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May 12, 2017

ASHFORD INC.
(NYSE/MKT: AINC, $53.26)

COMPANY HIGHLIGHTS

* AINC: Interesting opportunity in the real estate/hospitality sector
* On May 4, Ashford reported 1Q17 adjusted EPS of $1.92, up from $1.05 a year earlier.
* The company 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
* Acquisitions at Ashford Prime are continuing, with the 190-room Park Hyatt Beaver Creek Resort & Spa, in Beaver Creek acquired in late March. Also in March, Ashford Prime entered into an agreement to acquire the 80-room Hotel Yountville in Yountville, CA for $96.5 million.
* 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.

RELEVANT RATIOS

Key Stock Statistics	
Recent price	$59.50
52 week high/low	$38-64
Shares oustanding (M)	2.02
Dividend	Nil
Yield	Nil
Financials	
Debt/Capital	Nil
Return on Equity	NM
EBITDA/Revenues	19%
Payout ratio	Nil
Revenue (M)	67.6
Adjusted Net Income (M)	12.9
Valuation	
P/E forward EPS	8.6
Price/Sales	1.8
Price/Book	3.8
Market Cap (M)	120
Risk	
Beta	NA
Inst. ownership	22%

INVESTMENT THESIS

Ashford is an asset management company specializing in the real estate and hospitality sectors. The company's business model is fee-based, and operates with low capital expenditures. The company serves as advisor to two NYSE-listed real estate investment trusts: Ashford Hospitality Trust and Ashford Hospitality Prime. At March 31, Ashford had about $6.3 billion of assets under management.

Ashford Hospitality Prime (NYSE; AHP) owns 12 luxury hotels with about 3,700 rooms and has a market capitalization of about $391 million. Ashford Hospitality Trust (NYSE; AHT) owns 121 hotels with about 25,000 rooms and has a market cap of $721 million. Under long-term advisory agreements with AHP and AHT, 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.

Ashford Hospitality Prime's portfolio is well diversified geographically with properties in Philadelphia, Dallas, San Francisco, Seattle, Tampa, Washington, D.C., La Jolla, Chicago, Key West, Napa Valley, and St. Thomas, U.S. Virgin Islands. In April 2017, Ashford Prime added to its portfolio when it acquired the 190-room Park Hyatt Beaver Creek Resort & Spa, in Beaver Creek, CO, for $145.5 million. Ashford Prime is focused on investing in luxury and resort assets that have at least twice the national average RevPAR (revenue per available room), and currently has an additional acquisition in process. According to Smith Travel Research, RevPAR among U.S. hotels was $81.19 for 2016, up 3.2% from 2015.

Ashford Hospitality Trust is also geographically diversified with its 123 hotel properties located in 27 states, and is primarily focused on the Marriott, Hilton, Hyatt, Starwood and Intercontinental brands.

We believe Ashford's business model is compelling for several reasons. The company is asset-light and has no debt. It is also diversified with several sources of fee-income, and is able to acquire or invest in additional lodging and hospitality related areas with minimal additional investment in platforms, thus being quickly accretive to 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 2017 to be in a range of 2.5%-3.0%. On average, we are modeling 2.7% growth for the next 3-4 quarters, based on predictive factors that include the money supply, commodity prices, unemployment claims and business loans. We look for strength in employment and retail sales. The Retail Sales survey conducted by the Census Bureau has risen 5.6% in the past 12 months, the strongest gain since early 2012. Current healthy growth in domestic spending should be augmented further by

PEER COMPARISON

Symbol	Recent Close	Mkt. Cap (Mil)	Rev (mil)	RevGr	Op. Mrg	EPS	EPSGr	P/E	P/S	Divd. Yield	Enterprise Value/ Revenue
AINC	**59.5**	**120**	**67.6**	**14.6%**	**-3.6**	**5.67**	**-2.6**	**10.5**	**1.8**	**Nil**	**0.52**
PZN	9.33	633.2	108.3	-7.1%	43.6	0.57	111%	16.4	5.8	4.10%	0.93
KW	21.05	2420	714.4	11.5%	3.2	0.01	NM	NM	3.4	3.20%	9.00
AAMC	54.45	83.3	19.2	51.1%	-22.5	-2.93	NM	NM	4.4	Nil	2.2

recent upward moves in consumer and business confidence measures in the post-election period. This should aid spending in the lodging and hospitality areas of the economy. As noted, RevPAR increased a healthy 3.2% in 2016. According to PwC, despite an acceleration in the rate of supply growth in 2017, RevPAR is expected to rise an additional 2.3% for the year.

