

April 11, 2018

International Speedway Corporation: (ISCA)

Jacob Perry

Sector: Consumer Discretionary
Industry: Entertainment Facilities
Current Price: \$39.55
Target Price: \$49.16

Company Description:

International Speedway Corporation, together with its subsidiaries, promotes motorsports themed entertainment activities in the United States. Its motorsports themed event operations consist principally of racing events at its motorsports entertainment facilities, which promote approximately 100 stock car, open wheel, sports car, truck, motorcycle, and other racing events. The company is also involved in food and beverage concession operations; the provision of catering services in suites and chalets; and the creation of motorsports-related programming content carried on radio stations, as well as Sirius XM Radio, a national satellite radio service.

Buy

Current Price: \$39.55

Target Price: \$49.16

52 Week Range: \$47.45-\$32.25

Operating Margin: 14.3%

Net Margin: 10.9%

Market Cap: 1.803B

Volume: 150,000

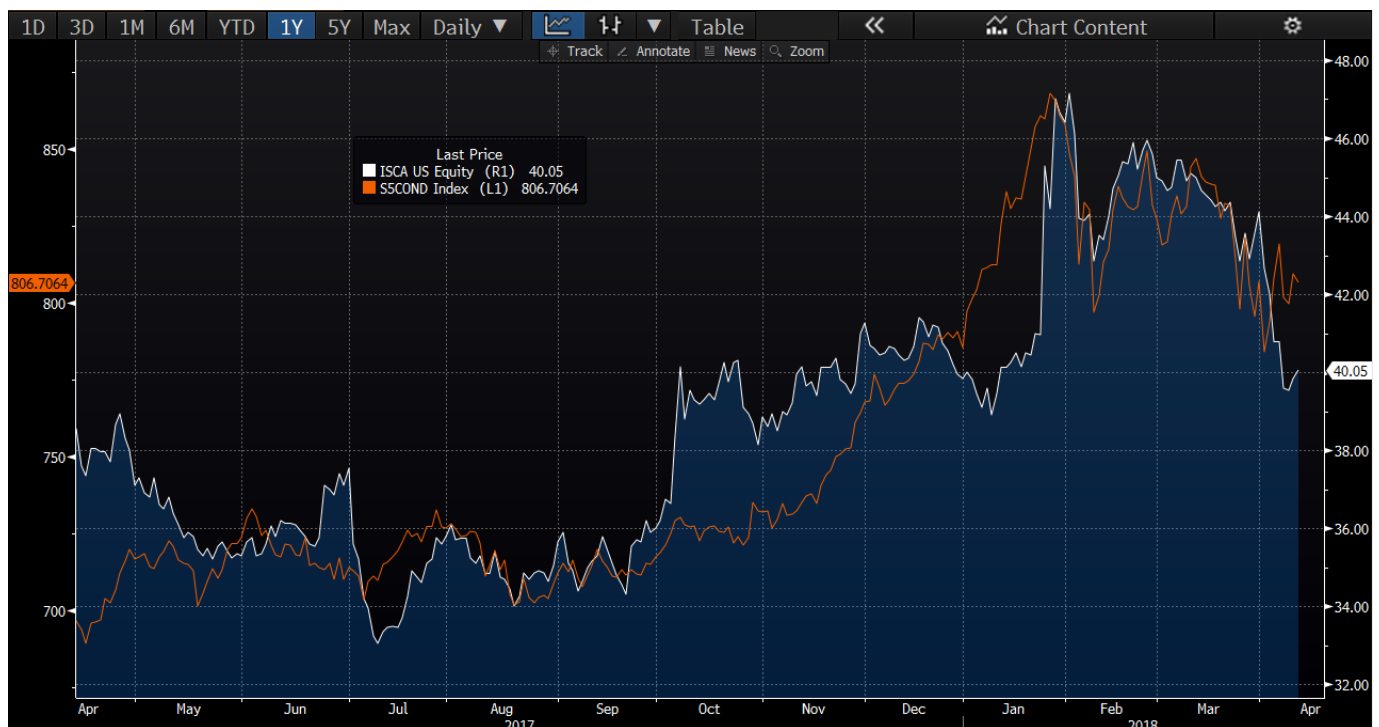
ROIC: 19.9%

WACC: 8.7%

Thesis: International Speedway Corporation shows an ability to consistently provide earnings that generate value for its shareholders. With the resurgence of auto racing, ISCA is poised to take advantage of the new popularity of the sport.

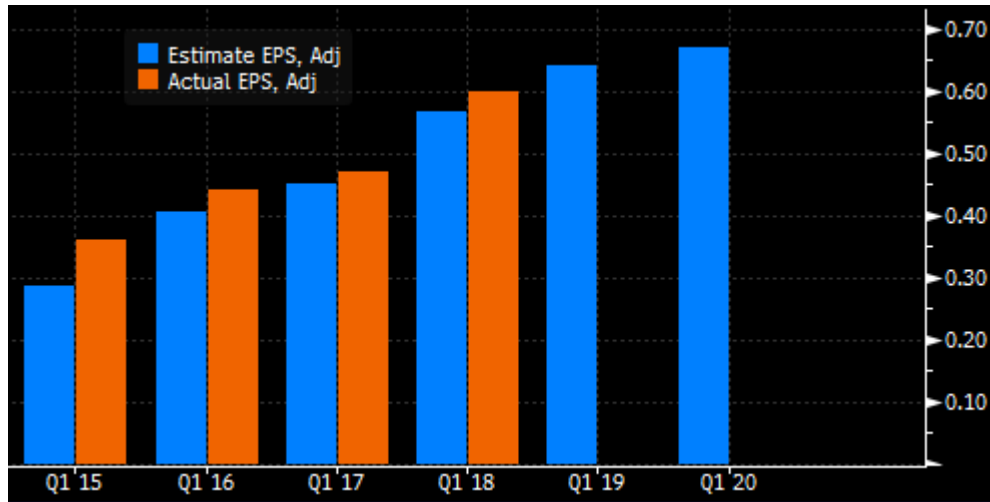
Catalysts:

- Short Term(within the year): Restructuring of current tracks, Tax act
- Mid Term(1-2 years): NASCAR popularity
- Long Term(3+): One Daytona fully operational



Earnings Performance:

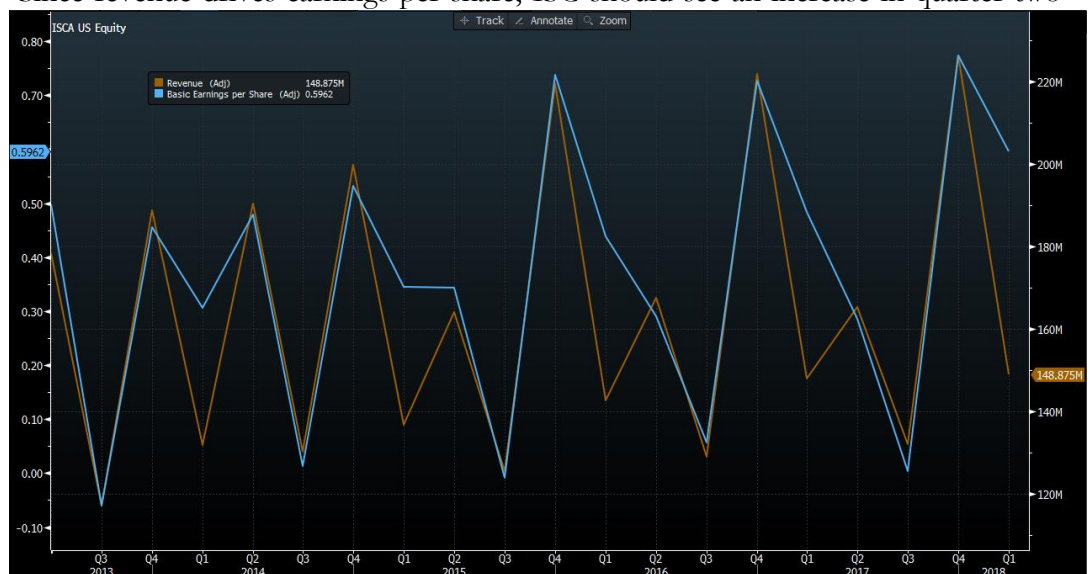
International Speedway Corporation has seen a consistent trend of beating their earnings per share estimate in quarter one. The most recent earnings call, on April 3, was in line with their trend of past quarter one results. In regards to the 2018 Q1 results, executives in the company have identified that they beat this year's Q1 earnings estimates on the basis of a tax cut. The effective tax rate for International Speedway is 27 percent. Non-GAAP earnings improved from \$0.47 per share to \$0.60 per share. Executives attributed the growth in earnings to the drop in effective tax rate for ISC. Without the initiation of a new tax rate, the earnings per share would have most likely missed estimates.



Revenue Growth varies depending on many attributes pertaining to auto racing. The majority of ISC's revenue comes from NASCAR based events. The most notable NASCAR race is most certainly the Daytona 500. Since ISC owns multiple tracks, NASCAR holds 22 races on average at ISC racetracks in one race

season. The tracks are different in their own unique ways, which gives ISC the ability to use them for many different auto events. This quarter, Daytona International Speedway hosted the Rolex 24 at Daytona, a race that spans over a continuous 24 hours. Strong corporate participation and sponsorship contributes to consistent revenue growth at the Rolex 24 and other ISC events. In addition to the increase in participation of corporate sponsors, the returns that specific racetracks are able to generate have also increased due to ticket price changes. The average price of a grandstand ticket at NASCAR Cup events increased to \$170, a 1% increase from 2017. Since revenue drives earnings per share, ISC should see an increase in quarter two

earnings as they have seen in the past. Systematically, quarter two is higher than quarter one. International Speedway has also seen occasions in which quarter two has been higher than quarter four regarding revenue. Either way, earnings will be higher in the next earnings call.



Competitors:

ISC competes in a very segmented market with little to no other public companies. As an entertainment business, they can have some parallels drawn between themselves and other companies such as SeaWorld, Six Flags, and Cedar River. Granted, they do not provide the same services. Although, these companies all compete for the same market of entertainment and for some amusement parks, they compete with direct tracks. For instance, SeaWorld competes directly with Daytona International Speedway during the race season. In depth focus on the margins for ISC will show how proficient and different they are compared to these other companies. ISC's assets are utilized in the production of their service, therefore they are depreciable assets. A depreciation to revenue ratio of over 15 percent shows its weight when comparing EBITA margins between ISC and other competitors. ISC's competitors show a 16 percent EBITA margin while ISC boasts a 19.9 percent margin. When looking at the bottom line, the net margin of ISC is double their competitors at 31.5 percent. Over the historical median, ISC's competitors show a stronger net margin than ISC. This is an indication that competitors lost ground versus ISC over the past six years and that ISC has made appropriate measures to increase their margins.

	COMMON SIZE VIEW			
	6-year Historical Median		Last 12 Months	
	ISCA	Competitors	ISCA	Competitors
COR/Rev	51.9%	61.1%	51.0%	62.8%
(SGA+Other)/Rev	18.6%	18.1%	13.8%	21.2%
DPR/Rev	14.0%		15.4%	0.0%
EBITA Margin	15.5%	20.8%	19.9%	16.0%
Interest exp/Rev	2.6%	3.7%	2.5%	2.0%
AMORT/Rev	0.0%		0.0%	0.0%
SBC/REV	0.4%		0.4%	0.0%
Other Non-Operating Exp/Rev	-3.1%	-5.0%	-26.2%	-5.5%
Taxes/Rev	4.2%	3.0%	11.7%	2.8%
Net Margin	11.3%	19.1%	31.5%	16.7%
Cash/Capital	10.7%	6.9%	13.8%	9%
NWC/Capital	-2.2%	0.0%	0.7%	3%
Operating Assets/Capital	84.5%	85.3%	79.5%	78%
Goodwill/Capital	7.1%	7.8%	6.1%	10%
Debt/Capital	19.4%	43.2%	16.5%	43%
Other Claims/Capital	0.0%	0.2%	0.0%	1%
Book Value/Capital	80.6%	56.6%	83.5%	55.6%

Short Interest:

Short Interest measures should play a role in whether this stock is a buy or sell due to its unique business. International Speedway Corporation has a 2.26 percent short interest of float, which is relatively low. I think

that short interest for ISC is in a spectrum that would promote a buy.

