

# Celestica (NSYE:CLS)

Mischaracterized company run by long-term owner with a margin of safety

**Kaan Tuncel**

Portfolio Manager

kaan.tuncel@stern.nyu.edu

**Charlie Chang**

Senior Analyst

Charlie.chang@stern.nyu.edu

**Price Target: \$12.75 (22% upside)**

April 2<sup>nd</sup>, 2018

## Business Overview

Celestica Inc. is an electronic manufacturing services provider that offers a range of services, including design and development, engineering, supply chain management, and electronics manufacturing. The company serves customers in the aerospace and defense, industrial, smart energy, healthcare, semiconductor equipment, consumer, communications, and enterprise end markets. Celestica Inc. was incorporated in 1996 and is headquartered in Toronto, Canada, and the majority voting shares of the company is owned by private equity firm Onex. The company's revenue breakdown is 32% from advanced technology solutions, 43% from communications and 25% from enterprise.

## Investment Thesis

### • Fundamentally a better business than consensus

Traditional the EMS industry is considered a terrible business due to low growth, low operating margin, pricing pressure from customers and suppliers, and short term contracts. However, we believe there is actually a distinction business quality amongst EMS companies depending on the end market that they serve, as A&D, industrial, and medical are all high quality end market. Celestica currently has 32% of its revenue from the higher quality end markets and continue to improve its business mix both organically and through accretive acquisitions, with the most recent one being Atrenee in January. Additionally, Celestica actually has a disciplined ROIC-centric culture that evaluates all projects based on ROIC. As a result the company, has an average ROIC of 13% since 2013, which is consistently higher than their WACC.

### • Buying a dollar for fifty cents

Celestica is a bargain on both an absolute and relative basis. The company trades at 4.8x EV/EBITDA. We believe this is very cheap for a company with mid teen ROIC, and high quality portion of its business growing at double digits CAGR. On a relative basis, Celestica is cheapest amongst its competitors SANN/JBL/PLXS/FLEX which had an average 7.5x. The company also has a strong balance sheet with a net cash of 401 million and hidden assets a corporate headquarter in Toronto worth \$95 mn, solar assets for sale 24mn. Finally, due to the headwind of component shortage, the company currently has historically high days inventory outstanding. With normalized inventory levels, the company can expect to release \$100 mn in net working capital.

### • Alignment with long-term focused majority shareholder

Onex, a Canada private equity firm with a great track record, has owned 80% of the voting shares and 20% of the common shares since 1994. The owner has worked together with management to instill financial discipline to focus on ROIC as well as return money to shareholders through a total of \$1 billion in buybacks since 2012. We believe Onex is a capable owner with incentives aligned with the minority shareholder and we believe Onex has demonstrated its commitment to the long term value.

## Key Ratios and Statistics:

Price Target	\$12.75
Upside	22%
Share Price (4/1/2018)	\$10.06
Market Cap	\$1458.2
Enterprise Value	\$1147.2
52-Week Low	\$9.79
52-Week High	\$14.74

Figure 1 - Backlog breakdown

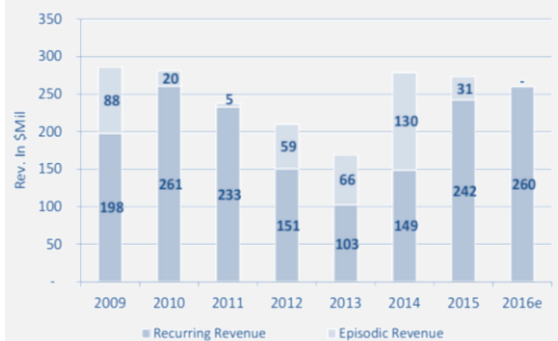
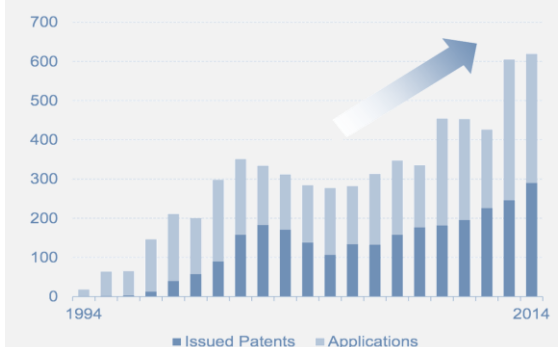


Figure 2 - Patents



# Valuation Appendix

Valuation			
Good Business		Bad Business	
ATS	1,955.36		4,155
EBITDA Marg	7%	3%	124.6542
EV/EBITDA Multiple	7.00		3.30
Enterprise Value	958.13		411.35886
Enterprise Value	1,369.49		
Corp HQ	81.2	15% discount	
Solar Assets	24.3	15% discount	
WC Normalization	104.8	Assume 57.5 days normalized	
Cash	515		
Debt	204		
Legacy WC	381.6	Assume 60% of WC in legacy business adjusted for 105 normalization	
Market Cap	1,749.58		
Price	12.32		
Shares out	142	(0.88)	
Current Market Cap	14582.26		
Current Share Price	10.06		
Upside	22%		

