

Guess?, Inc. (NYSE:GES)

Personal Goods – Clothing and Accessories

“Turmoil Makes for a Weaker Guess”

March 16, 2018

Guess? Inc. (Guess) is an American brand and retailer that focuses on men’s and women’s clothing as well as accessories. Guess is a global brand that operates over 1600 stores worldwide. Guess also sells its clothing through other retailers such as Hudson’s Bay.

Thesis

Even with strong growth in Asia and Europe, as well as margin expansion in both segments, investors are focusing more on the company’s struggles in North America where it has continued to face declining revenues. However, the company itself has stated it does not expect North America to play a major part of its future growth, instead focusing on bettering its margins in the Americas by cutting SG&A costs. Overall, Guess is positioned well for investors looking to make a retail play, but the sexual assault allegations against co-founder Paul Marciano have put the company in limbo with an ongoing investigation.

Drivers

Guess has seen growing same stores sales and expansion into new European markets increase its revenues in the segment substantially. It is continuing to expand into Eastern Europe and seeing growing popularity there by having globally renowned names endorse the brand. Asia has also seen strong growth with expansion into China still going strong. Furthermore, the company’s Wholesale segment for North America is seeing sustainable growth through offering Guess products in more department stores and specialty retailers.

Valuation

By weighting the DCF 40% and trading comparables 60%, we reached a target price of \$16.00. This is higher than the current share price by 4.3%. We have decided to give the company a hold rating.

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| Equity Research | Canada |
|----------------------------|-------------|
| Price Target | CAD\$ 16.00 |
| Rating | Hold |
| Share Price (Mar. 7 Close) | CAD\$ 15.33 |
| Total Return | 10.2% |

| Key Statistics | |
|------------------------------|----------------|
| 52 Week H/L | \$9.56/\$19.62 |
| Market Capitalization | \$1.2B |
| Average Daily Trading Volume | \$23M |
| Net Debt | -\$372MM |
| Enterprise Value | \$1.05B |
| Net Debt/EBITDA | -4.04x |
| Diluted Shares Outstanding | 82M |
| Free Float | 81.7% |
| Dividend Yield | 6.0% |

| WestPeak’s Forecast | | | |
|---------------------|---------|---------|---------|
| | 2018E | 2019E | 2020E |
| Revenue | \$2.30B | \$2.39B | \$2.58B |
| EBITDA | \$89M | \$122M | \$155M |
| Net Income | \$12M | \$37M | \$61M |
| EPS | \$0.15 | \$0.46 | \$0.74 |
| P/E | 106.7x | 34.8x | 21.6x |
| EV/EBITDA | 15.3x | 11.1x | 8.8x |

1-Year Price Performance



Business Overview/Fundamentals

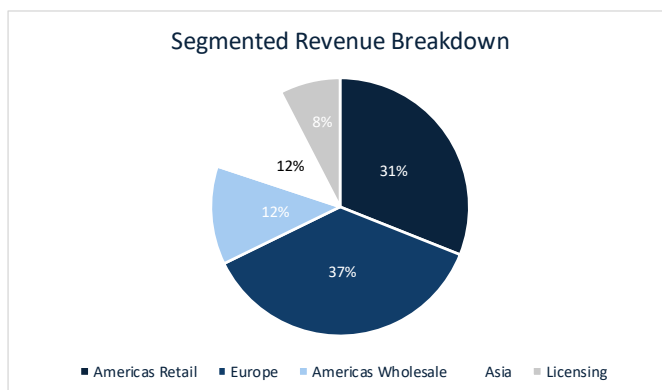
Business Summary

Guess is an American-based company that focuses on providing customers with trendy and premium products. They operate various store concepts: Guess Factory Outlet, G by Guess, MARCIANO, Guess Kids, Guess Accessories, Gc, Guess Footwear and Guess retail stores. Guess sells its products through five main segments: Americas Retail, Europe, Asia, Americas Wholesale, and Licensing. Guess has recently signed multiple celebrities to endorse its brand, including hip-hop artist A\$AP Rocky and pop singer Camila Cabello in an effort to reach a larger audience and regain its appeal as a premium brand in North America.



source: http://www.esg.com.my/img/store/tenant/G23_Guess.jpg

Segments



Source: Company Filings

Americas Retail

Guess currently operates 411 stores in its Americas retail segment. The most common store concepts include Guess Factory Outlet, G by Guess, and Guess retail stores. The Americas retail segment also includes their retail websites in Canada, USA, and Mexico. Guess has stated that it aims to operate approximately 300 stores in this segment and intends to increase operating margins to 7.5% in the segment. It intends to do so by cutting costs and growing revenue. It is currently experiencing both declining revenues and contracting margins in this segment, and it will likely continue feeling the squeeze in the short-term due to many of its underperforming stores still being open. Furthermore, the company has not shown short-term commitment to the goal of margin expansion, leaving it as more of a long-term goal, but it will be achievable through cutting SG&A expenditures.

Europe

Guess currently operates 629 stores in its Europe segment, of which 293 are operated by licensees. It also operates an ecommerce website and has a wholesale distribution channel. No single customer of their wholesale channel makes up more than 1% of its consolidated net revenues. Guess has experienced strong sales growth and margin expansion over the last two fiscal years in Europe and has opened 65 new stores in Europe and the Middle East while closing 30 during the last fiscal year. Guess also operates 31 smaller-sized concessions (a Guess store in a larger department store) in Europe. Guess has stated it wishes to expand further into Eastern and Northern European markets, particularly Russia and the Nordic countries. It plans to double its store count in Denmark, Sweden, Finland, and Norway, while also looking to open 25 additional stores in Russia.

