5

Source: American Pet Products Association's 2017-2018 National Pet Owners Survey.

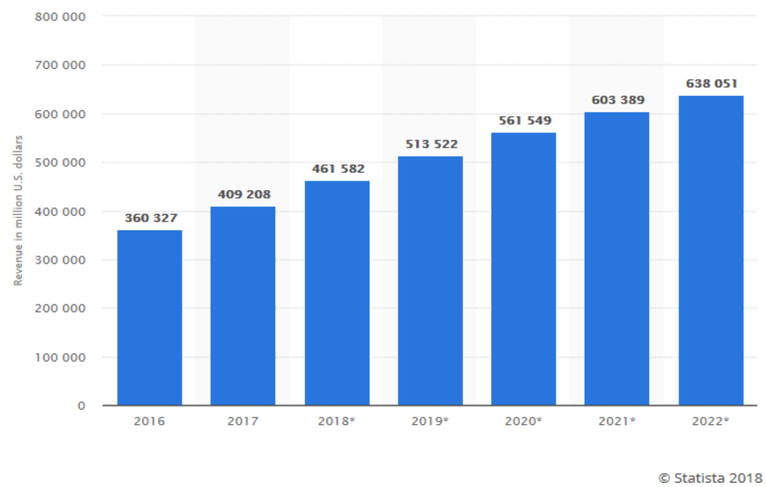
TOTAL U.S. PET INDUSTRY EXPENDITURES, 2007-2017 (1)
($ billions)

Year	Expenditure
2007	$41.2
2008	43.2
2009	45.5
2010	48.4
2011	51.0
2012	53.3
2013	55.7
2014	58.0
2015	60.3
2016	66.8
2017	69.4 (2)

(1) Includes food, supplies and over-the-counter medicine, veterinarian care, live animal purchases and grooming and boarding.
(2) Estimate.

Source: American Pet Products Association's 2017-2018 National Pet Owners Survey.

E-Commerce projected from 2016-2022



Ownership:

The PetMed Express ownership table is shown below. This table represents the amount of interest that each of the different types of shareholders have. This shows that 75.94% of the float is owned my investment advisors as well as 15.87% of the float is owner by hedge fund managers. Having investment advisors and hedge fund managers be interested in this company solidifies that they believe this company will generate above average returns. The table also represents the change in ownership interest within the last year. This shows that there has been an increase in interest for PetMed Express by hedge fund managers confirming that they have increased positive expectations for their financial performance.

Top Ownership Type (%)

54) Ownership Type	03/19/17	Curr	Change
41) Investment Advisor	77.45	75.94	-1.51
42) Hedge Fund Manager	12.25	15.87	+3.62
43) Pension Fund	2.49	3.35	+0.86
44) Individual	5.22	2.94	-2.28
45) Insurance Company	0.79	0.81	+0.02
46) Bank	0.64	0.41	-0.23
47) Brokerage	0.73	0.33	-0.40
48) Government	0.30	0.19	-0.11
49) Holding Company		0.06	

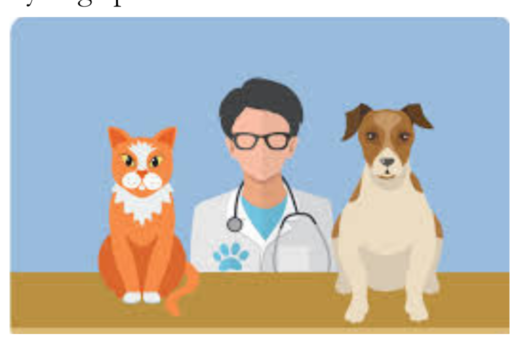
Growth Potential:

PetMed Express has continued to grow throughout the years, but grew most significantly within the last year. Approximately 2.3 million customers have purchased from them throughout the last two years. They obtained about 514,000 customers in 2017 meanwhile 489,000 customers in 2016 as well as the average order value increased from $81 to $86. They have increased their advertising costs from 3.2 million in 2016 to 4.1 million in 2017 because they want to stimulate new order sales. As stated before, they have increased their gross profit margins therefore it gives them more room to be able to increase their advertising costs. PetMed Express used to advertise using T.V commercials, but now they have shifted to primarily advertising online.

They make their brand name available to all internet users by having them appear in search engines such as Google, Bing, and Yahoo. They also include internet displays as well as videos on social media, comparison shopping, and other affiliated websites. As well as direct mail/E-mail, to acquire new customers and remind existing customers, but that is not as significant. They are going to continue to spend more money on advertising to continue to acquire more customers, which is their main goal. On the supply side of the company, they currently inventory their products and fill most customer orders from their headquarters. They have an in-house fulfillment and distribution operation with a variety of shipping methods for the customer. Their goal is to ship the same day the order is received. PetMed Express purchases their products from a variety of sources, such as certain manufacturers, wholesalers, and domestic distributors. They have very strong relationships with these manufacturers as well as always have availability of the product. According to their CEO, Mendo Akdag, within the next year or so they are looking to have direct relationships with the manufacturers so that the manufacturers would be able to ship the product directly to the customer's house. Another upside for this company is the new tax law put into place. As stated before, they operate only in U.S so they were a full 35% federal taxpayer. So after their fiscal year ends in March 31, 2018 they will apply for their full year of fiscal 2019 a 21% federal tax rate. Which turns out to be 24% for their blended effective tax rate. This would cut costs for the company tremendously. Along with cutting costs, seeing a shift in the products that are costlier will create growth for this company along with the shift in using e-commerce as a dominant way of customers obtaining their needs.

Competition:

Competition for PetMed Express consists of veterinarians and online and traditional retailers for pet medications. There is a risk factor that customers will choose to go to their veterinarians to have face-to-face contact with them in all circumstances. But PetMed Express have a very large product selection and availability with having all of the top leading brands meanwhile vets mainly only have a small selection. They are very reliable and timely while always offering personal discounts on all products. Their pricing is competitive with both traditional vets and other online retailers, as well as having quality website content. It is very easy for customers to use their website and mobile app. PetMed Express is a channel leader in an estimated 4.3-billion-dollar industry. It's brand recognition with being 1-800-PetMeds is very appealing to customers. It is a licensed pharmacy in all 50 states and awarded Veterinary Verified Internet Pharmacy Practice Site by National Association Boards of Pharmacy and all while having exceptional customer care and support.



Conclusion:

PetMed Express is a company that has a lot of growth potential. It has shown that it has grown over the years, but there is still much growth potential in this vast market. It is an online retailing company, which is a high growth segment. The company has enough cash on hand to invest in new opportunities. They are planning on using some of their assets in order to acquire new customers and increase their reorder sales. They have all leading brand name products with competitive prices as well as always offering discounts therefore making their company attractive to customers. They offer a wide variety of information to their customers and spectacular customer care service. They will increase their revenues by continuing to acquire many more customers as well as in the near future have direct relationships with their manufacturers to cut costs drastically for them. The macro data analysis indicates that this industry and this company will continue to generate above average returns. PetMed Express is a strong buy.

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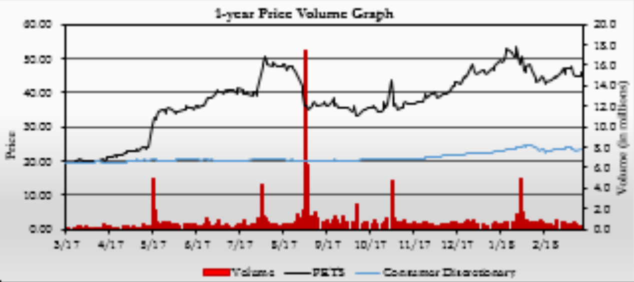
PetMed Express, Inc. (PETS) — **BULLISH**

Analysis by Al Capone	Current Price:	$47.37	Intrinsic Value	$50.78
3/22/2018	Divident Yield:	2.2%	Target Price	$59.04

Target 1 year Return: 26.79%
Probability of Price Increase: 100



Description

PetMed Express, Inc. and its subsidiaries, doing business as 1-800-PetMeds, operates as a pet pharmacy in the United States.

General Information

Sector	Consumer Discretionary
Industry	Internet and Direct Marketing Retail
Last Guidance	February 12, 2018
Next earnings date	April 30, 2018

Market Assumptions

Estimated Equity Risk Premium	5.08%
Effective Tax rate	21%

Market Data

Market Capitalization	$964.83
Daily volume (mil)	0.48
Shares outstanding (mil)	20.37
Diluted shares outstanding (mil)	20.43
% shares held by institutions	109%
% shares held by investments Managers	67%
% shares held by hedge funds	22%
% shares held by insiders	3.76%
Short interest	22.03%
Days to cover short interest	6.65
52 week high	$57.80
52-week low	$19.21
Volatility	33.43%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
12/31/2016	0.40%	4.97%
3/31/2017	10.76%	56.90%
6/30/2017	2.60%	62.87%
9/30/2017	2.75%	51.09%
12/31/2017	6.39%	61.61%
Mean	4.58%	47.49%
Standard error	1.0%	6.4%

Market and Credit Scores

Recommendation (STARS) Value--0
Recommendation (STARS) Description--0
Quality Ranking Value--B
Quality Ranking Description--Below Average
Short Score--4
Market Signal Probability of Default % (Non-Ratings)--0.185%
CreditModel Score (Non-Ratings)--N/A

Industry and Segment Information

LTM Revenues by Geographic Segme	LTM Revenues by Business Segments
United States--100%	Online Retailers--100%
--	--
--	--
--	--
--	--

Peers

--	Nutrisystem, Inc.
--	--
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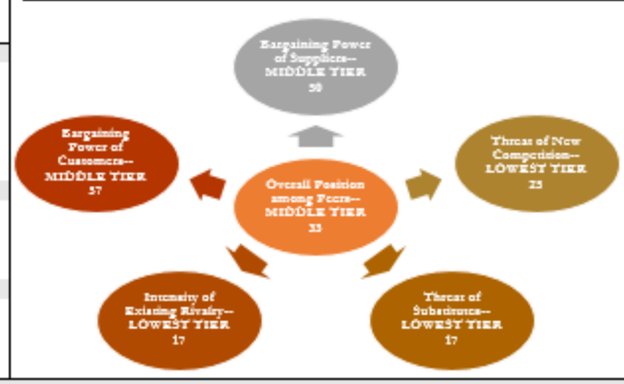
--	--

Management	Position	Total Compensations Growth	Stock Price Growth During Tenure
Akdag, Menderes	Chief Executive Officer, President & Director	3.56% per annum over 6y	2.64% per annum over 6y
Rosenbloom, Bruce	CFO, Principal Accounting Officer & Treasurer	5.81% per annum over 6y	2.64% per annum over 6y
Berger, Alison	Corporate Secretary & General Counsel		

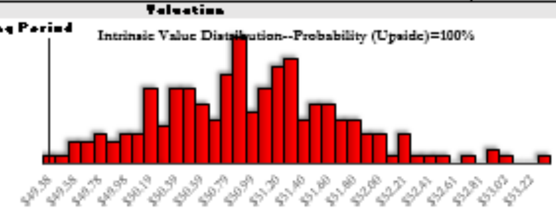
Porter's 5 forces (Scores are percentiles)

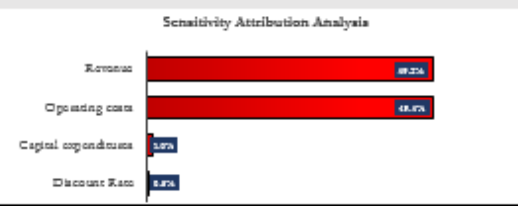


Profitability	PETS (LTM)	PETS Historical	Peers' Median (LTM)
Return on Capital (GAAP)	74.6%	37.69%	83.25%
Operating Margin	14%	9.14%	12.63%
Revenue/Capital (GAAP)	5.36	4.12	6.59
ROE (GAAP)	35.3%	32.1%	72.2%
Net margin	11.9%	10.2%	9.8%
Revenue/Book Value (GAAP)	2.97	3.15	7.37
Invested Funds	**PETS (LTM)**	**PETS Historical**	**Peers' Median (LTM)**
Cash/Capital	76.0%	42.9%	32.4%
NWC/Capital	-1.8%	25.7%	10.9%
Operating Assets/Capital	25.9%	31.4%	56.7%
Goodwill/Capital	0.0%	0.0%	0.0%
Capital Structure	**PETS (LTM)**	**PETS Historical**	**Peers' Median (LTM)**
Total Debt/Market Capitalization	0.02	0.04	0.06
Cost of Debt	3.9%	3.9%	4.9%
CGFS Rating (F-score, Z-score, and default Probabilit;	A		
WACC	9.0%	9.0%	9.0%

Valuation

Forecast Assumptions	Explicit Period (15 years)	Continuing Period
Revenue Growth CAGR	7%	2%
Average Operating Margin	19%	16%
Average Net Margin	15%	12%
Growth in Capital CAGR	14%	2%
Growth in Claims CAGR	-11%	2%
Average Return on Capital	21%	12%
Average Return on Equity	22%	12%
Average Cost of Capital	9%	9%
Average Cost of Equity Ke	9%	9%





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BJORKLUND FUND

March 23, 2018

Oasis Petroleum Inc: OAS

Keusseyan Nelson

Sector: Energy
Industry: Oil and gas
Current Price: $8.29
Target Price: $9.50

Oasis Petroleum Inc. operates as an oil and gas exploration company. The activities of the company is to explore, produce, acquire and supplies petroleum products. OAS is operating 100% in the United States.

BUY

Current Price:	$8.29
Target Price:	$9.50
Market Cap:	2.63B
EBITDAX margin:	53.74
Net Income Margin:	9.98
ROE:	3.85
ROIC:	4.41

Thesis: This report will explain why we should buy the stock of OAS because after analysis of the company, the stock OAS is undervalued. To support this position, the report will discuss how companies in the energy sector are affected by the prices of oil and gas, especially the company Oasis Petroleum Inc. This report will describe how the prices of oil and gas are linked to the profitability of the company, as well as how the forecast of the production of the company will impact the revenue in the future along with the future of oil prices.

Catalysts:

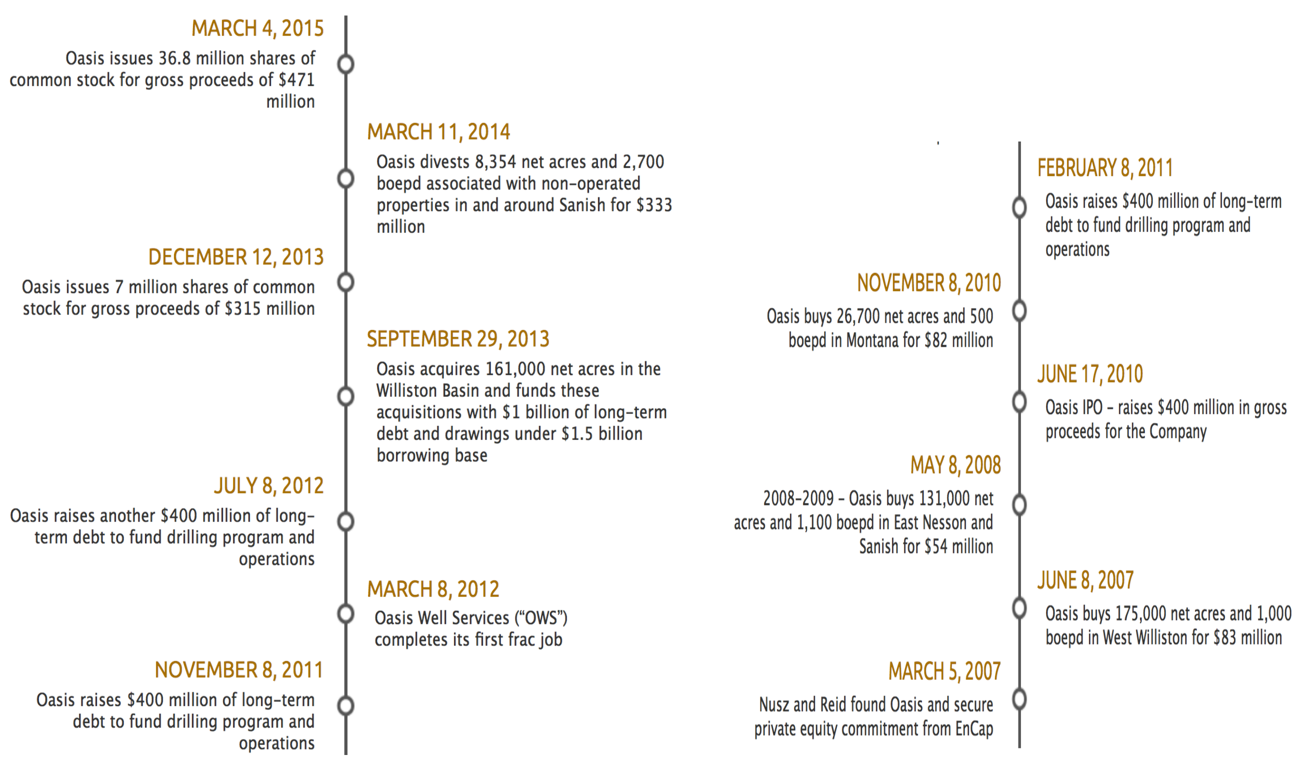
- Short Term (within the year): The company just released the annual report of 2017.
- Mid Term (1-2 years): Oil price is going to increase. Thus, the growth profit is going to increase dramatically.
- Long Term (3+): The company will expand its operation.

