

February 6<sup>th</sup>, 2017

## AirBoss of America Corp. (BOS:TSE)

### Materials – Rubber Manufacturing

#### Company Profile

AirBoss of America is an Ontario based holding company, which, through its various wholly owned subsidiaries, engages in the procurement, development and sale of rubber-based products. AirBoss operates in three main product categories: rubber compounding, engineered products and automotive. With regards to operations, AirBoss primarily serves the transportation, defense, and resource industries in North America and Europe; they are the second largest in North America.

#### Market is underestimating AirBoss's capacity to adapt to Change and Diversify

Turbulence in raw material prices has caused AirBoss to suffer declining revenues over the last four quarters - a side effect of the cyclical rubber industry. However, we believe the market is not pricing in AirBoss's ability to adapt to new market conditions through endeavors such as diversifying its customer base and developing new products; its stock price is ultimately being undermined by macro conditions and does not speak to AirBoss's true intrinsic value. Paired with a strong balance sheet and a track record of financial diligence, we reckon AirBoss will adapt to these unstable macro conditions, and in turn develop a more resilient business model.

#### Valuation & Recommendation

Through comprehensive analysis using both the discounted cash flow model and comparable companies' model, we determined the estimated share price of AirBoss of America to be \$15.17. Presently, the market values AirBoss of America shares at \$12.84. Given AirBoss of America's current financial position and present economic conditions, we believe the market is undervaluing the price of its stock and hence recommend a buy rating. Based on our analysis, in our view, a target price of \$15.17 more accurately reflects the value of AirBoss of America shares.

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#### Equity Research Canada

<b>Price Target</b>	<b>CAD\$15.17</b>
<b>Rating</b>	<b>BUY</b>
<b>Current Share Price, close</b>	CAD\$ 12.84
<b>Total Return</b>	18.1%

#### Key Statistics

<b>52 week H/L</b>	\$18.36/\$9.91
<b>Market Capitalization</b>	\$306.9M
<b>Net Debt</b>	\$97.4M
<b>Enterprise Value</b>	\$375.3M
<b>Net Debt/Enterprise Value</b>	27%
<b>Diluted Shares Outstanding</b>	23.54M
<b>Free Float %</b>	58.8%
<b>Dividend Yield</b>	2.04%
<b>LTM P/E</b>	12.4x
<b>LTM EV/EBITDA</b>	11.8x

#### WestPeak's Forecast

	<u>2015E</u>	<u>2016E</u>	<u>2017E</u>
<b>Revenue</b>	\$270M	\$258M	\$254M
<b>EBITDA</b>	\$32.8M	\$35.4M	\$29M
<b>EBIT</b>	\$21.6M	\$24.2M	\$26M
<b>Net Income</b>	\$13.3M	\$17M	\$17M
<b>P/E</b>	19.2x	23.4x	23.4x

#### 12-Month Stock Trend



### **Staple Products with an Economic Moat Create Stable Revenue Streams**

As the North American rubber compounding industry is consolidated with high barriers to entry, few large players compete for large contracts. Barriers that characterize difficult entry into this industry are high capital requirements, asset specificity, key customer relationships and economies of scale. These natural barriers create an economic moat for AirBoss and give them considerable market power. Being the second largest rubber compounder in North America with a large network of wholly owned subsidiaries, AirBoss benefits immensely from economies of scale. What further solidifies AirBoss's business model and their revenue streams is their value proposition of producing 'need to have products' that find application in the economy regardless of trends and consumer preferences. However, due to the cyclical nature of AirBoss's business model, AirBoss is sensitive to economic trends and thus growth can sluggishly coincide with GDP. In spite of this, management has expressed strong emphasis on inorganic growth and product innovation. We believe AirBoss operates with a sizeable economic moat, thus providing assurance of future revenue streams.

### **Revitalized Revenues**

AirBoss's Defense products are the most propitious sign of organic growth as revenues from defense grew 53% from 2014 to 2015 (\$18,045–\$27,661, dollars in thousands). As discussed later, defense spending is predicted to grow substantially over the coming years. Conversely, a particular realm of concern from investors over the past year has stemmed from a significant slowdown in their Rubber Compounding segment. In 2015 revenues from Rubber Compounding had fallen close to 21%. As their rubber-compounding segment represents a significant portion of revenue streams, revitalized strength in raw material prices complemented with a continually expanding automotive and defense industries, we believe, foreshadow rejuvenated future organic growth prospects for AirBoss.

### **Possession of a Strong Balance Sheet to Finance Inorganic Growth**

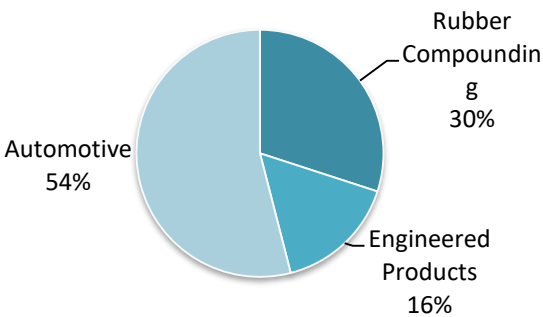
As management has repeatedly emphasized, inorganic growth is not a dominant growth strategy, but crucial in times of sluggish activity due to cyclical nature of their business model. Fortunately, as indicated by historic financials, AirBoss has a proven record of maintaining a strong balance sheet with significant cash reserves and manageable debt; this will enable management to realistically pursue their strategic inorganic aims of customer base diversification and product innovation. We reckon the consistency of a healthy balance sheet is indicative of financial diligence amongst management, which provides assurance of future growth and financial stability.

# Business Overview/Fundamentals

## 2016 Q3 Revenue by Subsidiary

### Subsidiary Companies

AirBoss of America Corp. operates within several subsidiaries throughout North America, of which they possess 100% ownership. These several subsidiaries can be categorized into three major realms:



### 1. Rubber Compounding

AirBoss’s main rubber compounding facility is located in Kitchener, Ontario, and has the capacity to supply over 250 million pounds of rubber per year (largest capacity is Hexpol Inc. with 1 billion,). Within it’s manufacturing of rubber-compounded products, AirBoss uses chemical formulae to create customized rubber formulations. AirBoss’s key products serve many applications: mining, military, pipeline, infrastructure, automotive, cable and wire, and tire. AirBoss has the largest market share in the North American rubber compounding market. Their two main revenue streams are tolling and mixing. The majority of clients from Rubber Compounding come from the resource sector. Rubber Compounding has historically been the most significant revenue stream of AirBoss, but due to the decline in raw material prices, it has shrunk, as savings have been passed onto customers.

