



COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

AEGN - NASDAQ - as of	2/28/17	\$22.76
Price Target		\$30.00
52-Week Range	\$17.18 -	\$26.14
Shares Outstanding (mm)		34.0
Market Cap. (\$mm)		\$773.0
1-Mo. Average Daily Volume		162,748
Institutional Ownership		96.1%
Net Debt/Total Capital	Q4'16	29.5%
ROE--unadjusted	TTM	5.2%
Book Value / Share	Q4'16	\$16.47
Price / Book Value		1.4x
Dividend Yield		0.0%
Adj EBITDA Margin	TTM	9.0%

EPS FY 12/31

		Prior	Current	Prior	Current
	2016A	2017E	2017E	2018E	2018E
1Q	*\$0.12	--	\$0.30	--	--
2Q	*\$0.23	--	\$0.46	--	--
3Q	*\$0.32	--	\$0.44	--	--
4Q	*\$0.44	--	\$0.30	--	--
Year	\$1.11	\$1.53	\$1.50	\$1.39	\$1.45
P/E	20.5x		15.2x		15.7x

* adjusted for special items

Revenue (\$mm)

		Prior	Current	Prior	Current
	2016A	2017E	2017E	2018E	2018E
1Q	\$294	--	\$346	--	--
2Q	\$298	--	\$356	--	--
3Q	\$309	--	\$343	--	--
4Q	\$322	--	\$316	--	--
Year	\$1,222	\$1,387	\$1,361	\$1,332	\$1,318

Company Description: *Chesterfield, MO-based Aegion Corp is a global leader in infrastructure protection and maintenance: protecting against industrial pipeline corrosion, rehabilitating water, wastewater, energy and mining pipes, and strengthening commercial structures and pipelines. AEGN also provides a broad range of professional and technical services to the energy sector.*

Industrials

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Aegion Corporation

AEGN – NASDAQ – Buy-3

Reiterating Buy Rating on Better than Expected Q4'16 at AEGN; Momentum into 2017.

Investment Highlights

- AEGN reported Q4'16 adj. EPS of \$0.44, up yr/yr from \$0.36; results beat our estimate of \$0.34, which was a penny below consensus. FY 2016 EPS were \$1.11, down ~14%; a late year boost from Appomattox was not sufficient to totally offset an otherwise down year for energy activity and several divestitures.
- Q4 revenue fell 2.7%, which was better than FY'16 at -8.4%. Infrastructure Solutions (IS) grew 2.8% last year, with some benefit from the \$85MM purchase of Underground Solutions in Q1. Energy Services (ES) sales fell 26.7%, due mostly to the segment shedding upstream operations; Corrosion Protection (CP) sales were down 8.3% in 2016 on weak energy activity.
- 2016 adjusted gross margin grew 10 bps to 21.0%, exclusively due to a strong Q4. Op Ex were 15.8% of revenue in 2016, up from 15.0%. We expect Op Ex can hold steady in 2017, but expect gross margin headwinds could develop in 2H'17.
- 12/30/16 backlog was \$689.0MM, down 11.3% and a rare negative surprise from AEGN's Q4 release.
- Management expects each platform to generate both revenue growth and operating profit growth in 2017.
- We tweak our 2017E EPS lower by \$0.03, but edge our 2018E EPS higher by \$0.06 to \$1.45, mostly on a more aggressive long-term outlook for IS and ES.
- We are reiterating our Buy rating. We press our bets at this point, with 2017 still positioned to be a year of strength for both energy and water/sewer end-markets.
- At our 1-year \$30 target, AEGN would trade ~10% above average 5-yr trailing EV/EBITDA and P/E multiples, based on our 2017 estimates. Attainable, in our view, with cleaner results and several positive qualitative narratives impacting the story.

Note Important Disclosures on Pages 5-6
Note Analyst Certification on Page 5

SUITABILITY

We assign AEGN a suitability rating of '3.' A complete description of our suitability scale is on page 5. Aegion's relatively small size and exposure to large and/or growing end markets (pipelines; water infrastructure) play into our view toward above average risk/reward. A recent history of entering/exiting business, coupled with a level of cyclicity to earnings and a modest debt load, help push the stock below our more conservative '2' rating. A strong cash position, de-risked international profile, and a long history of implementing core CIPP services, keep AEGN well above our speculative/most aggressive '4' rating.