Mkt Cap	(USD)	1,790.8M
Shrs Out/Float		24.5M/23.9M
SI/% of Float		539.0k/2.26%
Days to Cover		4.3

One Daytona:

International Speedway Corporation has engaged in a long-term project in conjunction with Marriott Autograph Collection hotel to create a special hotel capturing the essence of Daytona. The project has been labeled One Daytona after the name of the newly built hotel. This project includes the construction of the surrounding areas to provide marketplaces, which ISC can rent out to retailers. One Daytona sits immediately across the street from Daytona International Speedway making it extremely convenient for fans. Leasing activity is currently ongoing and will continue to expand with the building of the new hotel, The Daytona. The hotel is a Marriott Autograph Collection hotel and has an expected opening in late 2018. Construction on the Shoppes at One Daytona, a retail dining venture, is currently in the process of being



completed. The entire One Daytona project is scheduled to be completed in 2020. With the completion of One Daytona, ISC is expecting \$10 million to be contributed to incremental EBITDA. Estimates of returns on capital are showing dramatic increases on their values that have been showing consistent growth for the past three years. ISC has shown their ability to adapt their facilities to the changing climate of auto racing.

In Millions of USD except Per Share 12 Months Ending		2013 Y 11/30/2013	2014 Y 11/30/2014	2015 Y 11/30/2015	2016 Y 11/30/2016	2017 Y 11/30/2017
Returns						
 Return on Common Equity		3.57	5.12	4.13	5.47	7.75
 Return on Assets		2.29	3.29	2.70	3.56	5.06
 Return on Capital		3.55	4.62	3.82	5.11	7.00
 Return on Invested Capital		2.58	3.21	2.68	3.32	5.01

The One Daytona project was created to bring more race fans back to the track for a more holistic experience. Other projects at tracks like Richmond and Kansas are underway in an effort to bring more fans back to the tracks. Integration of pit zones and garages (places which fans were not permitted to enter due to injury hazards and driver protection) are being implemented to bring fans closer to the action than ever before. The ability to talk with your favorite driver and see the race teams work on the cars are proving to

make fans more eager to come back for more races. The garage areas are going to bring more fans back to NASCAR events, which will bring more revenue in return.








NASCAR:

NASCAR has the biggest impact on the performance of ISC. The health of NASCAR as a sport has been in recovery in the past years. Auto racing has lost many popular racers due to retirement, injury and even death.

It has been argued that since the passing of Dale Earnhardt at Daytona International Speedway in 2001, the popularity of the sport has suffered. Legendary racing names like Dale Earnhardt Jr. and Jeff Gordon announced their retirement in the past two seasons and the upcoming retirement of seven-time champion Jimmie Johnson will leave the sport with a large hole for fans. Executives of NASCAR have been baffled on how to compete with other sports and leagues such as the NFL, MLB, and even golf. The



health of ISC is directly correlated with the health of NASCAR. If popularity and viewership rises in NASCAR, ISC will see the spike in their revenues for the event as well as the broadcast portion of their business. Broadcast is a relatively smaller portion of the company's revenues but still constitutes \$34 million of their overall revenue. NASCAR has been active in promoting their brand to encourage more new viewers. The lack of big personalities in the sport has been a struggle for viewers to remain engaged in auto racing.

In Millions of USD except Per Share		2013 Y	2014 Y	2015 Y	2016 Y	2017 Y
12 Months Ending		11/30/2013	11/30/2014	11/30/2015	11/30/2016	11/30/2017
Motorsports Event						
 Revenue		589.4	610.0	607.5	630.2	639.6
 Operating Income		82.5	99.3	89.4	107.7	97.3
 Assets		1,520.1	1,621.7	1,682.7	1,651.8	1,644.1
 Depreciation and Amortization		69.7	84.6	89.8	97.8	104.9
 Capital Expenditures		-81.9	-177.3	-144.6	-100.6	-84.2
Radio Network Production & Other						
 Revenue		25.6	44.0	40.0	33.0	33.8
 Operating Income		-3.8	-5.9	-3.8	2.1	-1.1
 Assets		497.4	455.9	439.5	520.8	564.1
 Depreciation and Amortization		7.2	5.7	4.9	4.3	4.8
 Capital Expenditures		-3.6	-6.6	-10.4	-40.1	-60.9

Without somebody to watch or cheer for, fans are directing their attention away from NASCAR. This is being addressed by bringing in new drivers to help boost more comparisons between drivers and fans. Drivers like Erik Jones, a 21-year-old prodigy of popular driver Kyle Busch, looks to bring more young viewers to the sport. NASCAR has seen more viewers come back to the sport since its stagnation in the early 2010s. The future looks brighter with new drivers and new facilities in the sport.

International Speedway Corporation (ISCA)

Analysis by Jacob Perry

4/9/2018

CENTER FOR GLOBAL FINANCIAL STUDIES

NEUTRAL

Current Price:

\$39.55

Intrinsic Value

\$41.60

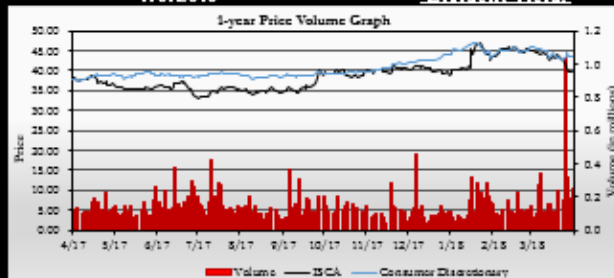
Dividend Yield:

1.1%

Target Price

\$45.10

Target 1 year Return: 15.11%
Probability of Price Increase: 99%



Description	
International Speedway Corporation, together with its subsidiaries, promotes motorsports themed entertainment activities in the United States.	
General Information	
Sector	Consumer Discretionary
Industry	Hotels, Restaurants and Leisure
Last Guidance	February 12, 2018
Next earnings date	June 29, 2018
Market Assumptions	
Estimated Equity Risk Premium	5.08%
Effective Tax rate	27%

Market Data	
Market Capitalization	\$1,790.83
Daily volume (mil)	0.25
Shares outstanding (mil)	44.21
Diluted shares outstanding (mil)	44.44
% shares held by institutions	109%
% shares held by investment managers	46%
% shares held by hedge funds	4%
% shares held by insiders	13.17%
Short interest	1.22%
Days to cover short interest	3.37
52-week high	\$47.45
52-week low	\$32.25
Volatility	24.08%

Quarter ending	Revenue	EBITDA
2/28/2017	3.48%	1.47%
5/31/2017	-0.74%	-1.83%
8/31/2017	2.81%	9.90%
11/30/2017	1.66%	3.80%
2/28/2018	-1.60%	-4.23%
Mean	1.12%	1.82%
Standard error	1.0%	5.1%

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-Rating)	-0.812%
Credit Model Score (Non-Rating)	bbb

Industry and Segment Information	
LTM Revenue by Geographic Segment	LTM Revenue by Business Segment
United States--100%	Motorsports Event--95%
--	All Other--5%
--	Intersegment Revenue--0%
--	--
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Management	
Kennedy, Lara	CEO & Vice Chairman of the Board
Saunders, John	President
Chitwood, Joel	Chief Operating Officer and Executive Vice President
Walke, Daryl	Chief Marketing Officer and Executive Vice President
Hauer, Daniel	Advisor
France, James	Chairman of the Board & Assistant Treasurer

Total Compensation Growth	
CEO & Vice Chairman of the Board	-100% per annum over 4y
President	-100% per annum over 4y
Chief Operating Officer and Executive Vice President	-100% per annum over 3y
Chief Marketing Officer and Executive Vice President	-100% per annum over 2y
Advisor	-100% per annum over 4y
Chairman of the Board & Assistant Treasurer	-100% per annum over 2y

Peers	
Speedway Motorsports, Inc.	Vail Resorts, Inc.
SeaWorld Entertainment, Inc.	--
--	Yamori Land Co., Ltd.
Cedar Fair, L.P.	Hoburn Racecourse plc
Dover Motorsports, Inc.	--

Profitability	
Return on Capital (GAAP)	6.6%
Operating Margin	20%
Revenue/Capital (GAAP)	0.33
ROE (GAAP)	15.0%
Net margin	31.5%
Revenue/Book Value (GAAP)	0.47

ISCA Historical	
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ISCA (LTM)	
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ISCA (LTM)	ISCA (LTM)
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ISCA (LTM)	ISCA (LTM)

Invested Funds	
ISCA (LTM)	ISCA (LTM)
ISCA (LTM)	ISCA (LTM)
ISCA (LTM)	ISCA (LTM)
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ISCA Historical	
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ISCA (LTM)	
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Capital Structure	
ISCA (LTM)	ISCA (LTM)
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ISCA (LTM)	
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Fairness Assumptions	
Revenue Growth CAGR	12%
Average Operating Margin	21%
Average Net Margin	12%
Growth in Capital CAGR	6%
Growth in Claims CAGR	6%
Average Return on Capital	7%
Average Return on Equity	7%
Average Cost of Capital	8%
Average Cost of Equity	9%

Explicit Period (4 years)	
Explicit Period (4 years)	Explicit Period (4 years)
Explicit Period (4 years)	Explicit Period (4 years)
Explicit Period (4 years)	Explicit Period (4 years)
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Continuing Period	
Continuing Period	Continuing Period
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Continuing Period	Continuing Period

Valuation	
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Sensitivity Attribution Analysis	
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Paul Martinez

Bjorklund Fund

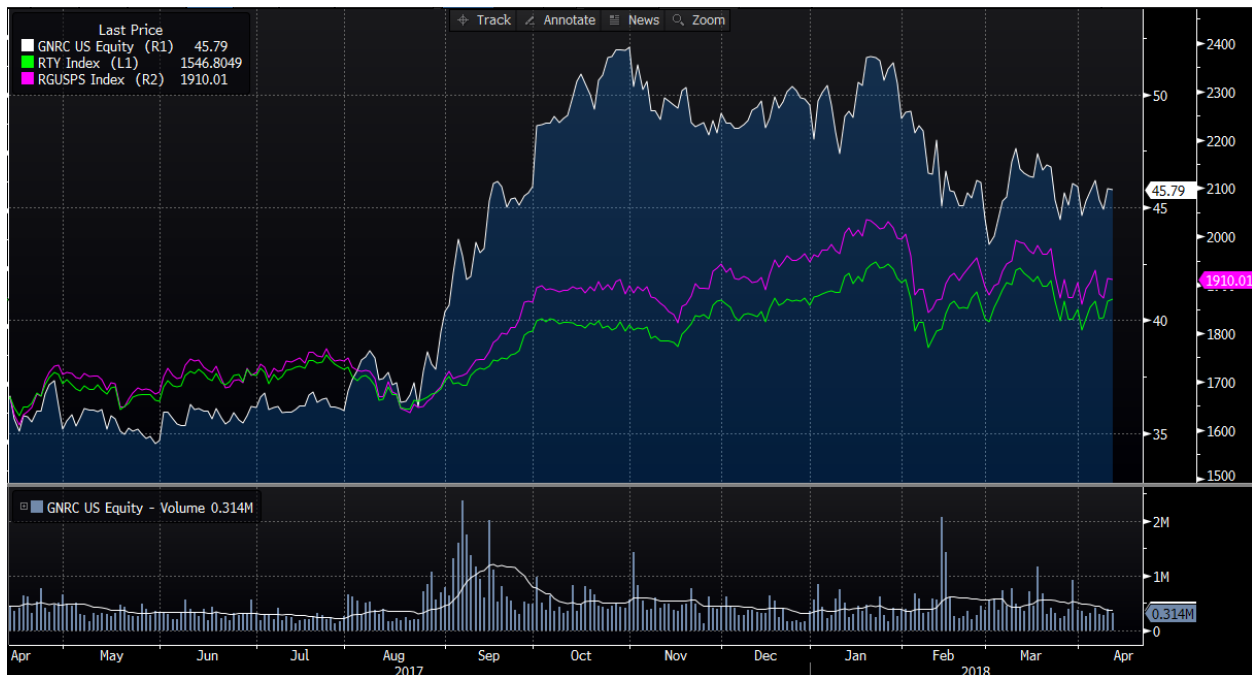
April 11th, 2018

Generac Holdings, Inc. (GNRC)

SUMMARY: Buy Generac Holdings, Inc. (GNRC) at its current price of \$45.79. I believe that there is a possible bullish return of close to 32% and a realistic return of approximately 17% with target prices of ~ 61 and ~54 respectively.

