Macroeconomic Overview

United States	Price		Day	Weekly	Monthly	Yearly
Dow Jones	20661	▼ 1	-0.01 %	-0.02%	-0.95%	17.54%
S&P 500	2356	▼ 2	-0.07 %	-0.30%	-0.39%	15.04%
NASDAQ 100	5419	▼ 2	-0.03 %	-0.32%	1.10%	21.09%
NASDAQ	5878	▼ 1	-0.02 %	-0.57%	0.67%	21.18%
Russell 2000	1365	▼ 1	-0.06 %	-1.49%	0.38%	24.43%
S&P VIX	12.87	▲ 0.48	0.48%	0.50%	1.01%	-2.49%

Domestic

Domestic equity markets remained mostly flat this week with mid-caps taking the majority of the losses, showing no movement from the wait-and-see attitude displayed within the last few weeks. With the amount of uncertainty circling federal policies and the dynamic of the Trump administration, equity prices have become somewhat more volatile proven by the movements of the VIX. Despite continuous declines on a YTD basis, our last few reports have shown different movements within the market as it reacts to the outcome of congressional movements and other guidance. On a macro level, additional payroll growth grew to 98,000, just over 50% of the original forecasted amount. The drop, blamed by abnormal seasonal effects stemming from a warm winter, was followed by a decrease in average hourly wage to 2.7%, down from 2.8% in February. Usually, we would expect to see some reflective movement in the unemployment rate, but that reached the lowest figure since 2007 with a .2% decline.

This sort of enigma fuels the fires of uncertainty while monetary and fiscal guidance only add to the flames. Despite their movement in the beginning of March, the Fed indicated that seven rate hikes throughout 2017 may not seem as plausible. This week, their minutes from the last FOMC meeting were released guiding expectations towards a shift in their balance sheet. This decision focuses primarily of their bond portfolio, however Fed analysts see equity mispricing in equities compared to normal valuations with a specific focus in commercial real estate, developing market equities, and high-yield corporate bonds. With a massive balance sheet, it could be possible that the liquidation that they pumped into the market could have offset equities and relative risk assessment. In doing so, they have synthetically established a level of risk in the market that isn't necessarily attributable to current valuations. In addition, New York Fed President Dudley suggested that deleveraging their balance sheet, the Fed would temporarily halt rate hikes.

On the fiscal side, the effects of Trump's initial healthcare launch has destabilized enthusiasm within markets, except in the form of tax reform. Guidance from Speaker Ryan indicates an even more unstable future, as an agreement on tax reform seems to be delayed. Earlier this week, he

admitted that there is a gridlock between Congress and the White House, indicating future uncertainty with the Administration's agenda.

Despite the level of uncertainty, analysts remain optimistic. The economy still shows sign of future growth with both the U4 and U6 reaching 10 year lows and inflation expectations rising. The Fed's dual mandate remain a priority but equity reactions will still guide investor expectations.

Foreign Markets

Europe	Price		Day	Weekly	Monthly	Yearly
FTSE 100	7355	▲ 53	0.73 %	0.36%	0.20%	18.45%
FTSE All	4005	▲ 19	0.48 %	0.51%	0.45%	17.76%
DAX	12229	▼ 0	0.00 %	-0.71%	2.15%	27.05%
Asia	**Price**		**Day**	**Weekly**	**Monthly**	**Yearly**
NIKKEI 225	18786	▲ 128	0.69 %	-1.09%	-4.37%	19.20%
SHANGHAI	3,287	▲ 5.61	0.17%	1.99%	1.42%	10.11%

Europe: With limited movement this week, European markets kicked the week off fairly muted. T. Rowe Price analysts recorded higher volume mid-week with improved manufacturing production levels and the positive effects of appreciating oil prices on the energy equities. Despite the mild week, European consumer confidence supports a confident outlook for the future based on corporate earnings growth contrary to historic analysis. If the growth continues throughout the year, analysts believe that consumers would advance further confidence based on European equity valuations.

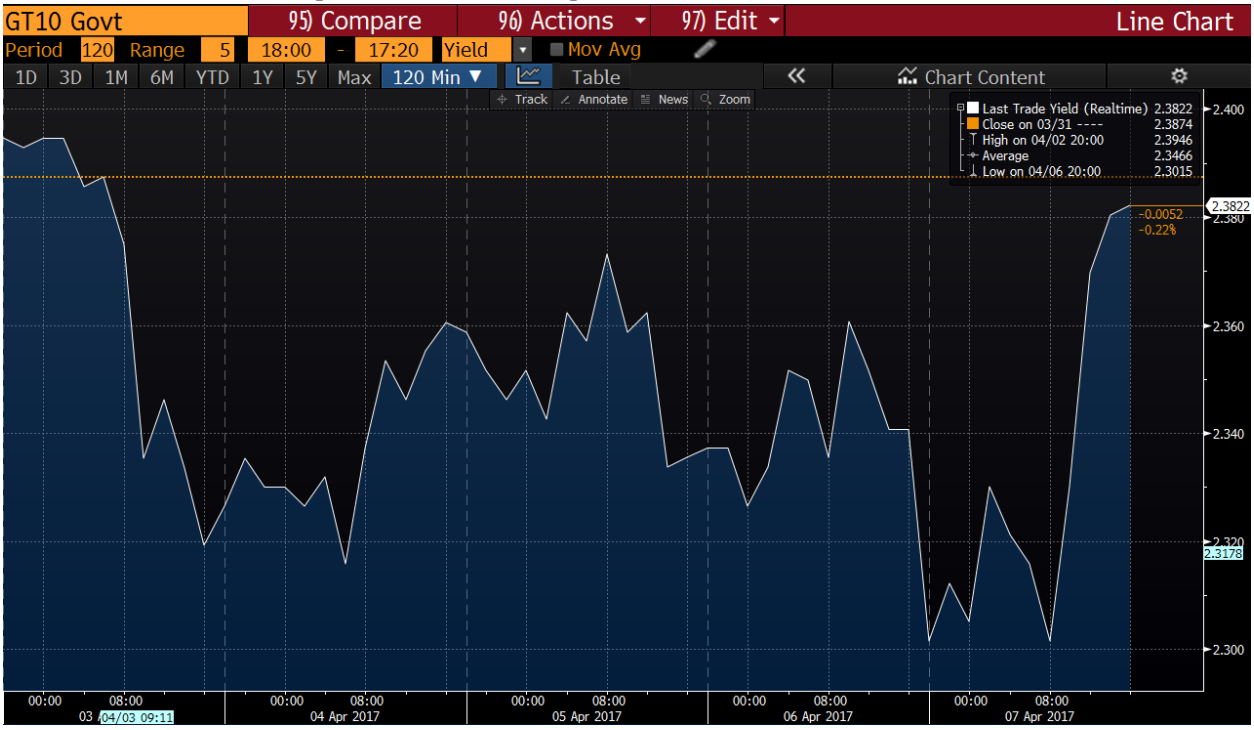
Asia:

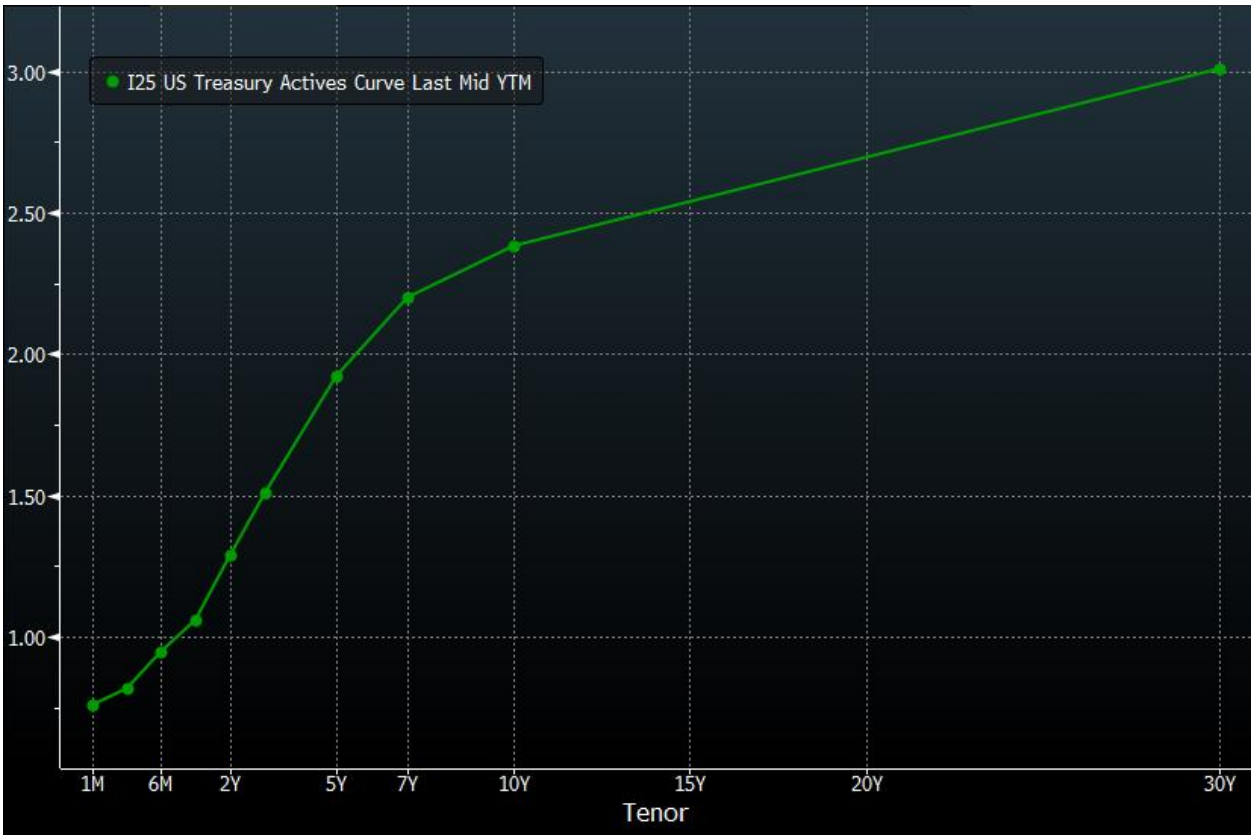
Japan's economy settled mixed as manufacturing PMI followed losses consistent with the drop in the Nikkei, however producing PMI and overall confidence rose. As consumers still test the waters during the Abenomics expansionary period, confidence across the board seems to be on the rise.

China, on the other hand, focuses on increasing their reserves. Their method of doing so by curbing liquidity from businesses and residences as well as dipping from their war fund in hopes to amplify the value of the Yuan. However, analysts see this plan as a ticking time bomb in the long run. If China were to continue along this path, analysts see the reserves getting critically low and eventually supporting a free floating currency.

