

WESTPEAK RESEARCH ASSOCIATION

ZAGG (NASDAQ: ZAGG)

Leisure Goods – Consumer Electronics

A Steady Charge

August 17, 2018

ZAGG Inc (ZAGG) is a leader in mobile tech accessories for smartphones and tablets. Founded in 2005, the company was created from the concept of applying clear film designed for military-helicopter blades to protect mobile devices. Since then, ZAGG has diversified its product lines through the acquisition of the IFROGZ, mophie, and most recently Braven brands. ZAGG's current portfolio includes screen protection, power cases, power management, mobile keyboards, and personal audio products.

mophie – Lead Positioning in a Growing but Changing Industry

With the acquisition of mophie in 2015, ZAGG has established itself as the industry leader in the power management category of mobile accessories. As consumer dependence on mobile devices continue to increase, lithium-ion battery technology is not expected to see dramatic improvements over the next decade. While wireless charging has been standardized through the latest iPhone models, adoption rates for the technology remains low and the industry is starting to see a shift to completely contactless charging.

Opportunities in International Markets

International demand for mobile phone accessories will see the most significant growth among all markets. Over the past year international revenue has increased by 70% and now contributes to 16% of sales. Management has recognized the importance of this and is beginning to demonstrate their ability to capitalize on this opportunity. However, given the demand for low cost accessories overseas, we see significant challenges in this market.

Valuation & Recommendation

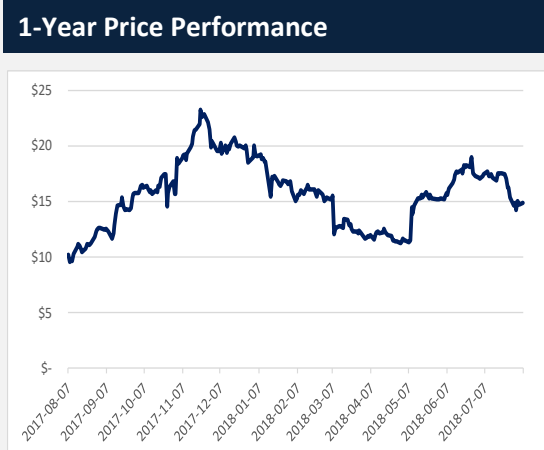
We believe ZAGG is fairly valued. Using discounted cash flow analysis and comparable company analysis, our target share price is \$15.00. As this represents a 0.1% downside, we are recommending a **hold** for ZAGG.

Analyst: Eric Lin, BCom. '19
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Equity Research	US
Price Target	USD \$15.00
Rating	Hold
Share Price (Aug. 17 Close)	CAD\$ 15.35
Total Return	-0.1%

Key Statistics	
52 Week H/L	\$23.70/\$6.80
Market Capitalization	\$421.4M
Average Daily Trading Volume	286,148
Net Debt	\$12M
Enterprise Value	\$355M
Net Debt/EBITDA	0.2x
Diluted Shares Outstanding	\$28M
Free Float	95%
Dividend Yield	0%

WestPeak's Forecast			
	2018E	2019E	2020E
Revenue	\$572M	\$632M	\$699B
EBITDA	\$68M	\$82M	\$91M
Net Income	\$41M	\$53M	\$61M
EPS	\$1.42	\$1.94	\$2.14
P/E	13.5x	9.2x	9.9x
EV/EBITDA	6.5x	5.4x	6.9x



Catalysts

mophie acquisition – potential for long term growth

Through ZAGG's \$100 million acquisition of mophie in the first quarter of 2016, ZAGG added an industry leading brand to its portfolio. In the past, mophie has collaborated with several luxury brands such as Swarovski Elements and Valentino SpA and positioned itself as a quality brand. As mentioned above, mophie's original Juice Pack was the first battery to be certified by Apple. Through mophie, ZAGG has strengthened its relationship with Apple, which is part of major retail, a key distribution channel for ZAGG.

The acquisition has allowed ZAGG to become the market share leader in battery cases, external batteries, screen protection, as well as tablet keyboards. mophie's reputation in the power accessories market aligns with ZAGG's corporate objective of being the preferred brand among consumers. Key benefits of the transaction include enhanced manufacturing, distribution, cross-selling opportunities, and product development capabilities. Most importantly, mophie gave ZAGG the leading position in the rapidly growing power segment.

Increasing battery consumption and lack of improvement in battery technology

While the acquisition of mophie has allowed ZAGG to diversify its business and minimize risks in specific categories, it also set ZAGG up to be a key player in the mobile power market. This is a particularly important segment as it has been identified by research data to be the highest growth category in mobile accessories. According to market research by Statistics Market Research, the global external battery market is expected to grow at a CAGR of 18.7% over the next decade. This growth is driven by technological advancements in mobile software applications that increase mobile dependency. Less time is now spent on computers, while mobile devices now account for 65% of digital media consumption. An emarketer study found that total time spent on devices by active mobile users averaged 4 hours, 5 minutes per day. Unfortunately, while social media, financial, and other graphically intensive applications drain power at an alarming rate, battery technology is not materially improving.

Over the past decade, Apple and other major device manufacturers used lithium batteries due to their affordability, wide market reach, and relatively compact nature. Lithium is a highly reactive element and has proven to be effective in storing energy and handling recharging cycles. This is the same technology used in the first iPhone, and according to research by Avicenne Energy, capacities tend to improve at ~5% a year. The best way to improve the capacity, is to simply increase the size, but as consumer tastes favour thinner devices with power consuming features and large displays, battery life is unlikely to last more than two days for the next decade. As mobile devices become necessary to daily lives, increasing power consumption will translate to demand for power accessories. With mophie's reputable brand, widespread distribution, quality products and innovative designs, we believe they are positioned better than any other brand to take advantage of the market growth. However, mophie has been nine months late in bringing a charging case to market for the iPhone X, which has resulted in a decrease in power management sales by ~60 year-over-year. If ZAGG wishes to capitalize on the mophie acquisition, it will be imperative for accessories to be available for major device launches as consumers want to protect their newly purchased devices as soon as possible.

