The Finance Society

Goldman Sachs

2016 Finance Society x Goldman Sachs Investment Banking Case Competition

New York University Finance Society

DISCLOSURE

The case is based on a hypothetical company (the Company) and attempts to simulate the strategic decisions that the Company and its advisors would face. The facts cited in this case study are all hypothetical. The financial information provided in this case is for illustrative purposes only and does not represent current or historical projections of any company. Financial information not provided in this case will not be relevant for your analyses. Students should not discuss the case with investment banking, consulting or finance-related professionals. Any activity of seeking professional assistance will be cause for disqualification. The case should be the original work of the team members alone. Students who have current or past experiences in banking, consulting, or finance should cite these experiences in their final deliverable.

SUBMISSION

Each team will present their conclusions through a written presentation (landscape format), similar to the discussion materials often used in investment banking, consulting and corporate board meetings (e.g. PowerPoint). Your presentation can be a maximum of ten (10) pages in length. You may have additional pages that include tables and exhibits (in addition to the ten (10) pages mentioned). The tables and exhibits will be a critical component of the final product as your conclusions should be based on this work.

Please email finished cases in PDF format with resumes of team members to finance.society@stern.nyu.edu no later than Wednesday, April 27th at 1:00 PM with the subject line: Case Submission – [Team Name].

BACKGROUND

It is April 15, 2016. The Management team and Board of Directors of Angeltown Natural Resources Corporation, a publically-traded natural resources and investment company, have engaged their choice of investment bank to decide on the appropriate next steps for Angeltown Natural Resources Corporation (henceforth referred to as the Company). As part of the ongoing management and oversight of the Company's business, the Board and Management regularly discuss and evaluate the strategic direction, long-term goals, performance, and prospects of the Company. In the course of these discussions, the Board and senior management intend to review the various strategic alternatives involving a possible sale of the business or other commercial transactions that could complement and enhance the Company's competitive strengths, market position, and returns to the shareholders.

After much deliberation, the Board of the Company decided to put the company up for sale to interested buyers in early March. On March 28, 2016, the Company received a formal takeover offer from Canadian Capital Partners, a privately-held investment firm focused on special situation opportunities in North America. On April 11, 2016, the Company received another formal takeover offer from California Timber Corporation, a privately-held Sacramento-based timber company focused on sustainable harvesting. Both offers are all-cash offers.

A few timber companies that are larger in size compared to California Timber Corporation also expressed interests in acquiring the Company, but no formal offers were received from them as of April 15, 2016. No other privately-held investment firms, apart from Canadian Partners, have expressed interests in the Company as of April 15, 2016.

Given the recent developments, the Company has asked has their investment bank to provide its assessment to the Board of Directors of the fundamental value of the Company, and its views on a potential sale or other strategic alternatives. In particular, the Board wants answers to the following questions:

- What is the appropriate standalone value of the Company?
- Who are the potential acquirers for the Company, what should each acquirer be willing to pay, and why?
- Is now a good time to sell the business?
- If a sale is not recommended for the Company, should the Company pursue any other alternatives to return value to shareholders?

COMPANY DESCRIPTION

Introduction

Angeltown Natural Resources Corporation is an innovative natural resources and investment company based in Los Angeles. With roots dating back to 1891, today the Company owns and manages natural resource properties throughout the Western United States and real estate properties in and near Los Angeles, California, with a focus on coal, timberland and real estate assets. Timberland assets are primarily around urban areas in California. Today they operate a purely royalty-based business in coal and timberland by negotiating royalties for production on its Company-owned land. The coal lease expires in ten years when the asset is fully depleted and the timberland lease has another twenty years remaining.

In addition, the Company has developed some old timberland into a shopping mall outside Los Angeles since 2009. The development of the mall was completed in March 2013. The mall has 100% occupancy rate as of now, and management is confident that the mall would be able to maintain this level at least for the next five years. The shopping mall's largest tenants, by the squared footage occupied, include Macy's, Nordstrom, Saks Fifth Avenue, and Sears. The Sears store is scheduled to close soon by end of 2016, with no immediate tenant scheduled to move in as of April 15, 2016. If no tenant would replace Sears, the occupancy rate of the mall would fall to 85%. The Company is in talks with Neiman Marcus and Barney's New York, who both have expressed interests in renting the space after Sears is closed.

The Company is 51% owned by Angel Smith, the great-granddaughter of the founder, John Smith. She is the CEO and Chairman of the Company and has expressed interests in retiring before 2025.

Competitive Strengths

Simple, high-margin, low-risk business. The Company's focus on natural resources royalties means that the Company does not have significant operating risks and yet is still able to keep margins high. A key component of the Company's strength is the consistency of its operating partners. Many of the natural resource partners the Company has worked with have decades of operating experience and the tenants in its shopping mall have expressed no interest in moving.

Strong management culture. The Company's management team has been able to extract value from its assets much more efficiently than its peers. Here are some management quotes to highlight the strength of the management team:

- "We often consider investing in timberland that require growing periods of twenty years before harvest. We are not trying to get rich quick." – 2005 Annual Report
- "Coal properties with five years from acquisition to production are very attractive to us because fast money avoids them." – 2005 Annual Report
- "We wait for the right pitch. We are fine leaving your money in the bank until attractive opportunities arise." – 2007 Annual Report
- "We never do deals just to do deals." – 2011 Annual Report

In addition, employee count has stayed relatively flat over the last two decades, yet cash flow per employee has grown consistently. The average employee tenure is seventeen years and every single one must be a shareholder.

Management consists of quality capital allocators. A core component of the Company's business model is its disciplined cost structure and shrewd acquisition history. Management has generated high unlevered return on equity (ROE) for years despite fluctuations in commodity prices. Here are some recent major investments:

- USD 27.3M for the Powel property in February 2003, containing coal and timber
- USD 13.1M for the coal-focused Court property in August 2007
- USD 26.7M for a coal property in northwestern Colorado in November 2009
- USD 13.9M for a timber property in central Oregon in February 2010
- USD 3.6M for a real estate firm based in Los Angeles specializing in shopping mall development in September 2011

The Company rigorously considers acquisition opportunities even when they did not buy. Court was the Company's only major purchase during the commodity boom years of 2004-2008.

Finally, the Company's ROA has been close to ROE, so leverage has not been the driving force of returns. Today the Company sits on a huge pile of cash (USD 61.8M).

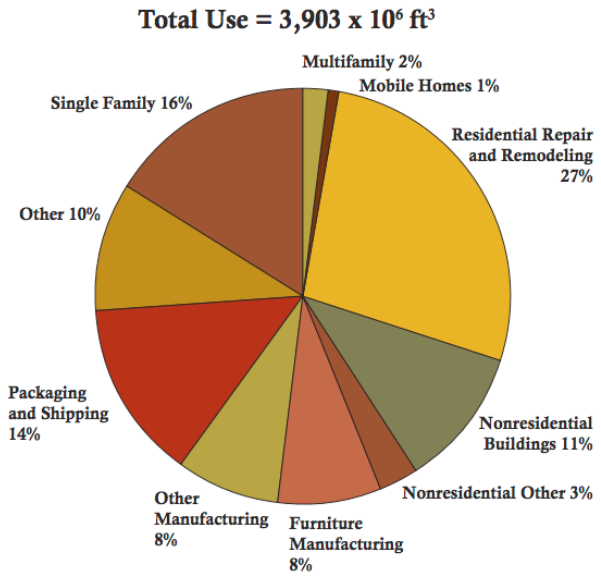
INDUSTRY INFORMATION

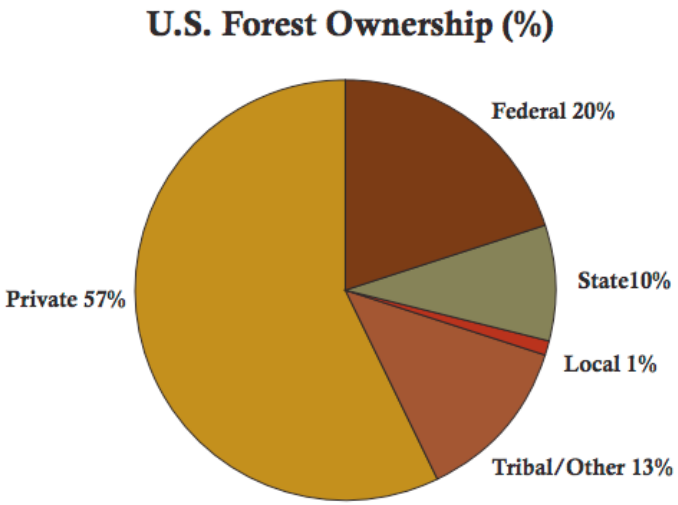
Privately Owned Timber/Forest Industry Overview

Introduction

Both the forest products industry, and accordingly, the forestry sector, in the United States (U.S.) have experienced extreme volatility, unprecedented challenges, and substantial change over the past two decades. In many areas, old operating assumptions have been challenged and discarded at an increasingly rapid pace, and practitioners, policy makers, researchers, and educators have struggled to keep up. However, emerging from a recession that depressed some markets to levels that equaled the Great Depression, the near-term future for U.S. forest products markets is generally optimistic.