Bond Report

This week, the factors that contributed to movements in the Treasury yields were mostly related to geopolitics. On Monday, as an explosion in a subway in St Petersburg killed more than 10 people, investors bought bonds. Demand for fixed income securities tends to increase when the market fears a crisis or any kind of instability. Moreover, manufacturing reports, even if they showed solid data, were still below market expectations, leading yields to fall even more. On Tuesday, yields increased marginally as reports suggested US Trade Deficit has lowered in February, which means an improving economy. However, concerns about geopolitics, from France's elections and populism in Europe to Trump-Xi Jinping meeting on Thursdays, prevented yields against rising too high. On Wednesday, yields were sent lower after discussions from the latest Federal Reserve meeting. The market heavily expected Fed officials to start discussing a reduction of the balance sheet size through sell-off of some of the Federal Reserve assets. However, as the discussion only concerned tapering of purchase of Treasury bonds and mortgage backed securities, investors were disappointed, leading to the drop in yields. On Thursday, yields dropped significantly ahead of the first face to face meeting between President Trump and his Chinese counterpart Xi Jinping. As a matter of fact, ahead of the two-day meeting, President Trump had made some statement that contributed to increase fears of tense relationships between the United Stated and China. The American President had accused his counterpart to manipulate the Yuan to boost Chinese exports. He had consequently threatened to impose a 45% tax on all Chinese imports in the United Stated. On Friday, after the U.S. airstrikes hit Syrian targets following Tuesday chemical attack on population, yields were sent lower in the early session as investors were worried. However, these same yields were sent back up after Trump stated "tremendous progress" had been made during his meeting with Xi Jinping. Overall, the 2-year Treasury bond yield increased by 2.8 basis points over the week to 1.286%. The yield on 10-year Treasury securities fell 2.1 basis points through the week, ending at 2.375%. Finally, the longer term Treasury yield (30-year T-bond) ended the week at 2.998%, 2.2 basis points lower than the previous week.





What's next and key events

Next week, a few events will be under market scrutiny. On Monday, Labor Market Conditions Index will be released, giving an idea of the trend in the labor market. On Wednesday morning, data about MBA Mortgage Applications will be released. This indicator gives not only an idea of the demand for housing in the United States, but also of the general economic momentum and people's confidence about the future. Finally, after Jobless Claims and Consumer Sentiment information are released on Thursday, Consumer Price Index for March will be made public on Friday.

SIENAcollege

BJORKLUND FUND

April 7th, 2017

HubSpot, Inc.: HUBS (NYSE)

Alec Odnoha

Sector: Information Technology
Industry: Application Software
Current Price: $59.60
Target Price: $68.56

HubSpot, Inc. is an application software provider that offers cloud-based marketing and sales software platforms that enable businesses to offer an inbound marketing and sales experience. Inbound marketing and sales attracts and engages customers by being more personalized and less interruptive than traditional marketing and sales tactics. The software platform developed by the company offers all-in-one integrated applications to aid businesses in driving traffic and exposure with customers, with an end goal of promotion of the business by the customer. These applications include social media, search engine optimization, marketing automation, and CRM to name a few. The company is headquartered in Cambridge, MA, and was founded in 2005 by two MIT graduate students, with the intent of changing the way the marketing and sales process is conducted by businesses.

BUY

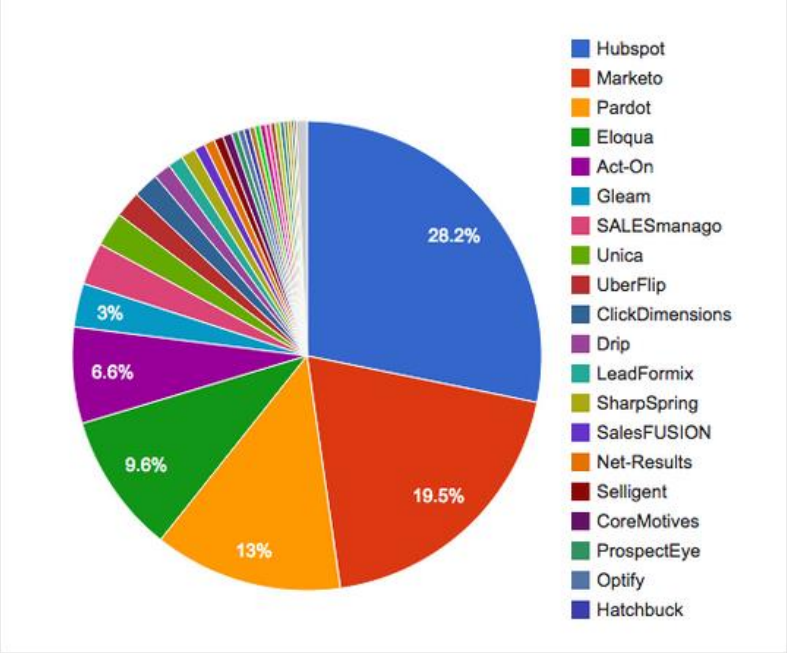
Current Price: $59.60
Target Price: $68.56
Market Cap: 2.1B
52 Week Range: $39.01 - $66.10
Average Volume: 404,872
D/E Ratio: 0.9%
Ke: 19.01%
Gross Margin: 77.17%

Catalysts:

- Short Term (within the year): International expansion, customer retention, increased investments into company, Q4 Earnings call
- Mid Term(1-2 years): Grow U.S. customer base, continual platform innovation
- Long Term(3+): Increasing market share, reduction in sales and marketing expenses

Thesis: Traditional sales and marketing techniques are becoming obsolete; more and more people are losing interest in classic sales and service models, such as cold calls or unsolicited emails. Marketing automation is becoming much more prevalent in the modernized world of Business-to-Business communication. To simplify, marketing automation eliminates time-wasting procedures, such as measurement and managing of data, and in turn streamlines sales and marketing organizations using an automated solution. HubSpot, Inc. has emerged as an industry leader in the marketing automation industry, and offers products that allow for businesses to optimize their sales and marketing needs to attract newer customers. Furthermore, the platform provided by the company offers personalization and scalability, which enables the "inbound" experience that HubSpot strives to provide for all of its customers. HubSpot has adapted a rapid-growth policy, investing considerably into the company to fund growth by research and development, customer base retention, and domestic/international expansion. In doing so, the company has seen incredulous revenue growth over the last few years. Plans are in place to continue stimulating that growth. Also, the company relies on subscription-based revenue per customer as its primary source, and has historically maintained a high customer retention rate at a level in the mid-to-high 90's. HubSpot's scalability and versatility allow for exposure in multiple industries, and as the company grows rapidly, that vision can easily come to fruition. Coupled with rapid growth and considerable funding back into the business, the company maintains a low level of debt as well. These factors are indicative of their capability to continue strong growth and creation of value moving forward.

Industry Outlook: Marketing automation software makes a complex marketing campaign incredibly simple and successful. Software helps a marketing department market efficiently, over a number of online channels, and the automation facet of the software takes care of the repetition. Demand for digital marketing is increasing, and more B2B companies are adopting the technological capability. Today, there are nearly 11 times more companies with marketing automation than there were in 2011. The main benefits of the automation capabilities are considered to be time-saving, increased customer engagement, and increased up-selling opportunity. HubSpot's platform aim to fill those beneficial criteria, and the company considers upselling a primary pillar in their growth strategy. The automation industry as a whole is projected to increase at a CAGR of 9.26% between the 2016 and 2022. Furthermore, the industry is anticipated to generate up to $6.58 billion in revenue by 2022. HubSpot already has established themselves as a frontrunner in the industry, attaining roughly 28% of the market share, as displayed in the graph. A dominant market share for the company is a large competitive advantage for them, and the projected growth of the industry itself as a whole, coupled with current plans in place for expansion, will surely expand HubSpot's market share and create more value for shareholders.



Products and Services: HubSpot has two segments, namely subscription-based revenue, and professional services. HubSpot offers three forms of software, being HubSpot Marketing, Sales, and CRM, respectively. HubSpot Marketing software is an all-in-one marketing toolset that has features such as advanced segmentation, personalization, and search engine optimization to name a few. This software enables businesses to simplify marketing initiatives, and aims to provide an "inbound" marketing experience, which essentially is to attract, engage, and delight customers, straying from the traditional marketing and sales tactics that tend to be interruptive and of little interest. HubSpot Sales enhances the productivity and effectiveness of sales representatives, and delivers a personalized experience to the customer. Personalization is emphasized in HubSpot's platform, in order to be able to appeal to a larger number of customers. Some features under HubSpot sales includes sequencing, CRM tracking, and contact insights. HubSpot CRM is geared to aid business in tracking interactions with contacts and other companies, and also aids in managing and reporting sales activities. Global spending on CRM applications is projected to reach $31.7 billion by 2018, as demand is on the rise. HubSpot's three types of subscription-based software, as stated before, made up 94% of the company's total revenue for FY 2016, with the other 6% being attributed to professional services. These include on-boarding and training services designed to help customers with their ability to attract and engage customers using the HubSpot platform. HubSpot also offers a "growth stack", which is an all-in-one marketing and sales platform. Essentially this is a combination of all three types of software, which are aimed to give business what they need to create their own value by attracting newer customers. The pricing model for the company varies, as there are multiple levels of functionality within the software. The greater premium paid by the customer is what enables the different levels of functionality, offered at basic, pro, or enterprise. However, this variability is only for marketing software. Sales software is available in pro, or for free, and CRM is free for users entirely.

Growth Stack Visual

Revenue Generation: HubSpot is a company that generates revenue predominantly through subscription-based revenues. Businesses pay a premium to utilize HubSpot's platform to create value for themselves, in attracting customers and engaging them in the "inbound" marketing experience. HubSpot saw incredible revenue growth in Q4 of 2016, totaling $76.4 million, which is up 44% from Q4 of 2015. This 44% increase can be attributed to a strong increase in both segments reported, a 46% increase in subscription revenue, and a 15% services revenue growth. Full year revenue was up 49% from 2015, totaling $271 million, and this in

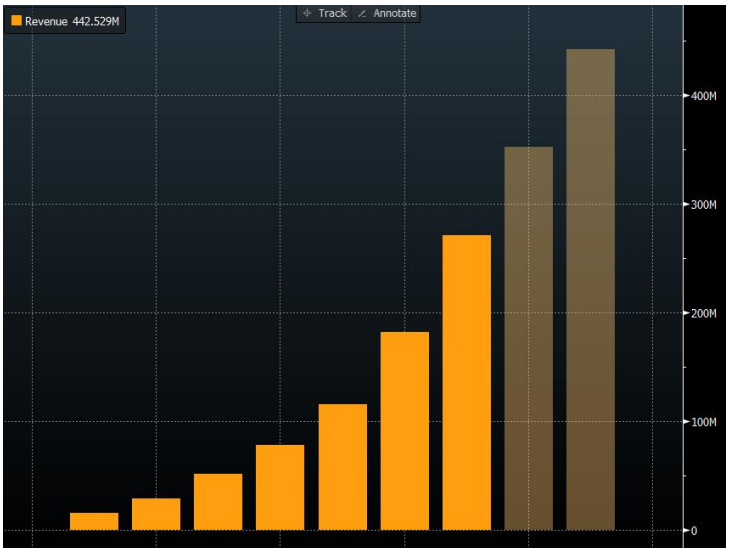


Exhibit 1: Bloomberg

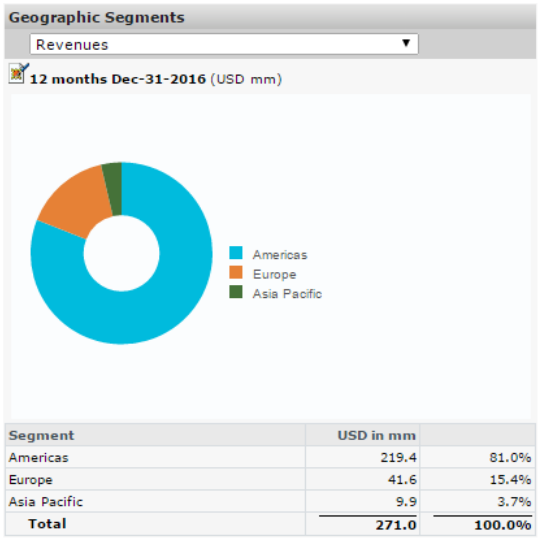
itself is a reduction from the prior year's revenue growth of 57% from 2014. In 2016, subscriptions accounted for approximately 94% of company revenue, with the other 6% being attributed to services. Historically, the company has maintained a high-level of revenue growth YoY, with a 5-year CAGR of 56.8%. As revenue has spiked, the company has also seen growth in EBITDA and Operating income as a result.