Business Description

Oasis Petroleum is an independent exploration and production company focused on the acquisition and development of unconventional oil and natural gas in the United States. The unconventional oil and gas refers to oil reserves that cannot be drill is a conventional way. The company is using a vertical drilling and not a horizontal drilling which is more common. Oasis Petroleum North America LLC (OPNA) conducts exploration and production of Oasis Petroleum and also OPNA owns proved and unproved oil and natural gas properties located in the North Dakota and Montana regions (Williston Basin).

Major developments in 2017

According to the 10-K, at the end of 2017, the company have accumulated 502,660 net leasehold acres in the Williston Basin, approximately 95% is held by production. Furthermore, during the last year, the company placed on production 88 gross operated wells in the Williston Basin. At the end of 2017, the company had 1,568 gross producing wells in the Bakken. The net proved reserves was estimated 312.2 MMboe at the end of 2017 (64% classified as proven). Furthermore, on February 14th, 2018 the company closed on an acquisition of 22,00 acres in the Delaware Basin.



Industry Outlook

Companies which are involved in the energy sector, especially in the production and acquisition of oil and gas have their cash flow, borrowing ability, the present value of their reserve and ability to develop future reserves which are depending with the oil and natural gas price. Indeed, oil and natural gas are commodities, thus, these commodities are highly volatile. It means, Energy company are very dependent on the price of oil and gas. Thus, the supply and demand changes because of actions of OPEC, the price and the quantity of imports of foreign oil and gas and many other factors. As shown by the chart below, the oil price at the beginning of 2015 was $53.45 and it collapsed to $34.73 at the end of the year. The drop off for the oil price during this period was a result of several factors. The price of the oil is determined by the supply and demand as it said before. Therefore, during this period the supply was much higher than the demand. The demand was low due to slowing global growth. Also, the American production increased thanks to unconventional hydrocarbon. Concerning the natural gas price in 2015 it followed the oil price for many reasons. First, the natural gas price is indexed by the oil price. This means if the oil price goes down the natural gas will go down and if the oil price goes up, the price of the natural gas will go up. However, oil price is not the only cause for the decrease of the natural gas. The natural gas price is linked by five other factors. First, the natural gas is driven by the outside temperature. Secondly, it is linked by electricity consumption. Thirdly, the price of natural gas is impacted by the supply. Fourthly, the natural gas follows the currency exchange rate of two currencies. Finally, the natural gas is driven by the global macro environment. As we can see from the chart, the natural gas went down in the same way as the oil price for the reasons listed below. So, in the past two years, the company saw a drop in its revenue especially due to the drops in the oil and natural gas prices.

The graphs of the oil and gas prices show how the oil and gas impacted Oasis Petroleum sector stock price.

As these graphs show, the company Oasis Petroleum is highly dependent of the oil and gas prices. Indeed, in 2015 and 2016 the stock price of the company saw a high decrease due to the drop off of the gas and oil prices. Moreover, companies in this sector, hedge their revenue thank to derivative. In fact, oil E&P companies are confined to two risks. The first risk is the price risk, and second risk is the volume of production. Thus, energy producers have to focus on these two risks when they have to choose a coverage strategy. The price risk can be covered by the derivative assets, while the volume risk can be covered by the weather derivatives. Thus, in the company segment, the derivative assets will be more developed.

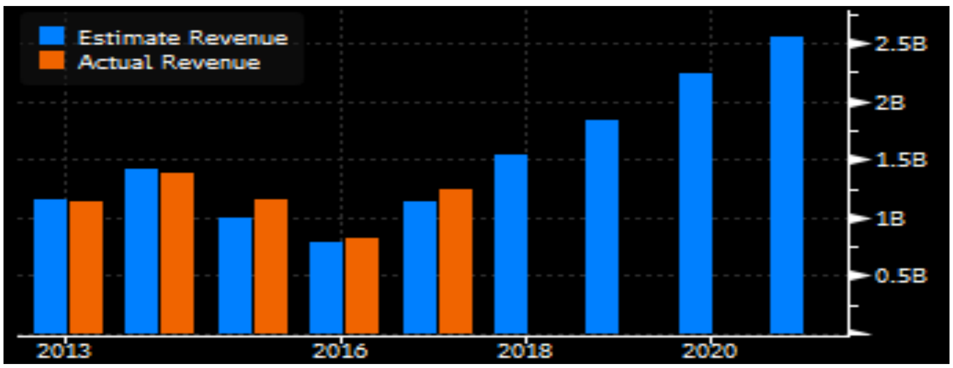
Segment:

In Millions of USD except Per Share	2014 Y		2015 Y		2016 Y		2017 Y	
12 Months Ending	12/31/2014		12/31/2015		12/31/2016		12/31/2017	
Revenue	1,397.0	100.0%	1,160.1	100.0%	826.6	100.0%	1,240.2	100.0%
Exploration and Production	1,304.0	93.3%	721.7	62.2%	635.5	76.9%	1,122.9	90.5%
Midstream Services	11.6	0.8%	23.8	2.0%	35.4	4.3%	72.8	5.9%
Well Services	74.6	5.3%	44.3	3.8%	33.8	4.1%	52.8	4.3%
Eliminations	–		0.0		0.0		0.0	
Derivative Settlements	6.8	0.5%	370.4	31.9%	122.0	14.8%	-8.3	-0.7%

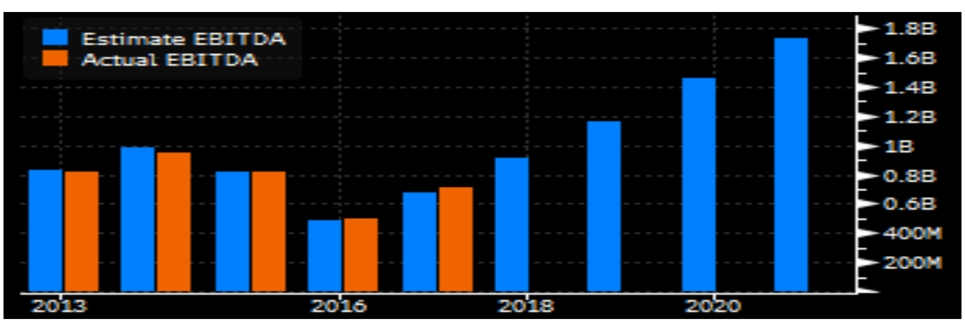
The activities of the company are divided by four segments. The biggest activities of the company is the exploration and production of oil and gas. The percentage of revenue for this activity is 93.3%. This percentage is divided by two main activities. The oil exploration and production represent 88% of this segment and the gas production and exploration is 5.2%. The second bigger segment for the company is the Midstream Services. Midstream service sector involves the transportation by pipeline, barge, oil tanker or truck. It represents 5.9% of the revenue. Thirdly, the well services represent 4.3%. The well service is operating through Oasis Well Services LLC (OWS). The main activity for this segment is to drill oil and gas. Finally, as the chart show, there is a Derivative Settlement which is represents, for 2017, -0.7%. Derivative settlement is a way for a company dealing which commodities to hedge their revenue using forward and futures. For 2015 the company earned 370.4 million thank to derivative. This amount was specially based to the drop off of the oil and gas prices during 2015.

Earning Performance

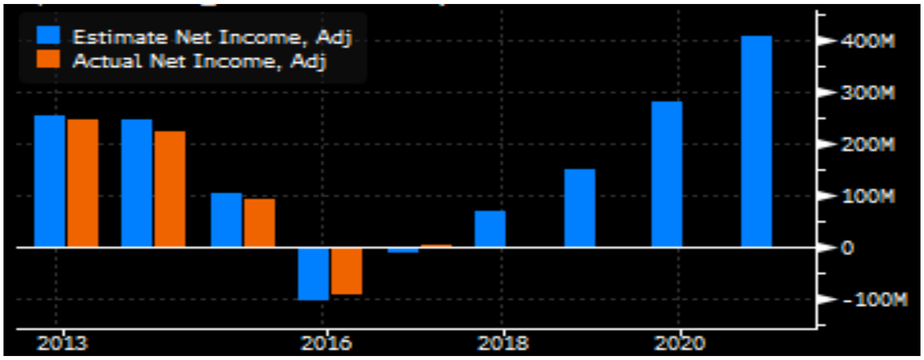
As the chart shows, the revenue of the company during the 5 past years was very close to the estimate revenue. Furthermore, the revenue of the company increased from 2013 to 2014 by 23.2%. However, in 2015 and 2016 the company saw a decrease in its revenue. The decrease in its revenue represents 17% for 2015 and 28.7% for 2016. This decrease was due mainly to the decrease of the oil and gas prices. These decreases in the oil and gas prices engendered in 2015 and 2016 loses in Abnormal Derivatives. Indeed, during 2015 and 2016 the price of oil and gas saw a decrease. The oil and natural gas decreased by 35.02%. In fact, thanks to the oil and gas price took from Bloomber.com we can notice, there is a direct link between the revenue and the oil and gas prices. According to the estimate revenue for the next 3 years, the revenue will increase thanks to the increase of oil and natural gas prices.



As the revenue, the EBITDA of the company decrease in 2015 and 2016 due to the collapse of the oil and gas prices. In 2015 the EBITDA decreased by 16.85% and in 2016 compared to the 2015 it decreased by 67.18% to reach $473.5 million. This decrease can be explained because of their position with derivative that were impacting than 2015. The average price with derivative settlement for the oil was $46.68 while in 2015 it was $66.06. The graph shows a positive increase for the next 3 years concerning the Net income of the company. It means, forecast concerning the oil and gas prices will increase.



The Net Income of Oasis Petroleum saw huge decrease in 2015 by 56% due to the drop off of the oil and natural gas prices. Furthermore, due to the same reason in 2016 the company had a negative Net Income ($-100 million) and in 2017 even if their production increased by 31.31% the net income was negative too (-2.5). It important to know that in 2015 the company secured their Net income thanks to their position with derivative settlement. Because the price of the oil for the company without Derivative settlement was $43.04 while the prices with derivatives settlements was $66.06. As the chart shows, the forecast concerning their revenue will increase to reach in 2021 $400 million. It also shows a positive forecast for the oil and gas prices.

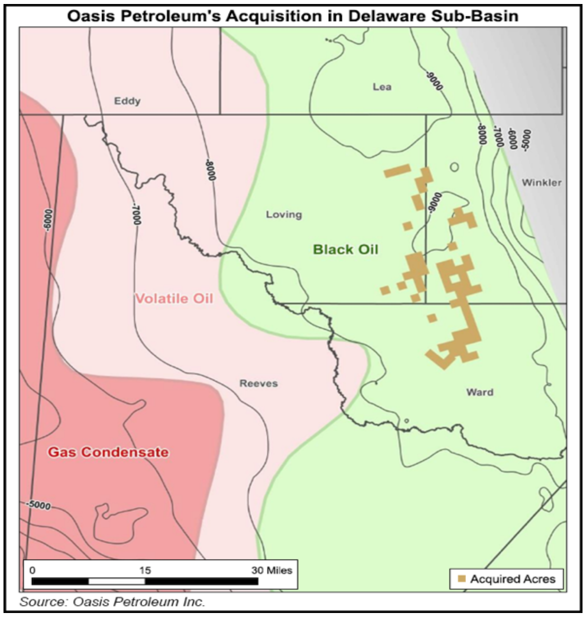


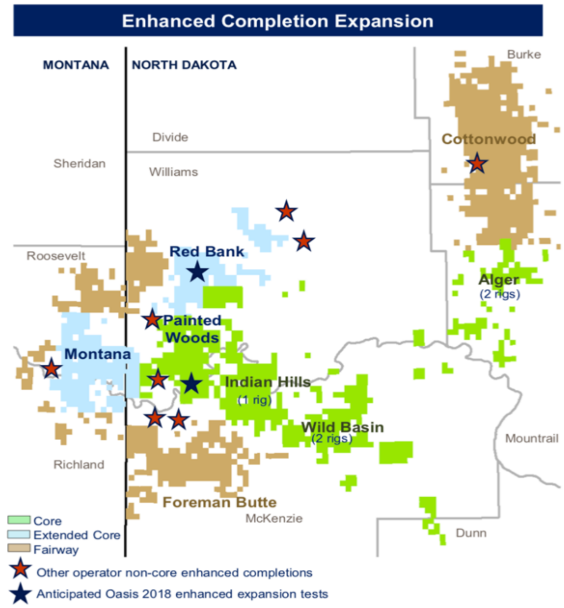
The difference between estimate and actual EBITDA can be attributed to the prices of the oil and gas because of the importance of the oil and gas prices this paper will focus and the oil price and indirectly to the gas price.

Potential Business Growth

For the future, the company has many projects which they will help the company to growth. Firstly, according to the 10-K, the company develops efficiently their Williston Basin leasehold positions. Indeed, the OAS is developing its acreage position to maximize the value of its resource potential. In the same the company wants to preserve its flexibility about future surprise of the oil and gas prices. The capital plan for 2018 is 110 gross operated wells in the Williston Basin and between six to eight in the Delaware Basin. Secondly, the management team is focused on continuous improvement of their operating cost-efficient. It means, OAS has the ability to drill their multiple wells from a single drilling pad. The operating cost is willing to decrease for the next few years. Furthermore, thanks to the Permian Basin acquisition, the company is able to transfer their technical, operational and managerial skills from the Williston Basin and Delaware Basin. Thirdly, because of their advanced technology, OAS will increase their production performance compared to the past year. It will allow the company to increase its return on invested capital. Finally, the company will pursue its strategic acquisitions with significant resources potential. As February 14, 2018 the closed the acquisition of the Permian Basin Acquisition, and OAS acquired more additional acreage in the Williston Basin and Delaware Basin.

For 2018, OAS will spend, according to the last announce for the last quarter of 2017, the company is going to approximately $ 850 million for capital expenditure. For the Williston Basin it will allocate $750 million and for the Delaware Basin $ 100 million.



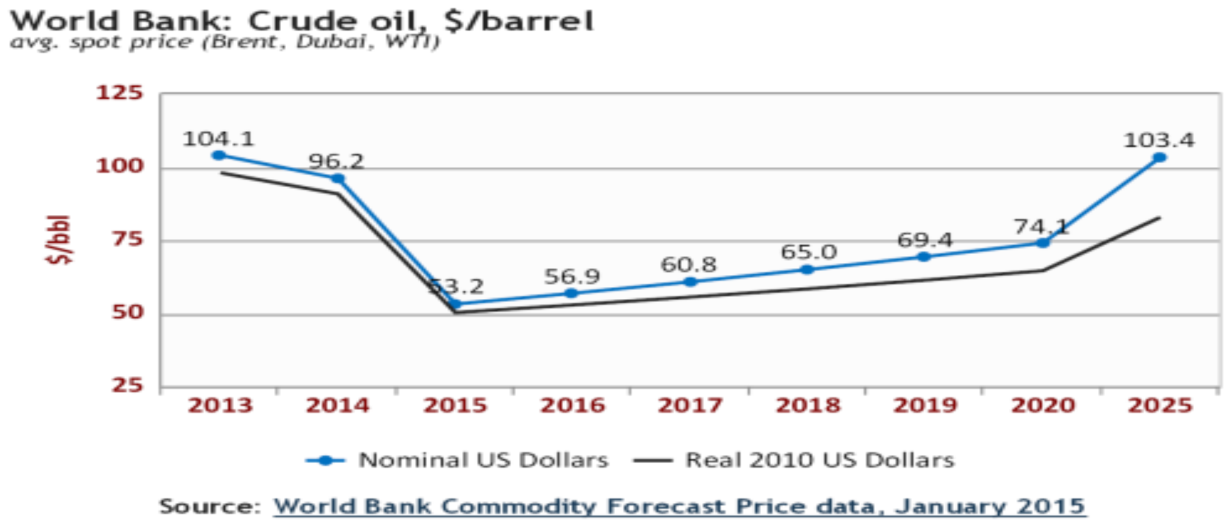


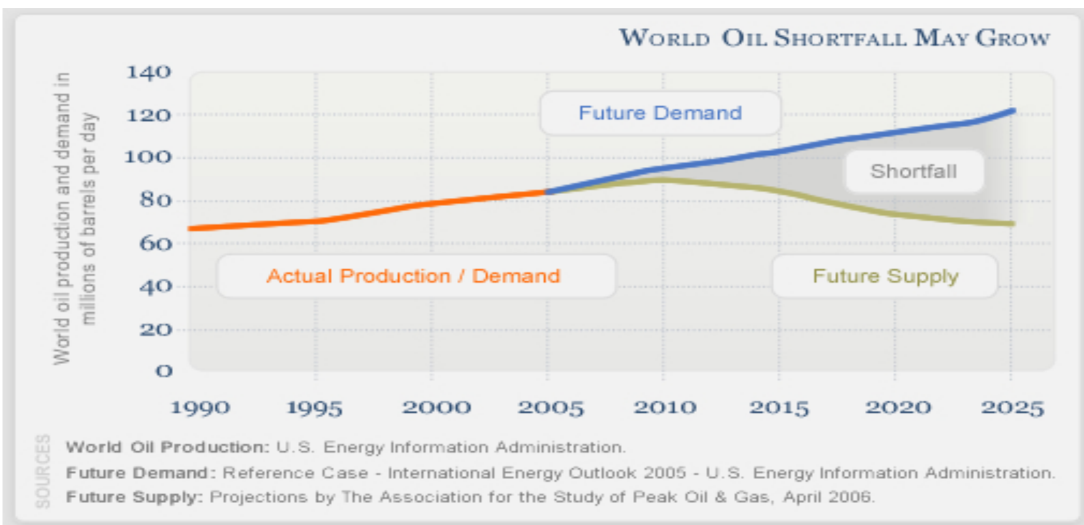
Profitability:

