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| **NAME: ARI Network Services Inc.** | **SYMBOL: ARIS (Nasdaq)** |
| **MARKET CAP (8/18/16): $80 million** | **PRICE PER SHARE (8/18/16): 4.63** |
| **FLOAT: 11.26 millions shares** | **AVG VOLUME (3 MONTHS): 93,660** |

*T11 has taken a long position in ARIS during Q3 2016*

## Company Overview

ARI Network Services, Inc. provides software-as-a-service, data-as-a-service, and other solutions to equipment manufacturers, distributors, and dealers. Its solutions enable selling and servicing of new and used inventory, and parts, garments, and accessories (PG&A) for customers in the automotive tire and wheel aftermarket, automotive aftermarket parts and service, power sports, outdoor power equipment, marine, home medical equipment, recreational vehicles, and appliance industries.

The company offers eCommerce-enabled Websites that provide consumers with information about a dealership and its product lines, and allow consumers to obtain information on whole goods and purchase PG&A through the dealers website, as well as provides mobile inventory management applications, third-party inventory integrations, and business management integrations. It also offers eCatalog platform solutions, such as PartSmart Web, which offers streamlined user experience, dynamic diagram thumbnail previews, and fast moving parts tracking and display; DataSmart that provides product data extract access and on-demand application programming interface access, which offer flexibility for implementation with various eCommerce software and search engine optimization (SEO) customization capabilities; AccessoryStream, which helps in the search engine ranking of parts, garments, and apparel products on Website; and OEM parts authoring software.

In addition, the company provides business management software solutions; digital marketing services, including SEO, email marketing, social media management, search engine marketing, online reputation management, and online directory management through a suite of data-driven software tools; and a suite of complementary solutions that comprise software, Website customization services, professional services, and hosting services.

ARI Network Services, Inc. was founded in 1981 and is headquartered in Milwaukee, Wisconsin.

## Why T11 Invested In Ari Network Services

ARIS is in the high margin SaaS space within a dealer niche that has proven difficult for competitors to penetrate. This is due to the breadth in offering that ARIS serves up to its customers within a total solution that has numerous sticky components, leading to recurring revenues that constitute more than 90% of total revenues over the past several years.

Management has shown a definitive, sharp aptitude for the difficult process of acquiring smaller companies, successfully integrating them into the corporate structure to further drive growth and innovation at the company. They continue seeking acquisitions that will be beneficial to the company as a component of their overall growth strategy with a recently enhanced balance sheet to aide in their ambitions.

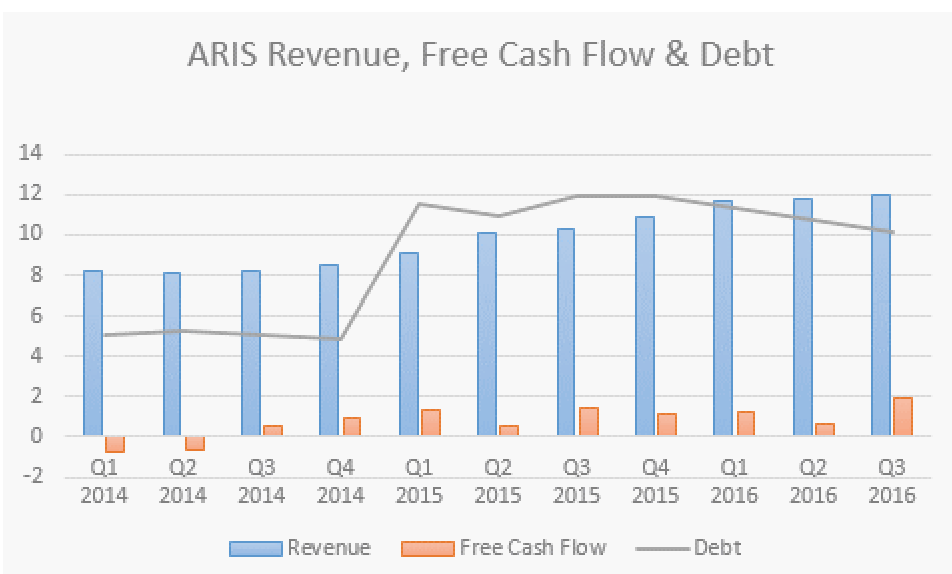
Dilutive acquisitions fueled by stock is something that management has done in the past. However, that practice seems to be in the rear view mirror for management as they have tuned up the balance sheet to be able to drive further acquisitions through debt *(Q2 Conference Call 3/10/16):*