Company Name	TEV/EBITDA LTM	NTM TEV/Forward EBITDA	NTM Forward P/E	MCAp	ND/EBITDA	LTM Net Debt	LTM EBITDA
Sanmina Corporation (NasdaqGS:SANM)	6.2x	5.9x	11.5x	1,863.10	0.5x	156.7x	328.3
Jabil Inc. (NYSE:JBL)	4.9x	4.2x	10.8x	5,034.50	1.0x	1267.8x	1297.6
Plexus Corp. (NasdaqGS:PLXS)	9.9x	9.3x	17.6x	2,012.30	-1.7x	-300.8x	173.4
Flex Ltd. (NasdaqGS:FLEX)	9.0x	7.3x	12.1x	8,616.80	1.5x	1653.5x	1143.4
Benchmark Electronics, Inc. (NYSE:BHE)	6.9x	0.0x	17.4x	1,454.60	-4.0x	-530.9x	134
SMT Corporation (NasdaqGM:SMTX)	112.1x	0.0x	0.0x	38.80	29.8x	14.9x	0.5
IEC Electronics Corp. (AMEX:IEC)	22.5x	9.7x	12.1x	45.90	6.9x	20.6x	3
Nortech Systems Incorporated (NasdaqCM:NSYS)	12.3x	0.0x	0.0x	8.10	8.3x	14.9x	1.8
Celestica Inc. (TSX:CLS)	4.8x	4.1x	9.2x	1,468.10	-1.2x	-310.8x	250.6
High	112.1x	9.7x	17.6x	8,616.80	29.8x	1653.5x	1297.6
Low	4.8x	0.0x	0.0x	8.10	-4.0x	-530.9x	0.5
Mean	21.0x	4.5x	10.1x	2,282.47	4.5x	220.7x	370.3
Median	9.0x	4.2x	11.5x	1,468.10	1.0x	14.9x	173.4

ROIC	2010	2011	2012	2013	2014	2015	2016	Avg
Benchmark	1.7%	5.2%	9.6%	7.3%	9.6%	7.1%	6.9%	6.8%
Flextronics	23.3%	19.3%	14.2%	13.5%	19.7%	11.9%	10.6%	16.1%
Jabil	13.7%	19.9%	16.5%	12.4%	5.4%	17.1%	11.6%	13.8%
Plexus	12.7%	12.6%	11.8%	10.4%	9.8%	10.8%	9.3%	11.1%
Farbrinet		33.8%	14.5%	19.6%	20.6%	16.9%	19.5%	20.8%
Celestica	13.5%	19.4%	10.8%	12.2%	11.5%	11.2%	13.3%	13.1%
Median	13.5%	19.4%	13.0%	12.3%	10.7%	11.6%	11.1%	13.5%
Mean	13.0%	18.4%	12.9%	12.6%	12.8%	12.5%	11.9%	13.6%

# GNC Holdings, Inc. (GNC)

## Hold note

### Robert Yin

Portfolio Manager

robert.yin@stern.nyu.edu

### Sruthi Boddu

Senior Analyst, Consumers/Retail

sruthi.boddu@stern.nyu.edu

April 2, 2018

We recommend maintaining the current position for several reasons. The \$300mm capital injection along with \$100mm of annual FCF available for debt pay-down will help the Company reach a leverage of ~3.2x within a year. As SSS and EBITA margins stabilize and potentially show minor improvements, there will be opportunities for a multiple re-rate over the next 12 months. We believe that the market is also largely overlooking the potential value that the JV can generate. Although it is hard to put an exact number on the value of this “start-up” business, with GNC’s brand value, we don’t think it is aggressive to think that GNC’s 35% ownership stake would be worth ~\$50mm 3 years from now.