Asia

Guess currently operates 504 stores and 384 concessions in its Asia segment, which also includes Australia. Guess has focused on expansion in China, where a growing middle class has led to increased consumption of goods such as branded clothing. Guess has experienced strong growth in Asia, due mostly to new store openings. Guess opened 73 stores and closed 59 stores in fiscal year 2017.

Americas Wholesale

Guess currently has its products sold through 992 stores in North America and South America. About half of these stores are an omnichannel for Guess clothing, helping provide a strong customer experience on behalf of the brand. The omnichannel concept exists in department stores such as Hudson's Bay where Guess apparel is given a special place in the store with promotional materials such as posters and their logo covering the area. It helps to provide more brand awareness for Guess. Their wholesale strategy is focused on quality basics and following the latest trends for certain pieces. The Americas Wholesale segment has experienced a rebound in the first three quarters of fiscal year 2018, and its two largest wholesale customers make up 2.7% of total net revenue.

Licensing

The worldwide licensing segment of Guess includes the distribution and manufacturing of Guess products in all of their global markets. It also includes the licensing of their stores to a private owner, similar to a franchising system. A licensing

agreement typically ranges from three to ten years, sometimes with an option to renew the agreement for an additional period. Guess earns the greater of a royalty based on a percentage of the net sales of licensed products/stores or a guaranteed minimum royalty, which typically increases over the term of the agreement. These agreements include strict quality control procedures to ensure the brand's quality is upheld. Guess acquired various stores from its licensees in fiscal year 2017, managing them directly instead.

Dividend Policy

Guess began issuing a quarterly dividend since 2007, and has continued to issue it, currently at \$0.225 per share. This equates to a dividend yield of approximately 5.9% at the current share price of \$15.54. The company intends to continue issuing dividends for the foreseeable future, with no insight on whether the current dividend will increase anytime in the near future. The dividend payout ratio for FY 2017 was 301%, and Guess has seen its cash deplete due to its dividend over the past few years. The high dividend payout ratio was partially due to asset impairment and restructuring charges that added up to \$40M. These expenses will likely decrease as Guess nears the end of its transitional period. Nonetheless, without buying back a larger number of shares or increasing net income back to FY 2015 levels, Guess would struggle to pay this dividend. Currently, Guess spends \$77M per year on dividends, contributing to a \$49M decrease in cash for FY 2017. On June 26, 2012, Guess announced it would also repurchase up to \$500 million of common stock when market conditions warrant and from time-to-time. It has continued to reduce its shares outstanding through this policy, which may be discontinued at any time. Guess continues to add value for investors through its share repurchase program and dividends.

| | 2014 | 2015 | 2016 | 2017 |
|--------------------|-------|-------|-------|-------|
| Shares Outstanding | 84.5M | 84.8M | 84.5M | 83.8M |
| Shares Bought Back | 2.4% | -0.4% | 0.4% | 0.8% |

Source: vuru.co

Sexual Assault Allegations Against Co-Founder Paul Marciano

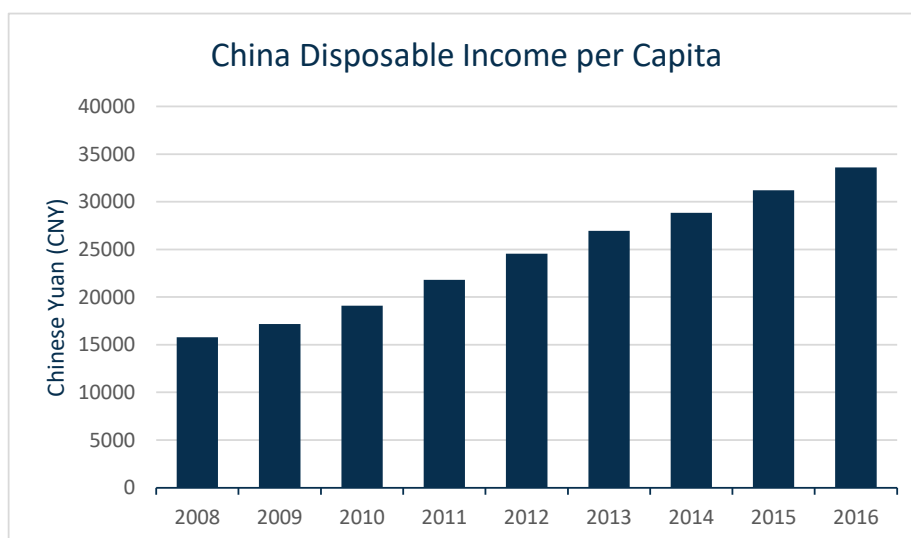
On January 31, 2018, former Guess model Kate Upton made posts on social media platforms Twitter and Instagram implying that Paul Marciano, co-founder of Guess, had sexually harassed her. She later went on to share more information, saying that Mr. Marciano first began harassing her when she was 18. Mr. Marciano has went on to say he adamantly denies these allegations, but the board at Guess has formed a special committee to oversee the current investigation into these allegations. These allegations have caused a sharp decline in the price of Guess stock, falling by 24% after Ms. Upton made her posts. Mr. Marciano plays a large role in Guess as the Executive Director and Chief Creative Officer, so these allegations could have large implications for the company, hurting its image among consumers and shareholders. So far, the stock price has not recovered from the decline, possibly opening up a chance for investors to buy into the company at a discount. However, the volatility that comes with situations such as this makes it a risky play. If the allegations are indeed true, then Mr. Marciano will likely step down, possibly leaving a vacuum in the company's management team that could be difficult to fill.