CONSIDERATIONS AND RISKS

We believe Aegion's sales are sensitive to macroeconomic conditions. As such, the company may experience difficulty due to trends that are both difficult to predict and beyond the company's control. Additionally, the company is exposed to raw material and labor cost inflation. An inability to pass on higher input costs to customers may pressure margins, lower sales and/or decrease earnings.

Aegion has acquired numerous companies over the past decade, including the Q1'16 ~\$90MM purchase of Underground Solutions, and may acquire additional companies in the future. Failure to effectively integrate acquisitions or overpayment for operating assets may result in write-downs, decreased financial flexibility and/or lower earnings. AEGN took material impairments to prior acquisitions in both 2014 and 2015.

AEGN is sensitive to municipal spending, particularly within Infrastructure Solutions. We view the muni customer as slow moving, difficult to influence and difficult to predict relative to private industry.

Aegion generates a significant portion of sales outside of the US, and at any given time can have assets deployed in dangerous and/or unpredictable regions of the globe. World-wide operations expose the company to political and forex risk, and present operational and execution challenges for management.

Aegion operates in a fragmented market against numerous competitors. Declining bidding activity could bring forth pricing pressure, while significant engineering breakthroughs by the company's competition could have a negative impact on AEGN.

Aegion made a concerted effort to expand into the energy sector in the late-2000s and early-2010s. This exposure has proved somewhat problematic with the recent collapse in energy prices in recent years. We expect a significant portion of AEGN to remain sensitive to the volatile sector.

AEGN shares are predominately held by institutional investors, a fact that we believe makes the stock more susceptible to changes in market sentiment and non-fundamental technical factors. Furthermore, we expect slightly higher turnover could result in periods of significant short-term volatility.

Our Suitability rating is 3 on a 1-to-4 scale (1 = most conservative, 4 = most aggressive).

Additional information is available upon request.

Aegion Corp (AEGN)

(\$'s in thousands)

