Applied Investment Management (AIM) Program

AIM Class of 2017 Equity Fund Reports
Spring 2017

Date**:* Friday, March 10th | ***Time:** 1:15 –1:45 p.m.* | ***Location: AIM Research Room 488

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These student presentations are an important element of the applied learning experience in the AIM program. The students conduct fundamental equity research and present their recommendations in written and oral format – with the goal of adding their stock to the AIM Equity Fund. Your comments and advice add considerably to their educational experience and is greatly appreciated. Each student will spend about 5-7 minutes presenting their formal recommendation, which is then followed by about 8-10 minutes of Q & A.

David S. Krause, PhD
Director, Applied Investment Management Program
Marquette University
College of Business Administration, Department of Finance
436 Straz Hall, PO Box 1881
Milwaukee, WI 53201-1881

mailto: AIM@marquette.edu

Website: MarquetteBuz/AIM AIM Blog: AIM Program Blog
Twitter: Marquette AIM Facebook: Marquette AIM

Tronox Limited (TROX Class A)
March 8, 2017

Andy Krueger — Domestic Materials

Tronox Limited (NYSE:TROX-Cl.A) is a vertically integrated mining and inorganic chemical producer operating mineral sands and trona mines primarily to produce titanium dioxide (TiO_2) used in paints, coatings, plastics and paper, and natural soda ash used to make glass, detergents chemicals and other industrial products. TROX is in a transitional phase after announcing the firm's intentions to sell their Alkali business and acquire Cristal's TiO_2 business (transaction details discussed below). TROX's current sales mix by geography of NA (46%), APAC (25%), EMEA (19%), and Latin America (10%) will shift to 27%, 28%, 34%, 11% respectively post-close of the Cristal acquisition. TROX serves a multitude of end-markets including, paints and coatings (48%), plastics (11%), flat glass (10%), other (10%), container and other glass (9%), manufacturing (5%), detergents (4%) and paper and specialty (3%). TROX has been publically traded since November 21, 2005, and is headquartered in Stamford, CT.

Price ($):	$ 17.61
Price Target ($):	22.95
52WK H-L ($):	19.99 - 3.84
Market Cap (mil):	2,084
Float (mil):	61.7
Short Interest (%):	6.4
Avg. Daily Vol (mil):	1.1
Dividend ($):	0.39
Yield (%):	3.7

Beta:	1.90
WACC	8.49%
M-Term Rev. Gr Rate Est:	17.1%
M-Term EPS Gr Rate Est:	N/A
CFO/Int Exp:	1.1
Debt/EBITDA (ttm):	11.19
ROA (%):	-1.18
ROE (%):	-5.86
ROIC (%):	-1.50

FY: Dec	12/31/2015	12/31/2016	12/31/2017	12/31/2018
Revenue (Mil)	2,112	2,093.00	2,381.00	3,546.00
% Growth	21.6%	-0.9%	13.8%	48.9%
Gross Margin	5.6%	11.8%	15.9%	16.4%
EBITDA Margin	3.4%	8.5%	10.4%	11.2%
EPS (Cal)	($2.75)	($0.51)	$0.10	$0.15
CF/Share	$0.22	$0.79	$0.60	$0.74
P/E (Cal)	NM	NM	NM	NM
EV/EBITDA	12.1	12.8	10.0	9.7

Recommendation

TiO_2 prices fell 37% from $1.25/lb in November 2014 to $0.91/lb in February 2016 as demand for the pigment waned. The drop in the pigment's price contributed to a ~80% devaluation in TROX shares over the same period from $24/sh to their trough of $3/sh. Since the bottoming out of TROX shares and TiO_2 prices in February 2016, TROX shares have returned to $18/sh and TiO_2 has appreciated to $1.06/lb; a 14% accretion in selling price. Historically, housing demand and industrial production have been accurate leading indicators for TiO_2 pricing and demand. After the sale of the Alkali segment, TROX will operate as a global leader in TiO_2 production with 15% of the global market, making positive trends in the TiO_2 industry of critical importance. The continued recovery of housing demand off the lows of 2008 and 2009, coupled with industrial production in the US and Europe showing steady growth of 4% and 5% respectively provide positive macroeconomic indicators for the TiO_2 industry. Additionally, TROX runs a vertically integrated TiO_2 model, allowing the firm to synchronize titanium mineral, feedstock and TiO_2 production to market demand more efficiently than competing business models. TROX produces TiO_2 through the chloride production process; one of a few firms globally capable of doing so. The chloride process is preferred to the sulphate process across all industries in the US and by 45% of the global end-markets because of its bluer undertone and greater durability. Full year 2016 saw gross margins improve to 12% from 6% in 2015, and future years will see target margins in the mid-teens as management continues to identify opportunities in the TiO_2 segment for efficiency and cost improvements as part of an operational excellence program implemented in 2015. This program currently has 300 outstanding initiatives with more efficient production and maintenance systems targeted to achieve cash and working capital reductions. Insider confidence in management's initiatives and the macro-environment is illustrated by the nearly 450,000 shares purchased by TROX insiders since the beginning of the calendar year. Due to the improving market for TiO_2, the strategic acquisition of Cristal's TiO_2 business and the operational excellence programs in place for TROX, it is recommended TROX be added to the AIM Equity Fund with a price target of $22.95, representing a 30.3% upside. The firm pays a $0.39 annual dividend – a 3.7% yield.

