

November, 15, 2017

Steelcase Incorporation: SCS

Timothy Cousin

Sector: Industrials

Industry: Commercial Services and Supplies

Current Price: \$13.90

Target Price: \$16.85

Company Description: Steelcase Incorporation is a corporation established in 1914. The company has the ability to manufacture products that creates a high performance ability in the workforce. The type of products that the company makes ranges from office furniture, furniture systems, interior architectural products, and technology products.

BUY

Current Price:	\$13.90
Target Price:	\$16.85
Market Cap:	1,612.9M
Return on Capital:	10.4%
Range:	\$18.15 to \$12.50
Days to Cover:	3.0
ROE:	15.5%
WAAC:	10.4%
ROA:	7.0%

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

- Short Term (within the year): Companies wanting to keep up with the latest technology in the workforce.
- Mid Term (1-2 years): The continued demand for new products in the workforce.
- Long Term(3+): Steelcase having the necessary capital to keep on coming out with new and innovated products



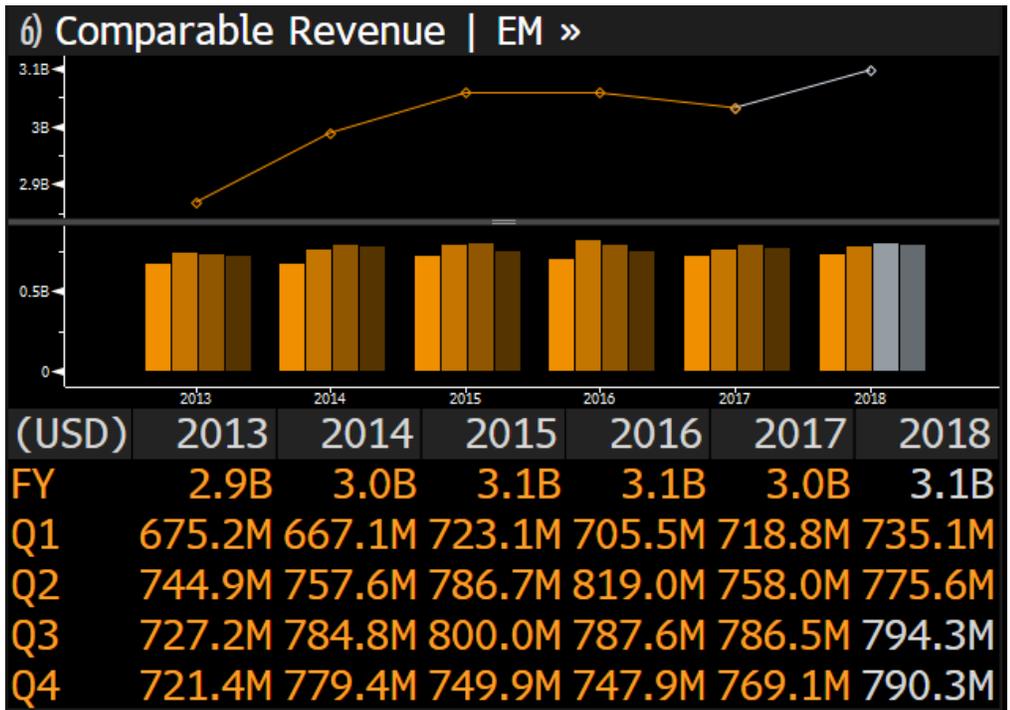
Thesis: Steelcase Incorporation has been a company that has been around as long as 1914. They are a company that started from scratch and found their way to be one of the best at making metal office furniture. Throughout the years, they have had the ability to innovate and come up with effective ways of trying to make strong revenue streams. Steelcase Incorporation has the ability over the years to come up with new and innovated products that has increase revenue, making them a strong buy for our portfolio.

Earnings Performance:

When it comes to earnings, Steelcase had an interesting road. Starting out in 2013 onto 2015, they have increased their revenues from 675.2m to 723.1m.

