

CANALYST NEWSLETTER: Q1 LESSONS AND SECRET WEAPONS

Can you believe it's already April and almost earnings season again? The time between Q1 and Q2 seasons doesn't give you much of a break, but we're hoping to make it easier for you with some actionable insight into Q1 and a few secret weapons to make Q2 a success. Read on...



shutterstruck

Investors did not treat <u>Shutterstock</u> [NYSE:SSTK] shares well after fourth quarter 2016 earnings were released in late February. Shares plunged 20% over the course of the following week, due to missing management's FY2016 estimates and weaker-thanexpected guidance.

Could having access to the Canalyst model database have helped your analysis in predicting this?

													-	
		FY2012	FY2013	FY2014	Q1-2015	Q2-2015	Q3-2015	Q4-2015	FY2015	Q1-2016	Q2-2016	Q3-2016	Q4-2016	F
	Shutterstock Downloads Analysis													
А	BOP Images in collection, mm	17.4	23.3	32.2	46.8	51.6	57.2	63.7	46.8	71.4	81.0	92.1	102.7	
В	Net Additional, mm	5.9	8.9	14.6	4.8	5.6	6.5	7.7	24.6	9.6	11.1	10.6	12.0	
A+B = C	EOP Images in collection, mm	23.3	32.2	46.8	51.6	57.2	63.7	71.4	71.4	81.0	92.1	102.7	114.7	
(A+C)/2 = D	Average Images in collection, mm	20.4	27.8	39.5	49.2	54.4	60.5	67.6	59.1	76.2	86.6	97.4	108.7	
F/D = E	Image Utilization, downloads/image	3.7 x	3.6 x	3.2 x	2.7 x	2.6 x	2.5 x	2.4 x	2.5 x	2.2 x	2.0 x	1.7 x	1.7 x	
F	Paid Downloads, mm	76.0	100.2	125.9	33.4	35.9	38.1	39.8	147.2	41.2	43.4	41.2	46.2	
H/F = G	Revenue/Download, \$	\$ 2.23	\$ 2.35	\$ 2.61	\$ 2.92	\$ 2.91	\$ 2.82	\$ 2.91	\$ 2.89	\$ 2.83	\$ 2.87	\$ 2.99	\$ 3.05	\$
н	Total Revenue, mm	169.6	235.5	328.0	97.5	104.4	107.3	116.0	425.1	116.7	124.4	123.1	140.9	

Table One – Using Canalyst Inputs to Back into Management Guidance

Shutterstock provided guidance for FY2016 revenue of between \$495-\$510m. Before earnings, a Canalyst user would first alter the red input cells for Q4 in order to "solve" for the given outlook. From this exercise, it appeared that to hit management's midrange figures, many drivers needed to be "above trend" all-time high image database additions (B), Revenue/Download (G) figures breaking \$3.00 for the first time, and perhaps more notably, flat image utilization as depicted by Canalyst's Image Utilization (E) metric, calculated by dividing that period's paid downloads by the average number of images in the database.

It was important to note that Shutterstock's image utilization had been on decline since the company's inception, and has continuously declined quarter-over-quarter for the past five years.

Table	Two –	Actual	Results
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	FY201	2	FY2013	F	Y2014	F	Y2015	Q	L-2016	Q2	2-2016	Q	3-2016	Q	4-2016	F	Y2016
Shutterstock Downloads Analysis																	
BOP Images in collection, mm	17	.4	23.3		32.2		46.8		71.4		81.0		92.1		102.7		71.4
Net Additional, mm	5	.9	8.9		14.6		24.6		9.6		11.1		10.6		13.5		44.8
EOP Images in collection, mm	23	.3	32.2		46.8		71.4		81.0		92.1		102.7		116.2		116.2
Average Images in collection, mm	20	.4	27.8		39.5		59.1		76.2		86.6		97.4		109.5		93.8
Image Utilization, downloads/image	3.7	x	3.6 x		3.2 x		2.5 x		2.2 x		2.0 x		1.7 x		1.5 x		1.8 x
Paid Downloads, mm	76	.0	100.2		125.9		147.2		41.2		43.4		41.2		42.1		167.9
Revenue/Download, \$	\$ 2.2	23	\$ 2.35	\$	2.61	\$	2.89	\$	2.83	\$	2.87	\$	2.99	\$	3.09	\$	2.94
Total Revenue, mm	169	.6	235.5		328.0		425.1		116.7		124.4		123.1		130.2		494.3

Looking at the actual results, while image growth and Revenue/Download came roughly in line with estimates, it is clear that the market had not been pricing in falling image utilization rates.

