



**G L O B A L**

VALUE INVESTMENT CORP

*Value-Oriented Research & Advisory*

**StealthGas Inc. (NasdaqGS: GASS)**

**Investor's Case for Change**

**Published January 16, 2018**

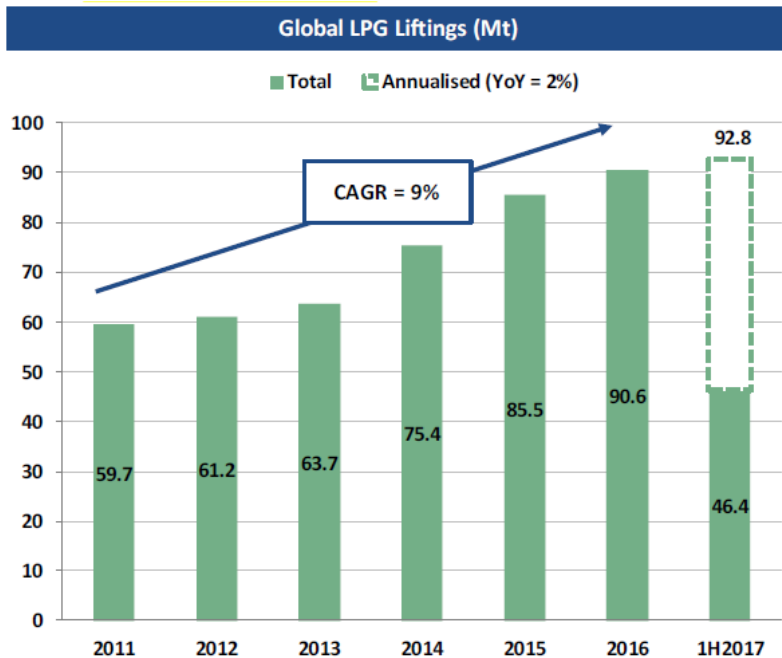
# Introduction

---



StealthGas Inc. (“GASS” or the “Company”) is a dominant operator in the niche liquified petroleum gas (LPG) short- and mid-range seaborne transportation market (coastal carrier market). The global supply/demand outlook remains very favorable in this sector of the energy shipping market, and Global Value Investment Corp. (“GVIC”) believes that an opportunity exists for GASS to capitalize on positive trends to provide attractive shareholder returns for the foreseeable future.

# Market Outlook



Above: Global LPG liftings as presented by BW LPG in an investor presentation dated September 2017.

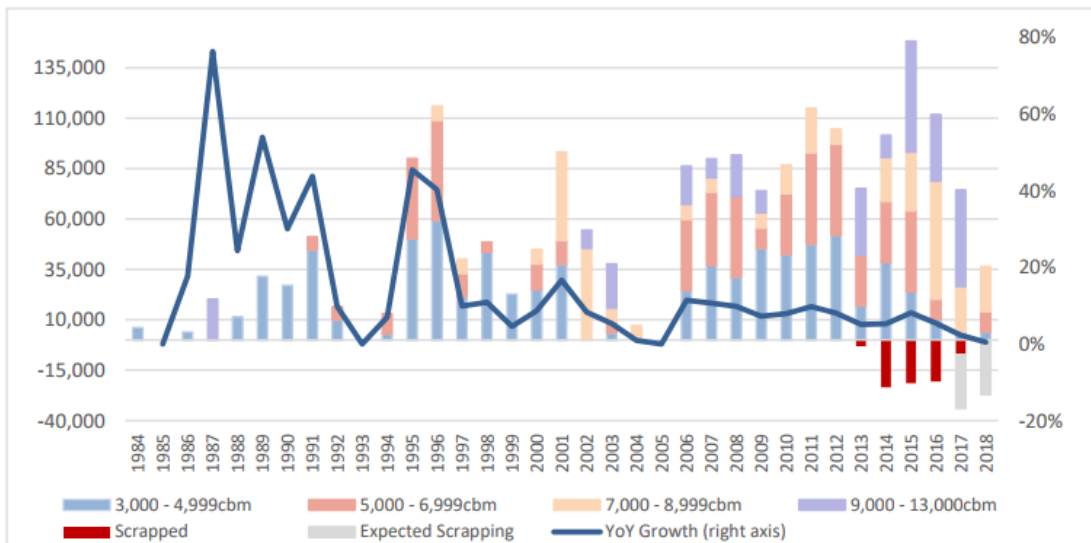
Right: World LPG trade as presented by StealthGas Inc. in an investor presentation dated November 22, 2017.

