Buy This Unglamorous Company That Increases Cash Earnings by 20% a Year

June 2017

Chris Mayer

with Thompson Clark
When you think of the world’s greatest investors, I doubt you’ll name Russ Gremel. And yet, he turned $1,000 into $2.1 million.

Gremel is 98 years old today and lives in a bungalow in Chicago’s Jefferson Park, his home for nearly 95 years. He prefers oatmeal and stews to “fancy foods” and enjoys smoking his pipe on his front porch. He never had a mortgage. And his last car was a 25-year-old Dodge Omni.

He retired when he was 45 years old.

But this isn’t another story about how a guy got rich by not spending any money.

About 70 years ago, Gremel bought $1,000 of Walgreens stock... and never sold. He just “sat tight” through booms and busts, inflations, wars, Fed money printing, management changes, etc...

Gremel’s $1,000 grew into $2.1 million – a return of about 13.5% per year over 70 years. (Incidentally, that’s 65% better than the Dow’s 8.2% annual return over the same time period.)

I know you don’t want to wait 70 years. Neither do I.

I retell Gremel’s story because it shows how you can get striking returns in a rather ordinary business. Walgreens is a pharmacy. It doesn’t have a lot of sizzle. But 13.5% annually over 70 years will get you a 2,100-bagger.

As I like to remind people – in this letter, when I speak at conferences or give interviews, and when I meet readers – netting a 100-bagger is all about the math. If you grow your money by 20% per year, you will have a 100-bagger about 25 years later.

Math is math.

So you need to find businesses that can earn those types of returns for years.

An analogy may help: If you want to get from New York to Los Angeles, you can’t focus on the destination. There are no signs in Times Square that point the way to Rodeo Drive.

If you want to get there, you’ll need to focus on heading cross town at 45th Street, taking 11th Avenue south to the Lincoln Tunnel, then heading due west for about 2,800 miles. After about 41 hours, you should start seeing signs for Rodeo Drive.

Most people focus on the destination when they look for 100-baggers. They want to find a stock that fires their imagination: a new drug, a shiny technology, a bold restaurant concept...

But you can get a 100x return with less glamorous businesses. In fact, most of the 100-baggers in my study were basic businesses – insurers, banks, retailers, railroads, pipelines, food companies, etc.

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It Makes Those

Our new pick may lack glamour, but it is a company with the ability to increase cash earnings at a rate of 20% annually for many years. And that’s the best way to find 100-baggers.

Remember... it’s all just math. And I’ll take math over “new,” “shiny,” and “bold” any day.

Let us introduce you to InnerWorkings (INWK).
INWK describes what it does in crabbed corporate speak: “InnerWorkings designs, procures and executes branded marketing materials and retail experiences for the world’s leading brands.”

This probably doesn’t mean much to you. It didn’t mean much to us. Let’s give you some concrete examples.

“Marketing materials” include direct mail pieces. I think we can all visualize what these are because we get them every day. But marketing materials also include displays and signs you see in stores and things like brochures. INWK makes these.

You know those hotel key cards you get? When you check in, the staff puts them in sleeves and writes your room number on them. INWK makes those sleeves.

You know those decorative boxes you get with a bottle of Bombay gin or the artwork on a six-pack of Lucky Beards? INWK makes those.

“Retail experiences” include the layout and design of retail stores, such as the new Nike stores. INWK designed those.

Or look at the new Energizer displays, which you see in pharmacies. INWK made those.

See the picture below for more examples of different packaging – I mean, “retail experiences” – INWK designed. (See Supplement D for more details on what INWK does.)

Large companies – including Nike, InterContinental Hotels, John Deere, Jaguar, Pizza Hut, and many others – outsource these functions to INWK. They sign long-term contracts, typically three to seven years. And INWK enjoys stellar renewal rates, around 97%, which gives it recurring revenues from a blue-chip client base. These figures show how much INWK’s customers value what it does.

And if one of those customers does change its mind, INWK should be fine because no single client makes up more than 5% of its sales.

