



## COMPANY UPDATE / RATING CHANGE ESTIMATE CHANGE / TARGET CHANGE

### Key Metrics

AEGN - NASDAQ - as of	10/3/17	\$21.55
Price Target		\$26.00
52-Week Range	\$17.85 -	\$26.68
Shares Outstanding (mm)		33.0
Market Cap. (\$mm)		\$711.4
1-Mo. Average Daily Volume		187,875
Institutional Ownership		98.6%
Net Debt/Total Capital	Q2'17	31.0%
ROE--unadjusted	TTM	8.2%
Book Value / Share	Q2'17	\$17.57
Price / Book Value		1.2x
Dividend Yield		
Adj EBITDA Margin	TTM	9.6%

### EPS FY 12/31

	Prior	Current	Prior	Current
	2016A	2017E	2018E	2018E
1Q	*\$0.12	--	*\$0.18 A	--
2Q	*\$0.23	--	\$0.33 A	--
3Q	*\$0.32	\$0.46	\$0.38	--
4Q	*\$0.44	\$0.28	\$0.26	--
Year	\$1.11	\$1.24	\$1.14	\$1.33
P/E	19.4x		18.9x	16.3x

\* adjusted for special items

### Revenue (\$mm)

	Prior	Current	Prior	Current
	2016A	2017E	2018E	2018E
1Q	\$294	--	\$325 A	--
2Q	\$298	--	\$354 A	--
3Q	\$309	\$343	\$329	--
4Q	\$322	\$311	\$313	--
Year	\$1,222	\$1,334	\$1,322	\$1,286
			\$1,286	\$1,277

**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 range of professional and technical services to the refining industry.*

### Industrials

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## Aegion Corporation

AEGN – NASDAQ – Buy-3

### Hurricanes and Restructuring Update Offer Attractive Entry Point; Upgrading to Buy Rating.

#### Investment Highlights

- We are upgrading our rating on AEGN to Buy from Neutral; our suitability rating of 3 remains unchanged. We assign shares a 1-yr price target of \$26, suggesting return potential of ~21% while still not calling for shares to breakout of their multi-year trading range.
- Our upgrade is substantially compelled by a -8.49% move in yesterday's session, which in our view created a compelling tactical opportunity.
- In the evening of 10/2, AEGN announced an update to its most-recent restructuring plan, which was initially unveiled on 8/1. We interpret three new items: A) 2017 cash charges at \$12MM-\$15MM (up ~\$3.5MM); B) an \$85MM writedown for Tyfo Fibrwrap in Q3'17; and, C) a run-rate for savings of \$17MM (+\$2MM).
- Broadly, AEGN is: A) exiting non-pipe Fibrwrap contracting, B) divesting Bayou assets in LA, and C) downsizing Corpro Canada. No update on Bayou, yet we expect the initiatives are progressing fine.
- AEGN expects Hurricanes Irma and Harvey will drive a -\$5MM operating impact to Q3 (~\$0.10 in EPS), but otherwise noted robust activity for its core businesses. We believe this item drove most of AEGN's decline.
- Our FY 2017 estimates see cuts, but our 2018 model year is substantially unchanged. We are encouraged by a stabilizing energy complex and strong economic data here in the US. Despite a choppy narrative, we expect AEGN to do the following in 2017: buyback \$40MM of stock, maintain cash around ~\$150MM, and generate free cash >10% of its market cap.
- At our target, shares would trade at ~8x EV/EBITDA, based on our 2018 financial estimates. This is well within recent historical ranges, and is a compelling standalone absolute value, in our view.

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

**ADDITIONAL DISCUSSION—FINAL THOUGHTS**

We missed an opportunity in early-August to upgrade shares when Aegion announced its most recent restructuring plan, but look to avoid making the same mistake following what we view as an overreaction to a fairly benign update. We expected a writedown was coming, and see a very plausible path for the hurricanes to mark a positive catalyst (on the rebuild/rebound) if/when sentiment improves. We urge investors be aggressive in AEGN, within the framework that we see \$20/\$26 as a reasonable risk/reward range over the next several quarters.