The industry has seen significant changes in structure of ownership in the past ten years. The percentage of timberland corporate ownership by C-Corps in the U.S. has decreased from over 70% to 10% level as of 2015. New investment-type ownerships represented a comparatively small share of forestland ownership in 1990. Yet, these types of forestland owners have nearly completely replaced vertically integrated forest products companies. Some of these companies have restructured their corporate divisions, such that companies that were once C-Corps have evolved into REITs. Many corporations have transformed themselves into Timber Investment Management Organizations (TIMOs) to better manage their forest resources. As of 2015, the percentage of timberland corporate ownership by TIMOs is 50%, while the percentage of timberland corporate ownership by REITs is 40%. All private corporates own approximately 57% of forestland in the U.S., with the rest of the forestland owned by native tribes, and the federal and state governments.





Industry Trends

Paper and Packaging. In the paper and packaging area, markets continue to improve. Much of the increasing demand is driven by emerging markets in China, Brazil, and India, as well as the recovery of more developed economies. Worldwide demand for paper and paperboard is expected to rise at an average 2.4% annually. Yet, this overall growth belies significant changes happening within the

segment. Newsprint is expected to continue declining at about 5 percent per year with printing and writing paper slipping by 3%. Despite the rise of a digital world, paper remains a critical necessity. It is on the rise as a green alternative to petroleum-based packaging. Research and innovation continue through product improvements, such as stronger corrugated boxes, as well as the development of new products.

Hardwood Lumber Products. Markets in the hardwood lumber sector are improving slightly, but still down 40% from their high point in the late 1990s. Full emergence from the recession will not likely restore these market highs due to a diminished workforce, timber supply restrictions, and tighter credit for expansion. The nature of the markets has also changed. In the 1970s, 68% of the hardwood market consisted of non-industrial uses. By 2012, this ratio reversed, with 61% of the market consisting of industrial uses. Nevertheless, the markets are expected to continue to improve, albeit gradually.

Sawn Building Materials. The markets for sawn building materials are recovering but not fully recovered. Full recovery of about 1.5 million new units annually will probably not occur until 2016 due to the remaining inventory of vacant homes. At the same time, the industry is having difficulty responding to a modest increase in demand over 2009 levels due to the shrinkage in mill capacity during the recession. However, assuming the manufacturing capacity question can be resolved, domestic and foreign markets beyond 2015 look very positive. Additionally, the use of sawn lumber in multifamily home construction is on the rise. This industry segment (softwood lumber) has already established a check-off which will begin to show results in marketing and public education over the next few years.

Wood to Energy. This market has seen significant growth in a relatively short period of time, driven primarily by the adoption of renewable energy standards within the European Union (EU) countries. In 2006 wood pellet production worldwide was between 6 and 7 million tons per year. In 2010 it reached 13.6 million tons. (Source: Global Wood Pellet Industry Market and Trade Study, IEA December 2010). New large-scale mills capable of producing one million tons or more annually, are now sourced from thinnings and small-diameter trees that have traditionally supplied the pulpwood and Oriented Strand Board (OSB) segments. Unlike other markets in the sector, this market is not cyclical. Therefore, supply agreements are generally long term in nature, typically on ten-year or twenty-year contracts. Beyond the EU countries, there are also markets merging in China, Korea, and Japan.

New Products Developed through Nanotechnology. The recent development of cellulose nanocrystals (CNCs) and nano fibrils (CNF) opens a brave new world for wood products. The major area of concern is how fast public/private partnerships can be created and expanded to take advantage of this new opportunity. The technology has the potential to greatly accelerate forest restoration work by providing a new market for very low value fiber. But the steps necessary to start include identifying available landscapes for raw material supply needs, establishing markets, and beginning the construction of manufacturing facilities to put product into these new markets.

Industry Outlooks

Forest Conditions

- Forest Area. Worldwide, forest area is projected to decline between 2016 and 2030 by approximately 6.0% to 9.4%. In North and Central America region, forest area is projected to decline less steeply, by approximately 2.6% to 3.1%.

- Forest Stock. The world level of forest stock is projected to change less in relative terms than the forest area. Stock levels change from year to year as the net result of growth, which depends in part on forest density, minus mortality and harvests. The extent to which stock levels change depends heavily on the rate of harvest. Timber stocks worldwide are projected to increase by approximately 2% to 4% from 2016 to 2030. In North and Central America, stocks are projected to rise by approximately 2% to 4% from 2016 to 2030. The overall rise in stock in the region, in the face of falling forest area, indicates that forests are projected to have progressively higher stand densities.

Forest Output

- Industrial Roundwood. In the United States, industrial roundwood production would continue to increase from 2016 to 2030. Industrial roundwood prices are projected to fall from about USD 80/m^3 to about USD 67/m^3 by 2030 (in constant 2016 dollars).
- Fuelwood. The United States' production of fuelwood is highly dependent on the assumed emergence of a wood-based bioenergy sector. Fuelwood prices are projected to rise in the United States to nearly doubling the current 2016 levels.
- Recovered Paper. The historical record for recovered paper has been one of steady rises in the United States. In the United States, output is projected to achieve levels by 2020 that were never achieved in the historical record—to over 50 million MT, rising to between 63 and 73 million MT.
- Paper. For the United States, after achieving record outputs in 2015, production is projected to slow down. Historically, up to 2009, the United States was a net importer of total paper and paperboard, mostly from Canada. In the late 2000s, with the recession came a collapse of United States' paper imports and a slight positive trade balance. The projections suggest that this change is temporary and that the US will continue to be a net importer.

Industry Supply Chain

Coal Industry Overview

Introduction

With just under a billion tons produced in 2013, the U.S. ranks second in coal production in the world. China is the largest producer with 3.7 billion tons. However, the U.S. holds much higher coal reserves at 237 billion tons—over a quarter of the world's coal reserves. Coal is mined in 25 states across the U.S. Five states—Wyoming, West Virginia, Kentucky, Pennsylvania, and Illinois—account for over 70% of the total coal production in the U.S.

Industry Basics

Coal Production. Over 4,030 MT of coal is currently produced—a 38% increase over the past 20 years. Coal production has grown fastest in Asia, while Europe has actually seen a decline in production. The largest coal producing countries are not confined to one region – the top five producers are China, the U.S., India, Australia and South Africa. Much of global coal production is used in the country in which it was produced, only around 18% of hard coal production is destined for the international coal market. Global coal production is expected to reach 7 billion tons in 2030 – with China accounting for around half the increase over this period. Steam coal production is projected to have reached around 5.2 billion tons; coking coal 624 million tons; and brown coal 1.2 billion tons.