### 2. Engineered Products

AirBoss Engineered Products applies chemistry expertise to compound rubber-based products for solutions for the industrial and defense segments. Industrial applications include mining, oil and gas, automotive, while defense applications include military, first response and Chemical, Biological, Radiological and Nuclear gas masks (CBRN). Located in Vermont, in November 2015 AirBoss’s Engineered Products division operations were transferred to Acton-Vale, Quebec. The Engineered Products find highly applicable functions in the economy. AirBoss’s most recent subsidiary acquisition was of Immediate Response Technologies (IRT) in 2015.



Source: AirBoss of America

### 3. Automotive

Located in Auburn Hills, Michigan, AirBoss automotive produces flexible moulded rubber products for the North American Automobile industry. These moulded rubber products include bushings, dampeners, boots and isolators, that serve as anti-vibration solutions to control and limit shock for automobiles, which enhance the customer’s ride. AirBoss Automotive has established key customer relationships within the North American auto industry, and is a continued preferred supplier. Automotive revenues grew 14% in 2015.

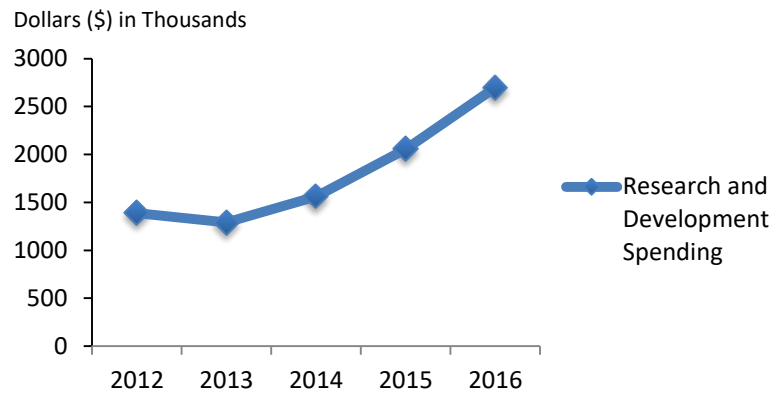


Source: AirBoss of America

## Research and Development

As a predominant growth strategy, AirBoss strongly emphasizes their commitment to product innovation and a sustainable competitive advantage. As depicted by the R&D spending graph, AirBoss's R&D expenditures show continual increase, as from 2012 to 2015 R&D spending increased by 48%. Most recently,

AirBoss's Engineered Products division launched their renowned, NATO approved CBRN gas masks, suits, and footwear. These new products will allow them to grow their Defense segment and expand operations to NATO countries. Forward looking, management has recently expressed their intentions of developing healthcare related products for their Immediate Response Technologies Division (IRT). A sustainable commitment to R&D shows AirBoss's willingness to diversify their customer base and move away from cyclical and low margin industries. We believe AirBoss's funding towards R&D is being channelled effectively not only toward cost-cutting efficiencies, but also toward industries with substantial growth potential such as defense, healthcare and law enforcement; sectors which would diversify their customer base away from industrial rubber compounding customers, such as in mining or oil and gas, thus mitigating their susceptibility to volatile macro conditions.



## History and Geographic Breakdown

Previously known as IATCO Industries, AirBoss of America's inception came about in 1989 with the amalgamation of Greenstrike Gold Corp. and Ontario Ltd. In 1998, AirBoss ventured into the industry of rubber compounding with the acquisition of International Technical Rubber Manufacturing. From there, AirBoss amalgamated several other businesses and formed a diversified holding company, that to this day, continues to expand its

horizon across North America. Today its headquarters are in Newmarket, Ontario. AirBoss of America went public in 1999 on the Toronto Stock Exchange, and has since achieved a 260% overall return. AirBoss's flexible automotive products are manufactured in Malaysia; its defense products are manufactured in Bromont, Quebec. As for its rubber-compounding segment, AirBoss has locations in Kitchener, Ontario and Scotland Neck, North Carolina. . In addition, AirBoss's research faculties exist in Kitchener, Ontario, Acton-Vale, Quebec, and Wake Forest, North Carolina.

Source: AirBoss of America

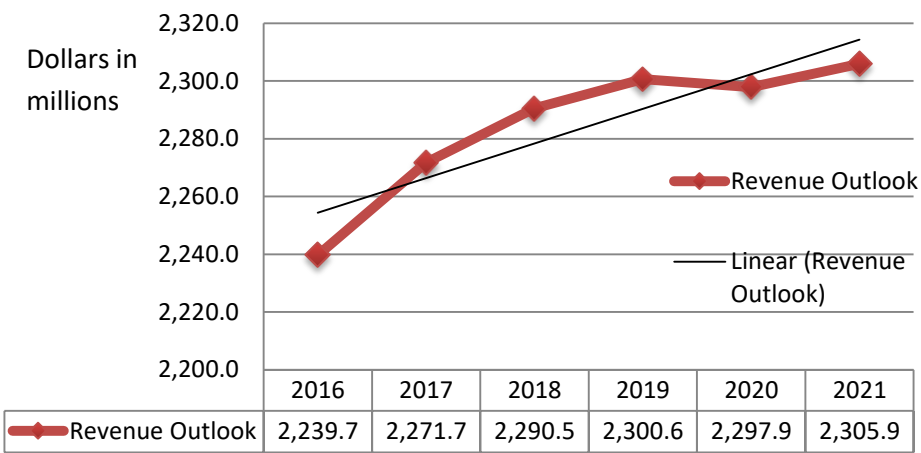


# The Macro Environment

## Industry Overview and Outlook

Through its three main operating segments, AirBoss is primarily exposed to the automotive, industrial, health and military markets. These markets are cyclical in nature and very responsive to economic trends. Thus organic growth typically tends to coincide with GDP growth. As AirBoss’s management has emphasized, product innovation and inorganic growth are key to revenue growth. AirBoss’s revenue streams also face significant exposure to global commodity prices. As of their most recent Q3, net sales dropped 14%; management attributed this to a “decline in volume and drop in raw material prices where savings were passed on to customers.” In terms of Canadian market growth, for which AirBoss operates in, Canadian exports rose from 23 percent in 1990 to 45 percent in 2010, indicating healthy growth trends. In terms of revenue projections for the Canadian rubber industry, as depicted above, revenue is forecasted to grow annually at an average of 0.55% for the next 4 years.