12 Months Ending	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016
1 Year Growth						
Revenue	85.57	80.73	50.44	49.26	57.02	48.93
EBITDA	–	28.95	-86.07	-44.05	8.77	14.43
Operating Income	-94.33	23.24	-82.76	-41.92	4.39	3.90

Source: Bloomberg

With the majority of revenue being subscription-based, the company needs to ensure that a high-level of customer retention is maintained. This is one of the pillars in the company's growth strategy, in that the expansion of customer use of the "all-in-one" platform needs to be a key focus. Already keeping high-levels of retention is a competitive advantage for the company, because, being multi-national, it enables HubSpot to retain a large portion of market share. The company also emphasized that to drive revenue growth, more focus needs to be given to selling to other parts of organizations (straying away from sales and marketing), cross-selling marketing and sales products, and upselling additional features and offerings. One of the primary goals for the company is to unify the sales and marketing businesses, aligned under one uniform HubSpot brand. In doing so, this allows for a greater likelihood of cross-selling. Additionally, the company generates revenue from "add-ons" that were developed and launched in Q4 of 2015. These add-ons expand the features of a platform that a given user is subscribed to, and can be purchased directly. HubSpot is able to generate revenue in a multitude of ways as a result of their product, and is sure to continue that trend as a result of their commitment to heavy investment back into the company to expand. Exhibit 1 above displays the steep annual increases in revenue, and forecasts run consistent with the company's strategy to continue to drive growth.

International Expansion: Executive management believes that one of the primary drivers for continued company growth is international expansion. Currently, the United States is the primary source of revenue for the company, but there is some influence in Europe and Asia. 31% of marketing customers are located outside of the United States, and as displayed in the visual to the right, those international customers are responsible for approximately 19.1% of revenue generated for the year. International revenue performance was strong, increase 67% YoY and totalling 29% of Q4 revenue. Already, the company has offices in Dublin, Sydney, Singapore, and Tokyo, and are currently pursuing plans to open a fifth international office in Berlin later this year. Management hopes to stimulate internatioal exposure and growth through continued investments in local sales, marketing, and professional capabilities. As of year end 2016, HubSpot is reported to have 23,226 customers in their base spread out over 90 countries worldwide. Also, the company reports relations with 3,500 agency partners worldwide, Facebook and LinkedIn to name a few. Global exposure, partnerships with globally recognized brands, and the continued



Source: Capital IQ

heavy investments into store developments will likely increase the company's brand awareness, which in turn could attract a greater number of customers to their expanding client base, driving more revenue growth.

Financial Standing: As talked about in the above section, revenue growth for the company has been outstanding. However, there are a number of other factors that are important to consider. HubSpot reported incredible gross margins for 2016, at 77.2% for the full year. Historically, HubSpot has maintained a gross margin of over 60% for the last five years, and that trend has been on the rise since 2013. Marginal growth, despite negative values, has been positive over the last few years, as indicated in Exhibit 2. Understandably so, negative margins may be a red flag for someone looking to invest, but in the case of HubSpot, it is a part of their business strategy long-term. Historically, gross margins have been kept at a high level; this means that for every dollar of revenue generated (in 2016, let's say), HubSpot retains roughly 77 cents from each dollar, with the remainder being spent on cost of goods sold. The company does not pay dividends and highly re-invests back into itself, as part of their rapid-growth strategy that was referred to in the above sections. The reasons for the negative margins are in part due to the continual investments made to expand HubSpot's customer base. In doing so, revenues are expected to grow more rapidly than an increase in sales and marketing, R&D, and G&A expenses. The company is aware that they will incur a growth in cost over time, which is expected due to company growth. However, in doing so, expenses are slated to decrease as a percentage of revenue over time. The company is also taking initiatives to reduce any costs possible whilst maintaining revenue growth. In Q4, CAPEX was totaled at $4 million, down from $7.4 million the previous year. The company expects CAPEX to increase as a result of expansion plans (store build-ups, Berlin opening), but this is only expected to hold for the first half of 2017. The company maintains a small level of debt; D/E for year end 2016 totaled 0.9. HubSpot did have a $35 million line of credit at their disposal last year, and as of year-end, there was no outstanding balance. The debt incurred by the company were letters of credit totaling $4.4 million dollars, indebted to landlords for office space. HubSpot maintains a healthy cash position, with $59.7 million in cash at year-end 2016. Moving forward in 2017, the company anticipate losses in operating income and net income per share, but again this is due to their heavy investment strategy to grow the company. Marginally, headwinds are expected as a result of new hires, payroll resets, and compensation adjustments, but the company still expects marginal expansion for FY 2017. In comparison with others in the industry, HubSpot stands out as best-in-class for 1 year gross margin percentage, and is in the upper echelon for sales growth as well. The negative margins are expected to become positive down the line, so those negative values in comparison to others should not be alarming to investors.

HUBS Marginal Snapshot				
	FY 2013	FY 2014	FY 2015	FY 2016
Gross Margin	62.59	69.73	73.66	77.17
EBITDA Margin	-38.36	-37.02	-21.51	-12.36
Operating Margin	-44.12	-41.95	-25.54	-16.48
Net Income Margin	-44.15	-41.62	-25.31	-16.81

Exhibit 2

	Name (BICS Best Fit)	Sales 1 Yr	Gross Margin	Gross Margin 3 Yr	Operating Margin	Operating Margin 3 Yr	EBITDA Margin	EBITDA Margin 3 Yr	EPS Before XO 1 Yr	Return on Equity 3 Yr Average	Return on Capital 3 Yr
	Median	25.87%	65.41%	64.27%	-4.04%	-8.76%	8.30%	-1.22%	23.39%	1.39%	-14.17%
100)	HUBSPOT INC	48.93%	77.17%	73.52%	-16.48%	-27.99%	-12.36%	-23.63%	7.19%	--	-52.46%
101)	COUPA SOFTWARE INC	59.87%	65.41%	63.48%	-26.37%	-38.94%	--	-35.80%	80.82%	--	--
102)	FIVE9 INC	25.78%	58.71%	53.17%	-4.04%	-18.30%	1.14%	-12.57%	55.77%	--	-33.15%
103)	EVERBRIDGE INC	30.87%	69.07%	--	-13.99%	--	--	--	22.73%	--	--
104)	ACTIVISION BLIZZARD INC	41.68%	63.77%	65.06%	22.19%	25.83%	39.17%	37.78%	7.44%	11.91%	9.05%
105)	QUALITY SYSTEMS INC	0.46%	54.19%	54.56%	10.02%	10.17%	17.16%	16.33%	-80.00%	11.66%	--
106)	SALESFORCE.COM INC	25.87%	73.38%	74.86%	0.77%	-0.26%	8.30%	7.66%	--	-3.70%	-3.27%

Source: Bloomberg

Free Cash Flow for FY 2016 totaled $3.6 million, and that number is forecasted to rise. Negative FCF will occur in Q2 and Q3 as a result of vendor payments and the company's INBOUND marketing event, but a positive FCF in Q4 is slated due to reductions in CAPEX. The initiatives set in place are set to continually spike revenue growth at a higher rate than expenses are projected, which will create value to the company as it expands. The small amount of debt, strong gross margins, and healthy cash position allow for the company to continue funding any expenditures or acquisitions they seek moving forward.

Conclusion:

In summation, HubSpot can be viewed as an investment with considerable upside. Their high retention rates, global partnerships, leading market share, and development of newer products and platforms are key in realizing the company's competitive position. The marketing automation industry is becoming more and more prevalent between businesses, and HubSpot has the technological capability, global presence, and financial allowance to continually pursue the rapid-growth strategy they have been following. Increases in revenue and long-term positive margins will allow for the company to create value within itself and generate higher return for their shareholders. A 1-year target price of $68.56 is surely attainable with the commitment to the initiatives that the company has set in place.

SIENAcollege

BJORKLUND FUND

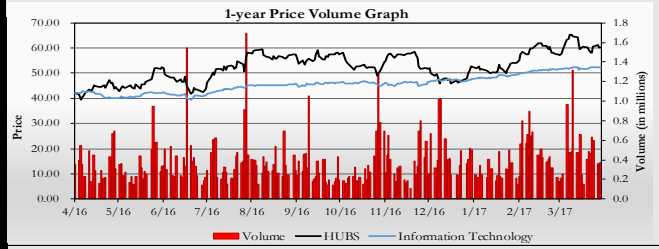
HubSpot, Inc. (HUBS)

CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

Analysis by Alec Odnoha	Current Price:	$59.60	Intrinsic Value	$107.01
4/8/2017	Divident Yield:	0.1%	Target Price	$133.66

Target 1 year Return: 124.38%
Probability of Price Increase: 100%



Description

HubSpot, Inc. provides a cloud-based marketing and sales software platform for businesses in the Americas, Europe, and the Asia Pacific.

General Information

Sector	Information Technology
Industry	Software
Last Guidance	November 3, 2015
Next earnings date	NM
Estimated Country Risk Premium	6.65%
Effective Tax rate	36%
Effective Operating Tax rate	36%

Market Data

Market Capitalization	$2,155.10
Daily volume (mil)	0.30
Shares outstanding (mil)	36.16
Diluted shares outstanding (mil)	35.20
% shares held by institutions	74%
% shares held by investments Managers	83%
% shares held by hedge funds	5%
% shares held by insiders	7.08%
Short interest	7.40%
Days to cover short interest	6.63
52 week high	$66.10
52-week low	$39.01
Levered Beta	2.25
Volatility	0.00%

Past Earning Surprises

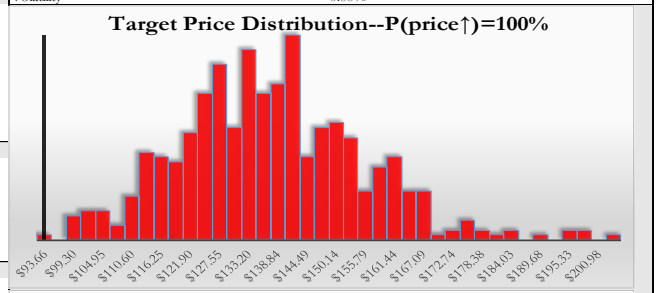
Quarter ending	Revenue	EBITDA
12/31/2015	4.79%	-488.08%
3/31/2016	5.65%	-516.77%
6/30/2016	4.79%	-552.10%
9/30/2016	2.18%	-694.43%
12/31/2016	1.94%	-413.50%
Mean	3.87%	-532.98%
Standard error	0.8%	46.4%

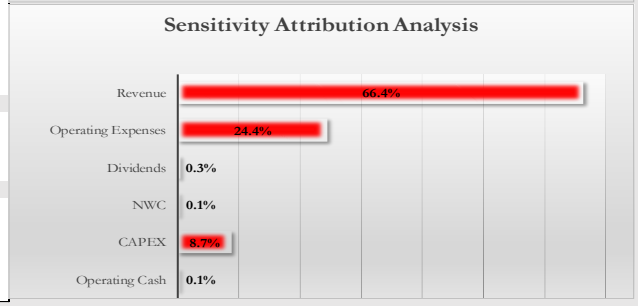
Peers

Zendesk, Inc.
Cornerstone OnDemand, Inc.
Paycom Software, Inc.
Shopify Inc.
Tableau Software, Inc.
Workday, Inc.
Salesforce.com, inc.
The Ultimate Software Group, Inc.

