

Radiant Logistics, Inc. | NYSEMKT: RLGT

INVESTMENT RESEARCH REPORT

"Logistical Nightmare"

RECOMMENDATION: *Strong Sell*



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Executive Summary

Spruce Point Is Short Radiant Logistics And Sees 30% - 50% Downside

We previously laid out our short on Echo Global Logistics (Nasdaq: ECHO) in Aug 2016, a highly promoted, but poor performing roll-up in the 3rd party logistics (3PL) sector. The share price has fallen by up to 30%. Spruce Point believes that Radiant Logistics (NYSE/MKT: RLGT), another 3PL roll-up story, is an even worse investment and much weaker company.




Questionable Management History Tarnished By Previous Accounting Scandal

- Radiant's CEO Bohn Crain and first General Counsel Cohen were executives at Stonepath Group (AMEX: SRG / OTCBB SGRZ), which crumbled when it admitted financial and accounting irregularities tied to revenue overstatement / expense understatement. An SEC inquiry commenced, allegations of fraud were made, and Stonepath was delisted, and faded to the pink sheets and insolvency
- Later, with a "reverse merger" from the shell of "Golf Two, Inc" the duo launched Radiant Logistics on the bulletin board in 2005
- The SEC has already questioned Radiant's accounting, and it has made the scary disclosure that its margin method, *"Generally results in recognition of revenues and purchased transportation costs earlier than the preferred methods under GAAP which does not recognize revenue until a proof of delivery is received or which recognizes revenue as progress on the transit is made."*
- Don't expect Radiant's minor league auditor named Peterson Sullivan to spot problems, Radiant pays them minuscule audit fees and three Peterson employees (2 partners) have been cited in less than two years for professional misconduct by the PCAOB and SEC



Similar to Echo, Radiant Is A Non-Accretive Roll-Up Strategy In The 3rd Party Logistics Space Showing Strains

- Radiant has completed 16 acquisitions since 2006 and has not demonstrated any cumulative net cash flow, a key measure of success
- Its largest acquisition of Wheels in 2015, has failed to hit expectations, and exposed Radiant to the transportation brokerage market, an area coming under extreme margin pressure from new technology entrants. Radiant levered up and diluted shareholders meaningfully
- Radiant's GAAP / Non-GAAP financials are diverging at an alarming rate and it recently announced *"organizational changes"* (Warning: it had to hire a "Chief Commercial Officer" and its COO resigned) while suspending Sales and EPS guidance to investors for FY 2017



Unattractive Capital Structure and Unfavorable Shareholder Policies

- Radiant's expensive 9.75% perpetual preferred stock sucks cash flow from common shareholders; the Company will likely have to use its existing shelf registration to dilute shareholders again when the preferred first becomes callable at the end of 2018
- Radiant has a history of irrational dilution; eg. in July 2015 to pay down its credit facility costing just 3.5%, clearly its equity is cheaper!
- Radiant announced a 5m share buyback in Jan 2016, yet has repurchased just 91k shares. It could have bought back all the stock it wanted at \$3/share or less but it didn't – shareholders should be asking why?
- Key insiders have been selling. Notably, Radiant's second largest shareholder / original executive Cohen sold all his shares in 2015 and now hides his association from Radiant on his biography. The Company's new COO also sold his entire shares 1yr after joining



Unattractive Valuation And Limited Reason To Own The Stock

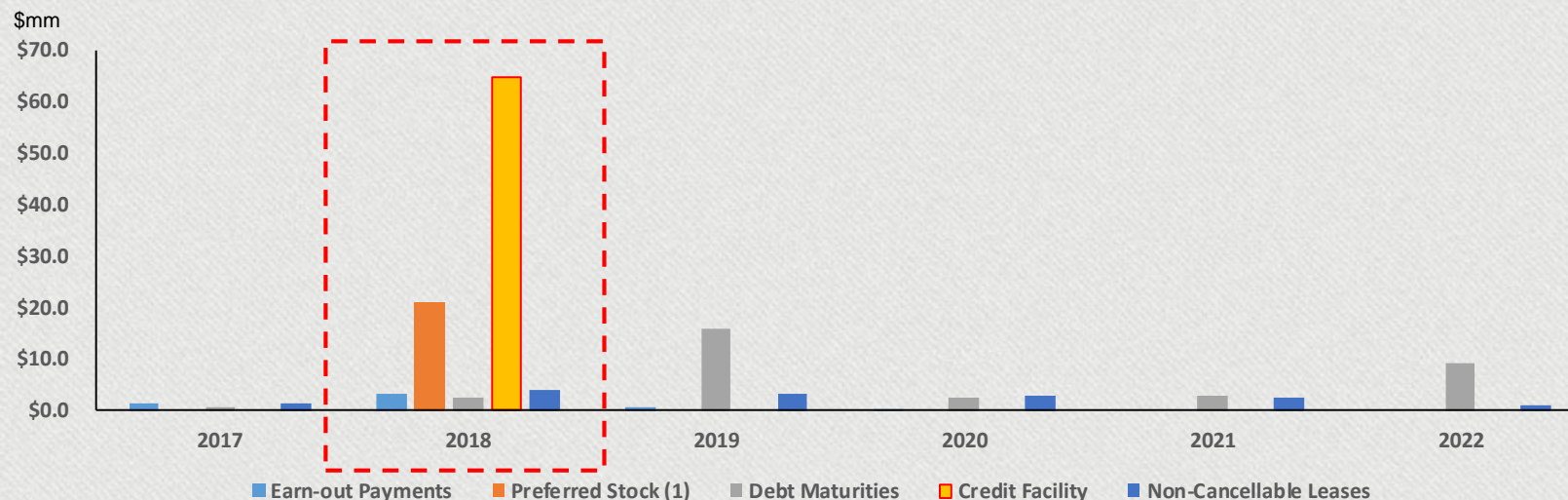
- With shares up nearly 85% in the past year, investors seem blinded to the fact that its recent cash flow is declining 20% YoY
- The market is expecting virtually no revenue growth from Radiant and has failed to take a close forensic look at the Company to identify issues that suggest further strain lies ahead. However, Radiant trades at an irrational premium to logistics peers
- We suggest valuing it on free cash flow multiple, which at a 18-24x would be worth approx. \$3.00-\$4.30/sh, implying 30-50% downside

Capital Structure and Debt Profile

We will demonstrate that Radiant's financial condition is fragile and its valuation is rich.

Stock Price	\$6.10	Street Valuation	LTM	2017E
Diluted Shares Outstanding	50.2	EV / Sales	0.5x	0.5x
Market Capitalization	\$306.0	EV / Adj. EBITDA	13.4x	11.4x
Notes Secured Debt	\$32.7	Price / Adj. EPS	87.1x	21.4x
Market Value of 9.75% Preferred Stock	\$23.1	EV / Free Cash Flow	27.0x	--
Total Debt Outstanding	\$55.7	Price / Book	2.6x	--
Earn-out Consideration	\$5.4	Spruce Point Adjusted		
Adjusted Enterprise Value	\$61.1	EV / Free Cash Flow	31.9x	--
Less: Cash and Marketable Securities (1)	\$5.4	Price / Tangible Book Value	NM	--
Adjusted Enterprise Value	\$361.8	Debt / EBITDA	2.1x	--

1) Pro forma for Lomas cash acquisition cost of \$7m post 3/31/17 and payment of preferred dividend in May of \$0.5m



1) Earliest redemption date



Management's Questionable History

Questionable Background of Bohn Crain, Radiant's CEO/Founder

Prior to starting Radiant Logistics in 2006, Bohn Crain was the EVP and CFO of Stonepath Group (AMEX: STG / OTCBB: SGRZ) from 2001-2004, a publicly traded logistics roll-up that failed spectacularly during his leadership

9/20/04: Stonepath Group Announces Intention to Restate 2003 and Q1-Q2 2004 Financial Statements

- Stonepath determined that it had understated its accrued purchased transportation liability and related costs of purchased transportation; it relied on trend analysis to estimate its costs of purchased transportation
- The Company concluded that the process did not accurately account for the differences between the estimates and the actual freight costs incurred. This allowed for the accumulation of previously unidentified costs of purchased transportation and an under reported liability for the accrued costs of purchased transportation.
- CEO Pelino seemed to back Crain: *"The Company has also restructured its financial organization to have the senior financial staff of its Domestic Services and International Services operations report directly to Bohn Crain, the Company's Executive Vice President and Chief Financial Officer."*

11/17/04: Two Months Later, Bohn Crain Abruptly Resigns and Significantly More Financial Accounting Issues Emerge

- **Revenue Overstatement:** In the course of its review of the under accrual of purchased transportation costs, the Company also identified two revenue recognition errors within its Domestic Services which caused the Company to overstate its revenues by approximately \$1.1 million during the first two quarters of 2004
- **Net Income Overstatement:** The Company also expects to report an additional \$3,600,000 reduction in net income for the income tax effects of the estimated adjustments discussed above. These adjustments primarily affect the fourth quarter of 2003. At that time, a \$3,000,000 adjustment was recorded representing a reduction in the deferred tax asset valuation allowance and the reporting of a deferred tax asset.
- **Restructuring and Guidance:** Stonepath implements a restructuring and a material charge is expected to negatively impact Q4'14 results. Stonepath decided to withdraw EBITDA and EPS guidance for 2004 and 2005