**CFO Bill Nurthen** *I think just in the interim, we continue to want to be in the best position we can to finance any deals through the use of debt. And so, as I pointed out on the script and in the press release that's really why we continue to drive as much as we can to both increase that cash balance and reduce the net debt balance. So, we just have to leverage we need available to us to do with the right deal when it comes along.*

Skillful capital allocators paired with a business model that has a definitive, tangible moat make for a company that thrives, with the eventuality of the company being acquired by either a competitor or a private equity firm once revenues exceed a certain level.

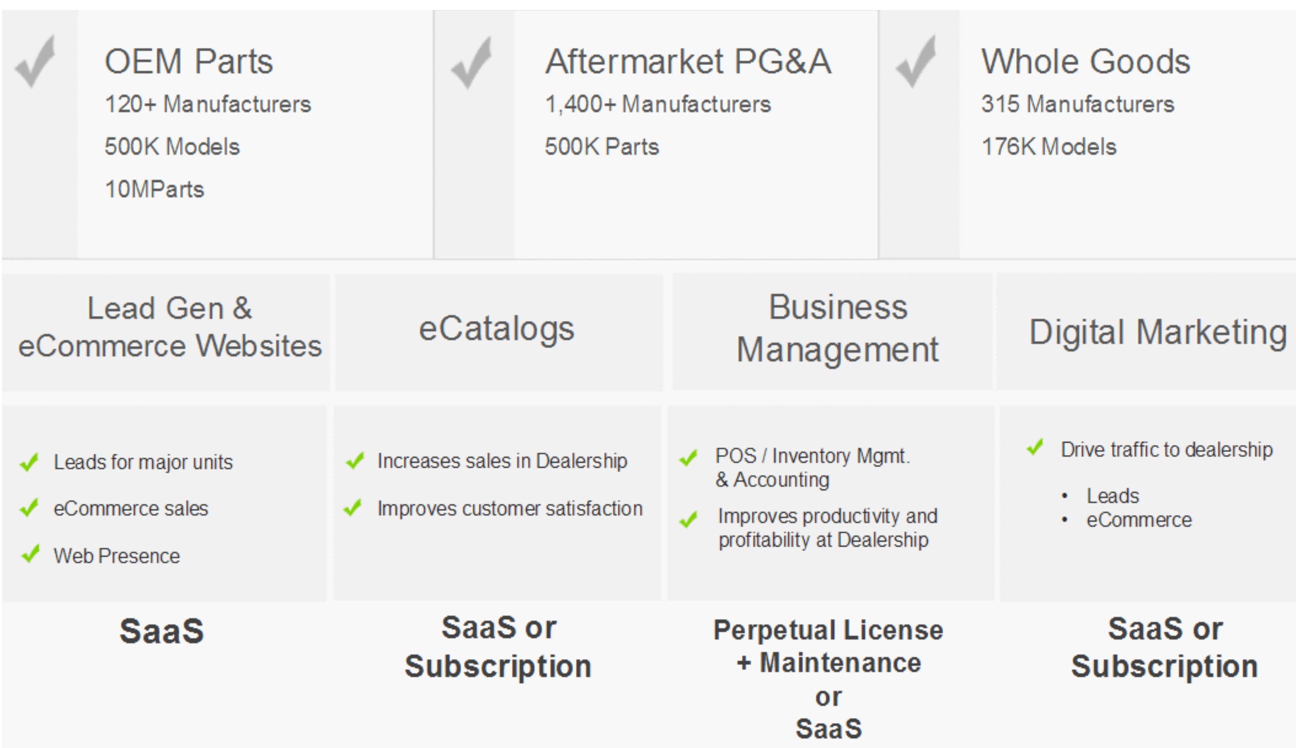
## The Breakdown

- #1 & #2 in all core markets served. Those core markets include powersports, marine, tire & wheel, outdoor power equipment, home medical equipment, appliances and recreational vehicles.
- Total available market opportunity is $1.5 billion.
- Primarily serves North America, with Europe and Asia largely untapped.
- 22% revenue CAGR over the past three years.
