Clean Energy Fuels Corp. (NASDAQ:CLNE) – Clean Upside Potential!

The Babson College Fund is initiating coverage on CLNE with a buy rating and a $4.6 target price, representing a potential upside of 72%.

Company Overview

Founded 2001, HQ: Newport Beach, CA
CLNE supplies Renewable natural gas (RNG), Compressed natural gas (CNG), and Liquefied natural gas (LNG) for light, medium, and heavy-duty vehicles.
It also designs, builds, and maintains fueling stations which is recognized as Station Construction Sales and receives the Allternative Fuels Tax Credit (AFTC), a $0.5/gallon sold of Natural Gas which expires on Dec 31,2020.

Investment Thesis

1) CLNE's RNG product 'Redeem' will drive long-term growth

2) Strong Balance Sheet and going debt-free this quarter makes CLNE a great value proposition

3) CLNE provides direct exposure to Natural Gas and increases Renewable exposure through 'Redeem' for the Energy portfolio

Stock Rating	Buy	
Price Target	$4.60
Current Price	$2.68
Upside	72%
Consensus	$5.50
Recommended Weight (of Energy)	30%
Benchmark Weight (XLE)	N/A

Key Statistics		
52-Wk Range	$1.05	$3.75
Avg. Daily Vol (3M) in MM		0.80
Market Value (MM)		$544
Ent Value (MM)		$474
Shares Out (MM)		203
Dividend Yield		0.00%
Beta 2y		1.30
% Short Interest of float		1.9%

Key Financials $MM	2020E	2021E	2022E
Revenue	300	325	368
Y/Y Growth	*(12.9%)*	*8.2%*	*13.2%*
EBIT	9	10	29
EBITDA	57	62	81
UFCF	109	27	33
EV / EBITDA	8.3x	7.7x	5.9x
P / E	260.5x	87.5x	25.0x
FCF Yield	36.5%	8.2%	9.0%

Share Price	1M	3M	12M
CLNE	5.9%	8.0%	21.2%
S&P 500	4.2%	7.2%	15.4%
XLE	(3.3%)	(18.0%)	(47.7%)

Valuation

Our weighted average price target was derived from a Discounted Cash Flow (80%) and a Comparable Company Analysis (20%).

Valuation Summary		
	Price	% Weight
CompCo	$4.22	20%
DCF	$4.70	80%
Target Price		**$4.60**
Current Share Price		$2.68
Upside		**72%**
Equity Value		$933
Enterprise Value		$864

Oil and Gas Refining and Marketing | Energy & Materials Sector

Comparative Stock Price (LTM)

S&P ■ CLNE ■ XLE ■
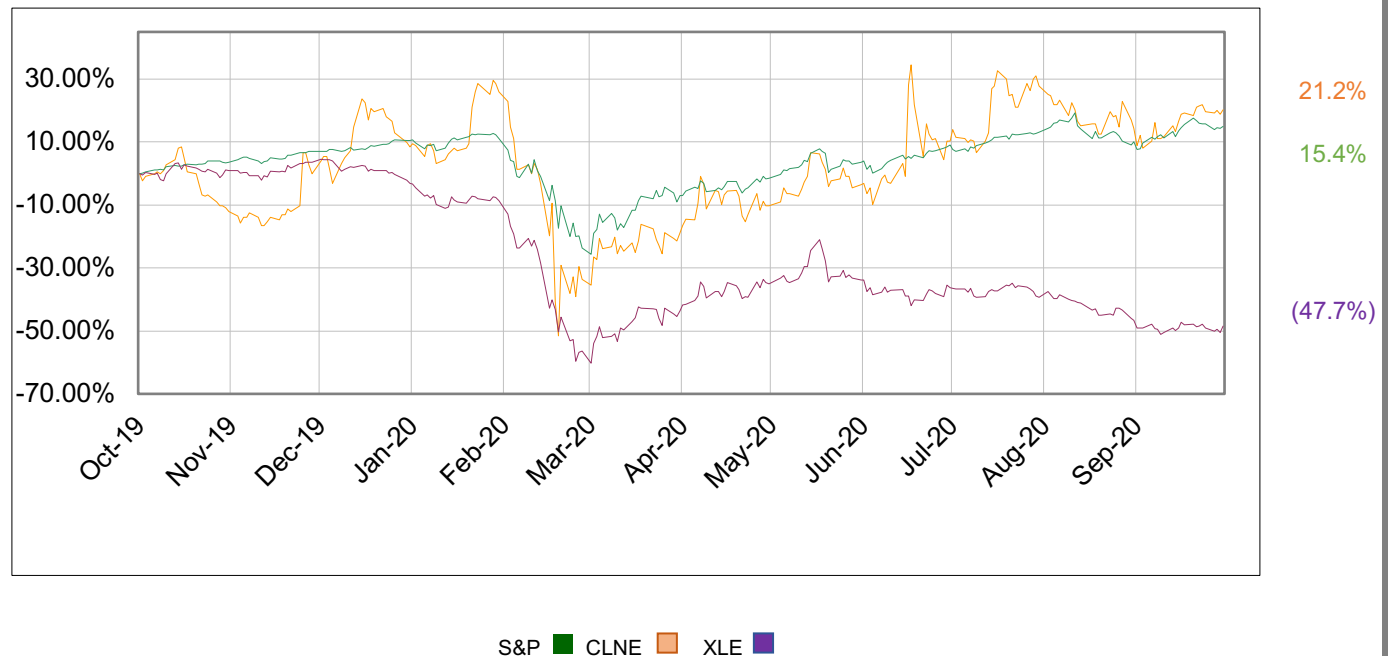
Company Overview

Clean Energy Fuels Corp. is North America's leading provider of RNG, CNG, and LNG based on the amount of gasoline gallon equivalents (GGEs) delivered. The share of Redeem, which is their RNG product was 30% in 2018, 35.7% in 2019, and 38.1% YTD as a % of the total GGEs sold. The company has committed to go to 100% Redeem by 2025. They own, operate or supply approximately 550 natural gas fueling stations in 41 states in the United States and 4 provinces in Canada.

The company also provides operation & maintenance services for public and private vehicle fleet customer stations. In addition to this, they design, build, operate and maintain fueling stations; sell and service natural gas fueling compressors and other equipment used in CNG and LNG stations, making them a comprehensive solution provider.

In terms of revenue, they also sell LCFS(Low Carbon Fuel Standard) credits and RINs (Renewable Identification Numbers) which are basically credits that companies that do not match their Carbon reduction requirements (usually Oil & Gas companies) buy from companies producing them in excess in a separate market.