**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 cyclical 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	Q1'17	Q2'17	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	\$ 325,175	\$ 354,473	\$ 329,430	\$ 312,960	\$ 1,322,040	\$ 1,277,120
Cost of Revenues	1,051,438	1,057,783	239,494	236,496	242,206	250,560	968,756	257,763	274,705	257,970	249,610	1,040,050	1,007,840
Gross Profit	279,983	275,787	54,414	61,190	66,318	71,242	253,164	67,412	79,768	71,460	63,350	281,990	269,280
%	21.0%	20.7%	18.5%	20.6%	21.5%	22.1%	20.7%	20.7%	22.5%	21.7%	20.2%	21.3%	21.1%
Operating Expenses	286,837	209,477	50,725	50,806	45,277	50,291	197,099	52,746	58,109	48,800	47,200	206,860	193,810
%--Qs Adjusted	21.5%	15.7%	16.3%	16.4%	15.2%	15.4%	16.1%	16.3%	16.3%	14.8%	15.1%	15.6%	15.2%
E Rev/ Acq-related Exp/ Restructure	12,958	46,364	7,828	2,239	536	(5,364)	5,239	533	-	92,000	6,000	98,530	-
Operating Inc.	(19,812)	19,946	(4,139)	8,145	20,505	26,315	50,826	14,133	21,659	(69,340)	10,150	(23,400)	75,470
%	-1.5%	1.5%	-1.4%	2.7%	6.6%	8.2%	4.2%	4.3%	6.1%	-21.0%	3.2%	-1.8%	5.9%
Interest (Expense)	(12,943)	(16,044)	(3,615)	(3,641)	(3,825)	(3,948)	(15,029)	(4,047)	(4,005)	(3,865)	(3,725)	(15,640)	(14,420)
Interest Income	633	218	32	128	37	(31)	166	49	35	25	25	130	100
Other	(3,853)	(2,905)	(973)	(498)	288	489	(694)	(387)	(408)	(100)	(100)	(1,000)	(400)
Pre Tax Inc.	(35,975)	1,215	(8,695)	4,134	17,005	22,825	35,269	9,748	17,281	(73,280)	6,350	(39,910)	60,750
Income Tax (Expense)	3,840	(9,205)	4,746	(941)	(5,218)	(4,696)	(6,109)	(1,995)	(5,103)	22,720	(1,970)	13,650	(18,220)
Tax Rate	10.7%	757.6%	54.6%	22.8%	30.7%	20.6%	17.3%	20.5%	29.5%	31.0%	31.0%	34.2%	30.0%
Income Before Eq in Aff	(32,135)	(7,990)	(3,949)	3,193	11,787	18,129	29,160	7,753	12,178	(50,560)	4,380	(26,260)	42,530
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	7,753	12,178	(50,560)	4,380	(26,260)	42,530
Less: (NI)/Loss Attrib to non-CI	(1,755)	(77)	157	229	280	(338)	328	(1,882)	(1,078)	(200)	-	(3,160)	-
Net Income att to AEGN (ctd ops)	(33,320)	(8,067)	(3,792)	3,422	12,067	17,791	29,488	5,871	11,100	(50,760)	4,380	(29,420)	42,530
%	-2.5%	-0.6%	-1.3%	1.1%	3.9%	5.5%	2.4%	1.8%	3.1%	-15.4%	1.4%	-2.2%	3.3%
Shares Out.	37,838	36,779	35,489	35,467	34,981	34,516	35,113	34,505	34,060	33,684	33,325	33,893	32,263
Diluted EPS (cont'd ops)	\$ (0.90)	\$ (0.23)	\$ (0.11)	\$ 0.10	\$ 0.34	\$ 0.52	\$ 0.85	\$ 0.17	\$ 0.33	\$ (1.51)	\$ 0.13	\$ (0.88)	\$ 1.32
Adjusted EPS (cont'd ops)	\$ 1.38	\$ 1.28	\$ 0.12	\$ 0.23	\$ 0.32	\$ 0.44	\$ 1.11	\$ 0.18	\$ 0.33	\$ 0.38	\$ 0.26	\$ 1.14	\$ 1.32
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%	10.6%	19.1%	6.8%	-2.7%	8.2%	-3.4%
Operating Income	-129.6%	-200.7%	-145.4%	-43.9%	-17.8%	nm	154.8%	-441.5%	165.9%	-438.2%	-61.4%	-146.0%	-422.5%