BRIEF DESCRIPTION: Generac is a leading global designer and manufacturer of a wide range of power generation equipment and other engine-powered products serving the residential, light commercial and industrial markets. In addition, Generac is a leading provider of light towers, mobile generators, flameless heaters, outdoor power equipment, and industrial diesel generators. The company operates primarily in the following segments:

- Residential Power Products – 52% of Total Revenues
- Commercial/Industrial Power Products – 41% of Total Revenues
- Other Services – 7% of Total Revenues



1. “Powering Ahead”

- a. Management’s strategic plan to create value and drive stock price.
 - i. *Drive* continued increase in the penetration rate of home standby generators
 - ii. *Expansion* of Commercial and Industrial segments to continue gaining market share
 - iii. *Capitalize* on Generac’s competitive advantages
 - iv. *Growing and improving* profitability global business

2. Strategic Acquisitions

- a. Generac has completed ten acquisitions since 2011. Through these acquisitions, Generac has been able to expand their geographic capabilities and diversify their product lines.
 - i. Recent acquisitions – Selmec and MotorTech
 - ii. Margin expansion – Selmec margins are higher than current margins
 - iii. International exposure – Mexico City, Mexico and Celle, Germany
 - 1. Over 6,000 dealers
 - iv. Product line diversity – New products, customers, end markets

3. Industry Position

- a. Generac is an industry leader
 - i. Strong organic growth
 - 1. Q4 2017 showed organic growth of 17% from prior year quarter
 - 2. Strong core international growth in all segments
 - ii. Long-term growth themes
 - 1. Tax reform will positively impact GNRC
 - 2. Increased products allows for new market penetration which results in market opportunities

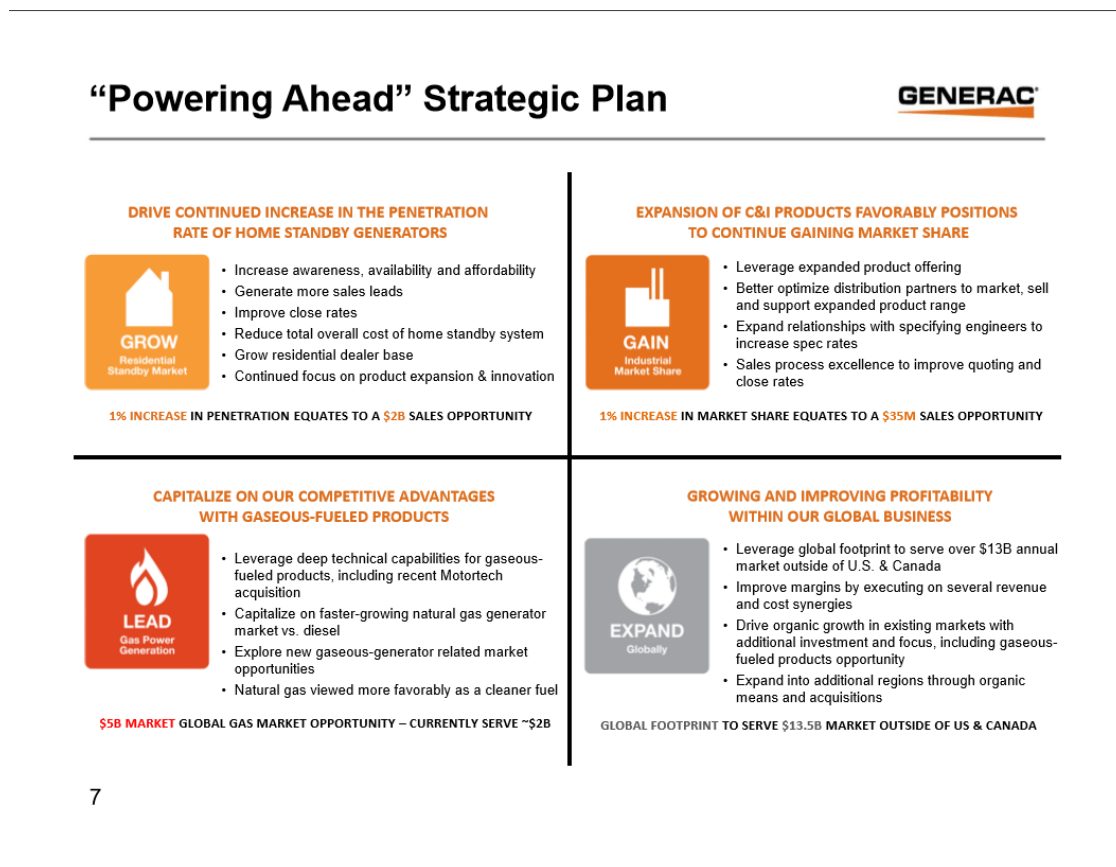
I believe that Generac Holdings has put in place a core strategic plan and has seen constant organic and inorganic growth of mid to high single digits. Generac has recently put forth very conservative guidance because they do not include/forecast for any major weather related event. Realistically, Generac is going to beat their guidance and outperform throughout FY 2018.

INVESTMENT THESIS:

1. “Powering Ahead”

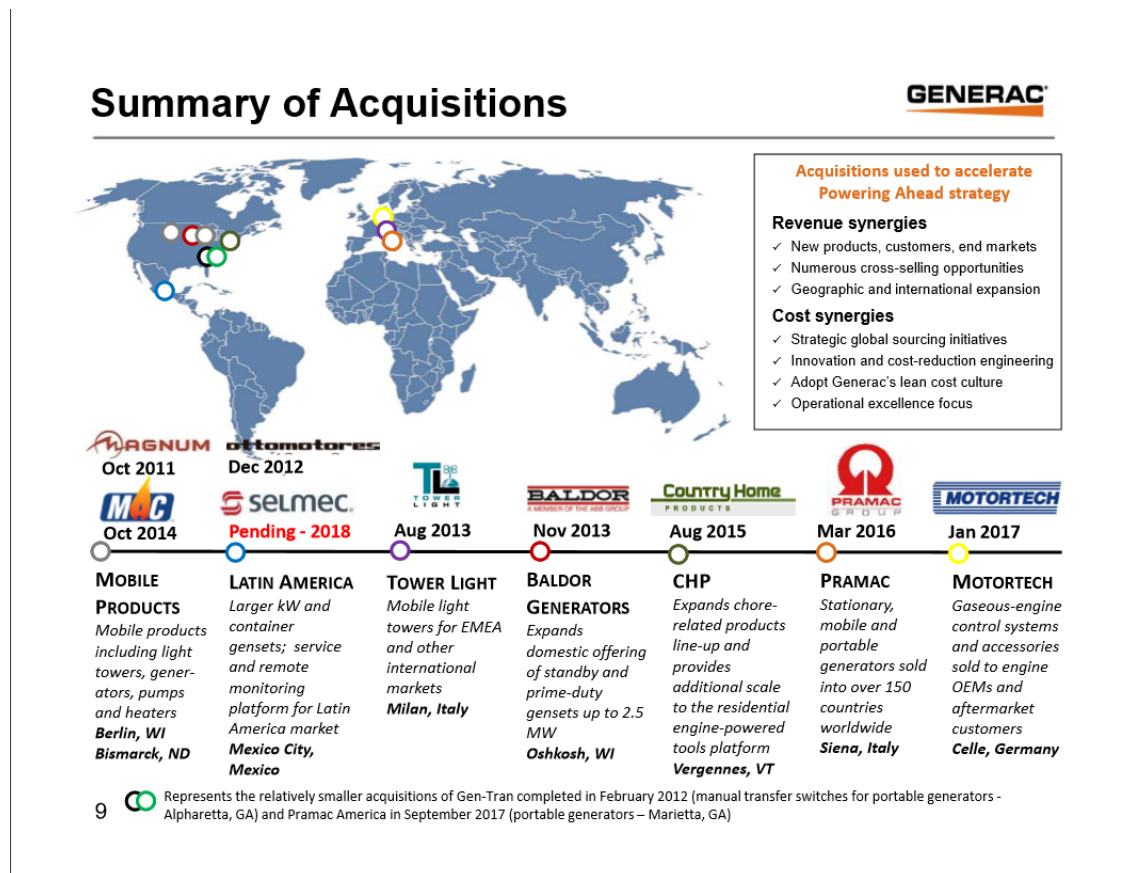
Powering Ahead is management’s strategic plan, which frameworks their core goals and investment opportunities. This plan is broken down into four major drivers. First being Generac’s focus on continuing to grow their residential standby generator. This is what Generac is most known for and currently are a leader in. With this being said, their primary goals in this area are to increase awareness and cut costs. By increasing awareness, management has estimated that for 1% increase in penetration there is approximately \$2 Billion in sales opportunity. Next management focuses on their other segment, Commercial and Industrial products. Generac looks to gain more and more market share in this segment. Generac has been

doing this by expanding their distribution channels both domestically and internationally. For every 1% increase in market share there is approximately \$35 Million in sales opportunities. Generac's third major driver in this plan is to capitalize on their competitive advantages. By using cleaner burning and more cost effective natural gas, Generac has been able to attract more business and increase market share. Finally, what I believe is the most important aspect of Generac's business, expanding their global presence. In 2017, Generac was able to increase their international revenues 22% compared to 2016. Management has been focusing on this market through strategic acquisitions of companies, such as Selmec and MotorTech. International business aims to improve margins, and cut costs based on synergies. Management believes that outside of the US & Canada there is a \$13.5 Billion dollar market still to serve in this industry. I believe that this core strategic focus will allow management to focus on what creates value and drives growth.



2. Strategic Acquisitions

Over the past seven years, Generac has acquired ten companies all around the world. Below is a snapshot of Generac's M&A history.



There are three recent acquisitions that I want to focus on, which I believe are going to create the most synergies and provide the most benefit to Generac in the future.

- **Pramac Industrial – Siena, Italy (2016)**
 - Generac acquired majority share in 2016 and then acquired the rest of Pramac shortly after.
 - Pramac is a manufacturer of stationary and mobile generators for commercial and industrial applications.
 - Pramac sells into more than 150 countries and has a broad distribution network.
- **MotorTech – Celle, Germany (2017)**
 - Generac acquired MotorTech at the beginning of 2017
 - The acquisition of MotorTech added gaseous-engine control systems and accessories to Generac's product line. These products are primarily sold to European gas-engine manufacturers and to aftermarket customers.
 - "By combining resources and technology, Generac and MotorTech will lead the industry in innovative, spark-ignited engine generator offerings" – EVP at Generac
 - Q4 2017 - \$9.6 Million in net sales
- **Selmec – Mexico City, Mexico (2018)**

- On February 13, 2018, Generac signed a purchase agreement to acquire Selmeq Equipos Industriales, headquartered in Mexico City.
- Selmeq offers a market-leading service platform and specialized engineering capabilities, together with robust integration, project management and remote monitoring services.
 - Selmeq produces industrial generators in the ranges from 10 kW to 2,750 kW, which fills a niche market that Generac previously did not have.
- Higher margins

As you can see, Generac has made strategic acquisitions. These acquisitions have allowed Generac to increase their distribution channels and grow internationally, diversify their product line and service more customers, and finally, increase revenues and expand margins. Due to these major three major acquisitions, I believe that Generac will be able to increase revenues, cut costs, and expand margins.

3. Industry Position

With all of their strategic acquisitions, Generac has been able to position themselves as an industry leader in many ways. Generac has been able to expand their global footprint and increase market share throughout each acquisition. In addition to this inorganic growth, Generac has seen strong organic growth both domestically and internationally. During Q4 2017, GNRC experienced growth all across the board. Residential Products were up 11.2%, Commercial and Industrial Products were up 27.1% and International sales grew 41.8%. Currently, Generac does majority of their business in the United States, however, management hopes to expand more globally. Furthermore, Generac has many macro trends that are leaning in their favor as well. One example is President Trump's tax reform. Generac currently has an effective tax rate of approximately 35%, but is expecting large benefits in their bottom line moving forward. Furthermore, below are some other macro factors that will lead to business for Generac during 2018 and beyond.

- Residential Segment
 - Aging and underinvested grid
 - Favorable demographics
 - Heightened power outages
- Commercial & Industrial Segment
 - Increase in global footprint with Pramac acquisition
 - Telecommunications are quickly growing, which is generating a crucial need for backup power for major telecommunications infrastructure

OWNERSHIP SUMMARY:

Investment Advisor's own close to 90% of GNRC and have been increased their position over the past year. One aspect to note while looking at Generac's ownership summary is seeing that Hedge Fund Managers have been decreasing their position. Hedge Funds normally have a

short-term focus, exited their position, and assumed their profits. Over this, same period, GNRC stock price is up more than 31%.