A Simple Formula for Success

To be simple: INWK succeeds by saving its customers money. Let’s put some dollars to this. You can see how INWK earns a 23% gross margin for its efforts. After overhead costs, INWK nets a 10% profit on this customer. (See "How InnerWorkings Saves Customers Money."

The table on page 4 shows you how one company spent $10.5 million in procurement costs for marketing materials by doing them in-house. By hiring INWK, the customer now spends $8.8 million. Now tell me what manager wouldn’t want to save $1.7 million without sacrificing quality or productivity?

INWK does the job at a lower cost by using a technology it developed called VALO.

Through VALO, INWK has access to 10,000-plus suppliers in over 42 countries and a historical database of over 4.2 million printed materials. VALO allows INWK to find the best fit for the needs of its customer. And it’s working.

How InnerWorkings Saves Customers Money

Everybody wins. The customer saves a bunch of money and INWK makes a 10% return. As INWK adds customers, its own cash earnings increase at a faster rate because its own costs remain relatively fixed. You can see this historically: Earnings per share grew 50%-plus from 2013–2016... more than double its sales growth of 22%.
INWK will also boost earnings per share by buying back shares from time to time (reducing the numbers of shares outstanding). In the first quarter of 2017, INWK bought $10 million of stock, trimming its share count by almost 2% to around 53 million and increasing earnings per share by 2%.

**Discerning “Good” From “Bad”**

The company is off to a good start for the year. CEO Eric Belcher said INWK won more business through May than it did all last year.

“We expect 2017 to be another record year on the top and bottom line,” he said.

INWK spits out a good bit of cash, though the accounting rules obscure earnings power somewhat.

For example, INWK bought a company called EyeLevel in 2013. As part of the deal, INWK agreed to pay the sellers when/if EyeLevel hit certain performance metrics. On the books, INWK carries an estimate of this contingent payment as a liability. INWK adjusts the level of the liability up or down depending on how the assets perform. Since things have been going well, INWK has had to raise the amount of the contingent liability.

And whenever that liability is increased, INWK takes a hit to earnings. Last year, the hit was $10 million in a non-cash expense. But as an owner of the business, you’re not upset if the contingent liability goes up because that means EyeLevel is doing well.

So we compensate for non-cash charges by adding them back in. For 2016, then, cash earnings were $38 million, calculated in the table on the right.

INWK had 53 million shares outstanding at the end of the first quarter. Meaning 2016 cash earnings came to 72 cents per share, which is a better measure of its true cash-earning ability.

<table>
<thead>
<tr>
<th>InnerWorkings’ Estimated Cash Earnings</th>
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<tr>
<td><strong>(In millions of dollars)</strong></td>
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<tr>
<td>Net income</td>
</tr>
<tr>
<td>Depreciation/amortization</td>
</tr>
<tr>
<td>Stock-based comp</td>
</tr>
<tr>
<td>Change on contingent liability</td>
</tr>
<tr>
<td>Cash earnings</td>
</tr>
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</table>

At $11 per share, the stock trades at just 15x cash earnings. We view 15x as cheap for a business with sticky revenues and the ability to grow cash earnings by 20%-plus per year.

INWK did $1 billion in sales last year, and that makes it the largest “pure play” in this space. Even so, it’s still only a tiny slice of a $600 billion industry. So there is plenty of room to get bigger. And the field is wide open.

INWK competes mainly with in-house procurement departments. When a company decides to engage INWK, it usually lays off in-house people. So that creates cost savings over and above the 16% mentioned earlier.
Other competitors include companies that can do parts of what INWK does through software and/or hardware, such as Konica Minolta.

There are also other “pure plays” that do what INWK does, but, as we said above, INWK is the largest. (We talk more about the industry in Supplement A.)

All in all, we believe INWK has the markings you’d expect to find in a 100-bagger.

Let’s put it through our four corners test.

**The Four Corners Test**

- **The ability to earn a high return on capital**
  
  As INWK gets bigger, its return on equity (ROE) should increase as it develops more scale. In 2016, INWK earned a 14% cash return on equity. We’re satisfied here.