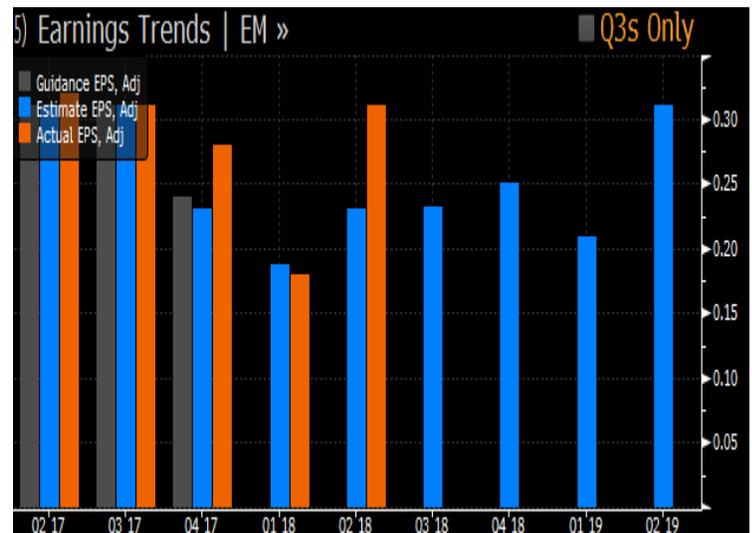
Starting from 2015 to 2017 the revenue started to even out in the sense that the company was not able to see as much profit, and cash flows began to slow down as well. From 2015 to 2016 was the most noticeable hit in the sense the company's revenue either went down or stayed the same in every quarter. For example in 2015 in quarter four revenue fell from 749.9m to 747.9m. It is not a huge loss, but something that the company had to be able to bounce back.

Toward 2015 to 2017, the company began to see a positive increase in revenue. They were able to generate positive revenue streams in the sense of they were on the upside in quarter one, and they were able to increase their revenues from 705.5m to 718.8m.



The reason that revenue is to increase in 2018 has to do with the fact that the company as a whole decided to make changes. The type of changes the company is looking make has to do with the fact they are expecting to come out with products that work offices use, but the open work environment are able to benefit from as well.

Steelcase has done well in the sense they have had the opportunity to beat their estimates in every quarter. Quarter two earnings was huge for the company in the sense they were able to blow past the estimates. This has to do with the fact of Steelcase not only being able to come out with top of the line product, but the demand of everyday people trying to keep up with technology and office furniture.



Industry Overview:

When it comes to office furniture, it is often a tough market to get a read on. This has to do with the fact that there are tough barriers to entry in the sense that once a company is established, it is often hard for another company to try to come into the mix and do well. The companies in the industry that have already established themselves are looking into different ways of how to increase their revenue streams.

When it came to office furniture, they has been a slow growth in the month of August. In the month of August there was only a one percent increase in the industry, versus a growth of 11% in July, 6% in June, and 8% in May. Even though August was a slow month, it still marked the 13th month in a row that there was a growth in this industry.

The only concern was with the fact of natural disaster that have recently taken place, and how this would affect the market. With further research, the reconstruction process would have a positive impact on this industry, and would cause the Steelcase to do well. Overall, this industry is performing well, and will continue to do so for the rest of the year.

Profitability:

Steelcase has had the opportunity to increase their revenue streams from 2013 all the way to 2017. Starting at 2013, they were a company that brought in \$2,868.70m, while in 2017 they had the opportunity to

bring in \$3,032.40m. This is an increase in the company and be directly correlated the fact of them having the ability to come out with new and innovate products.

Financial Highlights	Year Ended				
	February 24, 2017	February 26, 2016	February 27, 2015	February 28, 2014	February 22, 2013
Operating Results:					
Revenue	\$ 3,032.4	\$ 3,060.0	\$ 3,059.7	\$ 2,988.9	\$ 2,868.7
Gross profit	1,010.4	971.2	916.0	945.2	866.0
Operating income	200.2	174.6	144.9	165.9	59.3
Income before income tax expense	196.3	174.8	137.0	147.2	54.9
Net income	124.6	170.3	86.1	87.7	38.8

Not only has the company seen a positive stream in revenue, but also the company has seen a growth when it comes to gross profit. Dating back to 2013, the company started out with a profit of \$866 and that eventually grew to \$1,010.4. This is a strong outlook for the company, because they are not only creating positive revenue streams but they have been able to increase their gross profit since 2013.

