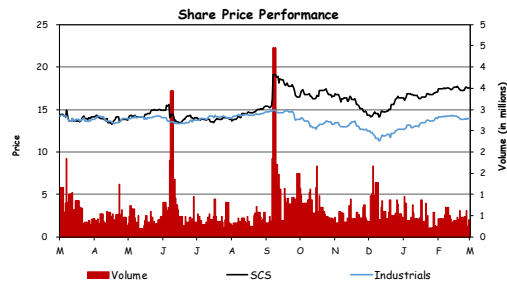


Steelcase Inc.	Symbol: SCS
Analyst	Paul Comisso
Buy below	\$17.31
Sell above	\$21.15
Probability of Price Increase	28%
Last Price	\$17.58
Intrinsic Value	\$18.20
Target Dividends	\$0.57
Target Price	\$20.20



Description	
Steelcase Inc. manufactures and sells integrated furniture settings, user-centered technologies, and interior architectural products.	
Sector	Industrials
Industry	Commercial Services and Supplies
Last Guidance	December 11, 2018
Next earnings date	March 19, 2019
People	
Keane, James, President, CEO & Director	
Sylvester, David, CFO & Senior VP	
Armbruster, Sara, Vice President, Strategy of Research & Digital	
O'Shaughnessy, Lizbeth, Chief Administrative Officer, Senior VP, General	
Schmitt, Eddy, Senior Vice President of Americas	
Krestakos, Robert, Vice President of Global Operations	
Top Competitors	
Herman Miller, Inc.	Kimball International, Inc.
HNI Corporation	Okamura Corporation
Knoll, Inc.	--
Pitney Bowes Inc.	--
Kokuyo Co., Ltd.	--
Market Statistics	
Market Capitalization (mil)	\$2,049.46
Last Price per share	\$17.58
52 week high	\$19.35
52-week low	\$13.10
Volatility	31.09%
Daily volume (mil)	0.40
Short interest	1.87%
Days to cover short interest	3.88
Beta	1.24

**Investment Thesis****An Industry Leader in a Booming Industry:**

I am initiating coverage of Steelcase Corporation with a limit buy at \$17.31 and a 20.20 target price. I see Steelcase as a best in class provider of office furniture. It applies its research and creativity into producing forward thinking designs for furniture that will suit the office environment as it continues to evolve. Steelcase has a history of innovation, as it can be traced back as the pioneer of the open office concept. Steelcase is very mature but continues to create value because of their innovation.

**For the long:****1. Earnings release next week:**

Steelcase will release their earnings next week and the market is eagerly waiting to see their performance. In the past Steelcase has consistently beat estimates and this often leads to an uptick in volume and stock price. Steelcase's performance this quarter should be stellar.

**2. Strong sector performance:**

Steelcase is within the business service sector, which has been performing extremely well lately. This sector is up almost 13% on the year. In the business friendly environment under Trump, companies have been expanding and Steelcase and its peers have seen increased demand for its products.

**3. Regression back to its mean operating margin:**

Over the past two years, Steelcase has seen a significant decrease in its operating margin. Last year they reported a margin of about 4.7%, however their historical margin is closer to about 5.5%. I believe over the next year Steelcase will see a regression back towards this value and outperform analysts estimates driving up stock price.

**For the short:****1. Exposure to recession**

As a business services company steelcase is highly sensitive to the economic cycle. So should a downturn occur, which is appearing likely as common metrics show, Steelcase would see a significant negative impact on their stock price.

**2. Margin sensitivity**

Should Steelcase not see an improvement in their margins, this could be a sign that their business has changed and they are no longer able to maintain those higher margins.

**Key Catalysts for price change**

- Outperformance of estimates
- Strong performance in the sector
- Improved margins back to what they were capable of in the past.

**Valuation**

My \$17.31 stock price is based on discounted free cash flow valuation.

Ownership		Change in Ownership ("Input"/month)
Shares outstanding (mil)	116.78	
Diluted shares outstanding (mil)	119.18	
Options and Warrants (Shares equivalent)	0.00	
% shares held by institutions	101%	"INPUT from BB"
% shares held by investments Managers	62%	"INPUT from BB"
% shares held by hedge funds	4.24%	"INPUT from BB"
% shares held by VC/PE firms	0.009%	"INPUT from BB"
% shares held by insiders	24.43%	-24.96%
Poison Pill Type	NONE	

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## Quarterly Earning Surprises (Actual Vs. Median Estimates)

Revenue	
11/24/2017	-3.27%
2/23/2018	2.89%
5/25/2018	0.07%
8/24/2018	0.41%
11/23/2018	0.18%
Mean (Standard Error)	0.06% (1%)
EBITDA	
11/24/2017	-43.71%
2/23/2018	32.65%
5/25/2018	-10.91%
8/24/2018	0.97%
11/23/2018	-22.92%
Mean (Standard Error)	0.06% (4.97%)