Wireless Charging Technology Landscape

Wireless charging technology has been available in mobile devices as early as 2009. Despite being offered by numerous manufacturers including Samsung, Google, Motorola, and LG, the number of chargers sold per wirelessly chargeable phone stood below 30%. The reason behind the low attachment rate was due to a fragmented market. Manufacturers were split between A4WP, WPC, as well as Qi technologies, all of which are incompatible with one another. Wireless charging has a network effect, allowing the benefits of the technology to grow as it is adopted by more users. But similar to Wi-Fi, this benefit is only reached if the industry aligns a single technology as the standard.

With the release of the iPhone 8 and iPhone X at the end of 2017, Apple has also introduced wireless charging, and selected Qi technology to be used in their devices. This is also the technology used by the flagship Samsung Galaxy devices, and with adoption by Apple, original equipment manufacturers (OEM) with 70% of North American mobile phone market now use the same wireless charging technology. This effectively standardizes the industry, and we believe that Apple's execution of new features tends to have a significant impact on consumers. Applications for the Qi standard are already growing, particularly in vehicle and hospitality. Analysis from Research and Markets shows that the wireless charging market is expected to grow at 34% CAGR by the end of 2023. With the acquisition of mophie, ZAGG has established itself as a major player in a market with strong growth potential.



Leading the charge in wireless power

Implementing the latest in wireless technology optimized for the iPhone

Source: *Company website*

International Markets

As mentioned above, international markets for cellphone accessories are expected to see significant growth in upcoming years. Management has recognized the importance of this market and has made targeted global distribution a key aspect of the company's strategy. Since the end of 2012, ZAGG's international presence has grown. In 2017, sales outside the U.S. contributed 16% to ZAGG's total revenues and increased 27% year-over-year. The majority of international traction made by ZAGG has been in Europe, where the patent-pending ISOD products have been deployed. Asia is still the largest and fastest growing market, and we believe analysts are overlooking the company's efforts in this region because of its relatively low revenue contribution. The company is beginning to see traction and with management plans for incremental product placement, introduction of mophie products, and identification of new customers, we expect international sales to be critical to the future success of the company.

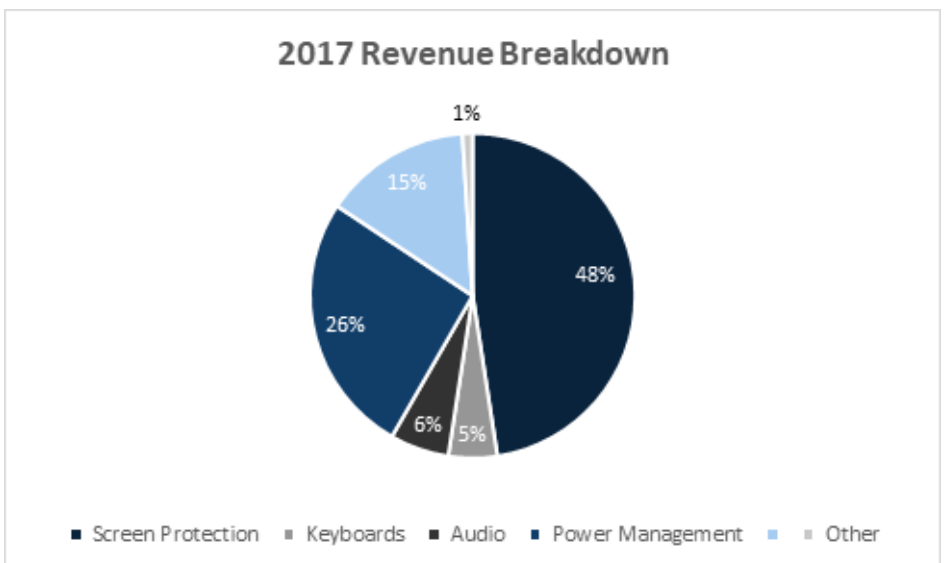
Business Overview/Fundamentals

Company Overview

In 2005, ZAGG introduced the InvisibleShield, a patented self-healing film designed to provide protection for Apple Inc's iPod. With the idea stemming from using material designed to protect military-helicopter blades, the product provided full body protection and served as a sleek alternative to bulky cases. As touch screen devices became increasingly popular among consumers, the demand for InvisibleShield skyrocketed and established ZAGG as the leading brand in mobile screen protection.

Having seen success with its screen protection business, ZAGG began expanding its product lines and started diversifying the brand's customer base to increase overall market share. In 2011, the company acquired IFROGZ, a designer and manufacturer of protective phone cases, audio products and other mobile accessories. ZAGG also combined with mophie in 2016 and added a leading battery case and mobile power brand to its portfolio. Mophie's products include external storage options, universal battery cases, cables, adaptors and docks. The majority of IFROGZ's products have been rebranded to ZAGG, and the company is segmented into ZAGG and mophie. Most recently, ZAGG has acquired BRAVEN, a company manufacturing high-performance Bluetooth speakers for outdoor and active lifestyle use.

According to The NPD Group, ZAGG currently holds the leading market share by dollar value in battery cases, external power and screen protection, largely due to the strength of its brands. The company's strong brand names, combined with high service standards and industry-leading lifetime warranty have allowed the business to position their products as premium accessories and enjoy high margins. Moving forward, ZAGG's strategy is to focus on product design, targeted global distribution, operational excellence, and becoming the preferred brand among consumers.