As a reminder, Canalyst has no view on particular securities as buys or sells, but is a useful tool for testing your assumptions vs. the Street, and helping you decide which key metrics to focus your limited time on evaluating.



In this segment, we profile an unfollowed company from the hundreds of models we provide with zero sellside coverage. As a reminder, Canalyst does not provide buy or sell recommendations, and this profile is simply intended to highlight how quickly you could get up to speed on a new name.

The ~\$150 million market cap <u>The Eastern Company</u> [NASDAQ: EML] is this quarter's highlight.

As background, The Eastern Company manufactures locking and latch mechanisms for electronic equipment and vehicles through its various subsidiaries. They also manufacture anchoring devices for use in coal mines, as well as iron castings.

The 158 year old industrial company has generated consistent revenues for the past decade, and has only recently seen activist investor activity from Barington Capital, who owns 5.2% of the company. With the recent retirement and passing of Eastern's longtime CEO and Chairman of the Board Leonard Leganza, Barington Capital CEO James Mitarotonda was appointed to Chairman of the Board, bringing with him Barington senior advisor August Vlak as the new CEO.

Looking to spark new growth for the company, the new management team just recently announced the acquisition of Velvac for \$39.5 million, representing Eastern's largest acquisition yet. Velvac manufactures vision systems for heavy-duty vehicles, and the acquisition is expected to be accretive to earnings in fiscal 2018.

Segment margins and revenue growth is summarized below with a snapshot from our model.

	FY2009	FY2010	FY2011	FY2012	FY2015	FY2014	FY2015	Q1-2016	02-2016	03-2016	04-2016	FY2016	01-2017	02-2017	03-2017	04-2017	FY2017
The Eastern Company Overview																	
Industrial Hardware Revenue Growth, %	P.	15.2%	14.9%	9.3%	-15.5%	-2.8%	4.6%	-1.3%	5.1%	-6.8%	1.8%	-0.5%	90.0%	90.0%	90.0%	90.0%	90.09
Security Products Revenue Growth, N		9.2%	4.4%	4.5%	-2.8%	1.2%	14.6%	0.7%	2.9%	-2.0%	3.0%	1.25	3.0%	1.0%	1.0%	3.0%	3.01
Metal Products Revenue Growth, %	-	29.0%	7.4%	22.0%	-5.0%	-1.7%	-18.8%	-46.0%	-21.0%	-22.8%	-15.15	-27.5%	-1.0%	-1.0%	-1.0%	-1.0%	-1.01
Total Revenue Growth, %		15.5N	9.8%	10.3%	-9.6%	-1.1%	2.7%	-10.2%	-0.4%	-7.6%	-0.8%	-4.8%	40.8%	\$9.9%	42.0%	41.5%	41.09
Industrial Hardware Revenue, mm	50.0	\$7.5	66.1	72.8	60.4	58.7	81.8	14.6	15.5	15.2 *	15.4	61.1	27.7	50.2	28.9	29.2	116.0
Security Products Revenue, mm	42.0	45.9	48.0	50.1	45.5	49.4	55.6	14.2	15.9	13.6	13.5	57.5	14.6	16.4	14.1	13.9	59.1
Metal Products Revenue, mm	20.7	26.7	28.8	55.1	53.5	32.8	26.6	4.5	5.1	4.6	5.2	19.3	4.5	5.1	4.6	5.2	19
Total Revenue, mm	112.7	130.1	142.5	157.5	142.5	140.8	144.6	33.1	36.9	33.5	34.1	137.6	46.6	51.6	47.5	48.3	194.
Industrial Gress Margin, N	24.45	23.6%	20.4%	24.0%	23.4W	25.6N	25.25	22.7%	24.4%	27.3%	32.7%	27.2%	24.0%	24.0%	24.0%	24.0%	24.05
Security Gross Margin, %	24.8%	24.4%	23.8%	23.7N	22.0%	25.25	25.6N	24.5%	25.6%	30.6%	30.6%	28.0%	30.0N	30.0%	\$0.0%	30.0%	30.05
Metal Products Gross Margin, N	-3.7%	7.2%	£4N	11.8%	15.5%	15.4%	9.2%	-£.6N	-1.1%	11.2%	24.0%	E.IN	10.0%	10.0%	10.0%	10.0%	\$0.05
Industrial Operating Margin, %	9.2N	9.0N	7.4%	10.5%	1.9%	8.6N	7.0%	4.5%	7.2%	\$0.3%	22.5%	9.5%	6.0%	6.0%	6.0%	6.0%	8.05
Security Operating Margin, N	6.7%	7.4%	7.5%	8.2N	5.7%	8.2%	6.7N	8.0%	9.7%	11.0%	8.5%	9.9%	12.0%	12.0%	12.0%	12.0%	12.05
Metal Products Operating Margin, N	-12.5%	0.15	Lev	\$.35	Les	2.9N	-0.5N	-20.0%	-II.IN	1.7%	34.2N	1.2%			1.0		

Canalyst's full summary page of The Eastern Company can be found here. These summary pages allow you to quickly look through a company's capitalization, operational data, GAAP and Non-GAAP financials, margins, valuation metrics and more.

