

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.

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

RELEVANT RATIOS

Key Stock Statistics

Recent price	\$59.50
52 week high/low	\$38-64
Shares outstanding (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%

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.

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	10Q16	2016	3Q16	4Q16	2016	YOY % Chg.	1Q17	2Q17E	3Q17E	4Q17E	2017E	YOY % Chg.	2018E	YOY % Chg.
Revenues															
Advisory services	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%
Base 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%
Incentive advisory fee	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%
Reimbursable expenses	6,311	287	4,447	3,021	4,488	12,243	-9.2%	-1,283	2,300	3,400	3,400	7,817	-36.2%	13,800	76.5%
Non-cash stock/unit-based compensation	435	84	111	100	379	12,996	-12.9%	582	90	90	95	857	126.1%	350	-59.2%
Other	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%
Total revenue	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%
Salaries and benefits	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%
Non-cash stock/unit-based compensation	799	272	272	271	359	1,174	46.9%	468	365	365	370	1,568	33.6%	1,500	-4.3%
Depreciation	17,841	4,441	3,638	3,438	4,487	16,204	9.2%	3,649	3,503	3,663	3,910	14,725	-9.1%	14,963	1.6%
G&A	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%
Total expenses	-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%
Operating income	0	-3,601	0	0	0	-3,601	NM	0	0	0	0	0	NM	0	NM
Realized 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
Unrealized gain (loss) on invest. in unconsol. Entity	352	13	10	21	29	73	-79.3%	33	15	15	15	78	6.8%	60	-23.1%
Interest income (expense)	-2,490	917	-234	33	91	170	-81.5%	93	30	30	33	186	9.4%	130	-30.1%
Dividend income	-5,110	-6,813	470	-728	-3,042	-10,113	97.9%	-200	0	0	0	125	NM	0	NM
Realized gain (loss) on investments	-155	-128	-21	5	-18	-162	4.5%	-8	0	0	0	-8	NM	0	NM
Other income (expense)	-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%
Pretax income	2,066	640	-655	575	220	780	-62.2%	630	-300	0	150	480	-35.5%	50	-89.6%
Taxes (benefit)	-12,044	-8,398	-1,279	-1,092	-1,534	-12,404	3.0%	-2,724	1,223	1,146	1,784	1,429	-111.5%	-18	-101.3%
Net income	10,852	6,548	-182	486	2,008	8,860	-18.4%	-25	2,000	0	0	-25	-100.3%	0	NM
Income (loss) from consolidated entities - noncontrolling interests	2	3	4	-1	-2	4	100.0%	4	4	-1	-2	5	25.0%	4	-20.0%
Income (loss) redeemable noncontrolling interests in Ashford	0	115	351	322	355	1,143	NM	359	350	350	360	1,419	24.1%	1,400	-1.3%
Income (loss) from redeemable noncontrolling interests in subsidiaries	-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%
Net income to Ashford Inc.	799	267	269	267	354	1,157	44.8%	465	358	358	363	1,543	33.4%	1,100	-28.7%
Adjust to EBITDA	2,066	640	-655	575	220	780	-62.2%	630	-300	0	150	480	-38.5%	200	-58.3%
Depreciation	1,285	1,328	0	0	0	1,328	3.3%	0	0	0	0	0	NM	0	NM
Income tax (benefit)	-2	-3	-4	1	2	-4	100.0%	-4	-4	1	2	-5	NM	0	NM
Realized/Unrealized (gain) loss in unconsolidated entity	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%
Net income (loss) attributable to redeemable noncontrolling interests in Ashford LLC	15,609	2947	3070	2753	2742	11,512	-26.2%	2,268	460	-680	-680	1,368	-88.1%	9,000	557.9%
EBITDA	-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%
Adjusted EBITDA	180	794	110	49	48	1,001	456.1%	4	75	49	48	176	-17.2%	500	-69.9%
Equity-based compensation	79	11	52	0	0	63	-20.3%	0	75	50	0	125	98.4%	200	13.6%
Market change in deferred compensation plan	175	-9	56	56	25	128	-26.9%	25	0	0	0	25	NM	0	-100.0%
Transaction costs	0	0	0	0	65	226	NM	49	0	0	0	0	NM	0	NM
Software implementation cost	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%
Dead deal costs	-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%
Realized and unrealized (gain)/loss on derivatives	799	267	269	267	354	1,157	44.8%	465	358	358	363	1,543	33.4%	1,100	-28.7%
Severance costs	2,066	640	-655	575	220	780	-62.2%	630	-300	0	150	480	-38.5%	200	-58.3%
Adjusted EBITDA	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%
Adjusted net income	799	267	269	267	354	1,157	44.8%	465	358	358	363	1,543	33.4%	1,100	-28.7%
Net income to Ashford Inc.	-2	-3	-4	1	2	-4	100.0%	-4	-4	1	2	-5	25.0%	0	-100.0%
Depreciation	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%
Equity-based compensation	1,285	1,328	0	0	0	1,328	3.3%	0	0	0	0	0	NM	0	NM
Market change in deferred compensation plan	-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%	200	13.6%
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