1/6/05: 10-Q Filing Reveals SEC Inquiry and Numerous Lawsuits

- **SEC Inquiry:** SEC conducted an informal inquiry to determine whether certain provisions of the federal securities laws have been violated in connection with the Company's accounting and financial reporting. The SEC requested information relative to the restatement amounts, personnel at the Air Plus subsidiary and Stonepath Group, Inc. and additional background information from October 5, 2001 to December 2, 2004.
- **Lawsuits:** Crain and other executives named in 8 lawsuits alleging fraud, gross mismanagement, waste of corporate assets among other things

2/25/05: Amended 10-Q Reveals Even More Financial Errors During Bohn's CFO Tenure

- **Revenue Overstatement:** 1) the Company identified a billing error in which the operating unit was invoicing one of its automotive customers at rates which had been approved by a customer representative who did not have the authority to do so; 2) Upon billing to a customer for certain capital equipment purchased in connection with the launch of a new distribution center for that customer, the unit recognized the revenue immediately rather than over the two-year life of the contract
- **Expense Recognition:** 1) Claims expenses from Q1'14 were shifted to and recognized in Q4'14, 2) Depreciation associated with the capital equipment mentioned above was depreciated over its useful life, rather than matching it to the life of the contract

Background on Stephen Cohen, Radiant's First Executive and Board Member

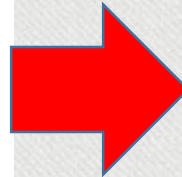
Stephen M. Cohen was Radiant's first General Counsel and Board member starting in 2005. He recently sold all his sizeable share holdings in 2015, and has removed his association with Radiant

- From 2000 - 2004, Mr. Cohen served as senior vice president, general counsel and secretary of Stonepath Group. Mr. Cohen's tenure at Stonepath overlapped with Bohn Crain's, during the period of financial misstatements and failure of Stonepath
- Mr. Cohen joined Radiant in Oct. 2005. He took no salary as part-time counsel, but received payments to his firm SCM Capital Advisers for legal and consulting services. He also owned 2.5m shares or 7.4% of Radiant according to early company filings
- Cohen started exiting his shares in July 2015 through a [secondary issuance](#) and as of the last proxy filed [10/6/15](#) has fully exited. The sale of the shares came notably after Radiant's highly promoted Wheels acquisition early in the year
- Mr. Cohen is now partner at Fox Rothschild, and is the co-chair of the firm's Public Companies Practice. Radiant used Fox Rothschild as its [M&A legal advisor](#) for the Wheels transaction, and as its [securities lawyer](#) in the transaction Cohen sold shares

Before Fox Rothschild

Before joining the firm, Steve spent seven years as general counsel of two publicly held companies. Most recently, as the general counsel and interim CEO of a publicly held oil and gas company, Steve presided over the winding down of a series of oil and gas drilling projects and the successful restructuring of over \$40 million of secured debt.

Before that, Steve was Senior Vice President, General Counsel and Secretary of Stonepath Group, Inc., a global, non-asset based provider of third party logistics services. At Stonepath, he helped transition the company from a venture investor in early stage technology businesses to a global logistics company with revenues over \$500 million and assisted in the acquisition of over 20 domestic and international logistics companies in the United States, Asia, and South America. Previous to his tenure as general counsel, Steve was a partner in the Corporate Finance Group of Buchanan Ingersoll.



Despite acting as Radiant's first General Counsel and Board Secretary, along with continuing to act as outside counsel through 2015, Cohen now omits any ties to Radiant, yet mentions Stonepath which failed



Signs of Suspect Accounting And A Non-Economic Model Coming Under Pressure

Radiant Logistics vs. Echo Global Logistics

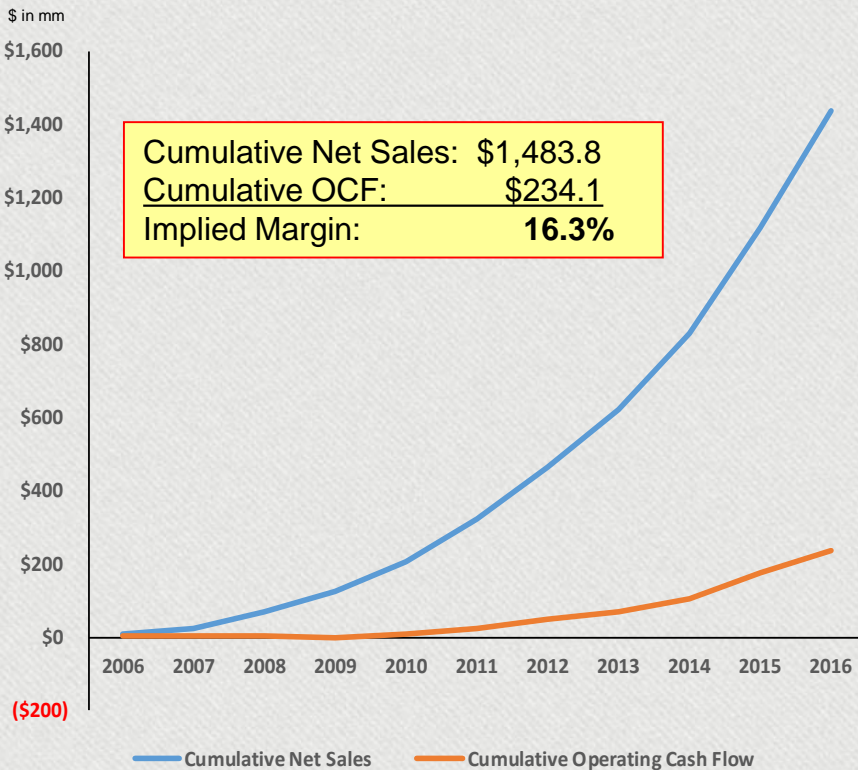
Radiant bears striking resemblance to Echo Global Logistics, a company we were early to identify as a short. In our opinion, Radiant is a significantly worse investment opportunity and weaker company.

\$mm	Echo Global Logistics Nasdaq: ECHO	Radiant Logistics NYSE/MKT: RLGT
Business Strategy	Roll-up of 3 rd party logistics providers founded in 2005	Roll-up of 3 rd party logistics providers founded in 2005
Founders With History of Value Destruction	ECHO's founders involved with Ha-Lo which declared bankruptcy; Groupon and InnerWorkings	Bohn Crain and Stephen Cohen were CFO and General Counsel, respectively, at Stonepath (AMEX: SRG) which went bankrupt after an accounting scandal surfaced
Evidence of Non-Economic Business Model	After a decade, free cash flow after acquisitions is negative. Long-term cash flow margin of 16.3%	After a decade, free cash flow after acquisitions is negative. Long-term cash flow margin of just 4.8%
Questionable "Transformative" Acquisition	Levered-up and diluted shareholders in May 2015 to acquire Command Transport, to gain exposure to the brokerage market. The brokerage market has since rapidly deteriorated leaving limited visibility	Levered-up and diluted shareholders in Jan 2015 to acquire Wheels Group, to gain exposure to the brokerage market. The brokerage market has since rapidly deteriorated leaving limited visibility
Heavy Use of Earn-Out Structures	Used earn-outs early on to effect roll-up strategy	Heavy user of earn-outs to structure deals
GAAP/Non-GAAP Issues	We warned about Echo's earnings deterioration from the widening delta. Echo has since missed numbers multiple times	Radiant's GAAP/Non-GAAP results are diverging, and its cash flow is declining while Non-GAAP EBITDA and EPS grow
Poor Capital Management Policies	Has sat on excess cash earning nothing for an excessive period. Has repurchased \$50m of shares at above market prices	Radiant failed to buyback stock at \$3/sh when it announced a buyback. It has issued expensive equity to pay back debt and saddled shareholders with an expensive preferred stock
Evidence of Overly Optimistic Stock Promotion	Has used an army of more than a dozen stock promoters that recently suggested stock was worth close to \$30/sh	Has had difficulty attracting and retaining stock promoters, but a few have suggested its stock is worth \$10/sh

A Tale of Two Logistics Roll-Ups

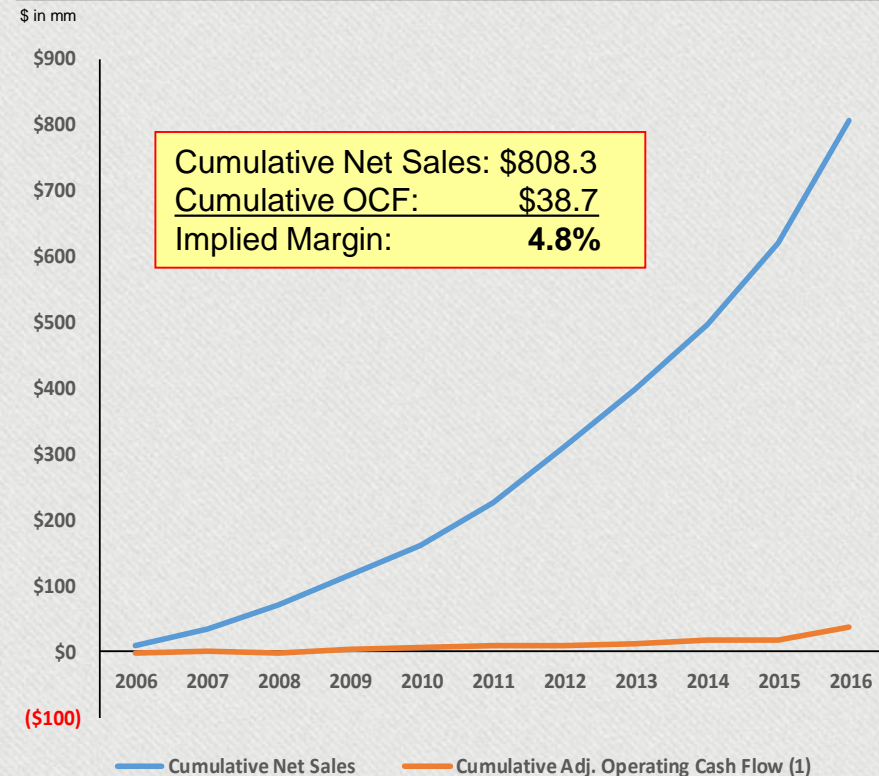
Radiant's effectiveness as a roll-up strategy can be compared with Echo's. In the chart below, we illustrate the cumulative sales and operating cash flow for each company. We find clear evidence to suggest that Radiant is an inferior roll-up with significantly lower cash flow margins.