Income Statement Analysis	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17E	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Revenues	\$ 1,331,421	\$ 1,333,570	\$ 293,908	\$ 297,686	\$ 308,524	\$ 321,802	\$ 1,221,920	\$ 345,500	\$ 355,730	\$ 343,320	\$ 316,320	\$ 1,360,870	\$ 1,318,020
Cost of Revenues	1,051,438	1,057,783	239,494	236,496	242,206	250,560	968,756	268,640	269,760	269,060	251,910	1,059,370	1,037,780
Gross Profit	279,983	275,787	54,414	61,190	66,318	71,242	253,164	76,860	85,970	74,260	64,410	301,500	280,240
%	21.0%	20.7%	18.5%	20.6%	21.5%	22.1%	20.7%	22.2%	24.2%	21.6%	20.4%	22.2%	21.3%
Operating Expenses	286,837	209,477	50,725	50,806	45,277	50,291	197,099	56,630	58,010	48,710	46,420	209,770	199,660
%--Qs Adjusted	21.5%	15.7%	16.3%	16.4%	15.2%	15.4%	16.1%	16.4%	16.3%	14.2%	14.7%	15.4%	15.1%
E Rev/ Acq-related Exp/ Restructure	12,958	46,364	7,828	2,239	536	(5,364)	5,239	30	30	30	30	120	120
Operating Inc.	(19,812)	19,946	(4,139)	8,145	20,505	26,315	50,826	20,200	27,930	25,520	17,960	91,610	80,460
%	-1.5%	1.5%	-1.4%	2.7%	6.6%	8.2%	4.2%	5.8%	7.9%	7.4%	5.7%	6.7%	6.1%
Interest (Expense)	(12,943)	(16,044)	(3,615)	(3,641)	(3,825)	(3,948)	(15,029)	(3,860)	(3,820)	(3,760)	(3,700)	(15,140)	(14,300)
Interest Income	633	218	32	128	37	(31)	166	25	25	25	25	100	100
Other	(3,853)	(2,905)	(973)	(498)	288	489	(694)	(100)	(100)	(100)	(100)	(400)	(400)
Pre Tax Inc.	(35,975)	1,215	(8,695)	4,134	17,005	22,825	35,269	16,265	24,035	21,685	14,185	76,170	65,860
Income Tax (Expense)	3,840	(9,205)	4,746	(941)	(5,218)	(4,696)	(6,109)	(4,880)	(7,210)	(6,510)	(4,260)	(22,860)	(19,760)
Tax Rate	10.7%	757.6%	54.6%	22.8%	30.7%	20.6%	17.3%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Income Before Eq in Aff	(32,135)	(7,990)	(3,949)	3,193	11,787	18,129	29,160	11,385	16,825	15,175	9,925	53,310	46,100
Equity from Eam / (Loss) Aff	570	-	-	-	-	-	-	-	-	-	-	-	-
Net Income--Cont'd Ops	(31,565)	(7,990)	(3,949)	3,193	11,787	18,129	29,160	11,385	16,825	15,175	9,925	53,310	46,100
Less: (NI)/Loss Attrib to non-CI	(1,755)	(77)	157	229	280	(338)	328	(1,250)	(1,250)	(500)	-	(3,000)	-
Net Income att to AEGN (ctd ops)	(33,320)	(8,067)	(3,792)	3,422	12,067	17,791	29,488	10,135	15,575	14,675	9,925	50,310	46,100
%	-2.5%	-0.6%	-1.3%	1.1%	3.9%	5.5%	2.4%	2.9%	4.4%	4.3%	3.1%	3.7%	3.5%
Shares Out.	37,838	36,779	35,489	35,467	34,981	34,516	35,113	34,132	33,747	33,363	32,979	33,555	31,974
Diluted EPS (cont'd ops)	\$ (0.90)	\$ (0.23)	\$ (0.11)	\$ 0.10	\$ 0.34	\$ 0.52	\$ 0.85	\$ 0.30	\$ 0.46	\$ 0.44	\$ 0.30	\$ 1.50	\$ 1.45
Adjusted EPS (cont'd ops)	\$ 1.38	\$ 1.28	\$ 0.12	\$ 0.23	\$ 0.32	\$ 0.44	\$ 1.11	\$ 0.30	\$ 0.46	\$ 0.44	\$ 0.30	\$ 1.50	\$ 1.45
EPS from disc ops	\$ (0.102)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Dividends Paid	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rate of Change Analysis													
Sales	22.0%	0.2%	-4.9%	-11.7%	-13.5%	-2.7%	-8.4%	17.6%	19.5%	11.3%	-1.7%	11.4%	-3.1%
Operating Income	-129.6%	-200.7%	-145.4%	-43.9%	-17.8%	nm	154.8%	-588.0%	242.9%	24.5%	-31.7%	80.2%	-12.2%
EPS--Adj if necessary	8.5%	-6.8%	-1.4%	-36.4%	-27.2%	19.9%	-13.9%	144.6%	104.9%	36.6%	-30.8%	35.8%	-3.5%
Adjusted EBITDA	20.2%	-6.1%	-8.2%	-13.8%	-18.7%	2.0%	-10.0%	70.9%	49.4%	19.0%	-13.5%	25.2%	-10.4%
Working Cap.	-9.1%	-16.0%	-23.9%	-0.2%	-10.9%	1.7%	1.7%	17.1%	11.2%	4.0%	-12.7%	-12.7%	3.5%
Inventory	0.7%	-19.3%	4.2%	8.7%	17.2%	33.9%	33.9%	17.6%	19.5%	11.3%	-1.7%	-1.7%	3.5%
			*\$6.5MM AT or \$0.18/sh Rst Chg **\$1.6MM or \$0.05/sh Undergrd Acq Exp	*Adj -\$0.07/sh on Restructure (ES); Adj \$0.06 on Acq	*Largest adjustment is reversal benefit from earn-out accrual								

Source: Company reports and Hilliard Lyons estimates

Aegion Corp (AEGN)