Investment Thesis

- **Macro-Economic Indicators.** The recovery of TiO_2 prices from lows in February 2016 has mirrored the appreciation in TROX's share price over this same period. The strong painting season in 2016 drove TiO_2 pigment demand, causing customers to accept the price nominations from TiO_2 suppliers like TROX. As housing sales and housing starts continue their march toward normalized volumes, demand for commercial paint and coating products will drive continued price appreciations in TiO_2. With TiO_2 demand remaining strong, TROX management aims to run feedstock assets at full utilization, minimizing unit costs to maximize margins. Further, positive global industrial production figures headlined by the US PMI index achieving a two-year high of 55 points provides evidence TROX will have the demand to support operations running at full capacity in future years. Supporting the bullish sentiment on TiO_2 pigment demand moving forward was management's announcement of a signed agreement with an unnamed counter-party for 100,000 tons of slag in 2017. However, even if TiO_2 pigment only returns to a moderate, GDP-like growth, TROX can expect to see a ~9% YoY price improvement in 2017 versus 2016.

- **Company Facelift.** Announced in February 2017, TROX will acquire (pending regulatory approval) the TiO_2 business of Cristal for \$1.67b in cash and stock equal to 24% of outstanding TROX shares. The cash portion on the sale will be funded in part by the sale of TROX's Alkali segment, expected to close in 2H17 with cash on hand covering the remaining difference. With an expected close before 1Q18, the new-look TROX will be the world's largest and most highly integrated TiO_2 producer with 15% of global capacity. Management guided to over 100% EPS accretion in year 1 with projected pro forma EPS, EBITDA and FCF improvements from 2018-2021 of ~70%, ~30% and ~60% respectively versus TROX standalone.
- **Room for Improvement.** The operational excellence initiatives implemented by TROX management resulted in a \$73m cash cost reductions and \$142m of working capital reductions. Since the initiation of the program, TROX is nearing its target of \$600m of cash generation by 2017 year end with \$486m of cumulative cash generation already recorded. Improved cash generation will allow TROX to target a lower leverage ratio as management plans to turn their focus toward paying down debt after the Cristal acquisition closes. Additionally, reducing the firms interest payment will allow for greater EPS growth in future years.

Valuation

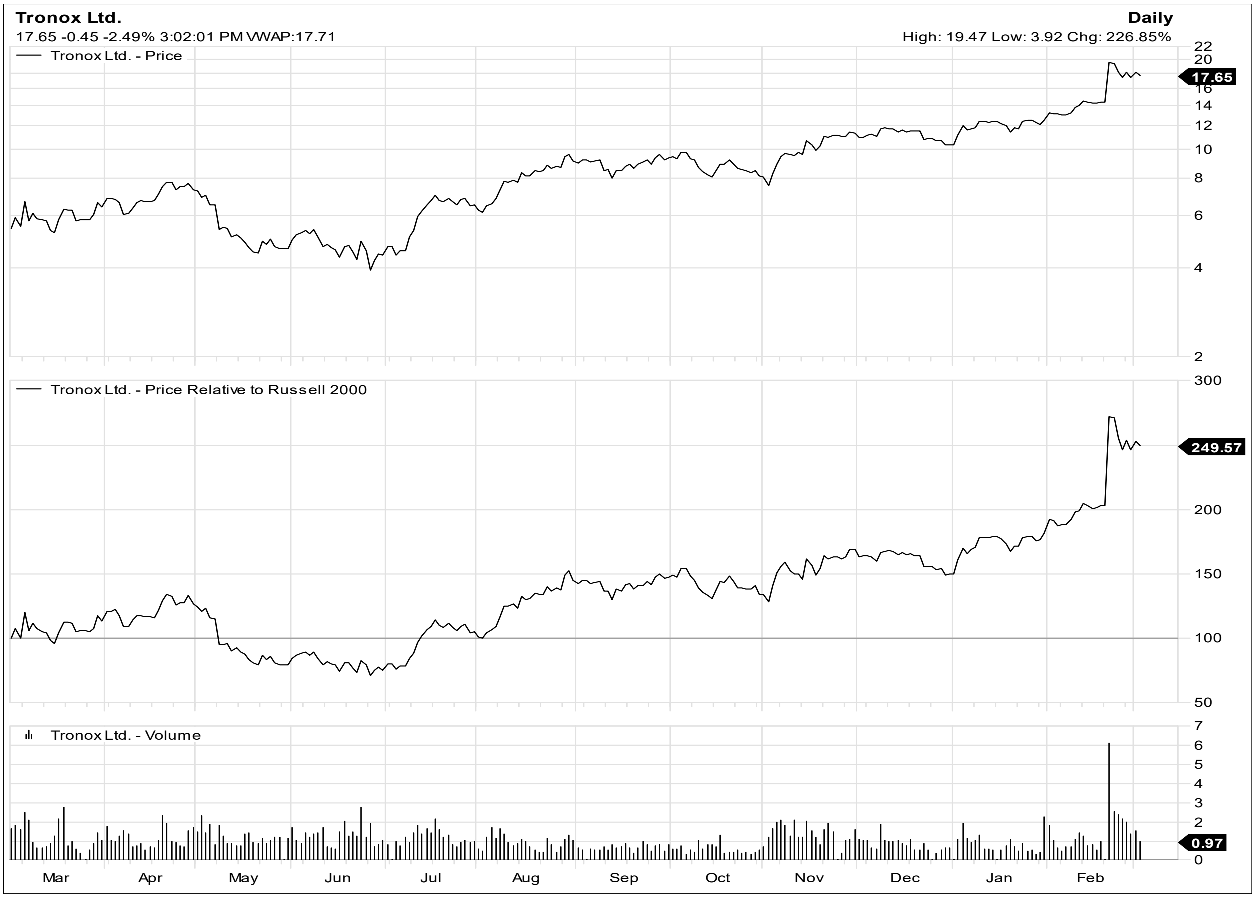
To reach an intrinsic value for TROX, a five year DCF model was created. Using a terminal growth rate of 2.0% and a WACC of 8.5%, an intrinsic value of \$24.34 resulted. A ± .25% sensativity analysis on the terminal growth rate and ± .5% WACC ranged from \$16.40-\$36.76. Additionally, an EV/EBITDA multiple valuation was conducted using 2017 EBITDA of \$474m and peer comparable multiple of 11.13x, resulting in a valuation of \$21.57. By weighting the two valuation models 50/50, a price target of \$22.95 was reached, resulting in a 30.3% upside.