Global LPG liftings have grown steadily for several years, necessitating increased seaborne transportation both between large import and export facilities, as well as to and from smaller ports that impose restrictions on vessel size.





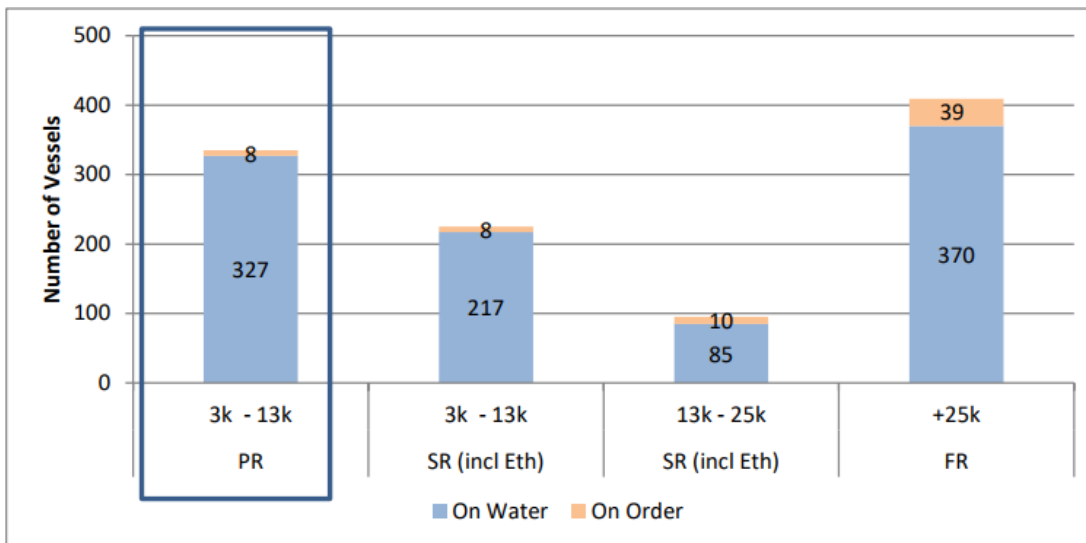
# Market Outlook



Aggressive vessel ordering contributed to a supply glut, which is now beginning to correct as new orders have slowed and scrapping rates have increased. These dynamics are especially favorable in the costal carrier segment.

Above: Order book and scrapping data (both on left axis, by cbm) for LPG pressurized vessels as presented by Epic Gas Ltd. in an investor presentation dated November 9, 2017.

Right: LPG order book by vessel size and type as presented by Epic Gas Ltd. in an investor presentation dated November 9, 2017. The current order book for 3,000 to 13,000 cbm pressurized vessels is 2.4% of the global fleet.



# GASS Issues



Over the past five years, GASS has been unable to leverage its leading market position and healthy financial condition to provide meaningful investment returns for shareholders. In fact, among its self-defined peer group, GASS holds the lowest price/NAV ratio, trading for less than 50% of NAV. GVIC finds it somewhat surprising that the Company has not been the subject of an outside offer.

Since the fourth quarter of 2012, the Company's book value has declined from \$16.27 per share to as low as \$14.10 per share. At the end of the third quarter, book value stood at \$14.38 per share, while the common stock traded at \$3.31 per share – 23% of book value.

GASS has consistently traded at a discount to its NAV (Company-preferred valuation metric) and book value (GVIC-preferred valuation metric), and has been among the most unfavorably priced company in its peer group based on both metrics. The Company's consistently depressed market valuation is uninspiring.