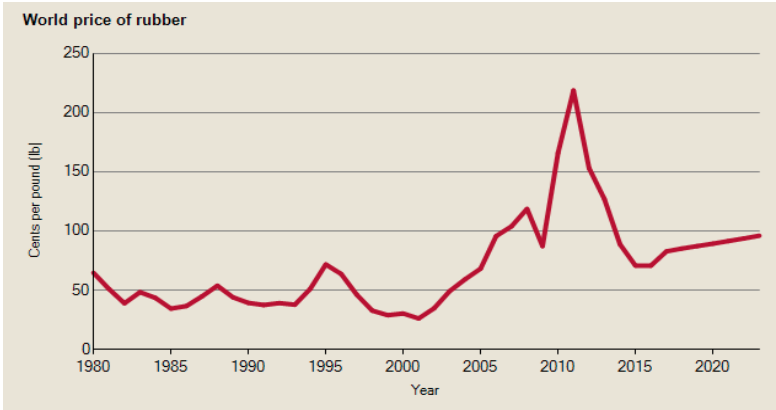
## Rubber Industry Revenue Outlook



## The World Price of Rubber

Source: [www.ibisworld.ca](http://www.ibisworld.ca)

The declining price of rubber has been responsible for significantly constraining AirBoss’s revenue over the preceding 4 quarters, particularly in their rubber-compounding segment. This is an example of the cyclical nature of their business, as macro external trends such as the price of rubber have remarkable effects on their revenues. In terms of supply, Southeast Asia provides almost all of the world’s rubber; having supply concentrated entirely in one region does spell out the risk of market volatility in the price of rubber. The equilibrium price of rubber is largely determined by demand from emerging countries like China and India, or, on the supply side, the quality of rubber harvests. For example, the price of rubber spiked in late 2010 due to a supply shock caused by heavy rains in Thailand. With regards to future outlook, as depicted in the graph, analysts predict the price of rubber to annually rise 2.5%. This outlook rests on the assumption of moderate rubber consumption and sluggish growth from emerging markets. For AirBoss, the volatility depicted in the world price of rubber accurately reflects managements concerns over “volatile raw material prices”, while also justifying their goal in innovating new products that would mitigate their exposure to it.





## Demand From Car and Automobile Industry

The performance of AirBoss's automotive segment directly coincides with North American auto production. Forward looking, analysts expect revenues from the auto-part manufacturing industry to rise at an annualized 7.4% in the future.

## Catalysts

### Inorganic Growth and Acquisitions

AirBoss does possess a strong balance sheet to finance acquisitions and diversify their subsidiary holdings. With manageable debt and a sizeable and continually growing cash balance, AirBoss remains in a good position to finance further inorganic growth. Management's emphasis on inorganic growth is a source of confidence for investors; they mainly look for acquisitions that would diversify its customer base. Most recently, with the announcement of their acquisition of Immediate Response Technologies, AirBoss's stock rose 21% over the course of the subsequent week indicating the enthusiasm among investors. Typically, AirBoss finances their subsidiary acquisitions with debt; given their healthy debt-to-equity ratio of 1.03 (Q3 2016 total liabilities/Q3 2016 Total Shareholders Equity), we believe management is competent at identifying not only good acquisitions targets, like IRT and SunBoss Chemicals, but also acquisitions that do not burden themselves financially.

### Stronger U.S. Defense and Infrastructure Spending

Now with a new Trump administration in the U.S., it is expected that defense spending will rise not only in the U.S., but also Canada, as other NATO nations will be pressured to do the same. Throughout his campaign, Donald Trump's rhetoric has suggested he aims to drastically increase defense spending and pressure NATO allies to do so as well. Estimates range from \$500 billion to \$1 trillion in spending increases. From this, AirBoss can expect to become more competitive within its Defense segment and contribute to boosting segmental revenues. Customers AirBoss serves through its defense segment include the U.S. Air Force, U.S. Coast Guard, U.S. Army, etc. Furthermore, the recent U.S. election has fuelled much investor optimism within AirBoss, as infrastructure spending will rise and industries such as coal mining will be revitalized.

### Diversification of Customer Base and Product Innovation

Due to changing industry conditions and the cyclical nature of the markets they

operate in, management has expressed strategic endeavours that aim to diversify their customer base. Their most recent and avidly watched endeavours include the expansion of their defense segment with the development of CBRN clothing, and the acquisition and expansion of Immediate Response Technologies (IRT) where they aim to develop healthcare products. These endeavours are a major

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confidence boost to investors, as for example when they acquired IRT trading volume skyrocketed and was complemented with much investor optimism.

## Earnings Reports

So far in 2016, AirBoss's quarterly earnings reports have been significantly below investors expectations. As indicated by daily trading volume, earning reports tend to be a major catalyst of trading activity. Throughout the conference calls however, management has expressed their dissatisfaction with the results and laid out a strategic plan for future growth. This plan includes a diversification of their business model to become more resilient to macro conditions. As indicated by the historical income statement, AirBoss has seen revenue decline continually across all business segments. Management has attributed this decrease in segmental revenue to "customers leaving at a greater pace then the customers [they're] onboarding", and the decrease in the world price of rubber with "savings being passed onto customers".

## Management Team

### Gren Schoch: Chairman and CEO

Mr. Gren Schoch has been Chairman and substantial individual shareholder of AirBoss since 1989. During his tenure, he took AirBoss public in 1999, and has been integral in AirBoss's growth as a company. In 2015 he was awarded a salary of \$430,155 and stock options of \$1,367,669. He is AirBoss's most significant individual investor with an equity stake of \$54.21 million dollars. In addition to co-founding AirBoss of America, he also co-founded Latco Industries and has served as the Chairman many other companies including Kensington Energy Ltd. (2001-2005) and Petromet Resources Ltd. (1997-2000). By trade he is a professional engineer. Over his tenure the stock has returned 260%.

### Lisa Swartzman: President

After a management shakeup in 2014, Lisa Swartzman was promoted to president of AirBoss of America Corp. to oversee all of its operations and continue to help secure key customer relationships. Ms. Swartzman has strong experience in the Canadian capital markets industry, as she was the treasurer for Loblaw Companies and George Weston prior to joining AirBoss. In 2015, Ms. Swartzman received a salary of \$249,294 and stock options of \$1,410,426. Currently, Ms. Swartzman has an equity stake in the company of \$1.25 million. Over her tenure the stock has returned 14.96%.

### Daniel Gagnon: CFO

Daniel Gagnon is the most recent executive appointment made by Mr. Schoch, having been appointed on June 20<sup>th</sup>, 2016. The preceding CFO, Mrs. Wendy Ford, served since 2014, and was dismissed during a period of 'substantial transition'. This refers to the declining revenues experienced by AirBoss due to turbulence in commodity markets. Prior to joining AirBoss of America, Mr. Gagnon was the CFO of Centric Health Corp. and Revera Inc. Currently, he possesses \$256 000 worth of equity in AirBoss, equally as large as his stake in his prior job, Centric Health.