Echo Global Logistics



Source: Company financials

Radiant Logistics

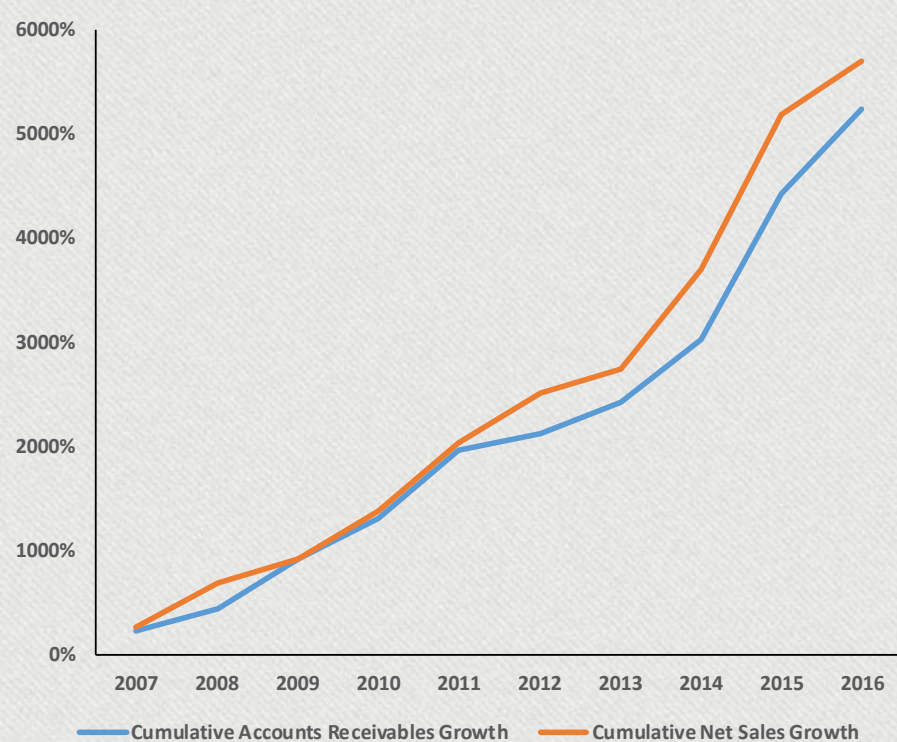


1) Spruce Point removes payments to minority owners and preferred share dividends which are debt-like interest costs

Strong Evidence Suggesting Financial Irregularities

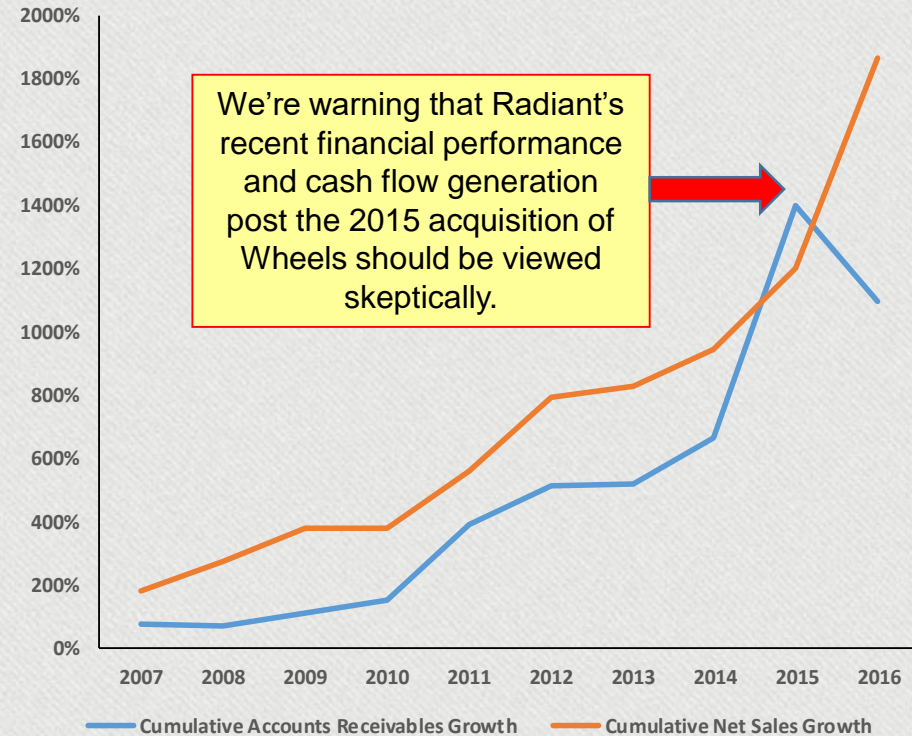
Spruce Point believes that evaluating a company's long-term accounts receivables vs. sales growth is a reliable indicator to identify potential financial misstatement. Both financial metrics should track each other closely. ECHO and RLGT were founded in 2005 as asset-light logistics roll-up stories, and make for excellent comparisons. It's evident from the charts below that Radiant's financials have deviated meaningfully over time, and very significantly post 2015.

Echo Global Logistics



Source: Company financials

Radiant Logistics





Strong Evidence Suggesting Financial Irregularities

The SEC weighed in years ago about Radiant's revenue and expense recognition and warned that it was Non-GAAP. The Company has ever since claimed its aggressive methods are "immaterial" – can this be trusted? Recall that bad "estimates" got Crain's last company Stonepath Group in trouble

SEC Comment Letter Slams Radiant's Accounting

Mr. Bohn H. Crain, CEO
Radiant Logistics, Inc.
July 16, 2009
Page 2

Annual Report on Form 10-K for the fiscal year ended June 30, 2008

Financial Statements, page F-1
Notes to the Consolidated Financial Statements, page F-8
Note 2 – Summary of Significant Accounting Policies, page F-9
j) Revenue Recognition and Purchased Transportation Costs, page F-11

1. We note your response to our prior comment number five. Please note that method 2 of EITF 91-9 is not considered an acceptable method of revenue recognition as revenue is recognized in advance of performance and liabilities are recognized before they are incurred. Further, we do not agree that the company has substantially completed all work that is required in connection with the recognition of revenue at the time it tenders the freight to the underlying asset-based carrier given the fact that it is the primary obligor responsible for providing the service desired by the customer and are responsible for fulfillment, including the acceptability of the service(s) ordered or purchased by the customer and assumes credit risk in which case in the event of non-fulfillment of the transportation services, you would bear the risk of loss. In this regard, it does not appear your revenue and expense recognition methods are in accordance with GAAP. Please revise your revenue recognition footnote in future filings to specifically state that its current methodology is not in accordance with GAAP; however, if one of the acceptable methods under EITF 91-9 had been applied that the differences would not be material. Tell us which acceptable method you considered in your determination that the recognition of revenue and costs incurred would not be materially different from that of your current methodology. As part of your next response to us, please confirm your understanding that to the extent the differences become material in the future you will be required revise your methodology accordingly.
2. In a related matter, it appears as though you are estimating costs and using the "accrue in advance" methodology for purchased transportation capacity costs. Please note that costs accrued prior to when they are incurred is not in accordance with GAAP. Please explain to us in greater your revenue generation process and the timing of when revenue, estimated transportation costs, costs of sales, purchased transportation costs and other related costs are recognized within your financial statements. We may have further comment upon receipt of your response.