We view Ashford as 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.

Our fair value estimate for the shares is between $65 and $69, representing 22% upside at the midpoint from current levels.

PRICE CHART

RECENT DEVELOPMENTS

On May 4, Ashford reported 1Q17 adjusted EPS of $1.92, up from $1.05 a year earlier. Revenues declined 3.0%, to $13.0 million, and operating expenses rose 8.8%. Still, results benefited from sharply lower realized losses on investments.

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

In April 2017, Ashford Prime acquired the 190-room Park Hyatt Beaver Creek Resort & Spa, in Beaver Creek, CO, for $145.5 million. In March 2017, Ashford Hospitality Prime entered into an agreement to acquire the 80-room Hotel Yountville in Yountville, CA for $96.5 million.

In March 2017, Ashford announced that it was halting efforts to acquire Remington Holdings, L.P. following an inability to receive an acceptable private letter ruling from the IRS. The company had earlier entered into an agreement to acquire Remington for a total value of $299.5 million. Ashford said it would turn to considering the acquisition of Remington's project management business, and would continue to seek investment opportunities of other hospitality-related services businesses.

In March 2017, Ashford Hospitality Prime (AHP) priced a public offering of 5,750,000 shares of common stock at $12.15 per share. Earlier in the month, it priced a public offering of 1,975,500 shares of 5.50% Series B Cumulative Convertible Preferred Stock at $20.19 per share. AHP intends to use net proceeds from both offerings for general corporate purposes, including future acquisitions.

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.

EARNINGS & GROWTH ANALYSIS

We look for revenue growth in the low single-digits in 2017, as primary revenue sources of Ashford Hospitality Trust and Ashford Hospitality Prime enjoy similar growth trajectories. We believe hotel industry trends will remain favorable in 2017, aided by increased travel — in particular by the Millennial generation (which is growing in proportion to the total population). Other positives are rising consumer spending (as a result of job growth, and improving consumer confidence (helped by the wealth effect from a rising value of financial assets and the potential for lower individual tax rates).

Ashford had several investment losses in 2016 that we do not believe will be repeated in 2017. Our adjusted EPS assumption for 2017 is $6.57, representing 16% growth from $5.67 earned in 2016. Our forecast for 2018 is $6.79.

FINANCIAL STRENGTH & DIVIDENDS

We rate the company's financial strength as Medium-High, the second highest on our five-point scale. At March 31, 2017, Ashford itself had no long-term debt and no preferred equity. It maintains an asset light business model that we believe minimizes risk.

The company does not currently pay a dividend and we do not expect one in the foreseeable future.

MANAGEMENT & RISKS

Ashford is led by Chairman & CEO Monty Bennett, who co-founded the company's predecessor in 2003. Douglas Kessler serves as president. With 27% 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 Raging Capital Management, which owns about 2.5 million AINC shares or about 9.9% of the shares outstanding (making it Raging Capital's 20th largest holding).

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 Ashford Hospitality Prime. Ashford Trust focuses on investing in the hospitality industry in upscale, full-service hotels primarily in the U.S. Ashford Prime invests in high RevPAR full-service luxury hotels and resorts. Combined, Ashford Trust and Ashford Prime have 135 hotels with about 29,000 rooms and about $6 billion in assets.

VALUATION

Over the past 52 weeks, the AINC shares have traded in a range of $38 to $64, and are currently above the midpoint of that trading range.

In valuing AINC shares, we look at a few measures. The company's primary source of revenues are from base fees derived from the valuation on two publicly-traded real estate investment trusts which it manages, AHT and AHP. The average peer in this space is trading at about a 12-times multiple on 2017 forecasted EBITDA, while both AHT (at about 10.5x EBITDA) and AHP (at 9.3x) are trading at substantial discounts. We thus believe there is room for valuations to improve on these REITS.