# Risks

## Commodity Cycles and Prices Risk

The procurement side of AirBoss's operations are specifically prone to fluctuations in commodity cycles. As it has occurred in 2008 and 2011, the global supply of synthesized rubber at times cannot keep up with demand, and can thus cause unforeseen hindrances in AirBoss's profitability. As AirBoss does not purchase raw materials through long-term supply contracts, but buys them on a purchase order basis, short-term volatility in raw material markets can induce price fluctuations, which affect AirBoss's cost of goods sold sporadically. Volatility in raw material markets are indirectly affected by swings in the price of oil and currency fluctuations. The recent decreases in raw material prices are a contributing factor to shrinking revenues.

## Key Customer Dependency and Contract Risk

AirBoss's future success will depend on its ability to drive quarterly strong revenues and secure key customer contracts. However, buyer concentration is a ubiquitous threat to AirBoss, as in 2015 one contractor comprised 8% of sales and the next 5 largest customers represented 32% of sales. Diversifying its customer to mitigate its threat of buyer concentration will be crucial to solidify its revenue streams. However, as AirBoss indicates they are well aware of this risk, we believe AirBoss's strategic aim of customer diversification will mitigate their exposure away from key customer dependency.

## Foreign Exchange Rate and Foreign Revenue Risk

As sales from the United States and other countries represented 74% and 7% respectively at the end of fiscal 2015, the foreign exchange symbolizes a significant risk. Fluctuations in exchange rates affect both AirBoss's revenues and expenses. Also, in light of currency risk, the fact that over 80% of AirBoss's revenue streams come from foreign countries represent a risk of slowing domestic growth, and, increased reliance on foreign growth, mainly reliance on the U.S.

## Acquisition Activity

AirBoss's management has made it clear that inorganic growth will be a significant focus of revenue growth, as the company seeks to expand its defense and IRT segments. Inherent risks associated with this inorganic growth strategy are inaccurately valuing an acquisition, failure to integrate subsidiaries within its business model and unanticipated costs and risks.

## Competition Risk

Despite strong barriers to entry, AirBoss's revenue streams are contingent on their ability to secure customer contracts and offer competitive pricing. AirBoss is the second largest rubber compounder in North America based on capacity. AirBoss's ability to remain competitive will depend on their ability to offer industry competitive pricing and innovative by diversifying their product.



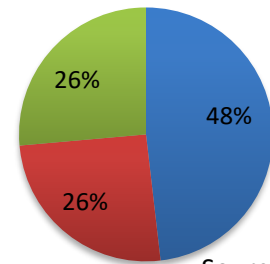
# Shareholder Base, Liquidity, Market Depth

## Shareholder Summary

Currently AirBoss has 23m shares outstanding and is listed on the Toronto Stock Exchange. As AirBoss only has a market capitalization of only \$305.9 million, it is understandable why the stock is not widely held by institutional investors and thus predominantly held by individual investors (48%). The largest individual stakeholder is the Chairman and CEO Gren Schoch, who has a \$54.21 million stake in the company. Some large institutional positions include BMO Asset Management, with a position of 645 400 shares, and Didner & Gerge Fonder AB with a position of 710 000 shares. As the largest individual shareholder is the CEO with a 20% equity stake, investors are given confidence from his commitment to the company.

## Ownership Summary

■ Individual ■ Institutional ■ Other



Source: Bloomberg

## Trading Volume and Liquidity

AirBoss of America's stock has an average daily trading volume of 42 432 shares. Since the stock has low institutional ownership and is predominantly held by individual and insider investors, the stock is relatively illiquid. Its short interest as a percentage of float is 2.87%.

## Valuation

### Discounted Cash Flow Analysis

A discounted cash flow model provides an intrinsic valuation of the company by predicting future free cash flows and discounting them back to present value using a calculated discount rate. After forecasting future free cash flows and discounting them using a WACC percentage of 6.14%, we found our implied shared price to be \$16.68.

#### 1. Assumptions

In terms of our assumptions for projecting future free cash flows, we assumed margins would stay relatively constant, and we did so by using the average of the past 4 historical fiscal years. However, because AirBoss's product innovation strategy and their rising R&D spending, we assumed an upward trending R&D margin growing at 0.2% per year. Also, in consideration of historical trends, we conservatively assumed COGS margin shrinking at 0.5%. With regards to dividend growth, based on historicals and our revenue projections, we estimated \$0.01 growth per year. Due to the sporadic pattern of AirBoss's acquisitions, we did not assume acquisitions, but rather a \$7 million capital expenditure per year. For a long-term perpetuity growth rate, we assumed it to coincide with GDP at 2%, as the company is cyclical and its

growth tends to coincide with GDP. Finally, our income tax rate was calculated as an average of past historicals as 25% and held constant.

## 2. Revenue Forecasting

We forecasted AirBoss's revenue as a sum of their 3 segmental revenues, as it provided greater scrutiny in driving their revenue. For their rubber-compounding segment, we assumed that it had reached the nadir of its decline in 2016, and – with revitalized strength in AirBoss's ability to operate under these commodity conditions – forecasted an upward trend of 5% per year, as it will gradually restore profitability. As for its automotive segment, most growth will come from North American automotive spending. We do not see tremendous organic nor inorganic prospects for this segment, thus we took a conservative approach and held a 2% growth rate constant. Based on our analysis, we concluded that most growth would be derived from its Engineered Products (EP) division (which includes IRT and Defense). Because of innovative growth initiatives, we forecasted EP segmental growth to be 3% per year. Holistically, we forecast total revenue to grow at a rate of roughly 2% per year.

## 3. Depreciation and Amortization

Depreciation and amortization have been forecasted from historical values of property, plant and equipment. Due to the stable nature of rubber manufacturing, we do not see their physical capital being obsolete any time soon, thus – in accordance to historical – we used an estimated useful life of 24 years to forecast depreciation.

## 4. Weighted Average Cost of Capital (WACC)

In determining the weighted average cost of capital, to calculate weights, we used the market value of equity and the book value of debt. Because of AirBoss's low amount of debt, we received a 100% equity weighting. Next, we utilized an equity market risk premium of 5%, along with a beta of 1.2 from Bloomberg. In determining the risk-free rate, we used a rate of 1.081% from 5-year Canadian treasury bills. We calculated the weighted average cost of capital to be 6.14%.

## Discounted Cash Flow Analysis Summary

By utilizing our discounted cash flow model with the assumptions outlined above, we were able to produce an implied share price of \$16.68. We believe this speaks to the true intrinsic value of AirBoss of America.