Risks

- **Delivering the Promise.** Failure to meet expected synergies, EPS accretion or EBITDA/FCF growth and shares of TROX could see downward pressure. The Cristal acquisition is also still pending approval from multiple regulatory bodies.
- **Changing Market Conditions.** With TROX doubling down on TiO_2 production, any global or regional change in the demand for TROX's products will have a negative impact on firm sales and margins so long as the negative condition persists.
- **Concentrated Ownership.** Following the close of the Cristal acquisition, Cristal Inorganic and Exxaro will own approximately 24% and 35% of total outstanding shares. This concentrated ownership could delay or prevent acts that would be favored by other shareholders.

Management & ESG

Thomas J. Casey serves as Chairman and CEO for TROX. Prior to joining the firm in 2012, he served as CEO at Current Communications Services, LLC. Dr. Timothy C. Carlson serves as Senior VP and CFO at TROX. He recently joined the team in 2016; however, he has prior CFO experience at Precision Valve Corp. and Entergis Professional Services Inc. TROX, operating multiple mines, boasts a low ESG score of B.



Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA	Dividend Yield	EV/ EBITDA
Tronox Ltd.	TROX	2,084	2,093	273	3.73	15.18
Chemours	CC	6,134	5,400	741.0	0.54	11.85
Huntsman Corporation	HUN	5,338	9,657	1038.0	2.62	8.95
Kronos Worldwide, Inc.	KRO	1,609	1,349	120.0	10.64	15.61
Ciner Resources LP	CINR	541	475	96.5	7.78	7.50
Nexeo Solutions, Inc.	NXEO	822	3,406	138.0	0.00	11.74
Peer Averages		3,405	4,220	498.9	5.39	11.0

Ownership

% of Shares Held by All Insider Owners:	5.35%
% of Shares Held by Institutional & Mutual Fund Owners:	>90%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
Fine Capital Partners LP	5,061,661 ▼	7.77
The Vanguard Group, Inc.	4,849,179 ▲	7.44
Franklin Mutual Advisers LLC	4,297,768 ▼	6.60
BlackRock Fund Advisors	3,805,241 ▲	5.84
Dimensional Fund Advisors LP	3,328,599 ▲	5.11

Source: FactSet

Synchronoss Technologies, Inc. (SNCR)
March 10, 2017

Andy Reed — Domestic Technology

Synchronoss Technologies, Inc. (NASDAQ: SNCR) is a leading provider of cloud and software technology for domestic and international service providers, enterprises, and individuals. SNCR recently reclassified revenue reporting, but previously delivered proprietary technology in the following two segments: Cloud (82% of 2016 revenue) and Activation (18%). Post-reclassification, the company will break down revenue between its Cloud and Enterprise Segments, representing approximately 65% and 35% of revenues, respectively, going forward. The company's growth engines are its Cloud and Enterprise segments, which give businesses and consumers the ability to safely store and analyze critical data across the Synchronoss cloud. Customers in this segment include industry leaders such as Goldman Sachs and Verizon. Its legacy Activation segment provided traditional cellular service providers such as AT&T and BT Group with outsourced, in-store activation of smartphones and tablets. SNCR generates the vast majority (91%) of revenues in the United States. Synchronoss was founded in 2000 by James McCormick and Stephen Waldis. The company's CEO is Ronald Hovsepian and is headquartered in Bridgewater, NJ.

Price ($): 3/6/2017	$ 25.81
Price Target ($):	$ 36.61
52WK H-L ($):	50-25
Market Cap (mil):	1,187
Float (mil):	41.6
Short Interest (%):	8.7
Avg. Daily Vol (mil):	0.7
Dividend ($):	0.00
Yield (%):	0.0

Beta:	1.40
WACC	11.50%
M-Term Rev. Gr Rate Est:	25.0%
M-Term EPS Gr Rate Est:	29.8%
Debt/Equity:	37%
Debt/EBITDA (ttm):	1.79x
ROA (%):	5.70
ROE (%):	9.80
ROIC (%):	7.10

FY: Jan	2015A	2016A	2017E	2018E
Revenue (Mil)	580.1	611.9	800.1	1,132.7
% Growth	26.6%	5.5%	30.7%	41.6%
Gross Margin	61.5%	59.6%	63.6%	69.0%
Operating Margin	28.0%	17.0%	23.7%	32.6%
EPS (Cal)	$ 2.24	$ 1.96	$ 2.57	$ 4.89
FCF/Share	$1.19	$1.73	$2.24	$3.78
P/E	12x	13x	10x	5x
EV/EBITDA	8x	10x	5x	5x