Macro Analysis

The clothing industry is extremely competitive with low barriers to entry. Firms compete on various factors such as perceived quality, brand recognition, and price. Most competitors have undifferentiated products with the key differences being aesthetics. Currently, the retail industry as a whole is undergoing some significant changes due to declining mall traffic in North America and the rise of e-commerce alternatives such as Amazon.

Growing Middle Class in China

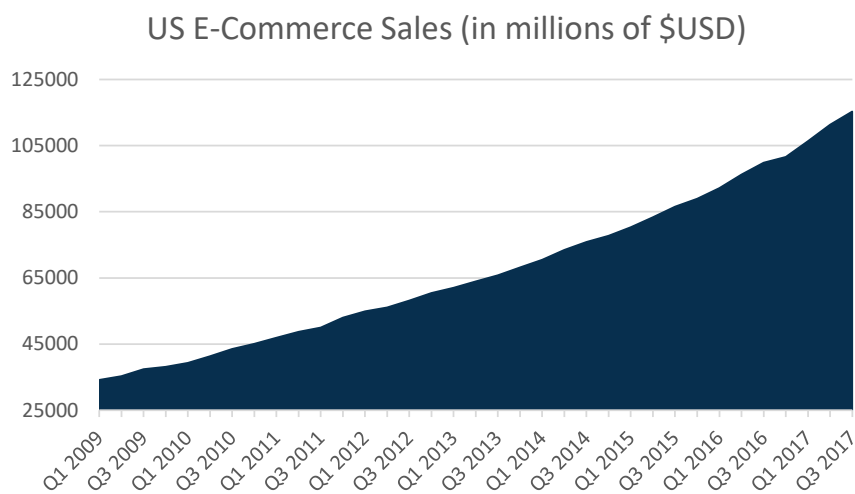
As Chinese citizens have increased disposable income at their hands, retail companies have penetrated China to attract these new potential customers. China's disposable income has increased exponentially over the past decade due to an increase in better-paying jobs in urban areas. As the country's economy continues to grow at double the pace of the United States, many companies have begun to increase their efforts in China. Retail and the clothing industry have grown at a strong pace in recent years in China. 13.4% of Guess' revenue came from its Asia segment in Q3 of FY 2018, compared to 12.1% in Q3 2017 and 11.3% in Q3 2016. The company has an opportunity to further increase that number and build a brand following among Chinese consumers by continuing to open new stores in strategically attractive locations while using endorsers and its product offerings to create brand equity.



Source: statista.com

The Rise of E-Commerce

As consumers begin to spend more money online and less in-store, retailers are struggling to balance the costs of keeping their brick-and-mortar locations open while earning smaller margins on their online sales. This has led to many stores, such as Polo Ralph Lauren, closing or relocating their flagship locations to cut down costs. Exclusively online retailers such as Amazon also have an advantage over traditional retailers due to their lack of costs associated with physical stores, leading to lower prices on their websites.



Source: *statista.com*

Declining Mall Traffic in North America

North American Retailers have struggled as rising rents in urban centres and declining traffic in malls have hurt their top-line growth and margins. Guess has stated it wants to close over 100 of its 411 total stores in the Americas Retail segment to stabilize revenues, but until these stores close, Guess will continue to see same-stores sales declines and tight margins as it continues to discount products in these stores. The company has stated it has an increased focus on selling products at initial mark-up, but most competitors continue to sell products at discounts, so this may not be entirely feasible as of right now. Furthermore, the company has negotiated rent reductions for many of its locations, especially those in suburban centres to help with margins.

Catalysts

Successful Expansion into Eastern and Northern Europe

Guess has been expanding into Eastern and Northern Europe over the past year. In an attempt to increase revenues in the Europe segment, it has opened stores in Russia, Turkey, Ireland, Finland, Denmark, Sweden, Greece, and Andorra. It has especially focused on expansion into Russia, where it recently opened a store in the centre of Moscow. Furthermore, the company has planned to build 10 additional stores in Denmark, Sweden, Finland and Norway, doubling its previous store count. These countries have citizens with disposable incomes to afford a premium offering such as Guess and it has put forth a strong push to attract these consumers. Household consumer expenditures in these 4 countries are higher than France, Germany, and the UK, and there is relatively little international presence when it comes to clothing brands. However, domestic brands are quite strong and will provide strong competition for Guess. Over the last 3 quarters, Guess has seen immense growth in its Europe segment, and if these new store openings are successful and attractive, Guess will likely see its European revenues continue to grow at a very healthy pace and compensate for its declining revenue in the Americas Retail segment.