When it comes to net income, Steelcase has a growth when it comes up from 2013, starting at \$38.8 and reaches 2016 at \$170.3. 2017 took a hit in the sense that net income decreased from \$170.3 to \$124.6. This is nothing to worry about in the sense the company is projecting eighty new products that they are coming out with, that they are confident will cause the net income to go back up.

Segment Analysis:

Steelcase has the opportunity to generate revenue from two main areas in the world. The main source of revenue for the company takes place in the United States. Starting in 2014, they were able to have revenues

In Millions of USD except Per Share		FY 2014		FY 2015	
12 Months Ending		02/28/2014		02/27/2015	
	Revenue	2,988.9	100.0%	3,059.7	100.0%
	North America	2,154.4	79.2%	2,180.7	78.6%
	International	566.9	20.8%	595.4	21.4%
	Other	267.6		283.6	
	Steelcase Design Partnership	-		-	

reach \$2,154.40m, which happened to be 79.3% of their revenues. The other 20.8% of the revenue comes up from Europe, the Middle East and Africa (EMEA). This is a good outlook for the company in the sense they are not only having a strong presence of revenue in the United States, but they are also making revenue streams in international waters.

The revenues continued to increase in 2016 due to the fact that in North America Steelcase was able to increase revenue from \$2,180 million to \$2,256 million. The international revenues did not take as big of a job, but that has to do with the fact that the company was relatively young in trying to produce revenue internationally.

Strong Second Quarter:

Steelcase had a strong second quarter when their earning originally came out. They had a second quarter revenue of 7756.6 million and net income of 36.9 million. This is a positive sign in the sense in the prior year; they were only able to generate 758 million dollars of revenue. Not only were they able to increase their revenue, but they had the opportunity to see an increase in revenue by 2%. Steelcase has a positive outlook going into the third quarter in the sense that major companies still have a demand from them, so they are anticipating a strong third quarter as well. The company still remains confident that they will finish 2017 off strong, and go into 2018 looking good in the sense they will be able to launch eighty new products into the market.

When it came to operating expenses, the company was able to see 204.2 million, which is an increase of about 3.3 million dollars. This is still a positive in the sense they were able to spend less, because in the first quarter the company spent 8.7 million.



This is a positive in the sense the company has the ability to be efficient in their spending. This spending is still a great outlook for the company in the sense they are always looking to invest in new products and separate from their competitors.

The company was able to have a strong second quarter in the sense they were able to see a strong increase in revenue, but still had the ability to spend enough money to continue to make innovate products.

Comparable:

Steelcase has been able to do well over one of their main competitors Newell Brands. They make similar products in the sense of supply office furniture and similar to the type of products that Steelcase makes.

Name (BICS Best Fit)	Ticker	Mkt Cap	ROA:Y↓	ROE:CY	ROIC:Y
Median		2.06B	9.83%	19.90%	15.92%
100) STEELCASE INC-CL A	SCS US	1.69B	7.43%	16.26%	15.92%
101) TUPPERWARE BRANDS CORP	TUP US	3.06B	13.55%	119.64%	26.82%
102) LEGGETT & PLATT INC	LEG US	6.06B	11.53%	35.44%	17.99%
103) HOOKER FURNITURE CORP	HOFT US	540.51M	10.40%	14.29%	12.87%
104) HERMAN MILLER INC	MLHR US	2.06B	10.39%	22.29%	17.77%
105) TEMPUR SEALY INTERNATI...	TPX US	3.03B	9.83%	--	17.67%
106) KNOLL INC	KNL US	1.01B	9.59%	29.08%	15.25%
107) HNI CORP	HNI US	1.48B	9.50%	17.51%	15.92%
108) NEWELL BRANDS INC	NWL US	13.81B	5.46%	8.01%	7.84%

When it comes to their market cap there is a difference in the sense that Newell Brands is much bigger. They operate at a market cap of about 13.1B, while Steelcase only operates around 1.69B. This is telling in the sense that Steelcase is more efficient because their return on invested capital is 15.92% while Newell is only 7.84%. Steelcase may not have as big of a market cap, but they have been able to operate efficiently.