Recommendation

Over the last eighteen months, the slowdown in the U.S. cellphone upgrade cycle has been widely publicized. As such, the company's activation business no longer provided meaningful avenues of growth, and it was divested in Q4 2016 to Sequential Technology. Born from the business shift, "Synchronoss 3.0" is positioned to expand upon its leadership position in the enterprise and cloud management segments of its business. With growing security, analysis and communication demands from large businesses, the company's BYOD, or "bring your own device" offering, in its newly minted enterprise segment, should pick up more than its share of slack left behind by the activation business. According to the Radicati group, the EMM (Enterprise Mobility Management) industry is expected to grow at a 27% CAGR between 2016 and 2020. In order to aid in the capture of this market opportunity, SNCR closed its acquisition of Intralinks in January 2017, which brings with it a host of new cross-selling and technological opportunities. The acquisition will not only accelerate margin expansion, but also will speed up the company's goal of $1B in revenue by two fiscal years (originally set for 2020, now expected by 2018). Organically, the company continues to add customers to its pipeline and was able to successfully convert clients to its cloud offering during 2016. As a point of reference, according to Stephens, SNCR typically generates anywhere from $1-$5 ARPU in its cloud business, which is currently comprised of 33m users, with significant whitespace in the $3.5bn wireless subscription network. SNCR has grown revenues over the last 5 years at a CAGR of 16%, and in 2016, generated 14% FCF margins, significantly ahead of the peer average of 9%. Due to an attractive operational lane change into growth businesses, coupled with an industry leading technology portfolio, it is recommended that SNCR be added to the AIM Small Cap Fund, with a price target of $36.61 representing a 42% upside to the current market value of the stock. SNCR does not currently pay a dividend.

Investment Thesis

- **Eyes on the (Enter)prize:** Driving efficiencies across businesses, the cloud is continuing to assert itself as the linchpin of the modern organization. Sharing, messaging, and collaboration are all part of SNCR's WorkSpace offering. New verticals in global industries, such as Life Sciences and Financial Services, will provide the company with ample whitespace for revenue acceleration in the company's newly minted Enterprise revenue breakout. Moreover, the company conducted a study among businesses in the UK and US, and found that the availability of cloud-based file-sharing apps at businesses increase productivity by 7%, almost immediately. Also, the availability of cloud sharing in long-term adopters boosted profitability by 29%. Given the proliferation of its software and services, SNCR should continue to gain traction in the enterprise space.
- **Space to Breathe:** Like a bad episode of the A&E TV show, Hoarders, smartphone and smart device users have a growing propensity to greedily retain virtual content they deem too important to delete. A problem arises when devices are stolen, misplaced or are short on storage space. SNCR' personal cloud offering allows users to safely and reliably store important content across devices on a carrier-branded cloud platform. According to Statista, the number of worldwide consumers utilizing a personal mobile cloud service is expected to grow at a 10% CAGR over the next four years. Further, with the amount of devices, including "connected cars" and smart wearables, per user increasing, the need for secure cloud storage and machine learning will increase. According to Business Intelligence, 82% of cars shipped in 2021 will be connected and likely require some form of cloud storage.
- **Smooth Transition:** The latter half of 2016 brought with it some uncertainty, the future looks bright at SNCR. Contributing to management's vision of "SNCR 3.0", the company's acquisition, which closed in Q1 2017, of packaged software provider, Intralinks, will give SNCR the ability to dive further into international markets, with domestic exposure normalizing at ~75% of total revenue, compared with its current 91% level. The integration of Intralinks is expected to bring with it meaningful margin accretion, as SNCR should see approximately 70% Gross Margins and 30% Operating Margins (compared with its current profile of low-60s and mid-20s, respectively). The $786M deal represented 11.5x IL's NTM EBITDA, significantly below Intralink's peer trading average of 16x, indicating a disciplined approach to M&A activity at SNCR.

Valuation

In order to find an intrinsic value for SNCR, a 5-year DCF was constructed. Utilizing a terminal growth rate of 2.25%, and a WACC of 11.5%, a price of $34.60 was reached. A ± .5% sensitivity analysis on the WACC and terminal growth rate ranged from $29.43 to $42.53. Further, a peer average P/E multiple of 15x was applied to SNCR's 2017E earnings of $2.57. This yielded a price target of $38.62. Weighting the two valuation methods equally, a price target of $36.61 was reached, representing a 42% upside to the current value of the stock. SNCR does not pay a dividend.

Risks

- **Failure to Integrate:** The company has been setting itself up for organic growth acceleration in the coming years, the bolt-on acquisition of Intralinks and associated debt arrangement is a gamble. If the company is unable to realize target cost synergies and revenue accretion, SNCR's full commitment to the cloud portion of its business could prove to be a misstep.
- **Customer and Geographic Concentration:** Historically, Verizon and AT&T have represented an overwhelming majority of SNCR's revenue stream. Significant slowdowns in spending at either of these companies or a deterioration in their operations would strongly dampen potential buy-side enthusiasm. However, if successful, the Intralinks deal provides a runway for growth in new markets and with new customers.

Management

Upon acquisition close, Intralinks' CEO, Ron Hovsepian, became CEO of SNCR. Stephen Waldis, co-founder and former CEO, became Executive Chairman and is expected to remain involved in the "SNCR 3.0" transition. The new CFO is John Frederick, former CFO of Avid Technologies.

