Analyst: Alec M. Stys

INVESTMENT MANAGEMENT CERTIFICATE PROGRAM

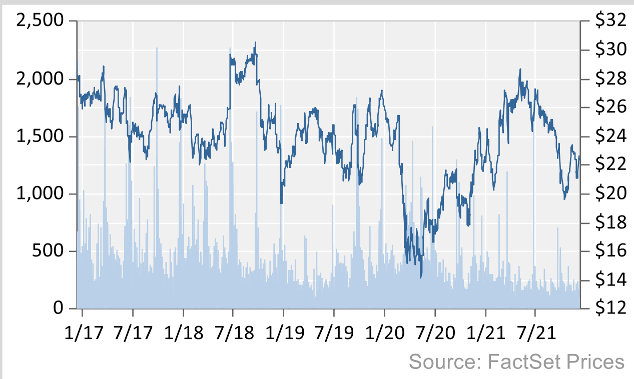
December 29th, 2021

Recommendation: Buy				
Current Price	**$19.86**	---	Ticker	EPAC
1 Year Bear	$18	*-9%*	Sh. Out. (M)	60.2
1 Year Base	**$24**	***21%***	M. Cap. ($B)	1.2
1 Year Bull	$26	*31%*	EV ($B)	1.3

Industrials

Enerpac Tool Group Corp.

Price History



	5Y	3Y	2Y	LTM	YTD	3M	1M
Return	-30%	-1%	-28%	-10%	-10%	-14%	-14%

Summary

I recommend a buy rating with a target of $24. EPAC has an opportunity to maximize its already established networks and create a new brand. The completion of its restructuring creates opportunites for better profit margins and growth. Despite this, the growing tensions between China and United States, inflation, a pandemic, and supply chain problems all make investors hesitant. After the restructuring, the company will be easier to evaluate and estimates will narrow. At this time, the stock is undervalued based on a DCF analysis and relative analysis.

Financials

	2017	2018	2019	2020	2021	2022F	2023F
Sales($B)	**$1.1**	**$1.1**	**$0.7**	**$0.5**	**$0.5**	**$0.6**	**$0.6**
Gr. %	-4.3%	*7.9%*	*-44.6%*	*-24.7%*	*7.2%*	*6.0%*	*8.7%*
v. Cons.						11.3%	6.7%
Industry	5.3%	5.3%	5.3%	5.3%	5.3%	8.2%	8.2%
EPS	-$1.11	-$0.36	-$4.07	$0.02	$0.63	$0.75	$0.83
Gr. %		*-67.2%*	*1017.0%*	*-100.4%*	*3700.0%*	*18.9%*	*9.7%*
v. Cons.						79.4%	10.6%
Industry	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%

Key Drivers

- Management changes: The restructuring was initiated to break up what used to be a conglomerate that had little unified direction. This restructuring was done to pursue better profit margins and sales growth. A new CEO will guide the company in its new direction.
- Restructuring: The uncertainty that the restructuring created has kept EPAC's stock price trading down over the past five years.
- International expansion: This could help revenue growth in the future, especially since the restructuring is mostly behind the firm. The market does not seem optimistic.
- Macroeconomic trends: EPAC's correlation with consumer confidence greatly increased as its restructuring neared completion and the company stabilizbes.

Ratios

	2017	2018	2019	2020	2021	2022F	2023F
NPM	-6.0%	-1.9%	-38.0%	0.2%	7.2%	8.1%	8.1%
Industry	6.2%	8.0%	10.0%	11.6%	12.2%		
ROE	-13.0%	-4.2%	-57.9%	0.3%	9.9%	10.4%	10.4%
Industry	10.6%	14.0%	15.5%	18.2%	18.7%		
ROA	-4.47%	-1.5%	-19.1%	0.1%	4.6%	5.4%	5.6%
Industry	5.5%	6.8%	7.5%	8.7%	9.3%		
A T/O	0.74	0.79	0.50	0.51	0.64	0.67	0.68
A/E	2.90	2.83	3.03	2.95	2.13	1.94	1.86

Valuation

	2017	2018	2019	2020	2021	2022F	2023F
P/E	-	-	-	1733.33	39.91	22.2	19.1
Industry	25.5	33.2	25.5	33.2	24.8	19.4	16.6
P/S	1.30	1.51	2.07	2.54	2.87		
P/B	2.87	3.21	4.46	3.46	3.68		
P/CF	16.27	16.78	25.22	-369.47	28.05		
EV/EBITDA	15.11	14.24	16.81	28.00	19.71		
DPS	0.04	0.04	0.04	0.04	0.04	0.04	0.04

Valuation

Using a relative valuation approach, EPAC appears to be quite undervalued. A DCF analysis implies that the stock is worth $23 and is moderately undervalued. A combination of the approaches suggests that EPAC is over 20% undervalued as the stock's value is approximately $24 and its shares trade at $19.86.

Risks

- Tariffs between China and U.S. would hurt margins
- Continued supply chain delays
- Labor shortages could slow inventory turnover

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Company Overview

The company made a choice to specialize in industrial tools in 2017. The change was made to pursue better profit margins and sales growth.

Enerpac Tool Group Corporation (EPAC), formerly known as Actuant Corporation, is an industrial tools and services company with customers in over 100 nations. The company is a global leader in the engineering and manufacturing of high-pressure hydraulic tools and assisting engineers and industrial workers with the precise movement of heavy loads.

The company began a large-scale change to its products, services, and corporate structure in 2017. This process has been ongoing but near completion with the change of name, ticker symbol, and corporate structure taking place in late 2019. EPAC made many acquisitions and divestitures since 2013 with an intent to become exclusively an industrial tools and services company. These changes caused a 41.5% revenue loss in 2018. The company's revenue has not yet recovered.

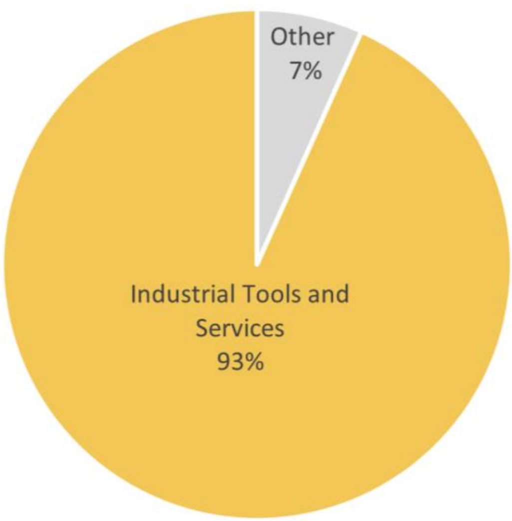
EPAC has two operating segments: Industrial Tools & Services and Other. Industrial Tools and Services supplies both products and services to different markets including energy, mining, large ships, and infrastructure markets. The Other operating segment currently focuses on the design and manufacturing of high-performance synthetic ropes and biomedical assemblies. The firm was founded in 1910 and its headquarters are in Menomonee Falls, Wisconsin.

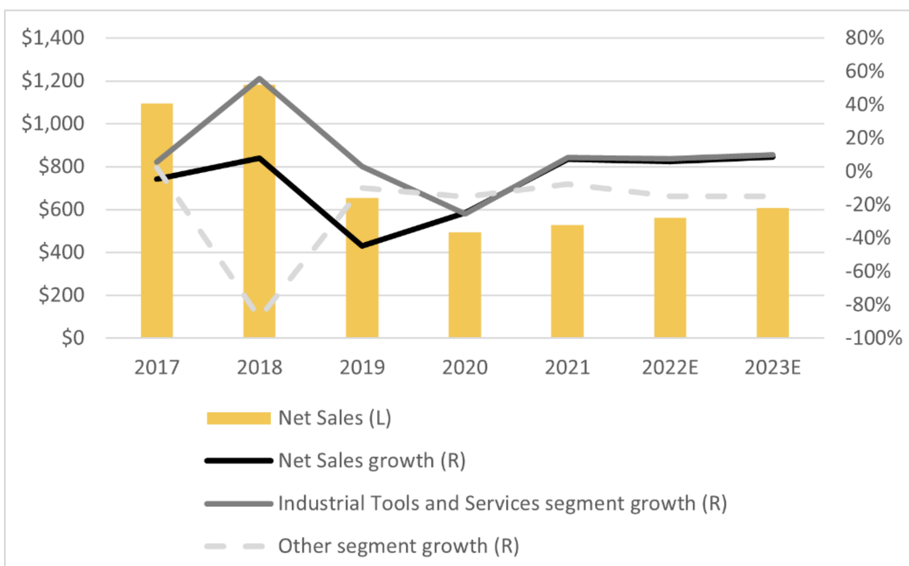
The firm changed its name, ticker symbol, and websites all in 2019-20 in conjunction with its largest divestiture.

Industrial Tools and Services: 93.3% of the company's revenue is made from sale of products and services in this segment. This includes hydraulic tools, force products, electric pumps, torque or tension tools, and aerospace and nuclear tools (Appendix 3). The company also provides training on all its machinery. The products are used in heavy machinery operations in mines, oil rigs, large ships, and in building bridges and skyscrapers. The firm has tool training centers in six countries. EPAC has been growing Industrial Tools and Services, including the 55.6% revenue growth in 2018.

Other: 6.7% of the company's revenue is from a subsidiary called Cortland Company. Its operations focus on a patented high performance synthetic rope used internationally on large ships, in aerospace, on oil and gas rigs, and in construction (Appendix 4). This product is stronger and lighter than similar steel products on the market. EPAC has been divesting this segment of its company, most recently in 2018 when the revenue declined 87.6%.

Figures 1 & 2: Revenue by segment in 2021 (left) and total revenue in millions & YoY revenue growth since 2016 (right)





Source: Company reports

Business/Industry Drivers

Though several factors may contribute to Enerpac Tool Group Corp.'s future success, the following are the most important business drivers:

1) Management
2) Restructuring
3) International expansion
4) Macroeconomic trends

EPAC is nearly complete with its restructuring.

EPAC has been restructuring since 2017 to become a pure play industrial tools and services corporation. A new CEO was hired in September 2021. The company has been selling its industrial products to many developed countries for over 23 years. The firm has an established global presence in the industry of heavy machinery and in tools that support infrastructure and construction. The company formerly had a different business model, products, management, and name. EPAC is now nearly complete with its restructuring, and the following are the most important drivers of stock price. Management and restructuring have been the historical drivers for the past five years. International expansion and macroeconomic trends will be large drivers of the stock price into the future.

<u>Management</u>

The restructuring was initiated to break up what used to be a conglomerate that had little unified direction, and it was done to pursue better profit margins and sales growth. Mr. Randal Baker guided EPAC through the restructuring from 2016 to 2021. Mr. Paul Sternlieb was hired in September 2021 to lead the company into the future.