Source: Company filings

Revenue Mix

Screen Protection

Screen protection remains at the core of ZAGG's business, making up over 50% of ZAGG's revenue and contributing a gross margin of approximately 40%. Screen protection products are sold primarily under the InvisibleShield line, and the company formulated new film, impact protection, and self-healing products throughout the years. ZAGG offers consumers a wide array of protection types from film and glass to sapphire infused hybrid glass. According to management, the original film products contribute the highest margins, recent shifts in consumer tastes have made glass the most popular. While changing consumer tastes may lead to slightly lower margins, we believe this will continue to be a key category for ZAGG as replacement cycles of mobile devices are estimated to be 2.54 years. As customers typically buy new screen protectors upon purchasing new phones, these products benefit from natural refresh cycles. ZAGG offers lifetime warranty on InvisibleShield products. However, because of the short replacement cycle of mobile devices, ZAGG is limited in exposure to warranty claims. The company simplifies the application process of its products through their trademarked EZ apply tabs, which helps align screen protectors. Also, with the InvisibleShield on Demand ("ISOD") solution, retailers can supply consumers with screen protection for nearly any mobile device without having to hold excess inventory. As the sales of screen protectors are heavily tied to mobile device releases, ISOD ensures that InvisibleShield products are readily available.



Source: Company website

Keyboards

ZAGG entered the mobile keyboard category in 2010 as the company sought to not only protect mobile devices but also enhance productivity and the end user experience as well. ZAGG introduced Bluetooth-enabled tablet keyboards, as well as other features such as channel tablet stands, and special function keys that have become industry standards. Current keyboard products include device specific folio and detachable cases. Keyboard sales made up 9% of total revenue in 2016. Unfortunately, sales for this category have declined by ~30% for the past two years. With figures from analyst firm IDC showing that overall tablet sales fell by 6.5% last year, it is evident that this category is not an area of growth for ZAGG.



Source: Company website

Power Management

ZAGG's power management products are sold under both business segments but primarily under mophie. This product category includes portable chargers, charging cables, wall chargers and charging docks. Recently, mophie introduced a wireless charging pad utilizing Qi wireless technology that is compatible with the iPhone 8, iPhone 8 Plus, and iPhone X. mophie's power management products are known for their quality and contributed to 15% of revenue in 2016.



Source: Company website

Power Cases

Power cases also account for 15% of ZAGG’s revenue and are sold under the mophie segment. mophie’s original juice pack was the first ever power case to be certified by Apple Inc, and the space pack was the first battery case with built-in storage. mophie was also the first manufacturer to offer power cases that support wireless charging technologies. In addition to traditional battery cases, ZAGG’s charge force products are wireless charging enabled, while its hold force products allow for devices to be attached to magnetic accessories. According to research by NPD Group, ZAGG’s holds over 60% market share in this segment. We see power management and cases to be the areas of most significant growth for ZAGG. In addition, power cases also benefit from natural refresh cycles, as form factor changes means that consumers need to purchase new cases along with their new devices.



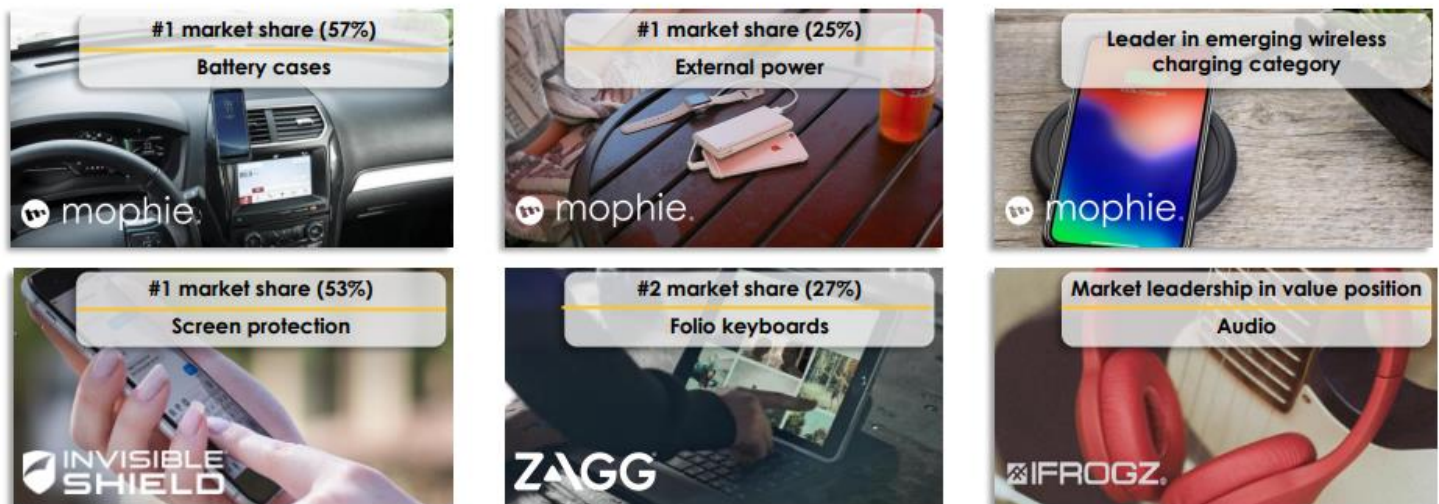
Source: Company website

Audio

ZAGG’s IFROGZ brand brings an assortment of audio products aimed at delivering high performance and functionality while eliminating unnecessary features that increase costs. In the third quarter of 2013, IFROGZ introduced portable Bluetooth speakers with emphasis on sound quality, functionality, and design. Wireless audio products were also introduced in the third quarter of 2016, and ZAGG now offers a range of wired and wireless headphones in addition to Bluetooth speakers. The strength of the IFROGZ and BRAVEN brands are significantly weaker than the competition. Unfortunately, Statista research shows that ~81.0% of the U.S wireless headphone market is dominated by 10 brands, with Beats, Apple, and Bose covering 74% of the market. Customers of these brands tend to have high brand loyalty as products such as Apple’s AirPods have synergistic functionality with other Apple devices. Due to these reasons, we do not see this as an area of growth for ZAGG.