Summary Cash Flow	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17E	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Net Income--C'd Ops to AEGN	(33,320)	(8,067)	(3,792)	3,422	12,067	17,791	29,488	10,135	15,575	14,675	9,925	50,310	46,100
D & A	46,648	43,791	11,376	11,779	11,251	12,313	46,719	12,310	11,730	10,960	11,650	46,650	43,420
Share-base Compensation	5,073	7,987	2,363	3,253	2,073	1,572	9,261	1,200	1,200	1,200	1,200	4,800	4,800
Impairment/Non-Cash Rst	96,606	48,714	(212)	488	(585)	(2,391)	(2,700)	-	-	-	750	750	750
Deferred Income Tax	(16,816)	924	(1,187)	133	441	2,385	1,772	(700)	(700)	(700)	(700)	(2,800)	(2,800)
FX Loss (Gain)	627	80	1,131	507	(287)	(440)	911	100	100	100	100	400	400
(Increase) Decrease in Wrkg. Cap.	22,620	35,938	836	(9,210)	2,797	2,430	(3,147)	(28,219)	960	17,100	34,470	24,311	(5,870)
Operating CF	121,438	129,367	10,515	10,372	27,757	33,660	82,304	(5,174)	28,865	43,335	57,395	124,421	86,800
Cap Ex.	(33,157)	(29,454)	(10,060)	(9,385)	(12,040)	(7,275)	(38,760)	(6,000)	(11,000)	(11,000)	(6,000)	(34,000)	(30,000)
Acquisitions, net of cash acq	1,000	(7,760)	(85,667)	(6,446)	(4,194)	-	(96,307)	-	-	-	(5,000)	(5,000)	(5,000)
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-
Free Cash Flow	97,729	91,920	(78,613)	(5,459)	11,523	26,385	(46,164)	(11,174)	17,865	32,335	46,395	85,421	51,800
FCF / Share	\$ 2.58	\$ 2.50	\$ (2.22)	\$ (0.15)	\$ 0.33	\$ 0.76	\$ (1.31)	\$ (0.33)	\$ 0.53	\$ 0.97	\$ 1.41	\$ 2.55	\$ 1.62
LT Debt Proceeds (Pmts)	(22,039)	26,250	(4,375)	(4,375)	(4,375)	(4,375)	(17,500)	(4,375)	(4,375)	(4,375)	(4,375)	(17,500)	(17,500)
LOC Proceeds (Pmts)	10,000	(45,500)	34,000	3,000	5,000	(6,000)	36,000	(1,000)	(1,000)	(5,000)	(5,000)	(12,000)	(10,000)
Notes Proceeds (Pmts)	1,284	(370)	-	-	-	-	-	-	-	-	-	-	-
Stock Sale Proceeds	8,615	2,466	38	(25)	24	1,781	1,818	1,250	1,250	1,250	1,250	5,000	5,000
Stock (Repurchases)	(31,073)	(27,804)	(16,325)	(8,875)	(11,397)	(7,857)	(44,454)	(10,000)	(10,000)	(10,000)	(10,000)	(40,000)	(40,000)
Net C.F.	64,516	46,962	(65,275)	(15,734)	775	9,934	(70,300)	(25,299)	3,740	14,210	28,270	20,921	(10,700)
Net CF--Disc Ops													
Adjusted EBITDA	130,894	122,858	19,039	26,565	30,670	34,258	110,532	32,540	39,690	36,510	29,640	138,380	124,000
TTM Adj EBITDA Margin	9.8%	9.2%	9.2%	9.1%	8.9%	9.0%	9.0%	9.7%	10.3%	10.5%	10.2%	10.2%	9.4%
Summary Balance Sheet	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17E	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Cash and Equivalents	174,965	209,253	127,859	110,792	113,264	129,500	129,500	104,200	107,940	122,150	150,420	150,420	139,720
Receivables, net	227,481	200,883	171,747	189,652	191,960	186,016	186,016	207,300	227,670	214,920	180,300	180,300	186,690
Inventory	59,192	47,779	63,432	61,932	62,805	63,953	63,953	74,570	74,010	69,890	62,860	62,860	65,090
Other Current Assets	176,013	220,281	206,045	209,347	194,111	152,768	152,768	210,170	213,530	197,990	155,820	155,820	158,940
Total Current Assets	637,651	678,196	569,083	571,723	562,140	532,237	532,237	596,240	623,150	604,950	549,400	549,400	550,440
Net PP&E	168,213	144,833	151,086	153,741	158,276	156,747	156,747	150,440	149,710	149,750	146,600	146,600	135,680