Before March 31, 2017, the company produced at their own production plants a portion of the RNG that they sold. Post that, they sold those assets to BP and became a pure downstream player.

To help facilitate the transition of trucking fleets to natural gas, CLNE has launched the Zero Now truck financing program, which is intended to increase the deployment of the commercially available ultra-low NOx natural gas heavy duty trucks in the United States and encourage these operators to fuel their trucks at CLNE stations.

October 23, 2020

Their customer base can be divided into the below mentioned categories:

- Airports
- Refuse
- Public Transit
- Industrial and Institutional Customers (via virtual Natural Gas Pipelines)
- Government Fleets

More than Just Fuel: Turnkey Solutions

Investment Thesis 1: CLNE's RNG product 'Redeem' will drive long term growth

Redeem was the first commercially available RNG vehicle fuel, derived from capturing biogenic methane that is produced from the decomposition of organic waste from dairies, landfills, and wastewater treatment plants. Redeem reduces climate-harming greenhouse gas emissions by at least 70%, and even up to 300% depending on the source of the RNG.
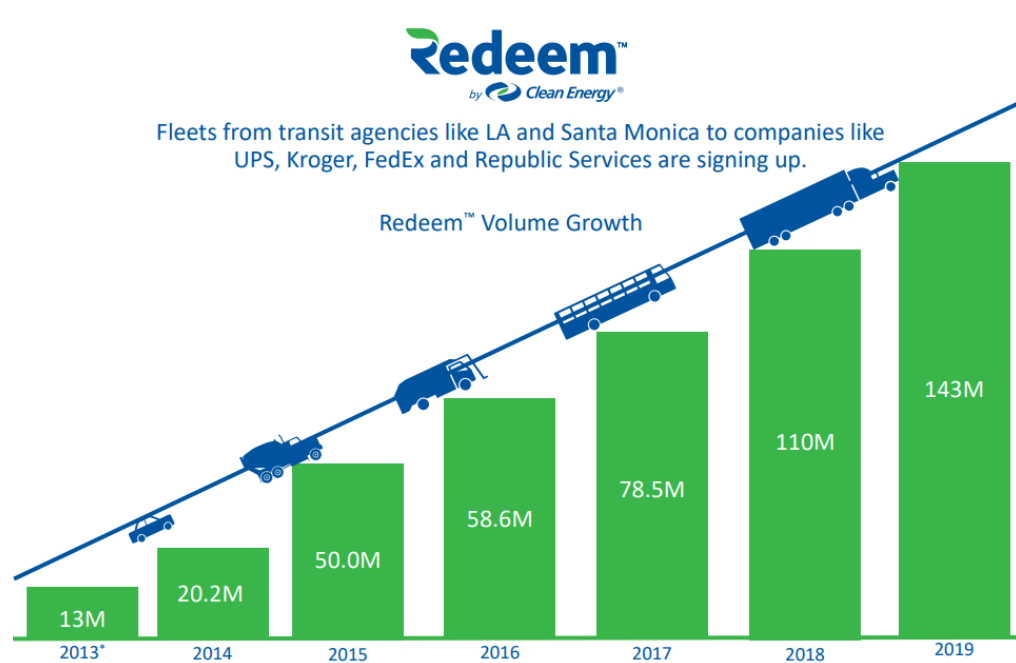
In 2019, CLNE committed to having 100% of their business to supply Redeem by 2025. By transitioning exclusively to Redeem, Clean Energy Fuels would outdistance other alternative fuels, including electric vehicles, which are not expected to hit that mark until 2045.

The environmental impact of replacing 143 million gallons of diesel fuel with Clean Energy's Redeem™ renewable natural gas. (Graphic: Business Wire)

In 2014, the first full year it was available, Clean Energy delivered 20.2 million gallons of Redeem to their stations, which represented 7% of their overall mix, compared to 143 million gallons in 2019, representing 35.7%. This demonstrates a significant growth in demand as fleets see switching to RNG as an economical and easy way to meet their own sustainability goals, with a payback period of 2 - 2.5 years.

Their ambitious plans are driven by major contracts they have signed in the past few months, including a seven-year contract with UPS for 170 million gallons, a contract with the New York Metropolitan Transportation Authority (MTA) to power their 800 natural gas transit buses, and more to follow as they move towards their 2025 goal.

Redeem™ Volume Growth

Fleets from transit agencies like LA and Santa Monica to companies like UPS, Kroger, FedEx and Republic Services are signing up.

To aid their efforts, they have launched the Zero Now program, where you can lease or purchase a fleet of new natural gas vehicles for the same price of a diesel fleet, equipped with the Cummins Westport ISX12N Near Zero engine, which offers the same power, torque, and reliability of its diesel counterpart, and meets the optional low NO_x standard set by CARB (California Air Resources Board) – 90% lower than the current EPA emission standard.

As a cherry on top, Clean Energy will also guarantee a fuel price on Redeem that is discounted to diesel for the financing term, and help fleet owners apply for any available grant funding to make the switch to natural gas even more affordable.

The contract structure will ensure that fleets use one of their 550+ gas stations, adding Gasoline Gallon Equivalents (GGEs) sold over the long term, and boosting top-line.

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Investment Thesis 2: Strong Balance sheet and going debt-free this quarter makes CLNE a great value proposition

In December 2019, the government reinstated the Alternative Fuels Tax Credit (AFTC) retroactively from 2018 and through 2020 which is a $0.50 per gallon tax credit for alternative fuel that is sold for use or used as a fuel to operate a motor vehicle.

This allowed CLNE to pay-off all their debt in the last quarter and the stock is currently trading at a Price/Book Value of 1.1x. Moving into this transition to an RNG supplier from a CNG/LNG supplier with a clean balance sheet will allow the management to allocate CapEx effectively and raise ample capital if and when required in the future.

The only debt facilities remaining on their balance sheet are the NG advantage and SG credit facility, which they use to fund their NG virtual pipeline and Zero-Now program respectively, and have interest payments of approximately $1.87 MM per year, with a cash balance of $79 MM as of the last reported quarter.

The street is overlooking the ability of this structure to boost their bottom-line and provide a clear path to profitability in our opinion.

Investment Thesis 3: CLNE provides direct exposure to Natural Gas and increases renewable exposure through 'Redeem' for the Energy portfolio

None of our current holdings give us direct exposure to Natural Gas, which is a recognized 'transition' fuel from oil to renewables. CLNE's plans of gradually moving to 100% renewables by 2025 fit perfectly into this transition as they slowly increase their green footprint, while Natural Gas aids that process.