EPS--Adj if necessary	8.5%	-6.8%	-1.4%	-36.4%	-27.2%	19.9%	-13.9%	44.5%	46.9%	17.1%	-41.3%	3.2%	16.0%
Adjusted EBITDA	20.2%	-6.1%	-8.2%	-13.8%	-18.7%	2.0%	-10.0%	38.8%	27.1%	11.8%	-16.9%	11.3%	-2.5%
Working Cap.	-9.1%	-16.0%	-23.9%	-0.2%	-10.9%	1.7%	1.7%	29.3%	24.0%	0.0%	-13.6%	-13.6%	2.9%
Inventory	0.7%	-19.3%	4.2%	8.7%	17.2%	33.9%	33.9%	9.0%	15.2%	6.8%	-2.7%	-2.7%	2.9%
			*\$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	Q1'17	Q2'17	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	5,871	11,100	(50,760)	4,380	(29,420)	53,020
D & A	46,648	43,791	11,376	11,779	11,251	12,313	46,719	11,852	12,112	11,630	12,320	47,910	44,480
Share-base Compensation	5,073	7,987	2,363	3,253	2,073	1,572	9,261	3,096	3,640	1,200	1,200	9,140	4,800
Impairment/Non-Cash Rst	96,606	48,714	(212)	488	(585)	(2,391)	(2,700)	42	60	85,000	750	85,850	750
Deferred Income Tax	(16,816)	924	(1,187)	133	441	2,385	1,772	5,533	(180)	(700)	(700)	3,953	(2,800)
FX Loss (Gain)	627	80	1,131	507	(287)	(440)	911	378	484	100	100	1,000	400
(Increase) Decrease in Wrkg. Cap.	22,620	35,938	836	(9,210)	2,797	2,430	(3,147)	(51,083)	(1,538)	42,532	36,970	26,881	(4,830)
Operating CF	121,438	129,367	10,515	10,372	27,757	33,660	82,304	(24,311)	25,678	89,002	55,020	145,314	95,820
Cap Ex.	(33,157)	(29,454)	(10,060)	(9,385)	(12,040)	(7,275)	(38,760)	(3,907)	(8,922)	(11,000)	(6,000)	(29,830)	(30,000)
Acquisitions, net of cash acq	1,000	(7,760)	(85,667)	(6,446)	(4,194)	-	(96,307)	(9,045)	-	-	-	(9,050)	(5,000)
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-
Free Cash Flow	97,729	91,920	(78,613)	(5,459)	11,523	26,385	(46,164)	(37,263)	16,756	78,002	49,020	106,434	60,820
FCF / Share	\$ 2.58	\$ 2.50	\$ (2.22)	\$ (0.15)	\$ 0.33	\$ 0.76	\$ (1.31)	\$ (1.08)	\$ 0.49	\$ 2.32	\$ 1.47	\$ 3.14	\$ 1.89
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	10,000	7,000	(5,000)	(5,000)	7,000	(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	2,500	5,000
Stock (Repurchases)	(31,073)	(27,804)	(16,325)	(8,875)	(11,397)	(7,857)	(44,454)	(10,508)	(10,526)	(10,000)	(9,000)	(40,030)	(40,000)
Net C.F.	64,516	46,962	(65,275)	(15,734)	775	9,934	(70,300)	(42,146)	8,855	59,877	31,895	58,404	(1,680)
Net CF--Disc Ops													
Adjusted EBITDA	130,894	122,858	19,039	26,565	30,670	34,258	110,532	26,435	33,771	34,290	28,470	123,040	119,950
TTM Adj EBITDA Margin	9.8%	9.2%	9.2%	9.1%	8.9%	9.0%	9.0%	9.4%	9.6%	9.7%	9.3%	9.3%	9.4%
Summary Balance Sheet	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	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	87,602	105,331	165,210	129,110	197,110	195,430
Receivables, net	227,481	200,883	171,747	189,652	191,960	186,016	186,016	207,943	205,125	206,220	178,390	178,390	183,650
Inventory	59,192	47,779	63,432	61,932	62,805	63,953	63,953	69,113	71,332	67,060	62,200	62,200	64,030
