

ASHFORD INC. (NYSE/AMERICAN: AINC)

Ashford provides global asset management and related services to the real estate and hospitality sectors. The company serves as advisor to two NYSE-listed real estate investment trusts: Ashford Hospitality Trust and Braemar Hotels & Resorts.

COMPANY HIGHLIGHTS

- * AINC: Unique strategy in the real estate/hospitality sector
- * On November 1, Ashford reported adjusted 3Q18 EPS of \$0.75. Third-quarter revenues more than doubled, aided by the late 2017 acquisition of a majority interest in J&S Audio Visual and initial revenues from the acquisition of a project management business.
- * In a unique financing program, Ashford launched an enhanced-return funding program in late June that provides up to \$50 million of capital to its Ashford Trust affiliate to acquire additional hotel properties. The affiliate has already made use of the program in two separate transactions.
- * In what we believe represents a significant growth opportunity, the company acquired the project management business of Remington Holdings in early August, substantially expanding its service offerings to REITs and other hospitality companies.
- * The company also remains focused on expanding its existing platforms and accelerating performance to earn incentive fees; starting new platforms for additional base and incentive fees; and investing in businesses that can achieve growth by operating in the hotels at its existing platforms.
- * We think the shares are an interesting vehicle for investors seeking exposure to the lodging and hospitality industry, with a diversified fee revenue base, potential growth from new and existing platforms, and lower-than-average balance-sheet risk.

INVESTMENT THESIS

Ashford is an asset management company specializing in the real estate and hospitality sectors. The company's business model is fee-based. It serves as advisor to two NYSE-listed real

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KEY STATISTICS

Key Stock Statistics

Recent price (12/4/18)	\$66.18
52 week high/low	\$53-\$106
Shares outstanding (M)	2.39
Market cap (M)	\$158.2
Dividend	NIL
Yield	NIL

Sector Overview

Sector	Real Estate
Sector % of S&P 500	3%

Financials (\$M)

Cash & Mkt Securities	64.9
Debt	16.6
Shareholders Equity	63.7
Debt/Capital	4.3%
Return on Equity	NM
Payout ratio	NM
Revenue (M) TTM	174.2
Adjusted Net Income (M) TTM	21.6
Net Margin	12.4%

Risk

Beta	1.69
Inst. ownership	21%

Valuation

P/E forward EPS	9.6
Price/Sales	0.9
Price/Book	2.5

Top Holders

FMR, LLC
 Glacier Peak Capital
 BlackRock
 Vanguard Group
 Ladenburg Thalmann

Management

CEO	Monty J. Bennett
CFO	Deric S. Eubanks
IR Director	Jordan Jennings (972) 778-9487
Company website	www.ashfordinc.com

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estate investment trusts: Ashford Hospitality Trust and Braemar Hotels & Resorts (rebranded from Ashford Hospitality Prime in April 2018). At September 30, Ashford had \$6.8 billion of assets under management.

The company recently executed on two significant strategies that we believe represent compelling growth opportunities. First is the August 2018 acquisition of the project-management business of Remington Holdings, expanding Ashford's offerings to include project oversight, coordination, planning, execution of renovation, capital expenditure or development projects for REITs and other hospitality companies. The business had very favorable adjusted EBITDA margins of 56% in its most-recent year.

The second is a unique financing program, dubbed an Enhanced Return Funding Program (ERFP), launched in late June and providing up to \$50 million of capital to its Ashford Trust affiliate to acquire additional hotel properties. The program, which enables growth in Ashford's assets under management by up to \$500 million, already has been put to use with Ashford Trust's acquisition of Hilton Alexandria Old Town and acquisition of La Posada de Santa Fe. We view the ERFP as expandable both in size to Ashford Trust and potentially to Braemar as well.