Ownership

% of Shares Held by All Insider Owners:	9.78%
% of Shares Held by Institutional & Mutual Fund Owners:	96.40%

Source: FactSet

Top 5 Shareholders

Holder	Shares		% Out
BlackRock Fund Advisors	4,372,057	▼	9.65
The Vanguard Group, Inc.	3,504,259	▲	7.73
FIAM LLC	2,308,674	▲	5.09
Oak Ridge Investments LLC	1,715,959	▼	3.79
Elk Creek Partners LLC	1,540,967	▲	3.40

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA	Net Debt/ EBITDA	EV/Sales	P/E
Synchronoss Technologies, Inc.	SNCR	1,187.2	476.8	56.6	1.3	2.8	10.2
Amdocs Limited	DOX	9,048.0	3,752.0	705.0	-1.3	2.2	16.2
CSG Systems International, Inc.	CSGS	1,280.9	761.0	174.3	0.8	1.9	16.3
NeuStar, Inc. Class A	NSR	1,847.5	1,209.8	443.4	2.0	2.3	6.3
Comptel Oyj	CTL1V-FI	331.7	112.9	14.0	0.0	3.1	36.77*
VeriSign, Inc.	VRSN	8,599.7	1,142.2	744.7	0.1	7.6	21.8
Peer Averages		4,221.6	1,395.6	416.3	0.3	3.4	15.1

*Removed For Relative Valuation Analysis

Source: FactSet

BlackLine, Inc. (BL)
March 10, 2017

Martha Wong — Domestic Technology

BlackLine, Inc. (NASDAQ: BL) is a cloud-based software platform that migrates users from dated accounting processes to a modernized continuous approach by managing complex, manual, and repetitive tasks. The company generates revenue through subscription and support sales (~95% of revenues) and professional services (~5% of revenues). The platform consists of seven core products: Transaction Matching, Account Reconciliations, Consolidation Integrity Manager, Journal Entry, Variance Analysis, Task Management, and Daily Reconciliations that can be purchased in packages or individually. Target customers consist of middle-market and enterprise organizations. BL currently serves ~1,700 organizations in over 120 countries with ~85% of revenue generated in North America. The company completed its IPO in October 2016. BlackLine, Inc. was founded in 2001 and is headquartered in Los Angeles, CA.

Price ($): 3/7/17	27.50
Price Target ($):	32.99
52WK H-L ($):	31.40-21.66
Market Cap (mil):	1,410
Float (mil):	20
Short Interest (%):	3.60%
Avg. Daily Vol (k):	155.06
Dividend ($):	N/A
Yield (%):	N/A

Beta:	1.19
WACC	9.5%
M-Term Rev. Gr Rate Est:	50.0%
M-Term EPS Gr Rate Est:	15.0%
Debt/Equity:	0.00%
Debt/EBITDA:	0.00x
ROA:	-11.1%
ROE:	-17.1%
ROIC:	-16.1%

FY: Dec	2015A	2016A	2017E	2018E
Revenue (Mil)	83.61	123.12	203.15	304.73
% Growth	61.8%	47.3%	65.0%	50.0%
Gross Income	54.93	92.91	156.43	237.69
% Growth	88.6%	69.2%	68.4%	51.9%
Gross Margin	65.7%	75.5%	77.0%	78.0%
Operating Margin	-41.6%	-27.6%	-13.0%	-12.0%
EV/Sales	17.5x	11.9x	7.2x	17.5x
P/Sales	16.6x	9.5x	6.9x	4.6x

Recommendation

As a provider of enhanced financial controls and automation tools, BlackLine's addressable market encompasses a $17B global market consisting of 165K global target companies and 13M global finance and accounting professionals. BlackLine currently holds less than 2% of the market share across all three metrics (~$124M, ~1.7K, ~167K). Expenditures on corporate performance management systems and financial management systems are expected to grow at 6.0% and 7.5% CAGRs from 2016-2020, respectively. BlackLine's unique value proposition ensures that the company will continue on its impressive growth trajectory, which includes a three-year revenue CAGR of 48%. The company was the first cloud-based SaaS provider and one of the first to develop and market account reconciliation and financial close solutions through all post-general ledger activities. The seven product offerings provide decreased errors, enhanced employee productivity, and real-time reporting. Most traditional ERP systems provide general ledger and other accounting capabilities but do not typically provide the same products as BL, giving the company a unique value proposition. Cost reductions can be expected after customers' implement BL products due to reduced headcount, reduced expenditures on travel for auditors, and decreases in other operational costs such as paper (which was estimated to be $24K in annual savings for one customer). These value propositions are attractive due to increased regulatory scrutiny, rising business complexity, and exponentially growing data volumes. BL has a competitive advantage against ERP vendors entering the market because a customer of an ERP owner is not going to choose a competitor to do its financial close. In addition to its products, BL offers implementation services for a fixed fee, 24/7/365 live customer support, and web-based training via BlackLine U. BL recently released and 4Q16 results and posted user growth of 30% YoY and customer growth of 31% YoY. Additionally, BL holds a best in class renewal rate of 98% and a net promotor score of 78 compared to the software industry average of 28. Due to its impressive revenue growth and market penetration, further growth potential, and defensible market position, BlackLine is poised to be a strong addition to the AIM Equity Fund with a target price of $32.99, representing a 20% upside.

Investment Thesis

- **International market penetration.** The addressable international market is \$5.3B. With only 17% of 4Q16 revenues coming from outside North America, BL has significant growth potential in untapped markets. 50% of businesses that could potentially use the company's products are international. To date, BL has established a presence in Australia, England, Germany, the Netherlands, and Singapore with intentions to expand its footprint further. An encouraging highlight is that the platform supports applicable international accounting standards and 16 languages and ISO currencies, making the company adequately prepared to further penetrate the global market.
- **User growth driven by middle-market penetration.** BL practices a land-and-expand sales model by selling additional solutions and features to increase the number of users in the platform. The strategy's success is exemplified by the 30% YoY user growth reported during the 4Q16 earnings release. In addition to expanding its user base, middle-market companies (\$50M-\$500M revenue) present a unique opportunity. Enterprise companies (\$500M+ revenue) represented 86% of FY15 revenues, down from 90% YoY. Middle-market company revenue was \$11.7M in FY15, up 107% YoY.
- **Enhanced brand recognition through strategic partnerships.** BL is the only SAP-endorsed business solution for financial close, which indicates the highest level of validation from the world's largest ERP installed base. This endorsement leads to higher win rates when seeking new business. BL also has relationships with Netsuite, Deloitte, KPMG, IBM, and others. These relationships enable BL to effectively market its solutions by offering a complementary suite of services to customers. By engaging in more partnerships with reputable firms, BL will be able to reach more organizations and enhance its brand name.