Source: Company website



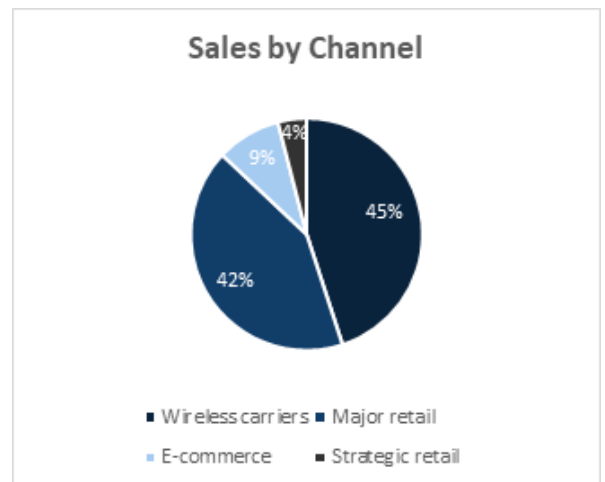
Source: [Company presentation](#)

Supply Chain

ZAGG does not directly manufacture their products or packaging and instead uses various third-party partners to perform these services. These partners select sub-suppliers providing raw materials and other components in the manufacturing process. However, ZAGG has used the same film supplier for InvisibleShield products for the past nine years, who has contractually agreed not to sell the materials to competitors. A risk here exists because ZAGG only uses one supplier for screen protection, which contributes to 50% of company sales. An interruption of supply from this source could materially impact the company's earnings. Battery cases and power management, keyboard, and audio products are sourced from factories in asia with specific expertise, and each factory uses a sub-supplier for raw materials and other components. ZAGG has also established relationships with package assembly, warehousing, shipping and logistics companies worldwide. Management believes that relationship with manufacturers and suppliers are excellent and does not anticipate interruptions in ZAGG's ability to acquire materials and produce products.

Marketing and Distribution

ZAGG sells its products to consumers directly via its website, big box electronics retailers, wireless retailers, distributors, and franchisees that own and operate kiosks and ZAGG branded stores. It should be noted that three customers make up a significant portion of sales. These customers are Superior Communications (30%), Best Buy (9%) and GENCO Distribution Systems (8%). ZAGG has contracts with these customers governing their relationship. However, these contracts are not long term and retailers make purchases on a per-order basis. As key customers contribute to 66% of ZAGG's sales, a cease in orders by one party materially impacts the company's operations. As of Q4 2017, ZAGG has begun transitioning from a distributor model to one that transacts directly with certain key retail customers. While this change has adversely impacted sales by approximately \$15 million, improved forecasting capability and inventory management is expected to improve operating margins over the long-term.



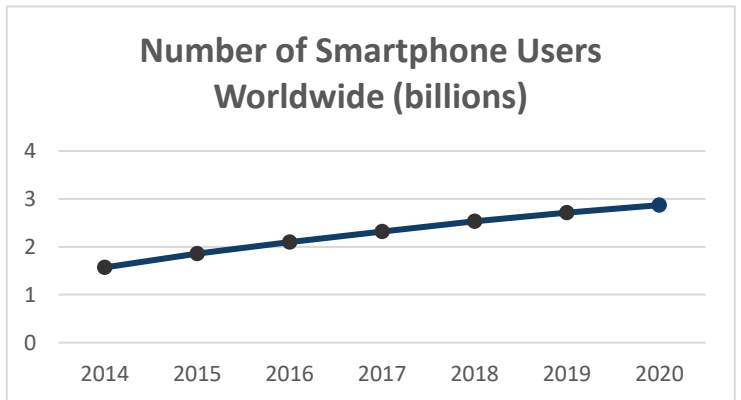
Source: Company presentation

Products are available worldwide through websites and partner retailers in Ireland, the Netherlands, and China. America is the largest market for ZAGG as the region contributed over 88% of 2016 revenues. The company advertises their products on the internet, through retail partner print advertisements, and point of sale displays at retail locations.

Macro Environment

Mobile Accessories Market

With the expansion of the economy and rising disposable income, the increasing adoption of smartphones and other devices has driven the popularity of mobile accessories. A significant market has not only emerged for protecting portable devices, but also enhancing the consumer experience with accessories. Having chargers, screen protectors, cases and audio products is now considered the standard in addition to owning a mobile device. In 2016, the mobile phone accessories market was valued at \$63 billion USD and is expected to reach over \$104 billion by 2024.



Source: Statista

Aesthetics are becoming increasingly important, as buyers now consider look, feel, and performance in their purchase decisions. We believe ZAGG's focus on design has allowed its products to gain popularity among consumers. We found this to be highlighted by customer reviews on several e-commerce platforms such as Apple's online store. As such we are confident that ZAGG will continue to gain market share in its industry.

Geographically, North America is the second-largest market for phone accessories with the market being valued at \$14.5 billion in 2016. This region is expected to witness a 14% growth in total revenue by 2023 as smartphone users in North America are expected to reach 262.2 million by 2019. In Europe, the market for mobile accessories is anticipated to behold the highest compound annual growth rate (CAGR) over the next five years. According to Goldstein Research, the Asia Pacific region holds majority in share of market at \$28.7 billion and is expected to account for over 53% share throughout 2023. Growth in this region is driven by emerging economies such as India, China, Thailand and Indonesia where the sales of smartphones have increased, creating secondary demand for accessories.

Furthermore, rise in disposable income, growth of e-commerce websites, availability of low-cost products, and changing lifestyle patterns are expected to boost demand for mobile phone accessories. As results outside the U.S has been a key area of focus for ZAGG, the company is starting to gain traction internationally as business has increased 70% over the past year. Unfortunately, the economic conditions in the above-mentioned countries means growth of the market in this region is hindered by high demand for low-price accessories, as well as a lack of brand awareness. According to Future Market Insights, the global market for mobile accessories will be expanding at a CAGR of 9.1% through 2025 with the protective case segment estimated to grow at 5.9% CAGR, while the power segment is likely to expand at a CAGR of 9.0% CAGR. Because ZAGG is a key player in the above-mentioned categories, we believe the segment growth will present significant opportunities for ZAGG.