Mr. Randal Baker was CEO from 2016 to 2021 and guided EPAC through its restructuring.

Mr. Baker was hired in 2016 at the beginning of this restructuring. His degree and background are in mining and technology. Mr. Baker served at the top of numerous mining companies before assuming his position as CEO of Enerpac Tool Group Corp. EPAC currently serves industries including mining, oil, gas, and maritime transport.

Mr. Baker had been involved to varying degrees in mergers, acquisitions, and divestitures in his previous positions as the COO of two companies that had ongoing changes that required his attention and oversight. He was hired at the beginning of the restructuring and retired as it neared completion.

Mr. Paul Sternlieb was hired as CEO in September 2021 to lead the company in the future.

The current CEO, Paul Sternlieb, was hired in September 2021. He holds dual bachelor's degrees in economics and computer science. He also earned an MBA from the Wharton School of Economics. For the first ten years of his career, he worked in management and strategy consulting at various levels for American Management Systems and McKinsey & Company. For these companies he worked in growth strategy, marketing, and engagement. He has held senior marketing, management, and strategy roles since 2006 in mostly food equipment companies until he became EPAC's CEO in 2021.

His experience in marketing and growth consulting will be a great asset to a company that is completing a long transformation of its goods and services. The company has recently rebranded and is prepared to utilize its network in over 100 countries, and he has experience that likely will support the company's growth into the future.

<u>Restructuring</u>

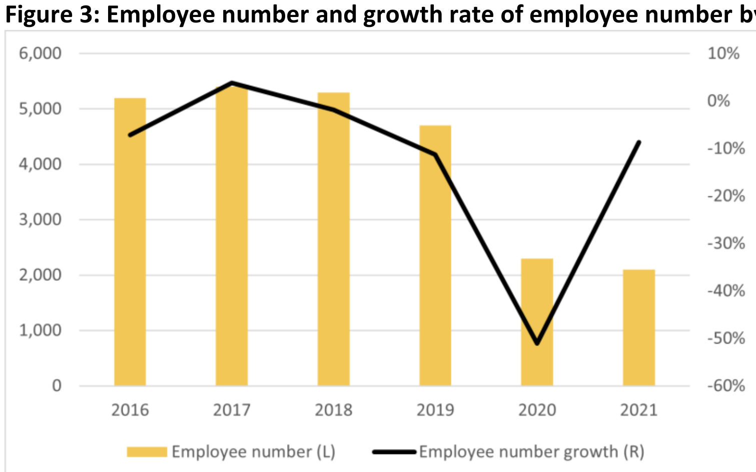
In 2016, 2017, and 2018 the company spent $15 million, $7 million, and $13 million, respectively, on restructuring. The focus was on reducing the employee count and removing overlapping duties for executives. A portion of the budget was spent automating manufacturing jobs. EPAC also spent money on consolidating locations and offices that were underperforming.

In the end of 2019, the company renamed itself from Actuant Corporation to Enerpac Tool Group Corporation, sold its Engineered Components & Systems segment that had been renamed a few times over the years, created a new ticker symbol, and changed its websites.

In 2016, the company laid out a plan to cut employee numbers from top to bottom. In 2016, it had 5,100 employees and by August 2019, the firm had 4,700 employees. EPAC announced that it would reduce employees by another 40% with the divestiture of its Engineered Components & Systems division. This would result in 2,820 employees by 2020. In August 2020, after the divestiture, EPAC had 2,300 employees, a reduction of 51.1%.

EPAC sold its Engineered Components and Systems sector in 2019. This halved the number of employees working for EPAC.

Figure 3: Employee number and growth rate of employee number by year



Source: Company reports

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Since 2016, sales fell 54.0% while before tax income increased from -130.3 million to 44.0 million; the pre-tax margin rose from -11.3% to 8.3%. This means the restructuring has paid off.

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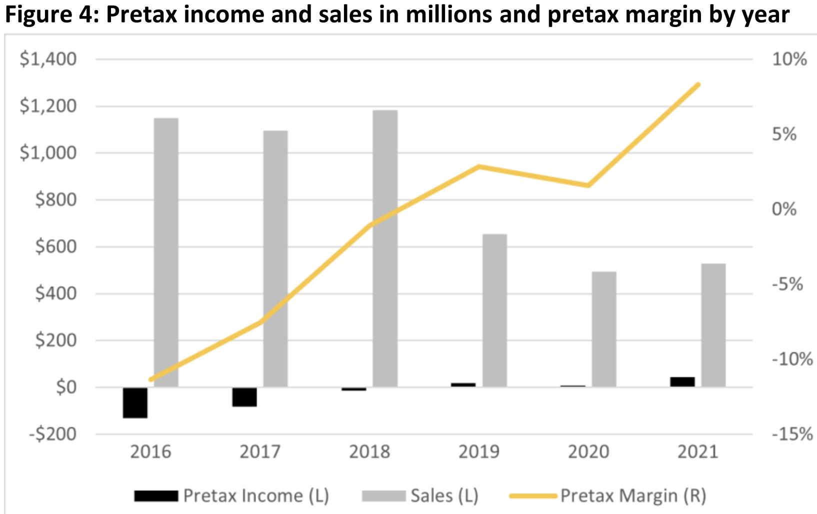
Figure 4: Pretax income and sales in millions and pretax margin by year



Source: Company reports

Since 2013, the firm has transitioned from four divisions to two. The company had Industrial, Energy, Engineered Solutions, and Electrical segments. It renamed, acquired, and divested to its current Industrial Tools and Services, and Other.

Many former brands, companies, and products were deemed "non-core assets" as the company began to restructure.

In 2017, the company sold its Viking Seatech brand (Energy division), an offshore large ships equipment and services company, to Acteon Group Limited for $12 million. It simultaneously acquired Mirage, an industrial and energy maintenance tool company from Acteon for $16 million.

In 2018, the company acquired Equalizer International for $5.8 million, which is a provider of industrial and energy maintenance tools. They also divested Cortland Fibron BX Ltd for $15.8 million, which is an offshore cables and hoses corporation supporting subsea projects and offshore oil rigs.

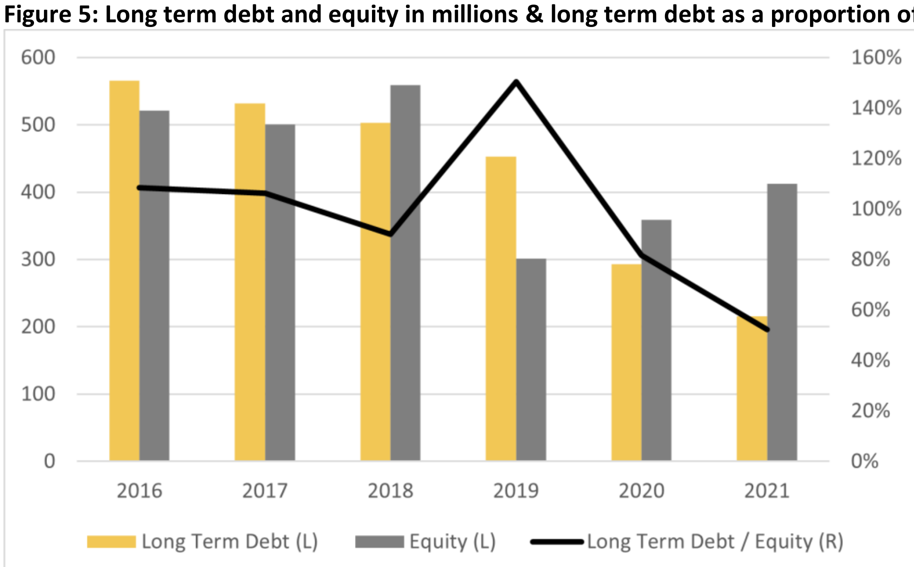
In the period of 2019-20, EPAC sold its Engineered Components & Systems segment to a New York private equity firm for $214.5 million. This segment had been consolidated and renamed a few times over the years, but it was responsible for 50.0% of EPAC's sales the fiscal year before the sale.

In 2020, the firm acquired HTL Group which had revenues of $17 million in 2019, other terms of the acquisition were not disclosed. It specialized in power tools, calibration and repair services, and tool rental services.

Over the past three years, the debt-to-equity ratio fell from 150.4% to 52.3%. EPAC's debt is 61.9% down from 2016.

Long term debt is at a six-year low. The debt-to-equity ratio is down from 1.5 to 0.52 over the past three years.

Figure 5: Long term debt and equity in millions & long term debt as a proportion of equity



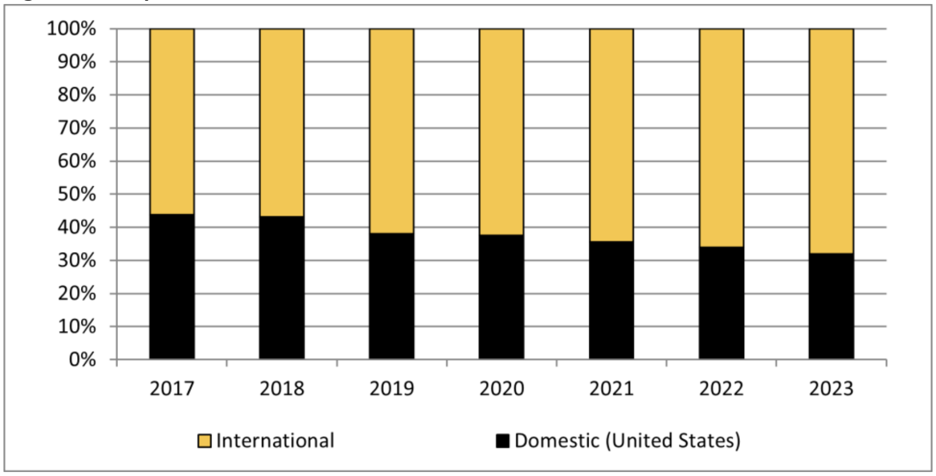
Source: Company reports

International expansion

EPAC generated 37.6% of net sales from the United States in 2020. This has declined from 41.5% in 2016. The mining, oil, and shipping industries of which Enerpac Tool Group is heavily invested, are global businesses. While sales in the United States are declining, the closest country by proportion of sales is the United Kingdom with less than 8% of net sales. Germany, China, Australia, Saudi Arabia, Canada, and Brazil occupy between 2.5% and 6.1% of sales.

Since 2016, greater than half of EPAC sales have been outside of the United States.

Figure 6: Proportion of sales domestic or international



Source: Company reports

International expansion could help revenue growth, especially since the restructuring is mostly complete. The stock has traded down over the past five years, so the market does not appear optimistic yet.