- **The ability to earn that high return again and again and reinvest the profits**
  
  INWK appears to have the ability to reinvest all of its profits back into the business and earn a high return repeatedly. As we show in Supplement D, it has had a steady track record of earnings growth over the last several years. And we have no reason to believe it will slow down. What excess cash INWK earns could go toward further stock buybacks, which we’d approve of.

- **The ability to grow into something much larger over time**

  We mentioned that INWK did $1 billion in sales last year in an industry where spending tops $600 billion. And yet, among pure plays, it is the largest. We think INWK could be much bigger in the future.

- **The stock price represents a good value**

  At just 15x cash earnings, INWK is a good value on the face of it. Our models show INWK could double over the next five years under conservative assumptions. (See our valuation work in Supplement C.)

In summary, INWK’s stock should continue to grind higher over time and could put up a big return for us as the power of compounding works its magic.

**Recommendation:** Buy InnerWorkings (INWK) up to $12 per share. Make it an 8% position in your Focus portfolio.

**Portfolio Updates: We’re Buying More Drive Shack**

Drive Shack (DS) reported weak earnings on May 3, sparking a sell-off that took the stock down to $3. We’re down more than 20%, and the price drop means that DS now represents about a 6% position in our portfolio.

But our thesis remains unchanged. The assets of DS – cash along with owned and managed golf courses – more than support the current stock price. You get a free option on the potential success of the Drive Shack concept.

You’ll recall Drive Shack is a new concept aimed to compete with Topgolf, which has been a big success. DS will roll out its first location early next year in Orlando, Florida. We don’t expect the share price to do much until it opens. But if it’s successful, we think DS could be a $10-plus stock in the next few years.

We’re buying more DS to take the position back to 8% (that is, 8% of the current market value of the overall Focus portfolio, including cash). This will lower our cost basis to $3.77 as shown here:

<table>
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<tr>
<th>New shares to acquire</th>
<th>750 (~$3.15 per share)</th>
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</thead>
<tbody>
<tr>
<td>Cost</td>
<td>$2,362</td>
</tr>
<tr>
<td>Existing shares</td>
<td>2,000</td>
</tr>
<tr>
<td>Existing cost basis</td>
<td>$8,000</td>
</tr>
<tr>
<td>Per-share cost basis</td>
<td>$4.00</td>
</tr>
<tr>
<td>New total shares</td>
<td>2,750</td>
</tr>
<tr>
<td>New cost basis</td>
<td>$10,362</td>
</tr>
<tr>
<td>New per-share cost basis</td>
<td>$3.77</td>
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</table>
Our recommendation is to get close to us. An easy way to do this is to increase the number of shares you own by 38%. If you own 1,000 shares, buy 380 more shares.

This is not an exact science. If you have, for example, a 7% position and a $4-per-share cost basis, you’re fine.

**Recommendation: Buy more Drive Shack (DS) up to $5 to get back to an 8% position. Refer to the table above for more detailed instructions on how many shares to buy.**

**Tucows (TCX)** – nothing new to report here. Hold on to the stock. For now, the stock is above our buy price of $49 per share and up more than 100% since our initial recommendation.

**Recommendation: Hang on to Tucows (TCX), which is above our buy price of $49. We will revisit our buy price as new earnings reports roll in.**

**Del Frisco’s Restaurant Group (DFRG)** has gone down a little bit in price. And as you’ll recall, we increased our buy price to $16.50 in last month’s letter. If you get a chance to own DFRG at $16.50 or under, we recommend you do so. We have DFRG at a 4% position.

**Recommendation: Buy Del Frisco’s Restaurant Group (DFRG) up to $16.50 per share. Make it a 4% position.**

**Yoox Net-a-Porter (YXOXY)** reiterated its guidance for the year. Sales will increase by 17%-20%

“We have ambitious plans to grow faster than the online luxury market by leading through mobile,” CEO Federico Marchetti said. As we mentioned in our initial buy recommendation, mobile apps are a big opportunity for Yoox to increase sales. So far, it looks like things are on track.

The shares are above our buy price, but we may get another shot soon.