Focus on Selling Items at Initial Markup

To attract more customers into its stores, Guess has been discounting items deeper than usual in recent years. While this has likely led to an increased number of purchases by consumers visiting the mall or shopping online for a deal, it has cheapened the Guess brand image to some extent and blurred the line between Guess full-price stores and Guess Factory Outlets. However, CEO Victor Herrero has stated that he wishes to focus on selling more product at the initial markup. This may lead to decreased volume in sales, but it should help restore margins to healthier levels while preserving the brand image of premium products. Guess has been using clothing collaborations such as the ASAP Rocky collection to test increased prices and a more premium offering. So far, it has worked, but for their main line clothing to sell well at initial markup, the company must continue to focus on marketing itself through its influencer deals with celebrities as well as online marketing campaigns.

Management Team

Victor Herrero, Chief Executive Officer, Director

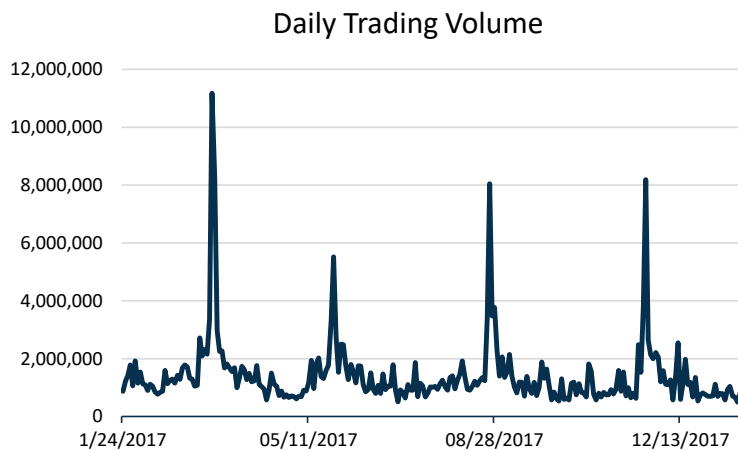
Victor Herrero has been with Guess since July 2015, when he was announced as the successor to Paul Marciano, co-founder of Guess and current member of the Board of Directors. Victor previously worked for Inditex group from 2003-2015. He served as the Head of Asia Pacific and helped step up the presence of companies such as Zara in China. Mr. Herrero's background and past success bode well for the company. He has implemented a five-pronged strategy focused on elevating merchandising and sales strategy, expanding further into Asia, centralizing the decision-making process in Los Angeles, improving the company's cost structure and building stability in their wholesale business. Mr. Herrero was paid a base salary of \$1.2MM in fiscal year 2017 along with \$2.8MM in stock awards and \$84K in other awards for a total of \$4MM. Mr. Herrero currently owns approximately 370k shares of Guess, which is 0.45% of current shares outstanding. and has stated that he reinvests all of his dividends from Guess stock back into the company.

Paul Marciano, Executive Chairman, Chief Creative Officer

Paul Marciano is the co-founder of Guess along with his brothers Georges, Armand and Maurice Marciano, who is currently the Chairman Emeritus. Mr. Marciano was the Chief Executive Officer until he was succeeded by incumbent Victor Herrero. Mr. Marciano is famous for the black-and-white advertising campaigns he helped create for Guess and for building the brand's sex appeal through various marketing strategies. His expertise and tenure with the company are assets and will help continue to provide the C-suite with veteran knowledge and know-how of the company's products. Mr. Marciano was paid a base salary of \$570K, stock awards of \$3.5MM, and other compensation equal to \$250k for a total of roughly \$4.3MM. Mr. Marciano currently owns 11.3MM shares of Guess, which is 14.3% of current shares outstanding. As mentioned above, Mr. Marciano is facing allegations of sexual harassment by former model Kate Upton. It has yet to be seen how this will affect his standing in the company and whether legal action will be taken against Mr. Marciano.

Shareholder Base, Liquidity, Market Depth

Guess currently has 82MM shares outstanding. 213 Institutions own a total of 83.9% of total shares outstanding. FMR LLC, a private investment manager, is the largest shareholder, holding about 15.2% of total shares outstanding. Co-founders Paul and Maurice Marciano own 13.8% and 13.7% of total shares outstanding, respectively. About 17.4% of the public share float is shorted. The 90-day average daily trading volume for Guess is 1.3MM which suggests healthy liquidity for Guess given its current market cap of \$1.2B.



Source: nasdaq.com

Valuation

Comparable Companies Analysis

For the purpose of this analysis, we primarily looked at companies who sell their clothing through their independent stores with market caps similar to Guess. We also placed emphasis on North American companies, as they will be affected by similar macroeconomic trends such as declining mall traffic and increasing e-commerce sales. The following companies all qualified for these factors and were used in the comparable companies analysis as a result:

Chico's FAS, Inc.

Chico's is a women's clothing store chain based in Florida that operates 1,557 locations under 3 names: Chico's, White House Black Market, and Soma. Its stores are located primarily in the United States

American Eagle Outfitters, Inc.

American Eagle is a unisex clothing store chain that operates globally with over 1,000 stores worldwide. It is currently based out of Pennsylvania.

Oxford Industries, Inc.

Oxford Industries is a North American clothing company that operates major labels including Tommy Bahama, Lilly Pulitzer, and Southern Tide.

Express, Inc.

Express is a unisex clothing store chain that operates over 600 locations in North America. It is currently based out Ohio.

The Buckle, Inc.

The Buckle is a unisex clothing store chain that operates in the United States with over 400 locations. It is currently headquartered in Nebraska.

Urban Outfitters, Inc.