To compute a forecast of the revenue of Oasis Petroleum, the forecast oil price has to be taken into consideration. According to the 10-K and my own calculations:

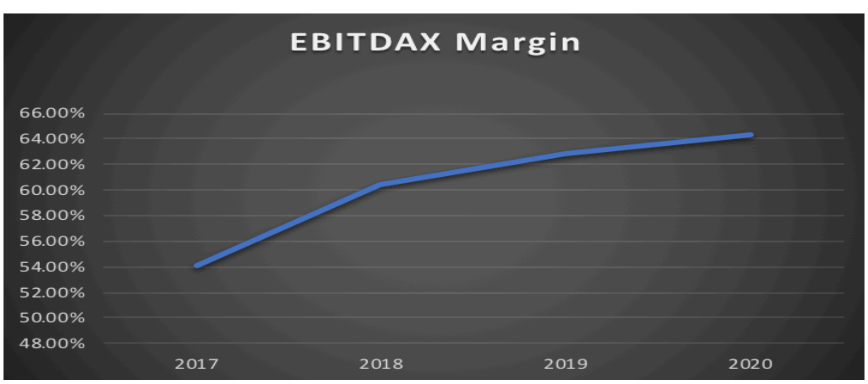
Total volume production in M	2017	2018	2019	2020
Crude oil	18,818	21,818.00	25,045.35	28,750.10
Natural Gas	31,946	34,578	37,316	40,270
Average Realized prices	2017	2018	2019	2020
Crude oil Price	48.52	65	69.4	74
Natural Gas	2.81	3.00	3.20	3.42
Total revenues in M (whitout Purchased oil and gas sales and mistream service revenue)	1,002,818	1,521,900	1,857,654	2,265,190

This chart from the World Bank provides the forecast for the oil price for the next three years, and we will assume that the production for the next three years will increase by 15%. I only changed the production of the oil and the production of the gas because they are the main activities of the company. Furthermore, the forecast for the natural gas was computed as follows: ln (3.5/5) with 3.5 for the price of the natural gas in July 2015 and 3 the natural gas price for July, 2016.





According to the chart, the demand of the oil will increase faster than the supply, so logically, the price of the oil will increase. It is going to be beneficial for OAS. Moreover, the operating cost of the company will decrease in the next few years. Thus, the profitability of Oasis Petroleum will increase.



Competitive Strengths

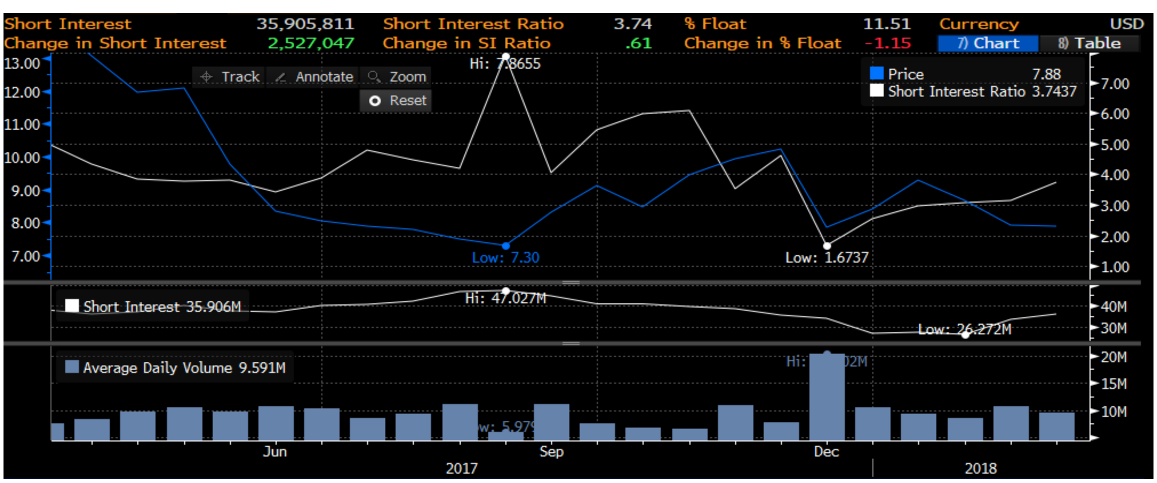
Even if there are many risk in this sector as it said earlier in this paper, the company has many competitive strengths. According to the 10-K, the company has a substantial leasehold position in North America's, a management team with high skill in operating and acquisition and the company has a control of their operating for the majority of their portfolio.

Their aggressive development in the Williston Basin allow the company to have a huge potential growth compared to their competitors.

Ownerships:

Ownership Type	02/25/18	Curr	Change
11) Investment Advisor	61.41	61.49	+0.08
12) Hedge Fund Manager	19.47	19.36	-0.11
13) Private Equity	12.52	12.45	-0.07
14) Pension Fund	2.69	2.69	0.00
15) Individual	1.49	1.54	+0.05
16) Bank	0.79	0.79	0.00
17) Sovereign Wealth Fund	0.53	0.62	+0.09
18) Insurance Company	0.56	0.55	-0.01
19) Brokerage	0.35	0.33	-0.02
20) Government	0.13	0.13	0.00
21) Foundation	0.05	0.05	0.00

As the chart shows us, 61.49% is owned by Investment Advisor and 19.36% by Hedge Fund Manager. In less than one month, the percentage owned by Hedge Fund decreased by 0.11%. It means that Hedge Fund Manager has not an interest in buying the stock because they mitigate in this stock and in the company growth. However, the short interest ratio (SIR) of OAS is 11.51%, which shows that investors are bullish concerning this stock. Furthermore, the short Interest Ratio is 3.74 which is a good sign for the thought of investors about the company.



Conclusion:

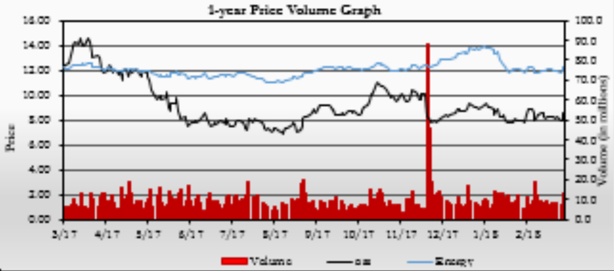
Oasis Petroleum is a company in the energy company specialized in the oil and gas production. As the paper demonstrated, the company is very sensitive to the price of the oil and gas. In 2015 and 2016, the revenue and the EBITDAX of the company decreased because of the drop off of the oil and gas prices. However, the forecasts of the production for the company and the forecast of the oil and gas prices should increase the revenue of OAS and the profitability should increase too in a mid-term range. As the write-up showed the stock of OAS will increase thanks to the rise of the oil and gas prices in few years even if the short interest is increasing since a year from now.

Oasis Petroleum Inc. (oas)

CENTER FOR GLOBAL FINANCIAL STUDIES

NEUTRAL

Analysis by Al Capone	Current Price:	$8.29	Intrinsic Value	$8.32	Target 1 year Return: 14.6%
3/23/2018	Divident Yield:	0.0%	Target Price	$9.50	Probability of Price Increase: 68%



Description

Oasis Petroleum Inc., an independent exploration and production company, focuses on the acquisition and development of onshore unconventional oil and natural gas resources in the North Dakota and Montana regions of the Williston Basin, and Permian Basin.

General Information

Sector	Energy
Industry	Oil, Gas and Consumable Fuels
Last Guidance	February 12, 2018
Next earnings date	May 7, 2018

Market Assumptions

Estimated Equity Risk Premium	5.00%
Effective Tax rate	21%

Market Data

Market Capitalization	$2,630.94
Daily volume (mil)	10.28
Shares outstanding (mil)	317.36
Diluted shares outstanding (mil)	237.88
% shares held by institutions	109%
% shares held by investments Managers	47%
% shares held by hedge funds	21%
% shares held by insiders	1.48%
Short interest	11.31%
Days to cover short interest	3.92
52 week high	$15.27
52-week low	$6.69
Volatility	62.61%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
12/31/2016	-3.00%	-34.98%
3/31/2017	4.05%	65.70%
6/30/2017	-7.34%	47.32%
9/30/2017	7.16%	-27.41%
12/31/2017	13.31%	-32.81%
Mean	2.84%	3.56%
Standard error	1.0%	4.8%

Market and Credit Scores

Recommendation (STARS) Value--0
Recommendation (STARS) Description--0
Quality Ranking Value--NR
Quality Ranking Description--Not Ranked
Short Score--1
Market Signal Probability of Default % (Non-Ratings)--3.229%
CreditModel Score (Non-Ratings)--bb

Industry and Segment Information

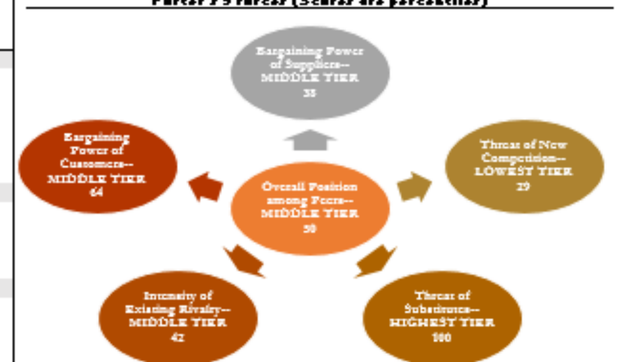
LTM Revenues by Geographic Segments	LTM Revenues by Business Segments
United States--100%	Exploration and Production--90%
--	Midstream Services--15%
--	Well Services--12%
--	Eliminations---17%
--	--

Peers

Whiting Petroleum Corporation	SM Energy Company
Diamondback Energy, Inc.	RSP Permian, Inc.
Parsley Energy, Inc.	WPX Energy, Inc.
Gulfport Energy Corporation	Denbury Resources Inc.
Energen Corporation	Newfield Exploration Company

Management	Position	Total Compensation Growth	Stock Price Growth During Tenure
Nusz, Thomas	Chairman and Chief Executive Officer	41.99% per annum over 5y	1.94% per annum over 5y
Reid, Taylor	President, Chief Operating Officer and Directo	30.53% per annum over 5y	1.94% per annum over 5y
Lou, Michael	Chief Financial Officer and Executive Vice Pres	20.09% per annum over 5y	1.94% per annum over 5y
Lorentzatos, Nickolas	Executive Vice President, General Counsel and	-5.32% per annum over 4y	0.69% per annum over 4y
Krall, Lara	Vice President of Accounting and Controller		
Hills, Greg	Senior Vice President of Marketing & Midstrea		

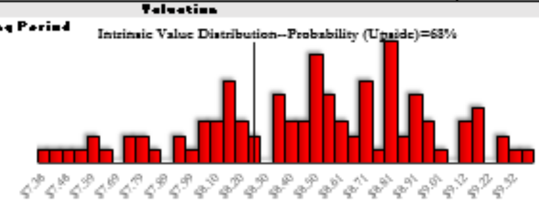
Porter's 5 forces (Scores are percentiles)

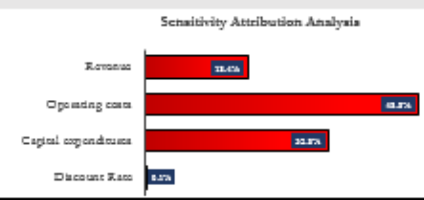


Profitability	ear (LTM)	ear Historical	Peers' Median (LTM)
Return on Capital (GAAP)	0.7%	8.02%	5.16%
Operating Margin	4%	15.20%	55.40%
Revenue/Capital (GAAP)	0.18	0.53	0.09
ROE (GAAP)	3.3%	26.0%	14.9%
Net margin	8.4%	22.9%	21.5%
Revenue/Book Value (GAAP)	0.40	1.13	0.69
Invested Funds	**ear (LTM)**	**ear Historical**	**Peers' Median (LTM)**
Cash/Capital	0.3%	8.2%	4.1%
NWC/Capital	-1.5%	-3.5%	-2.4%
Operating Assets/Capital	101.2%	95.3%	98.3%
Goodwill/Capital	0.0%	0.0%	0.0%
Capital Structure	**ear (LTM)**	**ear Historical**	**Peers' Median (LTM)**
Total Debt/Market Capitalization	0.38	0.57	0.44
Cost of Debt	7.3%	6.8%	107.0%
CGFS Rating (F-score, Z-score, and default Probabilit	BB		
WACC	9.2%	9.0%	93.2%

Valuation

Forecast Assumptions	Explicit Period (6 years)	Continuing Period
Revenue Growth CAGR	10%	2%
Average Operating Margin	51%	48%
Average Net Margin	12%	17%
Growth in Capital CAGR	4%	2%
Growth in Claims CAGR	0%	2%
Average Return on Capital	6%	9%
Average Return on Equity	7%	9%
Average Cost of Capital	10%	11%
Average Cost of Equity Ke	12%	12%





SIENA college

BJORKLUND FUND

March 22rd 2018,

Ferrari: (RACE)

George Brockmann

Sector: Consumer Discretionary
Industry: Auto Manufacturers-Major/Super-Luxury Cars
Current Price: $120.42
Target Price: $145.08

Company Description: Owned by Fiat Chrysler Automotive, Ferrari is among the world's leading luxury brands focused on the design, engineering, production and sale some of the world's most recognizable luxury performance sports cars. The brand associates itself with exclusivity, innovation, state-of-the-art sporting performance, Italian design and engineering heritage. Ferrari designs, engineers and produces their cars in Maranello, Italy, and sells them in over 60 markets worldwide through a network of 164 authorized dealers operating 185 points of sale.

BUY

Current Price: $120.42
Target Price: $145.08
Market Cap: 22B
Beta: 1.0
Avg. Volume: 432,000
S&P Debt Rating: bbb
ROE: 96.36%
Ke: 8.92%
EBITDA Margin: 30.32%
ROIC: 23.89%
WACC: 8.428%

Thesis:

Ferrari (RACE) is one of the premier auto-manufacturers in the world currently. The super-luxury car industry has been consistently increasing over the past number of years in growth, along with this Ferrari has seen high levels of margin growth and revenue growth as well. This has been managed through a mixture of their high quality of product and the power of their brand itself. The opportunity for high levels of growth comes from the fact that Ferrari has seen this financial success without branching out into new car segments, it was achieved by continually innovating in their established product lines. Currently the industry is pushing towards luxury, SUV, and EV segments, Ferrari has only just begun to put their focus on the luxury segment recently. The growth will come from applying their ability to innovate with these new product segments to create large increases in revenue and sales. The Monte Carlo simulation has shown that they have a greater upside than downside due to this projected increase in revenue. Based on this Analysis Ferrari appears to be in a strong position to succeed financially over the next year.

Catalysts:

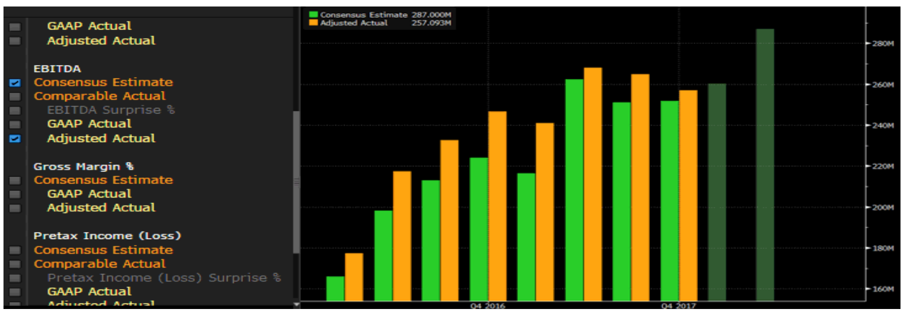
- **Short Term(within the year):**
  Introduction of new products to further market share in the luxury segment of the industry.
- **Mid Term(1-2 years):**
  Unveiling of company's first SUV, and subsequent entrance into the SUV segment of this industry which competitors have shown to be highly profitable.
  Further development of hybrid systems and further inclusion of them down the product line (currently only found on flagship model).
- **Long Term(3+):**
  Unveiling of company first EV, subsequent entrance into the EV segment of the industry which is currently in its early phases.
  Unveiling of new flagship model, previous flagship models have been the face of the brand and generate a large amount of publicity and interest in Ferrari, along with revenue growth.
  Formula 1 contract runs out, Ferrari's continuation in the sport will be reevaluated.