Valuation  
DCF Valuation

	Revenues	EBITDA Margin	FCF	WACC	ROIC	Price Per Share
Base Year (Actual)	\$3,303.50	7%	\$55.90	11.79%	8.43%	\$18.64
year 1	\$3,679.85	8%	\$106.92	10.89%	11.55%	\$20.65
year 2	\$3,978.80	8%	\$187.79	10.98%	12.35%	\$22.75
year 3	\$4,120.32	9%	\$232.62	11.09%	12.20%	\$24.94
year 4	\$4,291.14	10%	\$282.29	11.20%	13.17%	\$27.23
year 5	\$4,452.45	10%	\$313.60	11.30%	13.06%	\$29.59
year 6	\$4,608.62	10%	\$319.07	11.39%	12.09%	\$32.03
year 7	\$4,758.65	10%	\$323.45	11.47%	11.26%	\$34.55
year 8	\$4,901.58	10%	\$327.38	11.54%	10.52%	\$37.17
year 9	\$5,036.46	10%	\$330.56	11.60%	9.87%	\$39.90
year 10	\$5,162.38	10%	\$332.72	11.66%	9.29%	\$42.77
year 11	\$5,291.44	10%	\$338.55	11.71%	8.90%	\$45.77
year 12	\$5,423.72	10%	\$344.46	11.76%	8.56%	\$48.94
year 13	\$5,559.31	10%	\$350.99	11.81%	8.27%	\$52.27
year 14	\$5,698.30	10%	\$358.05	11.85%	8.01%	\$55.79
year 15	\$5,840.75	10%	\$365.24	11.89%	7.78%	\$63.33
Continuing Period	\$5,986.77	10%	\$498.80	11.93%	11.93%	
Relative Valuation					Asset Based Valuation	
Multiple	EV/Rev (FW)	EV/EBITDA (FW)	P/BV (TTM)	P/E (FW)	Recovery Rate	100%
Median (Peers)	0.8x	7.5x	2.6x	12.3x	Capital	\$3,112.27
Base	Revenue (NTM)	EBITDA (NTM)	Book Value (LTM)	Net Income (NTM)	Intangibles	\$362.10
SCS	\$3,771.58	\$308.71	\$1,161.57	\$153.63	Claims	\$866.95
Implied EV	\$2,915.89	\$2,308.12				
Total Net Claims	\$659.06	\$659.06				
Implied EQ	\$2,256.82	\$1,649.06	\$3,056.65	\$1,892.61		\$1,883.62
Valuation Summary						
Model	Intrinsic Value	Target Price			Weight	
DCF Valuation	\$18.64	\$20.65			100.00%	
EV/Rev (FW)	\$18.94	\$20.36			0.00%	
EV/EBITDA (FW)	\$13.84	\$14.71			0.00%	
P/BV (TTM)	\$25.65	\$27.81			0.00%	
P/E (FW)	\$15.88	\$16.98			0.00%	
Asset Based Valuation	\$15.81	\$16.89			0.00%	
Price per Share	\$18.64	\$20.65			100%	

Financials	SCS (LTM)	SCS Historical	Peers' Median (LTM)
Profitability			
Return on Capital	8.4%	9.16%	12.92%
Adjusted EBITDA Margin	6.9%	3.50%	9.66%
Return on Equity	3.5%	12.5%	16.5%
Adjusted Net margin	1.2%	3.5%	5.8%
Invested Funds	SCS (LTM)	SCS Historical	Peers' Median (LTM)
Cash/Capital	4.7%	13.9%	12.5%
NWC/Capital	5.2%	0.5%	4.1%
Operating Assets/Capital	74.0%	78.2%	61.6%
Goodwill/Capital	16.2%	8.2%	21.7%
Capital Structure	SCS (LTM)	SCS Historical	Peers' Median (LTM)
Total Debt/Market Cap.	0.27	0.26	0.24
Reported Cost of Borrowing	6.0%		19.4%
Cash Interest/Total Debt	5.3%		4.8%
CGFS Credit Rating	BB		B
Credit Model Rating	bbb		bbb-
Probability of Default	0.21%		0.35%
Cost of Capital			
CGFS Credit Rating			
Implied Cost of Borrowing (SCS)	5.5%	5.5%	5.5%
Implied Cost of Borrowing (Peers)	5.9%	5.8%	6.6%
Cost of New Debt Estimate	5.0%		
Market Risk Premium Estimate	8.5%		
Cost of Equity Estimate	13.5%		
WACC Estimate	10.9%		