### Key Developments:

- **Hayao/CITIC Capital Transaction:** Hayao will invest approximately \$300 million in GNC in the form of newly issued convertible perpetual preferred shares with a conversion price of \$5.35 and a 6.5% annual coupon payable in cash or in kind. The investment is expected to be used by GNC to, among other things, repay outstanding debt and for general corporate purposes, further enhancing GNC’s capital position.
- **Same Store Sales – Key Performance Metric:** The past Q4 17 experienced the strongest YoY SSS growth largely contributed by increased number of transactions as well as strong performance from GNC.com. Based on the past sequential performances over the last 4 quarters, Q4 16 can be viewed as the type of “worst-case” scenario going forward. With this trend continuing we can expect 2018 SSS to stabilize around -1% - 1% YoY, which begs the question, is the current valuation attractive.
- **Pro-Forma Capital Structure & EBITDA:** Looking at the EBITDA & Gross Margin trends from 2013-2017, gross margin has declined by 460 bps and SM&A has increased by 460 bps, collectively bring down the EBITDA margin by 920 bps. In Q4 2017, GNC posted the first Gross Margin YoY improvement – 200 bps as well as a reduced SM&A of 60 bps. Collectively, EBITDA margin was up 210 bps. Post the restructuring of the Term Loan B as well as the potential closing of the \$300mm Convertible Preferred investment, GNC will incur about ~130mm of interest expenses annually. Of which, ~\$110mm will be required to be paid in cash. **Assuming that EBITDA will stay constant – with no further Gross Margin/SM&A margin improvement, the \$274mm in EBITDA would equate to ~\$110mm of FCF available for debt pay down. This also represents a 34% yield on the common equity.**
- **China Opportunity:** In FY 2017, GNC generated about \$117mm from international operations. We estimate that less than \$5mm is coming from China. GNC’s China operation is mainly their TMall store (on Taobao). After looking at the transaction histories, we estimate since the establishment of this online retail store, the total revenue that has been recorded is ~\$16mm. Given that this platform is at least ~3-5 years old, we think the annual contribution is minimal. Furthermore, there are only 30 SKUs being imported and sold. Due to the rigorous approval regulation for supplements in China, GNC would have never been able to tap into the full potential of this market. Establishing this partnership with Hayao and CITIC Capital is the most ideal way to penetrating this market.

### Key Ratios and Statistics:

Share Price (3/30/18)	\$3.86
Market Cap	\$322.9M
52-Week Low	\$3.13
52-Week High	\$10.95

Financials	2014	2015	2016	2017
Revenue	2655	2683.3	2540	2453
EBIT	492.4	479.2	294.4	(249)
EBITDA	548.8	536.4	354.5	(192)
EV/EBITDA	12.1	10.0	10.9	NEG

### Timeline

- Sep. 7, 2017: First round bid submitted to Goldman Sachs by CITIC Capital on Hayao’s behalf
- Oct. 19, 2017: Hayao filed to the Chinese SEC to suspend trading as it contemplates to invest 4 – 5 billion RMB into GNC for a controlled investment
- Nov. 8 – 10, 2017: GNC’s management team met with Hayao in China for due diligence
- Dec. 13, 2017: Hayao and CITIC Capital submitted the second round bid
- Feb. 11, 2017 – Both parties agreed on the \$300mm Convertible Preferred equity investment

We believe the management / board will never agree to a controlled equity investment / buy-out at a share price under \$20 dollars, so the failed attempt of a controlled investment is not surprising. Given that most of the debt on the balance sheet were accumulated due to aggressive share buy-backs at \$30+ per share, this investment structure is an ideal scenario.

# GNC Holdings, Inc. (GNC)

## Appendix

### Same-Store Sales Growth

	2016				2017			
	Q1 3/31	Q2 6/30	Q3 9/30	Q4 12/31	Q1 3/31	Q2 6/30	Q3 9/30	Q4 12/31
<b>Drivers of same store sales:</b>								
Number of transactions	(4.1)%	(5.5)%	(6.6)%	(6.5)%	9.3%	12.3%	12.4%	11.7%
Average transaction amount	1.8%	1.7%	(2.2)%	(5.2)%	(12.1)%	(11.8)%	(9.9)%	(5.4)%
<b>Contribution to same store sales:</b>								
Domestic retail same store sales	(1.9)%	(3.4)%	(6.5)%	(6.6)%	(3.6)%	(0.5)%	(1.2)%	0.2%
GNC.com contribution to SSS	(0.4)%	(0.5)%	(2.1)%	(4.7)%	(0.3)%	(0.4)%	2.5%	5.5%
<b>Total same store sales</b>	<b>(2.3)%</b>	<b>(3.9)%</b>	<b>(8.6)%</b>	<b>(11.3)%</b>	<b>(3.9)%</b>	<b>(0.9)%</b>	<b>1.3%</b>	<b>5.7%</b>

### Pro-Forma Capital Structure and EBITDA

Sources of Funds	(\$mm)
New \$100mm ABL Revolver	\$ -
New \$275mm ABL FILO Term Loan	275
Extended Term Loan B Facility	856
Cash on Balance Sheet	28
<b>Total Sources</b>	<b>\$ 1,159</b>

Uses of Funds	(\$mm)
Refinance Existing Revolving Credit Facility	\$ -
Refinance Existing Term Loan B Facility	1,131
Estimated Financing Fees & OID	28
<b>Total Uses</b>	<b>\$ 1,159</b>