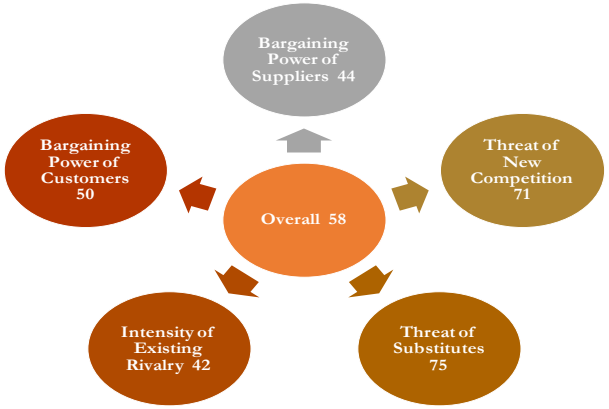
Management	Position	Total compensations growth	Total return to shareholders
Halligan, Brian	Co-Founder, Chairman and Chi	158.45% per annum over 2y	N/M
Sherman, J.	President and Chief Operatin	104.64% per annum over 2y	N/M
Shah, Dharmesh	Co-Founder, Chief Technology	N/M	0% per annum over 0y
Kinzer, John	Chief Financial Officer	21.2% per annum over 2y	N/M
Kelleher, John	General Counsel and Secretar	N/M	0% per annum over 0y
Auger, Frank	Chief Information Officer	N/M	N/M

Profitability	HUBS (LTM)	HUBS (5 years historical average)	Industry (LTM)
ROIC	14.4%	0.03%	9.78%
NOPAT Margin	10%	2.03%	12.9%
Revenue/Invested Capital	1.42	0.01	0.76
ROE	8.7%	7.70%	10.77%
Adjusted net margin	9%	0.98%	11.2%
Revenue/Adjusted Book Value	0.98	7.87	0.96
Invested Funds	**HUBS (LTM)**	**HUBS (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	30.6%	45.0%	54%
Estimated Operating Cash/Total Capital	16.0%	23.6%	N/A
Non-cash working Capital/Total Capital	-17.3%	-21.3%	-29%
Invested Capital/Total Capital	71.7%	85.1%	65%
Capital Structure	**HUBS (LTM)**	**HUBS (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.01	0.00	0.13
Cost of Existing Debt	58.98%	33.22%	3.01%
Estimated Cost of new Borrowing	15.25%	5.79%	3.01%
CGFS Risk Rating	F	CCC	B
Unlevered Beta (LTM)	2.24	1.00	1.10
WACC	19.10%	10.71%	10.92%





Porter's 5 forces (scores are out of 100)



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	48.9%	10.2%	0.75
12/31/2017	29.2%	17.0%	1.18
12/31/2018	21.5%	18.6%	0.82
12/31/2019	22.4%	20.6%	0.80
12/31/2020	32.0%	23.5%	0.95
12/31/2021	18.8%	22.9%	0.84
12/31/2022	16.4%	23.7%	0.81
12/31/2023	13.9%	24.4%	0.78
12/31/2024	11.4%	25.1%	0.75
12/31/2025	9.0%	25.8%	0.73
12/31/2026	6.5%	26.3%	0.70
Continuing Period	4.1%	26.8%	0.66

Period	Invested Capital	Net Claims	Price per share
Base Year	$35.47	$14.90	-$4.07
12/31/2017	$64.40	$90.31	-$1.68
12/31/2018	$75.31	$86.00	$2.01
12/31/2019	$150.68	$34.16	$6.72
12/31/2020	$191.36	-$22.07	$13.11
12/31/2021	$268.08	-$79.17	$20.26
12/31/2022	$511.37	-$158.78	$28.50
12/31/2023	$710.31	-$252.23	$37.51
12/31/2024	$902.15	-$362.03	$47.28
12/31/2025	$1,181.17	-$487.58	$57.82
12/31/2026	$1,479.72	-$647.56	$68.92
Continuing Period			

SIENAcollege

BJORKLUND FUND

April 7th,2017

Snap-On Incorporated: SNA

Edward Stumm

Sector: Industrial Goods
Industry: Small Tools and Accessories
Current Price: 163.14
Target Price: 190.87

Company Description: Snap-on Incorporated is headquartered in Kenosha, Wisconsin and was founded in 1920. Snap-on Inc. develops, manufactures, and distributes tool and equipment solutions throughout the world. These tools are designed to provide the right assistance to members of the automotive service industry. Their main customer base includes professional service technicians and motor service shop owners.

Buy

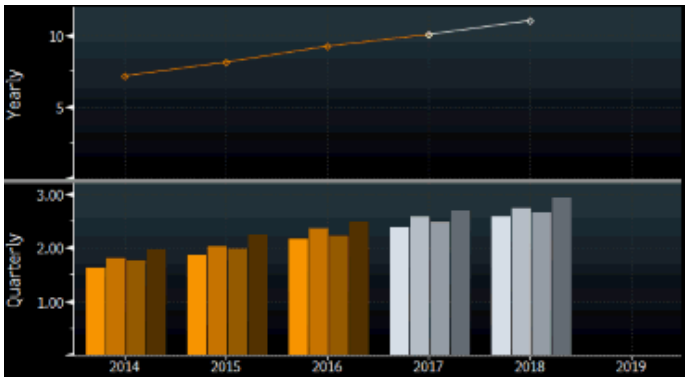
Current Price:	$163.14
Target Price:	$190.87
SP debt rating:	a-
52 week range:	145.17-181.73
Market Cap:	9.46B
P/E:	17.69
Dividend yield:	1.74%
Debt to Equity:	38.3%
Average volume:	480,716

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

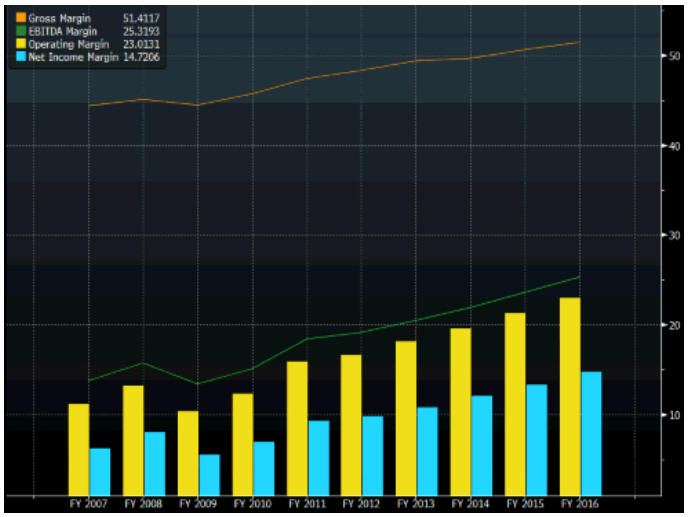
- Q1 earnings
- Entrance into new industries and emerging markets
- Mobile Franchise growth

Thesis: Snap-On Incorporated has developed an international reputation as a leading manufacturer and distributor of hand tool, auto diagnostic equipment, and shop implements. Snap-On has been able to create value through the expansion of their franchise and with the extension into new industries. Wi the acquisition of Car-O-Liner, Sturtevant Richmont, and Ryeson, Snap-On has been able to reach new markets within aviation, and locomotives. Historically, Snap-On has seen growth in a mature industry which has seen recent competition from ecommerce. With the continuous development of new countries, Snap-On will continue to demonstrate their growth by entering new markets, and capitalizing on the new opportunities. The automotive industry has recently seen advancements in the technology used in new vehicles. This will allow Snap-On to take advantage of the demand for new equipment required to repair these vehicles. With Solid EBITDA margin growth over the past years, and a consistent rise in sales, Snap-On is set to pursue the growth strategy they have in store to further differentiate themselves from the rest of their competitors.

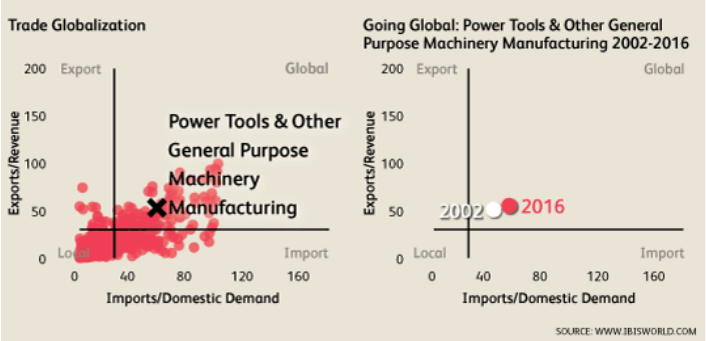
Earnings Performance:



Snap-On saw a positive fourth quarter when they beat their estimated earnings of 2.41 with an actual of 2.47. Earnings per share are projected to steadily rise through 2018, which indicates a stable company. Sales for Q4 increased 4.5% to $889.8 million from the previous year's fourth quarter performance. The sales increase could partially be contributed to acquisitions of Car-O-Liner and Sturtevant Richmont. Also affecting the Q4 revenues was the unfavorable currency from foreign countries amounting to $15.2 million. Snap-On Incorporated increased their sales to the U.S. military when budget restraints loosened. To further breakdown the Q4 revenues, Commercial and Industrial sales increased 1.6% and organic sales increased 2.4%. Gross margins of 49.9% improved 150 basis points from the previous Q4 results. This means that Snap-On has found a way to reduce their cost of goods sold while increasing their sales. EBITDA margin increased to 25.32% from the previous Q4 results which indicates that Snap-On has increased profitability. The bottom line of Net Income margin has also increased to 14.72%. Operating expense margins accounted for 30.1% of sales in the quarter due to the acquisitions. Overall, Snap-On had a quality fourth quarter and will look to carry this momentum through to 2017.



Industry Outlook:



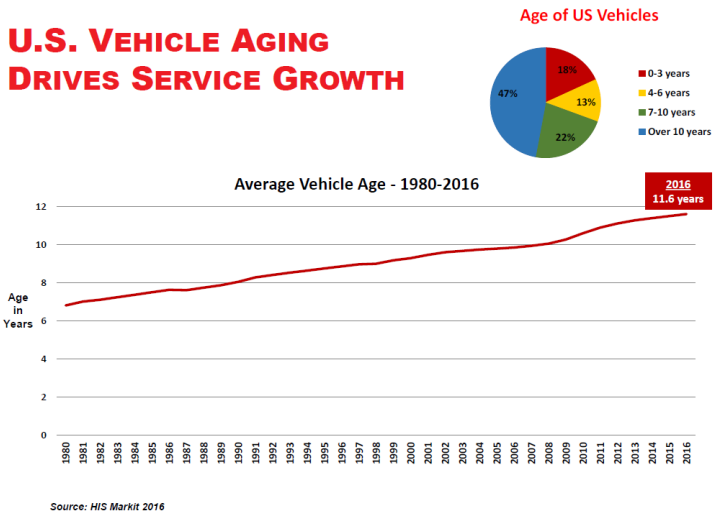
The industry as a whole has reached a mature stage. Every company currently has their set market which they appeal to. Snap-On is extending their reach into new industries beyond just the tool manufacturing. Snap-On now offers financial services which accounts for 7% of their revenues, and they operate over 2,000 vocational schools to educate and equip every person with the right set of skills. Revenues will continue to grow relatively similar to the economy unless Snap-On were to mix up their strategy. Exports will provides companies like Snap-On, who currently operate in 130 countries, the opportunity for continued growth. By reaching out to the new emerging markets, those areas will be in high demand for repair shops and equipment to keep development progressing. A key factor associated with the tool manufacturing sector is that they operate in multiple sectors, so when one sector suffers from a downturn, other sectors can pick up the slack. Snap-on is looking to expand their reach into new industries beyond just the automobiles, they want to create a presence in aviation, railroad, mining, oil & petroleum, and military & defense.