Condensed Consolidated Balance Sheets, page 3

3. We note from your response to prior comment 13 that to the extent amounts under the dispute with Mr. Friedman are resolved favorably to the company, the liabilities will be reduced with a corresponding reduction in goodwill. It is unclear how exactly such a reduction in goodwill will be recorded given that in

RLGT Warns About Its Accounting, Insists Immaterial Differences

As a non-asset based carrier, we do not generally own transportation assets. We do, however, own certain trailers and refrigerated trailers that we use in our business. We generate the majority of our air and ocean freight forwarding and freight brokerage revenues by purchasing transportation services from direct (asset-based) carriers and reselling those services to our customers. Based upon the terms in the contract of carriage, freight forwarding revenues related to shipments where we issue a House Airway Bill or a House Ocean Bill of Lading are recognized at the time the freight is tendered to the direct carrier at origin. Costs related to the shipments are also recognized at this same time based upon anticipated margins, contractual arrangements with direct carriers, and other known factors. The estimates are routinely monitored and compared to actual invoiced costs. The estimates are adjusted as deemed necessary by us to reflect differences between the original accruals and actual costs of purchased transportation. **This method generally results in recognition of revenues and purchased transportation costs earlier than the preferred methods under GAAP which do not recognize revenue until a proof of delivery is received or which recognize revenue as progress on the transit is made. Our method of revenue and cost recognition does not result in a material difference from amounts that would be reported under such other methods.**

How Can Radiant's Auditor Claim Its Financials Are In Conformity With U.S. GAAP?

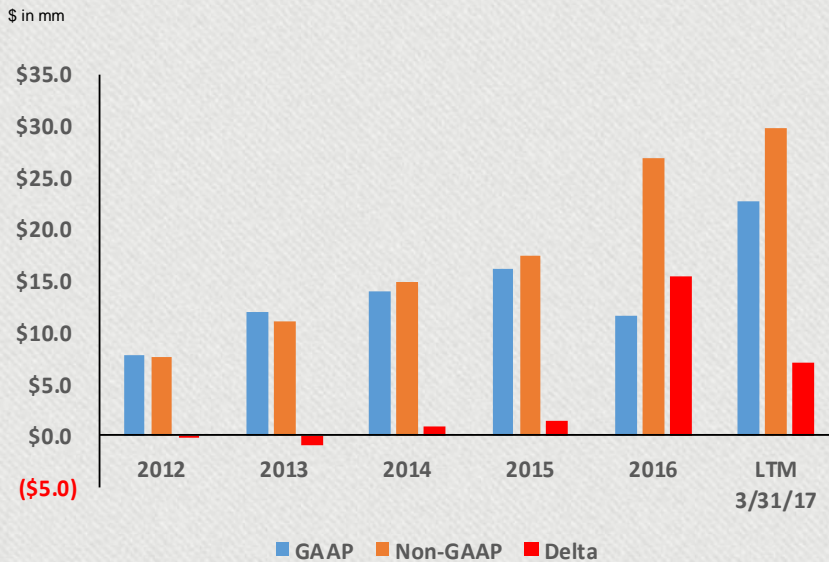
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Radiant Logistics, Inc. as of June 30, 2016 and 2015, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, Radiant Logistics, Inc. maintained, in all material respects, effective internal control over financial reporting as of June 30, 2016, based on criteria established in Internal Control—Integrated Framework issued by the COSO. As discussed in Note 2 to the consolidated financial statements, the Company early adopted Accounting Standards Update Number 2015-03, Interest-Imputation of Interest, and Accounting Standards Update Number 2015-17, Income Taxes.

/S/ PETERSON SULLIVAN LLP
Seattle, Washington
September 13, 2016

Growing GAAP v. Non-GAAP Disparity

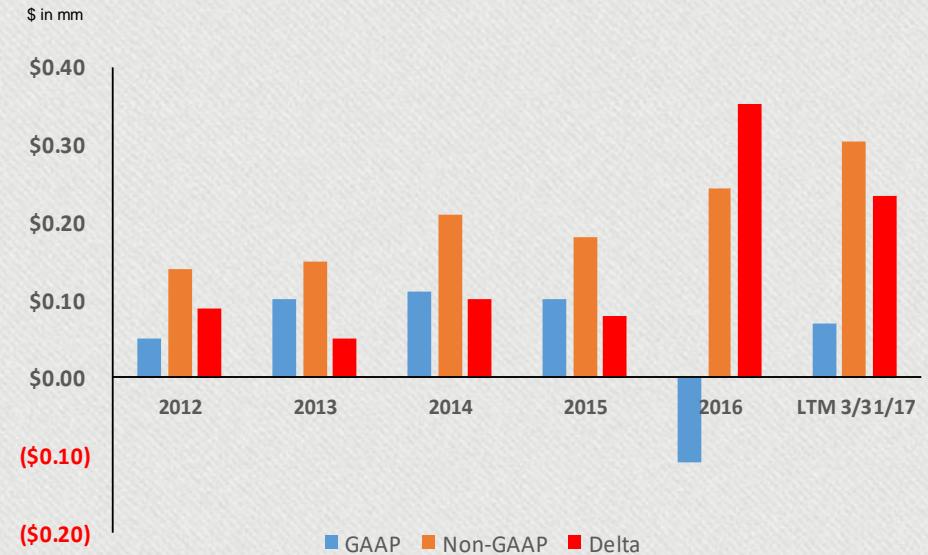
Spruce Point warns that companies undergoing financial stress often times show an escalating divergence between GAAP and Non-GAAP figures. We observed this sign recently with our short recommendation on Echo Global. As can be seen from the charts below, Radiant's Non-GAAP financials really started diverging heavily in 2016, a year after it acquired Wheels Group.

Radiant's Widening EBITDA vs. Adjusted EBITDA



Source: Company financials

Radiant's Widening GAAP / Non-GAAP EPS



Radiant's Largest Deal To Acquire Wheels Group Seems A Disappointment

In January 2015, Radiant announced its largest acquisition on Wheels Group for ~\$76m, a Canadian venture company (formed as a reverse takeover and logistics roll-up) that served both the US and Canadian markets (50/50%) with brokerage and contract logistics services. Radiant levered its balance sheet to 2.5x Debt/16E EBITDA and diluted existing shareholders by issuing 6.9m shares to Wheels owners. Radiant then issued a further 6m shares in July 15 to pay down debt. In our opinion, much like Echo acquired Command Transportation (May 2015) at the peak of the brokerage market, Radiant's acquisition of Wheels also exposed it to the brokerage market near the peak and was ill-timed.

Radiant (including Wheels) Has Generally Disappointed Expectations, Coming In At The Low End

Preliminary Projections for FYE 2016

(Amounts in 000's)

	PRELIMINARY FYE JUNE 30, 2016		
	Low	Medium	High
Revenue	774,877	800,076	825,275
Net Income before preferred dividend	4,166	5,421	6,484
Preferred dividend	(2,046)	(2,046)	(2,046)
Net Income attributable to common shareholders	2,120	3,375	4,438
	2,046	2,046	2,046
	6,349	6,279	6,209
	2,857	3,694	4,403
	12,703	12,703	12,703
EBITDA	26,075	28,097	29,799
Stock-based comp. and other non-cash	1,190	1,190	1,190
Change in contingent consideration	175	175	175
Adjusted EBITDA	27,440	29,462	31,164

Actual Results

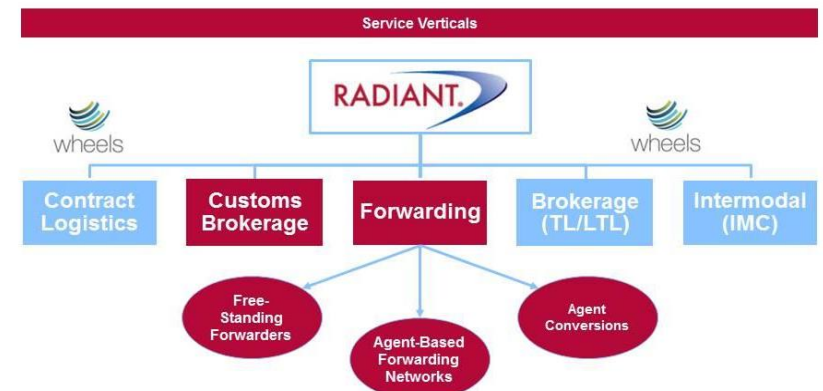
Revenues: \$782.5

Adj EBITDA: \$24.4

Radiant Promoted Wheels As A New Platform To Reach The Brokerage Market To Complement Forwarding

Transaction Rationale

- The transaction will bring geographic and service line expansion



Unusual Margin Expansion In Brokerage

Radiant suspended offering annual and quarterly guidance in Q4'2016 citing the uncertain brokerage market and excess capacity in truckload and intermodal. Yet, somehow Radiant has been able to improve margins in this segment while others in the industry cite margin compression. The only explanation cited by Radiant is “*lower purchased transportation costs*” – if true, how much longer can these benefits last.