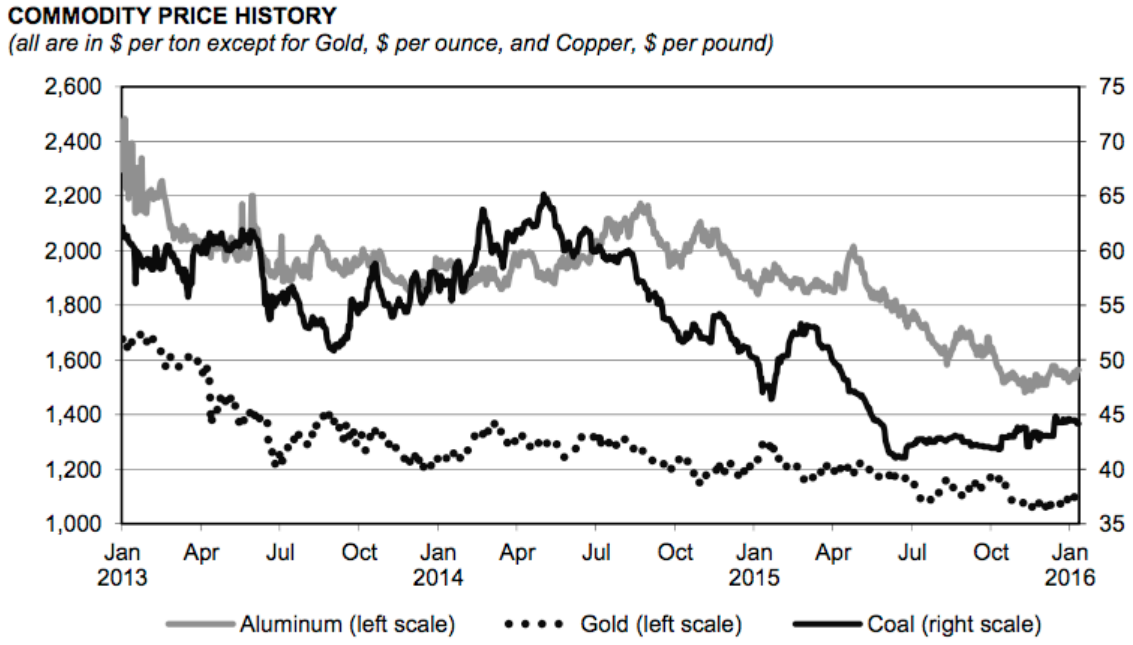
Coal Consumption. Coal plays a vital role in power generation and this role is set to continue. Coal currently fuels 39% of the world's electricity and this proportion is expected to remain at similar levels over the next 30 years. Consumption of steam coal is projected to grow by 1.5% per year over the period 2010-2030. Lignite, also used in power generation, will grow by 1% per year. Demand for coking coal in iron and steel production is set to increase by 0.9% per year over this period. The biggest market for coal is Asia, which currently accounts for 54% of global coal consumption – although China is responsible for a significant proportion of this. Many countries do not have natural energy resources sufficient to cover their energy needs, and therefore need to import energy to help meet their requirements. It is not just a lack of indigenous coal supplies that prompts countries to import coal but also the importance of obtaining specific types of coal. Major coal producers such as China, the U.S. and India, for example, also import quantities of coal for quality and logistical reasons. Coal will continue to play a key role in the world's energy mix, with demand in certain regions set to grow rapidly. Growth in both the steam and coking coal markets will be strongest in developing Asian countries, where demand for electricity and the need for steel in construction, car production, and demands for household appliances will increase as incomes rise.

Coal Trade. Coal is traded all over the world, with coal shipped huge distances by sea to reach markets. Over the last twenty years, seaborne trade in steam coal has increased on average by about 8% each year, while seaborne coking coal trade has increased by 2% a year. Overall international trade in coal reached 718 MT in 2003; while this is a significant amount of coal it still only accounts for about 18% of total coal consumed. Transportation costs account for a large share of the total delivered price of coal, therefore international trade in steam coal is effectively divided into two regional markets – the Atlantic and the Pacific. The Atlantic market is made up of importing countries in Western Europe, notably the UK, Germany and Spain. The Pacific market consists of developing and OECD Asian importers, notably Japan, Korea and Chinese Taipei. The Pacific market currently accounts for about 60% of world steam coal trade. Markets tend to overlap

when coal prices are high and supplies plentiful. South Africa is a natural point of convergence between the two markets.

Industry Profitability

The two key industry drivers for the mining industry are consumer demand reflected in unit volumes, and pricing trends tied to supply and demand dynamics for key commodities and metal products. Despite positive macroeconomic trends (i.e., low borrowing costs, and improving housing and jobs markets), the global overcapacity in coal continues to weigh on prices. Due to record levels of imports in the US steel market, steel prices have hit multi-year lows. And such low prices are a common phenomenon in U.S. metal and mining industry as a whole, affecting more than one type of mineral products.



Industry Trends

In 2013, the U.S. Environmental Protection Agency (or EPA) wants to establish a cleaner environment. It has issued carbon dioxide emission standards. It has also issued mercury and air toxic standards. The first standard requires new coal-fired power plants to limit carbon dioxide emission to 1,100 pounds of carbon dioxide (or CO2) per megawatt hour (or MWH). New plants will have to reduce uncontrolled carbon dioxide emission by 50% compared to existing plants. They will employ a mechanism called carbon capture sequestration (or CCS). For existing coal-fired power plants, the EPA has proposed rules that require them to cut carbon dioxide emission by 30% by 2030 over 2005 levels.

While a beneficial thing to the public environment, EPA's "war on coal" has hurt many coal mining companies' fundamentals. Due to shale gas boom and the EPA's war on coal, coal's share in electricity generation has fallen. According to the U.S. Energy Information Administration's (or EIA) projections, coal's share will continue to fall in the long run. This is a risk for all coal producing regions in the U.S.

The western region's coal production only produces thermal coal—unlike the eastern region that also produces metallurgical coal. Metallurgical coal is rarer than thermal coal. It provides hope for companies some companies that have mines that could produce metallurgical coal. The hope is that someday, global steel production will normalize and demand for met coal will be restored. However, it isn't likely that the domestic demand for thermal coal will recover in the long term.

Additionally, the railroad companies that typically run railways on the western coast of the United States have underperformed recently. This has been a key issue for coal companies operating in the western region. There have been ongoing rail connectivity issues. As a result, producers are shipping sub-optimal quantities of coal. This has caused higher costs per ton. The connectivity issue isn't expected to be resolved soon. Many producers were forced to reduce their guidance for 2016 and 2017.

Location of the mines now becomes a key factor in determining a coal mining company's value. In the western region, with a low production cost and lower coal-fired power plant retirements expected in the west, the coal miners currently look better than their counterparts in other regions. However, this region's coal's export potential will depend on Asian economies' futures, policy changes, production in Australia and Indonesia, and the coal export infrastructure in the Pacific Northwest.

Coal producers in the eastern region are in a tough situation. Met coal prices are at an all-time low. It's also competing with the midwest region. Western region coal is also making inroads into the east. The midwest region's emergence, the fall in met-coal price, and the weak demand for met coal hurt coal producers in eastern region significantly.

Midwest region's coal companies may continue to gain over eastern region's coal. More coal-fired power plants are installing scrubbers. Midwest coal exports are also growing. They may continue to grow due to cost competitiveness. However, domestic demand may remain confined to the Midwest.

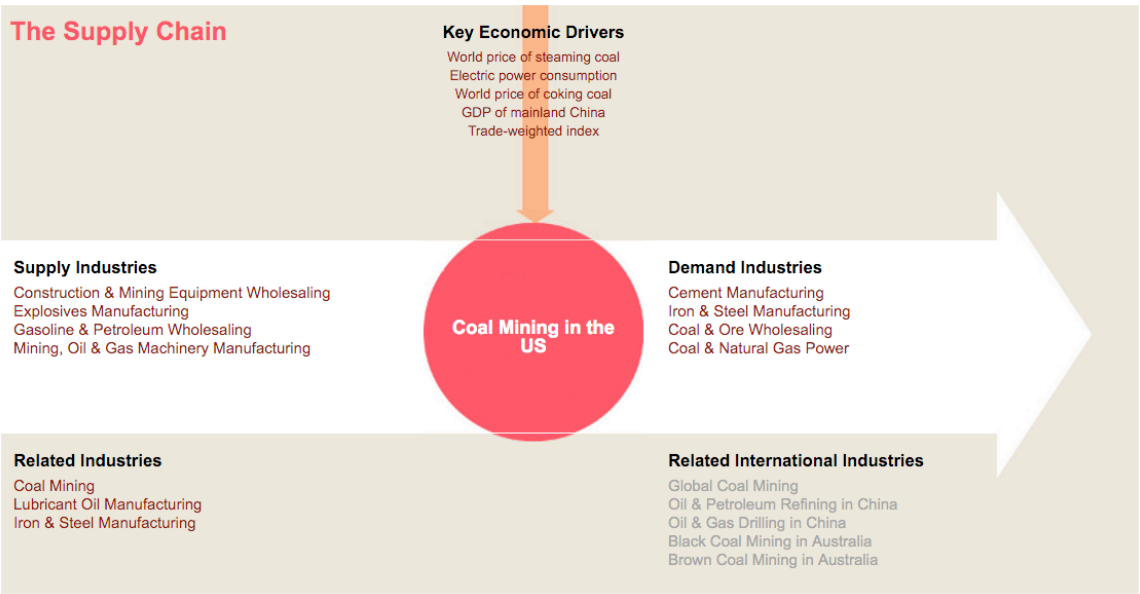
Industry Outlooks

The industry has arguably now come to a point when it's a do-or-die situation. Loads of negative factors are bringing coal down, along with the companies in the coal mining business. The coal industry's overall results in the fourth quarter of 2015 were on the softer side with the majority of them reporting in huge losses. The indications are that the ones yet to report will also disappoint with negative surprises. In response to lackluster coal market fundamentals, the companies have resorted to stringent measures to improve their financial performance. Miners have taken initiatives to cut costs while engaging in tactful expenditures to ensure coal-mining safety. High-cost coal mines are being shuttered while operations are moved to low-cost regions.

