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Ten Peaks

1. Screening Factors:

a. P/E Ratio: Ten Peaks's (TP) P/E ratio is **10.5**, this is within the target for a low P/E ratio of 13 which potentially signals that TP is a value stock.

b. Price to Book Ratio: TP's ratio is **1.273**, which is within range of the target of 1.2, signalling that it may be a value stock.

c. Small Cap? TP's market capitalization is **$6.85 M** therefore, it is a small-cap company signalling that it may be a value stock.

d. Analyst Coverage: TP is not covered by any analysts, signalling that is may be a value stock.

Overall, Ten Peak's P/E Ratio, P/B Ratio, Market Capitalization and Analyst Coverage all fall within value investing ranges.

2. Industry Analysis

According to the National Coffee Association Annual Drinking Trends Study, specialty/gourmet coffee represents 59% of the entire coffee consumption market in the US, up from 40% in 2010. The industry outlook on decaffeinated coffee, a sub-segment of the specialty coffee industry, is positive, given that it is the fastest growing segment of the coffee industry. Globally, the decaffeinated coffee market is trending as consumer awareness surrounding the decaffeination process increases. Overall, given that both the specialty coffee industry and the decaffeinated coffee segment have shown signs of consistent growth, we believe that the industry is low-risk, stable and mature. It is important to note, however, that because coffee is a commodity, swings in pricing affect profitability.

3. Company Analysis

Ten Peaks is the sole shareholder of both Swiss Water Decaffeinated Coffee Company Inc. (Swiss Water) and Seaforth Supply Chain Solutions Inc. (Seaforth). Swiss Water is the only branded chemical-free producer of decaffeinated coffee in the world. Swiss Water offers both decaffeinated green coffee beans and the decaffeinated service of green beans. Swiss Water's decaffeinated green beans are sold to many of specialty roaster retailers, specialty coffee importers and commercial coffee roasters; including Tim Hortons, McDonald's (US) and Whole Foods. Seaforth provides green coffee logistics. Ten Peaks is expected to report revenues of $84 million and net income of $6 million for its financial year 2017. Ten Peaks has **medium business risk** and its **target structure is 21.7%** which is below the **optimal range of 30-49.9%** and so its **financial risk is low**. Since the company isn't covered by the rating agencies, based on its Debt/EBITDA ratio of 1.93 we assigned an **A rating**, based on this rating CCs **Kd is 5.17% (Exhibit 1),** which is a **2.8% spread** above the **risk-free rate of 2.42%. ERP is 4%** so **Ks is 9.17.** TP's **WACC is 8.01%** (Exhibit 2). First pass **ROIC is 4.88%** (Exhibit 3.

4. Valuation of chosen company

TP is currently trading at **$6.85**. TP's **EPV is $4.99** (Exhibit 5) and its **NAV is $8.10** (Exhibit 6). Second pass **$ROIC_2$ is 5.3%** (Exhibit 4). The **intrinsic value is $6.55**, With a 2/3rds margin of safety, **the target purchase price is $4.37**.

5. **Strategic valuation analysis and Risk Management Assessment**

A potential catalyst is improving operational efficiency. As Ten Peak's is in the process of building a new state-of-the-art facility designed to help it achieve greater operational efficiency, it is likely that it's margins and overall financial performance will improve. Since the coffee industry is a low barrier industry, one of the significant risks is the entry of new players with differentiated products that may appeal to consumer tastes. Ten Peaks must ensure that it continually differentiates its specialty decaffeinated green bean coffee products to retain customer loyalty. Ten Peaks must continue to hedge both coffee commodity prices and currency prices in order to mitigate financial risks.

6. Recommendation

Ten Peaks is a Canadian company that has been able to differentiate itself from its competitors. Once it improves its operational efficiencies, which is has taken steps to do, it is our belief that it will improve its financial performance. We believe that this is a company worth buying. However, since the current share price of $6.85 is above the target purchase price of $4.37, it is recommended to wait for the share price to drop below the target purchase price before acquiring.