Industry Overview

The landscape of the mobile accessories industry is characterized by the presence of many multinational and regional brands. Key players such as ZAGG are focusing on mergers and acquisitions, and new product launches to expand their business while local brands offer fewer products to keep prices competitive. Because of low prices, many customers buy mobile accessories locally or online. While the large availability of regional low-cost players poses a threat to the profit margins for established brands, growing urban population and upper-class individuals around the world has resulted in strong demand for premium phone accessories. Also, many regional players are seeking to merge with multinational companies for growth.

Management Team

Chris Ahern

Chris Ahern serves as the CEO of ZAGG and President of mophie. Mr. Ahern also held roles as the President of International at ZAGG, and Managing Director of European sales. In his prior role, he was responsible for leading ZAGG's business in Europe and Asia where he grew revenue and improved operational efficiency. Mr. Ahern has over 17 years of experience in sales, operations, and supply chain management in international markets. Mr. Ahern currently holds 0.41% of common shares outstanding, equivalent to a market value of ~\$1.7 million.

Brian Stech

Brian Stech is the current President of ZAGG and is responsible for leading the strategy and execution of the company's product, brand and distribution initiatives. Prior to his current role, Mr. Stech served as the company's Chief Commercial officer, and lead the strategy and execution of the Company's brand, products, and distribution. Mr. Stech's annual compensation of \$1.4 million composed of \$0.5 million cash compensation, \$0.4 million in Short Term Compensation, and \$0.6 million in Long Term Compensation. As of July 2, 2018, Brian held 0.74% of common shares outstanding.

Shareholder Base, Liquidity, Capital Structure

ZAGG's shares are listed on NASDAQ and as of August 1, 2018 there were 28,159,918 shares outstanding. Institutional investors hold 91.40% of these shares, and a breakdown of the top five shareholders is show below.

Top 5 Shareholders				
Investor Name	% Shares Outstanding	Current Position	Value (\$MM)	Position Date
RBC Global Asset Management (U.S.) Inc.	10.26	2,889,372	42.5	03/31/2018
Dimensional Fund Advisors, L.P	7.10	1,999,009	29.4	03/31/2018
BlackRock Institutional Trust Company, N.A	6.48	1,825,475	26.8	03/31/2018
Wasatch Advisors Inc.	5.20	1,464,157	21.5	03/31/2018
The Vanguard Group, Inc.	4.83	1,359,645	20.0	03/31/2018

Source: Capital IQ

Average three-month daily share volume is 477k and short interest is 6.38% of free float. Management has strengthened the company's balance sheet and paid down all \$87 million of debt associated with the mophie acquisition. Currently, ZAGG's debt consists of a credit facility maturing April 11, 2023. Last quarter, Management has also repurchased \$3 million common stock, leaving \$14.6 million under authorization.

Valuation

Discounted Cash Flow Analysis

To forecast revenue in our DCF, we segmented ZAGG based on audio, screen protection, power management, power cases, wireless keyboards, and other products. Based on industry growth, historical growth, company expansion strategy and performance relative to the industry, we have forecasted 2018 revenue to be in line with management projections of \$550 to \$570 million. While screen protection, power cases and audio revenues continue to grow steadily, growth was forecasted to be most aggressive for power management products.

As ZAGG continues to integrate with mophie and BRAVEN, we expect the company to improve their supply chain and product efficiency. Management states that mophie is striving towards 30% margins for the segment. We believe that EBITDA margins will continue to expand, and eventually reaching 13% in steady-state. With the new U.S tax plan in place, management has stated that ZAGG will pay a 25% tax rate moving forward.

For our valuation, we applied a 50% weighting to our DCF. Our WACC of 12.9% was derived using CAPM. We assumed a capital structure consisting of 96% equity as the company's debt only consists of a revolving credit facility. We used a risk-free rate of 2.94% based on the 10-year U.S treasury yield, market risk premium of 9.0%, and an adjusted beta of 1.70 (Bloomberg). With a perpetuity growth rate of 2.0%, we arrived at an implied share price of \$18.10.

Comparable Company Analysis

We applied a 50% weighting of comparable company analysis to our valuation. Although the mobile accessories space consists of many designers and manufacturers, there are few publicly traded firms, and ZAGG is the only company offering products in such a wide range of sub-segments. As such, we have selected companies that offer products competing with ZAGG in the mobile accessories market. Historically, ZAGG has traded at EV/EBITDA target multiples averaging 13.0x discount to its peers (Bloomberg). With this in mind, we have applied the minimum next twelve months EV/EBITDA for a \$12.24/share target.

Risks

Shift in Wireless Charging Technology

Although Apple's adoption of Qi has standardized current wireless charging technologies, the introduction of technologies allowing for contactless wireless charging will eventually become preferred among consumers. One limiting factor of the Qi technology, is the requirement for devices to lie on the surface of the pads during charging. This limits the usability of devices while being charged. Several power-at-a distance wireless chargers have been introduced allowing for power

delivery for up to 15 feet. Companies such as Energous (NASDAQ: WATT) has introduced truly contactless charging and as this technology becomes more commercially viable, mophie needs to adapt accordingly and introduce superior products that allow it to stay competitive within the market.

International Markets

The success of ZAGG products in international markets is subject to various execution risks. As mentioned above, the presence of many regional brands poses a significant threat to ZAGG. Furthermore, in Asian markets there is an abundance of low cost mobile phone accessories. These products are offered at a fraction of price of original products, and more consumers opting for these products especially in India and China. The success of ZAGG's products overseas will be dependent on increasing door count and growing brand awareness.