Miners have taken the extreme decision of selling some coal mines and cutting jobs to lower operating costs. Longwall coal mining techniques are also having a positive impact on production. As things stand, these challenging market conditions are expected to prevail in 2016 and might deteriorate further going forward. However, unlike renewables like wind and solar that rely on nature's whims for the production of energy, coal-based power plants provide stability to the performance of the grid. Coal is also far cheaper than other fuel sources.

Admittedly, coal has a long list of drawbacks. Even still, coal accounted for nearly 35% of the electricity produced in the U.S. in 2015—not a bad achievement for an industry that has been under tremendous pressure from cheap natural gas and booming alternative energy sources.

Industry Supply Chain



General Retail Industry Overview

Introduction

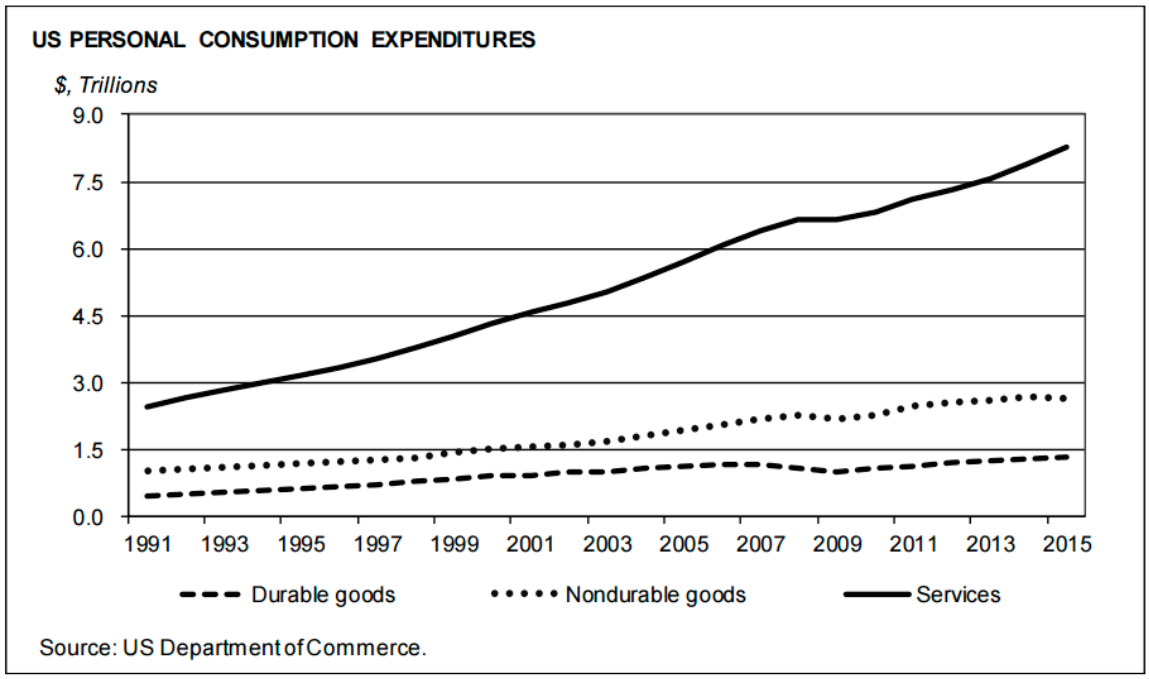
The retail industry is a sector of the economy that is comprised of individuals and companies engaged in the selling of finished products to end user consumers. Multi-store retail chains in the U.S. are both publicly traded on the stock exchange and privately owned. An estimated two-thirds of the U.S. gross domestic product (GDP) comes from retail consumption. Therefore, store closings and openings are used an indicator of how well the U.S. economy is doing overall. In 2016, a significant number of store closings and bankruptcies are an indication of both shifting consumer preferences, and an unsteady economy.

Worldwide, total retail sales were more than USD 22 trillion in 2014, according to a report from Marketer.com. In 2105 retail sales were expected to reach USD 24 trillion in 2015. Total annual U.S. retail sales have increased an average of 4.5% between 1993 and 2015, according to the U.S. Census Bureau. Measured solely by revenue numbers, the U.S. is the undisputed leader of the retail industry. According to the 2015 Global Powers of Retailing report, 76 of the largest retailing companies in the world are based in the U.S. That's compared to 81 U.S. chains that revenues large enough to qualify them for the 2014 World's Largest Retailers list in 2014. Some of these world's largest U.S. based retail chains operate domestically, but a growing number of the larges U.S. retail chains are establishing international retail presence as well.

Approximately 30% of the annual sales of the largest U.S. retail chains and almost 20% of the U.S. retail industry's annual sales come from the Christmas holiday shopping season. The strategic decisions and marketing tactics used on key shopping days like Black Friday, Cyber Monday, and Super Saturday can make or break a retailer's revenue results for an entire calendar year. The largest U.S. retail chains can generate 40% or more of their annual revenue in the Christmas holiday shopping season. That's why holiday retail shopping info, facts, data, and research statistics are so vital to the success of the U.S. retail industry as a whole. This is the most key information from the most current U.S. retail Christmas holiday shopping season.

After the financial crisis in 2008, in September, 2009, Federal Reserve Chairman Ben Bernanke declared the recession was "technically" over in the U.S. In the retail industry, the recession caused record-breaking declines in sales, inventories, consumer confidence, and stock prices. At the time when Bernanke pronounced the recession to be over, experts were estimating the after effects of the recession would last from 18 months to 11 years.

In 2015, although the U.S. retail industry is expanding, not recessing, the lingering effects of the Great Recession can be seen in the dramatic shift in consumer buying habits and preferences. The post-recessionary retail industry is all about the empowered consumer and the most successful U.S. retail chains will need to be able to deliver what consumers want (and as quick as they want it, in the way they want to receive it) to survive the increasingly competitive industry.



Industry Profitability

The two key revenue drivers for the multiline retail store industry are new store openings and comparable-store growth. Consumer demand is reflected in in-store traffic and average ticket prices. In-store comparable sale trends can be combined with the rapid growth of online sales.

Of particular note is the general merchandise stores sub-industry, which is the larger of the two sub-industries that make up the multiline retail industry (the other is department stores). The general merchandise stores sub-industry is influenced by general gross domestic product (GDP) growth, employment levels and wage growth, and other economic factors. Several companies in this sub-industry have material exposure to consumers at the lower end of the economic spectrum. Activity in the general merchandise stores sub-industry (73% of the multiline retail industry by market capitalization as of February 29, 2016) is an important part of the aggregate financial performance for the industry.

With an improving employment picture, increased consumer confidence, low borrowing costs, and lower gasoline prices, the macroeconomic backdrop remains positive for the multiline retail industry, suggesting continued low- to mid-single-digit revenue growth over the next two years. Discount and dollar stores (which offer items for USD 1 or less, or USD 5 or less) will likely benefit from a cautious lower-income consumer looking for deals and low-priced items in a bifurcated retail market. Meanwhile, even though stock markets have retreated somewhat from all-time highs, companies catering to upper-income consumers should benefit from sustained economic growth and new retail store openings, leading to overall low- to mid-single-digit annual revenue growth for the industry through 2016.

Dollar store companies (such as Dollar Tree and Dollar General), which make up 33% of the industry, have generated, on average, low-double-digit revenue growth since the recession. At the end of the spectrum,

premium-price retailers such as Nordstrom have also been able to post growth since 2010, often at double-digit rates. New initiatives will likely drive further revenue growth in 2016.

Disposable income has been rising from the 2009 lows, as the economy slowly expands and employment levels increase. How much of that income consumers spend depends on their confidence in their current and future financial status and expectations. Having felt the effects of the "Great Recession", consumers have become more cautious in spending, including not spending the entire windfall from extra cash due to lower oil and gasoline prices. Thus, consumers are likely to save more of their available income, rather than spend it, thereby limiting retail spending growth.

Industry Trends

The health of the US economy depends heavily on retail trade. US retail sales totaled USD 4.7 trillion in 2015, up 1.4% from USD 4.6 trillion in 2014, according to the US Department of Commerce. Sales of general merchandise, apparel, furnishings, and "other" goods (GAFO), a government-defined category that includes the kinds of merchandise normally sold in department stores, totaled an estimated USD 1.3 trillion in 2015, up 1.6% from USD 1.2 trillion in 2014. Retail sales of personal or household goods (excluding automobiles) are estimated to have reached USD 3.6 trillion in 2015, down 0.2% from the prior-year period, according to the US Department of Commerce.