**Recommendation: Buy Yoox Net-a-Porter (YXOXY) up to $25. Make it an 8% position.**

**Thrift Conversions**

You may remember that three months ago, I created a thrift conversion portfolio as a kind of side mission for *Focus*. Thrift conversions are a low-risk way to invest in community banks. (See our special report here).

This year, freshly minted thrift conversions have moved quickly.

We missed my first recommendation, **PCSB Financial (PCSB)**, which opened above my buy price. That stock is up almost 10% since it started trading in April. I think PCSB shares will do fine over the long haul. But the smart move was sticking to our price discipline.

The more we pay, the lower our returns. And our goal here isn’t just to find stocks that will go up, which PCSB most likely will. We want to shoot for a 15%-plus annual return on these thrift conversions, so that means we need to be very particular about our investment criteria. And rule No. 1 is “don’t overpay.”

We did get **Community First Bancshares (CFBI)**, which is up almost twice as much as PCSB – about 19% since my recommendation. This shows the value of sticking to a pricing discipline.

I know you had only a small window to get shares before they sailed beyond my buy price. Don’t worry about it, though. There are more conversions in the pipeline...

**Two Cash-Rich Conversions in the Works**

**Eagle Financial Bancorp**

Cincinnati-based Eagle Financial Bancorp (EFBI) is small with just three branches and $116 million in assets. It seeks to raise $20 million in its conversion.

Eagle has been around since 1882, making it the oldest community bank in Ohio. The bank focuses on mortgage lending and prides itself on local decision-making and in-house underwriting, which allows it to close on mortgage
loans within 28 days 90% of the time.

There are no credit problems here: Nonperforming loans were just 0.7% of total assets. (My rule of thumb is to stay with banks at around 2% or less). And post-conversion, Eagle will be among the best-financed banks in the country with an equity-to-asset ratio of 23%.

Eagle will trade under the ticker EFBI.

**Heritage NOLA Bancorp**

Covington, Louisiana-based Heritage NOLA Bancorp is another small bank with two branches and $98 million in assets. It seeks to raise $15 million.

Heritage’s origins go back to 1924. Prior to 2014, it operated under the charming name St. Tammany Homestead Savings and Loan Association, named after the parish in Louisiana where it has roots. Heritage, as with Eagle, is mainly a mortgage lender.

Heritage also has a whistle-clean loan portfolio: Nonperforming loans were just 0.6% of total assets. Post-conversion, Heritage will be flush with cash: The equity-to-asset ratio here will be just over 20%.

There is no ticker symbol for Heritage yet.

As these conversions get closer to their IPOs, I will be able to assess the pricing of these issues and make a recommendation. You will hear from me by email when that time comes.

**Note:** At *Focus*, the core mission of hunting for 100-baggers continues... Consider thrift conversions a no-brainer supplement to our mission. We’ll track these in a separate sub-portfolio of thrift conversions. I’ll bring you new conversions as they happen.

**Supplement A – The Business**

American entrepreneur Eric Lefkofsky founded INWK in 2001 and took it public in 2006. The company generated its first profits on $16 million in sales in 2003 – and it’s been profitable ever since. In 2016, INWK generated over $1 billion in sales.

So what’s the key to its success?

Global brands such as Adidas, Unilever, and Energizer are dependent on marketing to help generate demand for their products.

But how exactly do these companies put their marketing ideas into action? How does the idea go from the digital world to the physical world? How does an idea go from a sketch to an actual sign in the store, for example?

Traditionally, that’s the role of the purchasing or procurement department within a company. If the marketing department wants signs that display their latest brand slogan, the purchasing department gets it done. They contact a local print shop and get a bid to produce the signs.

Oftentimes, these purchasing departments use the same outside print shop again and again. They don’t spend time shopping around and getting competing bids from other print shops.

INWK gives companies another option. These companies can outsource the procurement for the signs. There are two key reasons for why a company would want to outsource the job.

First, INWK has over 10,000 suppliers to get competing bids from. All of these suppliers are linked to their proprietary software. This makes bidding easy and transparent.

Second, INWK saves clients money. The company estimates it saves clients 16% by switching to INWK versus doing the purchasing in-house.