Compare Current Stats Against		04/08/17	
Ownership Type	04/02/17	Curr ↓	Change
11) Investment Advisor	85.76	88.97	+3.21
12) Hedge Fund Manager	7.61	4.14	-3.47
13) Pension Fund	1.13	2.11	+0.98
14) Individual	2.09	1.59	-0.50
15) Sovereign Wealth Fund	0.84	0.98	+0.14
16) Insurance Company	1.24	0.96	-0.28
17) Bank	0.80	0.91	+0.11
18) Government	0.22	0.22	0.00
19) Brokerage	0.27	0.08	-0.19
20) Foundation		0.02	
21) Unclassified	0.01	0.01	0.00

April 13, 2018

Chesapeake Utilities Corp. : CPK

Matt Lucarelli

Sector: Utilities

Industry: Natural Gas Utilities

Current Price: \$74.35

Target Price: \$87.54

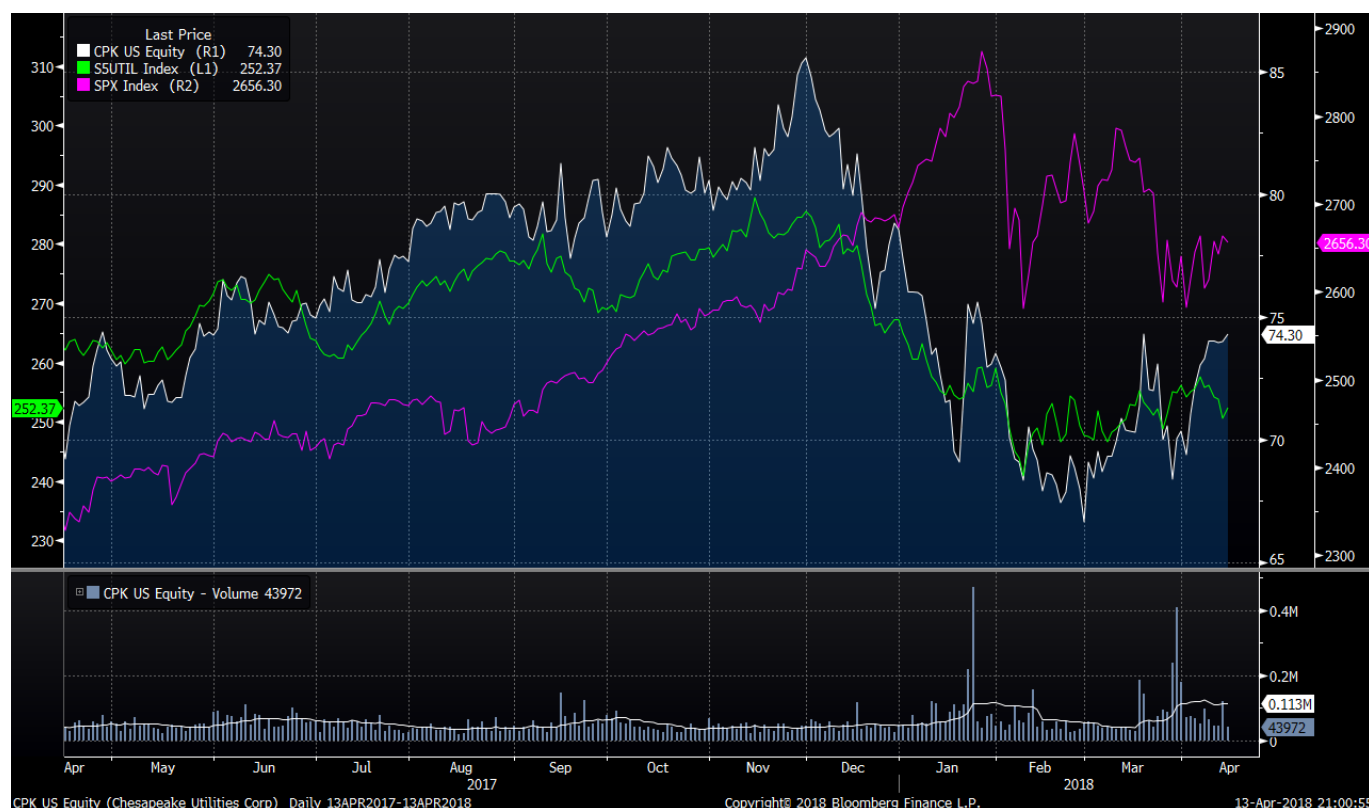
Company Description: Chesapeake Utilities Corporation is a diversified utility company that specializes in providing natural gas transmission and distribution, propane distribution, and information technology services. They distribute natural gas to residential, commercial, and industrial customers in Delaware, Maryland, and Florida.

BUY

Current Price: \$74.35
 Target Price: \$87.54
 Market Cap: \$1.216 billion
 52 Week Range: \$66.35 - \$88.35
 Beta: 0.72
 WACC: 6.76%
 ROIC: 7.37%
 EBITDA Margin: 21.12%
 Credit Rating: A-

Catalysts:

- **Short Term (within the year):** Earnings announcement May 2nd, 2018. 2017 Eastern Shore Natural Gas Expansion in service through 2018. Recent tax reform.
- **Mid Term (1-2 years):** Northwest Florida Expansion and other Florida Pipeline Expansions. Expansion of propane vehicular platform through AutoGas, where propane is the clean-burning fuel alternative.
- **Long Term (3+):** Organic growth in existing markets and future expansion of pipelines into new states.



Thesis:

Chesapeake exhibits robust revenue growth, net income growth, and a largely solid financial position with reasonable debt levels by most measures. In the short-term the company can expect a strong earnings announcement on May 2nd, 2018 as well as the positive effects from the recently completed project of the Eastern Shore Natural Gas Expansion. For the mid-term catalysts, Chesapeake is motivated to further expand both in northwest Florida and their Florida pipeline service for natural gas. In addition, the company seeks to expand part of their unregulated sector as well, which includes them expanding their propane vehicular platform through AutoGas, where propane is the clean-burning fuel alternative. While these projects can be expected to be completed before the end of 2018, the company will not experience growth from these synergies until 1-2 years, which is why this is a mid-term catalyst. In the long-term, Chesapeake is determined to continue expanding through organic growth and by potentially expanding their pipelines into already occupied states or developing distribution and pipelines into new states. Recently, the utilities sector has been underperforming relative to the market, however, despite an underperformance in the sector, the proposed catalysts can assure that Chesapeake will outperform the market and their competitors in the upcoming months.




Segment Analysis:

Chesapeake Utilities operates in two main segments, regulated energy and unregulated energy. Year over year the company has experienced increasing residential, commercial, industrial customers equaling a total of over 240,000 distribution customers. Chesapeake Utilities Corporation owns multiple companies, which helps them strive towards creating a successful diversified energy company.



Chesapeake's regulated segment is their largest segment comprised of three different operations. First, they have their natural gas distribution operations in Delaware, Maryland and Florida. Second, is their electric distribution operations in Florida. Last, is their natural gas transmission operations on the Delmarva Peninsula and in Florida. Their natural gas and electric distribution operations are local distribution utilities and generate revenues based on tariff rates approved by the PSC of each state in which they operate. The regulated segment consists of Chesapeake utilities, Eastern Shore natural gas, Florida Public utilities, Peninsula pipeline, and Sandpiper energy. Over the years, the company's regulated segment contribution to total revenue has been decreasing relative to the unregulated segment. It accounted for a 52.8% of the total revenue in 2017. However, with the recently completed projected for Eastern Shore natural gas, the regulated segment may account for a larger percentage of total revenue. In 2017 operating income for the Regulated Energy segment increased by \$3.3 million. The Eastern Shore natural gas expansion project cost \$117 million and is estimated to provide a \$15.8 million annual margin in the first full year of operations. As for the project itself, there are 23 miles of pipeline looping in PA, DE, and MD with 17 miles of new mainline extension. There were upgrades to the TETCO pipeline and two new pressure control stations were added. With these upgrades, the total capacity will increase to 61,162 dts/d on Eastern Shore's pipeline system, which is a 26% increase in capacity.

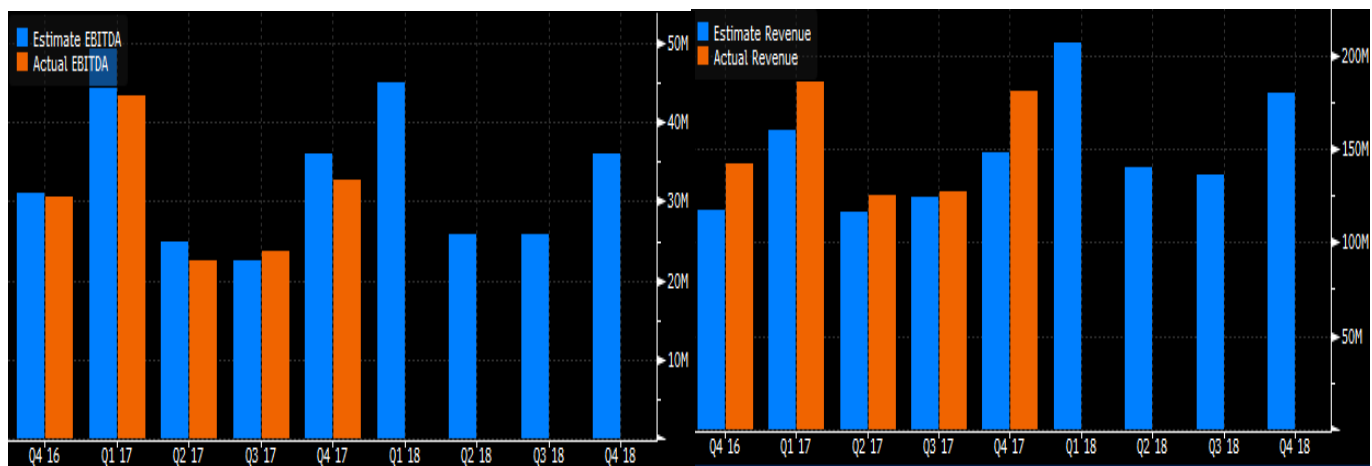
Another project currently underway are the Florida pipeline expansions. The first one is the Northwest pipeline expansion, which is estimated to cost \$35.9 million with a \$6.0 million annual gross margin. It is looking to be completed by the end of the second quarter of 2018 and will have a 38 mile transmission and 5 mile distribution. Currently, there are customer commitments of 68,500 dts/s and there is a total capacity of 80,000 dts/s. The other two projects are the New Smyrna pipeline expansion and the Belvedere pipeline expansion, which will both be completed in the third quarter of 2018. Together, they are a \$12.9 million investment, generating a projected annual return of \$2.0 million running a total transmission pipeline if 16 miles.

12 Months Ending	12/31/2014	12/31/2015	12/31/2016	12/31/2017
 Revenue	498.8 100.0%	459.2 100.0%	498.9 100.0%	617.6 100.0%
 Regulated Energy	299.3 60.0%	301.9 65.7%	305.7 61.3%	326.3 52.8%
 Unregulated Energy	184.6 37.0%	162.1 35.3%	203.8 40.8%	324.6 52.6%

The unregulated segment provides five energy-related service to their customers. They are, propane distribution, natural gas marketing, unregulated natural gas supply, gathering and processing, electricity and steam generation, and other unregulated services. The difference between the regulated and the unregulated segment is that revenues generated from this segment are not subject to any federal, state or local pricing regulations. Their propane distribution operations sell propane to residential, commercial/industrial, and wholesale customers, including AutoGas customers, in Delmarva and southeastern Pennsylvania, through Sharp and Sharpgas, and in Florida through FPU and Flo-gas. A majority of their customers are classified as “bulk delivery” customers. In Florida, they also offer metered propane distribution to residential and commercial customers, in which they are billed monthly. One of their unregulated companies, PESCO competes with regulated utilities and other unregulated third-party marketers to sell natural gas supplies directly to commercial and industrial customers through competitively-priced contracts. Another, is Aspire Energy, which is an unregulated natural gas infrastructure company that owns approximately 2,600 miles of pipeline systems in 40 counties throughout Ohio. The majority of Aspire Energy’s margin is derived from long-term supply agreements with Columbia Gas of Ohio and CGC, which together serve more than 20,000 end-use customers. Eight Flags provides electricity and steam generation services through its CHP plant located on Amelia Island, Florida. Eight Flags also sells steam, pursuant to a separate 20-year contract, to the industrial customer that owns the property on which Eight Flags' CHP plant is located. The catalysts for the unregulated segment is seen through the expansion of propane vehicular platform through AutoGas, where propane is the clean-burning fuel alternative. In addition, the company is receiving a 100% expense deductibility for capital investments in their unregulated businesses, which is a significant benefit and will be valuable, giving them the opportunity to grow and expand their unregulated portfolio.