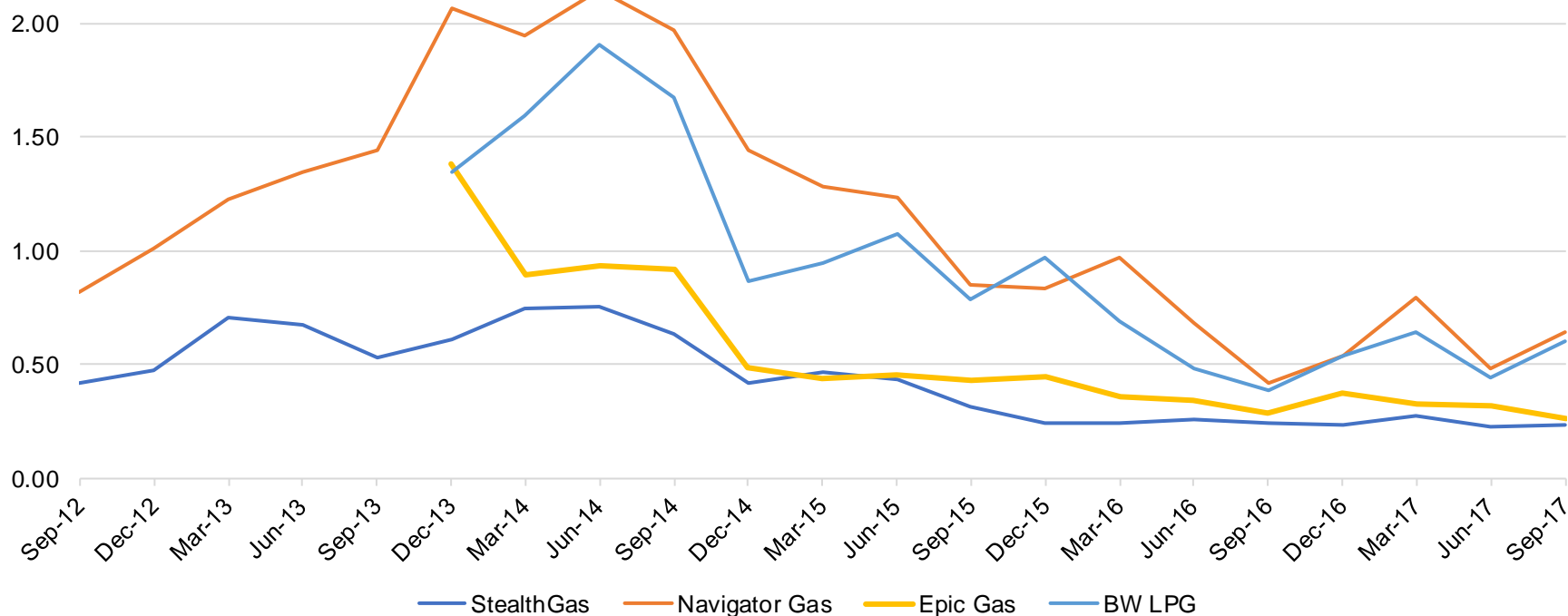
The current senior management team has led GASS since the company's 2005 IPO, and should accept full responsibility for the company's underperformance.