## Comparable Company Analysis

Many of AirBoss's Canadian competitors are privately owned. However, our comparable company analysis provides an accurate snapshot of competitors who actively vie with AirBoss for contracts throughout their various subsidiaries. Also the comparable company analysis endeavours to provide a comparison between AirBoss and other companies who are exposed to the same economic headwinds and operate under a comparable business model. This contrast essentially produces an industry benchmark to more accurately analyze their financials in comparison to their peers.

### 1. Bridgestone Corp.

Bridgestone Corporation is a multi-national auto parts manufacturer based in Fukuoka, Japan. In addition to actively competing with AirBoss within the automotive industry, through its diversified products division, Bridgestone. Their diversified products division includes the manufacturing of products such as conveyor belts and rubber tracks. They are the largest manufacturer of tire and rubber parts in the world.

### 2. Cooper Standard Holdings

Cooper Standard Holdings is a Michigan based rubber manufacturer that primarily serves the automotive industry. Their anti-vibration rubber products face direct competition from AirBoss's automotive segment.

### 3. Parker Hannifin

Parker Hannifin is an Ontario based motion and control technology manufacturer that operates in the commercial, industrial and aerospace markets. Parker Hannifin competes with AirBoss's Engineered Products division.

### 4. Hexpol

Hexpol is an international rubber compounding company based in Sweden with operations in Europe, Asia and North America. Its Rubber Compounding and Engineered Products segments actively vie with AirBoss in North American and European markets.

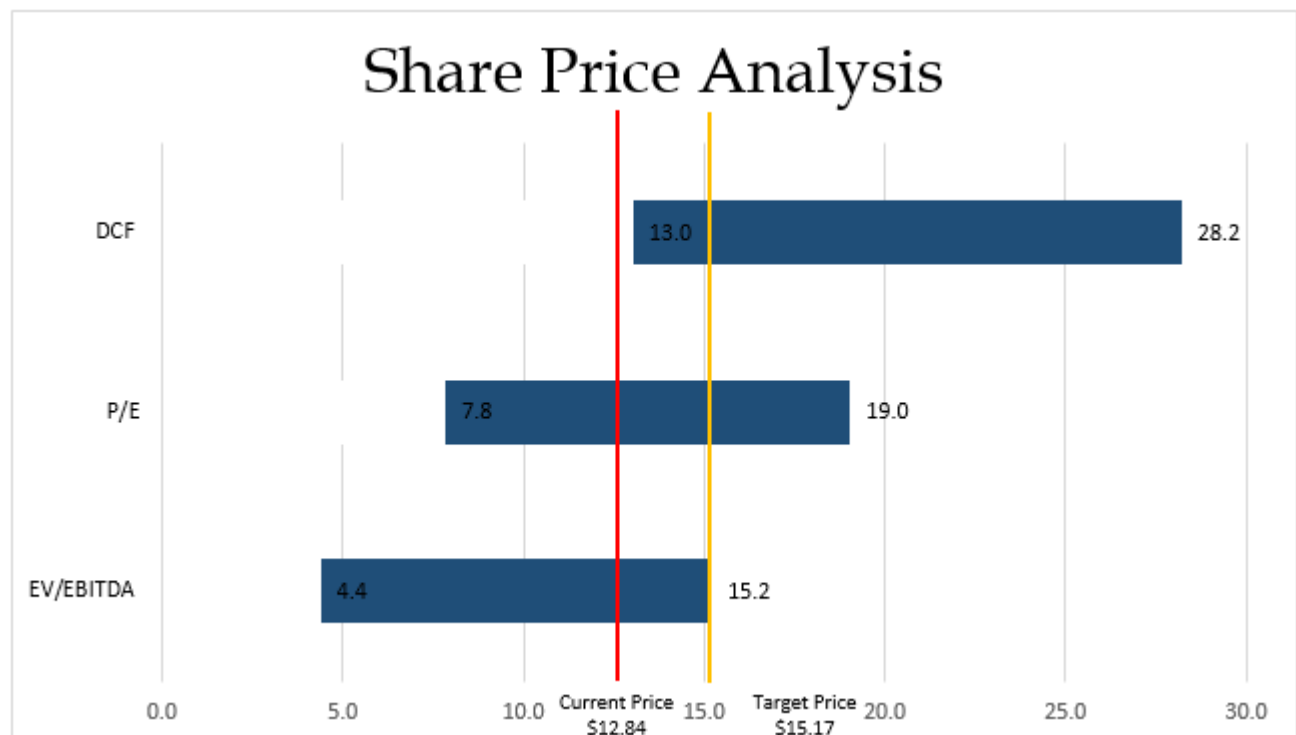
## Weighted Target Price

By weighting the output used from the two multiples (EV/EBITDA and P/E) used in our comparable company valuation evenly (50%), we receive a final implied share price of \$11.67, compared to the current share price of \$12.84. This implied share price provides an accurate snapshot of companies exposed to the same economic headwinds as AirBoss. To produce a target price, we placed a 70% weighting on our discounted cash flow valuation and 30% weighting on our comparable company analysis because we believe a DCF valuation exemplifies the neglected intrinsic value of the company. By applying this weighting we received an implied target price of \$15.17.

## Recommendation

### An Undervalued and Well Positioned Company

AirBoss is well positioned in an industry with formidable natural barriers to entry, which provide the company with security. Furthermore, the very nature of AirBoss's products are "need to have" and make them a staple good and solidify their presence. To counter threats posed on organic growth by the cyclical rubber market, AirBoss is well diversified through its subsidiaries, and possesses a healthy balance sheet to finance further inorganic growth and weather itself through economic turmoil. In addition, they have a consistent record of investing in R&D to maintain a competitive advantage among peers, and emphasize their commitment to strategic growth. Future growth prospects for AirBoss are contingent on their ability to manufacture products that possess a performance advantage and their aptitude to locate and operate in niche markets through the diversification of their customer base (like currently seen in their IRT endeavours). Having translated our outlined qualitative analysis into quantitative assumptions, we believe that current macro conditions and catalysts undermine the true intrinsic value of the company. With our implied weighted target price of \$15.17, we are confident to place a buy rating on the company.