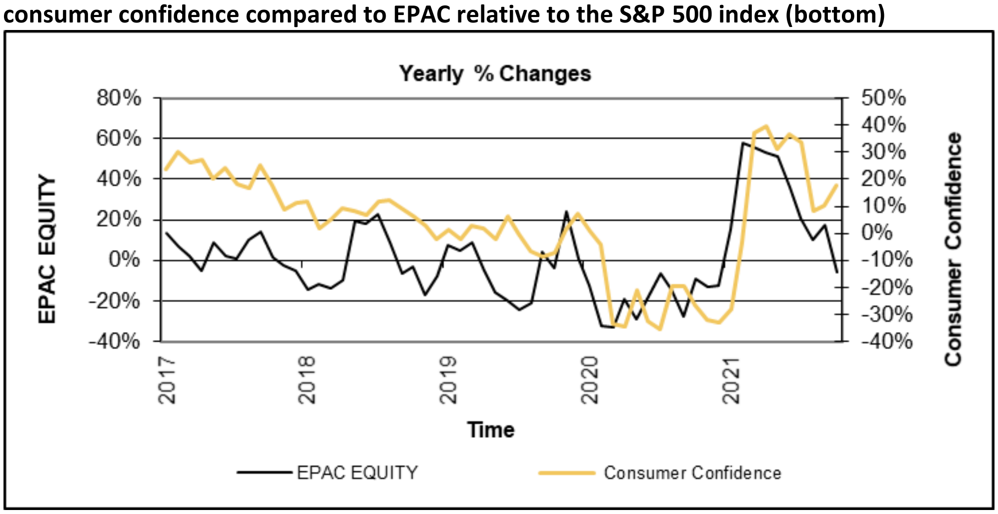
<u>Macroeconomic trends</u>

Consumer confidence is often used to gain insight into the cyclicality of a business or industry. EPAC's stock is positively correlated with the change in consumer confidence on both an absolute and relative basis.

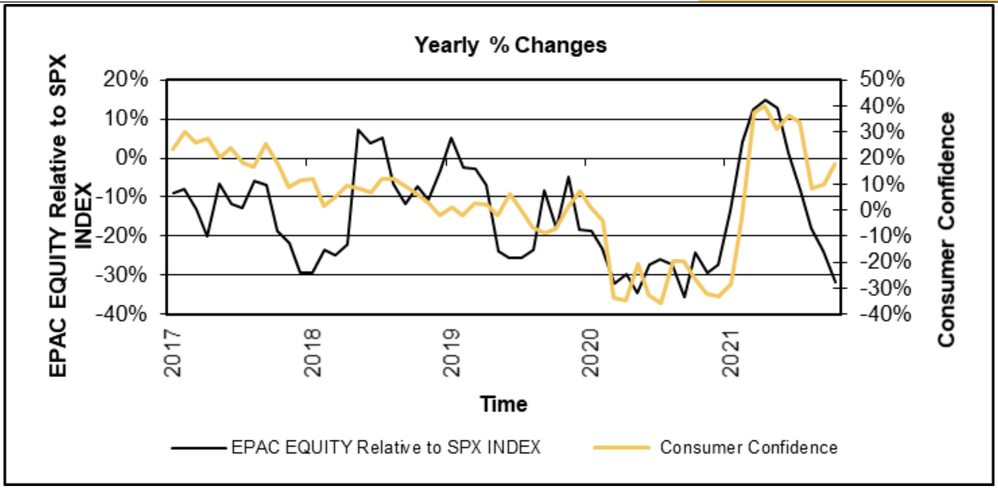
The correlation with consumer confidence has increased over time. The correlation was lower from 2017 to positive correlation in 2020-21. This indicates that macroeconomic trends were a lower proportion driving stock price until about 2020. Until then, restructuring news was the main driver of stock price. This will continue and increase in the future as the company stabilizes.

EPAC is becoming more cyclical and correlated with consumer confidence as it completes its restructuring.

Figures 7 & 8: YoY % change in consumer confidence compared to EPAC (top); YoY % change in consumer confidence compared to EPAC relative to the S&P 500 index (bottom)



Source: Bloomberg, IMCP

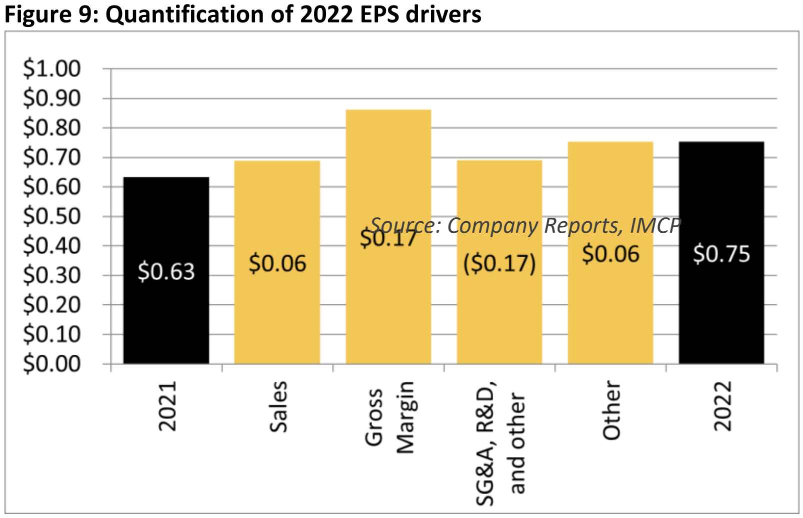


Source: Bloomberg, IMCP

Financial Analysis

I anticipate EPS grows by $0.12 in FY 2022. The purpose of the restructuring is partially to increase sales. I anticipate a 6.0% growth in sales, which would increase EPS by $0.06. The other purpose of restructuring is to increase gross margin. I anticipate gross margin reaching 48.0% of sales, which would increase EPS by $0.17. The firm attributes its success in the past to its continuous pursuit of innovation. As the company moves towards its goal of becoming the best supplier of its product, management discusses R&D being instrumental to that. I expect that the gross margin increase will be negated by the research and development dedication. I believe that intangible factors, such as announcements and establishing brand recognition, could result in an increase of $0.06. I anticipate the company reaches a net EPS increase of $0.14 by the end of FY 2022.

Figure 9: Quantification of 2022 EPS drivers



Source: Bloomberg, IMCP

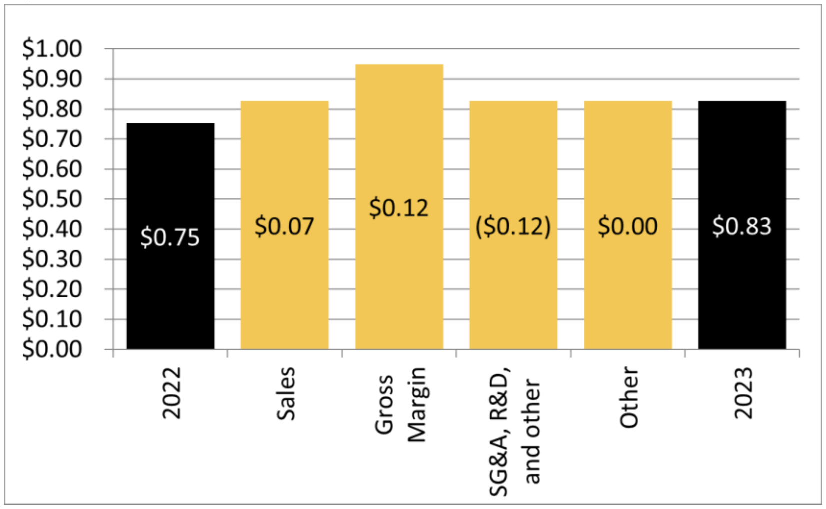
The increase in gross margin is a result of the company's transition from its diversified focus to the higher margins available in Industrial Tools & Services.

I anticipate EPS grows by $0.07 in FY 2023. The restructuring is scheduled to be completed before 2023. I anticipate an 8.7% growth in sales which would increase EPS by $0.07. I anticipate gross margin reaching 49.5% of sales, which would increase EPS by $0.12. I expect that the gross margin increase will be negated by research and development costs. This would lead to a loss of $0.12. The company could reach a net EPS increase of $0.07 by the end of FY 2023.

The restructuring is scheduled to be completed before 2023.

I am more pessimistic than the consensus estimates. I anticipate an overreaction after restructuring that significantly overvalues the company.

Figure 10: Quantification of 2023 EPS drivers



Source: Bloomberg, IMCP

As shown by Figure 11, I am more pessimistic than the consensus estimates on growth of EPS and revenue for 2022 and 2023. I anticipate an overreaction from the market at completion of restructuring that significantly overvalues the company. My estimate could change greatly due to the large number of risks influencing the stock in either direction. I believe that the company is greatly at risk due to tension between China and the United States, as well as supply chain problems. I anticipate growth, but slower and more consistent than those predicted by consensus for 2022 and 2023.

Figure 11: EPS and YoY growth estimates by year

	2020	2021	2022E	2023E
Revenue - Estimate	$493	$529	$560	$609
YoY Growth	*-25%*	*7%*	*6%*	*9%*
EPS	$0.02	$0.63	$0.75	$0.83
YoY Growth	*100%*	*3700%*	*19%*	*10%*
EPS Consensus	0.02	0.63	0.99	1.15
YoY Growth	*100%*	*3700%*	*57%*	*16%*

Source: Company reports, FactSet

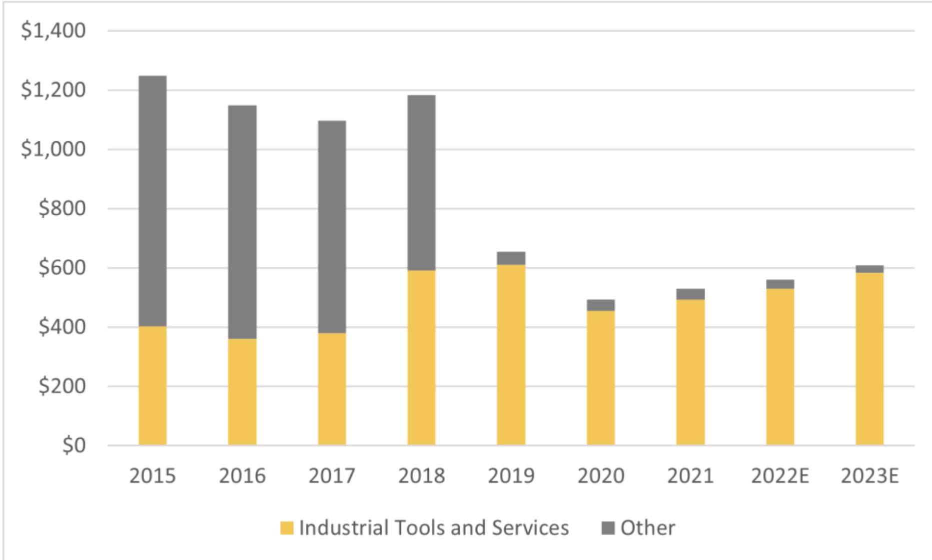
Revenues

EPAC's restructuring has decreased revenue significantly since 2015. The company is primed to regain much of the lost revenue due to an already established network internationally. I anticipate continuous growth in domestic and international sales, with international sales growing the most.