# Price/Book Value

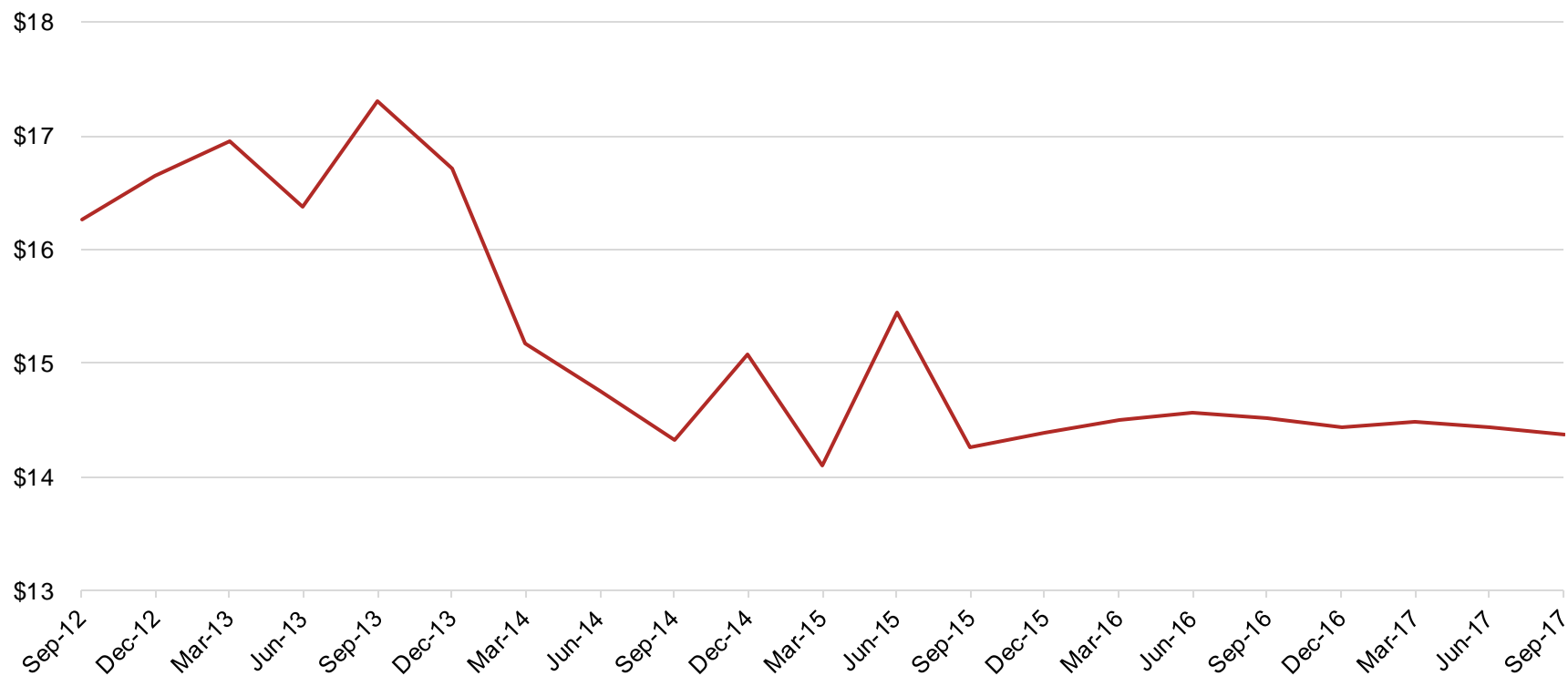
GVIC prefers a price/book value calculation, using data from publicly-available audited financial statements and a consistent set of appropriate competitors. This valuation for the past five years is shown below. Similar to the Company's price/NAV measurement, GASS trades at a meaningful discount to its peers.





# BV/Share

On a book value per share basis, GASS has failed to create shareholder value over the past five years.