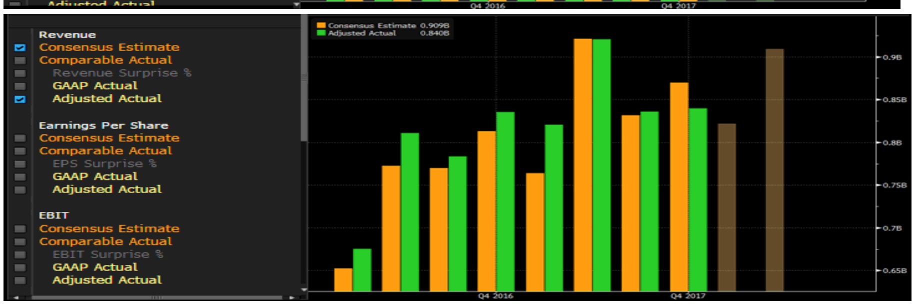
Earnings Performance:

Deleted:

RACE ended their fiscal year on 12/31/2017, they began 2018 with the strongest performance they have seen to date, with improvements in almost all of their margins and numbers. Adj. Revenue grew by 10% to 3416.9M, Adj. Gross Profit was 1766.0M with the margin being 51.7%. Adj. EBITDA hit 1031.0M with EBITDA Margin increasing to 30.2%, Adj. Net Income hit 531.8M from 419.8 last year and Adj. EPS grew by 26.1% to 28%. Shipments of cars has increased by 4.8% compared to the previous year, their V12 model shipments grew by 25% while V8 model shipments were in line with the previous year. RACE cut Net industrial Debt by 27.5%, decreased Short Term Borrowings from 399.9M to 306M, and increased their Long Term Borrowings by 3.5% to 1500.2M. Capital Expenditures increased by 7% since last year and are expected to increase substantially into 2018 as RACE ramps up production volume levels and branches into new product segments.

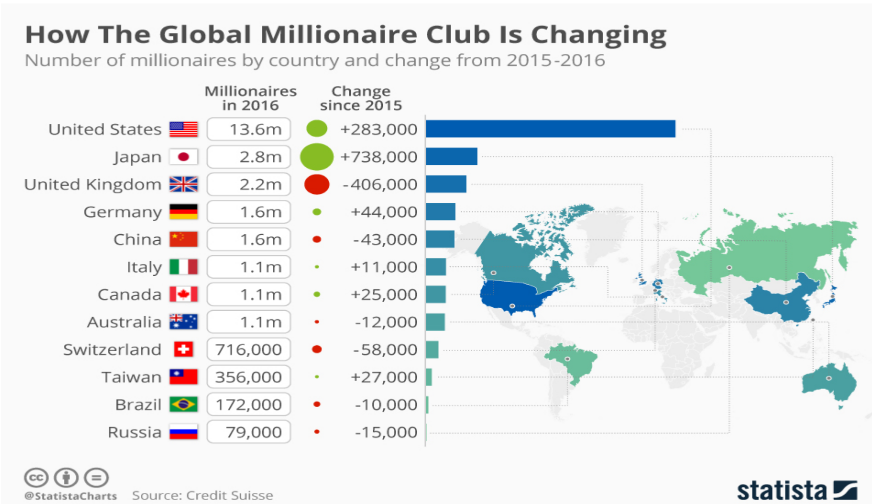
EBITDA, Gross Profit, and Net Income margins are all projected to continue to increase into 2018 and 2019 as the product mix of RACE expands. The price of RACE stock has also seen a high percentage of growth in the past year increasing from its 52 week low of $68 in March 2017 to its 52 week high of $130 in February of this year before dropping to around $120 where it is right now. The increases RACE has seen in stock price is mostly due to the strong sales and earnings performance they have seen over the past year, reporting earnings per share surprises in each of their reports.



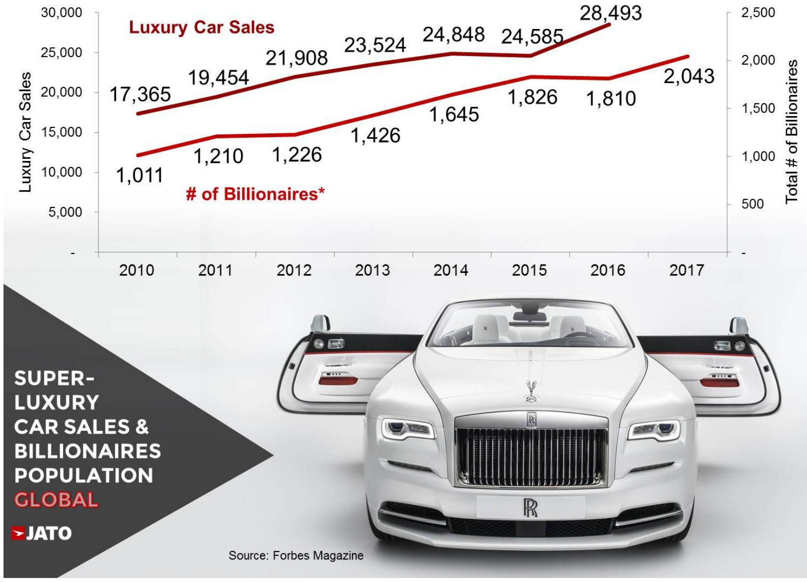


Industry Outlook:

RACE finds itself in a niche market of the super luxury cars industry. This industry is not correlated to many macro effects due to the high price point of the products and the financial status of those with the ability to purchase them. What drives the majority of growth in this industry is the wealthy's desire for status and to have products that are on the cutting edge of technology and design. As a result of this, the industry is directly correlated with the number of people who are able to afford the products offered, the majority of which are millionaires and billionaires. The Credit Suisse Research Institute's Global Wealth Report found that the growth level of new millionaires has been increasing over the past few years. Although the number specifically in each country varies depending on the way wealth is measured, the consensus is there is consistent growth in the number of wealthy individuals in the world. According to the World Wealth Report the increase in the number of millionaires from 2014-2015 was 7%, and the number from 2016 to 2017 was over 8%.



This also obviously proves true for billionaires, who amounts of have likewise been increasing. Not all millionaires have enough disposable income to afford many of the products offered in this industry, so billionaires make up a large portion of who purchases the vehicles, mainly the top tier limited models offered by the brands.



Many of the trends within this industry are also evolving, with hybrid and electric technology making regular advancements, many brands within this industry are putting an increased emphasis on having the highest level of this technology in their products. This is driving demand for these high-tech products up with the wealthy as they can own current peak of cutting edge technology. There's is also a quickly growing market for super luxury SUVs, and it attracts many of those who are wealthy enough to afford products in this industry but do not have the desire to drive a high performance sports car. It comes from a desire to obtain the status of the brands in the industry, but it also maintains the practicality and usability that is lost on high performance cars. SUVs represent a large opportunity for these brands as they sell high numbers, attract first time buyers along with introducing new clients to the brand. A significant portion of demand in the industry is also driven by new product launches themselves. The market share of individual producers fluctuates over time reflecting the timing of product launches. New launches tend to drive sales volumes even in difficult market environments because the novelty, exclusivity and excitement of a new product is capable of creating and capturing its own demand from clients.

Business Model:

RACE, through with its subsidiaries, designs, engineers, produces, and sells luxury performance sports cars. The company offers sports cars, GT cars, special series cars, limited edition supercars, limited editions series, and one-off cars; and open air roadsters and two-seater mid-rear-engined roadsters. It also provides non-registered racing cars; and parts, as well as after sales, repair, maintenance, and restoration services for cars. In addition, the company licenses its Ferrari brand to various producers and retailers of luxury and lifestyle goods; and Ferrari World, a theme park in Abu Dhabi, the United Arab Emirates. Additionally, the company provides direct or indirect finance and leasing services to retail clients and dealers; and manages race tracks, as well as owns and manages two museums in Maranello and Modena, Italy. As of December 31, 2017, it had a total of 48 retail Ferrari stores, including 30 franchised stores and 18 owned stores. The company also sells its products through a network of 164 authorized dealers operating 185 points of sale worldwide, as well as through its Website, store.ferrari.com.

One of RACE's key business models is to sell fewer cars than the market demands to likewise keep prices high, keep demand high, and keep the exclusivity of the brand, they do this through a balance of product innovation, high levels of manufacturing quality, and strategic product distribution. They operate with a large waitlist for customers, at times taking up to two years to get the ordered car, however with recent increases in production the waitlist time is down to around a year depending on the model.

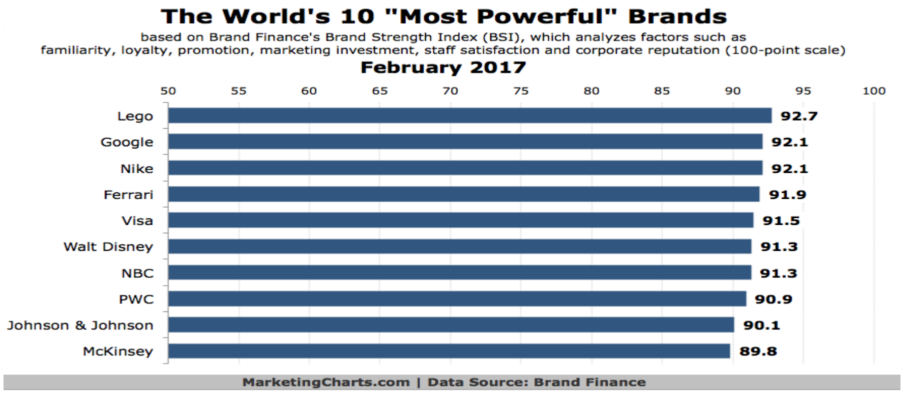
Segment Analysis:

RACE has 4 reportable segments; Cars and Spare Parts which is 71.9% of their revenue, Sponsorship, Commercial, and Brand, which makes up 14.5%, Engines sales which make up 10.9%, and Other which is 2.7% of revenue. They are an international company making 38.3% of their revenue in the EMEA (Europe, Middle East, Africa) Countries, 27.0% of their revenue in the Americas, 16.5% to Italy, 10% to the Asia-Pacific Region, and 8.3% in the Greater China region.

The Cars and Spare Parts segment is by far the most profitable of RACE's segments and is what the brand itself is known for. In the 2017 year, 3 new cars were launched; Ferrari's step into the luxury segment with the Ferrari Portofino, the supercar the Ferrari 812 Superfast, and the track only hypercar the LaFerrari Fxx K Evo, which is an extremely expensive, exclusive, and high performance version of their flagship model The LaFerrari. 2018 recently had Ferrari's first new product announcement, the 488 Pista, a special series car. All of these new offerings have resulted in a continually strengthening waitlist. Including these new offerings RACE currently has 10 models available for purchase, 3 are GT cars, 3 are sports cars, 3 special series cars, and 1 limited edition hypercar. Their sales volume has supported the majority of the margin growth that they have seeing over the past year with sales increasing from 8014 cars to 8398 cars in 2017. This coincides with revenue increasing 3105.1M to 3416.9M in the past year. This segment continues to be highly profitable and should continue to become even more so in the future as Ferrari expands into other geographic locations and new product segments.

The Sponsorship, Commercial, and Brand segment does not bring in as much profit for RACE but it is integral to the company as it helps the power of the brand itself which drives sales in the Cars and Spare Parts Segment. The basis of this segment is the success of the Ferrari racing teams, in particular the success of their Formula 1 team. Through success on the largest stage in racing RACE is able to make their brand synonymous with elite levels of competition and excellence, success in Formula 1 relates to very high levels of brand recognition and increases the power of the logo. The success determines the level of sponsorships RACE can attain on their cars as well. The racing team is a key component of their marketing strategy and can be perceived by their clients as a demonstration of the technological capabilities of RACE's Sports and GT cars which also supports the appeal of other Ferrari-branded luxury goods. These other luxury goods make up the Commercial and Brand portion of this segment. RACE has put a large amount of marketing effort into making the Ferrari logo coincide with a certain wealthy lifestyle. As a result you will find the logo on different types of high premium products, from watches worth thousands of dollars to clothes worth just as much. The success of the racing team and their racing pedigree is what makes the general public associate

Ferrari with greatness, and through this it allows them to put their logo on so many high end products and associate the brand with an affluent lifestyle. In 2017 Forbes ranked the Ferrari brand as the 4th most powerful in the world, they have been steadily increasing in rank since 2015 where they were ranked 9th and subsequently dropped out of the list in 2016. This segment's revenue increased from 488.5M to 494.1M in the last year.



The Engine Segment is directly related to RACE's sister company Maserati, as RACE produces all the engines that are used in Maserati's vehicles. Maserati has seen success and growth in sales in the past years and this reflects in the growth and profit of the Engine Segment. Maserati has seen continued success and growth over the past years with the engines of their cars being sourced from Ferrari. RACE also received the "International Engine of the Year" award for the 2nd year in a row. This segment makes up 10.9% of company revenue and increased from 337.9M to 373.3M in the past year.

The Other Segment has revenues that primarily include interest income generated by financial service activities and net revenues from the management of the Mugello racetrack. It decreased from 98.6M to 93.5M, making up 2.7% of company revenues in 2017.

In Millions of EUR except Per Share	2014 Y		2015 Y		2016 Y		2017 Y	
12 Months Ending	12/31/2014		12/31/2015		12/31/2016		12/31/2017	
Revenue	2,762.4	100.0%	2,854.4	100.0%	3,105.1	100.0%	3,416.9	100.0%
Cars and Spare Parts	1,943.7	70.4%	2,080.2	72.9%	2,180.0	70.2%	2,456.0	71.9%
Sponsorship, Commercial, & Bra...	416.7	15.1%	441.1	15.5%	488.5	15.7%	494.1	14.5%
Engines	311.2	11.3%	218.7	7.7%	337.9	10.9%	373.3	10.9%
Other	90.8	3.3%	114.4	4.0%	98.6	3.2%	93.5	2.7%
Vehicles Sold - Worldwide	7,255	100.0%	7,664	100.0%	8,014	100.0%	8,398	100.0%
Vehicles Sold	7,255	100.0%	7,664	100.0%	8,014	100.0%	8,398	100.0%

Management/Ownership:

RACE is primarily owned by investment advisors with 43.95% of ownership, then Corporations with 29.52%, Individual with 13.54%, and Hedge funds with 3.28%. Hedge fund ownership has fallen by 0.14% in the past year and Investment Advisor ownership has fallen by 2.59%. The majority holder of RACE is EXOR N.V., an Italian investment company, with 23.52% of shares outstanding. Then is Piero Ferrari, the only living son of Ferrari founder Enzo Ferrari, with 10% of shares. Next is Blackrock investments with 3.59% of shares. RACE has 67.7% of shares freely floated. As RACE has come down from their 52 week high, the short interest days to cover has increased from 3.04 at the 52 week high to 7.5. The high was at the end of December directly before a positive RACE earnings report with days to cover of 11.5. The low came at the end of July with days to cover of 2.5.

Top Ownership Type (%)			
54) Ownership Type	03/12/17	Curr	Change
41) Investment Advisor	46.54	43.95	-2.59
42) Corporation	30.05	29.52	-0.53
43) Individual	13.77	13.54	-0.23
44) Other	0.01	3.43	+3.42
45) Hedge Fund Manager	3.42	3.28	-0.14
46) Bank	2.00	1.71	-0.29
47) Brokerage	0.24	1.35	+1.11
48) Government	1.39	1.26	-0.13
49) Sovereign Wealth Fund	1.70	1.21	-0.49

Chairman and CEO Sergio Marchionne was appointed in 2016 and although controversial at first within the car community amidst worry over diluting the brand due to his desire to increase production volume, he has brought the company continued financial success since his appointment. Marchionne is also the CEO of Fiat Chrysler Automobiles (FCA), who are the 7th largest automobile manufacturer in the world, although he plans to step down in 2019 and fully commit to Ferrari. He was previously CEO of Fiat before their acquisition of Chrysler and is widely recognized for turning the company around. Ferrari does not have information regarding executive compensation listed as most of the executives are payed through Fiat Chrysler Automotive and their positons held there making the information difficult to consolidate into a single picture, however Marchionne's salary from FCA has increased by roughly 30% in the last two years.