The only alternative that can offer the power, torque, and reliability to the heavy-duty trucking industry except diesel, is hydrogen, which is still in the early stages of development for transportation usage, and experts predict Natural Gas to account for 50-60% of the industry, followed by 15-20% for Hydrogen, and the remaining 20-35% for diesel in the future.
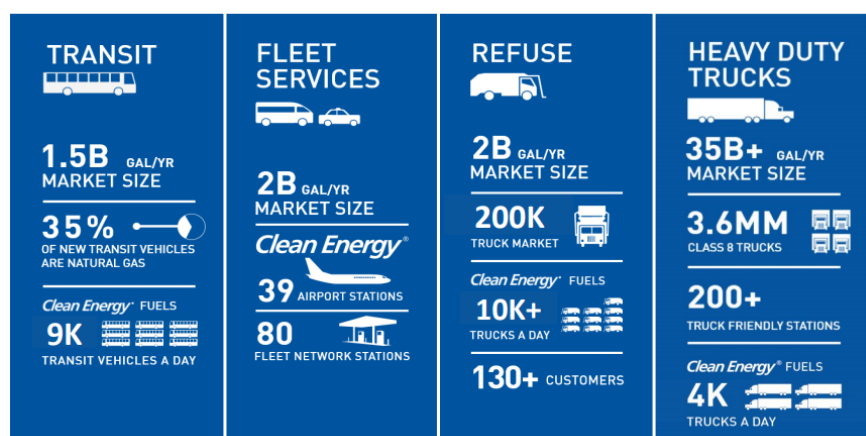
And even within the Natural Gas classification, RNG has more legs and room for growth considering the GHG reduction and carbon neutrality targets set for major companies, and their fleets requiring a shift to clean energy.

This provides them ample opportunity for growth in the 40B+ gallons/year total addressable market.

Investment Catalysts

1) New contract signings: Another major contract like the UPS or the NYMTA contract will give credibility to their plans which are currently in the early stages of a significant growth ramp driven by tightening pollution standards, volatile oil prices, and an increased focus on both 'green' and domestically produced energy.

2) AFTC extension: While the AFTC has been present since its introduction in 2006 and always been reinstated, our projections do not include it post 2020. Having said that, another extension would act as a near-term catalyst for the stock.

3) Transition to renewable energy: Without considering political scenarios, a general shift to renewable energy is inevitable and the availability of a carbon-negative solution today, puts Clean Energy Corp. way ahead in the game to capture the gradual shift.

Investment Risks

1) The Cost Advantage of Natural Gas over Diesel could decline: The Company's natural gas fuel has a cost advantage over gasoline and diesel fuel that increases with higher crude oil prices. Substantial declines in crude oil prices could reduce this advantage but we believe that RNG is immune from this volatility and their Zero Now program proves lucrative enough for people to make a switch in this scenario.

2) Volatility in Natural Gas prices: The Company's revenue is based on volume sold and the market price of Natural Gas, which is variable. However, they receive a margin on their volume sold that does not vary with the price of Natural Gas. Thus, we believe earnings results should have less volatility than revenue.

3) Competing Alternative fuels: Advances in technologies using competitive alternative fuels such as hydrogen, bio-diesel, electricity, or other technologies that improve their comparative advantages could slow the adoption of RNG.

Company Relations and Competitive Landscape

Clean Energy Fuels has the largest nationwide Natural Gas Fueling Network which is about 5 times the size of its closest competitor. Having gas stations at strategic locations allows them to be within all major supply routes and there is always a station within the tank range on those routes.

Largest Nationwide Natural Gas Fueling Network
Public & Private Stations
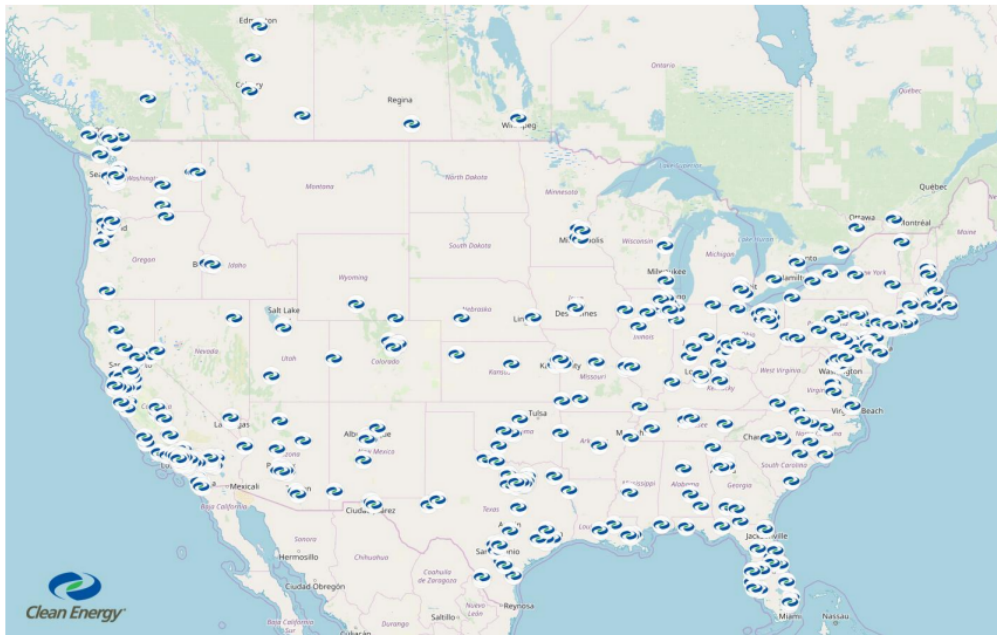
In addition to such a strong network the company has strong relations with corporates possessing large fleets and nationwide operations like UPS, Anheuser-Busch, Pepsi, Frito-Lay to name a few.

Management

President and CEO: Andrew J Littlefair

Andrew J. Littlefair is President and CEO of Clean Energy, a company he co-founded with T. Boone Pickens in 1997.

Previously, Mr. Littlefair served as Vice President of Public Affairs at MESA Inc., then one of America's largest independent producers of natural gas. In this role, Littlefair oversaw the company's natural gas vehicle activities and served as special assistant to Mr. Pickens.

Mr. Littlefair served as Chairman of NGVAmerica for 8 years from 2003 to 2011. In 2004, he was named an NGV Champion by the International Association of Natural Gas Vehicles (IANGV). In 2014, Mr. Littlefair received an Environmental Leadership Award from the California League of Conservation Voters for his work in renewable natural gas and building America's Natural Gas Highway.

Mr. Littlefair graduated from the University of Southern California with a B.A. in Political Science.