Pro Forma Capitalization	31-Dec-17 (\$mm)	x LTM Adj. EBITDA	Adj.	Pro Forma (\$mm)	x LTM Adj. EBITDA	Pricing	Maturity
Cash & Cash Equivalents	\$ 64		\$(28)	\$ 36			
New \$100mm ABL Revolver	\$ -	- x	\$ -	\$ -	- x	L + 150-200	4.5 years
New \$275mm ABL FILO Term Loan	-	-	275	275	1.0	L + 700	Dec-22
\$225mm Revolving Credit Facility	-	-	-	-	1.0	L + 225-250	Sep-18
Non-Extended Term Loan B Facility	1,131	4.1	(1,131)	-	1.0	L(0.75%) + 250	Mar-19
Extended Term Loan B Facility	-	4.1	856	856	4.1	L + 875	Mar-21
<b>Total Secured Debt</b>	<b>\$ 1,131</b>	<b>4.1 x</b>	<b>\$ -</b>	<b>\$ 1,131</b>	<b>4.1 x</b>		
<b>Net Secured Debt</b>	<b>1,067</b>	<b>3.9</b>	<b>28</b>	<b>1,095</b>	<b>4.0</b>		
Senior Unsecured Convertible Notes	189	4.8		189	4.8	1.500 %	Aug-20
<b>Total Debt</b>	<b>\$ 1,320</b>	<b>4.8 x</b>	<b>\$ -</b>	<b>\$ 1,320</b>	<b>4.8 x</b>		
<b>Net Debt</b>	<b>1,256</b>	<b>4.6</b>	<b>28</b>	<b>1,284</b>	<b>4.7</b>		
Market Capitalization (as of 12-Feb-18)	350	6.1		350	6.1		
<b>Total Capitalization</b>	<b>\$ 1,670</b>	<b>6.1 x</b>	<b>\$ -</b>	<b>\$ 1,670</b>	<b>6.1 x</b>		
<b>FY 2017 Adj. EBITDA</b>	<b>\$ 274</b>						

# Perrigo Company PLC (PRGO)

## Hold note

### Robert Yin

Portfolio Manager

robert.yin@stern.nyu.edu

April 2, 2018

We recommend maintaining the current position for several reasons and advise against increasing our current position.

- We believe today's valuation for PRGO is quite rich and is trading close to consumer staples comps. A multiple expansion from current level is unlikely.
- Margin / topline expansion likely in the long-term, but it will take a while for the new CEO to implement these growth initiatives.
- Other opportunities still exist for us to deploy capital that can generate 50%+ in the next 12 months.

### Key Developments:

- **New CEO:** On Jan. 8, 2018, Perrigo appointed its new CEO, Uwe Rohrhoft, who was previous the CEO of Gerresheimer AG, a German drug manufacturer. Uwe is definitely an industry veteran. However, based on his track record, we don't believe that he will be the CEO that can "knock it out of the park" over the next 12 – 36 months. Uwe's track record is definitely impressive, but his success is built via a much longer duration. During his 7-year tenure at Gerresheimer, he was able to generate a 225% collective return but only increased the firm's EBITDA margin by 230 bps. In our view, he is the right person to bring stability and implement a gradual growth plan for the Company.
- **2018 Guidance:** Perrigo provided EPS guidance of \$5.25 (\$5.05-\$5.45 range) on midpoint sales of \$5.05bn (\$5.0 - \$5.1bn range) with the company's midpoint sales and EPS guidance implying ~2.5% and ~6.5% growth, respectively. Overall, the guidance range suggests fairly solid fundamentals for PRGO in 2018.
- **EBITDA Valuation:** In our view, Perrigo's valuation seems a little bit full. Close consumer staples comparables are trading around 13 – 14x. For example, Proctor & Gamble is trading at 13.4x 2018E EBITDA. We do believe that there is additional upside to be captured at the current price (see DCF valuation in the appendix). We think at the very least (bear case scenario) the stock should trade around 13x – implying around mid-teens upside from today's price point.
- **What We Need to Believe to Double Down:** Bulls can potentially argue that PRGO deserves to trade at a premium on EBITDA to some of the U.S. comparables given the tax rate advantages. The stock can potentially rebound and trade to 19x P/E (a 20% appreciation from the current level and in-line with consumer staples comps). Furthermore, on top of this multiple expansion, we would also need to believe that the new management will be able to achieve high-single digit EPS growth (2018 guidance may be a little sandbagged). However, it would still be a stretch for us to see a 30-40% upside from today's share price.