Radian't Current LTM Gross Sales of \$758m Almost \$100m Less Than Expectations 16 Months Ago:

2/16/16: Started reducing guidance for gross revenues to \$836.0 – \$852.0 million with net revenues of \$188.8 – \$192.4 million. Adj. EPS \$0.20 – \$0.23 per share

4/25/16: Reduced \$25m of debt through pre-payment – likely a defensive measure seeing trouble ahead

5/16/16: Adjusted guidance: normalized adjusted EBITDA in the range of \$27.5 - \$29.5 million on (gross) revenues of \$788.9 - \$829.1 million. Adj. EPS \$0.22 - \$0.24 per share

9/13/16: Declines to offer annual or quarterly guidance

Radiant's Brokerage Segment Results

Guidance Suspension

\$mm	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17
Gross Revenue	\$62.5	\$62.3	\$59.7	\$53.7	\$58.5	\$53.6	\$53.6	\$49.1
QoQ Change	--	0%	-4%	-10%	9%	-8%	0%	-8%
Net Revenue/ QoQ Change	\$7.4	\$7.2	\$7.0	\$6.0	\$6.9	\$6.5	\$6.9	\$6.1
	--	-2%	-3%	-14%	14%	-6%	6%	-11%
Brokerage Margin	11.8%	11.6%	11.8%	11.2%	11.8%	12.1%	12.9%	12.5%

Source: Radiant Segment Financials
Note: Fiscal year June 30th

Margins Mysteriously Improve

Radiant's Financials Appear Distorted; Should Roll-Over In The Coming Quarters

In pushing Radiant's stock up almost 85% in the past year, investors have narrowly focused on the Company's highly Adjusted EBITDA and EPS, while ignoring its anemic top line growth, and plunging operating cash flow. We don't believe Radiant's recent performance is sustainable, as its comparisons become significantly more difficult in the next few quarters to show growth, while its end markets struggle with excess capacity and limited visibility. Cash flow will become increasingly important as 2018 approaches and its credit facility matures.

Radiant's Cash Flow Increasingly Divorced From Non-GAAP Results

\$mm	June 2016 Q4'16	Sept 2016 Q1'17	Dec 2016 Q2'17	March 2017 Q3'17
Gross Revenues % YoY Change	\$182.4 -7.1%	\$195.1 -9.4%	\$198.9 -3.6%	\$181.8 -1.9%
Net Revenues % YoY Change	\$46.6 9.0%	\$49.0 -3.4%	\$50.1 -3.4%	\$45.7 -3.4%
Accounts Receivables % YoY Change	\$101.0 -20.7%	\$114.1 -9.0%	\$113.1 -4.7%	\$97.5 -1.3%
Company "Normalized" EBITDA % YoY Change	\$5.9 -12.0%	\$7.8 -11.8%	\$9.2 34.0%	\$6.9 33.2%
Company Adj. EPS % YoY Change	\$0.06 17.9%	\$0.08 -11.1%	\$0.04 66.7%	\$0.07 75.0%
Operating Cash Flow % YoY Change % of Net Revenue	\$2.3 NM 4.9%	\$3.4 -26.6% 7.0%	\$9.3 -15.4% 18.6%	\$2.8 -20.9% 6.0%

Cash Flow In
Rapid Decline

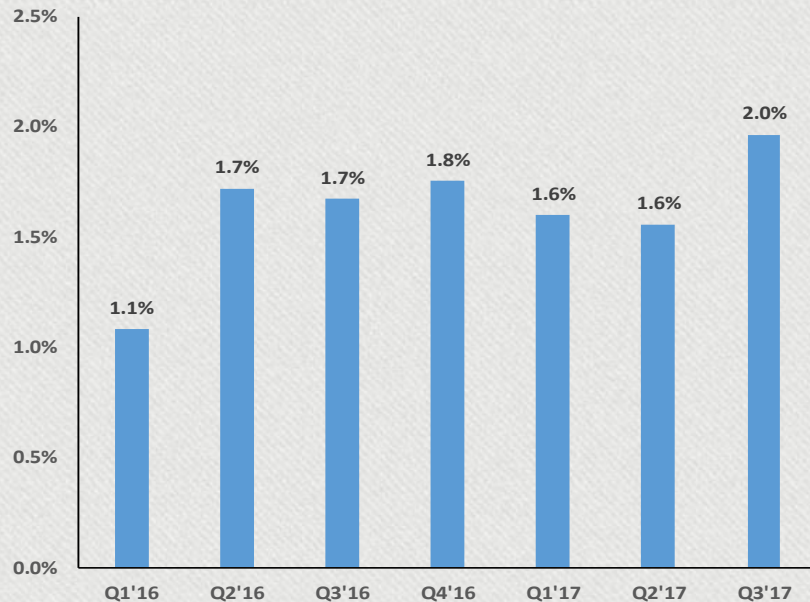
Allowance For Bad Debts Rising

RLGT's bad debt is surging, and is a function of its strategic operating partner arrangements as noted in the Company's Risk Factor below. We observe that Radiant's commission payout to its operating partners has been declining. While this may have a short-term benefit to earnings, its long-term effect is reasonably quite bad since operating partners can generally terminate their agreements with Radiant at any point.

If our strategic operating partners fail to maintain adequate reserves against unpaid customer invoices, or if we are unable to offset against commissions earned and payable by us to our strategic operating partners for unpaid customer invoices, our results of operations and financial condition may be adversely affected.

We derive a substantial portion of our revenue pursuant to agreements with independently-owned strategic operating partners operating under our various brands. Under these agreements, each individual strategic operating partner office is responsible for some or all of the bad debt expense related to the underlying customers being serviced by the strategic operating partner. (RLGT 10-K, p. 9)

Allowance For Bad Debts Rising



Source: Company financials

Note: Defined as Allowance / Gross Receivables. Industry peers average approximately 1.5%

Payouts To Partners Falling

\$mm	2013	2014	2015	2016
Total Net Sales	\$88.4	\$99.2	\$123.7	\$186.7
% of Net Sales To Operating Partners (1)	75%	68%	63%	59%
Net Sales To Operating Partners	\$66.3	\$67.5	\$77.9	\$110.1
Operating Partner Commissions	\$52.5	\$53.7	\$60.4	\$84.5
% Payout To Partners	79.1%	79.5%	77.4%	76.7%

Declining Payout

1) RLGT discloses this information annually in its 10-K Annual Report

Radiant's Roll-Up Lacks Economic Results

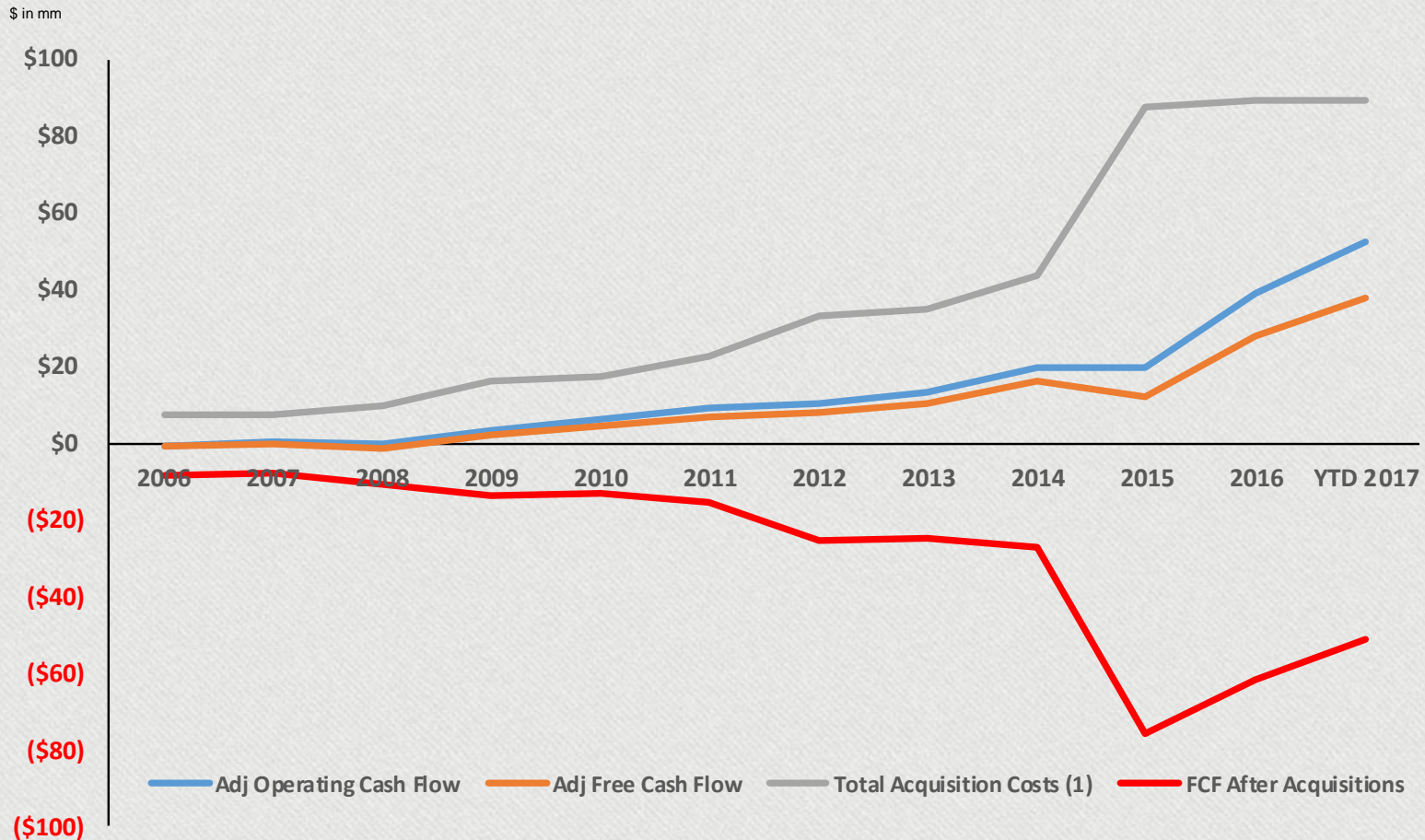
Spruce Point has successfully argued that the best way to evaluate serial acquirers is to look at free cash flow after acquisition costs. It is a particularly useful metric when evaluating asset-light industries where acquisitions consist mostly of people and relationships vs. PP&E. Radiant's operating cash flows must be adjusted for its fixed 9.75% preferred payments (effectively debt-like interest costs) and payments to minority holders that flow through the financing section. We find that Radiant has burned a total of \$51m in its lifetime – no evidence it has added any value.