## Income Statement

	2012	2013	2014	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016	2017	2018	2019	2020	2021
Revenue	248.7	236.3	303.2	304.9	70.5	67.5	66.7	65.4	270.0	258.5	253.7	254.0	258.4	267.6
Cost of Goods Sold	222.6	207.6	258.0	249.6	57.3	54.4	55.2	52.3	219.2	209.4	205.5	205.8	209.3	216.7
Gross Profit	26.1	28.7	45.2	55.3	13.2	13.1	11.5	13.1	50.8	49.1	48.2	48.3	49.1	50.8
Less: D&A	-5.7	-6.6	-8.6	-9.6	-2.6	-2.5	-2.6	-2.6	-10.2	-10.1	-9.6	-9.1	-8.8	-8.5
R&D	1.4	1.3	1.6	2.1	0.6	0.8	0.7	0.7	2.7	3.1	3.6	4.1	4.7	5.4
SG&A	13.4	17.9	21.9	30.1	6.1	5.8	5.8	5.2	23.0	22.0	21.6	21.6	22.0	22.7
EBITDA	16.9	16.1	30.3	32.8	9.0	9.0	7.5	9.8	35.3	34.1	32.6	31.7	31.3	31.2
D&A	5.7	6.6	8.6	9.6	2.6	2.5	2.6	2.6	10.2	10.1	9.6	9.1	8.8	8.5
SBC	0.3	0.5	3.0	1.6	0.3	0.2	0.3	0.2	0.9	0.8	0.8	0.8	0.8	0.8
EBIT	10.9	9.1	18.7	21.6	6.2	6.3	4.7	7.0	24.2	23.2	22.3	21.8	21.7	21.9
Interest expense	1.0	1.2	2.3	2.3	0.9	0.6	0.7	0.7	2.8	2.8	2.8	2.8	2.8	2.8
Other items	0.4	-1.0	-1.7	1.2	-0.4	0.0	0.0	-0.5	-0.5					
Income Before Income Tax	9.5	8.8	18.0	18.1	5.8	5.7	4.0	6.3	21.8	20.4	19.4	19.0	18.8	19.1
Income Tax	2.3	2.5	4.3	4.8	1.4	0.7	0.9	1.6	4.6	5.1	4.9	4.7	4.7	4.8
Net Income	7.2	6.4	13.7	13.3	4.3	5.0	3.1	4.7	17.2	15.3	14.6	14.2	14.1	14.3
Shares Outstanding, Basic	23.0	22.7	22.9	23.0	23.0	23.1	23.1	23.1	23.1	23.1	23.1	23.1	23.1	23.1
Shares Outstanding, Diluted	23.2	22.8	22.9	23.5	23.5	23.6	23.5	23.5	23.5	23.5	23.5	23.5	23.5	23.5
Earnings Per Share, Basic	\$ 0.31	\$ 0.28	\$ 0.60	\$ 0.58	\$ 0.19	\$ 0.22	\$ 0.14	\$ 0.21	\$ 0.74	\$ 0.66	\$ 0.63	\$ 0.62	\$ 0.61	\$ 0.62
Earnings Per Share, Diluted	\$ 0.31	\$ 0.28	\$ 0.60	\$ 0.57	\$ 0.18	\$ 0.21	\$ 0.13	\$ 0.20	\$ 0.73	\$ 0.65	\$ 0.62	\$ 0.60	\$ 0.60	\$ 0.61



## Cashflow Statement

	2012	2013	2014	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016	2017	2018	2019	2020	2021
<b>Net Income</b>	<b>7.2</b>	<b>6.4</b>	<b>13.7</b>	<b>13.3</b>	<b>4.3</b>	<b>5.0</b>	<b>3.1</b>	<b>4.7</b>	<b>17.2</b>	<b>15.3</b>	<b>14.6</b>	<b>14.2</b>	<b>14.1</b>	<b>14.3</b>
Depreciation and Amortization	5.7	6.6	8.6	9.6	2.6	2.5	2.6	2.6	10.2	10.1	7.2	7.2	7.2	7.1
Stock based compensation	0.3	0.5	3.0	1.6	0.3	0.2	0.3	0.2	0.9	0.8	0.8	0.8	0.8	0.8
Deferred income taxes	0.0	-1.7	0.8	2.4	0.1	-0.3	0.2		0.0					
Amortization of investment premium	1.0	1.2	2.3	2.3	0.9	0.6	0.7		2.2					
Provision for doubtful accounts/receivable	-0.7	4.1	-0.9	-0.7	0.0	-0.1	-0.1		-0.2					
Issuance of common stock for services	2.3	-1.1	3.4	2.7	1.3	1.0	0.8		3.1					
Provision for excess and obsolete inventory	0.0	-0.4	-0.1	-0.1	0.0	0.0	-0.1		-0.1					
Loss on disposal and write-down of PP&E	0.1	0.0	0.0	0.4	0.0	0.0	0.0		0.0					
Gain on foreign currency exchange rates	0.4	-1.1	-1.4	-2.2	-0.5	0.4	0.3		0.2					
<b>Cash Flows before Working Capital</b>	<b>16.4</b>	<b>14.5</b>	<b>29.5</b>	<b>29.4</b>	<b>9.0</b>	<b>9.4</b>	<b>7.6</b>	<b>7.5</b>	<b>33.5</b>	<b>26.2</b>	<b>22.6</b>	<b>22.2</b>	<b>22.1</b>	<b>22.2</b>
Accounts receivable	-1.2	7.6	-0.1	1.2	-6.2	5.3	-0.7	0.9	-0.6	0.6	0.8	-0.1	-0.7	-1.5
Inventory	6.4	8.6	-5.7	7.2	1.9	2.4	-0.8	1.6	5.2	0.1	0.6	0.0	-0.5	-1.1
Prepaid expenses and other assets	-3.6	-2.8	-6.0	-4.3	-0.8	-1.8	-1.8	3.1	-1.2	0.0	0.0	0.0	0.0	0.0
Deferred revenue	0.0	0.8	0.1	-2.1	0.0	0.0	0.0		0.0					
Accrued Liabilities								-17.5	-17.5	0.5	-0.2	0.0	0.2	0.4
Accounts payable, accrued and other liabilities	-7.1	3.3	-2.2	-8.4	-4.9	-1.9	1.9	3.4	-1.4	1.1	-0.2	0.0	0.1	0.3
<b>Cash Provided By Operating Activities</b>	<b>10.9</b>	<b>32.0</b>	<b>15.5</b>	<b>23.0</b>	<b>-0.9</b>	<b>13.4</b>	<b>6.3</b>	<b>-0.9</b>	<b>17.9</b>	<b>28.5</b>	<b>23.6</b>	<b>22.1</b>	<b>21.1</b>	<b>20.3</b>
Purchase of investments	0.0	0.0	-1.8	0.0	0.0	0.8	0.0		0.8					
Proceeds from sales of investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0					
Proceeds from maturity of investments	-0.7	-0.5	-0.2	-0.6	0.0	0.0	0.0		0.0					
Acquisitions	0.0	-54.6	0.0	-36.6	0.0	0.0	0.7	0.0	0.7	0.0	0.0	0.0	0.0	0.0
Proceeds from sale of PP&E	0.1	0.0	-0.6	0.0	0.0	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Purchase of PP&E	-6.7	-5.0	-6.6	-9.5	-2.7	-0.5	-1.4	-1.5	-6.0	7.0	-7.0	-7.0	-7.0	-7.0
Change in restricted cash	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0					
<b>Cash Used in Investing Activities</b>	<b>-7.3</b>	<b>-60.0</b>	<b>-9.2</b>	<b>-46.6</b>	<b>-2.7</b>	<b>0.3</b>	<b>-0.6</b>	<b>-1.5</b>	<b>-4.5</b>	<b>7.0</b>	<b>-7.0</b>	<b>-7.0</b>	<b>-7.0</b>	<b>-7.0</b>
Principal payments on capital lease obligations	-0.7	-0.6	-5.4	-12.0	-1.0	-1.0	-1.0		-3.0					
Repayment of notes payable	-3.9	49.2	0.0	38.9	0.0	0.0	0.0		0.0					
Proceeds from repayment of note receivable		0.1	0.0	0.0	0.0	0.0	0.0		0.0					
Proceeds from issuance of common stock		0.0	0.0	0.0	0.0	0.0	0.0		0.0					
Tax payments related to shares withheld for employee stock plans		0.0	0.0	0.0	0.0	0.0	0.0		0.0					
Dividends paid	-4.1	-4.4	-4.2	-4.2	-1.0	-1.1	-1.2	-1.6	-4.8	-6.7	-6.9	-7.2	-7.4	-7.6
Tax effect of employee stock plans	0.0	-0.6	-0.6	-0.2	-0.1	0.0	0.0		-0.1					
<b>Cash Provided By (Used In) Financing Activities</b>	<b>-8.6</b>	<b>43.7</b>	<b>-10.2</b>	<b>22.5</b>	<b>-2.1</b>	<b>-2.1</b>	<b>-2.2</b>	<b>-1.6</b>	<b>-8.0</b>	<b>-6.7</b>	<b>-6.9</b>	<b>-7.2</b>	<b>-7.4</b>	<b>-7.6</b>
<b>Foreign Exchange Impact</b>	<b>-0.1</b>	<b>-0.1</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Beginning Cash Balance	6.4	1.2	16.9	13.1	12.0	6.2	17.9	21.4	12.0	17.4	46.3	56.0	63.9	70.7
<b>Net Change in Cash</b>	<b>-5.2</b>	<b>15.7</b>	<b>-3.8</b>	<b>-1.2</b>	<b>-5.8</b>	<b>11.7</b>	<b>3.5</b>	<b>-4.0</b>	<b>5.5</b>	<b>28.8</b>	<b>9.7</b>	<b>8.0</b>	<b>6.8</b>	<b>5.7</b>
Ending Cash Balance	1.2	16.9	13.1	12.0	6.2	17.9	21.4	17.4	17.4	46.3	56.0	63.9	70.7	76.4