At the end of September, Ashford Hospitality Trust (NYSE; AHT) owned 118 hotels with about 25,000 rooms; it has a current market cap of \$594 million. During 2Q18, AHT acquired the 252-room Hilton Alexandria Old Town for \$111 million, while completing the sale of the Spring Hill Suites Centreville for \$7.5 million, and the Residence Inn Tampa Downtown for \$24 million. In October, AHT acquired the 157-room La Posada de Santa Fe in Santa Fe, NM, for \$50 million.

Braemar Hotels & Resorts (NYSE; BHR) owned 12 luxury hotels with about 3,500 rooms, and has a current market capitalization of about \$358 million. In 2Q, Braemar acquired the 266-room Ritz-Carlton Sarasota in Sarasota, Florida for \$171 million, while it completed the sale of the 293-room Renaissance Tampa International Plaza hotel in Tampa, Florida, for \$68 million.

Under long-term advisory agreements with AHT and BHR, AINC receives base fees of 0.7% of total market capitalization, as well as incentive and other fees.

The company seeks to grow in three ways: expanding its existing platforms and accelerating performance to earn incentive fees; starting new platforms for additional base and incentive fees; and investing in businesses that can achieve growth by operating in the hotels at its existing platforms.

Braemar, with a portfolio well diversified geographically, is focused on investing in luxury and resort assets that have at least twice the national average RevPAR (revenue per available room). According to Smith Travel Research, RevPAR among U.S. hotels was \$83.57 for 2017, up 3.0% from 2016.

Ashford Hospitality Trust also is diversified geographically with its hotel properties and is focused primarily on the Marriott, Hilton, Hyatt, Starwood and Intercontinental brands.

We believe Ashford's corporate-level business model is compelling for several reasons. The company is asset-light and diversified (with

several sources of fee-income). It is also able to acquire or invest in other lodging and hospitality areas with minimal additional investment in platforms, creating a quick path to accretive earnings. In addition, we believe Ashford is one of only a few pure-play lodging REIT asset managers.

We believe the economic backdrop for the company is favorable. Argus Economics looks for GDP growth in 2018 of 3.2%, up from 2.5% in 2017, with a modest slowdown to 2.4% in 2019. We look for strength in employment trends and retail sales, and expect growth in personal consumption to be in the high-2% or low-3% range for 2018 and 2019. Consumer and business confidence remain at elevated levels, which should aid spending in the lodging and hospitality areas of the economy. As noted, RevPAR increased a healthy 3.0% in 2017 and is on track for a 3.3% increase in 2018. According to PwC, despite expected supply growth of 1.9% in 2019, RevPAR is expected to rise an additional 2.6% for the year.

We view Ashford as an interesting vehicle for investors seeking exposure to the lodging and hospitality industry. It offers a diversified-fee revenue base, potential growth from new and existing platforms, and lower-than-average balance sheet risk.

Our fair value estimate for the shares is \$93.

RECENT DEVELOPMENTS

On November 1, Ashford reported adjusted 3Q18 EPS of \$0.75, down from \$1.66 a year earlier. Third-quarter revenues more than doubled to \$41.6 million, from \$19.3 million, aided by the November acquisition of J&S Audio Visual and partial quarter revenues from the acquisition of the project management business from Remington Holdings. Adjusted EBITDA was \$4.11 million, down from \$4.46 million. The company reported GAAP net income of \$0.18 per share, versus a net loss \$1.05 a year earlier.

In October 2018, Ashford completed a public offering of 280,000 common shares at \$74.50 per share. Net proceeds of \$19.6 million were expected to be used to fund future acquisitions and its obligations under an Enhanced Return Funding Program Agreement with Ashford Hospitality Trust.

In August 2018, Ashford acquired the project-management business (project oversight, coordination, planning, execution of renovation, capital expenditure or development projects) of Remington Holdings for \$203 million. The unit had revenues of \$29 million in 2017 and adjusted EBITDA of \$16.3 million. Ashford issued convertible preferred stock to fund the transaction.