Business Model:

Snap-On has been around for nearly 100 years, and in its past they have paid out uninterrupted dividends. Snap-On Incorporated operates their business through four separate segments. These segments include the Snap-On tools group, the Repair Systems and Information Group, the Commercial and Industrial Group, and Financial Services. The Repair Systems and Information Group focuses on vehicle repair shop owners and managers, the commercial and Industrial Group focuses on professionals in a broad range of critical industries, and Snap-On Tools Group focuses on vehicle repair technicians. The company distributes its products through several channels including the mobile van channel, company direct sales, distributors, and ecommerce. They have created a strong business off of producing hand tools to make the lives of professionals easier. With the aging U.S. vehicles reaching 11.9 years on average, there will be increased needs for the solutions provided by Snap-On. This aligns with their current growth strategy of expanding to new emerging markets who are increasing demand for automotive repairs as their technology increases. To further increase their reach into new segments, Snap-On acquired Ryeson Corporation for a cash purchase price of $12.9 million, and acquired Car-O-Liner Holding AB for a cash purchase price of $151.8 million.

Technology:

In the past decade, we have witnessed the rise in popularity of hybrids as more consumers became green conscious. This was the beginning of the technology age for the automotive industry. Within the next several years we are expected to have autonomous vehicles under human supervision, driver override systems, biometric vehicle access, and the list goes on. Snap-On will benefit from these advancements in technology because there will be an increased demand for equipment to repair these cars when issues arise. Testing and re-programming will continue to expand, and vehicles will increase their need for diagnostics to read what is wrong. The increased technology will also increase the efficiency of the shops due to the employee being able to identify exactly what the problem is. It's safe to say that we can no longer fix a car with the toolbox located in the garage. Aside from the new technology that cars will be adopting, the average age of U.S vehicles has risen to 11.6 years which will drive an increase for the need of a repair shop. 47% of vehicles are over 10 years of age, so normal wear and tear is inevitable.



Competitors:

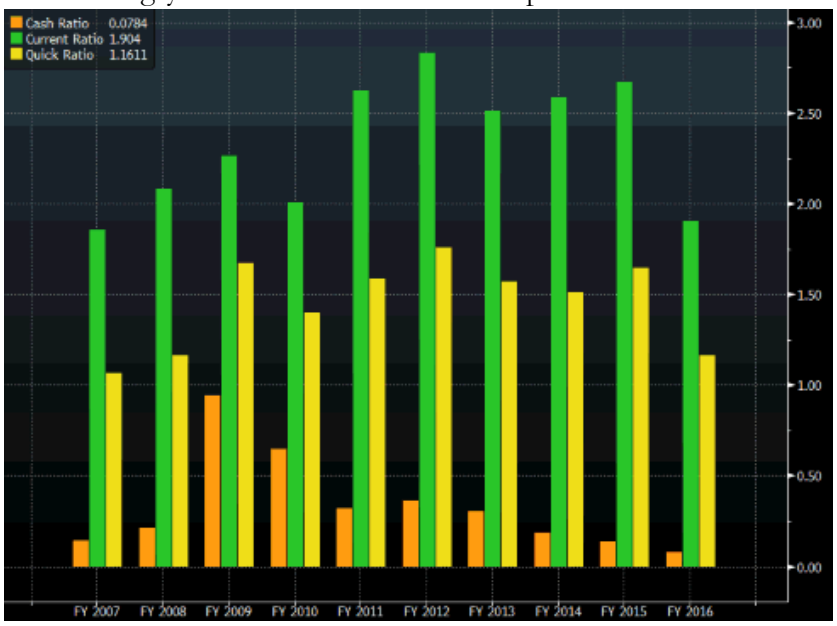
	Name (BICS Best Fit)	Sales Growth (%)	EBITDA Growth (%)	EBITDA Margin	Operating Income Margin	Net Income Growth	Net Profit Margin	Capex/Sales (%)	Return on Invested	Return on	Return on Equity
	Median	2.56%	13.09%	15.95%	12.93%	20.48%	7.90%	2.72%	12.30%	7.50%	17.72%
100)	SNAP-ON INC	3.30%	11.36%	25.35%	23.04%	13.31%	14.74%	2.00%	17.61%	12.09%	21.75%
101)	STANLEY BLACK & DECK	2.10%	4.32%	16.26%	12.68%	6.68%	8.74%	3.04%	11.28%	6.47%	16.38%
102)	MASCO CORP	3.01%	14.81%	16.54%	14.72%	46.96%	7.25%	2.45%	23.47%	9.86%	--
103)	GRIFFON CORP	-3.88%	6.46%	9.45%	5.75%	5.88%	1.90%	4.64%	4.98%	2.10%	8.96%
104)	NACCO INDUSTRIES-CL	-6.49%	23.29%	9.01%	6.76%	50.89%	4.69%	1.89%	12.83%	6.06%	19.04%
105)	FORTUNE BRANDS HOME	8.85%	19.79%	15.64%	13.18%	27.65%	8.55%	3.00%	11.78%	8.52%	17.72%

Snap-On is in a moderately competitive industry. They sell hand-tools, diagnostic equipment, and financial services to professionals to make their lives easier. Snap-on faces major competition from companies such as Stanley Black and Decker, Masco Corp, Griffon Corp, etc. Snap-On has proven to have a strong business with the highest EBITDA margin at 25.35% which comes in 10% higher than the industry average. They have exhibited steady growth in sales at an average of 3.30% which is slightly higher than the growth of the economy. In order to continue these growth sales, Snap-On is taking advantage of new developing countries and creating a presence. At the bottom line after all expenses are accounted for, Snap-On has return 14.74% in net profit margin compared to the industry average of 7.90%. Overall, Snap-On has a strong business in a competitive market. With the industry falling in the mature stage they will need to focus their attention towards the exports and build in new countries

Financials:

In Millions of USD except Per Share	FY 2013		FY 2014		FY 2015		FY 2016	
12 Months Ending	12/28/2013		01/03/2015		01/02/2016		12/31/2016	
Revenue	3,237.5	100.0%	3,492.6	100.0%	3,593.1	100.0%	3,711.8	100.0%
Snap-on Tools Group	1,358.4	37.3%	1,455.2	36.9%	1,568.7	38.4%	1,633.9	38.5%
Diagnostics & Information Group	1,009.6	27.7%	1,095.2	27.8%	1,113.2	27.2%	1,179.9	27.8%
Commercial & Industrial Group	1,091.0	30.0%	1,174.8	29.8%	1,163.6	28.5%	1,148.3	27.1%
Financial Services	181.0	5.0%	214.9	5.5%	240.3	5.9%	281.4	6.6%
Eliminations	-402.5		-447.5		-492.7		-531.7	

Snap-On has four segments of operation. The Repair Systems and Information accounts for 28% of revenue, the Snap-On Tools Group accounts for 39% of revenues, Commercial and Industrial Group accounts for 27% of revenues, and the Financial Services accounts for 7% of revenues. In 2016, revenues totaled 3.71 billion which is up 3% from fiscal year 2015. Snap-On has found a way to cut costs through the years with increasing margins and lower cost of goods sold. The cost of goods sold accounted for 50.1% of sales in 2016 which is down from 50.8% in the previous year. Margins have been on a steady incline since the recovering year from the recession. Snap-On has a total debt to equity of 39%. They currently have a high current ratio of 1.91 and quick ratio of 1.16 which indicates that they would be able to handle their financial obligations after accounting for all their inventory on hand. With solid growth over the last year, Snap-On has continued to pay out a dividend yield of 1.74% for the year. The company has been able to generate value with a Roic/Wacc ratio of 1.47 compared to the industry which has been below 1 on average. Snap-On has a Wacc of 9.6% which is their required return has proven to be a safe level of cost since they have been able to pay off all their debt obligations.



Franchise:

Snap-On has approximately 4,900 franchisees who operate through the mobile van channel, with 3,500 franchises located in the United States. The mobile van channels allows automotive technicians to receive products as needed on a weekly basis. The franchisees focus their sales on the distribution of power tools, tool storage products, shop equipment, and diagnostic information. Their main business is with car dealerships, mechanics, marinas, and airports. Snap-On relies heavily on their mobile van channel with 39% of revenues being accounted for by the franchises. The way the franchise works is that the franchise owner will buy these tools at a discounted price and then sell the products to the shop owners at a price of their choosing. Through the franchises, Snap-On receives reoccurring revenue through the franchise fee which accounted for $13.9

million in 2016. The mobile van channel will be a key factor in pursuing the growth strategy because they will need to reach out to new customers in the new developing countries. Snap-On already has approximately 1,400 mobile van channels operating outside the United States. With the entrance into new areas such as China and the Middle East, Snap-On will have a window of opportunity to capture more of the market.

Conclusion:

With the way Snap-On has created brand recognition and customer loyalty, they will continue to experience growth through the foreseeable future. With the rising opportunities in new developing countries, and the expansion into new industries through acquisitions, Snap-On will continue to gain market share and increase revenues. Overall, I believe that Snap-On is a buy at a target price of $190.87 because with the increasing technology, the development of countries, and the recent acquisitions, there is a big window of opportunity for Snap-On to capitalize on the rising demand for new products.

SIENAcollege

BJORKLUNDFUND

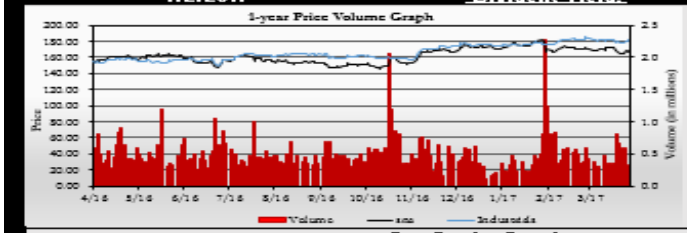
CENTER FOR GLOBAL FINANCIAL STUDIES

Snap-on Incorporated (sna) — **BULLISH**

Analysis by Edward Stumm — 4/2/2017

Current Price:	$168.67	Intrinsic Value	$187.91
Divident Yield:	0.1%	Target Price	$203.98

Target 1 year Return: 21.05%
Probability of Price Increase: 99



Description

Snap-on Incorporated manufactures and markets tools, equipment, diagnostics, and repair information and systems solutions for professional users worldwide.