# Balance Sheet

	2012	2013	2014	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016	2017	2018	2019	2020	2021
<b>ASSETS</b>														
Cash and Cash Equivalents	1.2	16.9	13.1	12.0	6.2	17.9	21.4	17.4	17.4	35.8	47.8	57.7	66.1	73.3
Short term investments	1.5	0.0	0.7	2.1	1.6	1.3	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Accounts receivable	29.6	42.6	42.5	42.1	49.5	44.4	44.0	43.1	43.1	39.0	38.2	38.3	38.9	40.3
Inventory	33.4	33.9	39.7	36.2	34.4	31.9	32.7	31.1	31.1	31.0	30.4	30.4	31.0	32.1
Prepaid expenses and other current as	0.8	2.3	2.5	3.0	2.6	2.8	3.8	0.7	0.7	0.6	0.6	0.6	0.6	0.7
<b>Total Current Assets</b>	<b>66.5</b>	<b>95.7</b>	<b>98.5</b>	<b>95.4</b>	<b>94.2</b>	<b>98.4</b>	<b>103.0</b>	<b>93.4</b>	<b>93.4</b>	<b>107.5</b>	<b>118.1</b>	<b>128.2</b>	<b>137.8</b>	<b>147.4</b>
Long term investments														
Restricted cash														
Property and equipment	44.0	55.4	55.3	62.1	63.1	61.8	61.4	60.4	60.4	57.3	54.8	52.6	50.9	49.4
Intangible assets	8.2	34.0	32.3	58.4	57.5	56.0	55.1	55.1	55.1	55.1	55.1	55.1	55.1	55.1
Long term deferred tax assets	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other assets	0.1	0.5	2.8	1.9	2.0	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
<b>Total Non-Current Assets</b>	<b>52.3</b>	<b>90.0</b>	<b>90.4</b>	<b>122.4</b>	<b>122.6</b>	<b>119.0</b>	<b>117.8</b>	<b>116.7</b>	<b>116.7</b>	<b>113.6</b>	<b>111.1</b>	<b>109.0</b>	<b>107.2</b>	<b>105.7</b>
<b>Total Assets</b>	<b>118.8</b>	<b>185.8</b>	<b>188.9</b>	<b>217.7</b>	<b>216.8</b>	<b>217.3</b>	<b>220.8</b>	<b>210.1</b>	<b>210.1</b>	<b>221.1</b>	<b>229.2</b>	<b>237.1</b>	<b>245.0</b>	<b>253.2</b>
<b>LIABILITIES</b>														
Loans and borrowings	0.8	5.4	11.7	4.1	4.1	4.1	4.0	7.5	7.5	8.6	8.4	8.5	8.6	8.9
Trade and other payables	22.1	39.8	38.4	31.5	27.4	25.2	27.3	9.8	9.8	10.3	10.1	10.2	10.3	10.7
Deferred revenue	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Employee benefits	0.0	2.3	1.4	1.1	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
<b>Total Current Liabilities</b>	<b>22.8</b>	<b>47.8</b>	<b>51.5</b>	<b>36.7</b>	<b>32.8</b>	<b>30.6</b>	<b>32.6</b>	<b>18.6</b>	<b>18.6</b>	<b>20.2</b>	<b>19.9</b>	<b>19.9</b>	<b>20.2</b>	<b>20.9</b>
Loans and borrowings	11.7	52.2	39.7	73.4	72.6	71.7	70.7	70.7	70.7	70.7	70.7	70.7	70.7	70.7
Deferred income tax liability	5.2	3.8	4.4	6.8	6.9	6.7	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8
Provisions	0.1	0.9	3.2	1.3	1.5	1.6	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
<b>Total Non-Current Liabilities</b>	<b>17.0</b>	<b>56.8</b>	<b>47.3</b>	<b>81.5</b>	<b>81.1</b>	<b>80.0</b>	<b>79.3</b>	<b>79.3</b>	<b>79.3</b>	<b>79.3</b>	<b>79.3</b>	<b>79.3</b>	<b>79.3</b>	<b>79.3</b>
<b>Total Liabilities</b>	<b>39.8</b>	<b>104.6</b>	<b>98.9</b>	<b>118.2</b>	<b>113.9</b>	<b>110.5</b>	<b>111.9</b>	<b>97.8</b>	<b>97.8</b>	<b>99.5</b>	<b>99.1</b>	<b>99.2</b>	<b>99.5</b>	<b>100.2</b>
<b>SHAREHOLDER'S EQUITY</b>														
Common equity	37.1	37.3	37.8	37.7	37.7	37.8	37.8	37.8	37.8	37.8	37.8	37.8	37.8	37.8
Additional paid-in capital	1.9	1.7	1.1	1.7	1.7	1.7	1.8	2.0	2.0	2.8	3.6	4.4	5.2	6.0
Accumulated other comprehensive loss	40.0	42.1	51.2	60.2	63.5	67.3	69.3	69.3	69.3	69.3	69.3	69.3	69.3	69.3
Accumulated deficit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.1	3.1	11.7	19.4	26.5	33.2	39.9
<b>Total Shareholder's Equity</b>	<b>79.0</b>	<b>81.1</b>	<b>90.0</b>	<b>99.5</b>	<b>102.9</b>	<b>106.8</b>	<b>108.9</b>	<b>112.2</b>	<b>112.2</b>	<b>121.6</b>	<b>130.1</b>	<b>138.0</b>	<b>145.5</b>	<b>153.0</b>