When it comes to return on equity, Steelcase is still beating Newell, because they operate at 16.26%, while Newell is only producing at 8.01%. A similar story when it comes to return of assets in the sense Steelcase is producing at 7.43%, while Newell is functioning at 5.46%

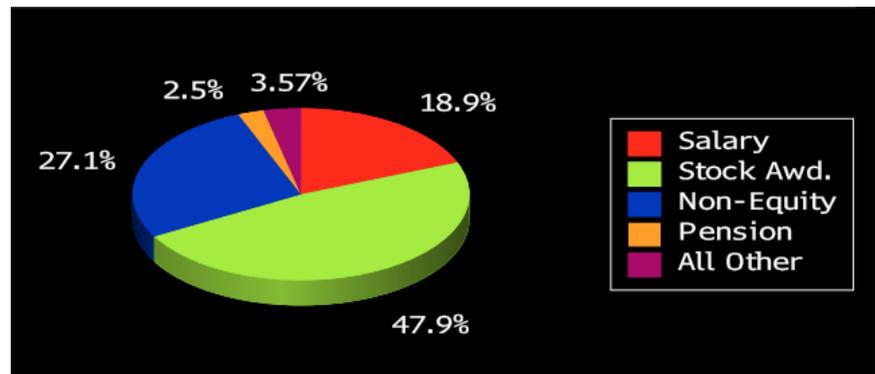
These numbers are telling in the sense Newell is a competitor that has a bigger market cap than Steelcase, but they are still operating efficiently.

Ownership:

Steelcase is fortunate in the sense they have a strong executive team that looks out for their shareholders. James P Keane is the president and CEO. He has been in this position for almost four years now. Mark T Mossing is the Chief Accounting Officer, and he has been in this position for almost 10 years now.

Lastly, David C Sylvester has been the CFO of the company, and has been in this position for 11 years.

This company positive in the sense that 47.9% out of the company's revenue can be accounted toward sock awards. While only 18.9% is dedicated to increasing the salary of executives. This is a good sign for shareholders in the sense the company wants to increase the price of the stock before anything else.



Steelcase is a strong company in the sense they have ownership of their stock all over the world. The percentage of shares that owned in the United States is 87.92%. This is telling in the sense that is where most of the company has the opportunity to generate most of their revenue.

Steelcase still has many of their shares spread across the world in the sense Norway owns 1.43%, Germany 1.12%, and even Ireland owns .50%. This is telling the type of company they are in the sense they are getting the attention from International countries that believe this company has strong potential.

Top Geographic Ownership (%)				
53) Geographic	11/12/17	Curr	Change	
31) UNITED STATES	87.92	89.16	+1.24	↗
32) Unknown	3.38	3.35	-0.03	↔
33) NORWAY	1.43	1.42	-0.01	↔
34) BRITAIN	1.17	1.15	-0.02	↔
35) SWEDEN	2.07	1.00	-1.07	↘
36) GERMANY	1.12	0.79	-0.33	↘
37) LUXEMBOURG	0.72	0.71	-0.01	↔
38) SWITZERLAND	0.72	0.67	-0.05	↘
39) IRELAND	0.50	0.65	+0.15	↗

Conclusion:

Steelcase is an incorporation that goes back all the way to 1914. They have had the opportunity to start from scratch and become a great furniture company. Not only have they had the opportunity to produce strong furniture, but also they have had the ability to develop new technology that would be beneficial to have in the office.

Steelcase has been operating out of two main segments in North America and EMEA, and they have been able to see positive revenue streams over the past couple of years. The company is expecting a strong year in

2018 because they are coming out with eighty new products. Steelcase would not only be a strong buy, but would benefit our portfolio as well.