Urban Outfitters is a unisex clothing chain that operates in North America and Europe. It is headquartered in Philadelphia, Pennsylvania.

Conclusion

Our comparable companies analysis gave us a target price of \$14. Historically, Guess has historically traded at a 6.0x EV/EBITDA multiple, as have its peers, justifying that the company should trade in line with its peers.

Discounted Cash Flows Analysis

Revenue Assumptions

Due to Guess closing stores in North America and focusing more on its Europe, Asia, and Wholesale segments revenues, the Americas retail segment is expected to continue declining at a rate of 10% in fiscal year 2019 before levelling off at about 6% by fiscal year 2023, since Guess will have closed most of its underperforming stores. Guess has not offered much in the way of revenue growth strategies for North America, so we do not expect the segment to stabilize unless management changes its outlook on the Americas segment. European revenues are expected to continue growing strong into the 2020s due to an effective marketing strategy and brand strength. European revenue growth through the first three quarters in fiscal year 2018 has been at 20%, and 2017 growth was 9%. The increase in revenues is expected to be through a mix of same-store sales increases and opening new stores in Eastern Europe. Asia revenues are also expected to increase at 15% per year, primarily due to new store openings in many parts of the continent, especially China, while closing underperforming locations. Guess has stated it wishes to stabilize its Wholesale segment long-term, which has seen some negative growth before very recently, but we followed their guidance on future growth outlook. Wholesale has seen a resurgence in fiscal year 2018 with near-double digit revenue growth, but we used a conservative 3% growth rate through 2023 to factor in the volatility of this segment. Sales in Wholesale depend on other stores doing well, and retail has seen quite a bit of volatility in recent years, with 2017 being a better year for the segment. The Licensing segment will continue to decline as Guess buys up many of its licensees. We used a declining rate of 5% through 2023 to factor in Guess reducing its licensing operations.

Margin Assumptions

Guess has been experiencing contracting margins in recent years due to increased COGS and operating expenditures. As Guess reaches the end of its restructuring, its operating expenditures are expected to decrease and the company has been experiencing margins in Europe and in Asia in fiscal year 2018. Management has also provided guidance as to what they expect their operating margins will be in the Americas segment, stating that 7.5% is their expectation. We have decreased COGS and SG&A year-over-year to factor in these assumptions.

Depreciation and Amortization

Between fiscal year 2015 and fiscal year 2017, the company's average estimated useful life of property, plant, and equipment was 3.75 years. We expect the useful life to be 4 years, which is similar to historic levels.

Weighted Average Cost of Capital (WACC)

We arrived at a WACC of 10.7% to discount future projected cash flows of the company. The cost of equity was calculated to be 11%. The risk-free rate used was 2.2%, which is the five-year US Treasury yield, and we used a 5.8% market risk premium, as suggested by Aswath Damodaran. The Beta value used was 1.52, taken from Bloomberg. We assumed the pre-tax cost to be 3.9%, which was derived by looking at Damodaran's cost of debt for the retail sector. An effective tax rate of 25% was used as Guess mostly operates in low-tax areas such as the United States and Europe. Using these values, we arrived at an intrinsic share price of \$17.

Recommendation

HOLD

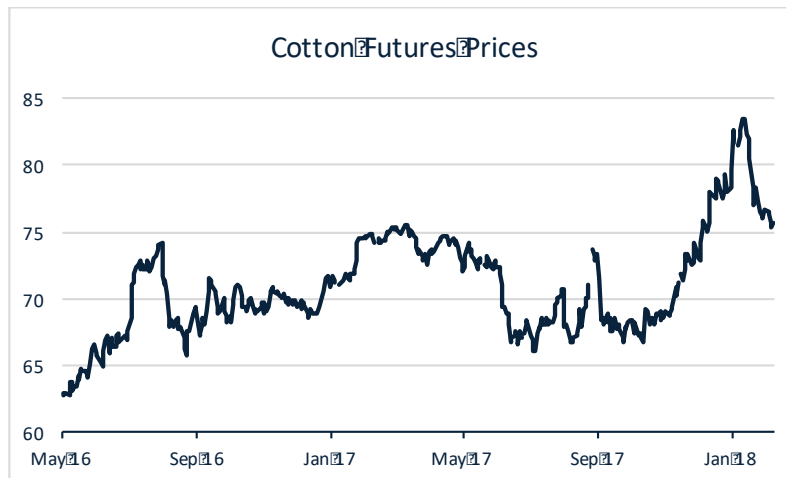
Using a 60/40 weighting for the comparable companies analysis and DCF, we arrived at a target price of \$16. This is a 10.2% return versus the current share price when including dividends, which we believe is due to the market slightly undervaluing the company because of recent allegations against co-founder Paul Marciano, although they are positioned to do fairly well in the future. Guess has already begun to show signs of a turnaround and a renewed focus on margin expansion and revenue growth in Europe. Management has shown commitment to the company, and with large stock option incentives, there is a lot of enticement to do well. Furthermore, the company engages in share repurchases which also add value for the investor. However, due to the current investigations into Mr. Marciano, we cannot recommend a buy rating. If Mr. Marciano has engaged in misconduct as alleged, the company will lose an integral member of management, and the brand will likely face some backlash from consumers and shareholders. We have decided to give Guess a hold rating.