\$mm	6M 2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	YTD 2017
Operating Cash Flow	(\$1.0)	\$1.3	(\$0.7)	\$3.8	\$2.8	\$2.9	\$1.8	\$2.9	\$6.9	\$2.1	\$21.4	\$15.5
Less: Preferred Stock Dividends	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.7	\$2.0	\$2.0	\$1.5
Less: Payments to Minorities	\$0.0	\$0.0	\$0.0	\$0.0	\$0.1	\$0.1	\$0.1	\$0.1	\$0.0	\$0.1	\$0.0	\$0.0
Spruce Point Adj. Op. Cash Flow	(\$1.0)	\$1.3	(\$0.7)	\$3.8	\$2.8	\$2.8	\$1.6	\$2.8	\$6.2	(\$0.1)	\$19.3	\$13.9
Less: Capex	\$0.1	\$0.5	\$0.2	\$0.2	\$0.6	\$0.4	\$0.7	\$0.3	\$0.2	\$4.1	\$3.7	\$3.6
Spruce Point Adj. FCF	(\$1.1)	\$0.7	(\$0.9)	\$3.5	\$2.2	\$2.4	\$0.9	\$2.4	\$5.9	(\$4.1)	\$15.6	\$10.3
Less: Acquisitions	\$7.4	\$0.2	\$1.5	\$5.5	\$0.0	\$3.4	\$10.3	\$0.0	\$7.5	\$44.0	\$0.8	\$0.0
Less: Deferred Payments For Deals	\$0.0	\$0.0	\$0.5	\$1.0	\$1.4	\$1.6	\$0.5	\$1.6	\$1.3	\$0.0	\$0.7	\$0.0
Spruce Pt Adj. Free Cash Flow After Acquisitions	(\$8.4)	\$0.5	(\$2.9)	(\$3.0)	\$0.8	(\$2.6)	(\$9.9)	\$0.9	(\$2.8)	(\$48.2)	\$14.1	\$10.3



Radiant's Roll-up Strategy Shows Signs of Being Non-Accretive

After a decade in existence, Radiant has still not demonstrated an ability to cover its repeated costs for acquisitions.



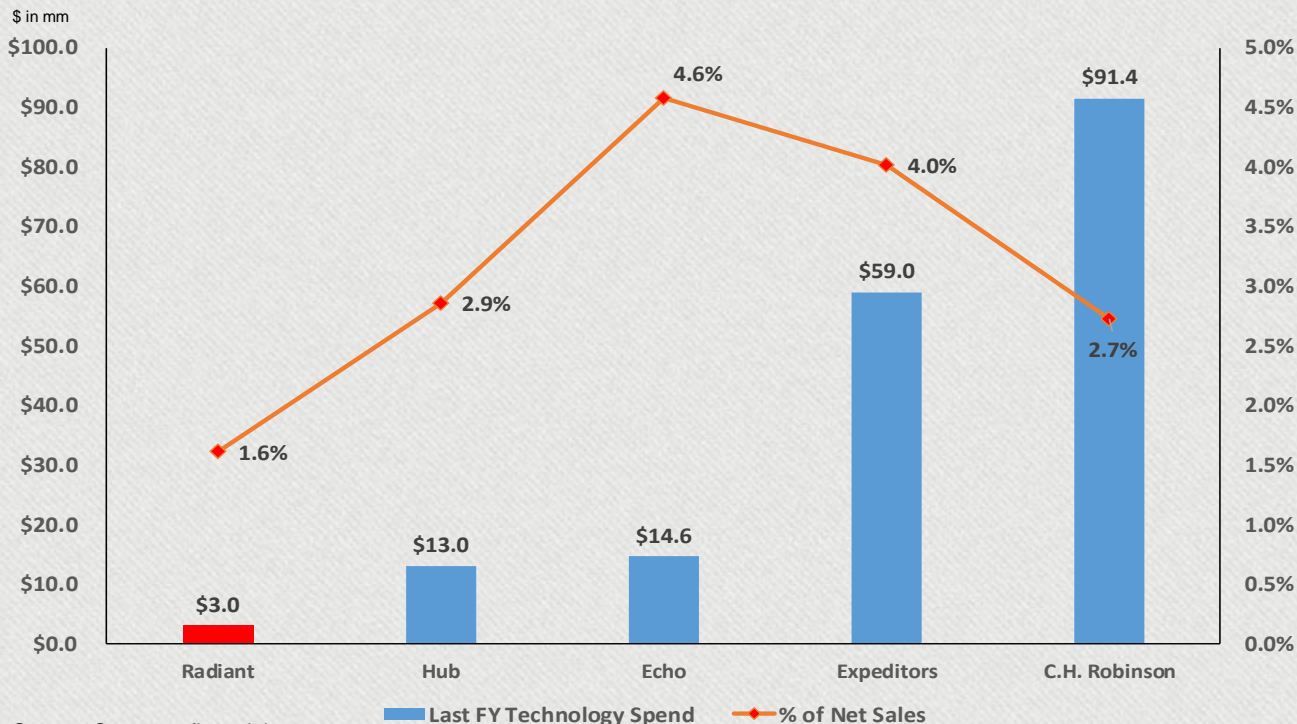
1) Includes deferred acquisition costs to owners

New Technology and Competition Will Significantly Handicap Radiant

Spruce Point was early to identify the effect that peer-to-peer technologies and big data would have on the old school 3PL industry when we exposed ECHO and its technology “hype” - especially now that UBER Freight and Amazon Logistics are becoming a reality, margins for transportation brokerage are compressing. In our opinion, marginal 3PLs such as Radiant with scant technology spend stand little chance against well-funded start-ups and larger competitors.

Like most 3PL’s Radiant boasts that its competitive strength is its technology. However, both Spruce Point and Radiant, warns that for serial acquisitive companies, the challenge of integrating various technology and IT systems can present major issues. Radiant goes so far as to add the following risk factor: “Our management information and financial reporting systems are spread across diverse platforms and geographies, and we depend on information provided by strategic operating partners and acquired companies, not all of which have systems that are compatible with ours.”

Technology Spend For Asset-Light 3PLs



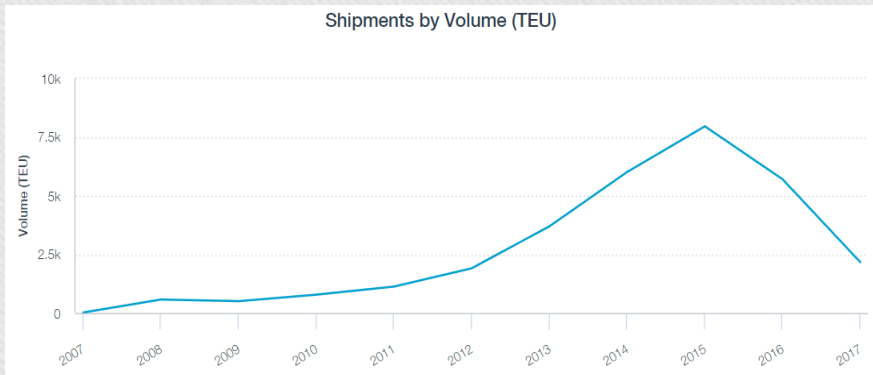
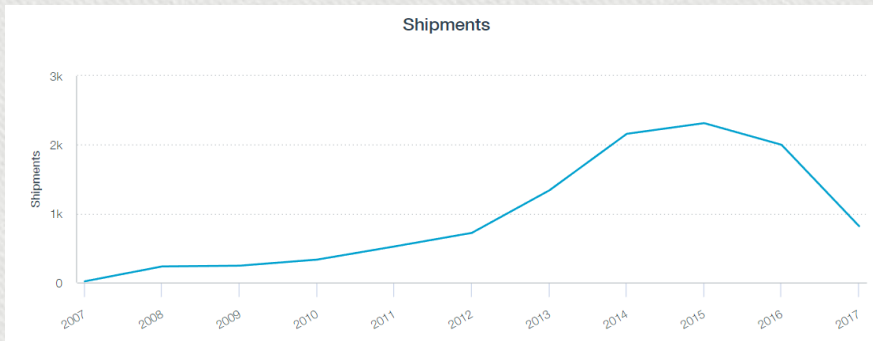
Source: Company financials