The firm has announced that it has seen its largest growth in revenue in the United States, followed by countries in Asia. The company has seen diminished sales in Europe, but the growth in sales far outpaces the loss. I expect moderate growth of approximately 10% per year until the company matures and saturates the market with its product, at which point the growth will slow.

I expect sales growth of approximately 10% per year.

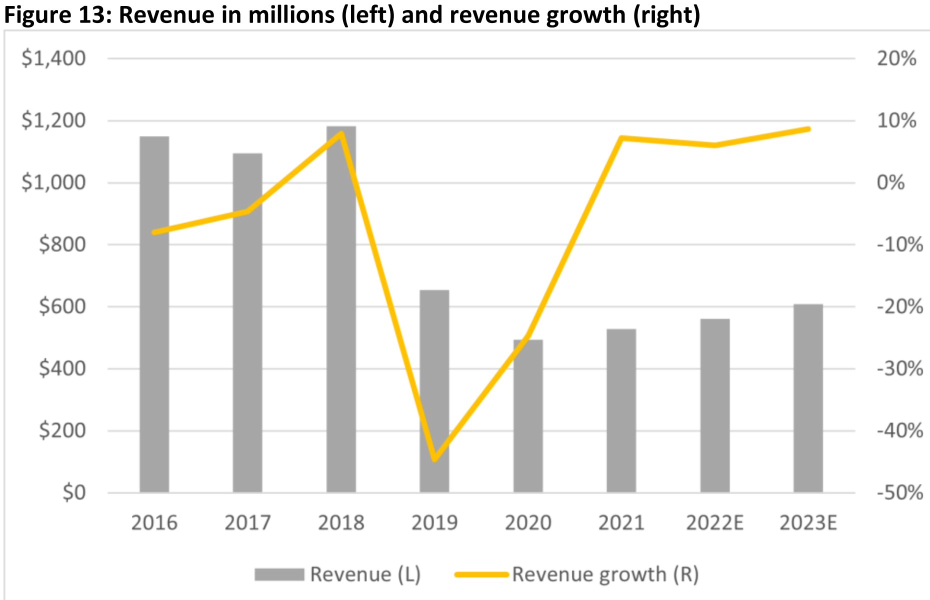
Figure 12: EPAC segment revenues in millions



Source: Company reports

EPAC's sales are involved in infrastructure, oil, and gas. As countries spend more money on those things, we can expect to see fluctuations in sales accordingly. This also means that unless EPAC plans to replace its oil and gas buyers with another source of revenue, it will also see a decline in sales as electric vehicles become more accessible.

Figure 13: Revenue in millions (left) and revenue growth (right)



Source: Company reports

<u>Return on Equity</u>

Enerpac Tool Group Corporation has had a very turbulent ROE since 2018 due to the restructuring. A three-stage DuPont analysis shows that profit margin is the strongest driver of ROE. The company has expressed its intent to pay off debt and lower leverage in the future. EPAC has also made changes to continue to increase profit margins, which is promising in terms of increasing ROE.

DuPont analysis shows that profit margin is the strongest driver of ROE.

Figure 14: 3-stage DuPont analysis

DuPont Analysis	2018	2019	2020	2021	2022E	2023E
3-stage						
Net income / sales	-1.9%	-38.0%	0.2%	7.2%	8.1%	8.1%
Sales / avg assets	0.79	0.50	0.51	0.64	0.67	0.68
ROA	-1.5%	-19.1%	0.1%	4.6%	5.4%	5.6%
Avg assets / avg equity	2.83	3.03	2.95	2.13	1.94	1.86
ROE	-4.2%	-57.9%	0.3%	9.9%	10.4%	10.4%

Source: Company reports

I anticipate a slower change in profit margins, sales, and ROE than consensus in 2022-23 due to the various economic risks that I believe will slow growth of company in coming years.

Free Cash Flow

Figure 15: Free cash flow calculations

Free Cash Flow							
With cash and debt							
FCFF per share		$1.52	$7.79	$2.99	$1.07	$0.14	$0.14
Growth			*413.5%*	*-61.5%*	*-64.4%*	*-87.3%*	*0.0%*
FCFE per share		$0.54	$5.74	($1.09)	($0.06)	$0.04	$0.04
Growth			*966.1%*	*-119.0%*	*-94.3%*	*-164.6%*	*0.0%*
With cash and debt							
NOPAT	$101	$93	$57	$23	$55	$51	$55
Growth		*-8.3%*	*-38.5%*	*-58.7%*	*135.7%*	*-8.0%*	*8.7%*
NOWC	488	539	545	300	311	326	330
Net fixed assets	870	820	394	483	463	492	534
Total net operating capital	$1,358	$1,359	$939	$783	$774	$817	$864
Growth		*0.1%*	*-30.9%*	*-16.6%*	*-1.1%*	*5.5%*	*5.8%*
- Change in NOWC		51	6	(245)	11	14	5
- Change in NFA		(50)	(426)	89	(20)	29	43
FCFF		$92	$476	$180	$64	$8	$8
Growth			*420.3%*	*-62.3%*	*-64.4%*	*-87.3%*	*0.0%*
- After-tax interest expense		27	21	15	5	6	6
+ Net new short-term and long-term debt		(32)	(104)	(230)	(63)	-	-
FCFE		$33	$351	-$65	-$4	$2	$2
Growth			*980.2%*	*-118.6%*	*-94.3%*	*-164.6%*	*0.0%*

Source: Company reports

EPAC's free cash flow has been very volatile since 2017; however, it has been positive due to asset sales. The firm has been paying off debt, borrowing to make acquisitions, and divesting large sections of the company. EPAC has expressed that it would like to focus on continuing to pay off debt.

I expect both FCFF and FCFE to decline 87% and 164%, respectively, in 2022 as the firm starts to invest in assets. FCF was high due to large divestitures in 2019, 2020, and 2021.

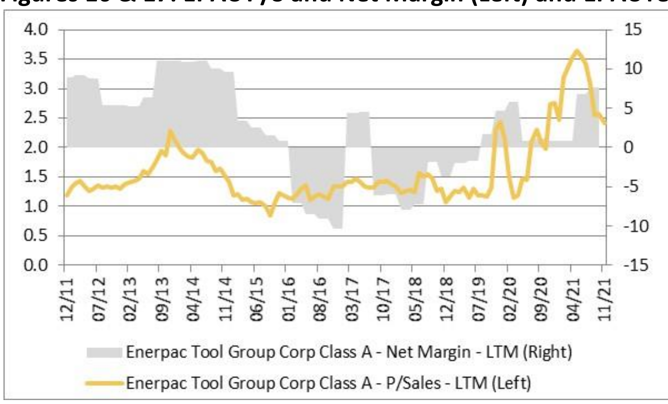
Valuation

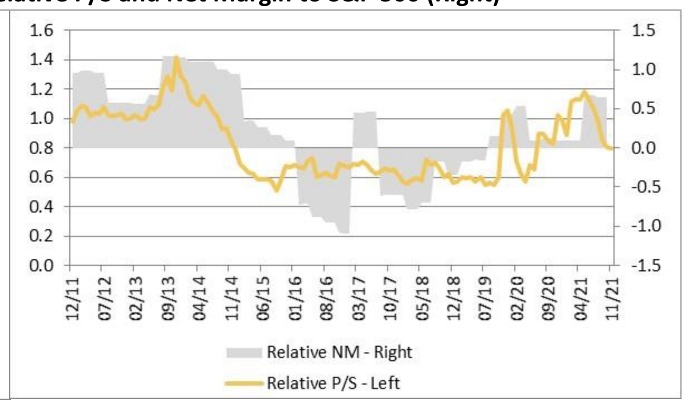
EPAC was valued using multiples and a 3-stage discounted cash flow model. Based on P/S, the stock is worth about $26, or more than 30% undervalued. Based on relative P/E, its 6% undervalued, and based on a composite of multiples and fundamentals, it is significantly undervalued. A detailed DCF analysis values EPAC at $23.41. Overall, a fair value is about $24.

Trading History

EPAC's P/S ratio has risen over the last few years as the firm's profitability has improved (figure 15). It's P/S has also risen relative to the S&P 500 (figure 16). I'm forecasting net profit margin to rise from 7.2% to 8.1% over the current fiscal year, so we can assume the P/S ratio may continue rising. It's currently 2.41, down from over 3.5 earlier in 2021.

Figures 16 & 17: EPAC P/S and Net Margin (Left) and EPAC relative P/S and Net Margin to S&P 500 (Right)





Source: IMCP, Company reports

Assuming the P/S rises back to 3.0 by the end of 2022, it should trade at $18.23 by the end of the year:

- Price = P/S x Sales per share = 3.0 x $9.61 = $28.83.

Discounting $28.83 back to today at a 11.72% cost of equity (explained in Discounted Cash Flow section) yields a price of $25.80. Given the current price of less than $20, this indicates it the stock is significantly undervalued.

Relative Valuation

Enerpac Tool Group Corporation is currently trading at a higher price-to-book than the median of its competitors despite its lower ROE. Also, it has an average P/S with a below average margin. Thus, the market seems to be pricing in improvement.