Valuation

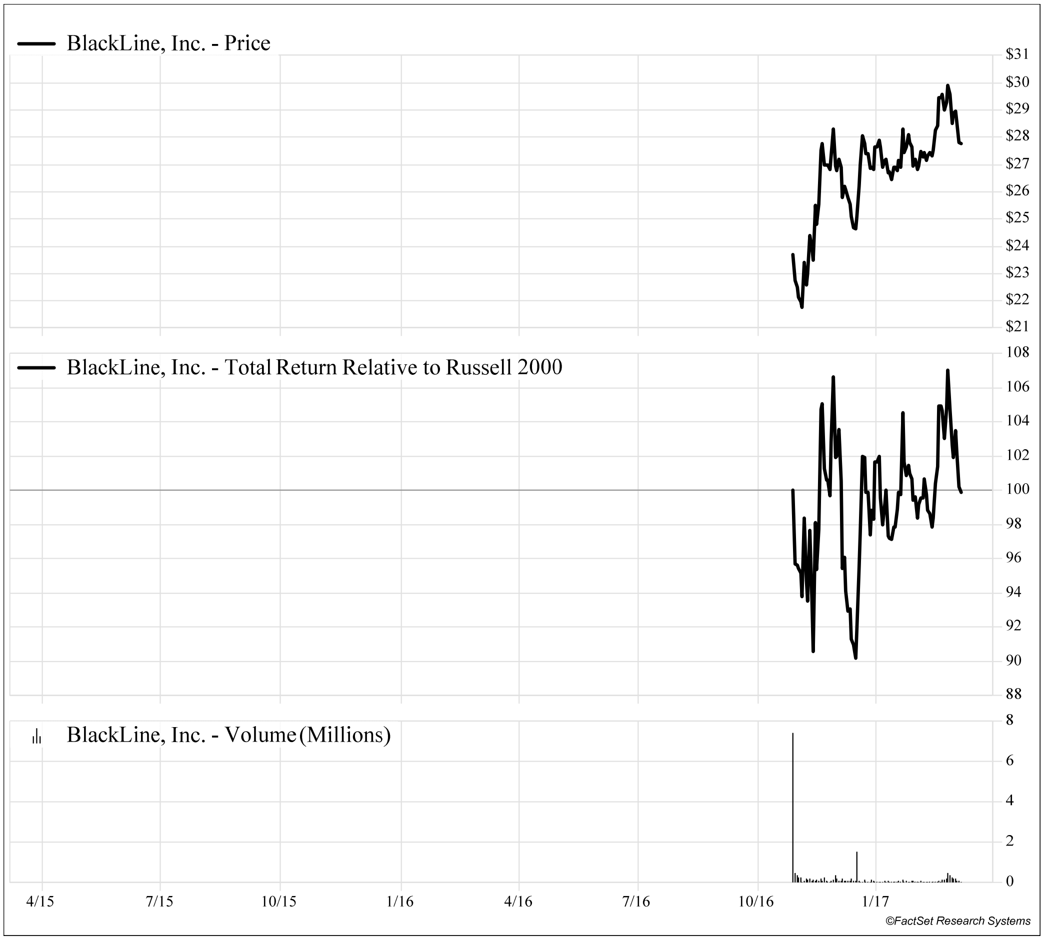
In order to reach an intrinsic value for BL, an EV/Sales multiple valuation was conducted using 2017E Sales of \$203.2M and a predicted forward multiple of 8.3x, which is the weighted average of competitors' EV/2017E Sales multiples. This resulted in a valuation of \$32.99, which yields a 20% upside. BL does not pay a dividend.

Risks

- **High-growth, low profits.** BL is currently unprofitable and cash flow negative. The inability to become profitable in the near-term could put the company in financial distress and cause investors to scrutinize the business.
- **Sensitive customer information.** Due to the sensitive nature of customers' information on the cloud, a breach could tarnish the company's image. Adding to the risk, BL's cloud-based infrastructure is operated by a limited number of third-party data center facilities in North America and Europe at which BL does not control operations.

Management

Therese Tucker, current CEO, founded the BlackLine in 2001 with a vision of modernizing accounting and finance operations. She has over 25 years of experience in the finance and technology industry and served as CTO of SunGard prior to founding BL. Mark Putin joined the company in 2015 as CFO after serving as CFO of Fiberlink Communications Corporation.



Ownership

% of Shares Held by All Insiders:	61.16%
% of Shares Held by Institutions:	31.84%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
Silver Lake	19,194,000	37.44%
Iconiq Capital LLC	10,254,000	20.00%
Therese Tucker	6,372,000	12.43%
Mario Spanicciati	4,425,000	8.63%
Light Street Capital Management LLC	1,675,000	3.27%

Source: FactSet

Name	Ticker	Market Cap (mil)	Sales (mil)	Enterprise Value (mil)	EV/ Sales	Price/Sales
BlackLine, Inc.	BL	1,410	123	1,460	11.9x	9.5x
Atlassian	TEAM	6,347	531	5,552	10.5x	11.9x
Coupa Software	COUP	1,348	122	1,433	11.7x	4.1x
New Relic, Inc.	NEWR	1,764	181	1,567	8.6x	8.0x
Workday	WDAY	16,675	1,569	15,289	9.7x	10.5x
Zendesk, Inc.	ZEN	2,123	312	1,912	6.1x	8.1x
Peer Averages		5,651	543	5,151	9.3x	8.5x