Name	Title	Board	Age	Tenure	Start
1) Sergio Marchionne	Chairman/CEO	✓	65	1.8	05/2016
2) John Philip Elkann	Vice Chairman	✓	41		
3) Piero Ferrari	Vice Chairman	✓	72		
4) Alessandro Gili	Chief Financial Officer		46*	3.1	02/2015
5) Michael Hugo Leiters	Chief Technology Officer		46*	4.2	01/2014
6) Vincenzo Regazzoni	Chief Manufacturing Officer		54*	3.0	03/2015
7) Michele Antoniazzi	Chief Human Resources Ofcr		48*	1.9	04/2016
8) Enrico Galliera	Chief Mktg & Commercial Ofcr		51*	2.4	10/19/2015
9) Luca Fuso	Chief Brand Officer		56*	2.5	09/2015

Capital Allocation Comparison:

RACE has a Total Debt to Total Asset Ratio of 43.62%, this is slightly higher than the competitor median of 39.83%, along with this RACE has stated that recently that they plan on decreasing their debt levels and it has decreased over the past year. RACE currently has two bonds out, one is a 500 Euro aggregate principal amount of 1.5% note due 2023 and the other is a 700 million aggregate principal amount of 0.25% note due 2021. This makes up roughly 1200M of their 1800M, the remaining being a mix of short and long term industrial debt. RACE has a WACC of 8.428% that is higher than the competitor median of 6.83%, however their ROIC is also much higher than the median, respectively 23.89% to 6.16%. ROE is extremely high compared to their competitors and this is because the difference between Net Income to Common Shareholders and Total Common Equity is much smaller compared to competitors.

	Name	Ticker	Mkt Cap	T12M EBITDA Mrgn:Y	NI Mrgn Adj:Y	OPM:Y	ROIC:Y	ROA:Y	ROE:Y	Debt/Assets:Y
	Median		50.66B	13.98%	6.28%	7.29%	6.16%	4.02%	16.80%	39.83%
100)	FERRARI NV	RACE US	23.34B	30.17%	15.56%	22.55%	23.89%	13.31%	96.36%	43.62%
101)	FIAT CHRYSLER AUTOM	FCAU US	33.16B	11.68%	3.59%	6.37%	12.92%	3.97%	19.90%	18.66%
102)	VOLKSWAGEN AG	VOW GR	98.55B	16.28%	6.37%	6.73%	3.40%	3.53%	16.08%	38.72%
103)	BAYERISCHE MOTOREN	BMW GR	68.17B	18.24%	8.68%	9.92%	6.23%	4.49%	16.93%	48.35%
104)	DAIMLER AG-REGISTERE	DAI GR	89.81B	11.30%	6.19%	7.85%	6.08%	4.08%	16.67%	40.93%
105)	ROLLS-ROYCE HOLDING	RR/ LN	23.36B	11.04%	3.94%	5.64%	-27.37%	2.31%	15.99%	11.63%

Profitability Comparison:

Since their IPO in 2015, RACE has seen a large percentage growth in Revenue, Gross Profit, EBITDA, Net Income, and EPS, along with this RACE has seen notably high margin growth. This is due to their continually geographic expansion, high quality of product, and strong brand image.

In Millions of EUR	2014 Y	2015 Y	2016 Y	2017 Y	Current/LTM	2018 Y Est	2019 Y Est
12 Months Ending	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2017	12/31/2018	12/31/2019
Market Capitalization	–	8,345.5	10,414.3	16,478.1	18,892.3		
- Cash & Equivalents	134.3	182.8	457.8	647.7	647.7		
+ Preferred & Other	8.7	5.7	4.8	5.3	5.3		
+ Total Debt	510.2	2,260.4	1,848.0	1,806.2	1,806.2		
Enterprise Value	–	10,428.9	11,809.4	17,641.8	20,056.1		
Revenue, Adj	2,762.4	2,854.4	3,105.1	3,416.9	3,416.9	3,558.7	3,822.8
Growth %, YoY	18.3	3.3	8.8	10.0	10.0	4.1	7.4
Gross Profit, Adj	1,256.5	1,355.6	1,562.4	1,766.0	1,766.0	1,837.4	1,987.9
Margin %	45.5	47.5	50.3	51.7	51.7	51.6	52.0
EBITDA, Adj	692.7	721.9	874.1	1,031.0	1,031.0	1,116.3	1,236.9
Margin %	25.1	25.3	28.1	30.2	30.2	31.4	32.4
Net Income, Adj	270.9	290.3	419.8	531.8	531.8	579.8	648.7
Margin %	9.8	10.2	13.5	15.6	15.6	16.3	17.0
EPS, Adj	–	1.53	2.22	2.80	2.80	3.08	3.43
Growth %, YoY	–	–	44.9	26.1	26.5	10.0	11.2
Cash from Operations	426.1	707.3	1,005.3	662.8	662.8		
Capital Expenditures	-169.4	-184.9	-175.6	-188.9	-188.9	-501.5	-474.2
Free Cash Flow	256.7	522.4	829.7	473.9	473.9	276.0	400.7

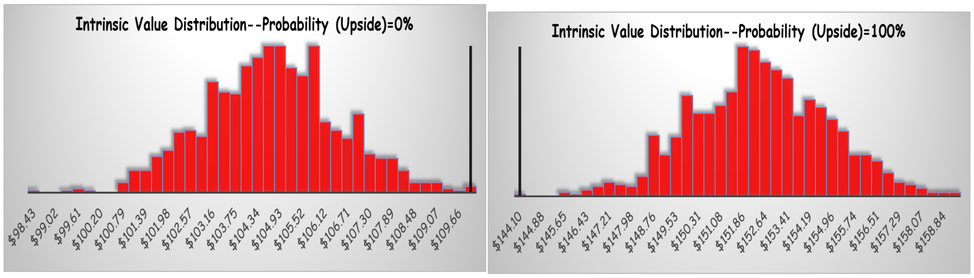
RACE's revenue growth rate is 10.04% compared to a competitor median 6.7%. Along with this, Gross and Profit margin over the last year are both over double the competitor median. Asset Turnover and Inventory

Turnover both hover around the competitor median, however the Cash Conversion Cycle of RACE distinguishes itself from the competitor's median of 107.94 with a value of -24.49. This negative cash conversion cycle implies that they are not paying for their inventory or materials until after they have sold the product that they are associated with and that RACE is using their working capital very efficiently. These numbers back up the strong revenue and margin performance that RACE has been reporting.

	Name	Ticker	Mkt Cap	GM:Y	PM:Y	Ast TO:Y	Inv rnover:Y	A/P urnover:Y	Cash Conversion Cycle:Y	Rev - 1 Yr Gr:Y
	Median		50.89B	20.10%	6.28%	0.62	4.92	7.79	107.94	6.70%
100)	FERRARI NV	RACE US	23.34B	51.69%	15.56%	0.86	4.60	2.82	-24.49	10.04%
101)	FIAT CHRYSLER AUTOMO	FCAU US	33.16B	15.29%	3.59%	1.11	7.51	4.25	-19.70	-0.08%
102)	VOLKSWAGEN AG	VOW GR	99.21B	19.99%	6.37%	0.55	4.74	8.27	134.44	6.17%
103)	BAYERISCHE MOTOREN	BMW GR	68.62B	20.20%	8.68%	0.52	6.42	8.73	140.53	4.79%
104)	DAIMLER AG-REGISTERE	DAI GR	90.41B	20.89%	6.19%	0.66	5.09	10.84	148.64	7.22%
105)	ROLLS-ROYCE HOLDING	RR/ LN	23.49B	19.46%	3.94%	0.59	3.89	7.32	81.45	9.04%

Sensitivity Analysis:

RACE's stock price value is very sensitive to revenue and operating costs. The bear and bull case valuation are evaluated using a Monte Carlo simulation with different assumptions. Under the bear case, there is a 0% intrinsic value probability upside. This creates a target price of $113.36 and a 1 year target return of -5.16%. This is due to making the assumption that sales and revenue will stagnate due to lack of new buyers, and costs are going to increase due to the increasing technological complexity demanded for products in the industry. Specifically assuming that EBITDA margin would shrink by 5%, revenue would stagnate, and CAPEX and R&D Expense would increase 10%. Based on historical financial performance it is highly unlikely that this situation would occur, however if it did the money would be much better off invested elsewhere as this would generate a loss. The bull case involves the assumptions that revenues and margins increase as a result of increased demand for RACE's products, and that costs remain at the historical average through innovating the new technologies required in the industry efficiently and without incident. This case gave a 100% intrinsic value probability upside. It created an intrinsic value of $152.03, a 1 year target price of $165.01, and a 1 year target return of 37.73%. Specially the assumption involves the EBITDA margin hitting RACE's currently stated target price of 36% and remaining there. It also assumes that CAPEX and R&D expense remain at their historical averages while revenue increases by 6%. As positive as the bull case is, it is also unlikely as increasing revenue without increasing their costs as well would be an extremely difficult task. The base case was a mixture of probable aspects of both the bear and bull cases. The base case gave a 99.9% intrinsic value probability upside. It created the intrinsic value of $133.67, a target price of 145.08, and a 1 year target return of 21.18%. Specifically under this assumption, RACE's EBITDA margin increased to their target but did not continue at that level and returned to a median between the historical average and their target margin, as the target margin level of growth would be unlikely to be maintained over time. CAPEX is assumed to increase by 3%, and R&D Expense by 5% over their historical growth averages, both due to the increasingly competitive market conditions, and the increasing demand for technological complexity and innovation within the industry's products. These were offset by an assumed revenue increase of 6% over the historical growth average, due to a large increase in sales driven by product segment diversification, and expansion into new geographic locations. This base case is the most probable to occur based off the strong financial performance that RACE has shown so far since their IPO. With the forays into the luxury, SUV, and EV market that are planned by RACE into the near future, combined with their brand strength, it is highly likely that financial figures around the base case will be produced.



Bear Case (Left)/Bull Case (Right)

Summary:

In conclusion. RACE is a buy at its current price. This is due to the fact that they are one the leaders of the super-luxury car segment, a segment which sees consistent growth, and does not see much volatility in its also consistent growth in demand. Along with their strong financial performance and historically shown ability to drive success through product innovation, RACE is in a strong position to find considerable financial success in the new product segments that this industry is pushing manufacturers toward. Efficient capitalization of these new segments will create a high level of growth for RACE over the next year or more. Based on this analysis, the upside is greater than the downside and the upside is a much more probable occurrence. RACE's 1 year target price is $145.08 with a 21.18% 1 year target return, which is reasonable based on analysis and current price. RACE appears to be in a strong position to break its 52-week high over the course of the year.

SIENA college

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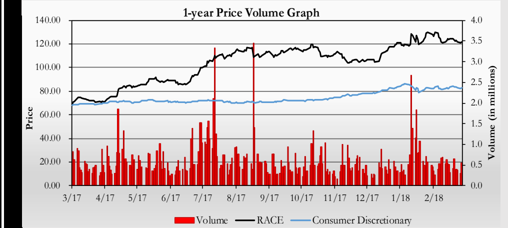
Ferrari N.V. (RACE) | **BULLISH**

3/23/2018	Current Price:	$120.42	Intrinsic Value	$133.67	Target 1 year Return: 21.18%
	Divident Yield:	0.7%	Target Price	$145.08	Probability of Price Increase: 100%



Description

Ferrari N.V., through with its subsidiaries, designs, engineers, produces, and sells luxury performance sports cars.

General Information	
Sector	Consumer Discretionary
Industry	Automobiles
Last Guidance	February 12, 2018
Next earnings date	May 3, 2018

Market Assumptions	
Estimated Equity Risk Premium	6.04%
Effective Tax rate	23%

Market Data	
Market Capitalization	$22,730.87
Daily volume (mil)	0.43
Shares outstanding (mil)	188.76
Diluted shares outstanding (mil)	189.76
% shares held by institutions	109%
% shares held by investments Managers	27%
% shares held by hedge funds	6%
% shares held by insiders	10.80%
Short interest	1.78%
Days to cover short interest	5.94
52 week high	$131.20
52-week low	$69.49
Volatility	0.00%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
12/31/2016	3.22%	230.94%
3/31/2017	7.04%	0.64%
6/30/2017	-0.22%	18.21%
9/30/2017	0.68%	-2.87%
12/31/2017	-2.55%	-8.33%
Mean	**1.63%**	**47.72%**
Standard error	1.0%	6.2%

Market and Credit Scores

Recommendation (STARS) Value--0
Recommendation (STARS) Description--0
Quality Ranking Value--0
Quality Ranking Description--0
Short Score--0
Market Signal Probability of Default % (Non-Ratings)
-0.467%
CreditModel Score (Non-Ratings)--bbb

Industry and Segment Information

LTN Revenues by Geographic Segments	LTM Revenues by Business Segments
Italy--17%	Sale of Luxury Performance Sports Cars--100%
Other EMEA--38%	--
Americas--27%	--
China, Hong Kong and Taiwan--8%	--
Rest of APAC--10%	--

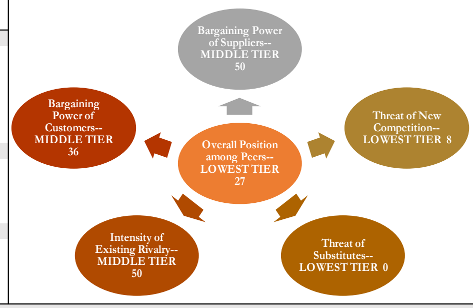
Peers

Daimler AG	--
Fiat Chrysler Automobiles N.V.	Volkswagen Aktiengesellschaft
Bayerische Motoren Werke Aktiengesellschaft	Tesla, Inc.
--	--
Rolls-Royce Holdings plc	--

Management	Position	Total Compensations Growth	Stock Price Growth During Tenure
Marchionne, Sergio	Chairman & CEO		0% per annum over 0y
Gili, Alessandro	Chief Financial Officer		0% per annum over 0y
Leiters, Michael	Chief Technology Officer		0% per annum over 0y
Galliera, Enrico	Chief Marketing & Commercial Officer		0% per annum over 0y
Antoniazzi, Michele	Chief Human Resources Officer		0% per annum over 0y
Arrivabene, Maurizio	Managing Director of Gestione Sportiva		0% per annum over 0y

Profitability	RACE (LTM)	RACE Historical	Peers' Median (LTM)
Return on Capital (GAAP)	20.4%	34.09%	6.51%
Operating Margin	22%	25.74%	9.30%
Revenue/Capital (GAAP)	0.94	1.32	0.70
ROE (GAAP)	44.5%	-126.5%	26.0%
Net margin	18.3%	21.6%	9.0%
Revenue/Book Value (GAAP)	2.43	-5.86	2.88
Invested Funds	**RACE (LTM)**	**RACE Historical**	**Peers' Median (LTM)**
Cash/Capital	17.1%	3.8%	15.7%
NWC/Capital	17.3%	14.1%	-4.5%
Operating Assets/Capital	45.0%	18.3%	81.8%
Goodwill/Capital	20.5%	63.9%	7.0%
Capital Structure	**RACE (LTM)**	**RACE Historical**	**Peers' Median (LTM)**
Total Debt/Market Capitalization	0.49	0.49	0.52
Cost of Debt	2.0%	1.7%	6.3%
CGFS Rating (F-score, Z-score, and default Probability)	AAA		
WACC	8.4%	7.2%	9.7%

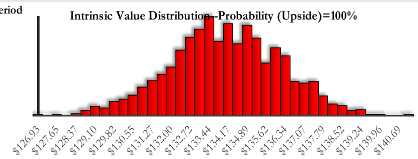
Porter's 5 forces (Scores are percentiles)



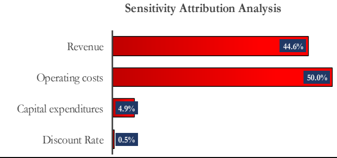
Valuation

Forecast Assumptions	Explicit Period (6 years)	Continuing Period
Revenue Growth CAGR	12%	2%
Average Operating Margin	27%	26%
Average Net Margin	27%	25%
Growth in Capital CAGR	14%	2%
Growth in Claims CAGR	2%	2%
Average Return on Capital	14%	11%
Average Return on Equity	17%	12%
Average Cost of Capital	9%	9%
Average Cost of EquityKe	9%	9%

Intrinsic Value Distribution--Probability (Upside)=100%



Sensitivity Attribution Analysis



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March 23, 2018

EchoStar Corporation: SATS

Matt Lucarelli

Sector: Telecommunications
Industry: Communications Equipment
Current Price: $55.20
Target Price: $72.72