The AINC shares trade at 9.4-times 2016 earnings of $5.67 and only 8.1-times our 2017 EPS forecast of $6.57. Given healthy trends in the hotel industry that include expected favorable consumer sentiment and spending patterns, as well as historically low interest rates, we expect the shares to trade above 10-times forward earnings. That is in line with peers and historical trading patterns. Our fair value estimate for the shares is between $65 and $69, representing 25% upside at the midpoint. (Stephen Biggar)

INCOME STATEMENT

	2015	1Q16	2Q16	3Q16	4Q16	2016	YOY % Chg.	1Q17	2Q17E	3Q17E	4Q17E	2017E	YOY % Chg.	2018E	YOY % Chg.
Revenues															
Advisory services															
Base advisory fee	42,481	10,565	10,932	10,679	10,867	43,043	1.3%	10,827	11,205	10,893	11,193	44,118	2.5%	45,000	2.0%
Incentive advisory fee	1,274	319	413	481	1,870	3,083	142.0%	771	784	762	784	3,101	0.6%	3,000	-3.3%
Reimbursable expenses	8,480	2,154	2,276	2,246	2,183	8,859	4.5%	2,116	2,300	2,300	2,300	9,016	1.8%	9,100	0.9%
Non-cash stock/unit-based compensation	6,311	287	4,447	3,021	4,488	12,243	94.0%	-1,283	2,300	3,400	3,400	7,817	-36.2%	13,800	76.5%
Other	435	84	84	111	100	379	-12.9%	582	90	90	95	857	126.1%	350	-59.2%
Total revenue	**58,981**	**13,409**	**18,152**	**16,538**	**19,508**	**67,607**	**14.6%**	**13,013**	**16,680**	**17,445**	**17,772**	**64,910**	**-4.0%**	**71,250**	9.8%
Salaries and benefits	19,772	5,974	8,717	7,191	6,988	28,870	46.0%	10,043	9,174	9,595	8,886	37,697	30.6%	35,625	-5.5%
Non-cash stock/unit-based compensation	21,920	3,234	7,517	5,773	7,292	23,816	8.6%	989	2,760	2,720	2,720	9,189	-61.4%	19,320	110.3%
Depreciation	799	272	272	271	359	1,174	46.9%	468	365	365	370	1,568	33.6%	1,500	-4.3%
G&A	17,841	4,441	3,838	3,438	4,487	16,204	-9.2%	3,649	3,503	3,663	3,910	14,725	-9.1%	14,963	1.6%
		33%	21%	21%	23%	NM	NM	28%	21%	21%	22%		NM	21.0%	NM
Total expenses	60,332	13,921	20,344	16,673	19,126	70,066	16.1%	15,150	15,802	16,344	15,886	63,182	-9.8%	71,408	13.0%
Operating income	-1,351	-512	-2,192	-135	382	-2,458	82.0%	-2,137	878	1,101	1,886	1,728	-170.3%	-158	-109.2%
Realized gain (loss) on invest. in unconsol entity	0	-3,601	0	0	0	-3,601	NM	0	0	0	0	0	NM	0	NM
Unrealized gain (loss) on invest. in unconsol. Entity	-2,141	2,141	0	0	0	2,141	-200.0%	0	0	0	0	0	NM	0	NM
Interest income (expense)	352	13	10	21	29	73	-79.3%	33	15	15	15	78	6.8%	60	-23.1%
Dividend income	917	13	33	33	91	170	-81.5%	93	30	30	33	186	9.4%	130	-30.1%
Unrealized gain (loss) on investments	-2,490	1,129	-234	287	1,144	2,326	-193.4%	125	0	0	0	125	NM	0	NM
Realized gain (loss) on investments	-5,110	-6,813	470	-728	-3,042	-10,113	97.9%	-200	0	0	0	-200	NM	0	NM
Other income (expense)	-155	-128	-21	5	-18	-162	4.5%	-8	0	0	0	-8	NM	0	NM
Pretax income	-9,978	-7,758	-1,934	-517	-1,414	-11,624	16.5%	-2,094	923	1,146	1,934	1,909	-116.4%	32	-98.3%
Taxes (benefit)	2,066	640	-655	575	220	780	-62.2%	630	-300	0	150	480	-38.5%	50	-89.6%
Net income	-12,044	-8,398	-1,279	-1,092	-1,634	-12,404	3.0%	-2,724	1,223	1,146	1,784	1,429	-111.5%	-18	-101.3%
Income (loss) from consolidated entities - non-controlling interests	10,852	6,548	-182	486	2,008	8,860	-18.4%	-25	0	0	0	-25	-100.3%	0	NM