Risks

Cotton Price Volatility

Cotton is a key input for Guess' suppliers as most of the company's clothing is made from it. Cotton futures have experienced high levels of price volatility in 2017, which may hurt Guess as its COGS could increase. Currently, Guess is not hedged

against cotton prices in any way and is fully exposed to any price increases for raw materials such cotton, which its clothing suppliers could pass on to the company.



Foreign Exchange Rate Risks

The majority of the company's international transactions are conducted using currencies other than the US dollar. Guess currently operates multiple segments outside of USA, including its Asia, Europe, Licensing, Americas Retail, and Americas Wholesale segments. Products in these segments are sold in local currency, so fluctuations in foreign exchange rates could materially affect Guess and hurt its revenues if the US dollar strengthens in the future. Currently, Guess hedges its risk against some of its foreign currency exchange rate risk; however, the company could still be materially affected by fluctuating exchange rates.

Changing Consumer Tastes

Companies such as Guess are susceptible to the effects of changing fashion trends and consumer preferences. Guess currently sells a specific style of clothing that is in style with a resurgence from 1990's clothing brands. It has leveraged key influencers to capitalize on this trend and encourage younger consumers to purchase their clothing. However, fashion trends change often and consumers may move away from Guess in the future towards other popular brands of the time.

Exhibit 1: Valuation Summary



Exhibit 2: Operating Model Summary

| Operating Model Summary | | | | | | | | | | | | | | | | | | | | | | |
|-------------------------------------|---------|---------|---------|-----------|---------|---------|---------|---------|-----------|---------|-----------|---------|---------|-----------|---------|---------|---------|---------|---------|---------|---------|---------|
| | Jan-14 | Jan-15 | Jan-16 | Apr-16 | Jul-16 | Oct-16 | Jan-17 | Jan-17 | Apr-17 | Jul-17 | Oct-17 | Jan-18 | Jan-18 | Apr-18 | Jul-18 | Oct-18 | Jan-19 | Jan-19 | Jan-20 | Jan-21 | Jan-22 | Jan-23 |
| | FY2014 | FY2015 | FY2016 | Q1-2017 | Q2-2017 | Q3-2017 | Q4-2017 | FY2017 | Q1-2018 | Q2-2018 | Q3-2018 | Q4-2018 | FY2018 | Q1-2019 | Q2-2019 | Q3-2019 | Q4-2019 | FY2019 | FY2020 | FY2021 | FY2022 | FY2023 |
| Income Statement | | | | | | | | | | | | | | | | | | | | | | |
| Revenue | 2,569.8 | 2,417.7 | 2,204.3 | 448.8 | 545.0 | 536.3 | 679.3 | 2,209.4 | 458.6 | 573.7 | 554.1 | 714.3 | 2,300.7 | 472.1 | 597.1 | 576.1 | 742.5 | 2,387.8 | 2,584.1 | 2,839.1 | 3,083.4 | 3,288.8 |
| COGS | 1,505.3 | 1,464.7 | 1,346.2 | 289.4 | 342.0 | 338.9 | 424.7 | 1,395.0 | 298.9 | 360.1 | 346.8 | 446.6 | 1,452.4 | 288.8 | 369.7 | 355.7 | 463.6 | 1,477.8 | 1,601.8 | 1,761.5 | 1,883.0 | 2,007.5 |
| Gross profit | 1,064.5 | 952.9 | 858.1 | 159.4 | 203.0 | 197.4 | 254.5 | 814.4 | 159.7 | 213.6 | 207.3 | 267.7 | 848.2 | 183.3 | 227.4 | 220.4 | 278.9 | 910.0 | 982.3 | 1,077.6 | 1,200.4 | 1,281.3 |
| EBITDA | 311.0 | 211.0 | 192.0 | (12.3) | 32.9 | 32.3 | 39.1 | 92.0 | (10.5) | 38.8 | 15.2 | 46.3 | 89.8 | 13.3 | 30.3 | 30.3 | 48.8 | 122.7 | 155.4 | 169.1 | 244.5 | 261.8 |