INWK has clearly been successful in convincing customers to outsource to them. They generated over $1 billion in net revenue in 2016 and handled 13 billion pieces of marketing material. And their customers seem happy based on their 97% retention rate.

We have spoken with the company. We found them to be transparent and helpful.

**The Opportunity**

Management forecasts long-term sales growth of 10% per year. They expect this growth to come organically (not through acquisitions), with many potential customers among the Fortune 1000.

In fact, the market opportunity is massive. Smithers Pira, a print industry research firm, estimates the total market size for marketing materials to be around $600 billion.

Do the math. INWK has just 0.2% of this total pie.

The other opportunity cited by the company’s management is the size of the business outsourcing industry. Everest
Group, another research firm, estimates that the market for outsourcing is over $250 billion and growing 12% per year.

The sales growth target is exciting, but profits and cash flow are what we, as investors, are most concerned about.

Management targets margin expansion between 0.5% and 0.7% per year over the long term. We incorporate this into our model. While we’re looking for sales to grow to $1.5 billion by 2021, we think free cash flow will double from $32 million in 2017 to nearly $70 million in 2021.

The final guidance metric that management provided involves return on invested capital (ROIC). The company believes that, over the long term, they’ll earn an incremental 15% ROIC. We’ve cross-checked this number in our model and it seems achievable.

**The Risks**

INWK’s sales tie directly to clients’ marketing budgets, which can be cyclical. If we have a recession, it’s almost a certainty that marketing budgets at many major corporations would go down.

In the 2009 recession, though, INWK didn’t take a big hit. Sales declined a paltry 4% year over year.

Another issue: INWK is not a digital marketing company like Facebook or Google. While they do some digital marketing, the bulk of their business is printed materials. So a decline in spending on printed advertising could have an impact on INWK’s business over the very long term.

However, we think there’s a lot of opportunity in front of INWK. Remember, this is a $600 billion industry. And although INWK is the largest player, its revenues are still only $1 billion annually.

That means the company has lots of room to grow for years to come as it continues to capture more business from in-house purchasing departments. This provides a good avenue for growth even if spending on printed material doesn’t increase.

All those direct mail pieces, brochures, in-store displays, sleeves for hotel key cards, decorative boxes, etc. that INWK makes for its customers... they’re not going anywhere. There can be no digital version of the Lukcy Basartd six-pack holder.

The final risk to highlight with INWK involves its history of acquisitions. Some have been good, but they haven’t all been winners.

The acquisition of EyeLevel, a Czech design company, appears to be a success.

One sore spot, however, is the acquisition of Production Graphics. To make a long story short, INWK acquired a company that turned out be a fraud. Or, at least, there were material misrepresentations about the earnings of this French business. As such, INWK took a big write-down in late 2013.

The market punished the stock for this mishap, sending shares down below $6.

But management learned from this mistake. The company has not done any acquisitions in four years, focusing instead on organic growth. We appreciate this discipline.

**Supplement B: The Management Team**

We like them.

First, let’s consider insider ownership. We look at insider ownership because we like for managers to have skin in the game.

Insiders and directors own 5% of the stock. Cofounder Richard Heise owns nearly 12% of the company through his Old Willow fund. While he’s not involved in the day-to-day business, he’s still aligned with us through his ownership.

Management has treated shareholders well in recent years, and their compensation reflects shareholder-friendly goals.

Since 2013, management has turned its focus to growing sales organically (as opposed to acquisitions) and boosting margins. Management changed how it pays its sales team by adding in a component for profit margins. So sales people get paid not just by booking a sale, but also by booking a sale that makes a good profit for the company.

"Management also added an ROIC element to their own long-term incentive pay in 2016. ROIC is a measure that gauges how well a firm uses its assets. We like management’s focus on ROIC and free cash flow, as good results in these categories create value for shareholders."
Moreover, management has taken the business through a remarkable transformation in recent years. In 2011, INWK had two service offerings in 16 countries. Today, INWK has seven service offerings in 43 countries (and in 28 currencies and 13 languages, too). These are qualitative factors that show the business is expanding.

President and CEO Eric Belcher has been with the company since 2005. He’s been CEO since 2009, and our background check on him came back clean.