Summary pages in Canalyst models are directly linked to the fully functional financial model itself. For The Eastern Company, this allows you to forecast the company's future earnings as well as the Velvac acquisition, and view the results in one concise summarized spreadsheet.

The Eastern Company Reports	Dec-09 FY2009	Dec-10 FY2010	Dec-11 FY2011	Dec-12 FY2012	Dec-13 FY2013	Dec-14 FY2014	Dec-15 FY2015	Dec-16 FY2016	Dec-17 FY2017	Dec-18 FY2018	Dec-19 FY2019	Dec-20 FY2020	Dec-21 FY2021
Capitalization Summary	112009	P12010	P12011	P12012	112013	P12014	P12015	PT2016	PT201/	P12018	P12019	P12020	FT2021
Stock Price - Average Toggle >>> Average	\$ 13.85	\$ 14.93	\$ 18.77	\$ 18.69	\$ 16.77	\$ 16.40	\$ 18.22	\$ 17.99	\$ 25.50	\$ 25.50	\$ 25.50	\$ 25.50	\$ 25.50
Adjusted Shares Outstanding - WAD Market Cap - Average	6.2 86.4	6.2 92.4	6.2	6.2	6.2	6.2 102.3	6.2	6.3 112.5	6.3 159.5	6.3 159.5	6.3 159.5	6.3 159.5	6.3 159.5
Cash	16.7	12.2	11.1	18.5	20.0	15.8	17.8	22.7	(9.8)	0.4	11.4	22.6	34.0
Debt	11.4	4.5	6.8	7.5	6.1	4.3	3.2	1.8	1.8	1.8	1.8	1.8	1.8
Other EV Components				-		-	-	-					127.3
Enterprise Value - Average	81.1	84.7	112.3	105.5	90.7	90.8	99.2	91.5	171.1	160.8	149.9	138.7	127.3
Company-Specific Operational Data													
Industrial Hardware Revenue, mm	50.0	57.5	66.1	72.3	60.4	58.7	61.3	61.1	116.0	118.3	120.7	123.1	125.6
Security Products Revenue, mm Metal Products Revenue, mm	42.0	45.9 26.7	48.0 28.8	50.1 35.1	48.8 33.3	49.4 32.8	56.6 26.6	57.3 19.3	59.0 19.1	60.7 18.9	62.0 18.7	63.2 18.5	64.5 18.3
Total Revenue, mm	112.7	130.1	142.9	157.5	142.5	140.8	144.6	137.6	194.1	198.0	201.4	204.8	208.4
GAAP Financials Net Revenue	112.7	130.1	142.9	157.5	142.5	140.8	144.6	137.6	194.1	198.0	201.4	204.8	208.4
COGS (adj. for D&A)	87.9	99.5	111.8	120.7	108.5	104.9	108.3	99.5	142.6	141.9	144.3	146.8	149.3
SG&A (adj. for SBC)	17.0	18.1	18.6	19.8	19.7	20.7	24.3	23.0	33.2	35.2	35.2	35.8	36.5
EBITDA	7.7	12.5	12.4	17.0 0.0	14.2 0.0	15.2 0.0	12.0 0.1	15.1 0.1	18.2 0.2	20.9	21.9 0.2	22.2	22.6
SBC D&A	4.1	3.9	3.7	3.4	3.8	3.5	3.9	3.8	4.0	4.0	4.0	4.0	4.0
Interest expense	1.7	0.3	0.2	0.4	0.3	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Other Items	(0.1)	(0.0)	(0.0)	(0.0)	(0.1)	(0.1)	(0.2)	(0.2)	2.0			-	
EBT Tax	1.9	8.2	8.5 3.0	13.2 4.6	10.1 3.2	11.5 3.9	8.0 2.3	11.2 3.4	11.9 3.6	16.6 5.0	17.6	17.9 5.4	18.3 5.5
Discontinued Operations		-	-	-	-	-	-	-	-	-	-	-	-
Net Income to NCI	1.1		1.1	1.1		1.1	1.1	1.1	1.1			1.1	
Preferred stock dividends													
Net Income from Continued Operation GAAP EPS	1.0 \$ 0.17	5.5 \$ 0.90	5.5 \$ 0.89	8.6 \$ 1.38	6.9 \$ 1.11	7.7 \$ 1.23	5.7 \$ 0.92	7.8 \$ 1.25	8.4 \$ 1.34	11.6 \$ 1.86	12.3 \$ 1.97	12.5 \$ 2.01	12.8 \$ 2.05
										2.00		2.01	2.05