Intangible Assets	182,273	174,118	205,498	202,073	199,352	194,911	194,911	194,910	194,910	194,910	195,410	195,410	195,910
Goodwill	293,023	249,120	294,479	297,223	300,679	298,619	298,619	298,620	298,620	298,620	300,620	300,620	302,620
Other Non-Current Assets	14,042	12,040	8,236	10,168	9,687	11,068	11,068	11,070	11,070	11,070	11,070	11,070	11,070
Total Assets	1,295,202	1,258,307	1,228,382	1,234,928	1,230,134	1,193,582	1,193,582	1,251,280	1,277,460	1,259,300	1,203,100	1,203,100	1,195,720
A/P	83,285	72,732	66,655	63,876	69,183	63,058	63,058	81,540	92,130	91,670	80,660	80,660	83,520
Accrued Expenses & Othr	154,639	207,387	186,581	199,857	185,292	147,708	147,708	190,310	203,850	189,000	150,660	150,660	153,670
CP/LT Debt and LOC	26,399	17,648	17,649	17,646	17,644	19,835	19,835	27,980	27,980	27,980	27,610	27,610	28,440
Total Current Liabilities	264,323	297,767	270,885	281,379	272,119	230,601	230,601	299,830	323,960	308,650	258,930	258,930	265,630
Long-Term Debt	351,076	337,774	363,381	361,221	357,142	350,785	350,785	331,060	325,680	316,310	307,300	307,300	278,970
Deferred Income Tax	22,442	19,386	17,872	20,608	20,665	23,339	23,339	22,640	21,940	21,240	20,540	20,540	17,740
Other LT Liabilities	12,276	8,824	11,091	11,234	12,441	12,674	12,674	11,310	11,460	12,690	12,930	12,930	13,190
Total Liabilities	650,117	663,751	663,229	674,442	662,367	617,399	617,399	664,840	683,040	658,890	599,700	599,700	575,530
Stockholders' Equity	626,635	578,025	555,815	552,737	560,413	568,500	568,500	578,760	586,740	592,730	595,720	595,720	612,510
Noncontrolling Interest	18,450	16,531	9,338	7,749	7,354	7,683	7,683	7,680	7,680	7,680	7,680	7,680	7,680
Book Value	\$ 16.78	\$ 15.96	\$ 15.66	\$ 15.58	\$ 16.02	\$ 16.47	\$ 16.47	\$ 16.96	\$ 17.39	\$ 17.77	\$ 18.06	\$ 18.06	\$ 19.48
Tangible Book Value	\$ 4.05	\$ 4.27	\$ 1.57	\$ 1.51	\$ 1.73	\$ 2.17	\$ 2.17	\$ 2.50	\$ 2.76	\$ 2.97	\$ 3.02	\$ 3.02	\$ 3.63
Net LT Debt / Total Cap	21.4%	17.8%	29.4%	30.9%	30.0%	27.7%	27.7%	27.9%	26.8%	24.4%	20.6%	20.6%	18.3%
Net Total Debt / Total Cap	23.9%	19.7%	30.9%	32.4%	31.5%	29.5%	29.5%	30.3%	29.2%	27.0%	23.4%	23.4%	21.3%
Gross Debt / TTM Adj EBITDA	2.9x	2.9x	3.1x	3.2x	3.4x	3.4x	3.4x	2.9x	2.6x	2.4x	2.4x	2.4x	2.5x
TTM ROE--unadjusted	-4.9%	-1.3%	-2.2%	-3.2%	-3.7%	5.2%	5.2%	7.7%	9.8%	10.1%	8.6%	8.6%	7.7%

Source: Company reports and Hilliard Lyons estimates

Analyst Certifications

I, Spencer E. Joyce, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Suitability Ratings

- 1** - A large cap, core holding with a solid history
- 2** - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks
- 3** - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage
- 4** - Speculative, due to small size, inconsistent profitability, erratic revenues, volatility, low trading volume or a narrow customer or product base

Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price setback in the next 12 months.



Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.		
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	30%	17%	83%
Hold/Neutral	76	62%	7%	93%
Sell	10	8%	0%	100%

As of 6 February 2017

Other Disclosures

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