In June 2018, Ashford announced a \$50 million Enhanced Return Funding Program (ERFP), which provides capital to Ashford Trust to grow its assets under management by up to \$500 million. Under the program, the company will provide 10% of the price of each hotel acquired by Ashford Trust, with a targeted funding blend of 50% cash and 50% debt. Ashford expects the program to generate five-year internal rates of return of over 35%. In late June, Ashford Trust made use of the program by acquiring the Hilton Alexandria Old Town in Alexandria, VA, for \$111 million — of which \$11.1 million was committed by Ashford Inc. through the purchase of hotel furniture, fixtures and equipment. In October, Ashford

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PEER COMPARISON

Symbol	Company	Recent Close	Mkt. Cap (Mil)	Rev (mil)	Op. Mrg	EPS	P/E	P/S	Divd. Yield	Enterprise Value/ Revenue
AINC	Ashford, Inc.	66.18	158.2	174.2	0.1	-3.64	NM	0.9	Nil	1.7
PZN	Pzena Investment Management	9.54	661.2	156.1	51.7	0.58	16.4	4.2	1.2%	1.3
KW	Kennedy-Wilson Holdings	19.30	2783.0	816.8	3.9	1.51	12.8	3.4	4.4%	9.7
AAMC	Altisource Asset Management	49.43	80.7	15.1	NM	-5.34	NM	5.3	Nil	18.3

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Trust made a second use of the program by acquiring the 157-room La Posada de Santa Fe in Santa Fe, NM, for \$50 million.

In June 2018, shares of Ashford Inc. (AINC) were added as a member of the U.S. small-cap Russell 2000 Index.

In 1Q18, the company acquired an 80% controlling interest in RED Hospitality & Leisure for about \$1 million in cash. RED provides watersports activities and other travel/transportation services in the U.S. Virgin Islands. RED added revenues of \$256,000 and adjusted EBITDA of \$86,000 to Ashford's first quarter.

In November 2017, Ashford announced that it had acquired an 85% controlling interest in J&S Audio Visual for \$9.2 million in cash, \$4.3 million in Ashford common stock, and \$9.5 million in assumed debt. J&S provides audio-visual services, including show & event services, hospitality services, creative services, and design & integration. Ashford noted that J&S has multi-year contracts with about 67 hotels and convention centers representing over 2,500 annual events and productions, 500 venue locations, and 650 clients. The purchase price implied a multiple of 5.7-times EBITDA for J&S (\$5.4 million over the past year). Ashford intends to have J&S become the preferred audio-visual service provider at planned Hospitality Trust and Braemar hotels by 2020. The company had previously projected that net income and adjusted EBITDA would increase by about \$2.5 million and \$5.2 million, respectively, upon integration. Additions to adjusted net income are estimated at \$1.77 per share upon completion of the acquisition, and \$2.83 per share by 2020.

In April 2017, Ashford acquired a controlling interest in a privately held company that operates the business of Pure Rooms for about \$97,000 in cash. Pure Rooms, which uses purification technology to create allergy-friendly guestrooms, had contracts in place with about 160 hotels (2,400 rooms) throughout the U.S.

In 2016, Ashford announced an investment in OpenKey, a universal, industry-standard smartphone application for keyless entry to hotel guestrooms. By creating an open platform solution, OpenKey seeks to make mobile key technology more accessible and convenient, streamlining the process for hotel owners and guests. Ashford currently has a 46% interest in OpenKey.

EARNINGS & GROWTH ANALYSIS

We look for revenue growth of about 133% in 2018, as single-digit growth in base fees from Ashford Hospitality Trust/Braemar Hotels & Resorts is augmented by substantial contributions from the acquisition of Remington's project management business and a majority interest in J&S Audio Visual. We look for 9% revenue growth in 2019 as project management revenues aid comparisons in the first half of the year.