Non-GAAP Financials													
Adjusted EBITDA (No Adjustments)	7.7	12.5	12.4	17.0	14.2	15.2	12.0	15.1	18.2	20.9	21.9	22.2	22.6
Adjusted Net Income Adjusted Earnings Per Share - WAD	1.0 \$ 0.17	5.5 \$ 0.90	5.5 \$ 0.89	8.6 \$ 1.38	6.9 \$ 1.11	7.7 \$ 1.23	5.7 \$ 0.92	7.8 \$ 1.25	8.4 \$ 1.34	11.6 \$ 1.86	12.3 \$ 1.97	12.5 \$ 2.01	12.8 \$ 2.05
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Margin Analysis	-			-	20.000								
COGS Margin, % (adj. for D&A) SG&A Margin, % (adj. for SBC)	78.0%	76.5%	78.3% 13.0%	76.6% 12.6%	76.2%	74.5% 14.7%	74.9% 16.8%	72.3%	73.5%	71.7%	71.7%	71.7%	71.6%
EBITDA Margin, %	6.8%	9.6%	8.7%	10.8%	10.0%	10.8%	8.3%	11.0%	9.4%	10.5%	10.9%	10.8%	10.8%
Adjusted EBITDA Margin, % - (No Adjustments)	6.8%	9.6%	8.7%	10.8%	10.0%	10.8%	8.3%	11.0%	9.4%	10.5%	10.9%	10.8%	10.8%
Cash Show Applied													
Cash Flow Analysis Operating Cash Flow before WC	5.7	10.3	11.1	13.3	11.5	11.1	11.2	12.9	12.5	15.8	16.5	16.7	17.0
Capex	(2.2)	(4.7)	(3.4)	(4.2)	(5.5)		(2.5)	(2.9)	(2.8)	(2.8)	(2.8)	(2.8)	(2.8)
Core FCF, Pre Div	3.5	5.6	7.7	9.1	6.0	7.5	8.6	10.0	9.7	13.0	13.7	13.9	14.2
Dividend Paid Core FCF, Post Div	(2.2)	(3.2)	(2.2)	(3.1) 6.0	(2.6)	(3.0)	(2.8)	(2.8)	(2.8)	(2.8)	(2.8)	(2.8)	(2.8)
Acquisitions		-	-	-	-	(5.0)	-	-	(39.5)	-	-	-	-
Divestiture	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-	-	-	-	-
Change in WC	7.6	(0.8)	(9.7)	0.3	(0.2)		(2.0)	(0.5)				-	-
New Equity Issuance New Debt Issuance	1.0 (2.2)	0.7 (7.0)	0.8	0.1	0.0 (1.4)	0.3 (1.8)	(1.1)	(1.4)		- 1			
Other Items	0.1	0.1	0.0	0.2	(0.3)		(0.8)	(0.5)					
Change in Cash Position	7.8	(4.5)	(1.1)	7.3	1.5	(4.2)	2.0	4.9	(32.5)	10.2	10.9	11.2	11.4
Operating Cash Flow Per Share	\$ 0.92	\$ 1.67	\$ 1.79	\$ 2.14	\$ 1.84	\$ 1.78	\$ 1.79	\$ 2.06	\$ 2.00	\$ 2.53	\$ 2.64	\$ 2.68	\$ 2.72
Core Free Cash Flow Per Share, Pre Div	\$ 0.56	\$ 0.90	\$ 1.24	\$ 1.46	\$ 0.96	\$ 1.20	\$ 1.38	\$ 1.60	\$ 1.55	\$ 2.08	\$ 2.19	\$ 2.23	\$ 2.27
Dividend Per Share	\$ 0.36	\$ 0.52	\$ 0.36	\$ 0.50	\$ 0.42		\$ 0.45	\$ 0.44	\$ 0.44	\$ 0.44	\$ 0.44	\$ 0.44	\$ 0.44
Dividend Payout Ratio vs Core FCF, Pre Div	64.1%	57.6%	28.9%	34.2%	43.8%	40.1%	32.6%	27.5%	28.3%	21.2%	20.1%	19.7%	19.4%
Dividend Payout Ratio vs Earnings Per Share	216.8%	58.1%	40.7%	36.1%	38.0%	39.1%	49.1%	35.3%	32.9%	23.6%	22.4%	21.9%	21.5%
Balance Sheet Ratios													
Net Debt / EBITDA	n/a	0.6 x	0.1 x	n/a	n/a	n/a							
Net Debt / Cash Flow Net Debt / Capital	n/a n/a	0.9 x 12.9%	0.1 x 1.4%	n/a n/a	n/a n/a	n/a n/a							
Net Debt / Capital	nya	nya	nya	ny a	nya	nya	ny a	ny a	12.5%	1.4%	nya	ry a	nya
Profitability Ratio													
ROE	1.6%	8.1%	7.9%	12.3%	9.0%	9.8%	7.4%	9.6%	9.8%	12.5%	12.0%	11.2%	10.5%