### Key Ratios and Statistics:

Share Price (3/30/18)	\$83.34
Market Cap	\$12.0B
52-Week Low	\$63.68
52-Week High	\$95.93

Financials	2017	2018E	2019E	2020E
Revenue	4,926	5,039	5,173	5,173
EBIT	1,010	1,064	1,120	1,126
EBITDA	1,105	1,164	1,224	1,229
EV/EBITDA	12.4	11.7	10.5	9.7

# Perrigo Company PLC (PRGO)

## Appendix

### Financial Snapshot

Perrigo Financial Summary (\$ in millions, except per share)	CY2015 Actual	CY2016 Actual	CY2017 Actual	CY2018 Est.	CY2019 Est.
Consumer Healthcare	2,392	2,397	2,430	2,441	2,491
Prescription Products	1,002	1,043	969	1,037	1,075
Other (API)	98	79	56	0	0
Branded Consumer (Legacy Omega Sales)	1,284	1,652	1,491	1,561	1,608
<b>Total Revenues</b>	<b>4,852</b>	<b>5,057</b>	<b>4,926</b>	<b>5,039</b>	<b>5,173</b>
yoy growth	27%	4%	-3%	2%	3%
Cost of Goods Sold	2,646	2,791	2,736	2,762	2,822
Distribution	86	88	87	87	88
R&D	186	184	162	202	207
SG&A	1,027	965	931	925	936
<b>Operating Profit</b>	<b>1,107</b>	<b>1,084</b>	<b>1,010</b>	<b>1,063</b>	<b>1,120</b>
Interest and other, net	(246)	(194)	(165)	(124)	(124)
<b>Income before taxes</b>	<b>861</b>	<b>890</b>	<b>844</b>	<b>939</b>	<b>996</b>
Tax Expense	213	187	142	193	189
<b>Adjusted Cash Net Income</b>	<b>799</b>	<b>728</b>	<b>703</b>	<b>747</b>	<b>807</b>
<b>Adjusted Cash EPS; Fully Diluted</b>	<b>\$5.57</b>	<b>\$5.07</b>	<b>\$4.93</b>	<b>\$5.28</b>	<b>\$5.70</b>
yoy growth	51%	-9%	-3%	7%	8%

	2018 Guidance (March 2, 2018)
<b>Net Sales</b>	<b>\$5.0B - \$5.1B</b>
Adjusted DSG&A as % of Net Sales	~20%
R&D as % of Net Sales	~4%
Adjusted Operating Income	\$1.03B - \$1.09B
Interest & Other Expense	\$125M
Adjusted Effective Tax Rate	~20.5%
<b>Adjusted EPS</b>	<b>\$5.05 - \$5.45</b>
Diluted Shares Outstanding	~142M
<b>Segment Outlook</b>	
<b>Consumer Healthcare Americas</b>	
Net Sales	~\$2.44B
<b>Consumer Healthcare International</b>	
Net Sales	~\$1.56B
<b>RX Pharmaceuticals</b>	
Net Sales	~\$1.06B

### DCF Valuation (Conservative Case)

Valuation	
Present value of cash flows	3,767
Present value of terminal value	11,228
Enterprise value	14,995
Minus: net debt	1,833
Equity value	13,161
Equity value per diluted share	<b>\$93</b>
Current share price	\$83
Upside/(downside) potential	<b>12%</b>

WACC calculation	
Cost of equity (CAPM)	9.0%
Beta	1.00
Equity risk premium	7%
Risk free rate	3%
Cost of debt	4.0%
Tax-adjusted cost of debt	3.2%
% equity	77.9%
% debt	22.1%

Equity value per diluted share		0.8%	1.0%	1.3%	1.5%	1.8%	2.0%	2.3%	2.5%
9.5%	\$	60.1	\$ 61.6	\$ 63.2	\$ 64.9	\$ 66.8	\$ 68.7	\$ 70.8	\$ 73.0
9.0%	\$	64.3	\$ 66.0	\$ 67.9	\$ 69.9	\$ 72.0	\$ 74.2	\$ 76.7	\$ 79.3
8.5%	\$	69.0	\$ 71.0	\$ 73.2	\$ 75.5	\$ 77.9	\$ 80.6	\$ 83.5	\$ 86.6
8.0%	\$	74.4	\$ 76.8	\$ 79.3	\$ 82.0	\$ 84.9	\$ 88.0	\$ 91.5	\$ 95.2
7.5%	\$	80.6	\$ 83.4	\$ 86.3	\$ 89.5	\$ 93.0	\$ 96.8	\$ 101.0	\$ 105.6
7.0%	\$	87.8	\$ 91.0	\$ 94.6	\$ 98.5	\$ 102.7	\$ 107.3	\$ 112.5	\$ 118.2
6.5%	\$	96.2	\$ 100.1	\$ 104.4	\$ 109.2	\$ 114.4	\$ 120.2	\$ 126.7	\$ 134.0
6.0%	\$	106.2	\$ 111.0	\$ 116.3	\$ 122.3	\$ 128.9	\$ 136.3	\$ 144.7	\$ 154.4
5.5%	\$	118.3	\$ 124.3	\$ 131.1	\$ 138.6	\$ 147.2	\$ 157.0	\$ 168.3	\$ 181.5