| Net income | 157.7 | 97.2 | 84.8 | (25.2) | 32.2 | 9.7 | 8.7 | 25.4 | (21.2) | 15.9 | (1.7) | 19.8 | 12.8 | (3.8) | 8.7 | 8.4 | 22.0 | 35.4 | 57.2 | 63.0 | 114.7 | 122.4 |
| Earnings per share, diluted | \$ 1.87 | \$ 1.15 | \$ 1.00 | \$ (0.30) | \$ 0.38 | \$ 0.12 | \$ 0.10 | \$ 0.30 | \$ (0.26) | \$ 0.19 | \$ (0.02) | \$ 0.24 | \$ 0.15 | \$ (0.05) | \$ 0.11 | \$ 0.10 | \$ 0.27 | \$ 0.43 | \$ 0.69 | \$ 0.76 | \$ 1.39 | \$ 1.48 |
| Cash Flow Statement | | | | | | | | | | | | | | | | | | | | | | |
| Cash flow from operating activities | 327.9 | 153.8 | 179.4 | (30.8) | 13.2 | (13.2) | 102.2 | 71.5 | (29.9) | 20.3 | (24.5) | 108.7 | 74.5 | 21.2 | 19.4 | (31.3) | 143.4 | 152.7 | 117.4 | 146.9 | 207.7 | 233.5 |
| Cash used in investing activities | (63.1) | (57.8) | (73.7) | (10.1) | 9.2 | (24.5) | (24.6) | (50.0) | (19.2) | (20.3) | (29.1) | (23.4) | (92.0) | (23.3) | (24.8) | (23.3) | (25.7) | (97.1) | (101.8) | (109.7) | (118.3) | (127.5) |
| Cash from financing activities | (84.8) | (79.7) | (127.7) | 3.9 | (27.1) | (21.8) | (23.8) | (68.8) | (36.0) | (19.1) | (27.2) | (18.5) | (100.9) | (18.6) | (18.6) | (18.6) | (18.6) | (74.4) | (75.2) | (75.2) | (75.2) | (75.2) |
| Net change in cash | 173.9 | (19.5) | (38.0) | (18.0) | (12.0) | (66.4) | 47.0 | (49.4) | (79.726) | (0.1) | (84.5) | 66.8 | (97.5) | (20.7) | (24.0) | (73.2) | 99.1 | (18.8) | (59.6) | (38.0) | 14.3 | 30.8 |
| Balance Sheet | | | | | | | | | | | | | | | | | | | | | | |
| Assets | | | | | | | | | | | | | | | | | | | | | | |
| Total current assets | 1,216.1 | 1,111.4 | 1,036.3 | 1,025.7 | 1,052.3 | 1,054.9 | 1,044.0 | 1,044.0 | 979.4 | 1,047.4 | 1,006.6 | 1,071.6 | 1,071.6 | 894.3 | 962.3 | 933.2 | 1,042.3 | 1,042.3 | 934.9 | 939.0 | 985.9 | 1,036.3 |
| Total non-current assets | 548.3 | 490.0 | 502.5 | 527.1 | 522.7 | 524.8 | 490.5 | 490.5 | 492.7 | 529.8 | 546.9 | 552.6 | 552.6 | 557.9 | 564.3 | 568.8 | 575.4 | 575.4 | 599.3 | 625.1 | 653.1 | 683.2 |
| Total assets | 1,764.4 | 1,601.4 | 1,538.7 | 1,552.8 | 1,575.0 | 1,579.8 | 1,534.5 | 1,534.5 | 1,472.1 | 1,577.2 | 1,553.5 | 1,624.2 | 1,624.2 | 1,452.2 | 1,526.6 | 1,501.9 | 1,617.7 | 1,617.7 | 1,534.2 | 1,564.1 | 1,639.0 | 1,719.5 |
| Liabilities | | | | | | | | | | | | | | | | | | | | | | |
| Total current liabilities | 370.0 | 302.0 | 327.1 | 319.4 | 338.5 | 364.0 | 345.5 | 345.5 | 324.6 | 376.7 | 389.9 | 459.4 | 459.4 | 309.7 | 394.0 | 379.5 | 491.8 | 491.8 | 426.4 | 468.5 | 503.8 | 537.1 |
| Total non-current liabilities | 218.6 | 205.6 | 175.1 | 203.0 | 204.8 | 202.9 | 203.6 | 203.6 | 202.6 | 224.5 | 218.0 | 218.0 | 218.0 | 218.0 | 218.0 | 218.0 | 218.0 | 218.0 | 218.0 | 218.0 | 218.0 | 218.0 |
| Total liabilities | 588.6 | 507.5 | 502.2 | 522.5 | 543.3 | 566.9 | 549.0 | 549.0 | 527.2 | 601.1 | 607.9 | 677.4 | 677.4 | 527.7 | 612.0 | 597.5 | 709.8 | 709.8 | 644.4 | 686.5 | 721.8 | 755.1 |
| Shareholders' equity | | | | | | | | | | | | | | | | | | | | | | |
| Total shareholders' equity | 1,175.8 | 1,093.9 | 1,036.5 | 1,030.3 | 1,031.7 | 1,012.9 | 985.4 | 985.4 | 944.9 | 976.1 | 945.6 | 946.8 | 946.8 | 924.5 | 914.6 | 904.4 | 907.9 | 907.9 | 889.9 | 877.6 | 917.1 | 964.3 |