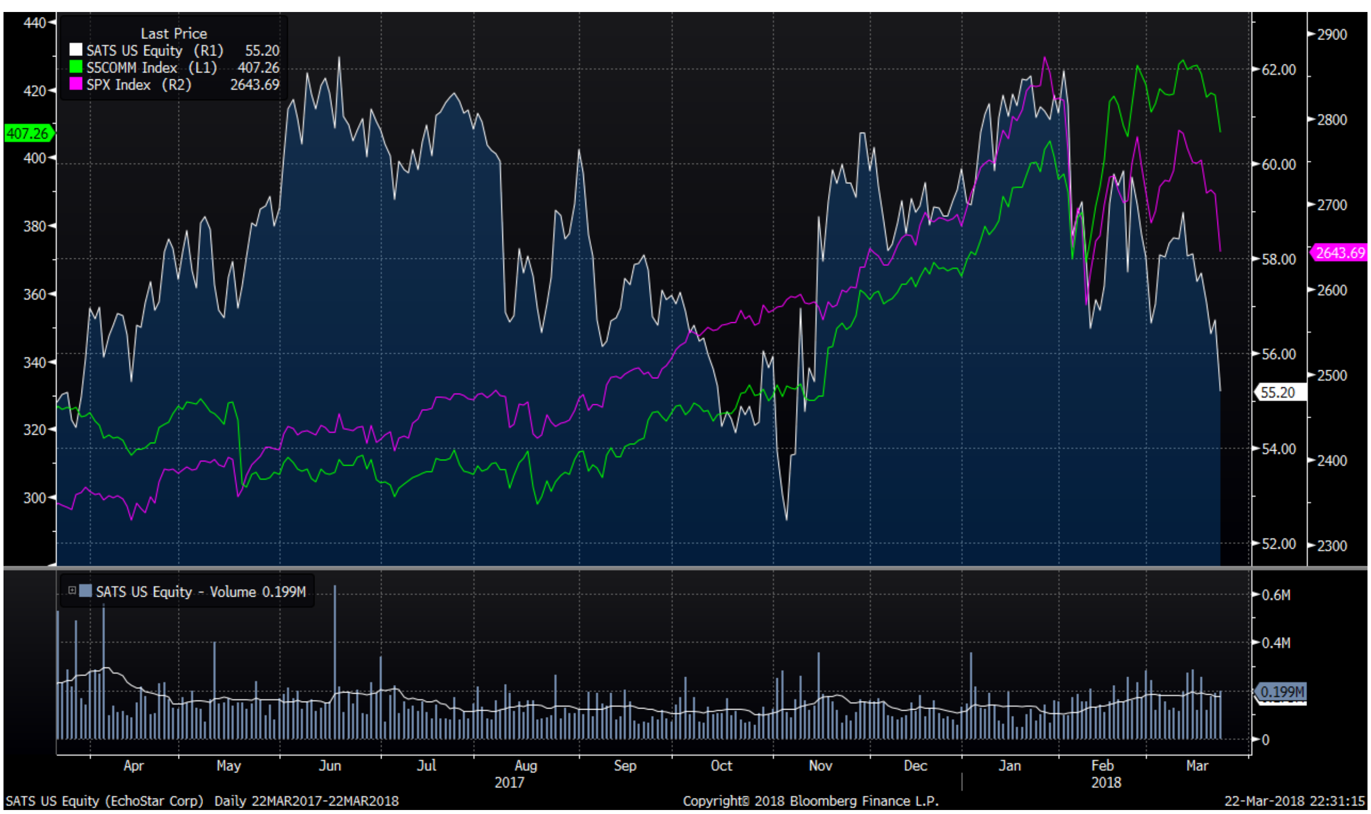
Company Description: EchoStar Corporation is headquartered in Englewood, Colorado and are global provider of communication solutions. They consist of two segments, Hughes Network systems and EchoStar Satellite Services. These segments operate a total of 25 satellites which are either owned or leased, providing broadband internet service to consumers and businesses. In addition, EchoStar delivers innovative network technologies, managed services, and various communications solutions for aeronautical, enterprise and government customers.

BUY

Current Price:	$55.20
Target Price:	$72.72
Market Cap:	$5.29B
52 Week Range:	$52.11-$62.50
Beta:	1.020
ROE:	9.94%
WACC:	10.20%
ROIC:	2.40%
EBITDA Margin:	39.30%

Catalysts:

- **Short Term (within the year):** Positive earnings announcement 05/09/18. Continued growth in foreign operations.
- **Mid Term (1-2 years):** Global Eagle's adoption of Hughes. JUPITER Aero system.
- **Long Term (3+):** Continue to pursue strategic opportunities, both organically and through acquisitions to diversify their current portfolio.

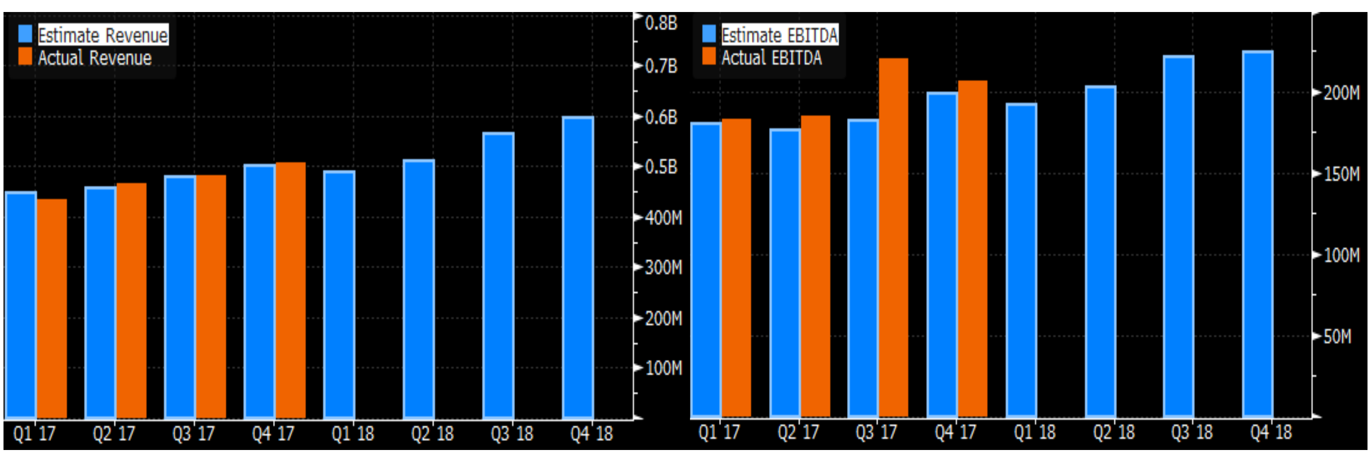


Thesis:

EchoStar operates in two main business segments. Hughes provides broadband satellite technologies and broadband internet services to domestic and international home and small office customers, while EchoStar Satellite Services uses certain of their owned and leased in-orbit satellites and related licenses to provide satellite service operations and video delivery solutions on a full-time and occasional-use basis primarily to DISH Network Corporation. With a potential optimistic earnings announcement on 05/09/18, this will positively impact investor confidence and will positively affect EchoStar. Recently, EchoStar announced two major enhancements to Global Eagle's global connectivity network that bring more capacity and faster speeds to airlines and their passengers. With growing passenger demand, Hughes and Global Eagle are working together to increase the bandwidth and performance of the Hughes JUPITER Aero system, which will double capacity, enabling airlines to accommodate growing passenger demand and delivering superior speed and performance for the array of applications passengers use. In the long-term, EchoStar is determined to obtain a larger market share in their industry against their larger competitors through diversifying their portfolio, both organically and through future acquisitions.

Earnings Performance:

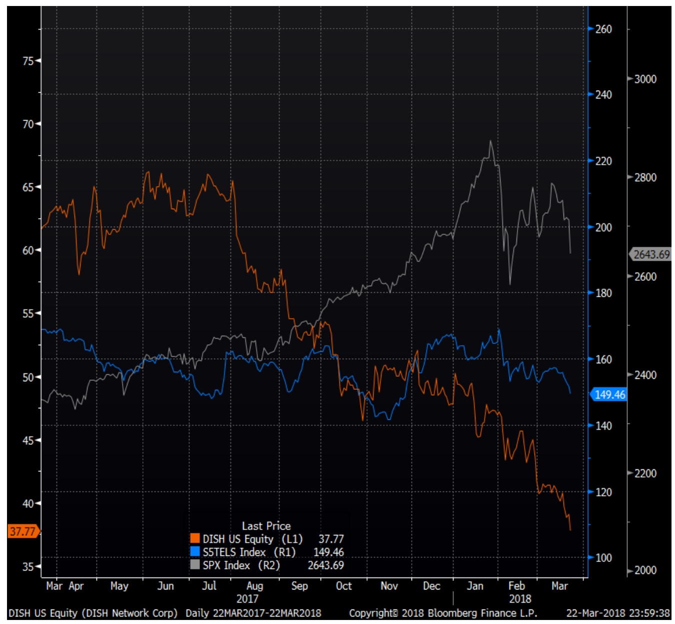
For the end of 2017, EchoStar reported a 2017 consolidated annual revenue of $1.89 billion, which was accurate with the estimated total consolidated revenue in 2017. The actual consolidated EBITDA for 2017 had outperformed the estimated EBITDA, at $795 million. In the 3rd quarter of 2017, EchoStar's actual consolidated EBITDA significantly outperformed its estimated EBITDA. This was directly because the contract they signed in July 2017, with Wideband Communications Architecture Study (WCAS), which will support the U.S. Department of Defense (DoD) plan for resilient, cost-effective satellite communications (SATCOM) capabilities. For 2018, the estimated revenue and estimated EBITDA are expected to continue to increase, which is due to increasing customer demand for EchoStar's services. Currently, the company has approximately 1.2 million Hughes broadband subscribers as of December 31, 2017 and is projected to continue to grow in 2018.



A large portion of their revenue comes directly from DISH Network Corporation. DISH Network accounted for 23.7%, 26.1% and 29.4% of their total revenue for the years ended December 31, 2017, 2016 and 2015, respectively. For their Hughes segment, DISH Network accounted for 5.6%, 7.7% and 7.8% of their total

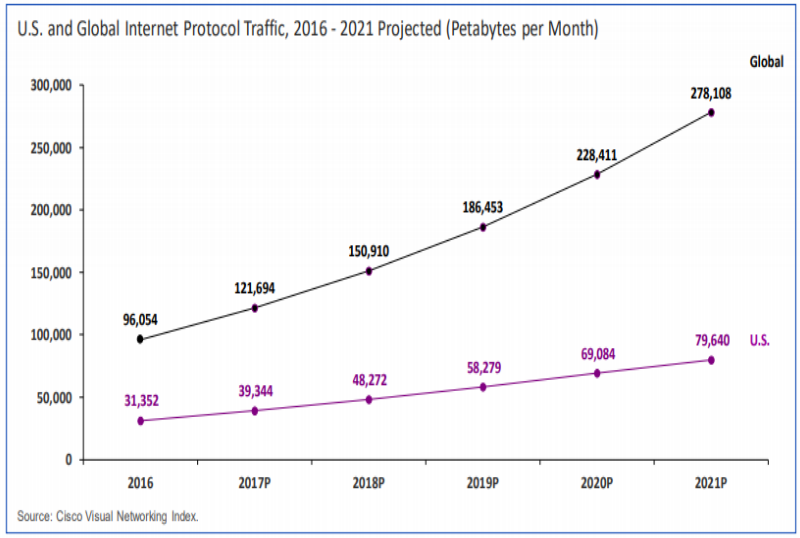
Hughes segment revenue for the years ended December 31, 2017, 2016 and 2015, respectively. For their EchoStar Satellite Service segment, DISH Network accounted for approximately 87.9%, 85.7% and 86.3% of their total ESS segment revenue. If EchoStar were to lose DISH as a customer, which is highly unlikely, it may be difficult for them to replace, in whole or in part, their historical revenue from DISH Network because there are a relatively small number of potential customers for their specialized services, and they have had limited success in attracting such potential new customers in the past. As for their foreign revenue, sales outside the U.S. are growing and accounted for approximately 19.3%, 18.2% and 17.3% of other revenue for the years ended December 31, 2017, 2016 and 2015, respectively. Collectively, they expect their foreign operations to continue to represent a significant and growing portion of the business. Over the last 10 years, they sold products in over 100 countries and began offering broadband internet services to consumers in Brazil and Colombia and intend to continue to do so in other Central and South American countries.

Industry Outlook:



Based off increasing consumer demand for products offered by EchoStar, the communications equipment industry is growing and has the potential to grow to around 4% to 6% in 2018. Since EchoStar deals directly with DISH, their main customer, it is important to not only understand the macroeconomic industry factors of the telecom sector, but also the how DISH is performing. The chart to the right depicts how DISH is moving with the telecommunications index and the S&P 500. DISH's stock price may be decreasing, is due to the loss of subscribers to Sling TV. The number of subscribers had dropped from 13.7 million to 13.2 in 2017. As the pay-tv industry has matured and bundled offers combining video, broadband and/or wireless services have become more prevalent and competitive, DISH faces intense and increasing competition from providers of video, broadband and wireless services, which may require them to further increase subscriber acquisition and retention spending or accept lower subscriber activations and higher subscriber churn. However, DISH is expected to rebound from its current state by making upgrades and add on services which will help their profitability. While many customers are beginning to switch to pay-tv companies like Netflix or Sling TV, these large powerhouse cable providers still maintain a large number of the customers. Cable providers are looking into making adjustments to retaining their customers from switching to pay-tv companies. By 2022, the broadband-only home subscribers should grow by 14%. While things are expected to pick up, we are also in a rising interest rate environment. Since companies in the telecommunications sector generally use high levels of borrowing and have steady cash flows, they will be negatively impacted when interest rise. However, with increasing customer demand and the necessity for telecommunication services, companies with strong balance sheets, quality services or products, and loyal customers will be fine if interest rate continue to rise.

The U.S. Is a Global Leader in IP Traffic



The U.S. is home to 4.4% of the world's population, but it generates nearly one-third of global IP traffic

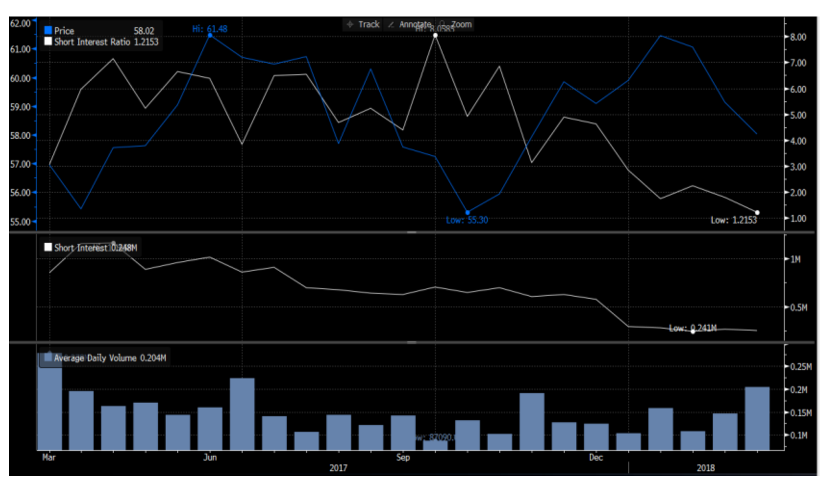
The growth of EchoStar, including aeronautical, businesses relies heavily on global economic conditions and the competitive landscape for pricing relative to competitors and alternative technologies. Service costs related to ongoing support for their direct and indirect customers and partners are typically impacted most significantly by our growth. When analyzing the chart to the right, IP traffic is projected to increase tremendously, which would cause less efficient network services due to the heavy IP traffic. This will create an increased demand for companies like EchoStar who provide services in this industry.

Management/Ownership:

The ownership of the company is heavily weighted towards both Investment advisors and hedge fund managers. In the past year, there has been little change in ownership, with investment advisors increasing their ownership at 1.98%. The top investment advisors consist of Putnam Investments at 24.88%, Vanguard Group at 6.71%, and Blackrock at 4.34%. The current percentage of float held is equal to 95.44%, which increased by 1.20% over the past year.

54) Ownership Type	03/19/17	Curr	Change
41) Investment Advisor	71.39	73.37	+1.98
42) Hedge Fund Manager	21.21	19.96	-1.25
43) Pension Fund	2.73	2.61	-0.12
44) Individual	2.99	1.67	-1.32
45) Sovereign Wealth Fund	0.80	1.21	+0.41
46) Insurance Company	0.21	0.45	+0.24
47) Bank	0.38	0.38	0.00
48) Government	0.17	0.18	+0.01
49) Brokerage	0.05	0.10	+0.05

As for the short interest for the company, it has decreased in the past couple of months. This illustrates that hedge fund managers may have exercised their short position. In the past year, the short interest was highest at 8.05 and recently reached a low of 1.21.