Source: FactSet

Sibanye Gold Limited (SBGL)

March 10, 2017

Chengbin (Henry) Lu International Material

As an independent mining group domiciled in South Africa, Sibanye Gold Limited (NYSE: SBGL) is the largest individual producer of gold domestically and is one of the largest global gold producers. SBGL is also the world's fifth largest producer of platinum group metals (PGMs). Their operations involve underground and surface gold mining, extraction, processing and smelting. The firm has two business segments: gold mining (88.3% of total FY2016 revenue) and platinum mining (11.7%). The gold segment has four mines: Driefontie, Kloof, Beatrix, and Cooke. The platinum segment also has four mines: Kroondal, Mimosa, Platinum, and Rustenburg. Sibanye was founded in 2002 and is headquartered in Westonaria, South Africa.

Price ($): (3/8/17)	7.70	Beta:	-0.05	FY: Dec	2016	2017E	2018E	2019E
Price Target ($):	12.73	WACC	10.90%	Revenue (Mil)	31261.7	32,978.25	33,472.01	37,078.10
52WK H-L ($):	6.16 - 20.97	M-Term Rev. Gr Rate Est:	2.36%	% Growth	37.61%	5.49%	1.50%	10.77%
Market Cap (mil):	1,870.0	M-Term EPS. Gr Rate Est:	3.01%	Gross Margin	33.76%	33.00%	34.00%	33.00%
Float (mil):	186.77	Net debt/Equity:	46.1%	Operating Margin	18.83%	19.00%	20.00%	19.00%
Short Interest (%):	1.89%	Net Debt/EBITDA :	0.79x	EPS (ZAR)	3.98	3.56	3.83	4.14
Avg. Daily Vol:	2,240,553	ROA:	10.58%	FCF/Share (ZAR)	4.06	2.98	3.01	3.45
Dividend ($):	0.33	ROE:	23.46%	P/E (Cal)	6.32	11.23	10.43	9.65
Yield (%):	4.20%	ROIC:	17.80%	EV/EBITDA	3.15	3.06	2.92	2.72

Recommendation

While the prices for gold and platinum have plunged more than 35% and 50% respectively since they peaked in 2011, Sibanye has grown its revenue at a 5-year CAGR of 13.5%. After acquiring Rustenburg and Aquarius in 2016, and as commodities prices have modestly recovered, the company recorded revenue of R31.2B in 2016, representing a 37.5% increase over 2015. After spinning off from Gold Fields (NYSE: GFI) in 2012, Sibanye has acquired one gold mine and two PGMs mines to increase their overall production levels. Meanwhile, CEO Neal Froneman has managed to improve the firm's operational efficiency through lowering the grade at which gold ore can be mined profitably, flattening the management structure, and re-evaluating their underlying mines' reserves. Consequently, Sibanye now has more than doubled its gold reserves from 13.5Moz to 31.0Moz and reduced its gold mines extraction costs by roughly 37% from $1,454/oz in 2012 to $915/oz in 2016. In 2016, Sibanye became the lowest underground gold cost producer in South Africa with $954/oz of all-in sustaining cost, representing 6% more cost efficiency compared to the industry average. For their platinum division, the successful integration of Aquarius and Rustenburg are expected to generate operational synergies of approximately R800 million/year for the next three years. Additionally, with its successful cost-cutting implementations with its gold division, SBGL is likely to see further cost reductions in two platinum mines, Kroondal and Rustenburg. With the company's strategic focus on improving operating efficiency and their efforts to seek value via accretive acquisitions, it is recommended Sibanye Gold be added to the AIM International Equity Fund with a price target of $12.73, representing a 65.3% upside. Sibanye pays a $0.33 annual dividend with a 4.23% yield.

Investment Thesis

- **Promising PGM Demand and Prices Recovery:** By successfully taking ownership of the Aquarius and Rustenburg operations in 2016, Sibanye established its competitive position in platinum group metals market. PGMs are extensively used in catalytic converters for gasoline and diesel powered cars – and even though the electric vehicle market has shown an upward trend, the demand for lightweight gasoline vehicles in developing countries is expected to grow at a 5-year CAGR of 4% from 93 million units in 2016 to 108 million units in 2020. Additionally, the platinum market, according to the forecast from World Platinum Investment Council (WPIC), is likely to be in deficit for each of the years from 2017 to 2021 at an average annual deficit around 250,000 ounces, which should drive higher platinum price.

- **Acquisition of Stillwater Mining:** In December 2016, Sibanye announced its plan to acquire Stillwater Mining for $2.2B (a 23% premium). Stillwater is a tier one, low-cost platinum group metals producer located in Colorado. They possess high quality (20g/t) palladium mines with over 25 years of remaining life. Two of the mines that are currently operating are expected to produce between 535,000 oz and 545,000 oz of PGMs at relatively low costs. The development of the Blitz project, that is expected to be completed in early 2018, should produce between 270,000 oz and 330,000 oz of PGMs. Additionally, this acquisition will enhance Sibanye on its asset base diversification and help it reach out to the global market directly.
- **Organic Growth in the Gold Division:** Sibanye started the Burnstone project after acquiring it in 2014. The project feasibility analysis was approved in 2015 with a two-year development. It is expected that SBGL will start gold production in 2018 with full production of 125,000 oz per annum in 2020 with an initial 23-year mine life expected. Another project, the West Rand Tailings Retreatment Project (WRTRP), is expected to be complete with a starting production of 113,000 oz of gold per annum in 2020.