Assumptions	
WACC	7.7%
Residual growth rate	2.0%
Shares - diluted	141.5
Tax rate	21.0%

Implied multiples	
Enterprise value / 2018 EBITDA	12.9x
Enterprise value / 2017 EBITDA	13.6x
Terminal value / Last E EBITDA	12.3x



# Purple Innovation (NASDAQ:PRPL)

Great product in a growing industry with a shareholder-aligned manager-owner

**Robert Yin**

Portfolio Manager

Jie.yin@stern.nyu.edu

**Price Target: \$6.13 (40% upside)**

April 2<sup>nd</sup>, 2018

## Business Overview

Purple Innovation ([www.purple.com](http://www.purple.com)) is a consumer products company based in Utah that sells mattresses and accessories, known for its quirky viral marketing videos (which have over 1 billion collective views). Purple went public via a reverse-merger on February 2, 2018.

## Investment Thesis

- **The company is at the very beginning stages of growth from:**
  1. Natural market growth from increased online penetration (only 7% penetrated in 2017E)
  2. Significant rollout of offline retail distribution at Mattress Firm and other partners
  3. New product launches and innovation
- **Purple has an awesome product that customers love; they have best-in-class in viral marketing and are building a brand**
- **The company has profitable economics and high returns with potential for improvement**
- **Absolute and relatively cheap valuation provides downside protection**
- **Interests aligned with 82% insider ownership**

## Valuation

- **Base Case:** 25% CAGR for direct-to-consumer (premium to online market growth), \$450mm in sales at retail (the company believes that simply Mattress Firm alone is a \$1bn opportunity) and international/other at 20% of US DTC (lower than traditional US mattress comps), driving 34% overall growth (below management's 3-5 year outlook for 35-50%+ growth)
- **Bear Case:** 15% overall revenue CAGR, starting from the low end of management guidance
- **Bull Case:** premium to the Base Case, within management's 3-5 year growth outlook

## What is the Market Missing?

- When private, Purple had received multiple private equity offers, which it turned down due to corporate governance and control. The company was too early to go IPO and had a need for growth capital when it decided to go with this SPAC in July 2017 (the founders are also 61 and 68, respectively, and wanted some liquidity). At the time, the valuation was set at \$900mm (2.1x 2018E revenue); however, Purple mis-forecast Q4 numbers, resulting in a very slight, non-economic miss<sup>6</sup>. This miss nevertheless spooked investors (many of whom are loathe to invest in a SPAC to begin with), and resulted in the significant reduction in the purchase price to \$500mm in the second week of January. Furthermore, this is not a typical company for SPACs (most of which are shorter-term investors). All this led to a need for capital to support the deal.

## Key Ratios and Statistics:

<b>Current Price</b>	\$8.22
<b>Price Target</b>	\$12.45
<b>Upside (Downside)</b>	52%
<b>Market Cap</b>	\$441.9M
<b>52-Week Low</b>	\$8.22
<b>52-Week High</b>	\$13.90
<b>Avg Daily Volume (90d)</b>	60k

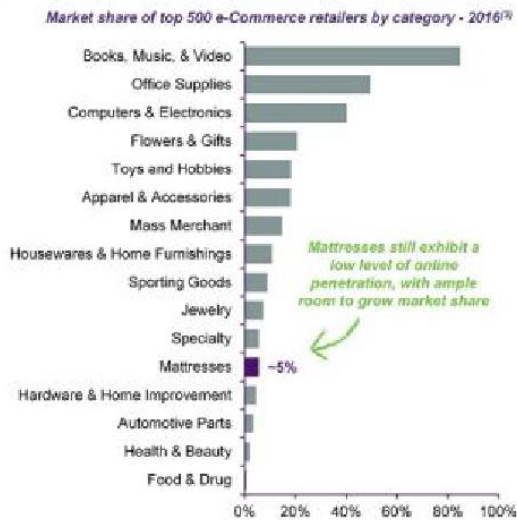
*\$ mm except per share figures*

<b>Share Price</b>	<b>\$ 8.34</b>
<b>PF Shares</b>	<b>53.8</b>
Coliseum Capital	5.3
Public Shareholders	4.4
Purple Insiders (InnoHold)	44.1
Memo: Warrants (Out of Money)	14.2
<b>PF Market Cap</b>	<b>\$ 448.7</b>
PF Net Debt	(25.0)
<b>TEV</b>	<b>\$ 423.7</b>