General Information

Sector	Industrials
Industry	Machinery
Last Guidance	November 3, 2015
Next earnings date	NM
Estimated Country Risk Premium	6.25%
Effective Tax rate	32%
Effective Operating Tax rate	34%

Market Data

Market Capitalization	$9,777.49
Daily volume (mil)	0.60
Shares outstanding (mil)	57.97
Diluted shares outstanding (mil)	59.40
% shares held by institutions	74%
% shares held by investment Managers	77%
% shares held by hedge funds	7%
% shares held by insiders	0.99%
Short interest	5.46%
Days to cover short interest	6.74
52 week high	$181.73
52-week low	$145.17
Levered Beta	1.05
Volatility	19.50%

Past Earning Surprises

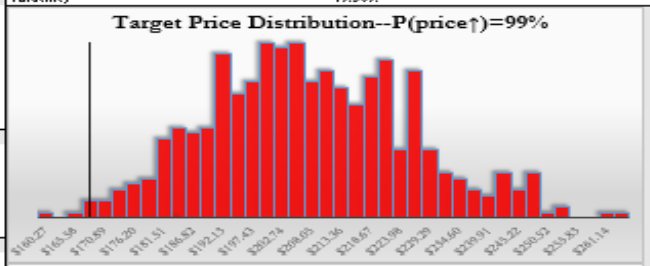
Quarter ending	Revenue	EBITDA
1/2/2016	-0.47%	-7.02%
4/2/2016	5.01%	0.45%
7/2/2016	7.00%	1.79%
10/1/2016	4.57%	1.87%
12/31/2016	7.83%	-5.00%
Mean	4.79%	-1.58%
Standard error	1.4%	1.9%

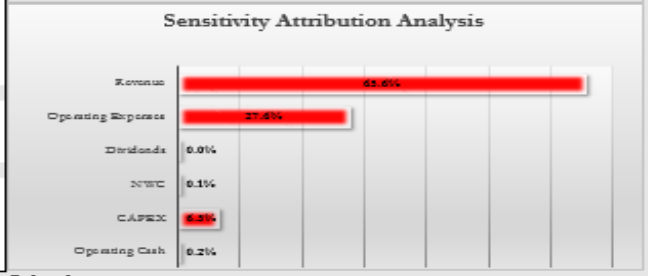
Peers

The Toro Company
Flowserve Corporation
The Timken Company
Illinois Tool Works Inc.
Crane Co.
Kennametal Inc.
Pentair plc
Briggs & Stratton Corporation

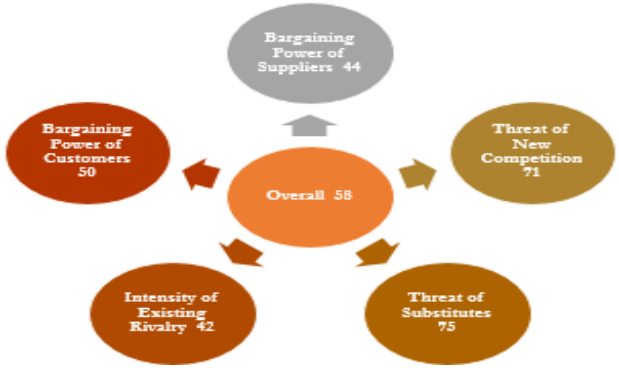
Management	Position	Total compensation growth	Total return to shareholders
Pinchuk, Nicholas	Chairman of the Board, Chief	7.45% per annum over 6y	0.46% per annum over 6y
Pagliari, Aldo	Chief Financial Officer and	20.45% per annum over 6y	0.46% per annum over 6y
Banerjee, Anup	Chief Development Officer an	N/M	1.56% per annum over 1y
Ward, Thomas	Senior Vice President and Pr	4.84% per annum over 6y	0.46% per annum over 6y
Karrouf, Thomas	Senior Vice President and Pr	11.81% per annum over 6y	0.46% per annum over 6y
Johnson, Constance	Principal Accounting Officer	N/M	N/M

Profitability	sna (LTM)	sna (5 years historical aver	Industry (LTM)
ROIC	35.8%	43.09%	10.41%
NOPAT Margin	13%	14.23%	9.7%
Revenue/Invested Capital	2.70	3.03	1.08
ROE	24.8%	32.56%	12.82%
Adjusted net margin	12%	12.42%	8.0%
Revenue/Adjusted Book Value	2.05	2.62	1.60
Invested Funds	**sna (LTM)**	**sna (5 years historical aver**	**Industry (LTM)**
Total Cash/Total Capital	2.6%	5.6%	12%
Estimated Operating Cash/Total Capital	2.6%	4.8%	N/A
Non-cash working Capital/Total Capital	19.5%	20.8%	17%
Invested Capital/Total Capital	50.6%	52.0%	87%
Capital Structure	**sna (LTM)**	**sna (5 years historical aver**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.00	-0.01	0.30
Cost of Existing Debt	-67.51%	119.99%	3.65%
Estimated Cost of new Borrowing	4.32%	4.39%	3.65%
CGFS Risk Rating	CCC	CCC	CC
Unlevered Beta (LTM)	1.06	1.43	0.99
WACC	11.38%	14.48%	9.58%





Porter's 5 forces (scores are out of 100)



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	3.3%	13.2%	3.14
12/31/2017	-3.7%	17.5%	4.16
12/31/2018	1.5%	19.1%	-3.56
12/31/2019	11.4%	19.9%	-5.03
12/31/2020	6.0%	19.8%	-5.87
12/31/2021	6.0%	21.5%	-8.76
12/31/2022	6.0%	21.9%	-13.80
12/31/2023	6.0%	22.3%	-30.31
12/31/2024	5.5%	20.3%	189.49
12/31/2025	5.0%	17.8%	18.56
12/31/2026	4.5%	15.7%	9.55
Continuing Period	4.0%	13.4%	4.74

Period	Invested Capital	Net Claims	Price per share
Base Year	$773.39	$134.65	$186.31
12/31/2017	$1,058.44	-$3,806.86	$203.63
12/31/2018	$1,432.00	-$4,071.59	$216.27
12/31/2019	$1,386.77	-$4,663.31	$230.30
12/31/2020	$1,373.46	-$5,098.08	$244.17
12/31/2021	$1,489.64	-$5,624.58	$258.43
12/31/2022	-$1,927.39	-$6,176.43	$272.99
12/31/2023	-$1,584.66	-$7,202.83	$295.39
12/31/2024	-$1,425.42	-$7,648.65	$310.19
12/31/2025	-$1,101.07	-$8,018.64	$324.99
12/31/2026	-$756.63	-$7,474.47	$340.36

SIENAcollege

BJORKLUNDFUND

April 7th, 2017,

KLX Inc.: KLXI

Benjamin Bouin

Sector: Industrial Goods
Industry: Aerospace/Defense Products& services
Current Price:
Target Price: $52.15

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

BUY

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

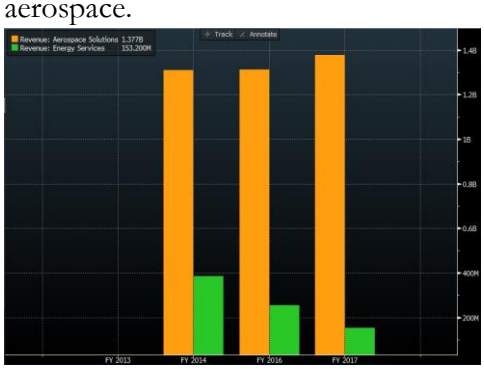
Catalysts:

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

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

Cash Flow:

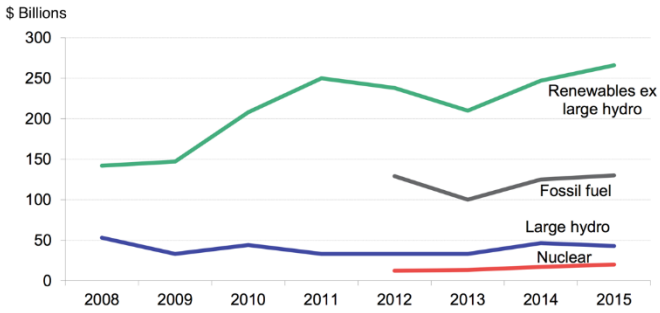
KLX Inc. is a company specialized on the aerospace solutions but also on the oil and gas solutions. The part of the oil and gas solution has decreased through the lasts few years. In fact, in 2014, it represented 22.7% of their total revenue, in 2016, it represented 16.3% and in 2017 it only represents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



In fact, the 2016 revenue has been impacted by the extreme weather that happened during the year. XTI has great expectations for the coming year. In fact, most of the planes owned by American Airlines, Delta Airlines are planes 7/8 years old, which means that the airlines companies are going to have to realize important mandatory maintenance on their planes which is KLX Inc.'s business. What can also explains the lower revenue is that the military manufacturing such as the F-18 and the F-16 has been declining but with the $577 billion increase of military budget are going to make increase the planes manufacture. The company holds an important amount of cash on hands, this can be explained by two reasons, the first one is that the company is repurchasing their outstanding shares by also it is ready for a business opportunity on the M&A side.

Renewable Energies vs Oil and Gas:

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



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

Margins:

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

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

Capital Allocation:

ROIC (NOPAT/IC)	*History*	*LTM*
KLXI	4.3%	3.0%
Competitors	45.1%	-20.6%

WACC	*History*	*LTM*
KLXI	8.9%	9.6%
Competitors	9.4%	9.2%

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

Conclusion:

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

SIENAcollege

BJORKLUND FUND

KLX Inc. (KLXI)

CENTER FOR GLOBAL FINANCIAL STUDIES

NEUTRAL

Analyzic by Benjamin Bunin | **Current Price:** $44.31 | **Intrinsic Value** $64.90 | **Target 1 year Return: 16.39%**

4/3/2017 | **Dividend Yield:** 0.0% | **Target Price** $52.15 | **Probability of Price Increase: 9**

Description

KLX Inc., together with its subsidiaries, provides aerospace fasteners, consumables, and logistics services worldwide.