We believe hotel industry trends will remain favorable, aided by increased travel as the U.S. economy remains strong. Positives include rising consumer spending (as a result of favorable job growth and recently enacted tax cuts) and high consumer confidence (helped by the wealth effect from a rising value of financial assets).

Ashford Inc. is investing in businesses that can achieve growth by operating in the hotels at its existing platforms. We think this latter strategy has merit given the broad array of services provided at most hotels. Efforts in this regard include recent investments in Open Key (keyless entry to guestrooms), Pure Rooms (hypoallergenic guestrooms), and the investment in J&S (audio/visual services).

We see EPS of \$6.60 in 2018 and \$9.91 in 2019.

FINANCIAL STRENGTH & DIVIDENDS

We rate the company's financial strength as Medium-High, the second-highest rating on our five-point scale. At September 30, 2018, Ashford had cash and equivalents of \$64.9 million and notes payable of \$16.6

million. It maintains an asset-light business model that we believe minimizes balance-sheet risk.

The company does not currently pay a common stock dividend and we do not expect one in the foreseeable future. In August 2018, Ashford issued \$200 million of preferred stock in consideration of the acquisition of Remington's project management business. The 8,120,000 shares of preferred have a conversion price of \$140 per share into AINC common stock. Dividends are payable at 5.5% in the first year, 6.0% in the second year, and 6.5% in the third year and thereafter.

MANAGEMENT & RISKS

Ashford is led by Chairman & CEO Monty Bennett, who co-founded the company's predecessor in 2003. Deric Eubanks serves as CFO. With 29% ownership (direct and indirect), management's interests are seemingly well-aligned with shareholders.

The company operates within the hospitality sector, where lower consumer and business confidence are risk factors, as well as general economic conditions. Weaker consumer spending resulting from lower employment levels or higher taxes could impact the company's results. Ashford's revenues are somewhat protected by base-fee minimums, which lowers volatility.

Growth in the supply of available hotel rooms affects competitive pricing and demand for Ashford properties, as would the availability of alternative lodging sources such as Airbnb.

The company's largest shareholder is FMR, LLC, which held 107,631 shares at September 30. Second largest is Glacier Peak Capital with 56,570 shares. We have noticed a considerable change in top-five ownership over the past six months, with Blackrock and Vanguard Group now among the largest shareholders — an indication of a substantial expansion of the shareholder base. With the company's shares having entered the Russell 2000 index, the iShares Russell 2000 ETF is now the 10th largest shareholder.

COMPANY DESCRIPTION

Ashford provides global asset management and related services to the real estate and hospitality sectors. The company serves as advisor to two NYSE-listed real estate investment trusts: Ashford Hospitality Trust and Braemar Hotels & Resorts. Ashford Trust focuses on investing in the hospitality industry in upscale, full-service hotels primarily in the U.S. Braemar invests in high RevPAR full-service luxury hotels and resorts. At September 30, Ashford Trust and Braemar have 130 hotels with about 28,500 rooms.

VALUATION

Over the past 52 weeks, the AINC shares have traded in a range of \$53 to \$111, and are currently near the low end of that range.

In valuing the AINC shares, we look at a few measures. Sources of revenues have expanded significantly with the acquisition of J&S Audio Visual and Remington's project-management business, which we view as providing more stability and supporting a higher valuation. The average peer in this space is trading at about a 12.5-times multiple on 2018 forecasted EBITDA, while both AHT (at about 11.6x EBITDA) and BHR (at 10.8x) are trading at discounts. As such, we believe there is room for valuations to improve on these REITs.

Assuming AHT and BHR achieve valuations that are closer to average industry multiples and thus higher market capitalizations, which will raise base fees, Ashford should trade at a higher valuation. In addition, given healthy trends in the hotel industry (including expected favorable consumer sentiment and spending patterns), we expect the shares to trade around 13.5-times our 2019 earnings estimate. Our fair value estimate for the shares is \$93. (Stephen Biggar)

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