Figure 18: EPAC comparable companies

Ticker	Current Price	Market Value	Price Change 1 day	1 Mo	3 Mo	6 Mo	52 Wk	YTD	Earnings Growth LTG	NTM	2020	2021	2022	2023	Beta	LT Debt/ Equity	S&P Rating	LTM Dividend Yield	Payout
EPAC	$21.97	$1,325	(1.4)	(4.5)	(5.4)	(13.1)	(2.3)	(2.8)	0.0	58.0%	-75.3%	250.0%	57.1%	16.2%	1.51	52.3%	B-	0.19%	6.4%
SWK	$183.70	$29,949	(4.0)	(5.2)	(1.4)	(6.0)	0.9	2.9	11.8	-5.7%	7.6%	20.2%	8.9%	8.9%	1.35	44.3%	A-	1.71%	25.8%
SNA	$209.35	$11,208	(3.5)	(3.8)	(2.0)	(2.7)	22.3	22.3	10.1	2.4%	-5.1%	24.5%	4.6%	4.6%	1.19	30.1%	A+	2.48%	33.6%
TTNDY	$100.39	$36,768	(5.6)	(8.3)	(2.0)	13.2	45.8	40.7	24.1		29.8%	36.7%	19.5%	19.5%	1.14			1.00%	
Average		$19,812	(3.6)	(5.4)	(2.7)	(2.2)	16.7	15.8	11.5	18.2%	-10.8%	82.9%	22.5%	12.3%	1.30	42.2%		1.34%	21.9%
Median		$20,578	(3.8)	(4.8)	(2.0)	(4.3)	11.6	12.6	10.9	2.4%	1.2%	30.6%	14.2%	12.5%	1.27	44.3%		1.35%	25.8%
SPX	$4,621		(1.0)	(1.5)	4.2	9.4	24.1	23.0			-18.8%	35.0%	-14.3%	-100.0%					

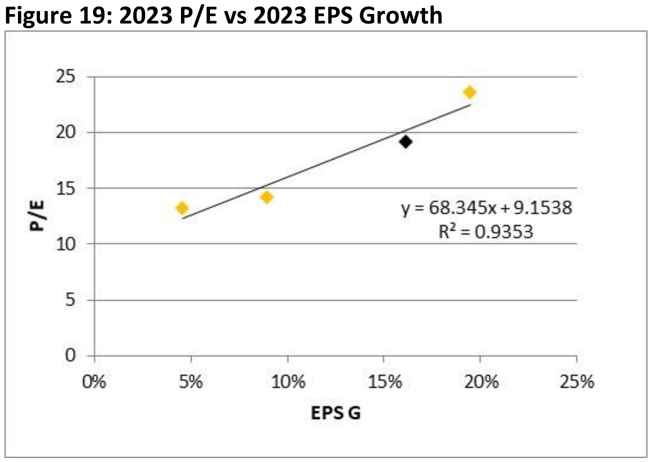
Ticker	2022 ROE	P/B	P/E 2019	2020	2021	TTM	NTM	2022	2023	2021 NPM	2021 P/S	NM	OM	ROIC	P/CF Current	Sales Growth NTM	STM	Pst 5yr	Book Equity
EPAC	14.5%	3.21	35.7	125.0	34.9	34.9	22.1	22.2	19.1	7.2%	2.51	7.6%	11.3%	6.3%	17.9	10.9%	4.7%		$6.80
SWK	18.0%	2.79	19.7	19.7	16.9	16.4	17.4	15.5	14.2	10.3%	1.74	8.5%	14.5%	8.7%	16.1	11.8%	8.3%		$65.73
SNA	20.1%	2.78	13.8	14.7	14.5	14.3	14.0	13.8	13.2	18.4%	2.66	15.9%	22.6%	13.3%	13.1	-5.9%	4.5%		$75.33
TTNDY	30.6%	8.61	24.4	33.5	33.7			28.2	23.6	8.4%	2.82	8.2%	10.0%	16.9%	31.1	10.2%	5.2%		$11.65
Average	20.8%	4.35	23.4	48.2	25.0	21.9	17.8	19.9	17.5	11.1%	2.43	10.0%	14.6%	11.3%	19.5	6.7%	5.7%		
Median	19.1%	3.00	22.1	26.6	25.3	16.4	17.4	18.9	16.7	9.3%	2.58	8.3%	12.9%	11.0%	17.0	10.5%	5.0%		
SPX			216.3	307.8	282.3			329.3											

Source: Company reports, IMCP

Since there does not seem to be a direct relationship between P/B and ROE or P/S and net profit margin, the market seems to care more about growth for these companies. A more thorough analysis of 2023 P/E and 2023 EPS growth is shown in Figure 16. The calculated R-squared of the regression shows that 93.57% of the companies' P/E is explained by its EPS growth. EPAC has the second highest P/E and also the second highest EPS growth, and is below the line so it is slightly undervalued compared to competitors. The estimated P/E for EPAC for 2022 is 3.21.

- Estimated P/E = 68.345 * 16.2% 2023 EPS growth + 9.1538 = 20.2
- Using consensus estimates (mine are lower), the stock price should rise 5.7% = estimated P/E of 20.2 / current P/E of 19.1 - 1

Figure 19: 2023 P/E vs 2023 EPS Growth



Source: IMCP, FactSet

For a final comparison, I created a composite ranking of several valuation and fundamental metrics. Since the variables have different scales, each was converted to a percentile before calculating the composite score. The fundamental score includes 20% weight for 2022 and 2023 EPS growth, 30% for ROE, and 30% for the debt-to-equity ratio (where low values rate better). This was compared to an equal weighting of

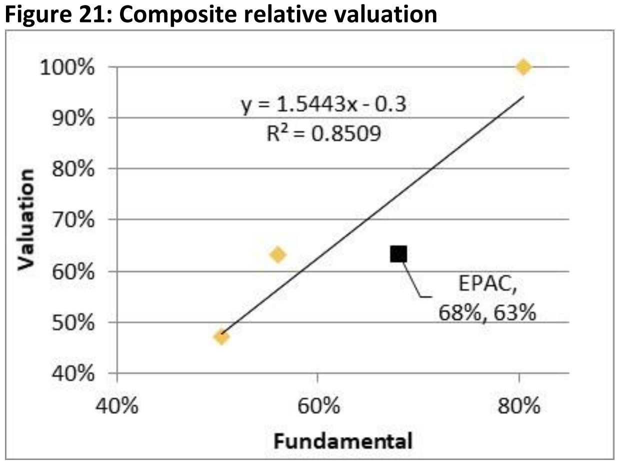
P/B and P/S. The resulting regression has an 85% R-squared. Since EPAC is below the line of best fit, this means it is a good value based on its fundamentals.

Figure 20: Composite valuation, % of range

				Fundamental				Valuation	
			Weight	20.0%	20.0%	30.0%	30.0%	50.0%	50.0%
		Weighted		Earnings Growth		1/(LTD	2022		
Ticker	Name	Fund	Value	2022	2023	Equity)	ROE	P/B	P/S
EPAC	ENERPAC TOOL GROUP CORP	68%	63%	100%	83%	58%	47%	37%	89%
SWK	STANLEY BLACK & DECKER INC	50%	47%	16%	46%	68%	59%	32%	62%
SNA	SNAP-ON INC	56%	63%	8%	23%	100%	66%	32%	94%
TTNDY	TECHTRONIC INDUSTRIES CO LT	80%	100%	34%	100%	79%	100%	100%	100%

Source: IMCP

Figure 21: Composite relative valuation



Source: IMCP

Discounted Cash Flow Analysis

A three-stage discounted cash flow model was also used to value EPAC.

For this analysis, the company's cost of equity was calculated to be 11.72% using the Capital Asset Pricing Model. The underlying assumptions used in calculating this rate are as follows:

- The risk-free rate, as represented by the ten-year Treasury bond yield, is 1.41%.
- A ten-year beta of 1.20 is based on the average of comparable companies. These companies have a slightly higher risk than the market, and given the EPAC's improvements, I don't believe a higher beta is warranted like the past (1.51).
- A long-term market rate of return of 10% was assumed, since historically, the market has generated an annual return of approximately 10%.

Given the above assumptions, the cost of equity is 11.72% = (1.41 + 1.20 (10.0 – 1.41)).

Stage One - The model's first stage discounts FY 2022 and 2023 free cash flow to equity (FCFE). These per share cash flows are forecasted to be \$0.07 and -\$0.15, respectively. Discounting these cash flows, using the cost of equity calculated above, results in a value of -\$0.06 per share. Thus, stage one of this discounted cash flow analysis takes away \$0.06 in value.

Stage Two - Stage two of the model uses estimates for FY 2024 to 2028 based on the following. During this period, FCFE is calculated on projections of revenue growth, NOPAT margin, and capital growth. The resulting cash flows are then discounted using the company's 11.72% cost of equity. I assume 8.8% sales growth in 2024, rising to 9.6% through 2028 because of new initiatives internationally, growth rates of the comparables, and new infrastructure growth. The ratio of sales to NWC will fall slightly to 3.0 from 3.05 in 2023 and then stabilize, and sales to NFA to remain unchanged from 2023 levels. I expect the NOPAT margin to rise to 9.3% in 2024 from 10.3% in 2028.

Figure 22: FCFE and discounted FCFE per share

	First Stage			Second Stage				
	2021	2022	2023	2024	2025	2026	2027	2028
FCFE	($0.26)	$0.07	($0.15)	$0.13	$0.23	$0.27	$0.30	$0.34
Discounted FCFE		$0.06	($0.12)	$0.10	$0.15	$0.15	$0.16	$0.16

Source: IMCP

Added together, second stage 2024 through 2028 discounted cash flows total $0.71.

Stage Three – Net income for the years 2022 – 2028 is calculated using the same margin and growth assumptions used to determine FCFE in stage two. Dividends are not expected to rise and share count is expected to be unchanged. Based on this, book value per share is expected to grow from $7.58 in 2022 to $14.13 in 2028.

Figure 23: EPS estimates for 2017 – 2023

	First Stage			Second Stage				
Year ending August	2021	2022	2023	2024	2025	2026	2027	2028
Book value per share	$6.87	$7.58	$8.37	$9.26	$10.27	$11.41	$12.69	$14.13
Book value	$412	$455	$502	$555	$616	$684	$761	$848
Growth	*14.8%*	*10.4%*	*10.4%*	*10.6%*	*10.9%*	*11.1%*	*11.3%*	*11.3%*
ROE (EOY book)	*9.2%*	*9.9%*	*9.9%*	*10.0%*	*10.2%*	*10.3%*	*10.4%*	*10.4%*
Net income	$38	$45	$50	$55	$63	$71	$79	$89
Dividends	$2	$2	$2	$2	$2	$2	$2	$2
Growth	*0.8%*	*-0.3%*	*0.0%*	*-16.7%*	*0.0%*	*13.0%*	*-11.5%*	*12.0%*
Shares	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0
Price	$22.92	$22.92	$22.92	$25.60	$28.90	$32.65	$36.52	$40.90
Growth		*0.0%*	*0.0%*	*11.7%*	*12.9%*	*13.0%*	*11.8%*	*12.0%*
Net issuance		$0	$0	$0	$0	$0	$0	$0

Source: IMCP

Stage three of the model uses estimates based on the company's terminal price-to-book ratio. For this analysis, it is generally assumed that as the company's growth materializes and as margins rise that its P/B ratio will rise toward the average of the industry. The median of the four companies is 3.0 and the average is 4.35. EPAC's current multiple is 3.21. A P/B ratio of 3.5 is assumed at the end of EPAC's terminal year.

Given the assumed terminal BPS of $14.13 and a price-to-book ratio of 3.5, a terminal value of $49.44 per share is calculated. Using a discount factor of 0.46, this number is discounted back to a present value of $22.76.

Total Present Value – given the above assumptions and utilizing a three stage discounted cash flow model, an intrinsic value of $23.41 is calculated (-0.06 + 0.71 + 22.76). Given EPAC's current price of $19.86, this model indicates that the stock is moderately undervalued.