Chief Operating Officer: Mitchell Pratt

Mr. Pratt serves as their Chief Operating Officer. In this role, Mitchell initiates business strategy and oversees production across all of Clean Energy's divisions. Before coming to Clean Energy, Mitchell was the General Manager of the Natural Gas Vehicle (NGV) department for the Southern California Gas Company. His 18-year career represents a diverse background of leadership roles ranging from customer satisfaction, financial and distribution operations, to public policy, and sales and market development. He has a degree in Engineering as well as an MBA.

Chief Financial Officer: Robert Vreeland

Robert Vreeland serves as our Chief Financial Officer. In this role he manages the finances for Clean Energy while seeking new revenue opportunities in the marketplace. Prior to this, Bob served as Vice President of Finance and Accounting at Clean Energy from 2012 to 2014. Before joining Clean Energy, Bob was a consultant at RV CPA Services, PLLC, a provider of certified public accounting services. From 1997 to 2009, Bob held various finance and accounting leadership positions including Interim CFO at Hypercom, a global manufacturer of electronic payment and transaction equipment. Prior to Hypercom, he spent twelve years at accounting firm Coopers & Lybrand. He has extensive experience leading global finance and accounting teams as well as deep tax and financial planning expertise. Bob earned a B.S. from Northern Arizona University and is a certified public accountant.

Insider Activity

Since 2019, there has not been any major insider selling except for two transactions by the CEO for tax purposes and there was a lot of buying from 6 insiders after the market crash in March 2020.
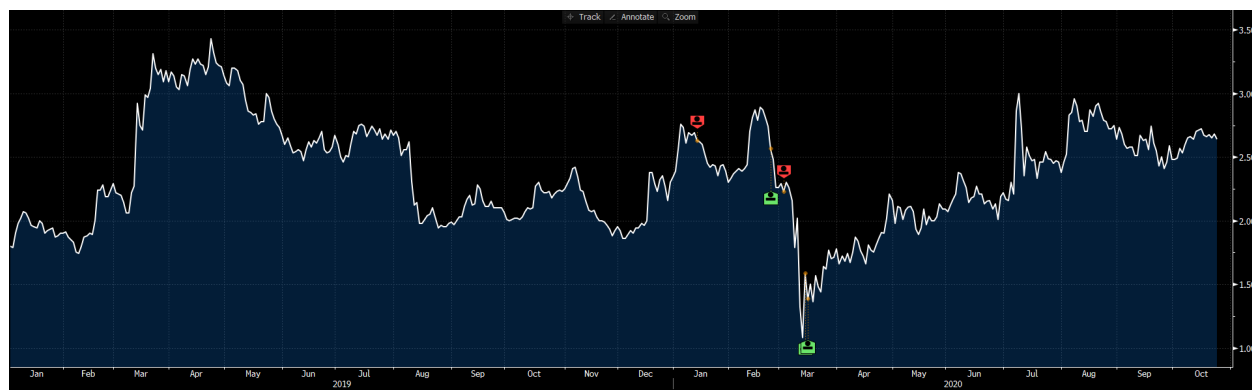
Valuation

Comparative Company Analysis

The comp analysis uses three companies that operate in the same sub-sector as CLNE..
While CapIQ defines them differently based on which activity they are focused more on, we believe these are accurate Comp Sets within our relative mandate. Energy Transfer is a midstream company that deals with Natural Gas and propane while Phillips 66 and Valero are benchmark names that are focused more on oil within the midstream and downstream space.

All of these companies have extensive experience within the industry with founding dates before 1995. All three of them are headquartered in Texas.

The CompCo is based on a median 2021 EV/EBITDA and a median 2021 P/E multiple, applied to Base Case BCF projections and the current share price.

	Valuation		
Metric	**EV / Sales**	**EV / EBITDA**	**P / E**
	2021E	**2021**	**2021**
2021E Metric	325	62	
Median EV/Metric Comps	0.9x	12.7x	
TEV	292	782	292
Cash and Equivalents	0	0	0
Minority Interest	10	10	10
Total Debt	0	0	0
Fair Equity Value	282	772	282
TSO	203	203	203
Expected Stock Price	$1.39	$3.81	$1.39
Weight	0%	100%	0%
Fair Value Stock Price adding cash			$4.22
Current Stock Price			$2.68
Up / Dow nside potential			57%

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We took out the cash during the analysis and added it back to our target price since we assumed a debt-free cash position would not grow with the multiple.

An EV/Sales and P/E valuation was considered but not included in our final valuation since we believe they are not a fair assessment in the current macro environment for our Comp set.

$MMUS Company Name	$MMUS Ticker	Founded	Share Price	TSO	Market Cap	Total Debt	Cash	Net Debt	Minority Interest	TEV	Net Debt / EBITDA	Sales growth
Energy Transfer	NYSE:ET	1995	$6.25	2696	16850	52018	314	51704	18.2	68572	5.0x	4%
Phillips 66	NYSE:PSX	1875	$50.48	437	22045	14446	1890	12556	2580	37181	5.6x	34%
Valero Energy Corporation	NYSE:VLO	1980	$41.97	408	17115	15213	2319	12894	787	30796	10.9x	17%
Average					18670	27226	1508	25718	1128	45516	7.2x	18%
Min					16850	14446	314	12556	18	30796	5.0x	4%
Max					22045	52018	2319	51704	2580	68572	10.9x	34%
Median					17115	15213	1890	12894	787	37181	5.6x	17%
Clean Energy Fuels Corp.	NASDAQ:CLNE	2001	$2.68	203	543.59	0	0	0	10	553.49	0.0x	8%

Sales		EBITDA		EPS (GAAP)		P / E		TEV / Sales		TEV / EBITDA		EBITDA Margin	
2020E	2021E	2020E	2021E	2020E	2021E	2020E	2021E	2020E	2021E	2020E	2021E	2020E	2021E
40549	42208	10340	13797	0.41	1.17	9.8x	5.9x	1.7x	1.6x	6.6x	5.0x	26%	33%
67898	90834	2241	4719	(6.67)	3.66	-	13.8x	1.0x	0.8x	30.6x	14.5x	3%	5%
65160	76198	1188	3700	(3.68)	0.36	-	116.6x	1.1x	0.9x	57.7x	18.5x	2%	5%
57869	69747	4590	7405	-3.31	1.73	9.8x	45.4x	1.3x	1.1x	31.7x	12.7x	10%	14%
40549	42208	1188	3700	(6.67)	0.36	9.8x	5.9x	1.0x	0.8x	6.6x	5.0x	2%	5%
67898	90834	10340	13797	0.41	3.66	9.8x	116.6x	1.7x	1.6x	57.7x	18.5x	26%	33%
65160	76198	2241	4719	-3.68	1.17	9.8x	13.8x	1.1x	0.9x	30.6x	14.5x	3%	5%
300	325	57	62	$0.01	$0.03	260.5x	87.5x	1.8x	1.7x	9.7x	9.0x	19%	19%

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Discounted Cash Flow Analysis

The DCF analysis uses BCF projections for revenue growth from 2020 to 2024. It shows historical financials of CLNE from 2016 to 2019. The 2020 projections account for 1H2020 reported financials and guidance.