Other Current Assets	176,013	220,281	206,045	209,347	194,111	152,768	152,768	147,248	145,723	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	511,906	527,511	636,480	593,520	593,520	602,050
Net PP&E	168,213	144,833	151,086	153,741	158,276	156,747	156,747	156,690	158,966	158,340	152,020	152,020	140,040
Intangible Assets	182,273	174,118	205,498	202,073	199,352	194,911	194,911	193,102	188,864	103,860	103,860	103,860	104,360
Goodwill	293,023	249,120	294,479	297,223	300,679	298,619	298,619	302,749	304,357	304,360	304,360	304,360	306,360
Other Non-Current Assets	14,042	12,040	8,236	10,168	9,687	11,068	11,068	10,955	12,239	12,240	12,240	12,240	12,240
Total Assets	1,295,202	1,258,307	1,228,382	1,234,928	1,230,134	1,193,582	1,193,582	1,175,402	1,191,937	1,215,280	1,166,000	1,166,000	1,165,050
A/P	83,285	72,732	66,655	63,876	69,183	63,058	63,058	64,713	63,954	87,960	79,800	79,800	82,160
Accrued Expenses & Othr	154,639	207,387	186,581	199,857	185,292	147,708	147,708	116,537	113,634	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	22,020	27,210	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	203,270	204,798	304,940	258,070	258,070	264,270
Long-Term Debt	351,076	337,774	363,381	361,221	357,142	350,785	350,785	354,427	352,071	341,930	332,920	332,920	304,590
Deferred Income Tax	22,442	19,386	17,872	20,608	20,665	23,339	23,339	23,731	23,951	23,250	22,550	22,550	19,750
Other LT Liabilities	12,276	8,824	11,091	11,234	12,441	12,674	12,674	13,102	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	594,530	582,929	682,810	626,470	626,470	601,800
Stockholders' Equity	626,635	578,025	555,815	552,737	560,413	568,500	568,500	571,320	598,380	521,840	528,900	528,900	552,620
Noncontrolling Interest	18,450	16,531	9,338	7,749	7,354	7,683	7,683	9,552	10,628	10,630	10,630	10,630	10,630
Book Value	\$ 16.78	\$ 15.96	\$ 15.66	\$ 15.58	\$ 16.02	\$ 16.47	\$ 16.47	\$ 16.56	\$ 17.57	\$ 15.49	\$ 15.87	\$ 15.87	\$ 17.43
Tangible Book Value	\$ 4.05	\$ 4.27	\$ 1.57	\$ 1.51	\$ 1.73	\$ 2.17	\$ 2.17	\$ 2.19	\$ 3.09	\$ 3.37	\$ 3.62	\$ 3.62	\$ 4.48
Net LT Debt / Total Cap	21.4%	17.8%	29.4%	30.9%	30.0%	27.7%	27.7%	31.5%	28.8%	24.9%	20.1%	20.1%	16.2%
Net Total Debt / Total Cap	23.9%	19.7%	30.9%	32.4%	31.5%	29.5%	29.5%	33.2%	31.0%	27.8%	23.2%	23.2%	19.6%
Gross Debt / TTM Adj EBITDA	2.9x	2.9x	3.1x	3.2x	3.4x	3.4x	3.4x	3.2x	3.0x	2.9x	2.9x	2.9x	2.8x
TTM ROE--unadjusted	-4.9%	-1.3%	-2.2%	-3.2%	-3.7%	-5.2%	-5.2%	7.0%	8.2%	-2.8%	-5.3%	-5.3%	10.0%

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.



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	40	32%	10%	90%
Hold/Neutral	77	62%	8%	92%
Sell	8	6%	0%	100%

As of 6 September 2017

### Other Disclosures

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