Scenario Analysis

Enerpac Tool Group Corporation is hard to forecast because of no relevant history give the various restructurings, low brand recognition, and few comparable companies. Most of its sales are international and it was negatively impacted when COVID and its variants shut down travel and commerce.

Bull case – In this first scenario, COVID and its variants subside as the world becomes more immune to the virus. This allows travel and commerce to resume as trade routes resume normal activity. Labor shortages have little impact on EPAC and customers respond well to the company's rebranding. United States and China maintain their trade agreements and tariffs remain the same. In this bull case, I can see revenue meeting or slightly exceeding the estimates provided by consensus in 2022 and 2023.

Adjusting sales to meet and exceed consensus, 2021 EPS is adjusted to reach 60% growth in 2022, and 20% growth in 2023. The growth slows in the following years as the company begins to mature. If we use the same price-to-book DCF analysis, this would make EPAC greatly undervalued. The value of the stock discounted to today based on this bull case would be $26.41.

Figure 24: 3 stage Discounted Cash Flow, bull case

3 Stage Discounted Cash Flow		First Stage		Second Stage				
Year ending August	2021	2022	2023	2024	2025	2026	2027	2028
Sales Growth	*7.2%*	*60.0%*	*20.0%*	*18.0%*	*16.0%*	*14.0%*	*12.0%*	*10.0%*

Bear case – In this scenario, COVID and its variants continue to put pressure on the world economies. Labor shortages have a moderate impact on EPAC and customers respond neutrally or negatively to the company's rebranding. Inflation in the United States continues or increases. United States and China's business tensions increase, and tariffs are established. In this bear case, I can see revenue growth halting or declining in 2022 and 2023.

Adjusting sales to halt and decline, 2021 EPS is adjusted to reach 0% growth in 2022, and -10% growth in 2023. The growth adjusts in the following years as the company adapts and finds new opportunities to make money. If we use the same price-to-book DCF analysis, this would make EPAC overvalued. I also assume the beta rises to 1.4 from 1.2. The value of the stock discounted to today based on this bear case would be $20.16.

Figure 25: 3 stage Discounted Cash Flow, bear case

3 Stage Discounted Cash Flow		First Stage		Second Stage				
Year ending August	2021	2022	2023	2024	2025	2026	2027	2028
Sales Growth	*7.2%*	*0.0%*	*-10.0%*	*0.0%*	*2.0%*	*4.0%*	*6.0%*	*8.0%*

Business Risks

Although Enerpac Tool Group Corporation has a lot to be optimistic about, at this time there are several risks that I believe may be concerning analysts and could impact my projections and recommendation.

Current supply chain delays could worsen or remain an issue for longer. This would slow growth and push away customers.

COVID-19 pandemic:

EPAC earns a portion of its revenue from the oil and gas industries. If the COVID risk persists, the oil and gas industries may continue to be hurt by the decrease in travel. This could temporarily result in a noticeable negative impact on sales. I estimate that this could delay projected sales growth until travel returns to baseline.

Dependance on China:

EPAC's main supplier is China. If tensions and tariffs increase, we could see EPAC's profit margins drop.

Supply chain problems:

The disruptions in the supply chain, delayed delivery of product, and delayed materials to manufacture product, can have an adverse impact on the corporation. This would negatively impact sales, as well as hurt its relationship with customers. Trying to avoid these delays may result in higher costs to the company. This would lower the profitability of the business. If this problem persists or worsens from its current state, I estimate that it could seriously delay growth and cause the company to lose customers.

Integration problems from restructuring, acquisitions, and divestitures could slow growth.

Unrealized savings from individual restructuring actions:

Not all restructuring actions may have been optimal for the company. Enerpac Tool Group may be projecting higher cost savings than it will earn from the near complete restructuring. This would mean that some of its estimates may be too optimistic.

Imperfect results of acquisitions and divestitures:

The company may come to realize that some divestitures were more critical elements of its business, or some acquisitions may not be perfectly integrated into the business model. In 2019, EPAC sold its Milwaukee Cylinder, Connectors, and UNI-LIFT product lines from its remaining Industrial Tools & Services segment. This may be a more important part of its business than management expects. This could result in a suboptimal return and slow the company's progress.

Labor shortage:

The firm has expressed concern in its ability to attract, develop, and retain qualified employees. The labor shortages have created a lot of pressure on companies. The firm has reduced its employee count by greater than 50% in the past six years, but the employees that it has retained are critical to the success of the company. This could slow growth and cause the firm to lose customers if its effectiveness is impacted.

Appendix 1: SWOT Analysis

Strengths	Weaknesses
International network Few competitors	Dependent on China Supply chain delays
Opportunities	**Threats**
Brand recognition Higher margins	Tariffs COVID

Appendix 2: Porter's 5 Forces

Threat of New Entrants – Low

The barriers of entry for industrial companies are high. EPAC plans to spend a lot of money innovating its technology and has spent substantial time building an international network. Capital requirements in the industry are high, so it is difficult for new entrants to enter the market.

Threat of Substitutes – Low

EPAC has a good amount of bargaining power because of its network. Most of its products have few competitors. Buyers are unlikely to switch to substitutes if EPAC's products are reliable.

Supplier Power – Moderate

EPAC has a moderate dependence on its suppliers in China. The cost of changing suppliers is high.

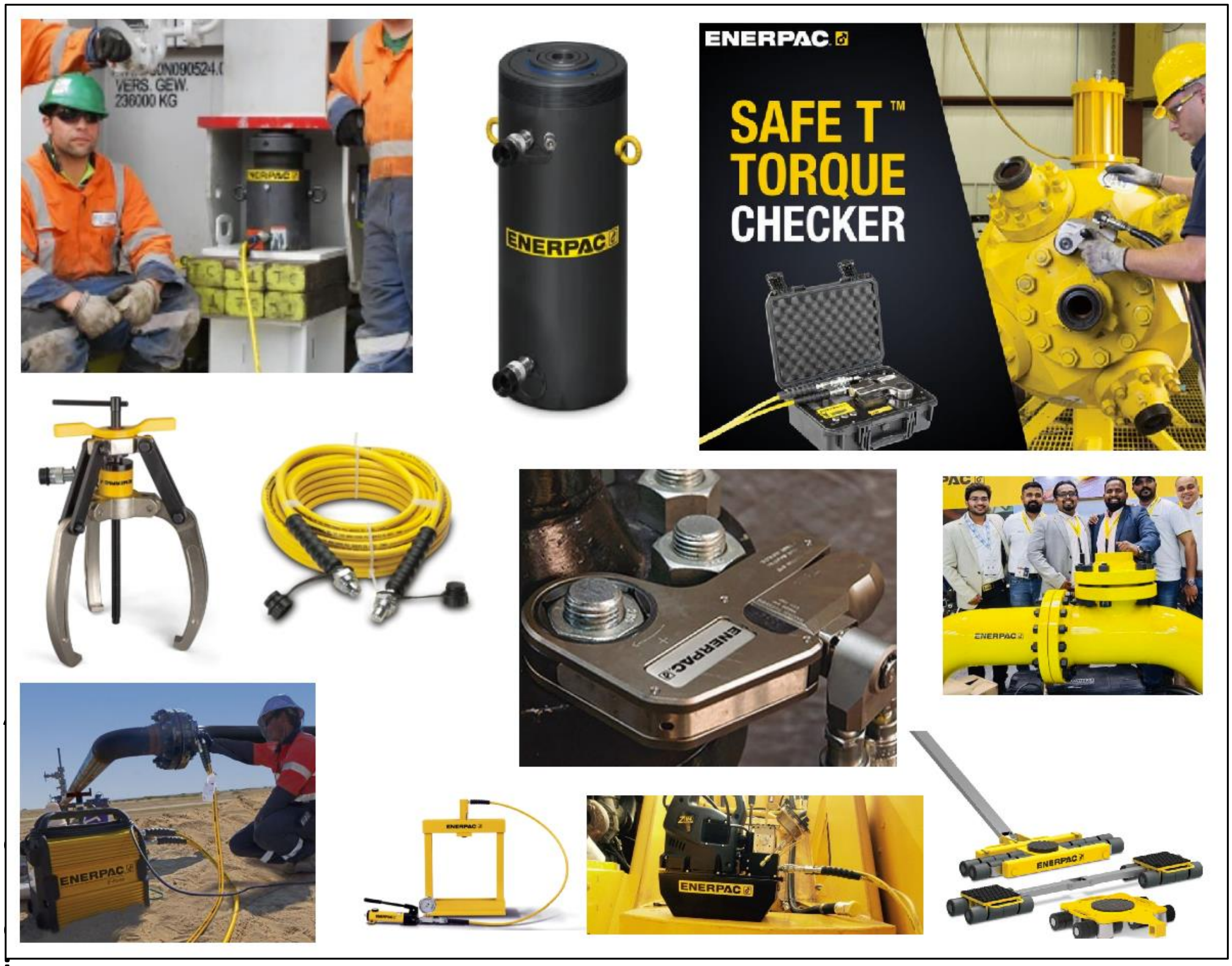
Buyer Power – Low

There is a high cost to switching brands and a low number of substitutes for most products EPAC offers.