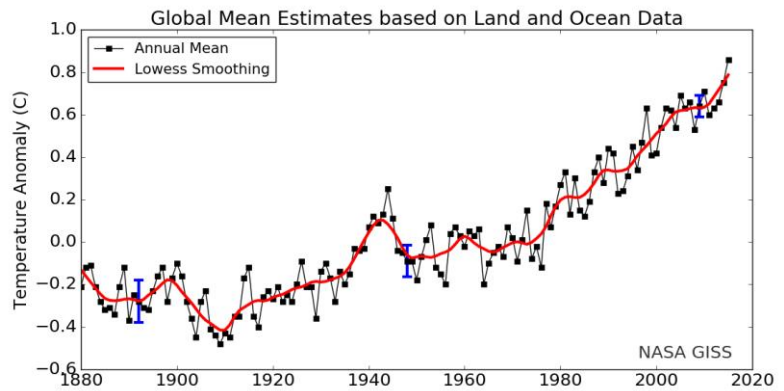
Earnings Performance:

Chesapeake Utilities Corporation has experienced an increasing revenue growth and EBITDA year over year. Their revenue growth came in higher than the industry average of about 15.60%. In the chart below, Chesapeake has consistently outperformed their estimated revenue quarter over quarter and is expected to continue to grow their revenue for the remainder of 2018. A strong earnings announcement in May and the recognition of revenue from the previously completed \$117 million expansion project in 2017 accounts for the estimated growth in revenue for Chesapeake. In addition, because the recent tax reform in 2018, Chesapeake has also recognized an increase in their EPS. Also, due to colder weather conditions this winter, in the fourth quarter of 2017, this increased customer consumption and generated \$1.9 million in additional gross margin compared to 2016. While revenue did increase and outperform its estimates, the company's EBITDA was lower than its estimates, but is expected to be more accurate with future estimates. The company experienced a \$17.2 million increase in operating expenses for both their regulated and unregulated sectors in 2017. The drivers of this include \$4.1 million in higher depreciation, asset removal and property tax costs associated with recent capital investments; \$2.9 million in higher operating expenses for Eight Flags' CHP plant in support of the higher margin generated; \$6.5 million in higher payroll expenses for additional personnel to support growth; \$1.0 million in regulatory expenses, due primarily to costs associated with Eastern Shore's rate case filing in 2017, which was partially offset by \$529,000 in reduced credit, collection and customer services expenses, exc. While these unexpected operating expenses adversely affected their EBITDA, they are a onetime thing and Chesapeake will be closer to their future estimates for the remainder of 2018.

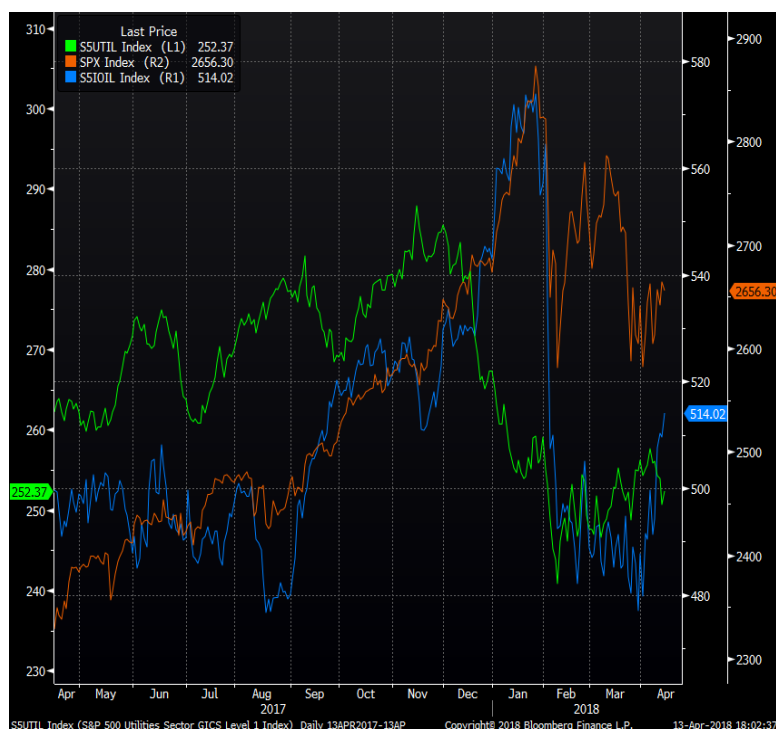


Industry Outlook:

The utility industry and the stock market as a whole have experienced more significant stock price and volume fluctuations that have affected stock prices in ways that may have been unrelated to operating performance. In the utility sector, revenues are directly affected by weather conditions. Generally, in the winter more customers will consume a higher amount of natural gas for heating purposes. In the summer, people typically use a higher amount of electricity for cooling purposes. For this reason, revenues for Chesapeake are usually higher in both the first quarter and the fourth quarter. With more unpredictable climate changes, Chesapeake will be positively and negatively affected. If the climate becomes harsher, meaning hotter summers and colder winters, Chesapeake and other utility companies will experience growing demand for natural gas and electricity. However, with harsher climates, comes more violent storms. Furthermore, more storms, creates the possibility of Chesapeake's pipelines and facilities being damaged. In addition, if their customers' homes are destroyed, they will lose customers and business.



Currently, we are in a rising interest rate environment. Since companies in the utilities sector generally require significant infrastructure, companies usually carry large amounts of debt, meaning they are sensitive to interest rates. As interest rates continue to increase, so does the cost of capital, making future projects and capital expenditures more expensive. However, diversified utilities have actually performed better and have been benefiting from the tax-law changes, seeing a boost in their EPS.

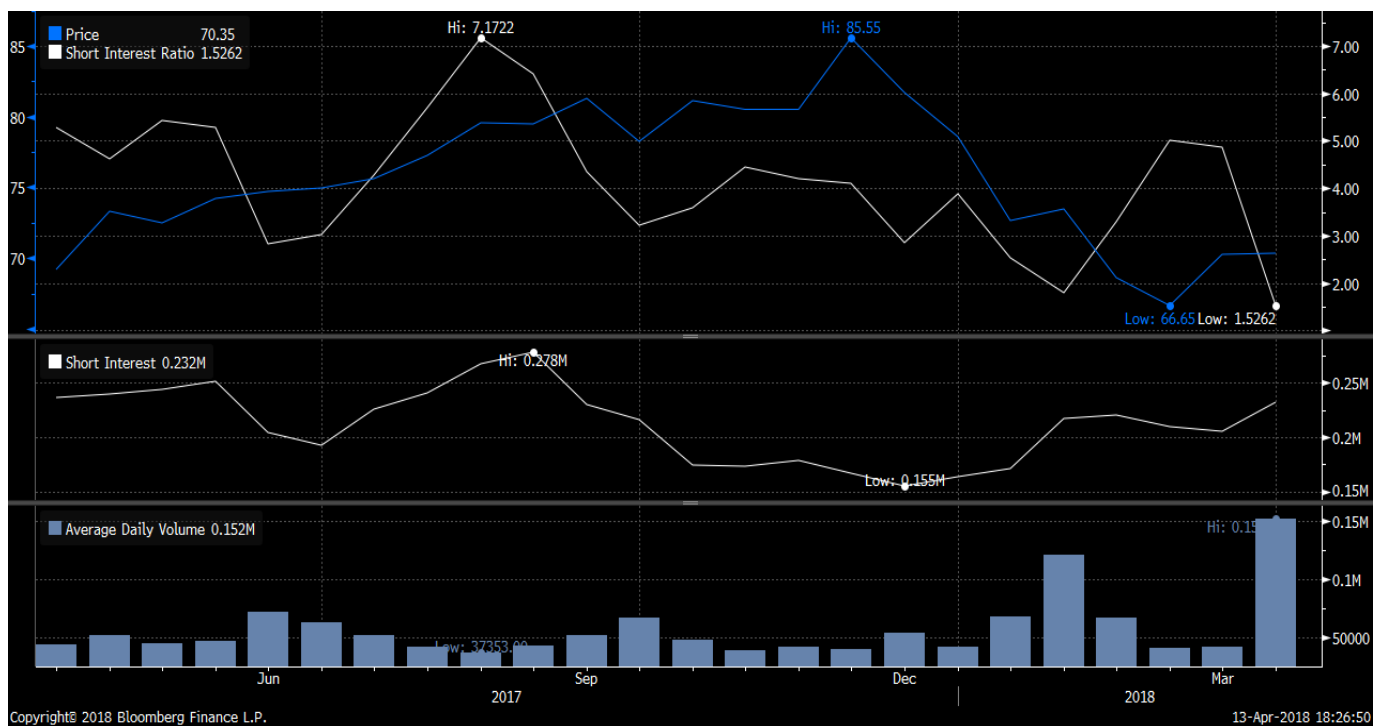


To the left shows the oil & natural gas index (blue), the utilities index (green), and the S&P 500 index (orange). We can see how the utilities index moves inversely and directly with the other two indexes. As the prices of natural gas increases, utility companies are negatively affected. Considering many utilities have contracts setup, they cannot change their prices. In addition, it is also difficult to increase utility prices if natural gas prices increase because customers will switch to a cheaper alternative. However, in the past couple months, the price of natural gas has been decreasing since February. This is good news for utility companies considering interest rates are rising.

Management/Ownership

For the ownership of the company, it is primarily owned by Investment advisors. The top three investment advisors consist of T. Rowe Price Group Inc. with 12.36%, Blackrock holds 6.24%, and Vanguard has 5.53%. In the past year, investment advisors have increased their holding percentage by 5.08% and currently possess 86.42%, while individuals decreased 2.19% and is now at 5.46%, and hedge fund managers decreased 0.57% and is now at 4.40%. The current percentage of float is at 76.79%, a 20.45% increase from the previous year.

54) Ownership Type	04/09/17	Curr	Change
41) Investment Advisor	81.34	86.42	+5.08
42) Individual	7.65	5.46	-2.19
43) Hedge Fund Manager	4.97	4.40	-0.57
44) Pension Fund	3.25	1.49	-1.76
45) Insurance Company	1.58	1.34	-0.24
46) Government	0.48	0.47	-0.01
47) Bank	0.55	0.32	-0.23
48) Brokerage	0.14	0.04	-0.10
49) Other	0.01	0.03	+0.02



The chart above presents the short interest ratio. In the past year, the short interest was at a high of 7.1722 and recently hit a low of 1.5262. The sudden decrease in the short interest ratio from about 5 to 1.5 would imply that investors exercised their short positions. In addition, there is an inverse relationship between the short interest ratio and the price of the stock, as the short interest decreases, the stock price increases.

The management of Chesapeake starts with the Michael P. McMasters, who is the President and Chief Executive Officer that has been with the company for 37 years. He is responsible for execution of the company's strategic plan and providing leadership and oversight of the company's businesses. His annual compensation for 2017 was \$783,320, which has been decreasing since 2015. Stephen C. Thompson is the Senior Vice President of Chesapeake Utilities Corporation since 2004 and has been with the company for 35 years. He is also President and Chief Operating Officer of Eastern Shore Natural Gas Company, the Company's natural gas transmission subsidiary. Mr. Thompson is responsible for the oversight of the Company's Delmarva-based regulated businesses. His annual compensation for 2017 was \$485,520, which also has decreased since 2015. Jeffrey M. Householder was appointed as President of Florida Public Utilities Company in June of 2010. For the 10 years prior to his appointment, he operated a consulting practice that provided business development and regulatory services to utilities, propane retailers and industrial clients. While he only has been with the company for 7 years, he has 38 years of energy related experience. He made \$432,551 in 2017, which is also a decrease from 2015. Something important to note is that even with a growing company and an appreciating stock price, the executives decided to take pay cuts for the better of the company.