In 2015, US personal consumption expenditures (PCE) on goods (both durable and nondurable) and on services, totaled USD 12.3 trillion, according to the US Department of Commerce. Sales of nondurables totaled USD 2.7 trillion, while durable goods totaled USD 1.3 trillion. Spending on services—a category that ranges from medical care to hair styling—was USD 8.3 trillion. With more than 3.8 million establishments, ranging from automobile dealers and gas stations to apparel and grocery stores, retailing is a major employer in the US. Retailers employed nearly 42 million people, according to a report published in June 2015 by the National Retail Federation (NRF), a trade group. In February 2016, the retail sector added 51,100 new jobs, according to the NRF. The sector also has about one million establishments under the private segment as of the third quarter of 2015 (latest available), according to the Bureau of Labor Statistics (BLS).

However, the industry comes with its problems too. Many traditional retailers also struggling to keep up with online-based sellers, particularly with Amazon. Sears and Kmart (also owned by Sears Holdings) have been shrinking the number of their stores in the last decade. As of January 2016, Sears has downsized to just over 700 stores, from 866 in 2006. Kmart is down to 952 stores, from more than 1,400 in 2006. Other major retailers are also retrenching this year, including Macy's (expected to close 36 stores by spring), J.C. Penney (closing seven stores by April), Wal-Mart (closed 154 stores in January and February), and Target (closed 13 stores in January). Radio Shack fared much worse, filing for bankruptcy in February 2015, selling 2,400 of its 4,000 stores to Standard General, and shutting down the rest.

Online sellers, on the other hand, are gaining ground, with visits to the top 500 retail websites growing 25% during the holiday season in 2015, compared with the prior-year period. Amazon remains the dominant player, with a 20% market share of all online spending—higher than the share of the next four retailers combined. During the holiday season in 2015, Amazon accounted for 34.5% of visits to the top 500 online retailers. How to effective compete with online retailers and where to find the niche to survive now becomes an important question for traditional retailers.

Industry Practices

Using Cash to Improve Shareholder Value. Foreseeably many retailers could theoretically start using cash flow from operations and cash balances to fund repurchases of both debt and outstanding common shares, and the payment of cash dividends—actions that generally improve shareholder value.

Rationalizing Businesses Lowers Costs. The deflationary pressures that retailers have felt in the past few years have led to higher expense ratios—selling, general, and administrative (SG&A) expenses divided by sales revenues. If a retailer's dream is volume increases amid rising prices, the opposite scenario—declining volumes and prices—is a recipe for disaster. As a result, retailers are keeping a close eye on profit/loss statements on a store-by-store basis. This is part of rationalizing a business, or reorganizing a company's business strategies to improve efficiency and profits, which often includes shutting down stores or manufacturing facilities.

Aligning Inventory with Sales. Retailers that are careful to keep their inventory from building to excessive levels reduce the likelihood that they will have to mark down or write off unsold products at the end of the season. However, in trimming inventory, they must walk a fine line. Not stocking items that customers want can translate into lost sales, thus reducing revenues and profits, and disappointing customers.

Improving Economies of Scale. Retailers can seek to gain both economies of scale and marketing leverage through new store openings, acquisitions, and business consolidations. Doing so also increases their buying power, giving them greater clout in negotiating with manufacturers for volume discounts, cooperative advertising, and merchandise pricing advantages. They can then pass along these savings to customers in the form of lower prices, which in turn boost traffic and sales volume at their stores.

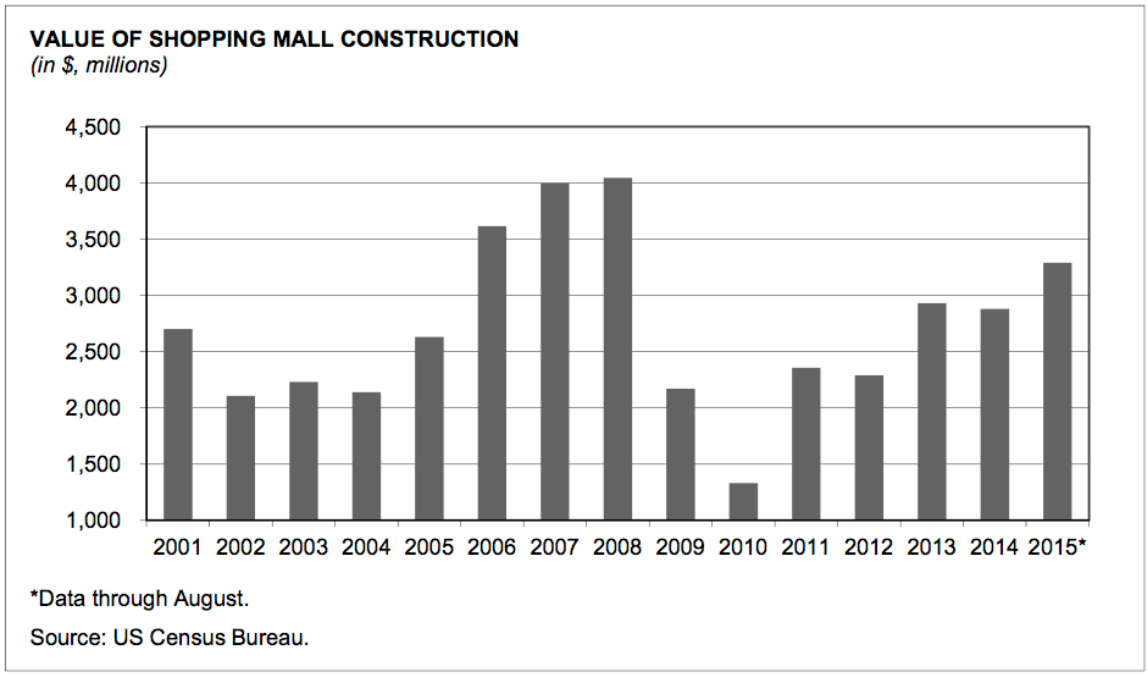
Leveraging Retailer Space. To reduce net occupancy costs, some retail stores are starting to offer spaces in their establishments to other retailers. Aside from cost savings, this tactic will likely attract new customers and redirect customer traffic to the primary retailer.

Industry Outlooks

Department Stores. As of March 2016, the fundamental outlook for the department stores sub-industry looks fairly negative. In January, department store sales reached USD 10.4 billion, down 4.5% from the prior-year period. Sales at department stores (excluding leased departments) decreased 2.0% in 2015 to USD 165.5 billion, following a decline of 2.1% in 2014, according to the US Census Bureau. The strong US dollar will likely weigh on retail chains with international exposure when they report in dollars. Department stores offering differentiated products and providing multichannel shopping experiences will likely gain market share in 2016. The best-in-class department stores should focus on creating a sense of newness for shoppers, with more frequent product deliveries. These stores are also tailoring merchandise assortments by store to improve sales productivity. The goal is to grow sales by delivering the brands, styles, and sizes customers want.

General Merchandise Stores. As of March 2016, the fundamental outlook for general merchandisers (or discounters) looks somewhat neutral. While the industry sees discounters benefiting from cost-conscious consumers who are seeking lower-priced goods, investors should remain concerned about increased price competition in a slowly improving macroeconomic environment. Low food and gas inflation may support low-income consumer spending growth, but consumers are saving more of their disposable income than in

the recent past. In the discount market, retailers compete heavily on low prices, as core assortments of basic consumables tend to be the same.



Industry Supply Chain

Real Estate Investment Trusts (REITs) Industry Overview

Introduction

REITs have existed for 50 years, but the modern REIT era can be traced to the early 1990s. Since that time, the real estate industry has undergone significant and irrevocable structural changes driven by the shift from privately to publicly owned real estate and the resulting migration of assets and talent into the public markets. During that period, the REIT sector has grown and evolved into a viable and credible investment class.

A Real Estate Investment Trust (REIT) is essentially a corporate entity that owns, operates, acquires, develops, and manages real estate assets. However, REITs are differentiated from other corporate forms by a tax election that eliminates taxes at the corporate level. Most of the company's taxable income is passed along to investors in the form of dividends; shareholders subsequently pay taxes on those dividends. Conceptually, a REIT can be viewed much like a mutual fund in that it allows investors to pool capital and invest in a larger, more diversified real estate portfolio.

Both REITs, and mutual funds, are essentially pass-through vehicles, passing the cash flow from that portfolio to investors. Like a mutual fund, the original REIT structure created in the 1960s was a passive investment vehicle; it prohibited the operation and management of properties by the REIT itself. Over the years, however, legislative and tax code changes have enabled REITs to become actively managed, fully integrated operating companies.