		2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E
Total Revenue ($MM)	Base	403	342	346	344	300	325	368	428	499
% Growth			(15.2%)	1.4%	(0.7%)	(12.9%)	8.2%	13.2%	16.5%	16.5%
Volume - related	Base	284	265	287	274	257	301	342	400	468
	Base	284	265	287	274	257	301	342	400	468
	Bear	284	265	287	274	254	295	332	385	447
	Bull	284	265	287	274	260	307	351	414	489
Volume - related % Growth	Base		(6.7%)	8.2%	(4.6%)	(6.0%)	17.0%	13.5%	17.0%	17.0%
	Base		(6.7%)	8.2%	(4.6%)	(6.0%)	17.0%	13.5%	17.0%	17.0%
	Bear		(6.7%)	8.2%	(4.6%)	(7.0%)	16.0%	12.5%	16.0%	16.0%
	Bull		(6.7%)	8.2%	(4.6%)	(5.0%)	18.0%	14.5%	18.0%	18.0%
Compressor Sales	Base	27	24	0	0	0	0	0	0	0
	Base	27	24	0	0	0	0	0	0	0
	Bear	27	24	0	0	0	0	0	0	0
	Bull	27	24	0	0	0	0	0	0	0
Compressor Sales % Growth	Base	0%	-14%	-100%	0%	0%	0%	0%	0%	0%
	Base		(13.9%)	(100.0%)	- -	- -	- -	- -	- -	- -
	Bear		(13.9%)	(100.0%)	- -	- -	- -	- -	- -	- -
	Bull		(13.9%)	(100.0%)	- -	- -	- -	- -	- -	- -
Station Construction Sales	Base	65	52	26	23	21	24	26	29	31
	Base	65	52	26	23	21	24	26	29	31
	Bear	65	52	26	23	21	22	23	24	25
	Bull	65	52	26	23	22	25	28	31	35
Station Construction Sales % Growth	Base	- -	(20.0%)	(50.9%)	(9.4%)	(7.0%)	10.0%	10.0%	10.0%	10.0%
	Base		(20.0%)	(50.9%)	(9.4%)	(7.0%)	10.0%	10.0%	10.0%	10.0%
	Bear		(20.0%)	(50.9%)	(9.4%)	(10.0%)	5.0%	5.0%	5.0%	5.0%
	Bull		(20.0%)	(50.9%)	(9.4%)	(4.0%)	12.0%	12.0%	12.0%	12.0%
AFTC	Base	27	0	27	47	21	0	0	0	0
	Base	26.6	0	26.7	47.1	21.20	0.00	0.00	0.00	0.00
	Bear	26.6	0	26.7	47.1	18.84	0.00	0.00	0.00	0.00
	Bull	26.6	0	26.7	47.1	23.55	0.00	0.00	0.00	0.00
AFTC % Growth	Base	- -	(100.0%)	- -	76.4%	(55.0%)	(100.0%)	- -	- -	- -
	Base		(100.0%)	- -	76.4%	(55.0%)	(100.0%)	- -	- -	- -
	Bear		(100.0%)	- -	76.4%	(60.0%)	(100.0%)	- -	- -	- -
	Bull		(100.0%)	- -	76.4%	(50.0%)	(100.0%)	- -	- -	- -
Other	Base	0	1	8	0	0	0	0	0	0
	Base	0	1	8	0	0	0	0	0	0
	Bear	0	1	8	0	0	0	0	0	0
	Bull	0	1	8	0	0	0	0	0	0

AFTC: The build does not expect AFTC to extend post 2020. The team will update the model accordingly if it goes in our favor in the future, but is not a part of our thesis as of now.

		2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E
Income Statement										
Revenue	**Base**	**403**	**342**	**346**	**344**	**300**	**325**	**368**	**428**	**499**
% Growth			(15.2%)	1.4%	(0.7%)	(12.9%)	8.2%	13.2%	16.5%	16.5%
COGS	**Base**	**256**	**243**	**213**	**212**	**180**	**195**	**221**	**257**	**299**
	Base	256	243	213	212	180	195	221	257	299
	Bear	256	243	213	212	186	201	228	265	309
	Bull	256	243	213	212	174	188	213	248	289
COGS % Sales	**Base**	**63.4%**	**71.0%**	**61.5%**	**61.6%**	**60.0%**	**60.0%**	**60.0%**	**60.0%**	**60.0%**
	Base	63.4%	71.0%	61.5%	61.6%	60.0%	60.0%	60.0%	60.0%	60.0%
	Bear	63.4%	71.0%	61.5%	61.6%	62.0%	62.0%	62.0%	62.0%	62.0%
	Bull	63.4%	71.0%	61.5%	61.6%	58.0%	58.0%	58.0%	58.0%	58.0%
SG&A	**Base**	**106**	**96**	**77**	**73**	**63**	**68**	**66**	**73**	**80**
	Base	106	96	77	73	63	68	66	73	80
	Bear	106	96	77	73	66	71	70	77	85
	Bull	106	96	77	73	60	65	62	69	75
SG&A % Sales	**Base**	**26.2%**	**28.0%**	**22.3%**	**21.3%**	**21.0%**	**21.0%**	**18.0%**	**17.0%**	**16.0%**
	Base	26.2%	28.0%	22.3%	21.3%	21.0%	21.0%	18.0%	17.0%	16.0%
	Bear	26.2%	28.0%	22.3%	21.3%	22.0%	22.0%	19.0%	18.0%	17.0%
	Bull	26.2%	28.0%	22.3%	21.3%	20.0%	20.0%	17.0%	16.0%	15.0%
D&A	**Base**	**59**	**57**	**52**	**50**	**48**	**52**	**51**	**51**	**50**
	Base	59	57	52	50	48	52	51	51	50
	Bear	59	57	52	50	51	55	55	56	55
	Bull	59	57	52	50	45	49	48	47	45
D&A % Sales	**Base**	**14.7%**	**16.6%**	**15.0%**	**14.4%**	**16.0%**	**16.0%**	**14.0%**	**12.0%**	**10.0%**
	Base	14.7%	16.6%	15.0%	14.4%	16.0%	16.0%	14.0%	12.0%	10.0%
	Bear	14.7%	16.6%	15.0%	14.4%	17.0%	17.0%	15.0%	13.0%	11.0%
	Bull	14.7%	16.6%	15.0%	14.4%	15.0%	15.0%	13.0%	11.0%	9.0%
Other Expenses	**Base**	**0**	**68**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
%Sales		- -	19.9%	- -	- -	- -	- -	- -	- -	- -
Tax Rate	**Base**	**35.0%**	**35.0%**	**21.0%**	**21.0%**	**21.0%**	**21.0%**	**21.0%**	**21.0%**	**21.0%**
	Base	35.0%	35.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
	Bear	35.0%	35.0%	21.0%	21.0%	28.0%	28.0%	28.0%	28.0%	28.0%
	Bull	35.0%	35.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%