		2012	2013	2014	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016	2017	2018	2019	2020	2021
<b>WACC Calculation</b>															
Book Value of Debt		74.8													
Market Value of Equity		296.5													
Total Capitalization		371.3													
<b>Debt</b>															
Pre-Tax Cost of Debt		8%													
Effective Tax Rate		25.0%													
<b>After-Tax Cost of Debt</b>		<b>6.0%</b>													
<b>Capital Asset Pricing Model</b>															
Risk-Free Rate		1%													
Equity Market Risk Premium		5%													
Beta		1.02													
<b>Cost of Equity</b>		<b>6.2%</b>													
Debt Weight		20.1%													
Equity Weight		79.9%													
<b>WACC</b>		<b>6.14%</b>													
<b>Growth Rate</b>		<b>2.0%</b>													
<b>Free Cash Flow Analysis</b>															
EBIT		10.9	9.1	18.7	21.6	6.2	6.3	4.7	7.0	23.2	22.3	21.8	21.7	21.9	
Tax Rate		24.5%	28.1%	23.9%	26.4%	24.9%	12.2%	22.9%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	
D&A		5.7	6.6	8.6	9.6	2.6	2.5	2.6	2.6	10.1	9.6	9.1	8.8	8.5	
Change in NWC		-5.5	17.5	-13.9	-6.4	-9.9	4.1	-1.3	-8.4	5.9	1.0	-0.1	-0.9	-1.8	
Capital Expenditures		-6.7	-5.0	-6.6	-9.5	-2.7	-0.5	-1.4	-1.5	-7.0	-7.0	-7.0	-7.0	-7.0	
<b>Free Cash Flow</b>		<b>12.7</b>	<b>-9.4</b>	<b>30.1</b>	<b>22.4</b>	<b>14.5</b>	<b>3.5</b>	<b>6.2</b>	<b>14.7</b>	<b>14.6</b>	<b>18.3</b>	<b>18.6</b>	<b>18.9</b>	<b>19.8</b>	
Discount Period									0.25	1.25	2.25	3.25	4.25	5.25	
<b>Discounted Free Cash Flow</b>									<b>14.5</b>	<b>13.5</b>	<b>16.0</b>	<b>15.3</b>	<b>14.7</b>	<b>14.5</b>	
<b>Share Price Calculation</b>															
Free Cash Flow Sum		88.4													
Terminal Value		348.7													
<b>Enterprise Value</b>		<b>437.1</b>													
Less: Debt		74.8													
Add: Cash		22.5													
<b>Equity</b>		<b>384.8</b>													
Shares Outstanding		23.1													
<b>Implied Share Value</b>	<b>\$</b>	<b>16.68</b>													

		<b>WACC</b>				
		<b>5.0%</b>	<b>5.5%</b>	<b>6.0%</b>	<b>6.5%</b>	<b>7.0%</b>
<b>GROWTH</b>	<b>1.8%</b>	\$ 22.40	\$ 19.11	\$ 16.60	\$ 14.63	\$ 13.03
	<b>2.0%</b>	\$ 23.78	\$ 20.11	\$ 17.35	\$ 15.21	\$ 13.49
	<b>2.2%</b>	\$ 25.36	\$ 21.23	\$ 18.18	\$ 15.84	\$ 13.99
	<b>2.4%</b>	\$ 27.18	\$ 22.49	\$ 19.10	\$ 16.54	\$ 14.54
	<b>2.5%</b>	\$ 28.20	\$ 23.19	\$ 19.60	\$ 16.92	\$ 14.83

# Comparables Analysis

	Cash	Debt	Market Capitalization	EV	TTM EBITDA	Share Price	TTM EPS		EV/EBITDA	P/E
Bridgestone Corp.	6544.1	4375.3	37538.3	35369.5	7846.3	\$36.69	\$4.24		4.5 x	8.7 x
Cooper Standard Hold	427.8	1022.9	2287.9	2883.0	529.1	\$106.42	\$13.97		5.4 x	7.6 x
Parker Hannifin Corp.	2807.8	4261.7	21965.1	23419.0	2111.6	\$150.25	\$8.56		11.1 x	17.6 x
HEXPOL	158.5	42.5	4046.3	3930.3	332.1	\$11.46	\$0.62		11.8 x	18.5 x
AirBoss of America	22.5	74.8	305.96	358.2	34.061	\$12.84	\$1.03		10.5 x	12.5 x

	HIGH	AVERAGE	LOW	IMPLIED TARGET EV	IMPLIED TARGET SHARE PRICE
EV/EBITDA	11.8 x	8.2 x	4.5 x	280.00	\$ 9.87
				403.10	HIGH \$ 15.21
				153.54	LOW \$ 4.39
	HIGH	AVERAGE	LOW	IMPLIED P/E	IMPLIED TARGET SHARE PRICE
P/E	18.5 x	13.1 x	7.6 x	13.1 x	\$ 13.47
				18.5 x	HIGH \$ 19.04
				7.6 x	LOW \$ 7.85



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