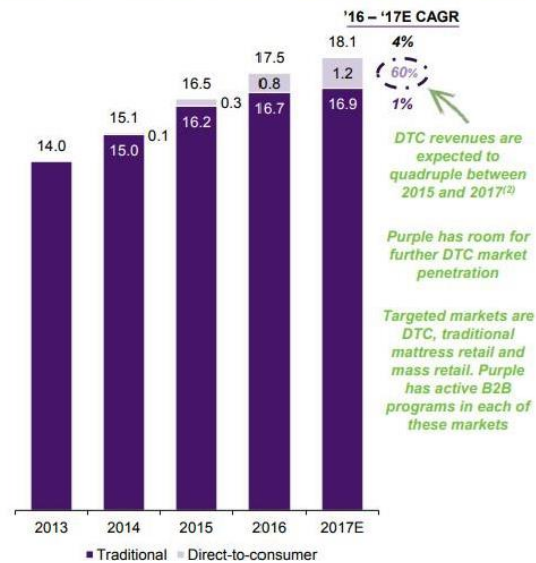
<b>TEV / 2017E Rev</b>	<b>2.2x</b>
<b>TEV / 2018E Rev</b>	<b>1.1x</b>
<b>TEV / Adj. "Run-rate" 2018E EBIT</b>	<b>10.6x</b>
<b>Adj. "Run-rate" 2018E P/E</b>	<b>14.9x</b>

## Company Economics Appendix

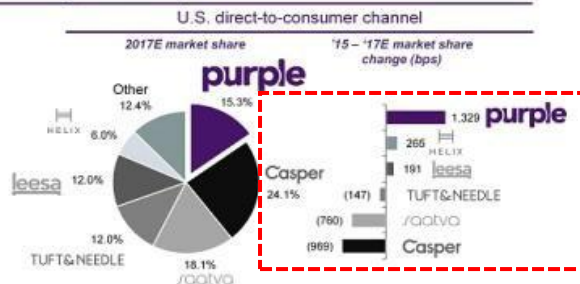
The industry is still in relatively early stages in terms of online penetration



U.S. mattress industry is large, stable and growing<sup>(1)(2)</sup> (\$bn)



...translating into rapid market share gains vs. competitors<sup>(2)</sup>





## Valuation Appendix

	Market Cap.	TEV	'17-'20 Rev. CAGR	'17 Gross Margin	2017A	2018E	2019E	2017A	2018E	2019E
(\$ mm)										
<b>High Growth Consumer Goods:</b>										
Floor & Décor	4,578	4,765	22%	41%	3.5x	2.7x	2.3x	41x	32x	26x
Canada Goose (\$CAD)	1,192	1,427	18%	57%	2.8x	2.3x	1.9x	15x	12x	10x
Ulta	14,477	14,370	13%	36%	2.4x	2.1x	1.9x	19x	15x	13x
E.L.F.	892	1,054	14%	62%	3.9x	3.4x	3.0x	22x	19x	16x
Lulu Lemon	9,902	9,252	10%	53%	3.5x	3.1x	2.9x	19x	17x	15x
The Blue Buffalo	6,539	6,625	11%	46%	5.3x	4.8x	4.4x	22x	22x	17x
<b>Mean</b>	<b>6,263</b>	<b>6,249</b>	<b>15%</b>	<b>49%</b>	<b>5.3x</b>	<b>4.8x</b>	<b>4.4x</b>	<b>22x</b>	<b>22x</b>	<b>17x</b>
<b>High Growth E-Commerce:</b>										
Eve (GBP)	176	139	80%	56%	5.1x	2.1x	1.2x	(9x)	(10x)	463x
Boohoo.com (GBP)	2,127	2,014	35%	53%	3.5x	2.6x	1.9x	49x	38x	29x
Asos (GBP)	5,717	5,556	24%	50%	2.9x	2.3x	1.8x	70x	55x	44x
Zalando (EUR)	11,029	9,958	21%	44%	2.2x	1.8x	1.5x	46x	37x	26x
Etsy	2,378	2,079	17%	44%	4.8x	4.0x	3.4x	212x	39x	-
<b>Mean</b>	<b>4,285</b>	<b>3,949</b>	<b>36%</b>	<b>49%</b>	<b>3.7x</b>	<b>2.6x</b>	<b>2.0x</b>	<b>74x</b>	<b>32x</b>	<b>141x</b>
<b>Tradition Mattress &amp; Furniture Stores:</b>										
Sleep Country (CAD)	1,305	1,378	10%	29%	2.4x	2.1x	2.0x	17x	15x	13x
Tempur + Sealy	3,466	5,181	4%	42%	1.9x	1.8x	1.8x	16x	15x	14x
Sleep Number	1,545	1,515	8%	62%	1.1x	1.0x	1.0x	18x	22x	18x
Leggett & Platt	6,432	7,287	5%	23%	1.8x	1.7x	1.7x	16x	14x	13x
<b>Mean</b>	<b>3,187</b>	<b>3,840</b>	<b>6%</b>	<b>39%</b>	<b>1.8x</b>	<b>1.7x</b>	<b>1.6x</b>	<b>17x</b>	<b>16x</b>	<b>14x</b>
<b>Purple (Baleen estimates)</b>	<b>551</b>	<b>516</b>	<b>64%</b>	<b>46%</b>	<b>2.7x</b>	<b>1.3x</b>	<b>0.9x</b>	<b>NM</b>	<b>57x</b>	<b>14x</b>
<b>Purple (midpoint management guidance)</b>	<b>551</b>	<b>516</b>	<b>65%</b>	<b>46%</b>	<b>2.7x</b>	<b>1.2x</b>	<b>0.9x</b>	<b>NM</b>	<b>45x</b>	<b>11x</b>