Recommendation

With industry leading brands and growth in screen protection products that are high in margin and make up over 50% of ZAGG's revenue, we believe that ZAGG is an investment with upside potential. Mobile accessories is an industry that is projected to see significant growth over the next decade, particularly in the battery accessories market. However, when it comes to wireless charging, we do not believe current products will see high attachment rates. Further, there is significant risk stemming from uncertainty in the ability to adapt to the changing wireless charging technology landscape.

In terms of international markets, the company recognizes the importance of this high growth region. While management has begun executing on international markets, we believe it will be a challenge for ZAGG to establish itself in a geography dominated by many low-cost players. We are recommending a HOLD rating on ZAGG with a target share price of \$15.00 representing a 0.1% downside from the current share price of \$15.35.

Exhibit 1: Pro Forma Income Statement

	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Income Statement										
Revenue	219,356	261,585	269,311	401,857	519,495	572,136	631,974	699,321	775,122	860,449
COGS	120,079	165,342	154,694	251,984	328,608	351,055	379,185	419,592	465,073	516,270
Gross profit	99,277	96,243	114,617	149,873	190,887	221,081	252,790	279,728	310,049	344,180
Advertising and marketing	8,952	7,542	10,436	12,440	11,101	15,477	18,959	20,980	23,254	25,813
SG&A	42,230	46,937	53,038	92,399	101,796	118,235	126,395	139,864	155,024	172,090
Amortization of definite-lived intangibles	9,620	9,709	8,453	13,385	12,047	19,205	25,279	27,973	31,005	34,418
EBITDA	38,475	32,055	42,690	31,649	65,943	68,164	82,157	90,912	100,766	111,858
Loss on disputed mophie purchase price	-	-	-	24,317	(6,967)	-	-	-	-	-
transaction costs	-	-	-	2,591	725	18	-	-	-	-
Impairment of goodwill and intangibles	11,246	-	-	-	1,959	-	-	-	-	-
Stock-based compensation	4,126	2,173	3,893	3,830	3,602	1,408	-	-	-	-
D&A	12,157	12,899	12,933	22,271	21,889	12,582	7,037	7,967	9,020	10,212
EBIT	10,946	16,983	25,864	(21,360)	44,735	54,156	75,119	82,944	91,746	101,646
Interest expense	575	170	97	1,851	2,081	1,346	1,000	1,000	1,000	1,000
Loss from equity investment in HzO	2,013	-	-	-	-	-	-	-	-	-
Other expenses (income)	(127)	(121)	69	348	(698)	186	-	-	-	-
EBT	8,485	16,934	25,698	(23,559)	43,352	52,624	74,119	81,944	90,746	100,646
Income taxes	3,695	6,473	10,111	(7,972)	28,252	11,972	18,530	20,486	22,686	25,162
Net income	4,790	10,461	15,587	(15,587)	15,100	40,652	55,589	61,458	68,059	75,485
Shares outstanding, basic	30,900	30,247	28,773	28,006	27,997	28,277	28,277	28,277	28,277	28,277
Shares outstanding, diluted	31,459	30,610	29,089	28,006	28,218	28,673	28,673	28,673	28,673	28,673
Earnings per share, basic	0.16	0.35	0.54	-0.56	0.54	1.44	1.97	2.17	2.41	2.67
Earnings per share, diluted	0.15	0.34	0.54	-0.56	0.54	1.42	1.94	2.14	2.37	2.63

Exhibit 2: Pro Forma Cash Flow Statement

Cash Flow Statement	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Operating activities										
Net income	4,790	10,461	15,587	(15,587)	15,100	40,653	55,589	61,458	68,059	75,485
Depreciation and amortization	12,157	12,899	12,933	22,271	21,889	12,582	7,037	7,967	9,020	10,212
Loss on disposal of property and equipment	-	-	-	-	34	9	-	-	-	-
Stock-based compensation	4,126	2,173	3,893	3,830	3,602	1,408	-	-	-	-
Impairment of goodwill and intangibles	11,246	-	-	-	1,959	-	-	-	-	-
Impairment of investment	591	-	-	-	-	-	-	-	-	-
Excess tax benefits related to share-based payments	(52)	(22)	256	(641)	-	-	-	-	-	-
Reduction in reserve on note receivable upon foreclosure recovery	-	-	(639)	-	-	-	-	-	-	-
Deferred income taxes	(5,787)	(5,770)	(1,162)	(7,972)	14,168	481	-	-	-	-
Revaluation of deferred income taxes from U.S. tax reform	-	-	-	-	11,806	-	-	-	-	-
Amortization of deferred loan costs	120	66	60	202	263	349	-	-	-	-
Write-off of deferred loan costs	27	-	-	-	-	-	-	-	-	-
Loss on disputed mophie purchase price	-	-	-	24,317	(6,967)	-	-	-	-	-
Loss on investment in equity method investment	2,013	-	-	-	-	-	-	-	-	-
Cash flow before working capital	29,231	19,807	30,928	26,420	61,854	55,482	62,627	69,426	77,079	85,697
Accounts receivable	8,079	(29,490)	18,383	(11,587)	(38,093)	(11,482)	25,355	(11,449)	(12,886)	(14,506)
Inventories	(4,404)	(4,350)	2,064	(2,198)	(906)	(18,992)	17,897	(8,082)	(9,096)	(10,239)
Prepaid expenses	7,335	(421)	(651)	422	(1,113)	(595)	1,253	(566)	(637)	(717)
Other assets	-	160	551	(330)	(928)	(563)	-	-	-	-
Income taxes receivable	2,787	13	-	9,994	4,866	(3,512)	-	-	-	-
Income taxes payable	-	-	(7,366)	-	-	-	-	-	-	-
Accrued wages and wage related expenses	(1,872)	1,709	(356)	1,819	(517)	3,651	(1,751)	808	910	1,024
Deferred revenues	(564)	21	(162)	246	42	391	873	135	152	171
Accounts payable	(3,838)	33,373	(14,635)	14,094	10,677	12,942	(20,582)	9,294	10,461	11,775
Accrued liabilities	(1,557)	4,616	(3,410)	2,836	(4,505)	23,784	(6,115)	2,761	3,108	3,498
Sales return liability	1,167	813	(814)	(9,037)	3,719	(656)	5,182	4,714	5,306	5,973
Other	-	-	-	-	(1,022)	232	-	-	-	-
Cash flow from operating activities	36,364	26,251	24,532	32,679	34,074	60,681	84,740	67,042	74,396	82,676
Investing activities										
Capital expenditures	(2,588)	(4,430)	(4,910)	(8,633)	(5,766)	(9,153)	(13,547)	(15,337)	(17,364)	(19,659)
Acquisitions	-	-	-	(74,743)	-	-	-	-	-	-
Divestitures	-	-	-	-	-	-	-	-	-	-
Proceeds from disposal of equipment	-	-	-	-	29	26	-	-	-	-
Deposits on and purchase of intangible assets	(500)	-	-	-	-	-	-	-	-	-
Cash used in investing activities	(3,088)	(4,430)	(4,910)	(83,376)	(5,737)	(9,127)	(13,547)	(15,337)	(17,364)	(19,659)
Financing activities										
Dividends paid	-	-	-	-	-	-	-	-	-	-
Payment of debt issuance costs	(43)	-	-	(1,144)	(157)	-	-	-	-	-
Purchase of treasury stock	(9,997)	(9,579)	(14,930)	(951)	(1,492)	(3,006)	-	-	-	-
Payments on term note	(24,000)	-	-	-	-	-	-	-	-	-
Proceeds from revolving credit facilities	69,291	56,075	9,871	336,391	434,826	198,761	-	-	-	-
Payments on revolving credit facilities	(73,921)	(73,618)	(9,871)	(305,084)	(442,659)	(214,215)	-	-	-	-
Proceeds from term loan facility	-	-	-	25,000	-	-	-	-	-	-
Proceeds from exercise of warrants and options	270	265	207	54	29	55	-	-	-	-
Payments on term loan facility	-	-	-	(4,688)	(6,250)	(2,378)	-	-	-	-
Payment of withholding of restricted stock units	-	-	(724)	(630)	(268)	(2,610)	-	-	-	-
Excess tax benefits related to share-based payments	52	22	(256)	641	-	-	-	-	-	-
Cash from financing activities	(38,348)	(26,835)	(15,703)	49,589	(15,971)	(23,393)	-	-	-	-
Net change in cash	(5,146)	(5,570)	3,541	(1,398)	13,385	27,865	71,193	51,704	57,032	63,018