Industry Profitability

Revenue growth for most REITs have bucked the trend of sluggish growth for most other industries within the financials sector. However, with that growth comes some cyclicality. This is evidenced by the historical revenue declines throughout the credit crisis and recession, with a marked decline of nearly 14% in 2009. Because of the rather disparate nature of this group, it is difficult to characterize revenue trends at the aggregate level. For firms that actually participate in the ownership and management of real estate assets, rental income is usually the largest source of revenue growth. For many REITs, rental income growth trends have been enhanced by limited supply growth among a number of property types, coupled with increased demand amid recovery in both housing and labor markets.

Most REITs report bottom line profitability on the basis of funds from operations (FFO). FFO is defined as net income, computed in accordance with generally accepted accounting principles (GAAP), excluding gains or losses from sales of depreciable property, plus real estate depreciation and amortization (D&A) after adjustments for unconsolidated partnerships and joint ventures. FFO includes impairment losses for properties held for use and for sales. Though the general trend in both operating profits and FFO has been similar over the last 10 years, the magnitude of changes has differed, most likely due to the changing mix of companies in the REIT universe and to the impact of reduced property valuations during the credit crisis.

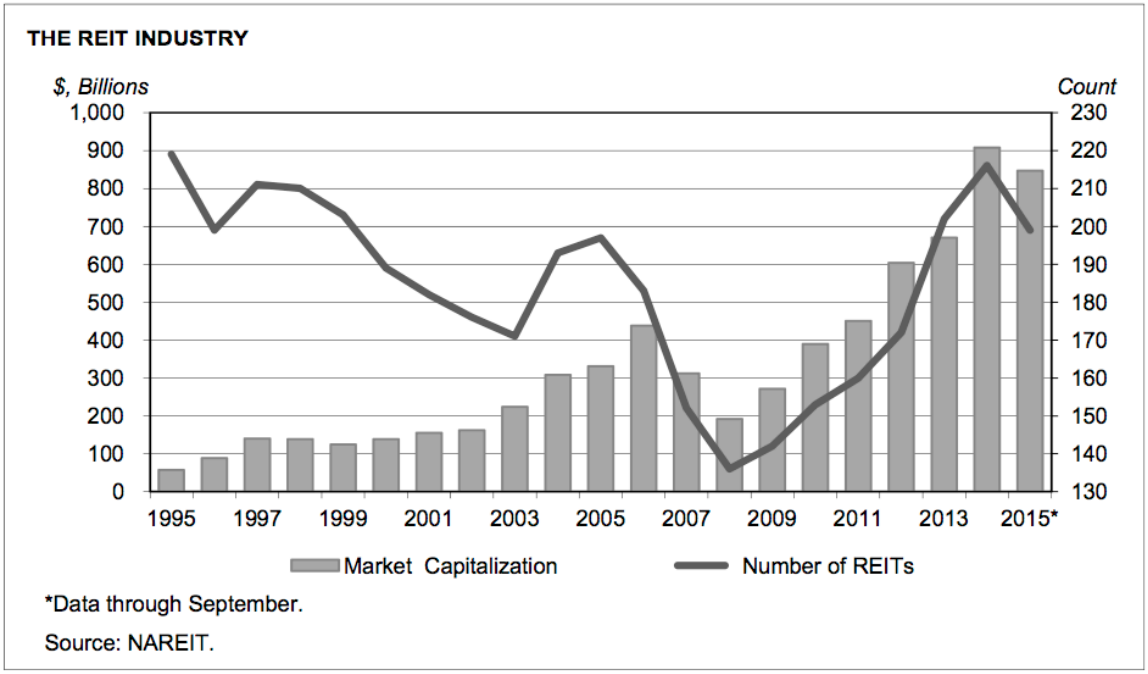
Industry Trends

The shakeup in subprime lending markets created a more challenging environment for REITs in late 2007, which carried over into 2008. High property prices for assets, turmoil in the credit markets, and less readily available capital spawned a decline in sales of property portfolios that began to thaw in 2009. In addition,

private equity firms, which have acquired numerous REITs since 2004, have shown less interest as of late. In general, cap rates climbed in 2009, but since then cap rates have stabilized and, in some sectors, they have started to fall again as investors gain increased confidence in the cash flows generated by certain properties in the currently low interest rate environment.

Currently, with the Fed raising the policy rate in December and further increases expected in the near term, the outlook of many REIT investors immediately turned negative. After all, higher interest rates could cause higher debt financing costs and put pressure on REIT cash flow metrics (such as funds from operations and funds available for distribution), which would pressure growth rates, cap rates, and return expectations. Also, to the extent that low interest rates have diverted investor funds to REITs searching for higher yield, the same funds could flow out of REITs if interest rates rise, further pressuring commercial real estate and REIT valuations.

Given the increased volatility in the domestic and global economies since the start of the year, though, investors should expect U.S. interest rates to remain historically low for an extended period. Investors continue to see the U.S. as a relative safe haven for investment capital, which has actually helped compress 10-Year U.S. Treasury yields roughly 40–50 basis points since the beginning of 2016 to historical lows of roughly 1.8%. Additionally, the U.S. economy, which has been generally healthy of late, seems more and more vulnerable to a slowdown, which is likely to prompt policymakers to revisit where they want rates to go and how quickly they want them to get there.

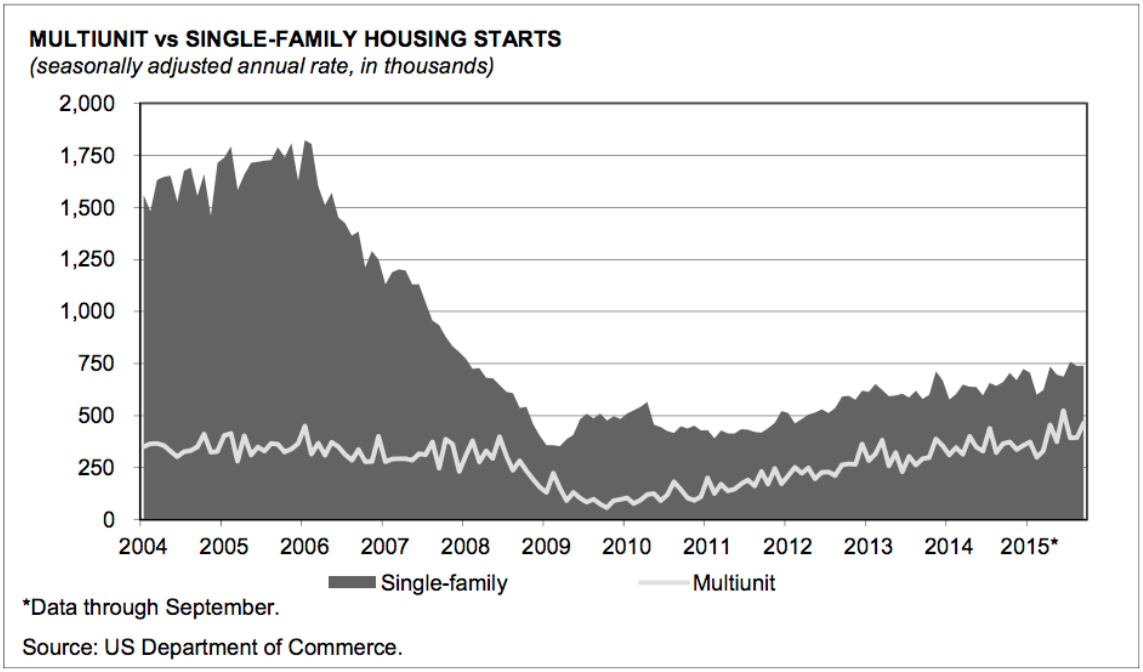


Industry Outlooks

Residential REITs: Growth Opportunities Remain. The recent recovery in the single-family housing market has some investors questioning the future growth potential for owners of multifamily properties.

Rental gains could slow somewhat for residential REITs in the coming quarters, as the supply of new single-family and multifamily properties increases. Nonetheless, earnings gains are expected to remain positive and better than most other REIT sectors. New job creation, a still-low home ownership rate, and favorable demographic trends will likely all contribute to solid operating results in coming periods. The US home ownership rate continues to fall. The national homeownership rate, on a seasonally adjusted basis, was at 63.7% in the third quarter of 2015, down from 64.4% in the prior-year period, according to data reported by the US Census Bureau. In the second quarter of 2015, the home ownership rate reached the lowest level since 1967, and it is well below the 69.2% seen in the second and fourth quarters of 2004.