Apart from the troublesome acquisition of Production Graphics that we highlighted earlier, there’s no reason to question Belcher’s leadership. In fact, since that misstep, management’s focus has been in the right place: organic growth.

To that end, Belcher boosted his executive ranks, most notably with the hiring of CFO Jeffrey Pritchett in 2015. Pritchett immediately got to work helping manage the transition to focus on organic growth and ROIC. He has a good pedigree in finance, as he worked for Cerberus Capital Management, a private equity firm.

In summary, we know INWK is in good hands. The management team has some skin in the game and proper incentives in place to encourage a good result for shareholders.

Supplement C – Valuation Model

Our valuation model for INWK is really quite simple. We have the company growing sales at around 5% annually over the next five years. This is well below their target of 10%. So we’re being conservative.

We think profit margins will expand in line with guidance. For 2017, we think the company will generate a 5.7% EBITDA margin (EBITDA, or earnings before interest, tax, depreciation, and amortization, is a proxy for cash flow).

Looking out to 2021, we think this margin percentage will grow from 5.7% to over 8%. This is a key component of our thesis. We think the company can grow sales, but, more importantly, we think it can grow profits at a much faster rate.

So looking out over the next five years, we think INWK is a stock that could easily double. We feel our assumptions are conservative. Sales could easily grow faster than we’re forecasting (5.4% versus management’s guidance of 10%). Were that to happen, we could get a much bigger number.

In the tables on the next pages, we explain our model.

A less sophisticated but handy way to think about INWK’s valuation is to just look at the stock price as a multiple of cash earnings. Today, INWK trades at 15x cash earnings. This is a good price to pay for a business that should grow cash earnings 20% annually.

(The general rule of thumb is to buy at a multiple below the growth rate.) Assuming the multiple doesn’t change, we’ll earn 20% annually (or whatever the growth rate in cash earnings turns out to be).

Guide to the Tables:

Unlevered free cash flow: This is cash before interest costs. We do this because we want to value what the overall firm is worth. Then we deduct debt later.

EBITDA margin: EBITDA as a percent of sales (profit margin).

Terminal value: An estimate of the value of the firm’s cash flows beyond, in this case, 2021. Put another way, it’s a guess at what the firm’s future cash flows will be worth assuming a steady state.

WACC: Weighted average cost of capital, used to discount future cash flows to present-day dollars to figure out what these cash flows are worth. We use 9% here, which is conservative.

EV: Enterprise value, which reflects the value of the overall firm (stock plus debt less cash).

Implied EV to EBITDA: A valuation multiple comparing EV to EBITDA. In our model, estimated EV/EBITDA is about 8. That’s at the lower end of the 8–10 range you’d expect for a company like this, but again, we’re being conservative. We could earn a better return if INWK gets a better multiple from the market.

2021 price target: We take the value of the forecasted cash flows and add the terminal value to get a total value. We then take out debt and cash to get a value for the stock alone (equity). We get a future value per share (FVPS) of $21.90.
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<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>$1,090,704</td>
<td>$1,167,500</td>
<td>$1,260,900</td>
<td>$1,361,772</td>
<td>$1,449,478</td>
<td>$1,515,652</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>$53,581</td>
<td>$66,500</td>
<td>$79,385</td>
<td>$93,907</td>
<td>$108,202</td>
<td>$122,706</td>
</tr>
<tr>
<td><strong>Unlevered Free Cash Flow</strong></td>
<td>($1,542)</td>
<td>$32,093</td>
<td>$40,132</td>
<td>$48,824</td>
<td>$59,554</td>
<td>$69,836</td>
</tr>
<tr>
<td><strong>Sales Growth</strong></td>
<td>6.0%</td>
<td>7.0%</td>
<td>8.0%</td>
<td>8.0%</td>
<td>6.0%</td>
<td>5.0%</td>
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<tr>
<td><strong>EBITDA Margin</strong></td>
<td>4.9%</td>
<td>5.7%</td>
<td>6.3%</td>
<td>6.9%</td>
<td>7.5%</td>
<td>8.1%</td>
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</tbody>
</table>