Steelcase Inc. (SCS)

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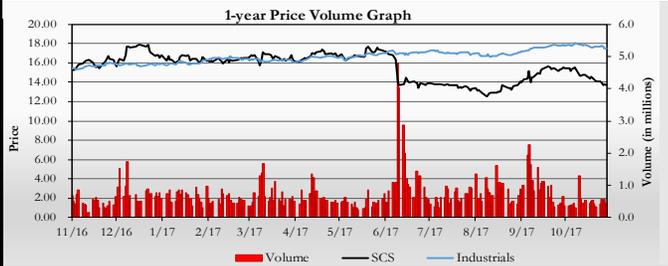
BULLISH

Analysis by Timothy Cousin
11/15/2017

Current Price: **\$13.90**
Divident Yield: **3.8%**

Intrinsic Value **\$14.50**
Target Price **\$16.85**

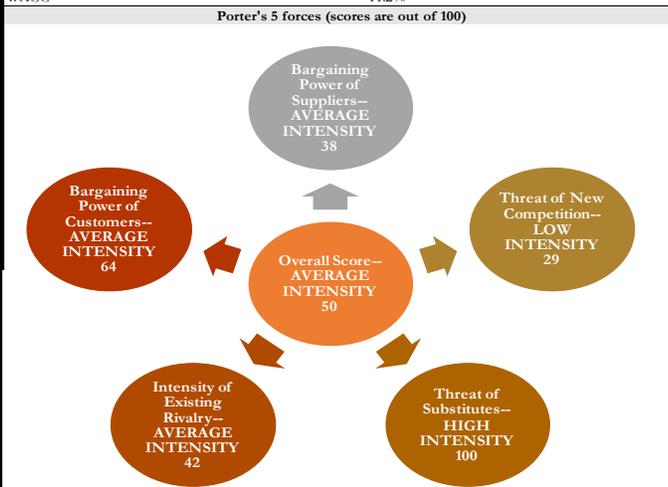
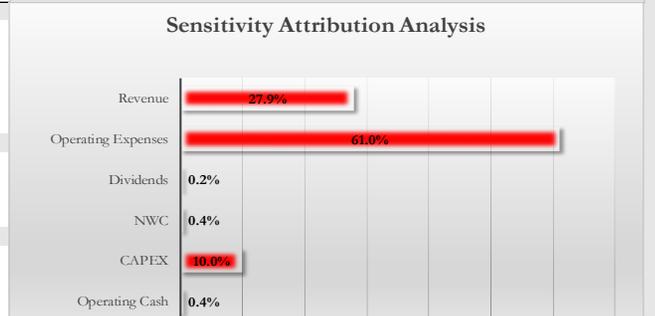
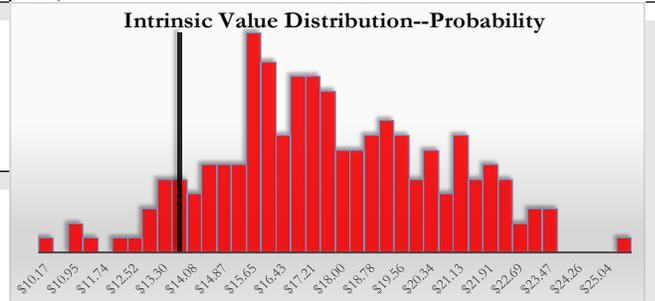
Target 1 year Return: 25.07%
Probability of Price Increase: 90.5%



Description	
Steelcase Inc. manufactures and sells integrated portfolio of furniture settings, user-centered technologies, and interior architectural products.	
General Information	
Sector	Industrials
Industry	Commercial Services and Supplies
Last Guidance	November 3, 2015
Next earnings date	December 20, 2017
Estimated Country Risk Premium	6.90%
Effective Tax rate	26%
Effective Operating Tax rate	26%