Apartment Supply Rebounding from near 20-Year Low. Despite high occupancy figures, rental revenue growth is expected for the residential REITs to slow somewhat in 2015, partly due to the surge of newly constructed apartment supply. There are a number of other factors behind the lower growth expectations. The for-sale housing market is showing continuous improvement. The S&P/Case-Shiller US 20-City Composite Home Price Index, which tracks the change in housing prices of 20 major metropolitan areas, showed that US home prices rose more than 4.5% over the 12 months ended December 2014, while the latest report for August 2015 showed that housing prices recorded a 5.1% year-over-year increase.



Healthy Fundamentals Should Offset Interest Rate Headwinds for Retail REITs. The recovery in many areas of the US economy during the last few years has helped propel the performance of the top retail markets in the US, a trend that will likely continue. The attendant growth in relatively high wage jobs in sectors such as information technology helped support retail sales across country, particularly in California and New York. Broadly speaking, retailers in general benefited from job growth and the wealth effect created by rising home and asset values.

Office REITs: Steady Job Growth Stabilizes Office Markets. At year-end 2014, the S&P office REITs index outperformed the S&P 1500 index with 26.1% growth, compared with the 10.9% in the overall market

index. However, as of November 13, 2015, the office REITs index underperformed the S&P 1500 index by posting a -5.9% year-to-date decline, compared with the -1.9% decline in the market index. The level of new construction will remain modest in most local markets, limiting renter choices. Real estate developers, including REITs, will likely pursue new projects only after securing leases from prospective new tenants. In 2014, 12.6 million square feet of new space was under construction with a newly absorbed space of 25.2 million square feet. New construction activity will likely be concentrated largely in markets with the strongest demand. The expanding medical office segment is also driving a healthy portion of new building.

Industry Supply Chain

STRATEGIC BUYER BACKGROUND

California Timber Corporation ("California Timber") operates sustainable timberland assets throughout the Western United States. California Timber is a relatively small company compared to the Company, but they have guaranteed they will raise the cash necessary to fund the acquisition.

In 2014, California Timber was fined by the Oregon timberland regulators for improper forestry practices such as working its employees too long. These bad business practices led to multiple fatigue-related employee deaths. Since then, California Timber has brought in a new management team that has decreased the pace of work by 30% since the fine. Consequently, revenues have been down more than 30% and net income is slightly above breakeven point. The management of California Timber is confident in its ability to increase profit margins and turn the company around—the bid for Angeltown is seen as one of best courses of action toward that end that the management has come up with—but many analysts covering California Timber remain unconvinced of the management's optimism.

FINANCIAL BUYER BACKGROUND

Canadian Capital Partners ("Canadian Capital") is a two-year old private equity firm with around USD 850M in dry powder. The investment team is composed of former consultants with experience across various industries except natural resources. Canadian Capital specializes in equity investments in companies that offer downside protection and the opportunity to unlock substantial upside potential through strategic restructuring and acquisitions. Canadian Capital has extensive experience in investing in cyclical, contrarian, or event-driven situations. However, Canadian Capital has never made an investment in natural resources space before. Yet several partners at Canadian Capital understand the retail and real estate space very well, and see the bid for Angeltown as a great opportunity for Canadian Capital to make its first move into the natural resources space.

YOUR ROLE

The Company has asked your team to evaluate strategic alternatives, which requires you to develop your views on the current and potential future valuation of the company, industry positioning and potential sale of the Company. You will present your preliminary considerations and conclusions at the Company's upcoming Board meeting. Your Managing Director has asked your team to put together a short presentation addressing the following questions in your presentation:

Valuation

- What is the potential fair value of the Company?
  - *We suggest you use Discounted Cash Flow, Comparable Company multiples and comparable M&A transaction valuation methodologies*
  - *For the DCF analysis, we suggest that you try to evaluate potential performance of the Company in a reasonable timeframe (e.g. consider a 5-year DCF)*
- Describe key assumptions and methodologies used to determine the value of the Company

Potential Sale

- Do you and your team believe now is a good time to consider a sale of the Company?
- Who are the best potential acquirers? Consider both strategic acquirers and financial sponsors
- What can these potential acquirers pay for the Company?
- What return on investment would the sale price imply for each potential acquirer?

Positioning

- What are the Company's strengths relative to its peers?
- What are the potential concerns the Board of the Company should have in considering a sale?

Recommendation

- Should the Company commit to a sale now? To whom? Why or why not?
- What do you believe is the fair valuation of the Company?
- What are your suggested next steps to the Board of the Company?

JUDGING CRITERIA FOR THE CASE ANALYSIS

Please note that there is no single "correct" answer for this case. You and your team will not be judged by any singular standard, but rather by a comprehensive rubric to evaluate your presentation skills and business acumen. The criteria that would be used by the judges include, but are not limited to, the following:

- Quantitative and qualitative analyses supporting your recommendation
- Judgment of the current situation and overall thought process
- Presentation skills (written and oral), including the ability to succinctly present analyses
- Breadth of knowledge (each team member should understand all aspects of the case)
- Teamwork and creativity

Note: Any financial data obtained from outside sources will likely be not applicable. Any publicly available information should only be used to gain an understanding of the industry in which the Company or its acquirers operate. Should you and your team insist on using external information outside the context of this case, please provide appropriate citation on your presentation.

Angeltown Corp Exhibits

AC GAPP HISTORICAL FINANCIALS

Selected Operating Data of Angeltown Corp.