Income (loss) redeemable non-controlling interests in Ashford	2	3	4	-1	-2	4	100.0%	4	4	-1	-2	5	25.0%	4	-20.0%
Income (loss) from redeemable noncontrolling interests in subsidiaries	0	115	351	322	355	1,143	NM	359	350	350	360	1,419	24.1%	1,400	-1.3%
Net income to Ashford Inc.	-1,190	-1,732	-1,106	-285	727	-2,397	101.5%	-2,386	1,577	1,495	2,142	2,828	-217.9%	1,386	-51.0%
Adjust to EBITDA															
Depreciation	799	267	269	267	354	1,157	44.8%	465	358	358	363	1,543	33.4%	1,100	-28.7%
Income tax (benefit)	2,066	640	-655	575	220	780	-62.2%	630	-300	0	150	480	-38.5%	200	-58.3%
Realized/Unrealized (gain) loss in unconsolidated entity	1,285	1,328	0	0	0	1,328	3.3%	0	0	0	0	0	NM	0	NM
Net income (loss) attributable to redeemable non-controlling interests in Ashford LLC	-2	-3	-4	1	2	-4	100.0%	-4	-4	1	2	-5	NM	0	NM
EBITDA	2,958	500	-1,496	558	1,303	864	-70.8%	-1,295	1,630	1,854	2,656	4,846	461.1%	2,686	-44.6%
Adjusted EBITDA															
Equity-based compensation	15609	2947	3070	2753	2742	11,512	-26.2%	2,268	460	-680	-680	1,368	-88.1%	9,000	557.9%
Market change in deferred compensation plan	-8608	-1612	928	-494	-949	-2,127	-75.3%	3340	300	2000	1800	7,440	-449.8%	3,500	-53.0%
Transaction costs	4718	383	487	310	826	2,006	-57.5%	661	600	300	100	1,661	-17.2%	500	-69.9%
Software implementation cost	180	794	110	49	48	1,001	456.1%	4	75	49	48	176	-82.4%	200	13.6%
Dead deal costs	79	11	52	0	0	63	-20.3%	0	75	50	0	125	98.4%	0	-100.0%
Realized and unrealized (gain) loss on derivatives	175	-9	56	56	25	128	-26.9%	25	0	0	0	25	NM	0	NM
Severance costs	0	0	0	0	65	226	NM	49	0	0	0	0	NM	0	NM
Adjusted EBITDA	15,111	3,014	3,207	3,232	4,060	13,673	-9.5%	5,052	3,140	3,573	3,924	15,641	14.4%	15,886	1.6%
Adusted net income															
Net income to Ashford Inc.	-1,190	-1,732	-1,106	-285	727	-2,397	101.5%	-2,386	1,577	1,495	2,142	2,828	-217.9%	1,386	-51.0%
Depreciation	799	267	269	267	354	1,157	44.8%	465	358	358	363	1,543	33.4%	1,100	-28.7%
Net income (loss) for redeemable non-controlling interests in Ashford LLC	-2	-3	-4	1	2	-4	100.0%	-4	-4	1	2	-5	25.0%	0	-100.0%
Equity-based compensation	15,609	2,947	3,070	2,753	2,742	11,512	-26.2%	2,268	460	-680	-680	1,368	-88.1%	9,000	557.9%
Realized and unrealized (gain) loss on invest. In unconsol entity	1,285	1,328	0	0	0	1,328	3.3%	0	0	0	0	0	NM	0	NM
Market change in deferred compensation plans	-8,608	-1,612	928	-494	-949	-2,127	-75.3%	3,340	300	2,000	1,800	7,440	-449.8%	3,500	-53.0%
Transaction costs	4,718	383	487	310	826	2,006	-57.5%	661	600	300	100	1,661	-17.2%	500	-69.9%
Software implementation costs	180	794	110	49	48	1,001	456.1%	4	75	49	48	176	-82.4%	200	13.6%
Dead deal costs	79	11	52	0	0	63	-20.3%	0	75	50	0	125	98.4%	0	NM
Realized and unrealized (gain) loss on derivatives	175	-9	56	56	25	128	-26.9%	25	0	0	0	25	NM	0	NM
Severance costs	0	0	0	0	65	226	NM	49	0	0	0	0	NM	0	NM
Adjusted Net Income	13,045	2,374	3,862	2,657	3,840	12,893	-1.2%	4,422	3,440	3,573	3,774	15,161	17.6%	15,686	3.5%
Diluted share count	2,242	2,266	2,285	2,277	2,273	2,275	1.5%	2,309	2,309	2,309	2,309	2,309	1.5%	2,309	0.0%
Adjusted net income (loss) per share	**5.82**	**1.05**	**1.69**	**1.17**	**1.69**	**5.67**	**-2.6%**	**1.92**	**1.49**	**1.55**	**1.63**	**6.57**	**15.9%**	**6.79**	3.5%

DISCLAIMER