Exhibit 3: Pro Forma Balance Sheet

	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Balance Sheet										
Current assets										
Cash and cash equivalents	15,031	9,461	13,002	11,604	24,989	52,854	124,046	175,751	232,783	295,800
Accounts receivable	46,591	75,729	57,647	83,835	123,220	132,790	107,436	118,885	131,771	146,276
Inventories	44,539	48,378	45,912	72,769	75,046	93,734	75,837	83,918	93,015	103,254
Prepaid expenses and other current assets	2,403	2,681	3,142	3,414	4,547	6,561	5,309	5,874	6,511	7,228
Income tax receivable	-	-	1,158	2,814	-	1,285	1,285	1,285	1,285	1,285
Total current assets	108,564	136,249	120,861	174,436	227,802	287,225	313,913	385,713	465,364	553,843
Non-current assets										
PP&E and intangible assets, net of accumulated ammortization	46,223	38,708	31,354	71,117	52,688	49,262	55,772	63,142	71,486	80,932
Goodwill	-	-	-	12,272	12,272	12,272	12,272	12,272	12,272	12,272
Deferred income tax assets	19,294	25,064	26,226	50,363	24,403	23,914	23,914	23,914	23,914	23,914
Note receivable	801	801	-	-	-	-	-	-	-	-
Other assets	588	457	1,100	2,541	3,426	3,846	3,846	3,846	3,846	3,846
Total non-current assets	66,906	65,030	58,680	136,293	92,789	89,294	95,804	103,174	111,518	120,964
Total assets	175,470	201,279	179,541	310,729	320,591	376,519	409,717	488,887	576,882	674,807
Current liabilities										
Current portion of long-term debt	-	-	-	10,484	13,922	-	-	-	-	-
Accounts payable	15,207	49,379	33,846	85,022	96,472	107,794	87,212	96,506	106,967	118,742
Accrued liabilities	2,608	6,910	5,068	22,216	10,515	32,026	25,911	28,672	31,780	35,278
Contingent payments	-	-	-	-	-	-	-	-	-	-
Income taxes payable	6,359	6,464	-	-	2,052	-	-	-	-	-
Accrued wages and wage related expenses	891	2,600	2,244	6,169	5,652	9,334	7,584	8,392	9,301	10,325
Deferred revenue	159	179	17	273	315	391	1,264	1,399	1,550	1,721
Revolving line of credit - current	-	-	-	31,307	23,475	-	-	-	-	-
Sales returns liability	7,872	8,674	7,849	28,373	32,189	39,056	44,238	48,952	54,259	60,231
Total current liabilities	33,096	74,206	49,024	183,844	184,592	188,601	166,209	183,921	203,857	226,298
Non-current liabilities										
Deferred income tax liabilities	-	-	-	-	-	-	-	-	-	-
Long-term debt	-	-	-	9,623	-	-	-	-	-	-
Other noncurrent liabilities	-	-	-	-	-	-	-	-	-	-
Revolving line of credit - long term	17,543	-	-	-	-	20,000	20,000	20,000	20,000	20,000
Total non-current liabilities	17,543	-	-	9,623	-	20,000	20,000	20,000	20,000	20,000
Total liabilities	50,639	74,206	49,024	193,467	184,592	208,601	186,209	203,921	223,857	246,298
Shareholders' equity										
Common stock	32	33	33	34	34	34	34	34	34	34
Additional paid-in capital	82,807	85,154	88,983	92,782	96,145	94,977	94,977	94,977	94,977	94,977
Retained earnings (accumulated deficit)	52,244	62,705	78,292	62,705	77,805	114,578	170,167	231,626	299,685	375,169
Treasury stock	(9,997)	(19,576)	(35,194)	(36,145)	(37,637)	(40,643)	(40,643)	(40,643)	(40,643)	(40,643)
Note receivable collateralized by stock	(348)	(348)	-	-	-	-	-	-	-	-
Accumulated other comprehensive income (loss)	93	(895)	(1,597)	(2,114)	(348)	(1,028)	(1,028)	(1,028)	(1,028)	(1,028)
Total shareholders' equity	124,831	127,073	130,517	117,262	135,999	167,918	223,507	284,966	353,025	428,509
Total equity	124,831	127,073	130,517	117,262	135,999	167,918	223,507	284,966	353,025	428,509