**Terminal Value Assumption**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2021 Unlevered FCF</strong></td>
<td>$69,836</td>
</tr>
<tr>
<td><strong>Growth Rate</strong></td>
<td>2%</td>
</tr>
<tr>
<td><strong>WACC</strong></td>
<td>9%</td>
</tr>
<tr>
<td><strong>Terminal Value</strong></td>
<td>$1,017,614</td>
</tr>
<tr>
<td><strong>2021 EBITDA</strong></td>
<td>$122,706</td>
</tr>
<tr>
<td><strong>Implied EV/EBITDA</strong></td>
<td>8.3</td>
</tr>
</tbody>
</table>

**2021 Price Target**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Explicit Cash Flows</strong></td>
<td>$250,439</td>
</tr>
<tr>
<td><strong>Terminal Value</strong></td>
<td>$1,017,614</td>
</tr>
<tr>
<td><strong>Total Value</strong></td>
<td>$1,268,052</td>
</tr>
<tr>
<td><strong>Less: Debt</strong></td>
<td>$113,691</td>
</tr>
<tr>
<td><strong>Plus: Cash</strong></td>
<td>$29,920</td>
</tr>
<tr>
<td><strong>Equity Value</strong></td>
<td>$1,184,281</td>
</tr>
<tr>
<td><strong>Shares Out</strong></td>
<td>54,098</td>
</tr>
<tr>
<td><strong>FVPS</strong></td>
<td>$21.9</td>
</tr>
<tr>
<td><strong>Price Today</strong></td>
<td>$10.7</td>
</tr>
<tr>
<td><strong>Upside</strong></td>
<td>104%</td>
</tr>
<tr>
<td><strong>CAGR</strong></td>
<td>15.3%</td>
</tr>
</tbody>
</table>
Supplement D: Charts

What InnerWorkings Does

INWK Creative Execution

- Book Design
- Brand Identity
- Branded Merchandise
- Collateral
- Copywriting
- Direct Marketing
- Packaging
- Point-of-Sale
- Presentations
- Press Kits
- Sales Literature
- Signage
- Studio Production
- Trade Shows

- 3D Rendering
- Analytics
- App Design
- Audio/Music
eMarketing
- Landing Pages
- Online Publications
- Photography
- Presentations
- Prototyping
- Storyboarding
- Video Production
- Virtual
- + Augmented Reality
- Website

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InnerWorkings Has a Consistent Track Record of Increasing Sales...

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**InnerWorkings Shows Consistent Profitability**

<table>
<thead>
<tr>
<th>$MM EXCEPT EPS</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017 Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Revenue</td>
<td>$891</td>
<td>$1,000</td>
<td>$1,029</td>
<td>$1,091</td>
<td>$1,155 - $1,185</td>
</tr>
<tr>
<td>Net Revenue (GP)</td>
<td>$202</td>
<td>$229</td>
<td>$240</td>
<td>$264</td>
<td>$277 - $284</td>
</tr>
<tr>
<td>Gross Margin %</td>
<td>22.7%</td>
<td>22.9%</td>
<td>23.3%</td>
<td>24.2%</td>
<td>~24.0%</td>
</tr>
<tr>
<td>Adjusted EBITDA</td>
<td>$26.7</td>
<td>$41.7</td>
<td>$50.8</td>
<td>$59.2</td>
<td>$65.0 - $68.0</td>
</tr>
<tr>
<td>Adjusted EBITDA % of Gross Revenue</td>
<td>3.0%</td>
<td>4.2%</td>
<td>4.9%</td>
<td>5.4%</td>
<td>~5.6% - 5.7%</td>
</tr>
<tr>
<td>Adjusted EBITDA % of Net Revenue</td>
<td>13.2%</td>
<td>18.2%</td>
<td>21.1%</td>
<td>22.4%</td>
<td>23.5% - 23.9%</td>
</tr>
<tr>
<td>Non-GAAP Diluted EPS</td>
<td>$0.09</td>
<td>$0.18</td>
<td>$0.24</td>
<td>$0.38</td>
<td>$0.45 - $0.49</td>
</tr>
</tbody>
</table>

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