Market data as of 1/16/18

\$ in mm, except per share		Base Case				Bear Case				Bull Case			
		2016	2017E	2018E	2023E	'18-'23 CAGR	2018E	2023E	'18-'23 CAGR	2018E	2023E	'18-'23 CAGR	
DTC	\$	65	\$ 191	\$ 350	\$ 1,068	25%	\$ 350	\$ 704	15%	\$ 350	\$ 1,569	35%	
Retail		-	6	45	450	58%	15	30	15%	45	600	68%	
International & New Products		-	-	5	214	112%	5	10	15%	5	392	139%	
<b>Total Revenue</b>	<b>\$</b>	<b>65</b>	<b>\$ 197</b>	<b>\$ 400</b>	<b>\$ 1,732</b>	<b>34%</b>	<b>\$ 370</b>	<b>\$ 744</b>	<b>15%</b>	<b>\$ 400</b>	<b>\$ 2,561</b>	<b>45%</b>	
<i>Implied US Market Share</i>		0.4%	1.3%	2.6%	8.3%		2.6%	8.3%		2.6%	8.3%		
<b>EBIT</b>	<b>\$</b>	<b>3</b>	<b>\$ (5)</b>	<b>\$ 260</b>			<b>\$ 60</b>			<b>\$ 384</b>			
<i>EBIT Margin</i>		4.6%	-2.7%	15.0%			8.0%			15.0%			
<i>'17 - '23 Inc. Margin</i>				17.3%			11.9%			16.5%			
Net Income (25% Tax Rate)		2	(5)	195			45			288			
<b>Adj. EPS</b>	<b>\$</b>	<b>0.03</b>	<b>\$ (0.10)</b>	<b>\$ 2.87</b>			<b>\$ 0.83</b>			<b>\$ 4.24</b>			
<b>Target Multiple</b>					<b>17.5x</b>			<b>15.0x</b>			<b>20.0x</b>		
<b>Target Price</b>				<b>\$ 50.15</b>			<b>\$ 12.45</b>			<b>\$ 84.75</b>			
<b>Implied TEV</b>	<b>\$</b>	<b>453</b>		<b>\$ 3,410</b>			<b>\$ 670</b>			<b>\$ 5,763</b>			
TEV / Rev				2.0x			0.9x			2.3x			
TEV / EBIT				13.1x			11.3x			15.0x			
<b>5-Year Returns</b>													
MOIC				6.0x			1.5x			10.2x			
IRR				47.6%			20.0%			62.0%			

\$ mm except per share figures

			2016	2017A	2018E
<b>Share Price</b>	<b>\$ 8.34</b>	<b>Revenue</b>	<b>\$ 66</b>	<b>\$ 197</b>	<b>\$ 400</b>
		<i>% Growth YoY</i>		198%	103%
<b>PF Shares</b>	<b>53.8</b>	<b>Gross Profit</b>	<b>\$ 26</b>	<b>\$ 88</b>	<b>\$ 196</b>
Coliseum Capital	5.3	<i>% Gross Margin</i>	39%	45%	49%
Public Shareholders	4.4	<b>EBIT</b>	<b>\$ 3</b>	<b>\$ (5)</b>	<b>\$ 20</b>
Purple Insiders (InnoHold)	44.1	<i>% EBIT Margin</i>	4%	-1%	5%
Memo:Warrants (Out of Money)	14.2				
<b>PF Market Cap</b>	<b>\$ 448.7</b>	<b>EPS</b>	<b>\$ 0.03</b>	<b>\$ (0.10)</b>	<b>\$ 0.28</b>
PF Net Debt	(25.0)	Adj. "Run-rate" EBIT	\$	19.7	\$ 40.0
<b>TEV</b>	<b>\$ 423.7</b>	<i>% "Run-rate" EBIT Margin</i>		10%	10%
		<b>Adj. "Run-rate" EPS</b>	<b>\$ -</b>	<b>\$ 0.27</b>	<b>\$ 0.56</b>
TEV / 2017E Rev	2.2x				
TEV / 2018E Rev	1.1x				
TEV / Adj. "Run-rate" 2018E EBI	10.6x				
Adj. "Run-rate" 2018E P/E	14.9x				