General Information

Sector	Industrials
Industry	Aerospace and Defense
Last Guidance	November 9, 2015
Next earnings date	NM
Estimated Country Risk Premium	5.25%
Effective Tax rate	40%
Effective Operating Tax rate	34%

Market Data

Market Capitalization	$2,552.52
Daily volume (mil)	0.51
Shares outstanding (mil)	52.51
Diluted shares outstanding (mil)	52.28
% shares held by institutions	74%
% shares held by investment Managers	85%
% shares held by hedge funds	14%
% shares held by insiders	1.52%
Short interest	7.44%
Days to cover short interest	7.53
52 week high	$52.48
52-week low	$28.65
Levered Beta	1.27
Volatility	0.88%

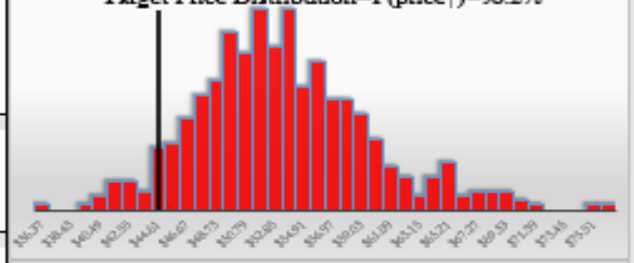
Past Earning Surprises

Quarter ending	Revenue	EBITDA
1/31/2016	-11.55%	-75.45%
4/30/2016	-4.61%	-15.82%
7/31/2016	-5.63%	-12.42%
10/31/2016	-1.34%	N/A
1/31/2017	-4.58%	-15.58%
Mean	-5.74%	-38.55%
Standard error	1.7%	15.1%

Peers

Wesco Aircraft Holdings, Inc.
HEICO Corporation
Hexcel Corporation
Esterline Technologies Corporation
TransDigm Group Incorporated
B/E Aerospace, Inc.
Orbital ATK, Inc.
The Boeing Company

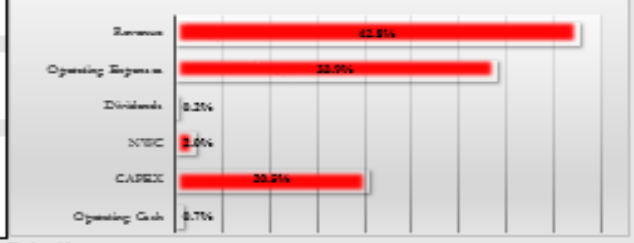
Target Price Distribution--P(price↑)=93.2%



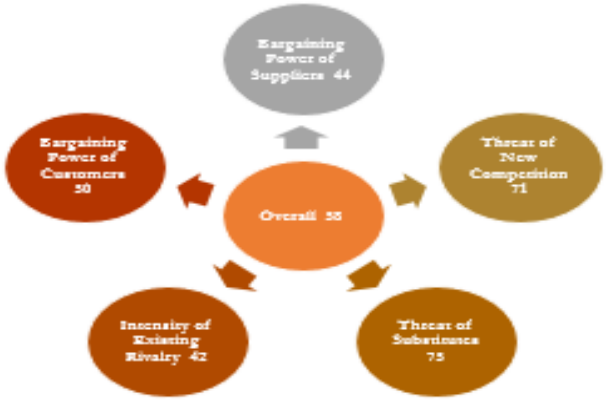
Management	Position	Total compensation growth	Total return to shareholders
Khoury, Amin	Chairman and Chief Executive	-100% per annum over 1y	-25.64% per annum over 1y
McCaffrey, Thomas	President and Chief Operating	-100% per annum over 1y	-25.64% per annum over 1y
Scafi, Michael	Chief Financial Officer, Vice	-100% per annum over 1y	-25.64% per annum over 1y
Franke, Roger	Vice President of Lock Home	-100% per annum over 1y	-25.64% per annum over 1y
Cosme, John	Vice President and General M	-100% per annum over 1y	-25.64% per annum over 1y
Floyd, Heather	Principal Accounting Officer	N/M	N/M

Profitability	KLXI [LTM]	KLXI [5 years historical a	Industry [LTM]
ROIC	5.1%	76.15%	14.88%
NOPAT Margin	10%	8.87%	5.6%
Revenue/Invested Capital	0.53	0.53	1.47
ROE	5.3%	156.85%	17.85%
Adjusted net margin	7%	7.55%	8.2%
Revenue/Adjusted Book Value	0.88	28.73	2.88
Invested Funds	**KLXI [LTM]**	**KLXI [5 years historical a**	**Industry [LTM]**
Total Cash/Total Capital	4.7%	6.2%	24%
Estimated Operating Cash/Total Capital	3.3%	4.8%	N/A
Non-cash working Capital/Total Capital	24.2%	32.8%	14%
Invested Capital/Total Capital	78.7%	63.7%	87%
Capital Structure	**KLXI [LTM]**	**KLXI [5 years historical a**	**Industry [LTM]**
Total Debt/Common Equity [LTM]	0.58	0.55	0.26
Cost of Existing Debt	5.86%	8.52%	4.94%
Estimated Cost of new Borrowing	4.88%	5.66%	4.94%
CGFS Risk Rating	D	DD	CC
Unlevered Beta [LTM]	0.87	0.55	0.88
WACC	8.55%	5.52%	8.58%

Sensitivity Attribution Analysis



Porter's 5 Forces [scores are out of 100]



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	-2.5%	5.5%	0.51
1/31/2018	0.5%	11.5%	0.58
1/31/2019	5.2%	12.5%	0.55
1/31/2020	5.6%	13.1%	0.68
1/31/2021	2.8%	13.5%	0.65
1/31/2022	2.5%	13.8%	0.74
1/31/2023	3.1%	13.8%	0.88
1/31/2024	3.5%	13.6%	0.88
1/31/2025	3.5%	13.6%	0.97
1/31/2026	3.7%	13.5%	1.05
1/31/2027	3.5%	13.4%	1.25
Continuing Period	4.1%	13.4%	1.46

Period	Invested Capital	Net Claims	Price per share
Base Year	$151.38	$1,451.51	$68.82
1/31/2018	$1,455.84	$2,485.85	$58.75
1/31/2019	$1,552.53	$2,123.12	$63.42
1/31/2020	$2,215.55	$1,481.53	$76.65
1/31/2021	$2,857.72	$755.34	$38.85
1/31/2022	$4,574.88	$42.48	$105.28
1/31/2023	$4,447.45	-$788.51	$115.31
1/31/2024	$4,621.38	-$1,472.57	$123.52
1/31/2025	$4,455.25	-$2,252.15	$142.18
1/31/2026	$4,215.28	-$3,081.44	$154.85
1/31/2027	$3,378.18	-$3,341.85	$167.23
Continuing Period			

SIENAcollege

BJORKLUND FUND

April, 7th, 2017

Orion Engineered Carbons S.A: OEC

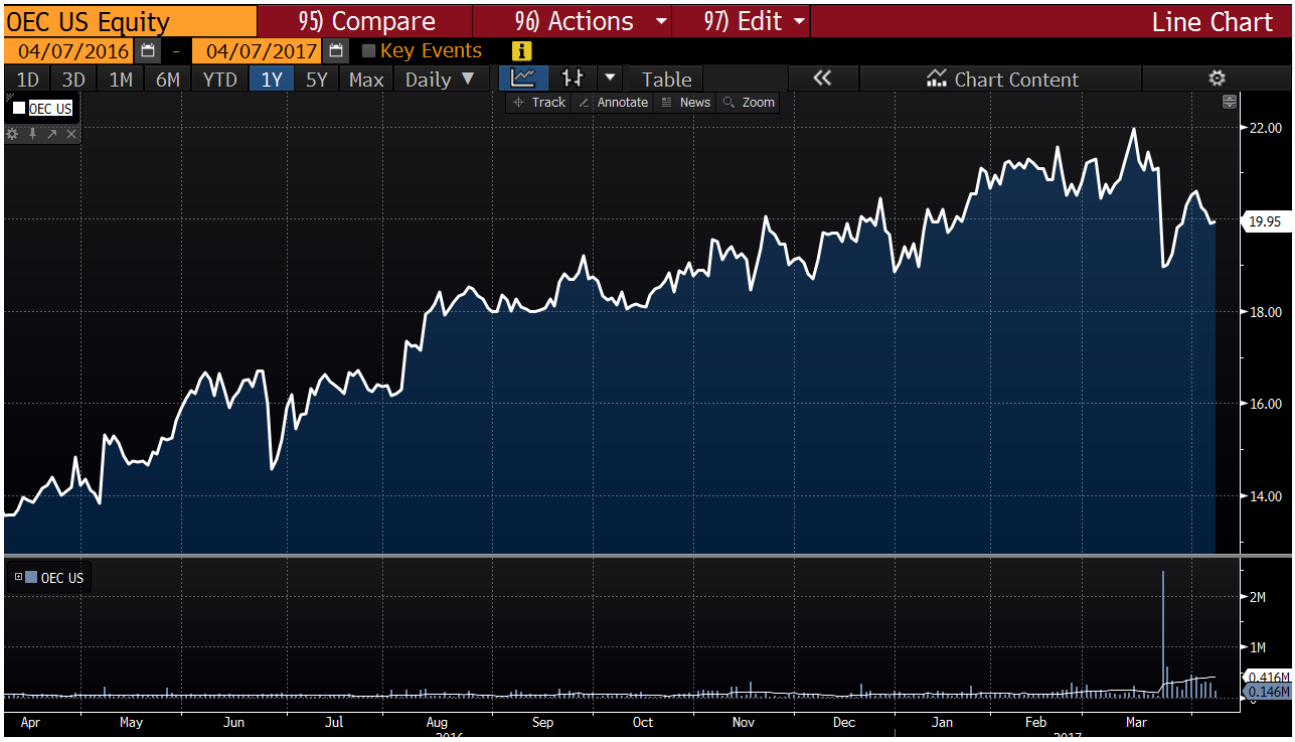
Marion HORRY

Sector: Basic Materials
Industry: Specialty Chemicals
Current Price: $20.30
Target Price: $27.33

OEC is producing and selling carbon product internationally. More particularly, it sells its product in Germany, United States, South Korea, Brazil, and South Africa, in Europe and in the rest of the world. The two major's product of the company is the rubber carbon black and the specialty carbon black.

BUY

Current Price:	$20.30
Target Price:	$27.33
Market Cap:	1.18B



Thesis:

OEC is one of the leader within its industry. It provided high quality carbon products to customers. They offer 2 types of products the rubber carbon blacks and the specialty carbon blacks. This will ensure its revenue and they will keep put in place profitability strategy in order to keep increasing their margin. This will give them a competitive advantage, and it will increase its free cash flow through the time. I advise to buy OEC because it stock price is currently undervalued. I expect the price of the stock to rise in the future from $20.30 to $27.33.

Catalysts:

- **Short Term(within the year):**

The next earning is on May 04, 2017. This can increase the volatility of the stock and help to reach the target price.

- **Mid Term(1-2 years):**

Their strategy to focus on its profitability should continue to give them a competitive advantage.

- **Long Term(3+):**

Between 2016 and 2021, the oil price range should stay between $50per barrel and $75/ barrel.

Rubber Carbon Blacks:

OEC is producing carbon black since 1862. To produce it, the company is using Furnace Black Process. This process is basically the injection of liquid hydrocarbon into a flame which permits to the feedstock to decompose and to create carbon black particles. They also used other methods such as Lamp Black Process and Degussa Gas Black Process.

The company produce different types of carbon black such Hard Blacks, Soft Black, Thermal black and Gas Black. All of this type of carbon black have different characteristics.

OEC is selling its Rubber Carbon Blacks under different trademarks: CORAX, ECORAK, CORAX HP BLACKS, CORAX N990, PUREX, SABLE, DUREX 0, and CK 3.
CORAX trademark is offering to customer's different range of standard grades of Furnace Blacks. The ECORAX and CORAX HP BLACK is responding to a large demand in ultra-high performance car tires and fuel-efficient truck tires. On the other side, CORAX HP BLACK is responding to the growing demand for racing and motorcycle tires. DUREX 0 is producing thanks to the Lamp Black Process, this allows the company to guarantee excellent stability of the product. CK 3 is produced using Degussa Gas Black Process to provide high quality product to customers.

Rubber carbon Black is helpful for 2 major's applications:
Tires:
The market is the largest consumers and buyers of Rubber Carbons are Automotive and truck tires. It provides high quality rubber carbon black in order to generated fuel economy, to improve the life of the tires.
Mechanicals Rubber Goods:
The other application of the Rubber are tubes and hoses, belts, extruded profiles, molded products, seals, gaskets, anti-vibration engine mounts, wiper blades, rubber flooring and footwear. By providing high quality rubber carbon, it allows its customers to optimize their production process and to improve their final products.