Name	Title Sort by Rank	FY 2014 (USD)	FY 2015 (USD)	FY 2016 (USD)	FY 2017 (USD) ▼
McMasters, Michael P.	President, CEO & Director	917,767	1,264,599	976,064	783,320
Thompson, Stephen C.	Senior Vice President	530,056	589,505	536,236	485,520
Householder, Jeffrey M.	President of Florida Public Utilities Company	428,775	495,159	423,020	432,551

Capital Structure:

In the utility sector, the average debt used by a company is generally around 40.21%, while the average equity is around 59.79%. For Chesapeake, their total debt is at 26.3%, while their equity is at 73.7%. Recognizing that they have lower debt levels than the industry averages, they will be less affected by rising interest rates. In addition, when comparing their credit rating to their

competitors, they have an A- rating compared to the industry average credit rating of about BBB+. Considering they have a higher credit rating than a majority of their competitors, the cost of debt will essentially be cheaper for them, giving the ability to borrow more debt. Chesapeake also is a company that is creating value, unlike many of the companies in the utilities sector. The industry average return on invested capital (ROIC) is at 5.15%, with an average weighted cost of capital (WACC) at 6.72%. Thus, giving a ROIC/WACC industry average of 0.78 in the last twelve months. For Chesapeake, they have a ROIC of 7.37%, with a WACC of 6.76%, providing them with a ROIC/WACC of 1.08. Chesapeake is creating more value relative to the industry average in the last twelve months, according to the ROIC/WACC ratio.



Profitability Comparison:

When comparing Chesapeake to their competitors, they appear to have stronger financials in most aspects. Chesapeake presents a higher P/E than the median average at 21.58 relative to 21.50. With a higher P/E than the industry average, the investors can expect to anticipate higher growth in the future.

Name (BICS Best Fit)	Est P/E Current Yr	Market Cap	Enterprise Value	Dividend Yield
Median	21.50	3.50B	5.04B	2.98%
100) CHESAPEAKE UTILITIES C...	21.58	1.22B	1.67B	1.75%
101) NORTHWEST NATURAL GA...	26.10	1.68B	2.51B	3.24%
102) CONNECTICUT WATER SV...	29.20	751.53M	1.03B	1.88%
103) CALIFORNIA WATER SERV...	26.51	1.81B	2.52B	1.99%
104) ONE GAS INC	21.50	3.50B	5.04B	2.76%
105) AMERIGAS PARTNERS-LP	15.53	3.90B	6.76B	9.05%






The picture that illustrates sales growth, Chesapeake is growing at 23.80% for the current fiscal period, which is higher than the median average at 7.88% and any of its competitors. This displays that Chesapeake has significant potential and with the proposed initiatives, we can expect potentially more sales growth by the end of 2018.

Name (BICS Best Fit)	Sales Growth (%)
Median	7.88%
100) CHESAPEAKE UTILITIES C...	23.80%
101) NORTHWEST NATURAL GA...	12.75%
102) CONNECTICUT WATER SV...	8.50%
103) CALIFORNIA WATER SERV...	9.44%
104) ONE GAS INC	7.88%
105) AMERIGAS PARTNERS-LP	6.13%

Looking at Chesapeake's ROA, they present a higher percentage than their competitors. They have a 3.56% compared to the median average at 2.79%, implying that Chesapeake is managing their overall resources better than their competitors. Chesapeake also displays a higher ROE at 10.10% compared to the industry median at 9.93%. This means that Chesapeake is turning the cash put into the business into greater gains and growth for the company and its investors than most of its competitors.

Name (BICS Best Fit)	Return on Assets (%)	Return on Equity
Median	2.79%	9.93%
100) CHESAPEAKE UTILITIES C...	3.56%	10.10%
101) NORTHWEST NATURAL GA...	2.11%	8.09%
102) ATMOS ENERGY CORP	3.85%	10.19%
103) CALIFORNIA WATER SERV...	2.61%	9.93%
104) CONNECTICUT WATER SV...	3.15%	10.00%
105) ONE GAS INC	3.21%	8.47%
106) AMERIGAS PARTNERS-LP	5.00%	18.91%

Based off of the five metrics, Chesapeake outperforms the median average in three of them. While they may have the lowest EBITDA margin at 21.12, they have the highest sales growth at 23.80%. As mentioned earlier, the company had unexpected

Metric	CPK	Low	Comp Range	High
Est P/E Current Yr	21.58	11.88		29.20
Ind. Dividend Yld (%)	1.75	1.75		9.05
Sales Growth Yoy (%)	23.80	-3.01		23.80
EBITDA Margin (%)	21.12	21.12		47.10
EBITDA Growth Yoy...	5.65	-9.38		21.63

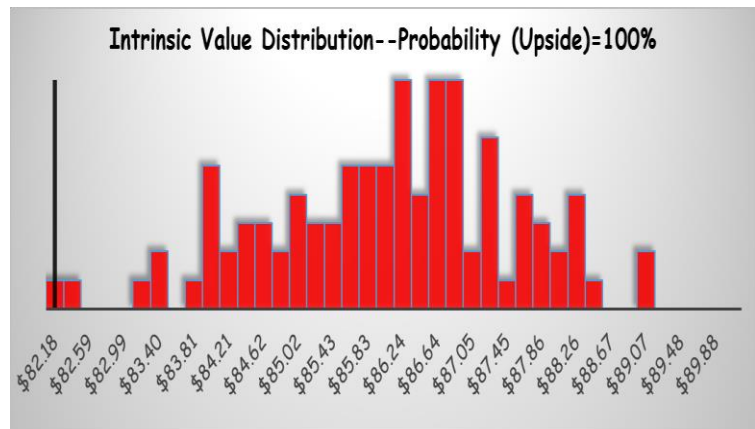
● CPK US ◆ Median

operating expenses which directly impacted their EBITDA. However, with an increasing sales growth and multiple expansion projects underway, the company can expect substantial growth in the next couple of years. The EBITDA margin can expect to increase because of a 100% expense deductibility for capital investments in their unregulated businesses. In addition, Chesapeake is above the industry median for EBITDA growth year over year, which will also help improve their EBITDA margin.

Sensitivity Forecast:

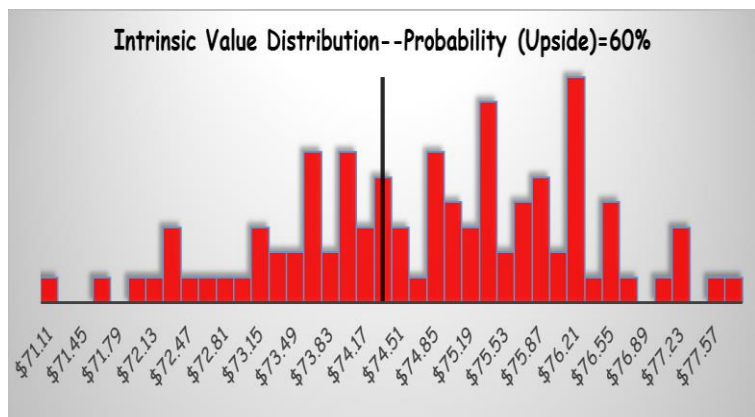
BASE CASE

The utility sector has been underperforming relative to the market in the new year of 2018. Some speculations are that utility stocks have depreciated due to increasing interest rates. Utility companies generally use a large amount of leverage for their infrastructure, meaning companies are sensitive to rising interest rates. For Chesapeake, however, they use much less debt than the industry average and diversified utilities have benefited from the recent tax plan. With the recent expansion of the Eastern Shore pipeline, and future expansions of other pipelines in Florida, the company can expect healthy growth and returns. I estimated an 81% operating expense to revenue, which was based off the historical average and other estimates. With many new projects underway, I increased the CAPEX/Rev to be 25% and equaled all other factors to historical averages. Since the company is experiencing significant growth and is expanding, I placed them in the growth stage. I also used a 2.9% cost of debt. I used a Monte Carlo simulation and a conservative prediction of 8.5% revenue growth, I reached a target price of \$87.54, providing a 19.50% return with an upside of 100%.



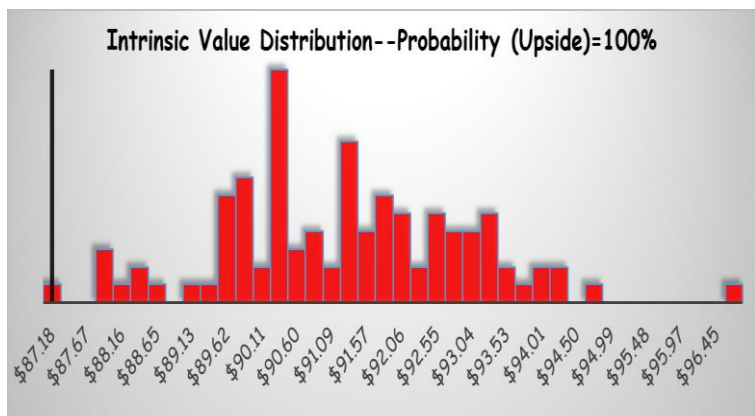
BEAR CASE

For a pessimistic case I predicted expansion projects failing and costing more than expected, interest rates increasing dramatically, and natural gas prices beginning to increase. I increased Op/Rev to 82%, and assumed that revenue growth would be only 6%. The target price comes out to \$76.55, with a return of 4.72% and upside probability of 60%.



BULL CASE

In an optimistic scenario where all projects are successful, interest rates still increase slightly, and where natural gas prices remain at low prices, I came up with 81% Op/Rev. I predicted that revenue growth will grow at 13%, which is still less than their current growth at 23.80%. The target price comes out to \$94.12, with a return of 28.35%.

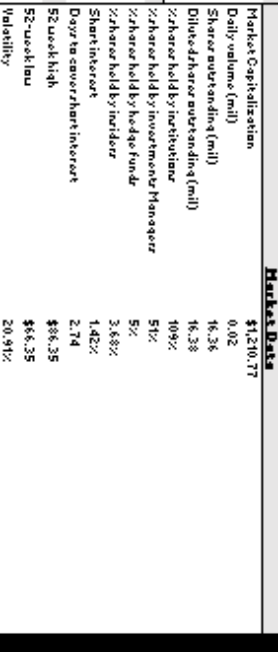


Conclusion:

In conclusion, Chesapeake Utilities Corporation is a buy at its current price. This is due to robust sales growth, the expansion of several pipelines, and their ability to create value over their competitors. With the proposed catalysts, Chesapeake is a growing company and has much potential to expand their utility services into new areas or possible new states. Under a base assumption, the company's one year target price came out to \$87.54 with an 19.50% return. While Chesapeake Utilities Corporation's stock has been underperforming relative to the market, they are still outperforming other companies in their sector and I am confident that Chesapeake has the ability to outperform the market.

NEUTRAL

Probability of Price Increase: 100%



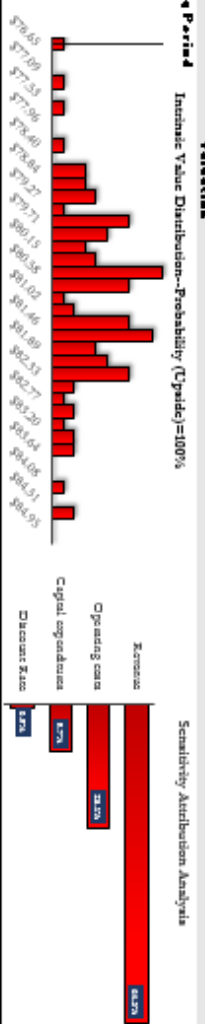
Quarter ending		Part Earning Surprise		Market and Credit Sectors		Industry and Segment Information	
Revenue		EBITDA		Recommendation (STARIS) Value--0		LTM Revenues by Geographic Segme	
12/31/2016	21.57%	3.10%		Recommendation (STARIS) Description--0		LTM Revenues by Business Segment	
3/31/2017	15.94%	-8.79%		Quality Ranking Value--A		United States--100%	Regulated Energy--53%
6/30/2017	7.37%	-1.37%		Quality Ranking Description--High		--	Unregulated Energy--53%
9/30/2017	-1.37%	11.42%		Short Score--0		--	Other Business--0%
12/31/2017	5.02%	-2.92%		Market Signal Probability of Default % (Non-Rating)--0.547%		--	Intersegment Revenue--4%
Mean	9.91%	-0.13%		CreditWatch Score (Non-Rating)--*		Pass	
Standard error	1.1%	5.2%		Northwest Natural Gas Company		RGC Resources, Inc.	