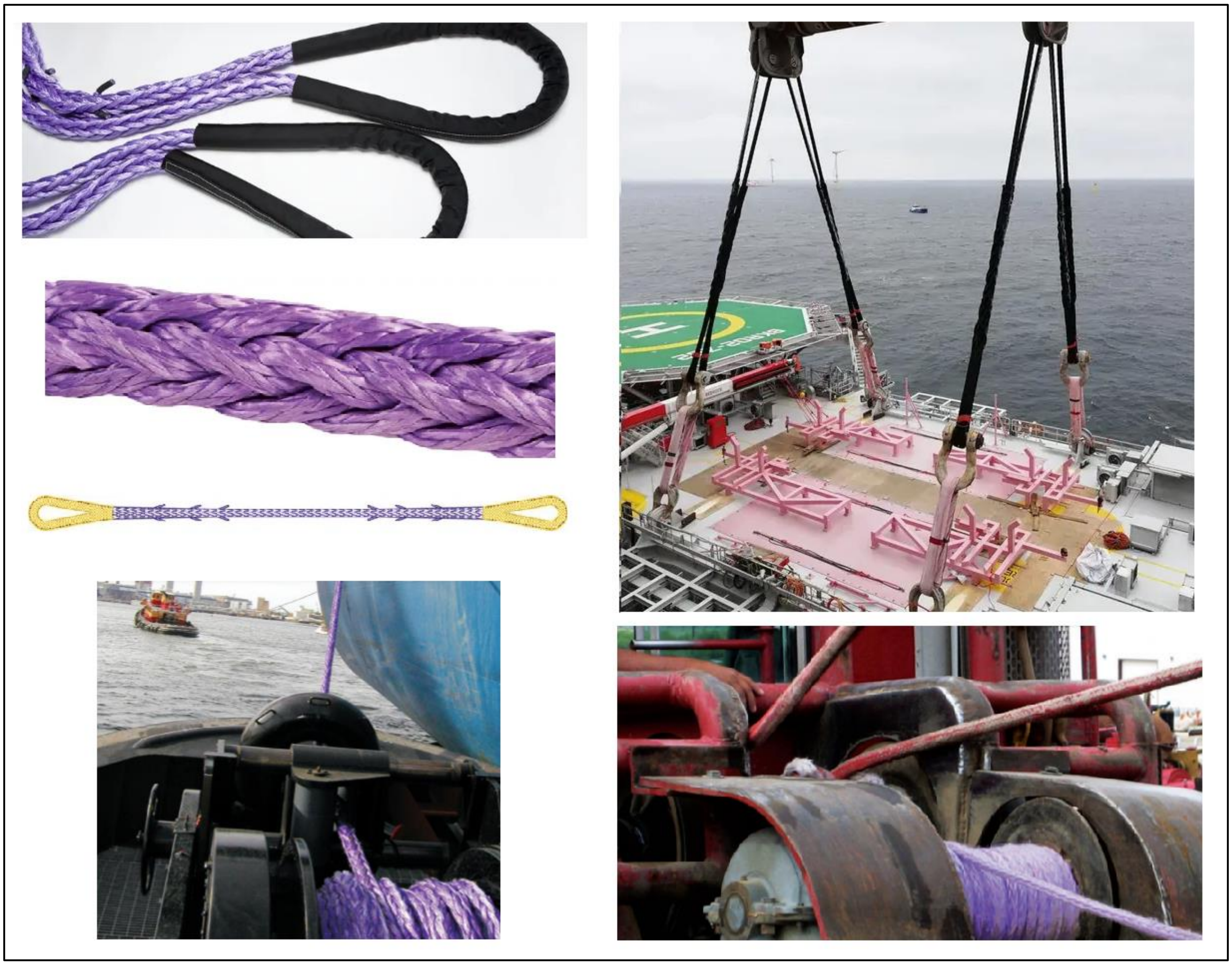
Intensity of Competition – Low

EPAC is established as a major competitor. Capital requirements are high, deterring competition.

Appendix 3: "Industrial Tools and Services" Segment Products



Appendix 4: "Other" Segment Products



Appendix 5: Sales

Sales					
Items	**Aug-17**	**Aug-18**	**Aug-19**	**Aug-20**	**Aug-21**
Sales	1,096	1,183	655	493	529
Growth		*7.9%*	*-44.6%*	*-24.7%*	*7.2%*
Industrial Tools and Services	380	591	610	455	493
Growth		*55.6%*	*3.1%*	*-25.4%*	*8.4%*
% of sales	*34.7%*	*50.0%*	*93.1%*	*92.2%*	*93.3%*
Other	716	592	45	38	36
Growth		*-17.4%*	*-92.4%*	*-15.1%*	*-7.5%*
% of sales	*65.3%*	*50.0%*	*6.9%*	*7.8%*	*6.7%*
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Domestic (United States)	481	510	250	185	188
Growth		*6.1%*	*-51.0%*	*-25.8%*	*1.5%*
% of sales	*43.9%*	*43.1%*	*38.1%*	*37.6%*	*35.6%*
International	615	673	405	308	341
Growth		*9.4%*	*-39.8%*	*-24.0%*	*10.6%*
% of sales	*56.1%*	*56.9%*	*61.9%*	*62.4%*	*64.4%*

Appendix 6: Sales Forecasts

Base Case		Bull Case		Bear Case	
Aug-22	**Aug-23**	**Aug-22**	**Aug-23**	**Aug-22**	**Aug-23**
560	609	575	641	533	551
6.0%	*8.7%*	*8.8%*	*11.4%*	*0.8%*	*3.4%*
530	583	542	610	508	533
7.5%	*10.0%*	*10.0%*	*12.5%*	*3.0%*	*5.0%*
94.6%	*95.8%*	*94.3%*	*95.3%*	*95.3%*	*96.8%*
30	26	33	30	25	17
-15.0%	*-15.0%*	*-7.5%*	*-7.5%*	*-30.0%*	*-30.0%*
2.0%	*4.2%*	*5.7%*	*4.7%*	*4.7%*	*3.2%*
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
191	195	190	199	186	190
1.3%	*2.3%*	*0.9%*	*4.6%*	*-0.8%*	*1.9%*
34.0%	*32.0%*	*33.0%*	*31.0%*	*35.0%*	*34.5%*
370	414	385	442	346	361
8.6%	*11.9%*	*13.2%*	*14.7%*	*1.7%*	*4.2%*
66.0%	*68.0%*	*67.0%*	*69.0%*	*65.0%*	*65.5%*

Appendix 7: Income Statements

Income Statement							
Items	**Aug-17**	**Aug-18**	**Aug-19**	**Aug-20**	**Aug-21**	**Aug-22**	**Aug-23**
Sales	$1,096	$1,183	$655	$493	$529	$560	$609
Direct costs	720	767	362	276	286	291	307
Gross Margin	376	415	293	217	243	269	301
SG&A, R&D, D&A, and other	302	310	218	188	184	206	233
EBIT	74	105	75	29	60	63	69
Interest	30	31	28	19	5	7	7
EBT	44	74	47	10	55	56	62
Taxes	(16)	9	11	2	4	11	12
Income	60	65	36	8	51	45	50
Other	126	87	285	7	13	-	-
Net income	(66)	(22)	(249)	1	38	45	50
Basic Shares	59.4	60.4	61.2	60.0	60.0	60.0	60.0
Fully Diluted Shares	59.4	60.4	61.6	60.3	60.4	60.4	60.4
EPS	($1.11)	($0.36)	($4.07)	$0.02	$0.63	$0.75	$0.83
EPS Fully Diluted	($1.11)	($0.36)	($4.04)	$0.02	$0.63	$0.75	$0.82
DPS	$0.04	$0.04	$0.04	$0.04	$0.04	$0.04	$0.04

Appendix 8: Balance Sheets

Balance Sheet							
Items	**Aug-17**	**Aug-18**	**Aug-19**	**Aug-20**	**Aug-21**	**Aug-22**	**Aug-23**
Cash	230	251	211	152	140	142	131
Operating assets ex cash	417	410	519	189	217	230	250
Operating assets	647	661	730	341	357	372	381
Operating liabilities	159	122	185	41	46	47	51
NOWC	488	539	545	300	311	326	330
NOWC ex cash (NWC)	258	288	334	148	171	184	200
NFA	870	820	394	483	463	492	534
Invested capital	*$1,358*	*$1,359*	*$939*	*$783*	*$774*	*$817*	*$864*
Marketable securities	-	-	-	-	-	-	-
Total assets	*$1,517*	*$1,481*	*$1,124*	*$824*	*$820*	*$864*	*$915*
S-T and L-T debt and financing leases	$665	$634	$530	$300	$237	$237	$237
Other liabilities	192	166	108	124	125	125	125
Debt/equity-like securities	-	-	-	-	-	-	-
Equity	501	559	301	359	412	455	502
Total supplied capital	*$1,358*	*$1,359*	*$939*	*$783*	*$774*	*$817*	*$864*
Total liabilities and equity	*$1,517*	*$1,481*	*$1,124*	*$824*	*$820*	*$864*	*$915*

Appendix 9: Ratios

Ratios							
Items	**Aug-17**	**Aug-18**	**Aug-19**	**Aug-20**	**Aug-21**	**Aug-22**	**Aug-23**
Profitability							
Gross margin	34.3%	35.1%	44.7%	44.0%	46.0%	48.0%	49.5%
Operating (EBIT) margin	6.8%	8.9%	11.4%	5.9%	11.3%	11.3%	11.3%
Net profit margin	-6.0%	-1.9%	-38.0%	0.2%	7.2%	8.1%	8.1%
Activity							
NFA (gross) turnover		1.40	1.08	1.12	1.12	1.17	1.19
Total asset turnover		0.79	0.50	0.51	0.64	0.67	0.68
Liquidity							
Op asset / op liab	4.07	5.42	3.95	8.32	7.77	7.99	7.53
NOWC Percent of sales		43.4%	82.8%	85.7%	57.8%	56.8%	53.9%
Solvency							
Debt to assets	43.9%	42.8%	47.1%	36.4%	28.9%	27.4%	25.9%
Debt to equity	132.8%	113.3%	176.0%	83.6%	57.5%	52.1%	47.2%
Other liab to assets	12.6%	11.2%	9.6%	15.1%	15.3%	14.5%	13.7%
Total debt to assets	56.5%	54.0%	56.8%	51.5%	44.2%	42.0%	39.6%
Total liabilities to assets	67.0%	62.3%	73.2%	56.4%	49.8%	47.3%	45.1%
Debt to EBIT	8.99	6.02	7.11	10.28	3.97	3.74	3.44
EBIT/interest	2.47	3.40	2.66	1.54	11.94	8.91	9.68
Debt to total net op capital	49.0%	46.6%	56.4%	38.3%	30.6%	29.0%	27.4%
ROIC							
NOPAT to sales	9.2%	7.8%	8.7%	4.8%	10.5%	9.1%	9.1%
Sales to NWC		4.33	2.10	2.05	3.31	3.16	3.18
Sales to NFA		1.40	1.08	1.12	1.12	1.17	1.19
Sales to IC ex cash		1.06	0.71	0.73	0.84	0.86	0.86
Total ROIC ex cash		8.3%	6.2%	3.5%	8.7%	7.8%	7.9%
NOPAT to sales	9.2%	7.8%	8.7%	4.8%	10.5%	9.1%	9.1%
Sales to NOWC		2.30	1.21	1.17	1.73	1.76	1.86
Sales to NFA		1.40	1.08	1.12	1.12	1.17	1.19
Sales to IC		0.87	0.57	0.57	0.68	0.70	0.72
Total ROIC		6.8%	4.9%	2.7%	7.1%	6.4%	6.6%
NOPAT to sales	9.2%	7.8%	8.7%	4.8%	10.5%	9.1%	9.1%
Sales to EOY NWC	4.24	4.10	1.96	3.33	3.09	3.05	3.05
Sales to EOY NFA	1.26	1.44	1.66	1.02	1.14	1.14	1.14
Sales to EOY IC ex cash	0.97	1.07	0.90	0.78	0.83	0.83	0.83
Total ROIC using EOY IC ex cash	8.9%	8.3%	7.8%	3.7%	8.7%	7.5%	7.5%
NOPAT to sales	9.2%	7.8%	8.7%	4.8%	10.5%	9.1%	9.1%
Sales to EOY NOWC	2.25	2.19	1.20	1.64	1.70	1.72	1.84
Sales to EOY NFA	1.26	1.44	1.66	1.02	1.14	1.14	1.14
Sales to EOY IC	0.81	0.87	0.70	0.63	0.68	0.69	0.70
Total ROIC using EOY IC	7.4%	6.8%	6.1%	3.0%	7.1%	6.2%	6.4%
ROE							
5-stage							
EBIT / sales		8.9%	11.4%	5.9%	11.3%	11.3%	11.3%
Sales / avg assets		0.79	0.50	0.51	0.64	0.67	0.68
EBT / EBIT		70.6%	62.4%	34.9%	91.6%	88.8%	89.7%
Net income /EBT		-29.6%	-535.5%	9.8%	69.5%	80.4%	80.4%
ROA		-1.5%	-19.1%	0.1%	4.6%	5.4%	5.6%
Avg assets / avg equity		2.83	3.03	2.95	2.13	1.94	1.86
ROE		-4.2%	-57.9%	0.3%	9.9%	10.4%	10.4%
3-stage							
Net income / sales		-1.9%	-38.0%	0.2%	7.2%	8.1%	8.1%
Sales / avg assets		0.79	0.50	0.51	0.64	0.67	0.68
ROA		-1.5%	-19.1%	0.1%	4.6%	5.4%	5.6%
Avg assets / avg equity		2.83	3.03	2.95	2.13	1.94	1.86
ROE		-4.2%	-57.9%	0.3%	9.9%	10.4%	10.4%
Payout Ratio		-11.1%	-1.0%	238.8%	6.3%	5.3%	4.8%
Retention Ratio		111.1%	101.0%	-138.8%	93.7%	94.7%	95.2%
Sustainable Growth Rate		-4.6%	-58.5%	-0.4%	9.2%	9.9%	9.9%