SG&A: This includes $1.87 MM of Zero Now financing payments

Tax Rate: Bull and Base Case assumes rate to stay at 21%. Bear Case assumes it to rise to 28%

Balance Sheet									
Δ NWC			9	9	23	(68)	7	12	17	20
NWC		113	122	131	154	86	93	106	123	144
AR	**Base**	**101**	**83**	**84**	**147**	**74**	**80**	**91**	**106**	**123**
	Base	101	83	84	147	74	80	91	106	123
	Bear	101	83	84	147	78	84	96	111	130
	Bull	101	83	84	147	70	76	86	100	116
AR Days	**Base**	**92**	**89**	**89**	**156**	**90**	**90**	**90**	**90**	**90**
	Base	92	89	89	156	90	90	90	90	90
	Bear	92	89	89	156	95	95	95	95	95
	Bull	92	89	89	156	85	85	85	85	85
Inventories	**Base**	**60**	**80**	**103**	**89**	**27**	**29**	**33**	**39**	**45**
	Base	60	80	103	89	27	29	33	39	45
	Bear	60	80	103	89	31	33	37	44	51
	Bull	60	80	103	89	24	26	29	34	40
Inventory Days	**Base**	**42**	**53**	**60**	**51**	**55**	**55**	**55**	**55**	**55**
	Base	42	53	60	51	55	55	55	55	55
	Bear	42	53	60	51	60	60	60	60	60
	Bull	42	53	60	51	50	50	50	50	50
AP	**Base**	**48**	**41**	**56**	**81**	**15**	**16**	**18**	**21**	**25**
	Base	48	41	56	81	15	16	18	21	25
	Bear	48	41	56	81	13	14	16	18	21
	Bull	48	41	56	81	17	18	20	24	28
AP Days	**Base**	**34**	**27**	**33**	**47**	**30**	**30**	**30**	**30**	**30**
	Base	34	27	33	47	30	30	30	30	30
	Bear	34	27	33	47	25	25	25	25	25
	Bull	34	27	33	47	35	35	35	35	35
Cash Flow Statement									
CapEx		**24**	**36**	**25**	**27**	**13**	**26**	**29**	**30**	**35**
	Base	24	36	25	27	13	26	29	30	35
	Bear	24	36	25	27	10	16	26	30	35
	Bull	24	36	25	27	16	23	33	39	45
CapEx % Sales		**5.9%**	**10.6%**	**7.3%**	**7.9%**	**4.5%**	**8.0%**	**8.0%**	**7.0%**	**7.0%**
	Base	5.9%	10.6%	7.3%	7.9%	4.5%	8.0%	8.0%	7.0%	7.0%
	Bear	5.9%	10.6%	7.3%	7.9%	3.5%	5.0%	7.0%	7.0%	7.0%
	Bull	5.9%	10.6%	7.3%	7.9%	5.5%	7.0%	9.0%	9.0%	9.0%

CapEx: 2020E based on guidance

WACC Calculation

Assumption	Notes	Low	Base	High
Market Risk Premium (MRP)	Damodaran	5.3%	5.3%	5.3%
Risk Free Rate (R_f)	Spot rate 10 year Treasury	0.8%	0.8%	0.8%
Beta	Bloomberg	1.30	1.30	1.30
Sensitivity Adjustment	+ / - 1.0% from Base	(1.0%)	-	1.0%
Cost of Equity (K_E)	**Calculated using CAPM model**	**6.7%**	**7.7%**	**8.7%**
Pre-tax Cost of Debt	Wtd. Average Interest Rate	0.0%	0.0%	0.0%
Effective Tax Rate	2020E	21.0%	21.0%	21.0%
Post-tax Cost of Debt	**After-Tax Cost of Debt**	**0.0%**	**0.0%**	**0.0%**
Debt / Total Cap	Based on Current Trading Data	0.0%	0.0%	0.0%
WACC	**$K_E*E/(D+E)+K_D*(1-t)*D(D/E)$**	**6.7%**	**7.7%**	**8.7%**

> **WACC:** Weight of debt was considered 0 since the credit facility for Zero Now only demands interest payments going forward which were included in SG&A as previously explained

A Base, Bear, and Bull Case were analyzed by changing Revenue, COGS, and SG&A expectations. Two exit methods were used to derive at an equally weighted average price: PGR and EV/EBITDA. A PGR rate of 2% was used. An EBITDA exit multiple of 8x was used, below consensus because this is more appropriate in our opinion.

These methods lead to a DCF target price of $4.70, representing a 75% upside. See the output of the Base case below and refer to the appendix for the Bear and Bull case.

	Actual Company Reported				BCF Projections				
	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E
Revenue	403	342	346	344	300	325	368	428	499
% Growth		(15.2%)	1.4%	(0.7%)	(12.9%)	8.2%	13.2%	16.5%	16.5%
COGS	256	243	213	212	180	195	221	257	299
Gross Margin	36.6%	29.0%	38.5%	38.4%	40.0%	40.0%	40.0%	40.0%	40.0%
SG&A	106	96	77	73	63	68	66	73	80
D&A	59	57	52	50	48	52	51	51	50
Other Expense	0	68	0	0	0	0	0	0	0
EBIT	(18)	(121)	4	9	9	10	29	47	70
% Sales	(4.3%)	(35.5%)	1.3%	2.6%	3.0%	3.0%	8.0%	11.0%	14.0%
Add: D&A	59	57	52	50	48	52	51	51	50
Adj. EBITDA	42	(65)	56	59	57	62	81	98	120
% Sales	10.4%	(18.9%)	16.3%	17.1%	19.0%	19.0%	22.0%	23.0%	24.0%
Tax Rate	35.0%	35.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
NOPAT	(11)	(79)	4	7	7	8	23	37	55
Plus: D&A	59	57	52	50	48	52	51	51	50
Less: Capex	24	36	25	27	13	26	29	30	35
Less: ΔNWC		9	9	23	(68)	7	12	17	20
Unlevered FCF	24	(68)	21	7	109	27	33	41	50
% of Sales					36.5%	8.2%	9.0%	9.6%	10.0%
Discount Period					0.5	1.5	2.5	3.5	4.5
Discount Factor					0.96	0.89	0.83	0.77	0.72
PV of FCF					105	24	27	32	36