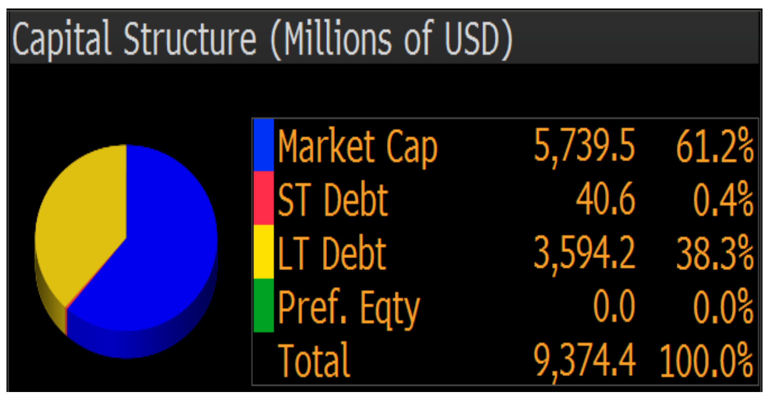


As for the management of EchoStar, Anders Johnson, is the Chief Strategy Officer and President of EchoStar Satellite Services, with the responsibility for coordinating strategic initiatives and corporate development across the company as well as directing EchoStar Satellite Services. Pradman P. Kaula serves as the President of Hughes Network Systems, LLC ("HNS") and Hughes Communications, Inc. He holds numerous patents and has published articles and papers on a variety of technical topics concerning satellite communications. In addition, Mr. Kaul has been inducted as a member of the National Academy of Engineering. With over 37 years of experience at Hughes, Mr. Kaul has a deep knowledge and understanding of the satellite industry. Michael Dugan is the Chief Executive Officer and President of EchoStar. He has served as a member of the board of directors since October 2007, and previously served in several executive roles at the combined company from 1990 to 2004, prior to EchoStar's spinoff from DISH Network Corporation in January 2008. Mr. Dugan is also credited with being the chief architect behind the technological foundation for DISH Network and EchoStar. The compensation of the executives sits historically in line with the stock price and revenue of the company. Therefore, this displays that the executives are not taking advantage of their compensations and that they are dedicated to the company.

Name	Title Sort by Rank	FY 2013 (USD)	FY 2014 (USD)	FY 2015 (USD)	FY 2016 (USD)
Kaul, Pradman P.	Director	1,497,795	1,605,088	1,527,882	1,435,032
Johnson, Anders N.	Chief Strategy Officer	448,833	454,664	548,058	902,069
Dugan, Michael T.	CEO, President & Director	794,401	944,245	879,055	867,989

Capital Allocation:

The capital structure of the company is comprised of a little more than a third of debt. The majority of this debt is long-term with a credit quality rating of bb-, which is actually higher than some of their competitor's ratings. Furthermore, in the telecommunications sector, high borrowing of debt is very common. However, EchoStar's cash has been increasing over the years. As mentioned early, the reason increasing cash is because they are motivated to acquire another company to grow their market share. The company's LTM adjusted ROIC is at 2.4% and their adjusted WACC is at 10.2%. Compared to their competitors, the LTM average adjusted ROIC and WACC are at 3.0% and 7.4%, respectively. While their ROIC/WACC may only be at .23, lower than their competitors at about .40, they have historically better ROIC/WACC. Since their cost of capital is greater than the industry average, it is something to be wary of because the cost to take on new projects will be more expensive compared to their competitors.



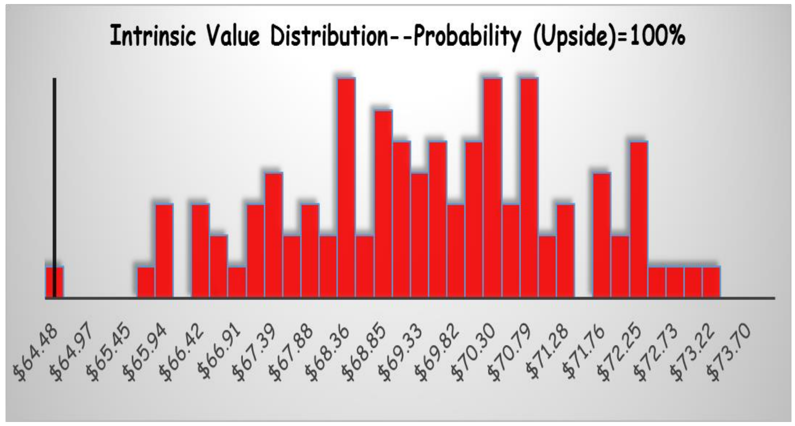
Profitability Comparison:

The network communications industry is highly competitive. As a global provider of network technologies, products and services, the Hughes segment competes with a large number of telecommunications service providers, which puts pressure on prices and margins. In their consumer markets, they compete against traditional telecommunications and wireless carriers, other satellite internet providers, as well as digital subscriber line ("DSL"), fiber and cable internet service providers offering competitive services in many markets they seek to serve. Cost, speed and accessibility are key determining factors in the selection of a service provider by the consumer. Their primary satellite competitor in our North American consumer market is ViaSat Communications, Inc. ("ViaSat Communications"), which is owned by ViaSat, Inc. ("ViaSat"). We seek to differentiate ourselves based on the ubiquitous availability of our service, quality, proprietary technology, and distribution channels. In the fixed satellite services market, the ESS segment competes against larger, well-established satellite service companies, such as Intelsat S.A. ("Intelsat"), SES S.A., Inmarsat plc, Telesat, Eutelsat Communications S.A. ("Eutelsat"), Asia Satellite Telecommunications Company Limited and the direct-to-home (DTH) satellite business of AT&T, Inc., in an industry that is characterized by long-term contracts and high costs for customers to change service providers. The chart below displays some of their competitors. When analyzing the chart, in the past 6 years, EchoStar has been outperformed by their competitors. However, in the past 12 months, the company has managed to have a higher net margin at 16% compared to their competitors at 13.4%. As EchoStar continues to expand into foreign markets and expand their customer base, the company will continue to grow. For the rest of 2018, EchoStar is projected to have an adjusted EBITDA margin of about 41.1% and an adjusted revenue growth of 13.6%, while their main competitor is projected to have an adjusted EBITDA margin of about 30.4% and an adjusted revenue growth of only 1.3%. When comparing them to larger competitors such as AT&T for the remainder of 2018, AT&T is projected to have an adjusted EBITDA margin of about 33% and an adjusted revenue growth looking to be negative at -0.1%.

COMMON SIZE VIEW				
	6-year Historical Median		Last 12 Months	
	sats	Competitors	sats	Competitors
COR/Rev	57.8%	56.8%	40.2%	56.2%
(SGA+Other)/Rev	16.1%	29.9%	26.7%	28.8%
DPR/Rev	15.4%		25.2%	0.0%
EBITA Margin	10.8%	13.3%	7.8%	15.0%
Interest exp/Rev	5.0%	9.1%	11.4%	9.0%
AMORT/Rev	3.0%		1.5%	0.0%
SBC/REV	0.7%		0.5%	0.0%
Other Non-Operating Exp/Rev	-2.5%	-2.6%	-26.3%	-7.2%
Taxes/Rev	1.2%	-1.0%	4.7%	-0.2%
Net Margin	3.5%	7.7%	16.0%	13.4%

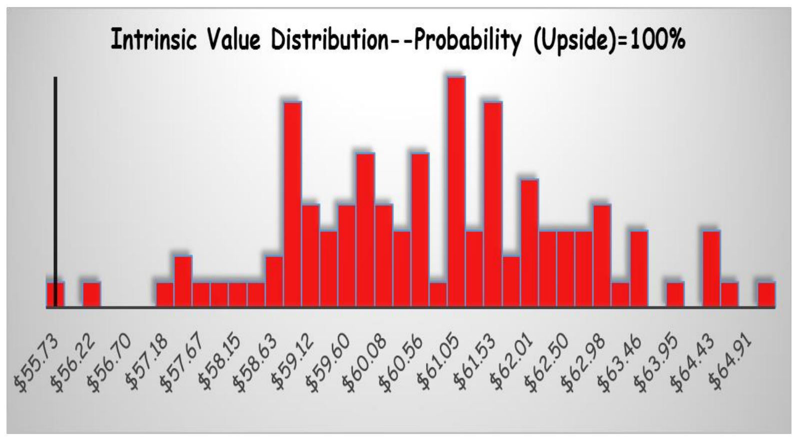
Sensitivity Forecast:

BASE CASE



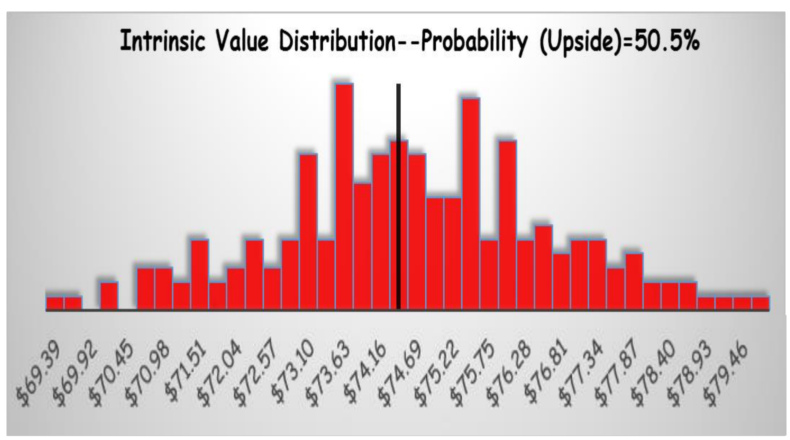
The telecommunications sector and the overall market has been declining in the past couple weeks. EchoStar was affected as well, because the company is directly impacted and sensitive to macroeconomic factors. In, my forecast, I estimated a 75% operating expense to revenue, which was based off a historical average and particular initiatives made by the company. With constant growing customer demand for EchoStar's services and products, increasing subscriber's year over year, and increasing revenue from foreign countries, I predicted the revenue growth to be 8.3%. As we can see, the probability of the price increasing presents 100% upside potential. The base case target price came out to $72.72, presenting a 31.75% on year return.

BEAR CASE



In a pessimistic scenario, holding all other factors constant and decreasing revenue due to an increasing loss of subscribers for DISH and potentially for EchoStar, the expected revenue was 4.1% with a decreased 1% in operating expenses to revenue and a 100% upside potential. In a bearish scenario, the target price is at $61.07, providing a 10.63% one year return.

BULLISH CASE



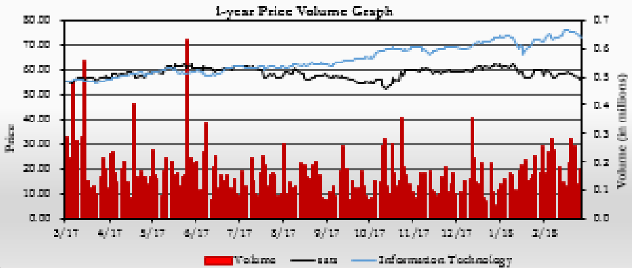
In an optimistic scenario, holding all other factors constant and increasing revenue due to successful catalysts and a strong market outlook, the expected revenue was 11.3%, with 50.5% upside potential. I also decreased operating expenses to revenue by 1% considering that EchoStar would effectively use their satellites while increasing their capacity and efficiency while also reducing costs. In a bearish scenario, the target price is at $79.50 with a 44.02% one year return.

Conclusion:

In conclusion, EchoStar Corporation is a buy at its current price. This is due to increasing customer demand, further expansion into foreign markets, and the continuation of advances in technology. In addition, the company has been steadily increasing their subscribers and retaining their customer's year over year. As seen in the Monte Carlo simulation, there is only upside to buying this stock. The company's one year target price of $72.72 with a 31.75% one year return. With the proposed catalysts and positive macroeconomic factors, EchoStar has the ability to breach its 52 week high.

EchoStar Corporation (sats) | CENTER FOR GLOBAL FINANCIAL STUDIES | BULLISH

Analysis by Matt Lucarelli	Current Price:	$55.20	Intrinsic Value	$75.03	Target 1 year Return: 31.75%
3/23/2018	Divident Yield:	0.0%	Target Price	$72.72	Probability of Price Increase: 10



Description

EchoStar Corporation provides satellite service operations and video delivery solutions worldwide.

General Information

Sector	Information Technology
Industry	Communications Equipment
Last Guidance	February 12, 2018
Next earnings date	May 8, 2018

Market Assumptions

Estimated Equity Risk Premium	5.60%
Effective Tax rate	22%

Market Data

Market Capitalization	$5,293.49
Daily volume (mil)	0.20
Shares outstanding (mil)	95.90
Diluted shares outstanding (mil)	96.74
% shares held by institutions	109%
% shares held by investments Managers	33%
% shares held by hedge funds	11%
% shares held by insiders	50.54%
Short interest	0.26%
Days to cover short interest	1.62
52 week high	$62.50
52-week low	$52.11
Volatility	23.66%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
12/31/2016	-35.96%	-13.63%
3/31/2017	-3.44%	-3.47%
6/30/2017	2.62%	-2.91%
9/30/2017	0.76%	5.17%
12/31/2017	0.55%	-2.19%
Mean	-7.09%	-4.62%
Standard error	0.9%	4.7%

Market and Credit Scores

Recommendation (STARS) Value--0
Recommendation (STARS) Description--0
Quality Ranking Value--B-
Quality Ranking Description--Lower
Short Score--0
Market Signal Probability of Default % (Non-Ratings)--0.338%
CreditModel Score (Non-Ratings)--bb-

Industry and Segment Information

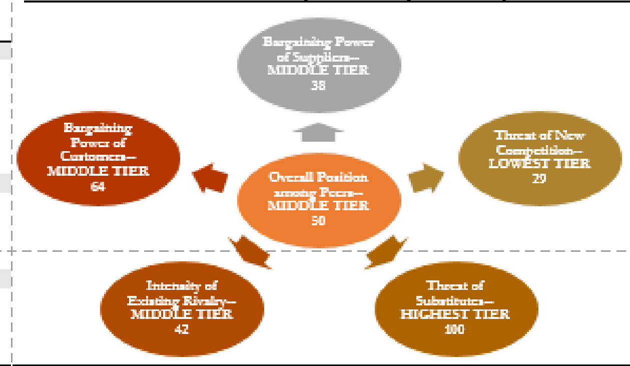
LTM Revenues by Geographic Segm	LTM Revenues by Business Segment
United States--81%	Hughes--78%
Canada and Mexico--5%	EchoStar Satellite Services--21%
All Other--14%	Corporate and Other--1%
--	--
--	--

Peers

Viasat, Inc.	Gilat Satellite Networks Ltd.
Intelsat S.A.	--
Comtech Telecommunications Corp.	Aviat Networks, Inc.
--	KVH Industries, Inc.
--	--

Management	Position	Total Compensations Grow	Stock Price Growth During Tenure
Dugan, Michael	CEO, President & Director	1.56% per annum over 5y	12.48% per annum over 5y
Rayner, David	Executive VP, CFO, COO, Treasurer & Princi	-12.06% per annum over 5y	12.48% per annum over 5y
Kilaru, Kranti	Executive Vice President	18.67% per annum over 2y	-1.06% per annum over 2y
Johnson, Anders	Chief Strategy Officer	-100% per annum over 4y	10.19% per annum over 4y
Ergen, Charles	Executive Chairman of the Board	-100% per annum over 2y	-1.06% per annum over 2y
Pearre, Michelle	Senior Vice President of Human Resources		

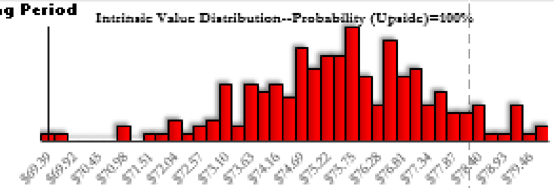
Porter's 5 forces (Scores are percentiles)

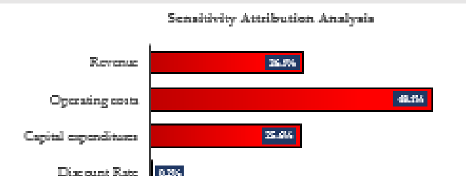


Profitability	sats (LTM)	sats Historical	Peers' Median (LTM)
Return on Capital (GAAP)	2.3%	4.37%	3.01%
Operating Margin	8%	10.78%	14.98%
Revenue/Capital (GAAP)	0.30	0.41	0.20
ROE (GAAP)	7.3%	3.2%	2.8%
Net margin	16.0%	4.2%	3.3%
Revenue/Book Value (GAAP)	0.46	0.75	0.83
Invested Funds	**sats (LTM)**	**sats Historical**	**Peers' Median (LTM)**
Cash/Capital	35.6%	22.8%	11.3%
NWC/Capital	0.4%	1.8%	6.5%
Operating Assets/Capital	58.0%	67.4%	68.1%
Goodwill/Capital	6.1%	8.0%	14.1%
Capital Structure	**sats (LTM)**	**sats Historical**	**Peers' Median (LTM)**
Total Debt/Market Capitalization	0.45	0.41	0.46
Cost of Debt	7.4%	8.0%	4.0%
CGFS Rating (F-score, Z-score, and default Proba	B		
WACC	9.7%	10.5%	7.4%

Valuation

Forecast Assumptions	Explicit Period (5 years)	Continuing Period
Revenue Growth CAGR	8%	2%
Average Operating Margin	26%	25%
Average Net Margin	0%	6%
Growth in Capital CAGR	1%	2%
Growth in Claims CAGR	0%	2%
Average Return on Capital	3%	6%
Average Return on Equity	1%	6%
Average Cost of Capital	6%	6%
Average Cost of EquityKe	8%	8%