Valuation

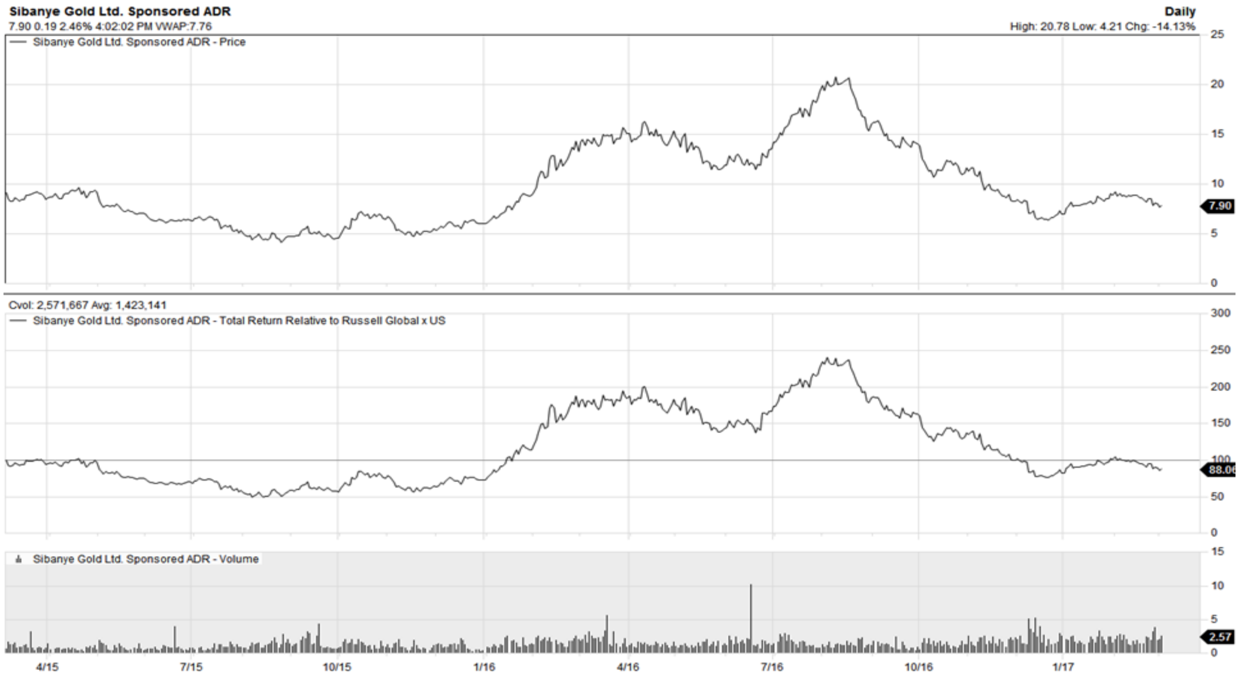
To reach an intrinsic value for SBGL, a five year DCF model was constructed. Using a terminal growth rate of 2.5% and a WACC of 10.90%, an intrinsic value of $9.21 was reached. A ± .5% sensitivity on the terminal growth rate and ±1% sensitivity on WACC ranged from $6.91-$14.17. Additionally, an EV/EBITDA multiple valuation was conducted using 2017 EBITDA of $786.40MM and peer multiple of 6.55x, resulting a valuation of $19.4. By weighting the two valuation 70/30, a price target of $12.29 was reached, resulting in a 55.6% upside.

Risks

- **Commodity Prices and Currencies Fluctuation:** As a commodity company, Sibanye earnings can always be impacted by the volatility of the commodity prices. Even though the prices for gold and platinum are trading near the bottom of the range since the most recent peak in 2011, prices could go down further. Additionally, the foreign exchange rate between the USD and ZAR can be volatile, which could affect the earnings as well.
- **Political Instability:** The political turmoil between the President Jacob Zuma and a wealthy family Guptas and the power struggle between the President and the Finance Minister Pravin Gordhan. If political crisis gets incensed, Sibanye could be materially affected in terms of its operations.

Management

Mr. Neal Froneman was appointed as an executive director and CEO of Sibanye in January 2013. He has over 32 years of relevant operational, corporate development and mining industry experience. Mr. Charl Keyter was appointed as a director of Sibanye in November 2012, and executive director and Chief Financial Officer in January 2013.



Source: FactSet

Ownership

% of Shares Held by All Insider and 5% Owners:	N/A
% of Shares Held by Institutional & Mutual Fund Owners:	15.25%

Source: FactSet

Top 5 Shareholders

Holder	Shares(000)		% Out
Van Eck Associates Corp.	13,779	▲	5.93
Dimensional Fund Advisors LP	3,201	▼	1.38
OppenheimerFunds, Inc.	2,375	▲	1.02
Deutsche Asset Management Investment GmbH	1,808	▼	0.78
Fidelity Management & Research Co.	1,371	▲	0.59

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Net Income (mil)	D/E	Dividend Yield	EV/ EBITDA
Sibanye Gold Ltd.	SBGL	1715.40	255.40	53.80%	4.73%	3.11
Gold Fields Ltd.	GFI	2618.70	162.80	162.80%	2.52%	3.32
AngloGold Ashanti Ltd.	AU	4554.80	63.00	80.20%	0.85%	4.83
Harmony	HMY	1014.00	202.80	4.90%	4.90%	5.59
Barrick	ABX	18675.70	655.00	100.90%	0.50%	6.13
Impala	IMPUY	2296.50	-52.70	15.80%	-	15.02
Peer Averages		5,831.94	206	72.92%	2.19%	6.98

Source: FactSet