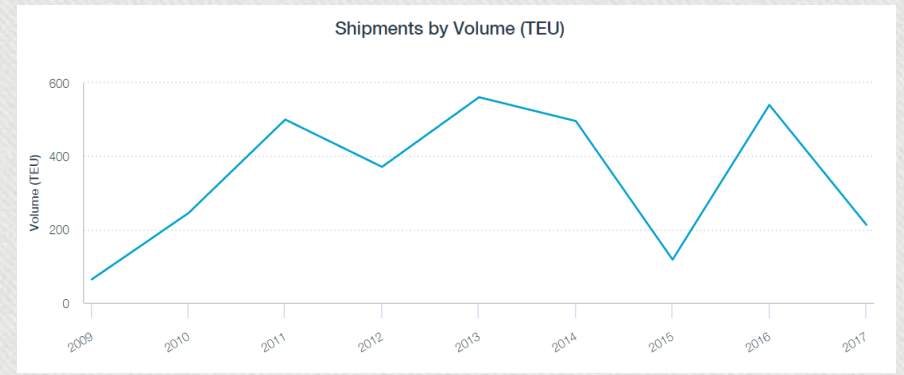
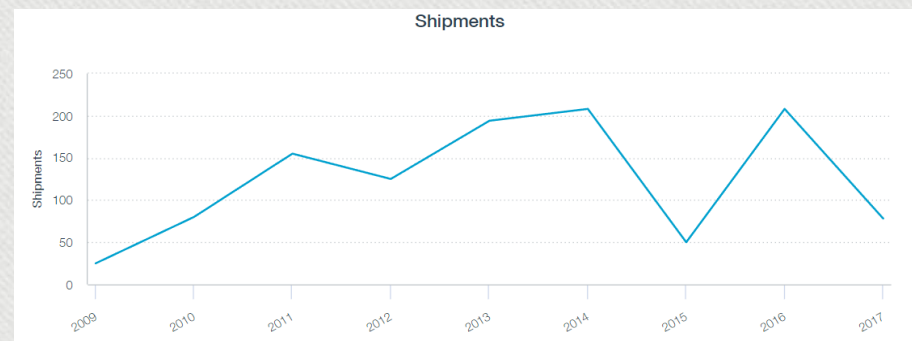
Declining Shipping Volumes

Radiant does not disclose shipping volumes, but we sourced import/export records “bills of lading” which

All Imports



All Exports



Source: Search of Panjiva for records of Radiant Global Logistics



Radiant is based in Washington state but boasts its national presence and that it should be treated and valued as if it were a recognized industry player. It has chosen a local auditor, Peterson Sullivan, to validate its financials. Peterson represents many speculative penny stocks and has recently been cited multiple times by the PCAOB for deficiencies in testing revenues – the most basic element of an audit! Ironically, Peterson does not list either transportation or logistics as one of its industry specialties on its website and charges Radiant a negligible audit fee. (1)

Selected Peterson Sullivan Public Issuer Clients

Company	Exchange / Ticker	Market Cap
Enitia Biosciences	OTCBB: ERGO	\$1m
BioLife Solutions	Nasdaq: BLFS	\$28m
Mymetics	OTCBB: MYMX	\$9m
PhaseRx	Nasdaq: PZRX	\$13m
Jones Soda	Nasdaq: JSDA	\$22m
Bullfrog Gold	OTCBB: BFGC	\$9m

Peterson's Repeated Citations For Failure To Adequately Test Revenues

<p>PCAOB Public Company Accounting Oversight Board</p> <p>PCAOB Release No. 104-2015-181 Inspection of Peterson Sullivan LLP July 30, 2015 Page 4</p> <p>opinion without satisfying its fundamental obligation to obtain reasonable assurance about whether the financial statements were free of material misstatement.</p> <p>The fact that one or more deficiencies in an audit reach this level of significance does not necessarily indicate that the financial statements are misstated. It is often not possible for the inspection team, based only on the information available from the auditor, to reach a conclusion on those points.</p> <p>Whether or not associated with a disclosed financial reporting misstatement, an auditor's failure to obtain the reasonable assurance that the auditor is required to obtain is a serious matter. It is a failure to accomplish the essential purpose of the audit, and it means that, based on the audit work performed, the audit opinion should not have been issued.⁴</p> <p>The audit deficiencies that reached this level of significance are described below—</p> <p>Issuer A</p> <p>the failure to perform sufficient procedures to test revenue, including the inadequate performance of substantive analytical procedures (AS No. 13, paragraphs 8 and 13; AS No. 14, paragraph 30; AS No. 15, paragraph 27; and AU 329, paragraphs .17, .20, and .21).</p> <p>Issuer B</p> <p>the failure to perform sufficient procedures to test the valuation of investment securities (AU 328, paragraphs .26 and .28; and AU 332, paragraph .30).</p> <p>⁴ Inclusion in an inspection report does not mean that the deficiency remained unaddressed after the inspection team brought it to the Firm's attention. Depending upon the circumstances, compliance with PCAOB standards may require the Firm to perform additional audit procedures, or to inform a client of the need for changes to its financial statements or reporting on internal control, or to take steps to prevent reliance on its previously expressed audit opinions. The Board expects that firms will comply with these standards, and the inspections staff may include in its procedures monitoring or assessing a firm's compliance.</p>	
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Small Cap 3PL Audit Fee Benchmark

Company	Audit Fees	Fee / Net Revenue
Radiant Logistics	\$0.31m	0.17%
Echo Global	\$1.78m	0.56%
Hub Group	\$1.79m	0.40%

Source: PCAOB (2015) and (2013)



Three Recent Peterson Employees Sanctioned For Unprofessional Conduct

Radiant's auditor is a local firm with 21 partners. In less than two years, 2 of its partners and 1 senior manager have been cited for professional misconduct.

Peterson Sullivan Partner Formally Censured For A Bad Audit in a Reverse Merger (Dec 2016)



PCAOB Release No. 105-2016-052
December 20, 2016
Page 2

ORDER

Respondent consents to the entry of this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions ("Order") as set forth below.²

III.

On the basis of Respondent's Offer, the Board finds³ that:

A. Respondent

1. David C. Lee, 59, of Issaquah, Washington, is a certified public accountant licensed by the State of Washington (License No. 12242). Lee is a partner in the Seattle office of the registered public accounting firm of Peterson Sullivan LLP ("Peterson Sullivan" or the "Firm") and served as engagement partner on the audits discussed below. At all relevant times, Lee was an associated person of a registered public accounting firm as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i).

B. Summary

2. This matter concerns Lee's violations of PCAOB rules and standards in connection with the issuance of audit reports on the financial statements of One Horizon Group, Inc. ("OHG" or "Company") for the years ended June 30, 2011 ("2011 Audit") and June 30, 2012 ("June 2012 Audit"); the six months ended December 31, 2012 ("December 2012 Audit"); and the years ended December 31, 2013 ("2013 Audit") and December 31, 2014 ("2014 Audit"). As detailed below, Lee failed to exercise due care and professional skepticism, and failed to obtain sufficient appropriate audit evidence in connection with each of these audits.

² The findings herein are made pursuant to Respondent's Offer and are not binding on any other person or entity in this or any other proceeding.

³ The Board finds that Respondent's conduct described in this Order meets the conditions set out in Section 105(c)(5) of the Act, 15 U.S.C. § 7215(c)(5), which provides that certain sanctions may be imposed in the event of: (1) intentional or knowing conduct, including reckless conduct, that results in a violation of the applicable statutory, regulatory, or professional standard; or (2) repeated instances of negligent conduct, each resulting in a violation of the applicable statutory, regulatory, or professional standard.

SEC Action vs. Peterson Partner and Senior Manager (Sept 2015)

II.

In anticipation of the institution of these proceedings, Respondents have each submitted an Offer of Settlement (the "Offers") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over them and the subject matter of these proceedings, which are admitted, Respondents consent to the entry of this Order Instituting Public Administrative Proceedings Pursuant to Section 4C of the Securities Exchange Act of 1934 and Rule 102(e) of the Commission's Rules of Practice, Making Findings, and Imposing Remedial Sanctions ("Order"), as set forth below.

III.

On the basis of this Order and Respondents' Offers, the Commission finds³ that:

A. SUMMARY

1. These proceedings arise out of Respondents' improper professional conduct during Peterson Sullivan, LLP's ("Peterson Sullivan") audit of a private investment fund's financial statements for fiscal year 2013 ("FY2013"). Raymon Holmdahl and Kanako Matsumoto served as the partner and manager, respectively, on this engagement to audit the financial statements of Summit Stable Value Fund ("SSVF"), a private pooled investment vehicle advised by Summit Asset Strategies Investment Management, LLC ("Investment Management").

2. SSVF's audited financial statements for the year ended December 31, 2013, which Investment Management provided to SSVF's investors, materially overstated the value of the fund's assets by approximately \$1.69 million. Because Investment Management was entitled to receive SSVF's net fund profits as its compensation for advising SSVF, the overstatement allowed Investment Management to withdraw significantly more money from SSVF than was authorized under the terms of the fund's private placement memorandum ("PPM").