Management	Partitions	Total Compensation Grant	Stock Price Growth During Tenure
McKinniser, Michael	President, CEO & Director	5.87% per annum over 6y	2.64% per annum over 6y
Campor, Bob	Senior VP, CFO, Assistant Secretary	2.56% per annum over 6y	2.64% per annum over 6y
Thompson, Stephen	Senior Vice President	2.24% per annum over 6y	2.64% per annum over 6y
Bithorn, Elaine	Senior Vice President of Strategic Development	-3.21% per annum over 6y	2.64% per annum over 6y
Hauschilder, Jeffrey	President of Florida Public Utilities Company	5.61% per annum over 6y	4.11% per annum over 6y
Goddard, William	Chief Information Officer and Vice President		
Profitability	GPK (1TM)	GPK Historical	Pearce's Median (1TM)
Return on Capital (GAAP)	7.4%	8.72%	5.15%
Operating Margin	12%	12.85%	20.26%
Revenue/Capital (GAAP)	0.60	0.68	0.25
ROE (GAAP)	9.6%	10.9%	11.2%
Net margin	6.9%	7.4%	8.7%
Revenue/Bank Value (GAAP)	1.38	1.47	1.30
Invested Funds	GPK (1TM)	GPK Historical	Pearce's Median (1TM)
Cash/Capital	0.6%	0.6%	0.4%
HW/Capital	3.6%	-0.5%	5.6%
Operating Asset/Capital	93.5%	98.6%	89.9%
Goodwill/Capital	2.3%	1.2%	4.1%
Capital Structure	GPK (1TM)	GPK Historical	Pearce's Median (1TM)
Total Debt/Market Capitalization	0.49	0.43	0.55
Current Debt	3.3%	4.3%	4.1%
DDFS Rating (F, zero, 2, zero, and 4) and Prob. Abilit. A	6.8%	7.7%	6.7%
WACC			

South Jersey Industries, Inc.	..
WGL Holdings, Inc.	..
Houlihan's Restaurant Corporation	ONE G, Inc.
Spire Inc.	..

Partners' 5 Firms (Sector are Percentile)