Paul Martinez

Bjorklund Fund

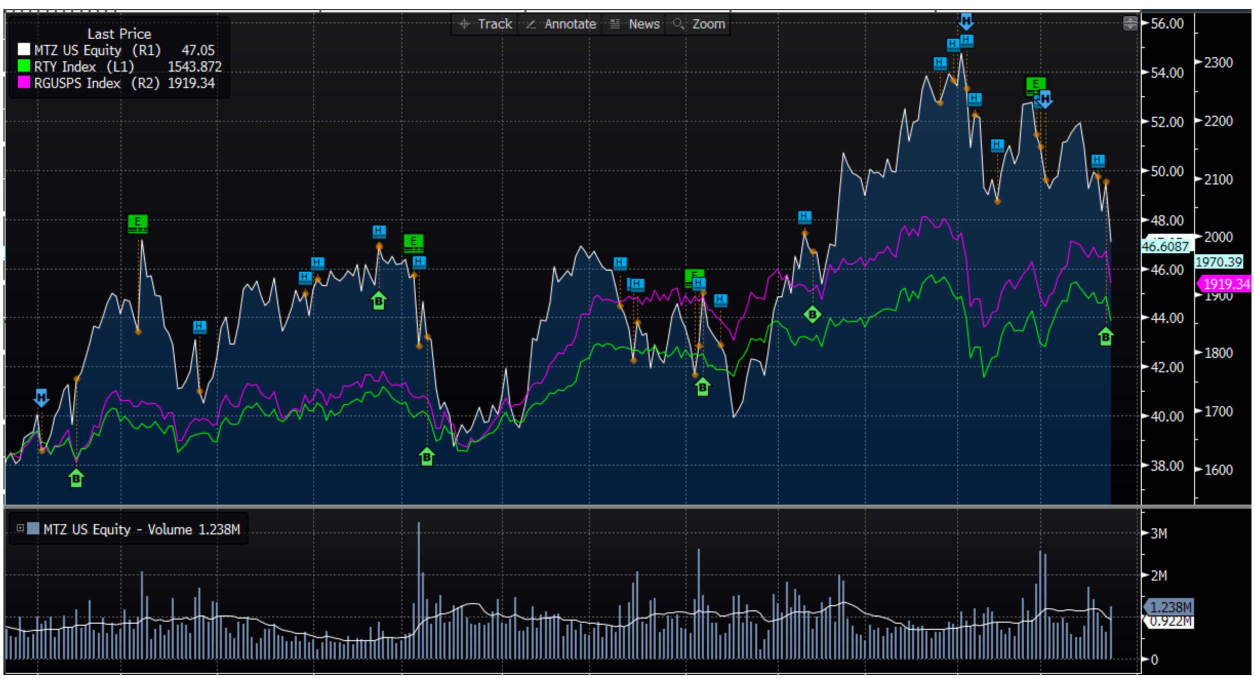
March 22, 2018

MasTec, Inc (MTZ)

SUMMARY: Buy MasTec, Inc (MTZ) at its current price of $45.95. I believe that there is a possible 1Y bullish return of close to 50% and a realistic return of approximately 35% with target prices of ~71 and ~63 respectively.

BRIEF DESCRIPTION: MasTec is a leading infrastructure construction company operating primarily throughout North America. Operations include the engineering, building, installation, maintenance and upgrade of:

- Wireless, Wireline (Fiber), install-to-the-home and customer fulfillment
- Petroleum and natural gas pipelines and facilities
- Electrical transmission and distribution
- Power generation and industrial



1. **Record breaking Backlog Revenues in three out of five segments:**
    a. <u>Communications Segment</u> – $3.6 Billion for 18 month period
    b. <u>Oil & Gas Segment</u> – $2.5 Billion for 18 month period
        i. Reflecting multi-year projects
    c. <u>Power Generation Segment</u> – $577 Million for 18 month period
        i. Reflecting increases in renewable energy, overall demand, and biomass facility construction
    d. With this backlog revenue alone, MasTec will beat their guidance on annual revenue for 2018
2. **Margin Improvement:**
    a. From 2016 to 2017, MasTec has been able to improve EBITDA margins in every single segment of their business
        i. Communications (37% of Revenue) – EBITDA margins at *11.2%* from approximately 7%
        ii. Oil & Gas (53% of Revenue) – EBITDA margins at 11.5% projected to grow to *13%* in 2018 (Q4 Guidance)
        iii. Electrical Transmission (6% of Revenue) – EBITDA margins at *4.8%* from -9%
        iv. Power Generation (5% of Revenue) – EBITDA margins at *7.5%* which was "much improved" per MasTec's last earnings call
        v. Industrial (Not Material) – Sometimes categorized with Power Generation
    b. Projected overall EBITDA margins for 2018 to be approximately *10.2%*
3. **Macro Growth Opportunities:**
    a. Strong Oil & Gas markets
    b. Communications opportunities with Fiber and Wireless convergence
    c. Electrical transmission improvements
    d. Strong benefits from Trump Administration and recent policies

I believe that MasTec (MTZ) has positioned themselves correctly in the industry and has set themselves up for another record-breaking year in 2018. The increase in YoY revenue growth, macro growth as a whole, and increasing margins will result in value creation and continue to drive stock price. Historically, MTZ has exceeded their guidance and we can expect them to outperform throughout 2018 as well.

<u>INVESTMENT THESIS</u>:

1. **Backlog Revenues**

Although Backlog is not a term recognized under GAAP, it is a very common measurement in the industry and majority of companies report it. Backlog represents the amount of revenue that the company is expected to realize over the next 18 months from future work, contracts, and including new contracts.

Backlog Revenue by Segment				
	2014	2015	2016	2017
Communications	2965	3138	2824	3628
Oil & Gas	756	2006	2223	2525
Electrical Transmission	296	252	268	354
Power Generation	298	265	246	577
Industrial and Other	31	13	6	3
Total (In Millions)	4346	5674	5567	7087
Growth		31%	-2%	27%

The Communication segment has record-breaking 3.6 Billion in backlog revenue, this revenue compromises primarily from Master Service Agreements (MSAs) and long-term contracts with Energy Transfer Affiliates, and AT&T, which make up 40% and 25% of revenue respectively. With the expansion of 5G, 2018 and 2019 backlog revenues are expected to increase in both size and scope. This has already been noticeable through the increase in wireless backlogs toward the end of 2017. The Oil & Gas segment is also at a record-breaking 2.5 Billion in backlog revenue. This segment has room to grow with much of these revenues coming from multi-year projects, and the improving commodity price environment overall. Finally, the Power Generation segment which at EoY was at 577 million in backlog revenues. These backlog revenues more than doubled YoY because of an increase in renewable energy, high demand, and the biomass facility construction. Management is very bullish on this segment and believes that this segment will be a significant driver of growth and performance for the coming years (Q4 Earnings Call).

2. Margin Improvement

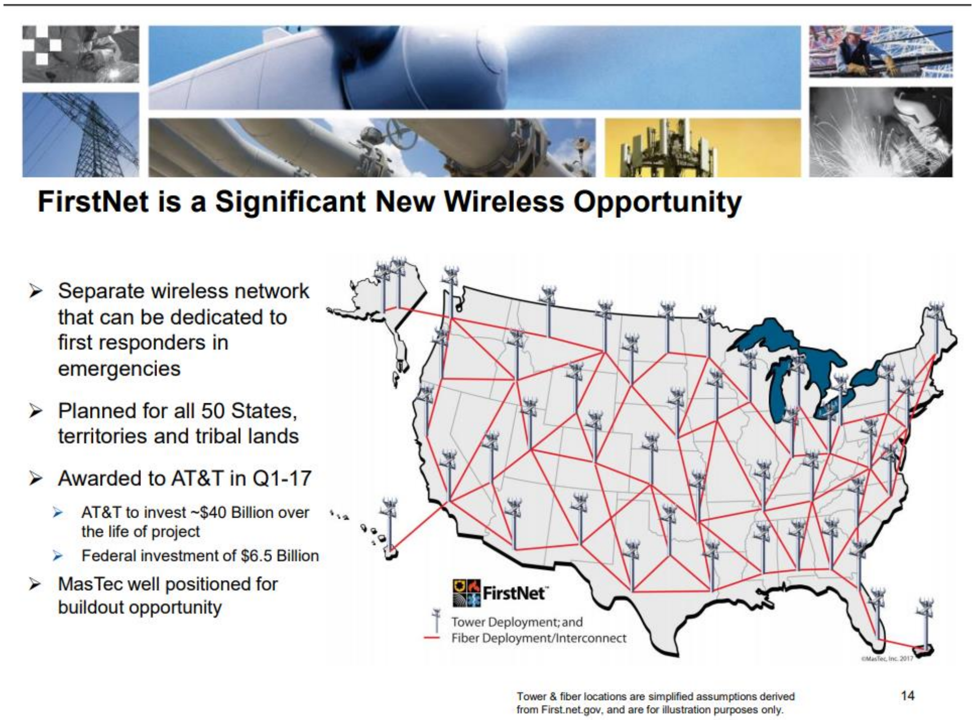
Historically, MasTec has fallen behind some of their major competitors in terms of margins. However, as of recent MTZ has consistently prove themselves as being the industry leader. Over the LTM, MasTec has been able to beat their competitors in terms of EBITDA margins as well as Net Income margins. As mentioned above, MasTec has seen expansion of EBITDA margins in every segment, which is leading to overall value creation. Looking into their margins further, MasTec has the largest margins in their largest segments (Communications and Oil & Gas). As you can see below, MasTec on a cash basis is beating their major competitors, such as Dycom Industries (DY) and Quanta Services (PWR). With this being said, MasTec's margins are only going to increase as they are going to be seeing benefits from the new corporate tax laws. Previously, MTZ was paying an effective tax rate of close to 39% and in their last earnings call, said they expect an effective tax rate of 29% through 2018. Management gave guidance of approximately a 10% (GAAP) EBITDA margin throughout 2018, however, I believe that this margin will be closer to the ~11% (GAAP) range. This would lead to an EBITDA of approximately 743.16 M compared to guidance, which was stated at 678.5 M. I believe that this is more than a reasonable estimate being that in the last 6 quarters, MTZ has beaten guidance with flying colors.

COMMON SIZE VIEW				
	6-year Historical Median		Last 12 Months	
	MTZ	Competitors	MTZ	Competitors
COR/Rev	86.7%	88.7%	87.0%	89.7%
(SGA+Other)/Rev	4.8%	5.8%	2.9%	5.8%
DPR/Rev	3.5%		2.5%	0.0%
EBITA Margin	5.0%	5.4%	7.6%	4.4%
Interest exp/Rev	2.2%	0.7%	2.6%	0.9%
AMORT/Rev	0.5%		0.3%	0.0%
SBC/REV	0.2%		0.2%	0.0%
Other Non-Operating Exp/Rev	-1.3%	-1.3%	-2.0%	-1.3%
Taxes/Rev	0.7%	0.7%	1.4%	0.5%
Net Margin	2.7%	5.2%	5.1%	4.3%

3. Growth Opportunities

Management stated in their last earnings call that "Our revenue growth for 2018 is expected to come from our Communications, Transmission and Power Generation segments". With this being said, MasTec has is in the perfect position to take advantages of macro factors and other growth opportunities.

- Communications Segment
  - FirstNet Opportunity – Separate wireless network that can be dedicated to first responders in emergencies. Planned to be integrated into all 50 states.
    - AT&T project expected to invest over $40 billion throughout the life of project
    - AT&T makes up approximately 25% of MasTec's total revenues
  - Estimated 47% CAGR of Mobile Data Traffic through 2021 this would result in a higher demand for wireless services, which MasTec is a leader in.
- Electrical Transmission Segment
  - Rebounding segment
  - Improving bidding environment with new & larger project awards, benefitting 2018 and beyond.
  - Continued interest in renewable power generation and use of electric vehicles provide additional opportunities for grid infrastructure expansion.
- Power Generation Segment
  - Proven top tier contractor in wind farm construction services, including civil, electrical substation and transmission line integration
  - Wind Operations and Maintenance (O&M) is a fast growing market due to aging wind assets.



OWNERSHIP SUMMARY

Primarily Investment Advisor's own MTZ and have been increasing their positions over the last year. A notable aspect to MTZ is the large interest by Hedge Fund Managers. The short interest would seem relatively high at approximately 12.25%, however, this is because of the shares outstanding compared to the float. Short interest is more accurately below 10%, with DTC of approximately 6.5 days. This goes to show that many Hedge Fund Managers believe that this company is going to grow significantly within the year. With this being said, CEO and Chairman, Jose R. Mas owns approximately 12.6% of shares outstanding. Some may see this as a red flag, however, I believe that Jose is going to continue to want to drive stock price seeing that he owns a significant amount of the company.

Compare Current Stats Against 03/18/17

Ownership Type	03/12/17	Curr	Change
11) Investment Advisor	60.72	62.26	+1.54
12) Individual	20.53	17.69	-2.84
13) Hedge Fund Manager	14.67	14.72	+0.05
14) Pension Fund	1.62	2.08	+0.46
15) Bank	0.75	1.53	+0.78
16) Insurance Company	0.40	0.54	+0.14
17) Sovereign Wealth Fund	0.90	0.43	-0.47
18) Brokerage	0.20	0.37	+0.17
19) Endowment		0.19	
20) Government	0.14	0.13	-0.01
21) Holding Company	0.05	0.04	-0.01

<u>OTHER INFORMATION</u>:

- Historically Q1 is worst performing quarter, with Q2 and Q3 being their best.
- Cisco predicts global network traffic to increase nearly threefold over the next five years, with a CAGR of approx. 25%, and broadband connection speeds will nearly double by 2021.
- “MasTec benefits greatly from tax cuts and jobs acts” – Q4 Earnings Call
- “Our expectation is that 2018 will be a record year for MasTec from a cash flow from operations perspective.” - CEO

VALUATION:

I believe that MasTec is currently mispriced at its current value of ~46 dollars. This could be reflected in the DCF model below.

DCF	2017	2018E	2019	2020	2021	2022		
	0	1	2	3	4	5		
NOPAT	373.17016	416.558136	510.8044143	530.6690304	612.4544927	661.4508521		
D&A(+)	$ 188.00	$ 220.01	$ 199.85	$ 219.83	$ 287.54	$ 310.54		
Change In W/C (-)	$(397.70)	$ (64.00)	$ (95.94)	$ (225.22)	$ (255.27)	$ (188.85)		
CAPEX(-)	$(123.40)	$ (146.68)	$ (199.85)	$ (219.83)	$ (239.61)	$ (258.78)		
FCF	$ 40.07	$ 425.90	$ 414.87	$ 305.45	$ 405.11	$ 524.36	Ke	10.100%
Discounted FCF		$ 392.95	$ 353.16	$ 239.90	$ 293.56	$ 350.58	Equity Risk Premium	6%
Terminal Value						$ 8,376.98	Kd	4.10%
Discounted TV						$ 5,600.75		
Value of Company						$ 7,230.91	WACC	8.4%
Cash(+)						$ 40.30		
Debt(-)						$ 1,368.60		
IV of Equity						$ 5,902.61		
S/O						82.8		
IV/Share						$ 71.29		
WACC	8.4%							
Terminal Growth Rate	2%							

I believe that these assumptions and mispricing is due to a couple of factors that I have adjusted into my model.

- Underestimates of revenue and EBITDA - Analysts are predicting mid to high single digits, however, MTZ has outperformed past their guidance historically and I believe revenue growth and resulting EBITDA growth of low double digits (11%)
- Company/Analysts Overestimating WACC
    - Bloomberg states WACC to be 10.5% for MTZ by using an equity risk premium of around 9%.
    - With this being said MTZ conducts business in the United States and Canada and should have a more realistic equity risk premium of approximately 6%.

DCF	2017	2018E	2019	2020	2021	2022
	0	1	2	3	4	5
NOPAT	373.17016	416.558136	510.8044143	530.6690304	612.4544927	661.4508521
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CAPEX(-)	$(123.40)	$ (146.68)	$ (199.85)	$ (219.83)	$ (239.61)	$ (258.78)
FCF	$ 40.07	$ 425.90	$ 414.87	$ 305.45	$ 405.11	$ 524.36
Discounted FCF		$ 384.96	$ 338.94	$ 225.56	$ 270.40	$ 316.35
Terminal Value						$ 6,194.15
Discounted TV						$ 3,737.01
Value of Company						$ 5,273.22
Cash(+)						$ 40.30
Debt(-)						$ 1,368.60
IV of Equity						$ 3,944.92
S/O						82.8
IV/Share						$ 47.64
WACC	10.6%					
Terminal Growth Rate	2%					

Ke	13.100%
Equity Risk Premium	9%
Kd	4.10%
WACC	10.6%

As you can see, with a WACC around the same as reported, I was able to get stock price within a dollar of current value, however, I believe that in reality a more realistic WACC for the firm would be within 8.5%-9.5% range.

My Estimates	
WACC	Stock Price
8.50%	$ 71.29
9.00%	$ 63.30
9.5%	$ 57.78
10.00%	$ 52.96