Exhibit 4: Discounted Cash Flow Analysis

Free Cash Flow										
EBIT	10,946	16,983	25,864	(21,360)	44,735	54,156	75,119	82,944	91,746	101,646
Less: Tax expense	(2,737)	(4,246)	(6,466)	5,340	(11,184)	(13,539)	(18,780)	(20,736)	(22,936)	(25,412)
Add: Depreciation and amortization	12,157	12,899	12,933	22,271	21,889	12,582	7,037	7,967	9,020	10,212
Less: Capital expenditures	(2,588)	(4,430)	(4,910)	(8,633)	(5,766)	(9,153)	(13,547)	(15,337)	(17,364)	(19,659)
Less: Change in net working capital	7,133	6,444	(6,396)	6,259	(27,780)	5,199	22,113	(2,384)	(2,683)	(3,021)
Unlevered free cash flow	24,912	27,650		3,877	21,894	49,245	71,943	52,454	57,782	63,768
Discount factor					0.25	1.25	2.25	3.25	4.25	5.25
Present value of unlevered free cash flow					6,765	44,106	54,944	35,538	34,727	33,998

Discounted Cash Flow Valuations										
Perpetuity Growth Method					Exit Multiple Method					WACC
Perpetuity growth rate 2.0%					Terminal EV/EBITDA multiple 6.0x					14.50% 14.00% 13.50% 13.00% 12.50%
PV sum of unlevered FCF	210,001				PV sum of unlevered FCF	210,000.9				1.00%
PV of terminal value	316,297				PV of terminal value	357,585.4				1.50%
Enterprise value	526,298				Enterprise value	567,586.3				2.00%
Add: Cash	11,394				Add: Cash	11,394.0				2.50%
Less: Debt	31,732				Less: Debt	31,732.0				3.00%
Less: Other EV adjustments	-				Less: Other EV adjustments	-				
Equity value	505,960				Equity value	547,248.3				
Shares outstanding	27,969				Shares outstanding	27,969.0				
Implied share price	\$ 18.09				Implied share price	\$ 19.57				
Current price \$ 15.35					Current price \$ 15.35					4.0x
Implied price \$ 18.09					Implied price \$ 19.57					5.0x
Total return 17.9%					Total return 27.5%					6.0x
										7.0x
										8.0x

WACC Calculations	
Cost of Equity	
Risk-free rate	2.9%
Expected market return	9.0%
Market risk premium	6.1%
Beta	1.70
Cost of equity	13.2%
Cost of Debt	
Pre-tax cost of debt	1.7%
Effective tax rate	25.0%
Cost of debt	1.3%
WACC	
Total shareholders' equity	427,123
Total outstanding debt	20,000
Total capitalization	447,123
Cost of equity	13.2%
Cost of debt	1.7%
WACC	12.7%

Exhibit 5: Comparable Companies Analysis

Company	Ticker	Equity Value	Enterprise Value	EV/EBITDA Multiple			P/E Multiple		
				NTM EV/EBITDA	2018E EV/EBITDA	20109E EV/EBITDA	NTM P/E	2018E P/E	2019E P/E
Logitech International Sa	VTX: LOGN	7,678,872	7,093,500	20.6 x	18.6 x	19.4 x	30.0 x	26.3 x	23.3 x
Plantronics, Inc.	NYSE: PLT	2,766,693	2,731,000	8.1 x	9.6 x	6.0 x	17.3 x	17.3 x	11.5 x
Universal Electronics Inc.	NASDAQ: UEIC	497,025	600,500	7.3 x	9.3 x	7.9 x	13.1 x	14.9 x	9.5 x
VOXX International	NASDAQ: VOXX	157,065	94,500	4.6 x	NM	4.8 x	32.7 x	8.5 x	42.7 x
Energous Corporation	NASDAQCM: WA1	346,545	301,100	NM	NM	32.6 x	NM	NM	9.3 x
ZAGG Inc		422,876.9	443,215	6.3 x	6.5 x	5.4 x	11.9 x	10.5 x	7.7 x
Median				7.7 x	9.6 x	6.9 x	23.6 x	16.1 x	17.4 x
Mean				10.2 x	12.5 x	14.1 x	23.2 x	16.8 x	19.3 x
High				20.6 x	18.6 x	32.6 x	32.7 x	26.3 x	42.7 x
Low				4.6 x	9.3 x	4.8 x	13.1 x	8.5 x	9.3 x
				EV/EBITDA Implied Price			P/E Implied Price		
Median				\$ 21.07	\$ 25.58	\$ 19.69	\$ 36.37	\$ 18.50	\$ 29.23
Mean				\$ 27.94	\$ 33.54	\$ 27.22	\$ 35.78	\$ 19.28	\$ 32.36
High				\$ 57.39	\$ 51.77	\$ 91.14	\$ 50.28	\$ 30.30	\$ 71.72
Low				\$ 12.24	\$ 25.63	\$ 12.82	\$ 20.10	\$ 9.82	\$ 15.64

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