Appendix 10: Comparable Companies

Ticker	Current Price	Market Value	Price Change 1 day	1 Mo	3 Mo	6 Mo	52 Wk	YTD	Earnings Growth LTG	NTM	2020	2021	2022	2023	Beta	LT Debt/ Equity	S&P Rating	LTM Dividend Yield	Payout
EPAC	$21.97	$1,325	(1.4)	(4.5)	(5.4)	(13.1)	(2.3)	(2.8)	0.0	58.0%	-75.3%	250.0%	57.1%	16.2%	1.51	52.3%	B-	0.19%	6.4%
SWK	$183.70	$29,949	(4.0)	(5.2)	(1.4)	(6.0)	0.9	2.9	11.8	-5.7%	7.6%	20.2%	8.9%	8.9%	1.35	44.3%	A-	1.71%	25.8%
SNA	$209.35	$11,208	(3.5)	(3.8)	(2.0)	(2.7)	22.3	22.3	10.1	2.4%	-5.1%	24.5%	4.6%	4.6%	1.19	30.1%	A+	2.48%	33.6%
TTNDY	$100.39	$36,768	(5.6)	(8.3)	(2.0)	13.2	45.8	40.7	24.1		29.8%	36.7%	19.5%	19.5%	1.14			1.00%	
Average		$19,812	(3.6)	(5.4)	(2.7)	(2.2)	16.7	15.8	11.5	18.2%	-10.8%	82.9%	22.5%	12.3%	1.30	42.2%		1.34%	21.9%
Median		$20,578	(3.8)	(4.8)	(2.0)	(4.3)	11.6	12.6	10.9	2.4%	1.2%	30.6%	14.2%	12.5%	1.27	44.3%		1.35%	25.8%
SPX	$4,621		(1.0)	(1.5)	4.2	9.4	24.1	23.0			-18.8%	35.0%	-14.3%	-100.0%					

Ticker	2022 ROE	P/B	P/E 2019	2020	2021	TTM	NTM	2022	2023	2021 NPM	2021 P/S	NM	OM	ROIC	P/CF Current	Sales Growth NTM	STM	Pst 5yr	Book Equity
EPAC	14.5%	3.21	35.7	125.0	34.9	34.9	22.1	22.2	19.1	7.2%	2.51	7.6%	11.3%	6.3%	17.9	10.9%	4.7%		$6.80
SWK	18.0%	2.79	19.7	19.7	16.9	16.4	17.4	15.5	14.2	10.3%	1.74	8.5%	14.5%	8.7%	16.1	11.8%	8.3%		$65.73
SNA	20.1%	2.78	13.8	14.7	14.5	14.3	14.0	13.8	13.2	18.4%	2.66	15.9%	22.6%	13.3%	13.1	-5.9%	4.5%		$75.33
TTNDY	30.6%	8.61	24.4	33.5	33.7			28.2	23.6	8.4%	2.82	8.2%	10.0%	16.9%	31.1	10.2%	5.2%		$11.65
Average	20.8%	4.35	23.4	48.2	25.0	21.9	17.8	19.9	17.5	11.1%	2.43	10.0%	14.6%	11.3%	19.5	6.7%	5.7%		
Median	19.1%	3.00	22.1	26.6	25.3	16.4	17.4	18.9	16.7	9.3%	2.58	8.3%	12.9%	11.0%	17.0	10.5%	5.0%		
SPX			216.3	307.8	282.3			329.3											

Appendix 11: 3 Stage Discounted Cash Flow Model

	Year							
		1	2	3	4	5	6	7
	First Stage			Second Stage				
Year ending August	2021	2022	2023	2024	2025	2026	2027	2028
Sales Growth	*7.2%*	*6.0%*	*8.7%*	*8.8%*	*9.0%*	*9.2%*	*9.4%*	*9.6%*
NOPAT / S	*10.5%*	*9.1%*	*9.1%*	*9.3%*	*9.6%*	*9.9%*	*10.1%*	*10.3%*
S / NWC	*3.09*	*3.05*	*3.05*	*3.00*	*3.00*	*3.00*	*3.00*	*3.00*
S / NFA (EOY)	*1.14*	*1.14*	*1.14*	*1.14*	*1.14*	*1.14*	*1.14*	*1.14*
S / IC (EOY)	*0.83*	*0.83*	*0.83*	*0.83*	*0.83*	*0.83*	*0.83*	*0.83*
ROIC (EOY)	*8.7%*	*7.5%*	*7.5%*	*7.7%*	*7.9%*	*8.2%*	*8.3%*	*8.5%*
ROIC (BOY)		*8.0%*	*8.2%*	*8.4%*	*8.6%*	*8.9%*	*9.1%*	*9.3%*
Share Growth	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Sales	$529	$560	$609	$662	$722	$788	$863	$945
NOPAT	$55	$51	$55	$62	$69	$78	$87	$97
Growth	*135.7%*	*-8.0%*	*8.7%*	*11.4%*	*12.5%*	*12.6%*	*11.6%*	*11.8%*
- Change in NWC	23	13	16	21	20	22	25	28
NWC EOY	*171*	*184*	*200*	*221*	*241*	*263*	*288*	*315*
Growth NWC	*15.6%*	*7.4%*	*8.7%*	*10.6%*	*9.0%*	*9.2%*	*9.4%*	*9.6%*
- Chg NFA	-20	29	43	47	52	58	65	73
NFA EOY	*463*	*492*	*534*	*581*	*633*	*692*	*757*	*829*
Growth NFA	*-4.1%*	*6.2%*	*8.7%*	*8.8%*	*9.0%*	*9.2%*	*9.4%*	*9.6%*
Total inv in op cap	3	41	58	68	72	80	90	100
Total net op cap	634	675	734	802	874	954	1044	1144
FCFF	$52	$10	($3)	($7)	($3)	($2)	($3)	($3)
% of sales	*9.9%*	*1.7%*	*-0.5%*	*-1.0%*	*-0.4%*	*-0.3%*	*-0.3%*	*-0.3%*
Growth		*-81.4%*	*-132.1%*	*110.7%*	*-56.6%*	*-17.5%*	*10.4%*	*10.3%*
- Interest (1-tax rate)	5	6	6	6	7	7	8	9
Growth	*-69.7%*	*23.3%*	*0.0%*	*8.8%*	*9.0%*	*9.2%*	*9.4%*	*9.6%*
+ Net new debt	-63	0	0	21	23	26	29	32
Debt	237	237	237	258	281	307	336	368
Debt / tot net op capital	*37.4%*	*35.1%*	*32.3%*	*32.2%*	*32.2%*	*32.2%*	*32.2%*	*32.2%*
FCFE w debt	($16)	$4	($9)	$8	$14	$16	$18	$20
% of sales	*-2.9%*	*0.7%*	*-1.5%*	*1.2%*	*1.9%*	*2.0%*	*2.1%*	*2.2%*
Growth		*-125.7%*	*-320.9%*	*-191.3%*	*68.3%*	*18.6%*	*12.7%*	*12.9%*
/ No Shares	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0
FCFE	($0.26)	$0.07	($0.15)	$0.13	$0.23	$0.27	$0.30	$0.34
Growth		*-125.7%*	*-320.9%*	*-191.3%*	*68.3%*	*18.6%*	*12.7%*	*12.9%*
* Discount factor		0.90	0.80	0.72	0.64	0.57	0.51	0.46
Discounted FCFE		$0.06	($0.12)	$0.10	$0.15	$0.15	$0.16	$0.16
		Third Stage						
Terminal value P/B								
Book value per share	$6.87	$7.58	$8.37	$9.26	$10.27	$11.41	$12.69	$14.13
Book value	$412	$455	$502	$555	$616	$684	$761	$848
Growth	*14.8%*	*10.4%*	*10.4%*	*10.6%*	*10.9%*	*11.1%*	*11.3%*	*11.3%*
ROE (EOY book)	*9.2%*	*9.9%*	*9.9%*	*10.0%*	*10.2%*	*10.3%*	*10.4%*	*10.4%*
Net income	$38	$45	$50	$55	$63	$71	$79	$89
Dividends	$2	$2	$2	$2	$2	$2	$2	$2
Growth	*0.8%*	*-0.3%*	*0.0%*	*-16.7%*	*0.0%*	*13.0%*	*-11.5%*	*12.0%*
Shares	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0
Price	$22.92	$22.92	$22.92	$25.60	$28.90	$32.65	$36.52	$40.90
Growth		*0.0%*	*0.0%*	*11.7%*	*12.9%*	*13.0%*	*11.8%*	*12.0%*
Net issuance		$0	$0	$0	$0	$0	$0	$0
Terminal P/B								3.50
* Terminal BPS								$14.13
Terminal value								$49.44
* Discount factor								0.46
Discounted terminal value								$22.76
Summary (using P/B multiple for terminal value)								
First stage	($0.06)	Present value of first 2 year cash flow						
Second stage	$0.71	Present value of year 3-7 cash flow						
Third stage	$22.76	Present value of terminal value P/B						
Value (P/B)	**$23.41**							