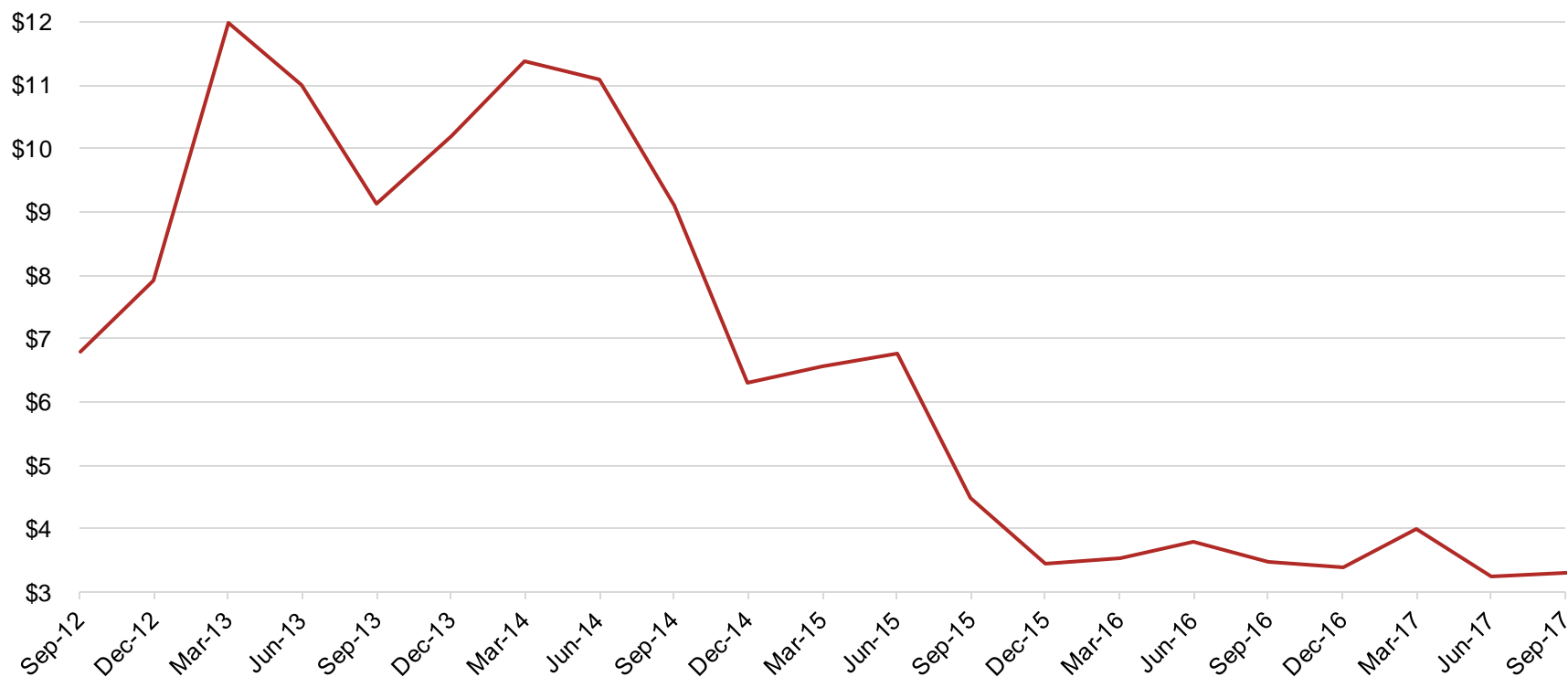






# Share Price

The consistent lack of value creation is evident in the share price, presented below using quarter-end pricing. GVIC believes the market's lack of confidence in the current management team has contributed to the share price decline.





# Case for Change

---

The challenges faced by GASS are multifold.

1. Among the most pressing issues are leadership and communication. Financial oversight has been lacking as the CFO position has remained vacant for the better part of the past five years. Business strategy and vision are poorly and inconsistently communicated to the Company's equity stakeholders and the marketplace in general.
2. Financial performance has been lackluster, and the market has been unable to evaluate the performance of executives because no clear criteria exists to do so.
3. Although cash balances have been adequate historically, the return of capital to shareholders has not materialized in the form of dividend distributions or consistent share buybacks. The Company has not paid a cash dividend since March 2009, and a \$30 million buyback program was suspended in the second quarter of 2016 after only \$20.3 million of shares were bought.



# Leadership & Communication

---

Two individuals have served as the Company's CFO over the past five years. Konstantinos Sistovaris assumed the role in February 2011 and stepped down in September 2013. Harry Charogiannis, who boasted impressive professional credentials, joined the company in October 2013 and left in December 2013.

In the interim periods, the Company's current CEO, Harry Vafias, has filled the CFO position as well. However, by his own admission, Mr. Vafias has limited accounting acumen:

*From the February 26, 2015 Company earnings call: "That's not, as you know, my job. I'm not a financial expert, I'm a shipping guy."*

GVIC proposes that GASS immediately begin a search for a qualified CFO with public company experience, independent of the Vafias group of shipping companies. Not only will a CFO provide financial guidance and oversight, but relieving Mr. Vafias of the duties of this role will provide him the opportunity to focus on other operationally critical tasks.



GLOBAL  
VALUE INVESTMENT CORP

# Leadership & Communication

---

The Company's communication to the marketplace has been subpar since its 2005 IPO. Investor presentations are rudimentary, data is presented inconsistently, and as such, GVIC believes market participants have a low degree of confidence in its accuracy. GASS participates in limited investor-facing events, and shareholders lack a suitable point of communication at the Company.

GVIC proposes that GASS immediately retain a US-based investor relations firm with experience representing NASDAQ-listed companies. An IR firm can ensure that the Company's financial and operating results are presented in an accurate, consistent and consumable manner. Furthermore, market interaction will be enhanced with the addition an IR contact that is available during US market hours and can more frequently offer the Company's CEO and/or CFO opportunities to present at US investor events.



# Executive Performance

---

The current management team has proven ineffective at driving long-term shareholder value creation, a failure that is painfully evident in the price of the common stock.