Since 2013 to 2016, the revenue generated from this product has been between 60% and 70%. In 2016, the revenue generated by this product was 62.5% of OEC total revenue, $644.2 million. By looking at the gross

profit of the Rubber Carbon block it is possible to see that between 2013 and 2016, the range of the gross profit is 47.6% to 56.4%. Actually, the gross profit on this product is at 47.6%. The gross profit for this period is lower than before because the company had experienced a decrease in their sales of Rubber Carbon Black and an increase in its other products.

Specialty Carbon Black:

OEC is the leader within the industry for the specialty carbon blacks. The raw material is useful for the production of plastic, adhesives for examples.
The company is offering this product under different brands.

Major Brands for Specialty Carbon Blacks		
AROSPERSE®	LAMP BLACK	RUSSDISPERSION
COLCOLOR®	NEROX®	RUSSPASTE
COLOUR BLACK	NIPex®	SPECIAL BLACK
CORASOL®	PANTHER	TACK®
DERUSSOL®	PBR	VOSSEN-BLAU®
HIBLACK®	PRINTEX®	XPB

There are 5 majors application for this raw material:

- Printing System,
- Coating System,
- Polymer System,
- Energy Systems,
- Special Applications.

This segment is generating between 29.1% and 37.5% of the total revenue. In 2016, this segment generated $ 385.9 million of revenue, 37.5%. The revenue growth between 2015 and 2016 is at 1.20%, which represents a change of sale in volume of 12.10%. The gross profit for this segment is between 56.45 and 47.6%. In 2016, the gross profit is at the lowest level at 37.5% because of an increase in cost of revenue during the same period.

Profitability:

Overview | Comp Sheets | Markets | EPS Preview | Ownership | Credit | Custom

Create Template

Add Column | 93) Fields | 19) Save As

	Name (BI Peers)	Ticker	Mkt Cap (USD)	GM LF	OPM LF	EBITDA to Net Sales LF	NI Mrgn Adj LF
	Median		6.25B	28.36%	14.24%	19.96%	5.78%
100)	ORION ENGINEERED CARB...	OEC US	1.19B	31.50%	13.28%	19.96%	6.86%
101)	SAUDI KAYAN PETROCHE...	KAYAN AB	3.24B	18.58%	14.24%	40.75%	--
102)	YANBU NATIONAL PETRO...	YANSAB AB	9.11B	36.60%	33.45%	48.55%	--
103)	SAUDI INTERNATIONAL P...	SIPCHEM AB	1.72B	23.36%	14.69%	42.04%	--
104)	ARKEMA	AKE FP	7.67B	--	6.86%	16.25%	4.54%
105)	LANXESS AG	LXS GR	6.25B	19.32%	1.83%	8.46%	1.17%
106)	BASF SE	BAS GR	90.66B	30.95%	11.17%	19.61%	4.69%
107)	SAUDI BASIC INDUSTRIE...	SABIC AB	80.70B	31.11%	23.32%	37.02%	--

OEC is producing raw materials of carbon for other company that transform it in a final products. The process of creating the rubber carbon black and specialty carbon are complicated and sophisticated. Thus, OEC has a good competitive advantage compare to its competitors since it has a higher gross profit margin. It means that OEC has lower cost of revenue compare to its competitors. OEC has more money left compare to its competitors after paying the cost of goods sold. It is possible to argue that the margin will continue to be stable through the next periods.

The operating profit margin of OEC shows that they are under the median value than its competitors. It means that the company has less money after paying all of its expenses compare to its competitors. The EBITDA margin shows that OEC is at the median among its competitors. Thus, it doesn't make him more or less profitable than its competitors on this ratio. Finally, by looking at the net income margin, it is possible to see that OEC is generating more net income than its competitors.

Globally, OEC is more profitable than its competitors except on the EBITDA margin were they are at the median value. It is important to notice that the company was able to compensate the rising in oil price in order to keep a good profitability performance.

OEC is actually working on strategy that will provide high margin per segment and also to improve its productions performance.

Capital Allocation:

The ROIC of OEC shows that it has an efficient way to allocate its capital by choosing profitable investment. Thus, its means that the company is invested money that will later on generates returns. By compare the ROIC of OEC to its competitors, it is possible to see that they are allocating their capital on more profitable investment. In fact the competitors of OEC have a ROIC of 0.9% compare to the ROIC of OEC for 15.8%.

ROIC (NOPAT/IC)		
	History	*LTM*
OEC	12.9%	15.8%
Competitors	15.4%	0.9%

By looking at the WACC, it is possible to notice that OEC has a higher WACC compare to its competitors. In 2016, OEC has 613.7million of debt. OEC has 15.8 of ROIC and a WACC at 8.8% which means that they are creating value. Finally, OEC is creating $0.07 for every $1 invested in capital. Its competitors are destroying $0.076 for every $1 dollars invested in capital.

WACC		
	History	*LTM*
OEC	8.8%	8.8%
Competitors	8.6%	8.5%

Conclusion:

In conclusion, it is important to notice that OEC is providing to customer's high quality product that they can easily transform into final products. Moreover, OEC is continually working toward progress in order to always improve the quality of their products. Actually, OEC is having a good profitability compare to its competitors, and give them a competitive advantage. Lululemon Athletica Inc. has and will continue to gain more competitive advantage. This competitive advantage will be obtain by its long term strategy to work toward a higher profitability and higher and better operation efficiency. By increasing their margin, the company will be able to create more value.

SIENAcollege

BJORKLUND FUND

Orion Engineered Carbons, S.A. (OEC)

CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

Analyzir by Marina HORRT | **Current Price:** $20.30 | **Intrinsic Value** $26.08 | **Target 1 year Return: 37.28%**

4/7/2017 | **Divident Yield:** 2.7% | **Target Price** $27.33 | **Probability of Price Increase: 9**

Description

Orion Engineered Carbons S.A., together with its subsidiaries, produces and sells carbon black products in Germany, the United States, South Korea, Brazil, South Africa, the rest of Europe, and internationally.

General Information

Sector	Materials
Industry	Chemicals
Last Guidance	November 5, 2015
Next earnings date	May 4, 2017
Estimated Country Risk Premium	2.35%
Effective Tax rate	34%
Effective Operating Tax rate	34%

Market Data

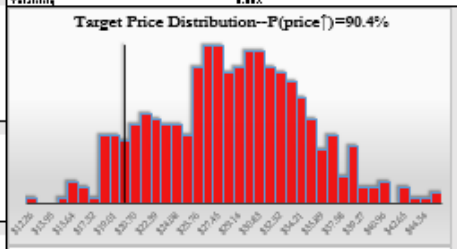
Market Capitalization	$1,222.88
Daily volume (mil)	0.16
Shares outstanding (mil)	59.92
Diluted shares outstanding (mil)	60.45
% shares held by institutions	74%
% shares held by insiders Managers	10%
% shares held by hedge funds	10%
% shares held by insiders	2.07%
Short interest	0.07%
Days to cover short interest	0.24
52 week high	$22.28
52-week low	$15.52
Levered Beta	0.54
Volatility	0.00%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
12/31/2015	-6.34%	2.92%
3/31/2016	-14.53%	-1.92%
6/30/2016	-3.04%	-4.93%
9/30/2016	-5.13%	-6.72%
12/31/2016	2.38%	2.83%
Mean	-5.06%	-0.62%
Standard error	2.0%	2.5%

Peers

Cabot Corporation
LyondellBasell Industries N.V.
Westlake Chemical Corporation
Olin Corporation

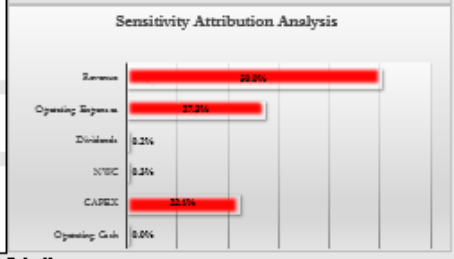


Management	Position	Total compensation year	Total return to shareholders
Clem, Jack	Group Chief Executive Officer	N/A	N/A
Herlinger, Charles	Group Chief Financial Officer	N/A	N/A
Schuler Infurt, Rudolf	Chief Accounting Officer and	N/A	N/A
Eggert, Christian	Chief Compliance Officer, Hr	N/A	N/A
Malesky, Jeffrey	Senior Vice President of Glo	N/A	N/A
Thirg, Erik	Senior Vice President of Pur	N/A	N/A

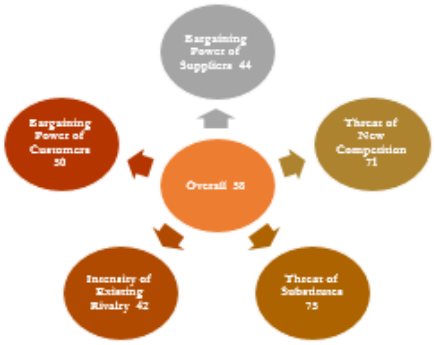
Profitability	OEC (LTM)	OEC (5 year historical av	Industry (LTM)
ROIC	14.4%	55.88%	12.67%
NOPAT Margin	12%	7.25%	12.2%
Revenue/Invested Capital	1.19	4.53	1.04
ROE	48.7%	45.76%	15.93%
Adjusted net margin	10%	5.97%	10.5%
Revenue/Adjusted Book Value	4.25	15.57	1.45

Invested Funds	OEC (LTM)	OEC (5 year historical av	Industry (LTM)
Total Cash/Total Capital	7.4%	7.8%	15%
Estimated Operating Cash/Total Capital	4.5%	5.2%	N/A
Non-cash working Capital/Total Capital	11.5%	17.4%	15%
Invested Capital/Total Capital	84.5%	75.5%	82%

Capital Structure	OEC (LTM)	OEC (5 year historical av	Industry (LTM)
Total Debt/Common Equity (LTM)	0.52	0.42	0.26
Cost of Existing Debt	5.36%	5.34%	5.77%
Estimated Cost of new Borrowing	5.86%	5.22%	5.77%
CGFS Risk Rating	C	C	CCC
Unlevered Beta (LTM)	0.53	0.51	1.06
WACC	4.55%	5.18%	5.16%



Porter's 5 forces (scores out of 100)



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	-7.5%	12.8%	3.16
12/31/2017	-15.1%	10.6%	2.26
12/31/2018	-13.2%	10.6%	1.97
12/31/2019	-11.3%	10.7%	1.83
12/31/2020	-9.5%	10.8%	1.72
12/31/2021	-7.4%	10.9%	1.63
12/31/2022	-5.5%	11.2%	1.58
12/31/2023	-3.6%	11.4%	1.55
12/31/2024	-1.7%	11.6%	1.53
12/31/2025	0.2%	11.8%	1.55
12/31/2026	2.1%	12.1%	1.53
Continuing Period	4.1%	12.4%	1.56

Period	Invested Capital	Net Claims	Price per share
Base Year	$478.36	$558.58	$26.54
12/31/2017	$584.87	$473.23	$27.72
12/31/2018	$758.67	$388.17	$28.97
12/31/2019	$852.36	$303.78	$30.25
12/31/2020	$862.27	$242.51	$31.57
12/31/2021	$877.84	$152.18	$32.92
12/31/2022	$853.53	$148.84	$34.33
12/31/2023	$825.45	$118.34	$35.80
12/31/2024	$796.38	$75.88	$37.35
12/31/2025	$778.32	$42.18	$38.93
12/31/2026	$766.33	$8.73	$40.72
Continuing Period			