This is a sponsored research report. Argus Research has received a flat fee from the company discussed in this report to provide a fair value assessment, and no part of its compensation is directly or indirectly related to the content of this assessment or to other opinions expressed in this report. Argus Research and the author of this report have no financial interest in, or affiliation with, the subject firm. Argus Research Co. (ARC) is an independent investment research provider whose parent company, Argus Investors' Counsel, Inc. (AIC), is registered with the U.S. Securities and Exchange Commission. Argus Investors' Counsel is a subsidiary of The Argus Research Group, Inc. Neither The Argus Research Group nor any affiliate is a member of the FINRA or the SIPC. Argus Research is not a registered broker dealer and does not have investment banking operations. The Argus trademark, service mark and logo are the intellectual property of The Argus Research Group, Inc. The information contained in this research report is produced and copyrighted by Argus Research Co., and any unauthorized use, duplication, redistribution or disclosure is prohibited by law and can result in prosecution. The content of this report may be derived from Argus research reports, notes, or analyses. The opinions and information contained herein have been obtained or derived from sources believed to be reliable, but Argus makes no representation as to their timeliness, accuracy or completeness or for their fitness for any particular purpose. This report is not an offer to sell or a solicitation of an offer to buy any security. The information and material presented in this report are for general information only and do not specifically address individual investment objectives, financial situations or the particular needs of any specific person who may receive this report. Investing in any security or investment strategies discussed may not be suitable for you and it is recommended that you consult an independent investment advisor. Nothing in this report constitutes individual investment, legal or tax advice. Argus may issue or may have issued other reports that are inconsistent with or may reach different conclusions than those represented in this report, and all opinions are reflective of judgments made on the original date of publication. Argus is under no obligation to ensure that other reports are brought to the attention of any recipient of this report. Argus shall accept no liability for any loss arising from the use of this report, nor shall Argus treat all recipients of this report as customers simply by virtue of their receipt of this material. Investments involve risk and an investor may incur either profits or losses. Past performance should not be taken as an indication or guarantee of future performance. Argus has provided independent research since 1934. Argus officers, employees, agents and/or affiliates may have positions in stocks discussed in this report. No Argus officers, employees, agents and/or affiliates may serve as officers or directors of covered companies, or may own more than one percent of a covered company's stock. Argus Investors' Counsel (AIC), a portfolio management business based in Stamford, Connecticut, is a customer of Argus Research Co. (ARC), based in New York. Argus Investors' Counsel pays Argus Research Co. for research used in the management of the AIC core equity strategy and model portfolio and UIT products, and has the same access to Argus Research Co. reports as other customers. However, clients and prospective clients should note that Argus Investors' Counsel and Argus Research Co., as units of The Argus Research Group, have certain employees in common, including those with both research and portfolio management responsibilities, and that Argus Research Co. employees participate in the management and marketing of the AIC core equity strategy and UIT and model portfolio products.