Effective executive management teams measure success against a common set of performance metrics. In the case of GASS, retention of the current management team should be based on consistent satisfactory achievement of the following metrics:

1. Return on Equity and Return on Assets – these basic measurements of performance should compare favorably to the Company's peer group
2. Free Cash Flow per Share – this should be adequate so as to consistently return capital to shareholders before extraneous internal investment
3. Debt-to-Capital Ratio – as an asset-intensive business, the Company should increase its debt/capital from its current level of 37% to 50% or above
4. Strategic Capital Allocation – sensibly repurchasing stock when sharply discounted and increasing leverage

# Executive Performance

---



Achievement of these performance metrics should be reported to the Board of Directors and the Company's shareholders on a quarterly basis to inform on the efficacy of the current management team, or any prospective new management team.

GVIC reminds the Board of Directors that they represent the interests of all owners of the Company's common stock, including the 89% that is not held by insiders.

The ultimate measure of management performance will be in the continuous creation of shareholder value and closing the wide gap between the Company's common stock price and book value per share.

# Return Capital to Shareholders



GASS has been unable to create meaningful shareholder value through the returns of its common stock. Over the past five years, the Company's stock has traded at an increasing discount to book value. While cash balances have been more than adequate to meet working capital needs, internal investment of this cash has not produced attractive results.

A \$30 million share buyback program that began in the fourth quarter of 2014 was suspended in the second quarter of 2016 after only \$20.3 million worth of shares were bought. At the same time, the Company opted to invest internally in new vessels, which now look to be a looming financial drag. Considering the discount to book value at which the stock has traded since then, GVIC finds it curious that this program has not be reinitiated or expanded.

GASS has not paid a cash dividend since March of 2009.

Because the Company has been unable to drive value through internal investment, GVIC proposes that GASS immediately initiate a cash dividend.



GLOBAL  
VALUE INVESTMENT CORP

# Conclusion

---

Over the past five years, an investment in the common stock of GASS has produced negative returns as the Company has underperformed on both an absolute basis and relative to its peers.

GVIC believes the large discrepancy between the share price and book value per share reflects the market's lack of confidence in the current Board of Directors and management team.

GVIC strongly advocates for the addition of an independent and experienced CFO, retention of a US-based investor relations firm, implementation of executive performance metrics to objectively evaluate current or future management teams and the initiation of a cash dividend to begin returning capital to shareholders.





G L O B A L  
VALUE INVESTMENT CORP

# Conclusion

---

As patient investors, GVIC has committed capital to GASS for several years. The Company, its Board of Directors and the executive management team have been poor stewards of this capital, struggling to create value.

GVIC reminds the Board of Directors that the Company is owned by and run for the benefit of its shareholders, not its executives or directors. Furthermore, the cash held by the Company belongs to shareholders and should be carefully invested or distributed according to the best interest of shareholders. The Company has a woeful track record of doing so.

GVIC believes that change is not only warranted, but necessary, for it and other shareholders to be rewarded for their patience in the form of enhanced investment returns.

# About GVIC

---



Global Value Investment Corp. is a value-oriented investment research and advisory firm focused on investing in the equity and debt of publicly traded companies around the world. The firm identifies undervalued investments and concentrates on closing the valuation gap.

The firm was founded in 2007 in Mequon, WI. Global Value investment Corp has additional offices in Boston, MA, Charleston, SC and Hyderabad, India.

Phone: 262-478-0640

Email: [info@gvi-corp.com](mailto:info@gvi-corp.com)

Website: [www.gvi-corp.com](http://www.gvi-corp.com)

# Disclosures

---



Global Value Investment Corp. (“GVIC”) is a registered investment adviser and does not provide investment banking services. GVIC does not receive fees or other compensation (including “in kind” compensation) in connection with preparing and distributing this report. The opinions reflect the judgement of GVIC as of the report date and are subject to change without notice.

The material, information and facts contained in this report were based solely on publicly available information about the featured company and were obtained from sources believed to be reliable, but are in no way guaranteed to be complete or accurate. This report is for informational purposes only and should not be used as a complete analysis of any company, industry or security discussed within the report. This report does not constitute an offer or solicitation to buy or sell any security.

Employees of GVIC may have positions in any security referenced in this report. An investment in any security referenced in this report may involve risks and uncertainties that could cause actual results to differ from the analysis provided herein, which may not be suitable for all investors. Past performance should not be taken as an indication or guarantee of future results. Additional information is available upon request. No part of this report may be reproduced in any form without the express written consent of GVIC. Copyright 2018. All rights reserved.