ROA ROIC	2.0%	5.6% 7.5%	5.4% 7.5%	8.0% 11.4%	6.2% 8.5%	6.7% 9.4%	4.8% 7.2%	6.4% 9.4%	6.6% 9.7%	8.7% 12.4%	8.6% 11.9%	8.2% 11.1%	7.9%
ROCE	4.2%	9.7%	9.7%	14.2%	10.3%	11.3%	7.5%	10.2%	12.3%	13.8%	13.5%	12.8%	12.2%
Per-Share Growth Metrics Revenue Per Share Growth		16.4%	9.4%	10.0%	-9.6%	-1.1%	2.5%	-4.9%	41.0%	2.0%	1.7%	1.7%	1.7%
Adj. EBITDA Per Share Growth		63.1%	-0.7%	36.4%	-16.4%	-1.1%	-21.2%	-4.9%	20.5%	14.8%	4.7%	1.7%	1.7%
Adj. Earnings Per Share Growth		439.1%	-1.1%	56.3%	-20.0%	11.0%	-25.3%	35.8%	7.3%	39.3%	5.6%	2.0%	2.0%
Operating Cash Flow Per Share Growth		81.6%	7.3%	19.5%	-13.8%	-3.4%	0.3%	15.3%	-2.8%	26.2%	4.4%	1.5%	1.5%
Free Cash Flow Per Share Growth		60.8%	37.7%	17.6%	-34.5%	25.0%	15.2%	16.0%	-3.0%	33.8%	5.4%	1.8%	1.8%
Valuation Metrics													
P/E - Average	83.4 x	16.7 x	21.2 x	13.5 x	15.2 x	13.4 x	19.9 x	14.4 x	19.1 x	13.7 x	13.0 x	12.7 x	12.5 x
EV/EBITDA - Average	10.5 x	6.8 x	9.0 x	6.2 x	6.4 x	6.0 x	8.3 x	6.1 x	9.4 x	7.7 x	6.9 x	6.2 x	5.6 x
P/CF - Average FCF Yield % to Average Market Cap	15.1 x 4.1%	9.0 x 6.1%	10.5 x 6.6%	8.7 x 7.8%	9.1 × 5.7%	9.2 x 7.3%	10.2 x 7.6%	8.7 x 8.9%	12.7 x 6.1%	10.1 × 8.1%	9.7 x 8.6%	9.5 x 8.7%	9.4 x 8.9%
FCF Yield % to Average Enterprise Value	4.3%	6.6%	6.9%	8.6%	6.6%	8.2%	8.7%	10.9%	5.7%	8.1%	9.1%	10.0%	11.2%



UPCOMING IPO MODEL REQUESTS

Love a secret weapon? The Upcoming IPO Model Requests folder on the Canalyst portal may be just the edge you're looking for.

Inside the folder, clients will now find a list of companies that have filed their paperwork for a pending IPO. We regularly monitor for companies that have filed their IPO paperwork, and put these names on the portal in this folder as placeholders. If clients are interested in seeing a pre-IPO model, they simply click the name to request the model. Turn around time for an IPO model request is within 48 hours.

To learn more, contact support@canalyst.com today.

NEWS

DID YOU KNOW?

CB Insights recently released their list of the top companies transforming investment and wealth management, and we're thrilled to see our startup is on the map. Read the full article <u>here</u>.



Canalyst is on a hot streak. In order to keep up with our expansion, we have moved into a larger office in the heart of Vancouver's financial district. Stay tuned for more exciting company news later this spring.

In the meantime, know any rockstars who are passionate about equity research or technology – or both? We're hiring! Please send them to the Canalyst <u>careers page</u> to learn about current job openings.

For more information on anything in the newsletter, or to get a demo of our entire equity model database, contact us today!

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