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graph TD
    A((Karpung's Power of Suppliers--  
MIDDLE TIER  
38)) --> B((Overall Fashion among Firms--  
MIDDLE TIER  
39))
    B --> C((Karpung's Customers--  
MIDDLE TIER  
64))
    B --> D((Threats of New Entrants--  
LOWER TIER  
23))
    B --> E((Intensity of Existing Rivalry--  
MIDDLE TIER  
42))
    C --> F((Threats of Substitutes--  
MIDDLE TIER  
50))
```



Company Description: Ellie Mae, Inc. provides software solutions for the residential mortgage industry. Ellie Mae has been innovating the mortgage business since 1997. Although the industry has changed drastically over this time period, the way that lenders achieve compliance, quality, and efficiency has not- and it won't. Ellie Mae's services include Encompass education and certification, professional consulting, implementation, and business writing. Ellie Mae is innovatively redefining the residential mortgage industry by automating everything that is automatable- cutting huge costs for the major lenders, and improving their margins.

BUY

Current Price:	\$94.64
Target Price:	\$113.04
Market Cap:	3.3B
WACC:	8%
ROC GAAP:	30.9%
Revenue Growth:	8%
52wk High/Low:	\$114.95/\$79.71
Daily volume:	0.386M
Float:	97.3%
EBITDA Margin:	21.2%
D/E:	No Debt

ELLI:1Y Comp: REM



Thesis:

Ellie Mae has experienced a slight market correction on their current share price. Share prices have come down in the last 18 months from above \$100 to hovering around \$90. However, Ellie Mae has entrenched themselves in the loan origination market and have delivered value even in industry wide difficulties. In their most recent analyst day they presented a clear path to achieving over \$1 billion in revenues by 2022, with a 35-40% EBITDA margin, while pushing topline growth. Their current valuation is relatively cheap, and with the 3 catalysts Ellie Mae is positioned for well over a 20% 1YR Return.

Catalysts:

- **Short Term(within the year):** Value proposition to lenders with the cost savings and speed to close. Short term revenue increase will be mainly due to synergies and additional offerings of Velocify.
- **Mid Term(1-2 years):** Margin expansion from current margins of 26% to 35-40% EBITDA margins- driven by Velocify and better efficiencies in companywide MIS.
- **Long Term(3+):** Uptick in refi activity after the 2019 trough from the recent headwinds in refi volumes.

Earnings Performance:

Ellie Mae finished the year strong, securing just about 35% of the market share in the enterprise segment. The CEO Jonathan Corr believes the company is well positioned for stronger growth in 2018.

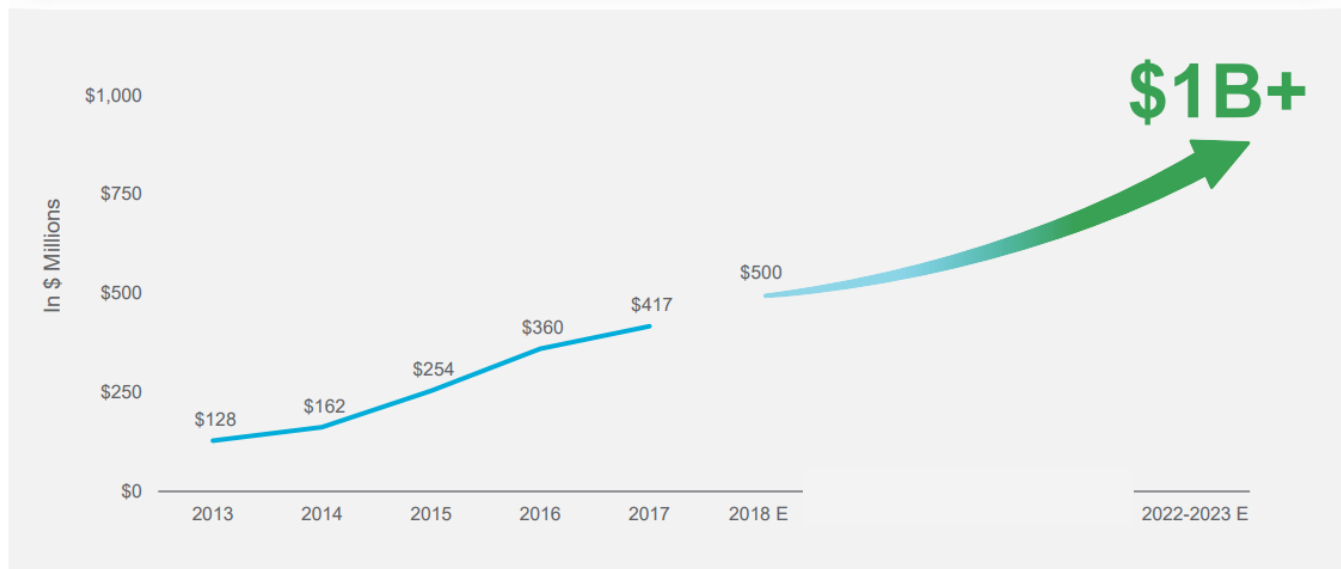
As industry volumes decreased by 19% y/y in Q4 2017, Ellie Mae was still able to achieve a 17% revenue growth. Last quarter, Ellie Mae purchased Velocify for \$130 million in cash, which provided solid growth for their core business. Velocify is a software built for mortgage brokers to automate sales operations. This drove Q4 bookings to over 11,000- most coming from mid-sized mortgage lenders with more than 400 employees. For the full year, Ellie Mae drove bookings of 41,000, and finished the year with more than 242,000 contracted users-184,000 (76%) of these users are active. All of these users are seeking a digital mortgage platform for seamless integration of automated steps of the loan origination process. The loan origination process has also become more expensive, from \$3,700 in 2009 to \$8,000 today. Ellie Mae reduces costs for lenders by enabling faster closing times. Jonathan Corr was very positive in the last earnings call, as Ellie Mae continues to see strong long-term growth opportunities in automating more steps in the mortgage origination process- which will be outlined in the next section.

For the full year of 2017, total revenues grew 16% to \$417 million. Non-GAAP adjusted net income decreased 3% to \$58.9 million due to the Q4 acquisition of Velocify. Adjusted EBITDA increased 8% to \$1,222.6 million, but monthly close loans per active user decreased. This was due to the industry wide declines in refinancing volumes.

The big positive was that contracted revenue, which now includes Velocify, increased 42% y/y and now makes up 73% of the total revenue for Ellie Mae. Revenue per active user was also up in Q4 2017 to \$612, which is up 4% y/y. As revenues continue to increase non-GAAP gross margins have remained relatively flat around 64%. However, adjusted EBITDA for the fourth quarter was up, due to the acquisition of Velocify. Ellie Mae has since outlined their roadmap to \$1billion+ in annual revenues, and projecting a y/y growth of 20% per year. Ellie Mae's projected revenues for 2018 are \$500 million, up from \$417 million.

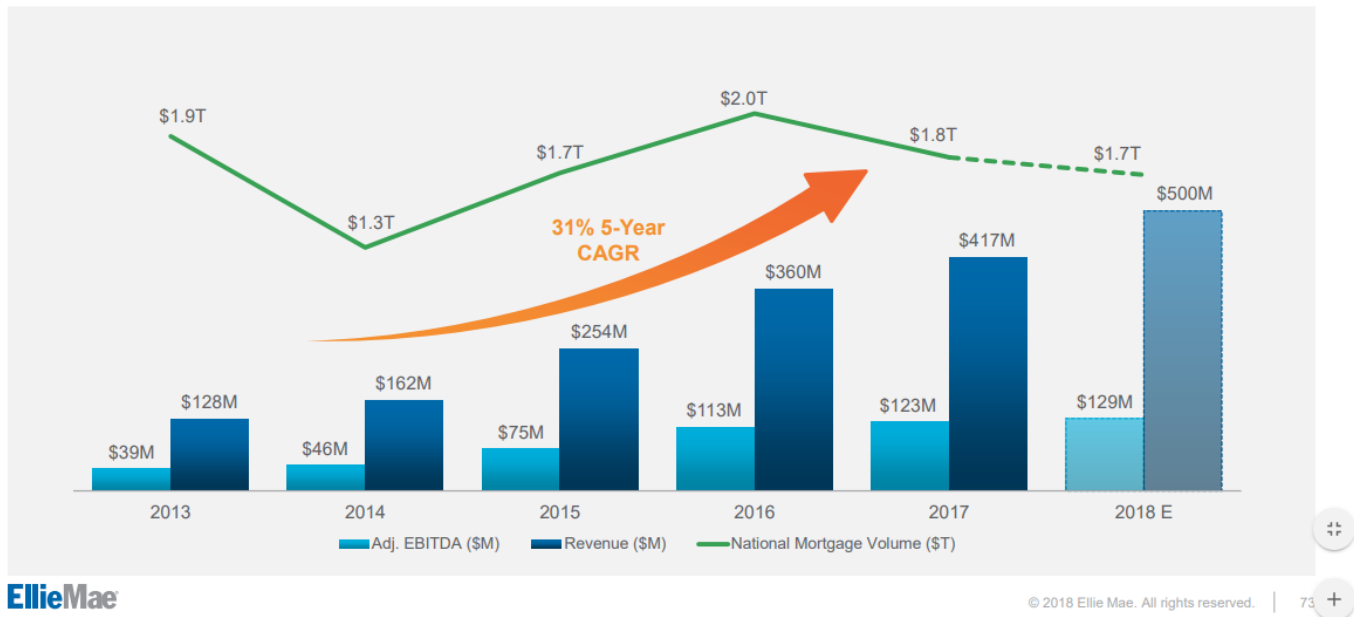
Revenue Growth

Revenue YOY growth of 20% per year



Now turning to guidance for 2018. Ellie Mae does have a strong history of success. Ellie Mae has begun to disclose more financial reporting data to the public on the fundamentals of their business. This began in January and will continue throughout the year, and the market has reacted positively. There is a seasonality to loan originations. The first quarter is historically the weakest, so they are projecting a 21% decline in volumes- but this is industry wide. This is what makes the stock cheap right now.

History of Success

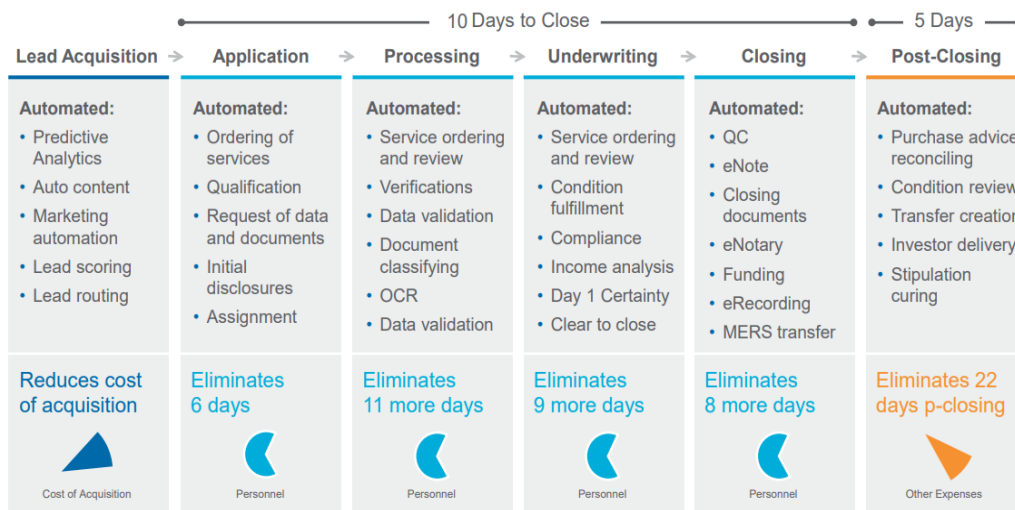
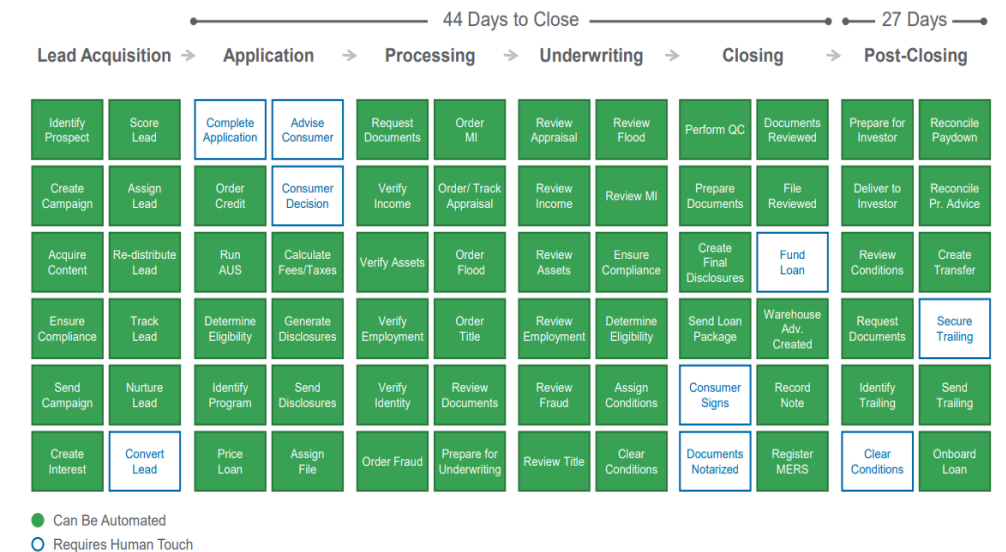


Over the last 5 years they have had a 31% CAGR, and even as the National Mortgage Volume fluctuates, they have continued to grow their revenues. For the full year 2018, revenues will be between \$495 and \$505 million. Adjusted net income for the year is expected to be between \$61 and \$65 million. Adjusted EBITDA is expected to be \$126-132 million. EBITDA margins will be largely effected by the Velocify acquisition- returning 30% plus adjusted EBITDA margins for the next few years. This will drive growth and create value for Ellie Mae.

Improving Productivity:

Below are a slides from the analyst day presentation that took place on March 20, 2018- after their most recent earnings call. The first chart shows the 6 steps to the loan origination process for a lender. Each step is broken into its component parts symbolized by boxes, the green box means that this process can be automated and the white box means that it requires human interaction/touch. Out of 72 individual processes in the 71 day process, only 9 processes require a human touch.

The chart below this shows the same steps and the days/ costs that the entire process can be reduced by using the Ellie Mae platform. The automation provided by Ellie Mae eliminates 56 days of the 71 and brings a total cost savings of \$2,600 to the lenders using the systems.



\$2,600 Savings per Loan

The total loan production expenses have reached an all-time high, as mentioned in the earnings performance. In 2017 this total cost is over \$8,000. Out of this cost, 66% (\$5,279) is attributed to the personnel costs, which can be cut out by Ellie Mae. The personnel costs are so high due to the lack of efficiency which is shown to also increase with the Ellie Mae platform.

Below are the earnings consensus overview as well as the earnings trends. Ellie Mae last Q4 2017 had an earnings surprise in all measures. Notably Adjusted Net Income of almost 30% and EBITDA of almost 15%. Historical seasonality does come into play with mortgage volume, and originations.

4) Consensus Overview EEO »		2) Current Period Overview (Q1/18)		2) Prior Period Analysis (Q4/17)	
Measure	Actual	Estimate	Surprise	Comps Scorecard (20 of 20)	Past Surprise
11) EPS, Adj+	0.330	0.253	30.69%	Beat:16 Met:0 Missed:3	Beat 7 of 8
12) EPS, GAAP	0.280	0.016	1681.82%	Beat:13 Met:1 Missed:5	Beat 8 of 8
13) Revenue	112.886M	108.250M	4.28%	Beat:13 Met:0 Missed:6	Beat 6 of 8
14) Net Income, Adj+	11.772M	9.083M	29.60%	Beat:16 Met:0 Missed:3	Beat 7 of 8
15) Operating Profit	--	12.600M	--	--	--
16) EBITDA	28.511M	24.864M	14.67%	Beat:3 Met:0 Missed:0	Beat 7 of 8

The current period overview is a little weaker- measures are a bit down, but the revenues are still positive with a y/y growth of 16.8%.

Competitor Analysis:

Ellie Mae operates with a cloud based technology, which has become increasingly popular over the last few years in all segments of technology. Their major competitors are Black Knight Financial Services, Calyx Ventures, and Conduent Incorporated. All three companies operate in the same space, by offering cloud based technology to increase efficiencies in either business or government. Below is customer review from a data specialist, reviewing the Ellie Mae Encompass platform. The consensus of the reviews are glowing, although there are some cons surrounding the speed of the technology- Ellie Mae has made this very clear in their last earnings call that they will continue to improve their MIS systems and the technology.

'Outstanding product'

Jun 07, 2017

Jenn Alonzo
Data Specialist
Nhs of LA County
Used the software for: 2+ years
Source: Capterra

5/5
★★★★★
Overall

★★★★★ 5/5
Ease of Use

★★★★★ 5/5
Customer Support

Likelihood to Recommend:
★★★★★
Not Likely → Extremely Likely

Pros: This software is really easy to use and has never given me any issues. I will continue to use this software.

Below is a snapshot of the relative valuation with their main competitors and other companies within the same space. Ellie Mae has a strong revenue growth, well above their 3 main competitors. Their net income growth is nearly 40% over the past year and they have a high ROIC in comparison to the industry. The two concerning numbers are their FCF Growth and P/E ratio. The high P/E ratio represents the positive market sentiment around Ellie Mae. Even Black Knight, who has better EBITDA margins, said that Ellie Mae has the best platform in the entire space for loan originations.

Name	Mkt Cap1 (USD)	Rev - 1 Yr Gr:Y	NI / Profit - 1 Yr Gr:Y	ROIC:Y	T12M EBITDA Mrgn:Y	FCF 1Yr Gr	P/E	ROE
Median	4.02B	2.50%	2.31%	1.60%	11.16%	23.07	73.54	0.43%
100) ELLIE MAE INC	2.99B	15.75%	39.90%	4.04%	21.44%	-46.11	106.61	4.19%
101) AUTODESK INC	28.26B	1.26%	2.61%	-26.19%	-14.66%	--	--	--
102) RED HAT INC	27.73B	21.09%	2.01%	18.25%	19.57%	17.29	73.54	28.58%
103) WORKDAY INC-CLASS A	26.51B	36.12%	16.50%	-12.83%	-5.07%	41.07	--	-22.49%
104) BLACK KNIGHT INC	7.16B	2.50%	298.03%	8.70%	44.60%	12.55	60.16	--
105) CONDUENT INC	4.02B	-6.02%	--	1.60%	11.16%	--	333.39	0.43%
106) ACI WORLDWIDE INC	2.81B	1.84%	-96.04%	7.84%	24.48%	104.14	36.78	10.28%
107) 3D SYSTEMS CORP	1.36B	2.07%	-72.29%	-9.13%	1.23%	--	--	-10.23%
108) CALYX VENTURES INC	5.79M	114.02%	-358.58%	-142.63%	-527.84%	28.86	--	-234.52%

Ownership/Short Interest:

Ellie Mae has a float of over 97%. About ¾ of this is held by Investment Advisors, and 15.89% is held by Hedge Fund Managers. In their most recent share price dip, both Hedge Fund Managers and Investment Advisors increased their positions. Interestingly, if you look back to October of 2017, Ellie Mae was trading at nearly \$90 a share- which is right where they are now. Hedge Fund Managers increased their

position by 4.53%. Once again, due to macroeconomic factors, the price has dipped again- but due to the catalysts they have outlined in their earnings calls, they will continue to create value.

Compare Current Stats Against 04/01/18				Compare Current Stats Against 10/01/17			
Top Ownership Type (%)				Top Ownership Type (%)			
51) Ownership Type	04/01/18	Curr	Change	51) Ownership Type	10/01/17	Curr	Change
11) Investment Advisor	76.16	76.24	+0.08	11) Investment Advisor	79.78	76.24	-3.54
12) Hedge Fund Manager	15.86	15.89	+0.03	12) Hedge Fund Manager	11.36	15.89	+4.53
13) Pension Fund	2.54	2.55	+0.01	13) Pension Fund	2.97	2.55	-0.42
14) Individual	1.93	1.91	-0.02	14) Individual	2.59	1.91	-0.68
15) Insurance Company	1.33	1.23	-0.10	15) Insurance Company	0.46	1.23	+0.77
16) Sovereign Wealth Fund	1.08	1.08	0.00	16) Sovereign Wealth Fund	1.24	1.08	-0.16
17) Bank	0.83	0.83	0.00	17) Bank	1.15	0.83	-0.32
18) Government	0.17	0.17	0.00	18) Government	0.21	0.17	-0.04
19) Brokerage	0.05	0.05	0.00	19) Brokerage	0.20	0.05	-0.15

Conclusion:

Ellie Mae has experienced some trouble lately, but this is what has left the market to undervalue their stock price. Trading at under \$90 a share, they are at a position of strength within the market. The Federal Reserve has already raised interest rates this year, and they are planning to raise them again. Coupled with the tax deduction changes, there is a strong chance that the housing market takes a hit. Historically the first quarter is weak for Ellie Mae, but this market cynicism has been around them for the past 10 months and they have continued to perform very strongly. Ellie Mae will continue to drive top line growth, and expand their margins even in these tough times. As valuations have come down due to macroeconomic factors, it has expanded the room for upside in a fundamentally strong company.

Elle Mae, Inc. (ELLI)

CENTER FOR GLOBAL FINANCIAL STUDIES

NEUTRAL

Analysis by Al Capone

Current Price:

\$94.64

Intrinsic Value:

\$103.57

Target 1 year Return: 16.25%

4/18/2018

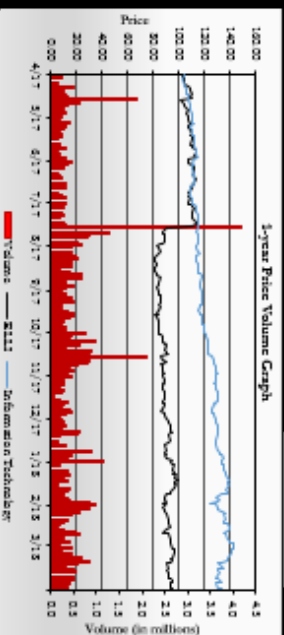
Dividend Yield:

0.0%

Target Price:

\$110.02

Probability of Price Increase: 100%



Description	
United States	Elle Mae, Inc. provides cloud-based platform for the mortgage finance industry in the United States.
Sector	Information Technology
Industry	Software
Last Guidance	February 12, 2018
Next earnings date	April 27, 2018
Estimated Equity Risk Premium	5.08%
Effective Tax Rate	21%

Market Data	
Market Capitalization	\$3,256.57
Daily Volume (mil)	0.13
Share outstanding (mil)	34.31
Diluted share outstanding (mil)	35.81
% share held by institution	100%
% share held by investment manager	99%
% share held by hedge fund	21%
% share held by insider	2.10%
Days to cover short interest	11.75%
52-week high	10.04
52-week low	\$114.95
Volatility	\$79.71
	36.59%

Quarter ending

Quarter ending

EBITDA

Market and Credit Scores

Industry and Segment Information

LTM Revenue by Geographic Segment

LTM Revenue by Business Segment

12/31/2016

3/31/2017

6/30/2017

9/30/2017

12/31/2017

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