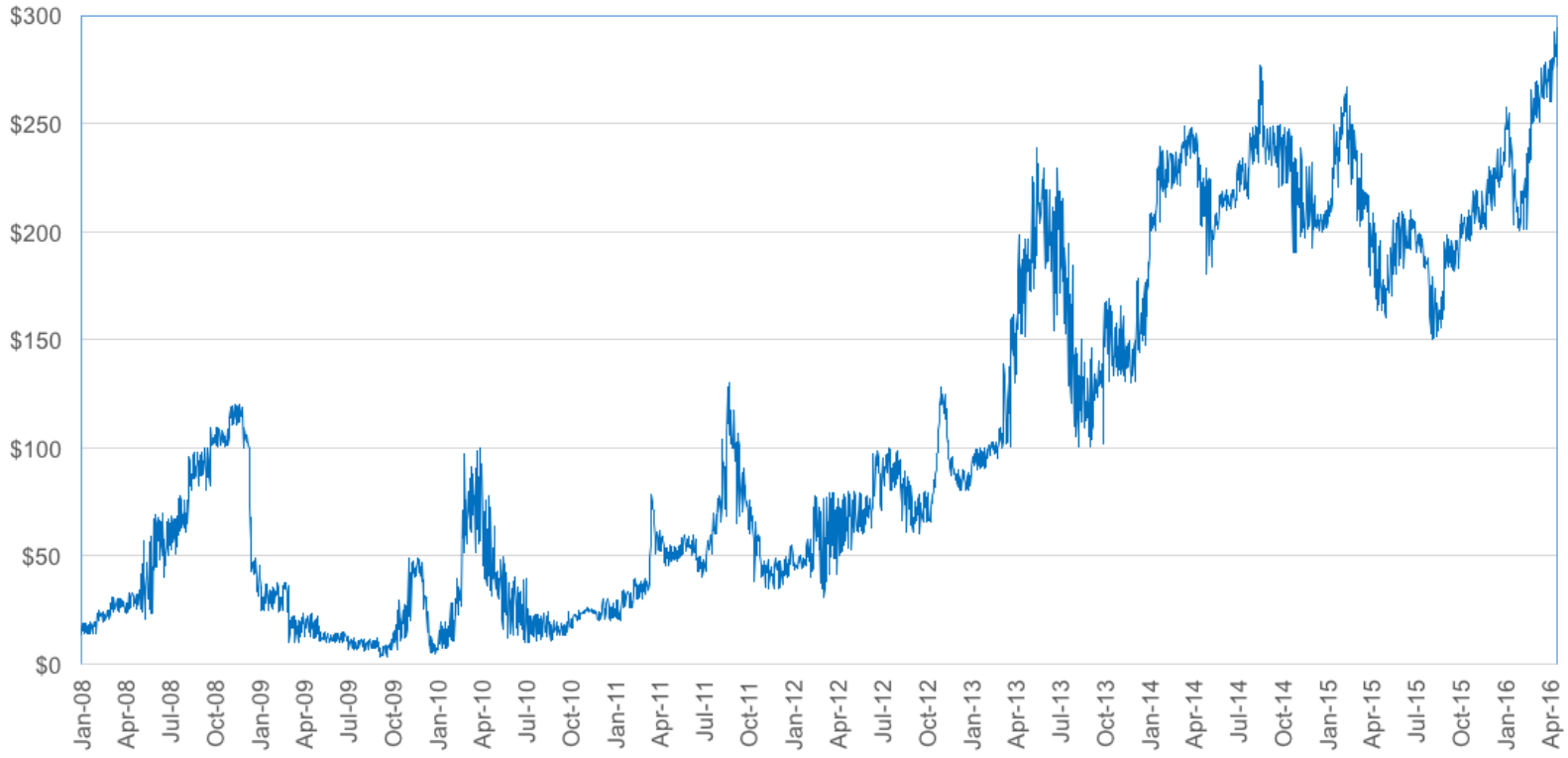
Amounts in $	2008	2009	2010	2011	2012	2013	2014	2015
Coal revenue	11,694,702	17,196,253	31,120,734	29,536,992	41,172,217	63,202,471	53,426,007	49,149,624
Timber revenue	9,728,377	10,374,919	14,409,800	9,890,134	10,488,380	11,218,236	13,002,687	14,375,537
Real estate revenue	-	487,455	932,730	1,022,802	1,134,618	1,394,194	3,126,006	4,628,898
Total revenue	**21,423,078**	**28,058,627**	**46,463,264**	**40,449,928**	**52,795,215**	**75,814,901**	**69,554,700**	**68,154,059**
Revenue growth		*31.0%*	*65.6%*	*-12.9%*	*30.5%*	*43.6%*	*-8.3%*	*-2.0%*
Coal COGS	3,325,744	6,087,669	7,093,419	6,588,241	19,792,103	20,019,849	21,109,658	13,487,692
Timber COGS	6,553,511	5,956,021	6,366,170	6,639,697	5,660,440	6,799,592	5,968,030	6,096,737
Real etate COGS	-	251,382	481,013	527,463	771,075	1,299,523	2,362,634	3,707,142
Total COGS	**9,879,255**	**12,295,072**	**13,940,602**	**13,755,402**	**26,223,618**	**28,118,964**	**29,440,323**	**23,291,570**
Gross profit	**11,543,824**	**15,763,554**	**32,522,662**	**26,694,527**	**26,571,597**	**47,695,937**	**40,114,377**	**44,862,488**
Gross profit margin	*53.88%*	*56.18%*	*70.00%*	*65.99%*	*50.33%*	*62.91%*	*57.67%*	*65.83%*
Operating expense	5,910,240	6,291,892	6,733,973	6,826,088	6,950,785	7,512,730	9,523,896	9,782,239
Interest expense	178,504	223,607	192,511	856,905	551,987	60,372	21,853	109,673
Operating profit	**5,455,080**	**9,248,055**	**25,596,179**	**19,011,533**	**19,068,825**	**40,122,835**	**30,568,629**	**34,970,576**
Operating margin	*25.46%*	*32.96%*	*55.09%*	*47.00%*	*36.12%*	*52.92%*	*43.95%*	*51.31%*
Interest and other income	546,464	521,669	579,028	135,656	68,080	82,768	64,365	101,463
Income before taxes	**6,001,544**	**9,769,723**	**26,175,207**	**19,147,189**	**19,136,905**	**40,205,603**	**30,632,994**	**35,072,039**
Taxes	2,040,525	3,419,403	9,161,322	7,275,932	6,697,917	14,071,961	10,721,548	12,275,214
Net income	**3,961,019**	**6,350,320**	**17,013,884**	**11,871,257**	**12,438,988**	**26,133,642**	**19,911,446**	**22,796,826**
Tax rate	*34.00%*	*35.00%*	*35.00%*	*38.00%*	*35.00%*	*35.00%*	*35.00%*	*35.00%*
Return on equity	*5.22%*	*8.14%*	*16.95%*	*10.76%*	*11.12%*	*18.72%*	*12.00%*	*13.10%*
ROIC	*8.74%*	*9.96%*	*17.99%*	*11.06%*	*11.10%*	*21.16%*	*15.02%*	*18.43%*
Depreciation	*3,133,009*	*12,112,890*	*19,748,970*	*18,180,900*	*15,005,493*	*1,561,064*	*13,947,871*	*13,324,294*
Capital expenditures	*579,807*	*32,968,198*	*29,113,967*	*40,936,996*	*22,701,303*	*151,725*	*13,520,223*	*6,515,451*

AC GAPP HISTORICAL FINANCIALS (CONT.)

Selected Balance Sheet Data of Angeltown Corp.

Amounts in $	2008	2009	2010	2011	2012	2013	2014	2015
Cash and cash equivalents	34,666,689	3,773,250	18,676,810	5,279,217	9,785,005	26,482,687	42,437,765	61,781,058
Short term debt	-	5,720,800	5,116,111	4,290,600	2,574,360	1,430,200	572,080	100,114
Long term debt	4,171,417	-	-	8,581,200	-	-	-	2,981,491
Net cash	**30,495,272**	**(1,947,550)**	**13,560,699**	**(7,592,583)**	**7,210,645**	**25,052,487**	**41,865,685**	**58,699,453**
Cash and cash equivalents	34,666,689	3,773,250	18,676,810	5,279,217	9,785,005	26,482,687	42,437,765	61,781,058
Accounts receivable	6,249,741	8,863,460	10,429,815	7,226,815	8,754,270	9,845,810	14,119,486	9,218,338
Prepaid income taxes	-	-	414,009	2,047,293	2,447,105	4,467,400	6,105,166	4,697,746
Deferred income taxes	633,596	1,646,479	2,438,422	421,855	502,881	283,416	250,226	639,428
Other current assets	545,312	551,241	328,598	575,374	523,463	400,269	435,600	1,272,023
Total current assets	**42,095,338**	**14,834,430**	**32,287,655**	**15,550,553**	**22,012,725**	**41,479,581**	**63,348,245**	**77,608,594**
Coal investments	8,702,505	35,820,122	34,579,601	33,487,928	31,895,567	30,005,180	28,641,002	26,983,654
Timber investments	6,927,194	7,020,817	20,295,214	20,111,873	19,785,394	20,390,327	21,112,140	21,439,372
Real estate equity investments	1,374,020	1,357,849	1,352,082	1,107,930	1,000,578	923,376	826,282	764,581
Property, plant and equipment	42,926,003	63,586,242	60,923,130	85,198,393	94,920,395	94,873,712	95,185,523	89,768,497
Other assets	263,692	1,050,682	865,421	652,400	348,101	241,956	195,601	156,000
Total non current assets	**60,193,414**	**108,835,712**	**118,015,448**	**140,558,524**	**147,950,035**	**146,434,551**	**145,960,548**	**139,112,104**
Total assets	**102,288,752**	**123,670,142**	**150,303,103**	**156,109,077**	**169,962,759**	**187,914,132**	**209,308,792**	**216,720,698**
Short term debt	-	5,720,800	5,116,111	18,190,600	16,474,360	1,430,200	572,080	100,114
Long term debt	4,171,417	1,200,000	-	8,581,200	6,954,204	4,936,220	3,421,050	2,981,491
Other liabilities	22,301,612	36,518,308	24,629,785	29,241,869	22,970,501	25,831,649	29,051,062	41,944,239
Total liabilities	**26,473,029**	**43,439,108**	**29,745,896**	**56,013,669**	**46,399,065**	**32,198,069**	**33,044,192**	**45,025,844**
Equity	**75,815,723**	**80,231,034**	**120,557,207**	**100,095,408**	**123,563,695**	**155,716,063**	**176,264,601**	**171,694,854**
Total liabilities and shareholders' equity	**102,288,752**	**123,670,142**	**150,303,103**	**156,109,077**	**169,962,759**	**187,914,132**	**209,308,792**	**216,720,698**
Shares outstanding (# of actual shares)	1,893,207	2,535,650	2,492,813	2,497,530	2,523,357	2,545,218	2,549,893	2,546,259
Earnings/share	*2.09*	*2.50*	*6.83*	*4.75*	*4.93*	*10.27*	*7.81*	*8.95*
Equity/share	*40.05*	*31.64*	*48.36*	*40.08*	*48.97*	*61.18*	*69.13*	*67.43*
Stock price at year-end	*45.67*	*6.37*	*25.30*	*45.70*	*88.47*	*188.90*	*204.39*	*247.63*
P/E ratio	*21.8x*	*2.5x*	*3.7x*	*9.6x*	*17.9x*	*18.4x*	*26.2x*	*27.7x*

AC STOCK PERFORMANCE (2008-present)



Close price as of 4/15/2016: USD 271.98
52-week high: USD 298.71
52-week low: USD 15