Market Data	
Market Capitalization	\$1,612.89
Daily volume (mil)	0.36
Shares outstanding (mil)	116.03
Diluted shares outstanding (mil)	118.00
% shares held by institutions	116%
% shares held by investments Managers	55%
% shares held by hedge funds	3%
% shares held by insiders	25.16%
Short interest	1.34%
Days to cover short interest	2.05
52 week high	\$18.15
52-week low	\$12.50
Volatility	30.08%

Past Earning Surprises		Peers	
Quarter ending	Revenue	EBITDA	Peers
8/26/2016	-3.48%	-5.56%	Herman Miller, Inc.
11/25/2016	-0.10%	-12.60%	HNI Corporation
2/24/2017	2.68%	7.97%	Knoll, Inc.
5/26/2017	-0.82%	-6.91%	Pitney Bowes Inc.
8/25/2017	2.32%	6.45%	Kimball International, Inc.
Mean	0.12%	-2.13%	Virco Mfg. Corporation
Standard error	1.1%	4.0%	Steris Plc
Management		Total compensations growth	
Position	Position	Total return to shareholders	Total return to shareholders
Keane, James	President, CEO & Director	19.44% per annum over 6y	1.04% per annum over 6y
Sylvester, David	CFO & Senior VP	5.79% per annum over 6y	1.04% per annum over 6y
Krestakos, Robert	Vice President of Global Ope	N/M	N/M
Armbruster, Sara	Vice President of Strategy,	-13.28% per annum over 4y	3.47% per annum over 4y
O'Shaughnessy, Lizbeth	Chief Administrative Officer	-4.79% per annum over 2y	-13.86% per annum over 2y
Mossing, Mark	Corporate Controller & Chief	N/M	N/M
Profitability		SCS (5 years historical average)	
Return on Capital (GAAP)	10.4%	7.71%	10.05%
Operating Margin	4%	2.69%	5.22%
Revenue/Capital (GAAP)	2.85	2.87	1.92
ROE (GAAP)	16.2%	10.1%	18.4%
Net margin	4.6%	2.6%	5.2%
Revenue/Book Value (GAAP)	3.51	3.82	3.53
Invested Funds		SCS (5 years historical average)	
Cash/Capital	18.6%	18.8%	15.8%
NWC/Capital	1.9%	-3.3%	9.5%
Operating Assets/Capital	71.7%	74.5%	64.0%
Goodwill/Capital	7.8%	10.0%	10.7%
Capital Structure		SCS (5 years historical average)	
Total Debt/Market Capitalization	0.34	0.39	0.38
Cost of Existing Debt	5.8%	5.9%	3.4%
CGFS Rating (F-score, Z-score, and default Probability)	A	A	A
WACC	11.2%	10.4%	7.9%



Porter's 5 forces (scores are out of 100)		Valuation	
Period	Revenue Growth Forecast	NOPAT Margin Forecast	Revenue to Capital Forecast
Base Year	2%	5.8%	2.28
8/25/2018	3%	5.4%	2.15
8/25/2019	6%	6.1%	2.10
8/25/2020	5%	6.2%	2.01
8/25/2021	3%	6.0%	1.88
8/25/2022	2%	6.3%	1.76
8/25/2023	2%	6.7%	1.66
8/25/2024	2%	7.1%	1.56
8/25/2025	2%	7.4%	1.47
8/25/2026	2%	7.7%	1.39
8/25/2027	2%	7.7%	1.31
Continuing Period	2%	7.5%	1.24
Period	Return on Capital Forecast	WACC Forecast	Price per share Forecast
Base Year	13.3%	11.2%	\$14.55
8/25/2018	11.7%	10.5%	\$16.90
8/25/2019	12.8%	10.5%	\$18.47
8/25/2020	12.4%	10.6%	\$20.12
8/25/2021	11.2%	10.7%	\$21.83
8/25/2022	11.1%	10.8%	\$23.61
8/25/2023	11.1%	10.9%	\$25.46
8/25/2024	11.0%	11.1%	\$27.40
8/25/2025	10.9%	11.2%	\$29.41
8/25/2026	10.7%	11.3%	\$31.50
8/25/2027	10.1%	11.4%	\$33.65