3. Respondents caused Peterson Sullivan to issue an audit report containing an opinion that SSVF's financial statements for the period ended December 31, 2013, which included the valuations of the fund's assets and Investment Management's draws from the fund, were presented fairly, in all material respects, in conformity with general accepted accounting principles ("GAAP"). Peterson Sullivan's audit report also stated that the audit was conducted in accordance with auditing standards generally accepted in the United States. However, Respondents' audit failed to comply with numerous American Institute of Certified Public Accountants ("AICPA") auditing standards, the applicable professional standards for the audit of SSVF. These included failing to obtain sufficient appropriate audit evidence about the existence of certain fund assets, failing to exercise appropriate professional judgment and professional skepticism, and failing to properly supervise the financial statement audit. Respondent Holmdahl also authorized the issuance of a report with an

³ The findings herein are made pursuant to each Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

Radiant's Mystery Engagement Partner

Under rules adopted by the PCAOB in December 2015, registered audit firms are required to submit Form AP, Auditor Reporting of Certain Audit Participants, to disclose the names of engagement partners and other accounting firms that participated in audits of public companies. We note that Radiant has failed to report its audit partner – is the mystery partner one of the recently sanctioned partners?

Radiant Delinquent in Form AP

Echo's Form AP

PCAOB

Public Company Accounting Oversight Board

Standards Registration & Reporting Inspections Enforcement International Economic & Risk Analysis Careers

Home > AuditorSearch

Find Engagement Partner Data

[Search](#) [Advanced Search](#)
Enter Issuer (Name, CIK, Ticker), Firm (Name, ID, Country), Engagement Partner (Name)

Radiant Logistics

ISSUER | CIK 0001171155 | Ticker RLGT,RLGT.PA

Date Range: Sort By: [Expand All](#) [Download Data](#)

No Form APs have been filed for this company.

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Find Engagement Partner Data

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Enter Issuer (Name, CIK, Ticker), Firm (Name, ID, Country), Engagement Partner (Name)

ECHO GLOBAL LOGISTICS, INC.

ISSUER | CIK 0001426945 | Ticker ECHO

Date Range: Sort By: [Expand All](#) [Download Data](#)

1-1 of 1 results

FORM AP FILING	ENGAGEMENT PARTNER	FIRM	YEAR
March 13, 2017	William Raymond Broderick	Ernst & Young LLP (42)	2016



Debunking The Bull Case And Valuation Price Target

Promoter View of Radiant Logistics vs. Spruce Point View

Stock Promoter View

- Growth opportunities through accretive acquisitions - Radiant has grown through acquisitions and plans to continue its strategy. Acquisitions are quickly accretive as it targets generally small agent based forwarding businesses that are generating ~\$1M to \$3M in annual EBITDA and pays 4x-5x TTM EBITDA. Increase in its network size should improve economies of scale
- Proprietary IT system should enhance operational efficiency - As competition in the industry increases, the demand for industry specific IT solutions will. Radiant has already set up a scalable IT platform which is SAP (NYSE: SAP) based. Consequently, the Company has a competitive advantage vs. smaller competitor
- Radiant is the next stock juggernaut like XPO Logistics circa 2012. Founded in October 2005. Bohn Crain (founder and CEO) has quietly been building an XPO-like company, but without the fanfare
- The recent acquisition of the Wheels Group, Inc. (the company's 11th and largest acquisition) significantly expands Radiant's scale, density, and service offerings and provides the platform for continued/accelerated growth in both the US and Canada.
- Expanding margins should follow: Using this calculation of EBITDA to net revenues, adjusted EBITDA margins have expanded from 2.6% in F08 to 14.4% in F16
- **Stonegate Securities (May 2017):** Our acquisition analysis framework (trying to capture the acquisition model), applied to our F18 adjusted EBITDA estimate arrives at a valuation range of ~\$7.50 to ~\$9.50 with a midpoint of ~\$8.50.

Spruce Point View

- There's hardly much evidence to suggest that Radiant has been a successful roll-up after a decade in existence. It has not generated any positive free cash flow after capex, preferred dividends, and deal costs. It is getting harder for Radiant to find small acquisitions and pay just 4-5x, and the Company's own valuation of 11.4x unjustly rewards it for having created little value
- All 3PL companies say they have a "proprietary" tech. systems that gives competitive advantages. The reality is that Radiant's small size and \$3m technology spend is dwarfed by its public peers and new, well-funded, start-ups that have raised significant capital to invest in the next generation of logistics solutions
- A promotional statement which compares a \$300m company vs. \$11bn diversified giant. The reality is Radiant has failed to capture the same level of institutional support in 10yrs, and will likely never scale
- Unfortunately, it has also exposed Wheels to the truck brokerage market at exactly the wrong time – when margins have compressed and visibility has vanished. The deal came at a punitive cost to investors, and now Radiant's financials are indicating strain
- Radiant has admitted that its recognition of revenues and expenses don't conform to GAAP and are aggressive. We suggest looking at operating cash flow instead. Last quarter's operating cash flow margin was just 6.0% near its lowest level in 7 quarters
- We've demonstrated the acquisition model doesn't work, and modeling out a business to 2018 with no visibility is a challenge. Peers on avg trade at 8-10x EBITDA and 18-24x FCF, but Radiant trades at an irrational premium. By assuming a peer range it's easy to see 30% - 50% downside

Radiant's Overvaluation To Peers Evident

Radiant trades at an undeserved premium to its peers and has sub-standard revenue growth. It is hard to justify an 11.5x EV/2017E EBITDA multiple for Radiant being equal to Echo's after we demonstrated it is an inferior roll-up.

\$ in millions, except per share figures

Name	Ticker	Stock Price	% of	Ent. Value	'16E-'17E	EV/	Enterprise Value						Price/ Book	Net Debt/ 17E EBITDA	
		6/7/2017	52-wk High		Revenue Growth	LTM FCF	P/E		EBITDA		Sales				
							2017E	2018E	2017E	2018E	2017E	2018E			
XPO Logistics	XPO	\$59.99	99%	\$11,703	2.2%	82.2x	30.6x	20.9x	8.6x	7.4x	0.8x	0.7x	2.5x	3.4x	
C.H. Robinson	CHRW	\$67.23	83%	\$10,644	8.2%	24.0x	18.9x	17.7x	11.8x	11.1x	0.7x	0.7x	7.3x	1.1x	
Expeditors	EXPD	\$54.56	94%	\$8,679	7.6%	20.2x	23.1x	20.9x	12.2x	11.4x	1.3x	1.3x	5.0x	-1.6x	
Forward Air	FWRD	\$53.00	97%	\$1,613	8.3%	18.4x	23.0x	20.1x	10.4x	9.4x	1.5x	1.4x	3.2x	0.0x	
Hub Group	HUBG	\$35.45	68%	\$1,216	7.8%	NM	21.0x	16.4x	8.4x	7.0x	0.3x	0.3x	1.9x	0.1x	
Universal Logistics	ULH	\$14.10	69%	\$639	8.0%	NM	16.4x	13.8x	7.1x	6.4x	0.6x	0.5x	2.6x	2.6x	
Echo Global	ECHO	\$19.35	67%	\$746	8.9%	57.8x	22.5x	16.5x	11.5x	9.1x	0.4x	0.4x	1.6x	2.8x	
					Max	8.9%	82.2x	30.6x	20.9x	12.2x	11.4x	1.5x	1.4x	7.3x	3.4x
					Average	7.3%	40.5x	22.2x	18.0x	10.0x	8.8x	0.8x	0.8x	3.5x	1.2x
					Min	2.2%	18.4x	16.4x	13.8x	7.1x	6.4x	0.3x	0.3x	1.6x	-1.6x
Radiant Logistics	RLGT	\$6.10	92%	\$362	1.6%	31.9x	21.4x	N/A	11.4x	N/A	0.5x	N/A	2.6x	1.8x	

Source: Company financials, Wall St. estimates, CapitalIQ

Note: Financials estimates are calendar year

Spruce Point Estimates 30% – 50% Downside

\$ in millions, except per share amounts

Valuation	Low Price	High Price	Note
EBITDA Multiple <u>Company EBITDA</u> Enterprise Value Plus: Cash (1) Less: Debt <u>Dil. Shares</u> Price Tgt. % Downside	8.0x <u>\$29.6</u> \$237 \$5.4 (\$61.1) <u>50.2</u> \$3.60/sh -41%	10.0x <u>\$29.6</u> \$296 \$5.4 (\$61.1) <u>50.2</u> \$4.79/sh -21%	We are highly skeptical of RLGT's "Normalized" EBITDA being sold to value the Company given the rapid decline in sales and cash flow. For example, we don't believe investors should add-back recurring deal and "transition costs" for RLGT's non-economic roll-up strategy. However, even giving the Company the benefit of the doubt, and using a peer market multiple range of 8-10x we would expect approx. 20% – 40% downside
Free Cash Flow (FCF) <u>Spruce Point LTM Adj (FCF) (2)</u> Enterprise Value Plus: Cash (1) Less: Debt <u>Dil. Shares</u> Price Tgt. % Downside	18.0x <u>\$11.3</u> \$203.8 \$5.4 (\$61.1) <u>50.2</u> \$2.95/sh -52%	24.0x <u>\$11.3</u> \$271.8 \$5.4 (\$61.1) <u>50.2</u> \$4.53/sh -29%	We recommend investors focus on RLGT's actual free cash flow when valuing its shares. Best of breed companies such as Expeditors, C.H. Robinson, and Forward Air trade at 18x-24x – <u>why would any investor pay 32x for RLGT's declining cash flow steam?</u>

- 1) Pro forma for Lomas acquisition payment and preferred stock dividend post 3/31/17
- 2) Adjusted to remove preferred stock dividends and minority interest payments