Exit Multiple Method (EV/EBITDA)		Perpetuity Growth Method	
Cumulative PV of FCF	224	Cumulative PV of FCF	224
Terminal Year EBITDA	120	Terminal FCF	50
Exit Multiple	8.0x	PGR	2.0%
Terminal Value	958	Terminal Value	887
Discount factor	0.72	PV of Terminal Value	634
PV of TV	685	Enterprise Value	858
Enterprise Value	909	Less: Total Debt	0
Less: Total Debt	0	Less: Preferred Stock	0
Less: Preferred Stock	0	Less: Noncontrolling Interest	10
Less: Noncontrolling Interest	10	Plus: Cash and Cash Equivalents	79
Plus: Cash and Cash Equivalents	79	Implied Equity Value	927
Implied Equity Value	978	Shares Outstanding	203
Shares Outstanding	203	Implied Share Price	$4.57
Implied Share Price	$4.82	Current Price	$2.68
Current Price	$2.68	Upside	70.6%
Upside	80.0%		
EBITDA 2020	57		
Implied EV/EBITDA 2020	16.0x		

Sensitivity Analysis

Sensitizing PGR and WACC

Sensitivity Tables					
	Perpetual Growth Rate				
	1.50%	1.75%	2.00%	2.25%	2.50%
7.1%	$4.83	$4.91	$4.99	$5.09	$5.20
7.4%	$4.70	$4.77	$4.85	$4.93	$5.03
7.7%	$4.58	$4.64	$4.71	$4.79	$4.87
8.0%	$4.47	$4.52	$4.59	$4.65	$4.73
8.3%	$4.36	$4.42	$4.47	$4.53	$4.60

(WACC shown vertically on left axis)

Sensitizing exit EV / EBITDA and WACC

	EV / EBITDA				
	7.0x	7.5x	8.0x	8.5x	9.0x
7.1%	$4.78	$4.89	$4.99	$5.10	$5.21
7.4%	$4.63	$4.74	$4.85	$4.95	$5.06
7.7%	$4.50	$4.60	$4.71	$4.82	$4.92
8.0%	$4.38	$4.48	$4.59	$4.69	$4.79
8.3%	$4.27	$4.37	$4.47	$4.57	$4.68

(WACC shown vertically on left axis)

Football Field

This football field shows a summary of our valuation:
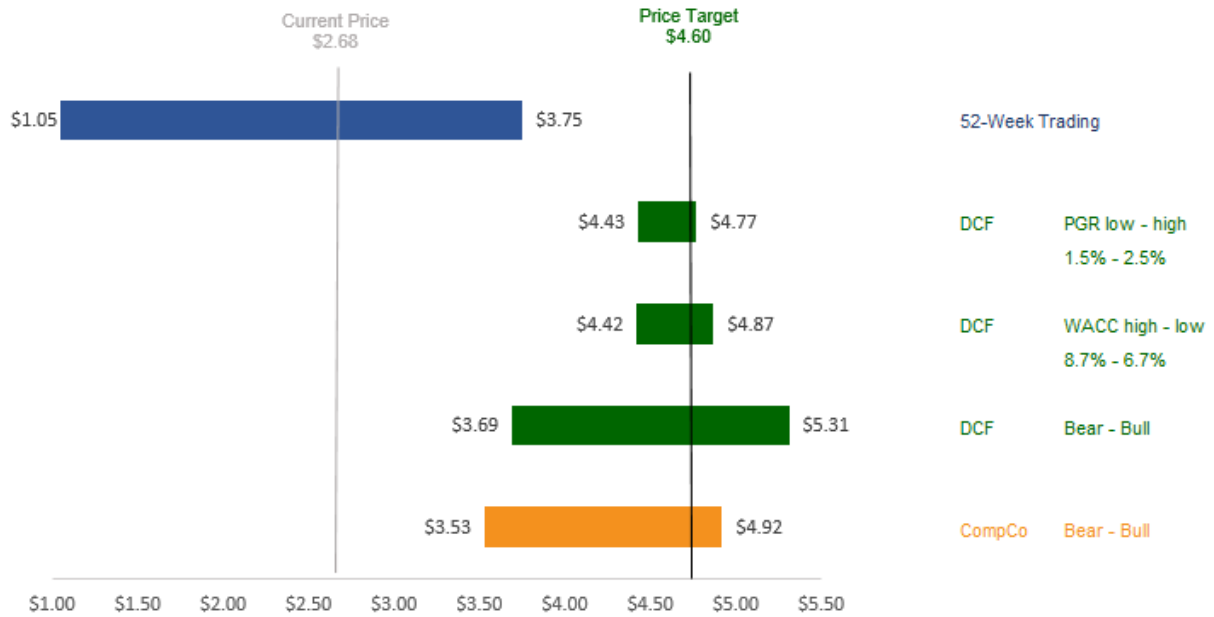
Earnings per Share

	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E
Net Sales	403	342	346	344	300	325	368	428	499
COGS	256	243	213	212	180	195	221	257	299
SG&A	106	96	77	73	63	68	66	73	80
D&A	59	57	52	50	48	52	51	51	50
EBIT	(18)	(53)	4	9	9	10	29	47	70
Interest Expense	(30)	(18)	(16)	(8)	6	2	2	2	2
Other Expense (income)	0	68	0	0	0	0	0	0	0
EBT	12	(104)	20	17	3	8	28	45	68
Tax Rate	35%	35%	21%	21%	21%	21%	21%	21%	21%
Income tax expense (benefit)	(1)	2	(0)	(1)	1	2	6	9	14
Net Income	13	(105)	21	17	2	6	22	36	54
Shares Outstanding					203	203	203	203	203
EPS					$0.01	$0.03	$0.11	$0.18	$0.26
% Growth						197.7%	250.0%	64.3%	50.3%