Exhibit 4: Discounted Cash Flow Analysis

| | Jan-14 | Jan-15 | Jan-16 | Jan-17 | Apr-17 | Jul-17 | Oct-17 | Jan-18 | Jan-18 | Jan-19 | Jan-20 | Jan-21 | Jan-22 | Jan-23 | | |
|---|----------|--------|--------|--------|-----------------------------|----------|---------|---------|--------|-----------------------------|----------|----------|----------|----------|----------|----------|
| | FY2014 | FY2015 | FY2016 | FY2017 | Q1-2018 | Q2-2018 | Q3-2018 | Q4-2018 | FY2018 | FY2019 | FY2020 | FY2021 | FY2022 | FY2023 | | |
| WACC Calculations | | | | | | | | | | | | | | | | |
| Cost of Equity | | | | | | | | | | | | | | | | |
| Risk-free rate | 2.2% | | | | | | | | | | | | | | | |
| Expected market return | 8.0% | | | | | | | | | | | | | | | |
| Market risk premium | 5.8% | | | | | | | | | | | | | | | |
| Beta | 1.52 | | | | | | | | | | | | | | | |
| Cost of equity | 11.0% | | | | | | | | | | | | | | | |
| Cost of Debt | | | | | | | | | | | | | | | | |
| Pre-tax cost of debt | 3.9% | | | | | | | | | | | | | | | |
| Effective tax rate | 20.0% | | | | | | | | | | | | | | | |
| Cost of debt | 3.1% | | | | | | | | | | | | | | | |
| WACC | | | | | | | | | | | | | | | | |
| Total shareholders' equity | 926.3 | | | | | | | | | | | | | | | |
| Total outstanding debt | 38.8 | | | | | | | | | | | | | | | |
| Total capitalization | 965.1 | | | | | | | | | | | | | | | |
| Cost of equity | 11.0% | | | | | | | | | | | | | | | |
| Cost of debt | 3.1% | | | | | | | | | | | | | | | |
| WACC | 10.7% | | | | | | | | | | | | | | | |
| Free Cash Flow | | | | | | | | | | | | | | | | |
| EBIT | 222.6 | 125.9 | 121.4 | 22.7 | (25.5) | 23.2 | (1.0) | 28.6 | 25.3 | 48.8 | 78.4 | 86.4 | 157.2 | 168.4 | | |
| Less: Tax expense | (44.5) | (25.2) | (24.3) | (4.5) | 5.1 | (4.6) | 0.2 | (5.7) | (5.1) | (9.8) | (15.7) | (17.3) | (31.4) | (33.7) | | |
| Add: Depreciation and amortization | 88.4 | 85.1 | 70.7 | 69.3 | 15.0 | 15.6 | 16.2 | 17.7 | 64.5 | 74.3 | 77.9 | 83.9 | 90.4 | 97.3 | | |
| Less: Capital expenditures | (75.4) | (71.5) | (83.8) | (90.6) | (18.8) | (21.2) | (25.8) | (23.4) | (89.2) | (98.1) | (102.8) | (110.7) | (119.3) | (128.5) | | |
| Less: Change in net working capital | 72.3 | (47.1) | 7.1 | (52.7) | (31.1) | (15.0) | (41.1) | 71.2 | (15.9) | 41.1 | (19.1) | (0.7) | 1.1 | 12.9 | | |
| Unlevered free cash flow | 263.3 | 67.2 | 91.0 | (55.8) | (55.3) | (2.1) | (51.4) | 88.4 | (20.4) | 56.4 | 18.7 | 41.6 | 98.0 | 116.5 | | |
| Discount factor | | | | | - | - | - | 0.25 | 0.25 | 1.25 | 2.25 | 3.25 | 4.25 | 5.25 | | |
| Present value of unlevered free cash flow | | | | | - | - | - | 86.2 | 86.2 | 47.9 | 14.9 | 29.9 | 63.6 | 68.3 | | |
| Discounted Cash Flow Valuations | | | | | | | | | | | | | | | | |
| Perpetuity Growth Method | | | | | Exit Multiple Method | | | | | WACC | | | | | | |
| Perpetuity growth rate | 2.0% | | | | Terminal EV/EBITDA multiple | 6.0x | | | | | 11.70% | 11.20% | 10.70% | 10.20% | 9.70% | |
| PV sum of unlevered FCF | 310.8 | | | | PV sum of unlevered FCF | 310.8 | | | | Perpetuity Growth Rate | 1.00% | \$ 13.18 | \$ 13.77 | \$ 14.43 | \$ 15.15 | \$ 15.97 |
| PV of terminal value | 785.4 | | | | PV of terminal value | 935.0 | | | | | 1.50% | \$ 13.54 | \$ 14.18 | \$ 14.89 | \$ 15.68 | \$ 16.58 |
| Enterprise value | 1,096.2 | | | | Enterprise value | 1,245.8 | | | | | 2.00% | \$ 13.94 | \$ 14.63 | \$ 15.41 | \$ 16.28 | \$ 17.27 |
| Add: Cash | 233.5 | | | | Add: Cash | 233.5 | | | | | 2.50% | \$ 14.38 | \$ 15.14 | \$ 15.99 | \$ 16.95 | \$ 18.05 |
| Less: Debt | 40.9 | | | | Less: Debt | 40.9 | | | | | 3.00% | \$ 14.88 | \$ 15.71 | \$ 16.65 | \$ 17.72 | \$ 18.95 |
| Less: Other EV adjustments | 19.2 | | | | Less: Other EV adjustments | 19.2 | | | | | | | | | | |
| Equity value | 1,269.6 | | | | Equity value | 1,419.2 | | | | Terminal EV/EBITDA Multiple | | | | | | |
| Shares outstanding | 82.4 | | | | Shares outstanding | 82.4 | | | | | 4.0x | \$ 13.00 | \$ 13.22 | \$ 13.44 | \$ 13.67 | \$ 13.91 |
| Implied share price | \$ 15.41 | | | | Implied share price | \$ 17.22 | | | | | 5.0x | \$ 14.81 | \$ 15.07 | \$ 15.33 | \$ 15.61 | \$ 15.89 |
| Current price | \$ 15.33 | | | | Current price | \$ 15.33 | | | | | 6.0x | \$ 16.61 | \$ 16.91 | \$ 17.22 | \$ 17.54 | \$ 17.87 |
| Implied price | \$ 15.41 | | | | Implied price | \$ 17.22 | | | | | 7.0x | \$ 18.41 | \$ 18.76 | \$ 19.12 | \$ 19.48 | \$ 19.86 |
| Total return | 0.5% | | | | Total return | 12.4% | | | | 8.0x | \$ 20.22 | \$ 20.61 | \$ 21.01 | \$ 21.42 | \$ 21.84 | |

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