BCF versus Consensus

	Consensus (Mean)		BCF		Difference	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	287	325	300	325	13	(1)
% Growth		13.6%		8.2%		-5%
COGS	178	218	180	195	2	(23)
% Sales	62.1%	67.0%	60.0%	60.0%	-2%	-7%
SG&A Expense	70	Unavailable	63	68	(7)	
% Sales	24.3%		21.0%	21.0%	-3%	
EBITDA	44	45	57	62	13	17
% Sales	15.4%	13.7%	19.0%	19.0%	4%	5%
D&A	49	50	48	52	(1)	2
% Sales	17.0%	15.3%	16.0%	16.0%	-1%	1%
EBIT	(7)	(8)	9	10	16	18
% Sales	-2.5%	-2.6%	3.0%	3.0%	6%	6%
Tax Rate	-2%	-2%	21%	21%	0	0
Net Income	(7)	(1)	2	6	9	7
% Sales	-2.5%	-0.3%	0.7%	1.9%	3%	2%
EPS	($0.04)	($0.03)	$0.01	$0.03	0.05	0.06
% Growth		25.0%		197.7%		173%

Appendix

Bear Case:

	Actual Company Reported				BCF Projections				
	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E
Revenue	403	342	346	344	294	317	355	409	472
% Growth		(15.2%)	1.4%	(0.7%)	(14.5%)	7.8%	12.0%	15.3%	15.4%
COGS	256	243	213	212	182	197	220	254	293
Gross Margin	36.6%	29.0%	38.5%	38.4%	38.0%	38.0%	38.0%	38.0%	38.0%
SG&A	106	96	77	73	65	70	67	74	80
D&A	59	57	52	50	50	54	53	53	52
Other Expense	0	68	0	0	0	0	0	0	0
EBIT	(18)	(121)	4	9	(3)	(3)	14	29	47
% Sales	(4.3%)	(35.5%)	1.3%	2.6%	(1.0%)	(1.0%)	4.0%	7.0%	10.0%
Add: D&A	59	57	52	50	50	54	53	53	52
Adj. EBITDA	42	(65)	56	59	47	51	67	82	99
% Sales	10.4%	(18.9%)	16.3%	17.1%	16.0%	16.0%	19.0%	20.0%	21.0%
Tax Rate	35.0%	35.0%	21.0%	21.0%	28.0%	28.0%	28.0%	28.0%	28.0%
NOPAT	(11)	(79)	4	7	(2)	(2)	10	21	34
Plus: D&A	59	57	52	50	50	54	53	53	52
Less: Capex	24	36	25	27	10	16	25	29	33
Less: ΔNWC		9	9	23	(60)	7	12	17	20
Unlevered FCF	24	(68)	21	7	98	28	26	28	33
% of Sales					33.2%	9.0%	7.5%	6.8%	6.9%

Exit Multiple Method (EV/EBITDA)		Perpetuity Growth Method	
Cumulative PV of FCF	186	Cumulative PV of FCF	186
Terminal Year EBITDA	99	Terminal FCF	33
Exit Multiple	8.0x	PGR	2.0%
Terminal Value	793	Terminal Value	584
Discount factor	0.72	PV of Terminal Value	418
PV of TV	567	**Enterprise Value**	**604**
Enterprise Value	**754**	Less: Total Debt	0
Less: Total Debt	0	Less: Preferred Stock	0
Less: Preferred Stock	0	Less: Noncontrolling Interest	10
Less: Noncontrolling Interest	10	Plus: Cash and Cash Equivalents	79
Plus: Cash and Cash Equivalents	79	**Implied Equity Value**	**673**
Implied Equity Value	**823**	Shares Outstanding	203
Shares Outstanding	203	**Implied Share Price**	**$3.32**
Implied Share Price	**$4.06**	Current Price	$2.68
Current Price	$2.68	Upside	23.8%
Upside	51.4%		

EBITDA 2020	47
Implied EV/EBITDA 2020	**16.0x**

Bull Case:

	Actual Company Reported				BCF Projections				
	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E
Revenue	403	342	346	344	306	332	379	446	524
% Growth		(15.2%)	1.4%	(0.7%)	(11.2%)	8.5%	14.3%	17.6%	17.6%
COGS	256	243	213	212	177	192	220	258	304
Gross Margin	36.6%	29.0%	38.5%	38.4%	42.0%	42.0%	42.0%	42.0%	42.0%
SG&A	106	96	77	73	61	66	64	71	79
D&A	59	57	52	50	46	50	49	49	47
Other Expense	0	68	0	0	0	0	0	0	0
EBIT	(18)	(121)	4	9	21	23	45	67	94
% Sales	(4.3%)	(35.5%)	1.3%	2.6%	7.0%	7.0%	12.0%	15.0%	18.0%
Add: D&A	59	57	52	50	46	50	49	49	47
Adj. EBITDA	42	(65)	56	59	67	73	95	116	141
% Sales	10.4%	(18.9%)	16.3%	17.1%	22.0%	22.0%	25.0%	26.0%	27.0%
Tax Rate	35.0%	35.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
NOPAT	(11)	(79)	4	7	17	18	36	53	74
Plus: D&A	59	57	52	50	46	50	49	49	47
Less: Capex	24	36	25	27	17	23	34	40	47
Less: ΔNWC		9	9	23	(76)	7	12	17	20
Unlevered FCF	24	(68)	21	7	122	38	39	45	54
% of Sales					39.8%	11.5%	10.3%	10.0%	10.4%

Exit Multiple Method (EV/EBITDA)		Perpetuity Growth Method	
Cumulative PV of FCF	257	Cumulative PV of FCF	257
Terminal Year EBITDA	141	Terminal FCF	54
Exit Multiple	8.0x	PGR	2.0%
Terminal Value	1132	Terminal Value	968
Discount factor	0.72	PV of Terminal Value	693
PV of TV	809	**Enterprise Value**	**950**
Enterprise Value	**1066**	Less: Total Debt	0
Less: Total Debt	0	Less: Preferred Stock	0
Less: Preferred Stock	0	Less: Noncontrolling Interest	10
Less: Noncontrolling Interest	10	Plus: Cash and Cash Equivalents	79
Plus: Cash and Cash Equivalents	79	**Implied Equity Value**	**1,019**
Implied Equity Value	**1136**	Shares Outstanding	203
Shares Outstanding	203	**Implied Share Price**	**$5.02**
Implied Share Price	**$5.60**	Current Price	$2.68
Current Price	$2.68	Upside	87.4%
Upside	108.9%		

EBITDA 2020	67
Implied EV/EBITDA 2020	**15.9x**

Disclosures

Babson College Fund

The Babson College Fund (BCF) is an academic program in which selected students manage a portion of the Babson College endowment. The program seeks to provide a rich educational experience through the development of investment research skills and the acquisition of equity analysis and portfolio management experience. Please visit http://cutler.babson.edu for more information.

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BUY: Expected to outperform the S&P 500 producing above average returns.
HOLD: Expected to perform in line with the S&P 500 producing average returns.
SELL: Expected to underperform the S&P 500 producing below average returns.

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