- Over 90% of current revenue is recurring.
- More than 22,000 total customers, with no customer representing greater than 3% of revenue.
- Free cash flow up 36% year over year for the most recent quarter to $1.9 million.
- Revenues up 16% year over year for the most recent quarter to $12 million.
- Total debt has fallen by 15% year over year for the most recent quarter to $10 million.
- Total cash on the balance sheet has increased by 100% year over year for the most recent quarter to $4.4 million.



## Diving Into The Business

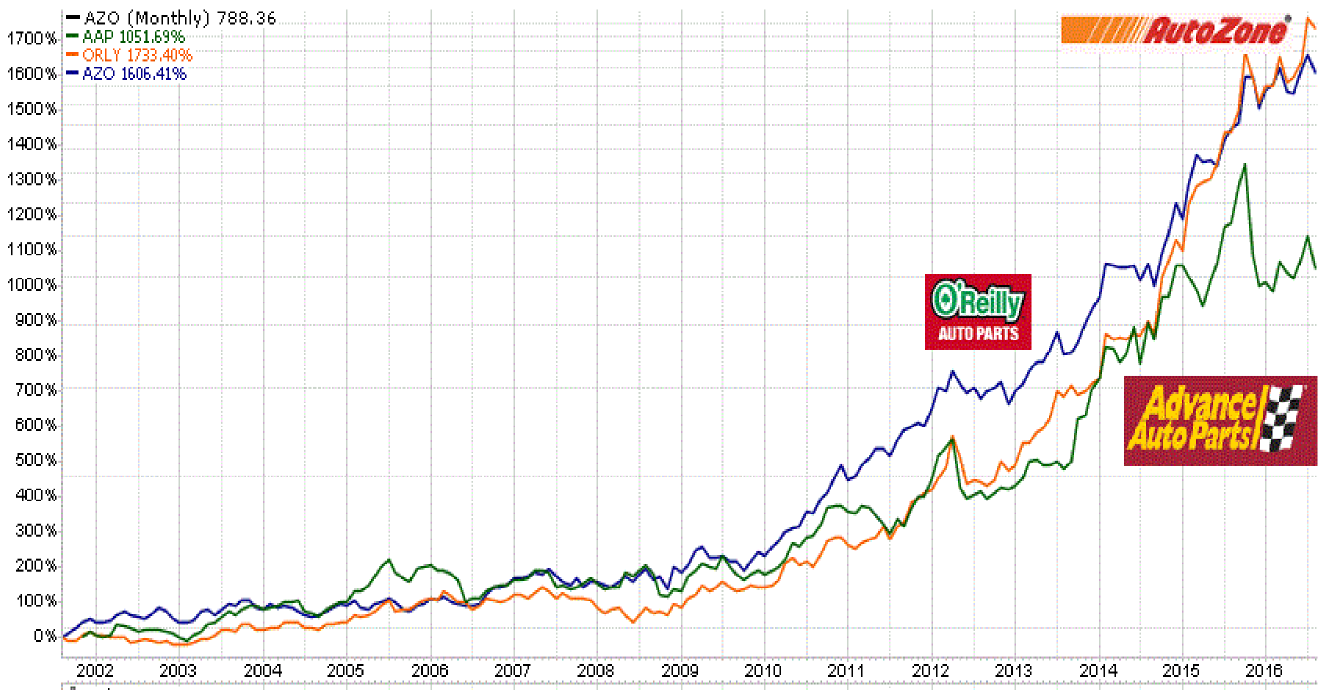

*Courtesy ARI Network Services*




*Courtesy: Ari Networks Services*

## The Right Business At The Right Time

*"The forecast model demonstrates that despite strong new vehicle sales, moderating gas prices and improved miles driven are conditions conducive to continued steady growth," said Bill Hanvey, Auto Care Association president and CEO. "Why?* ***The average age of light vehicles, now up to 11.6 years is the oldest ever, and the age mix of vehicles continues to favor older vehicles, creating a robust sweet spot for service and repair."***

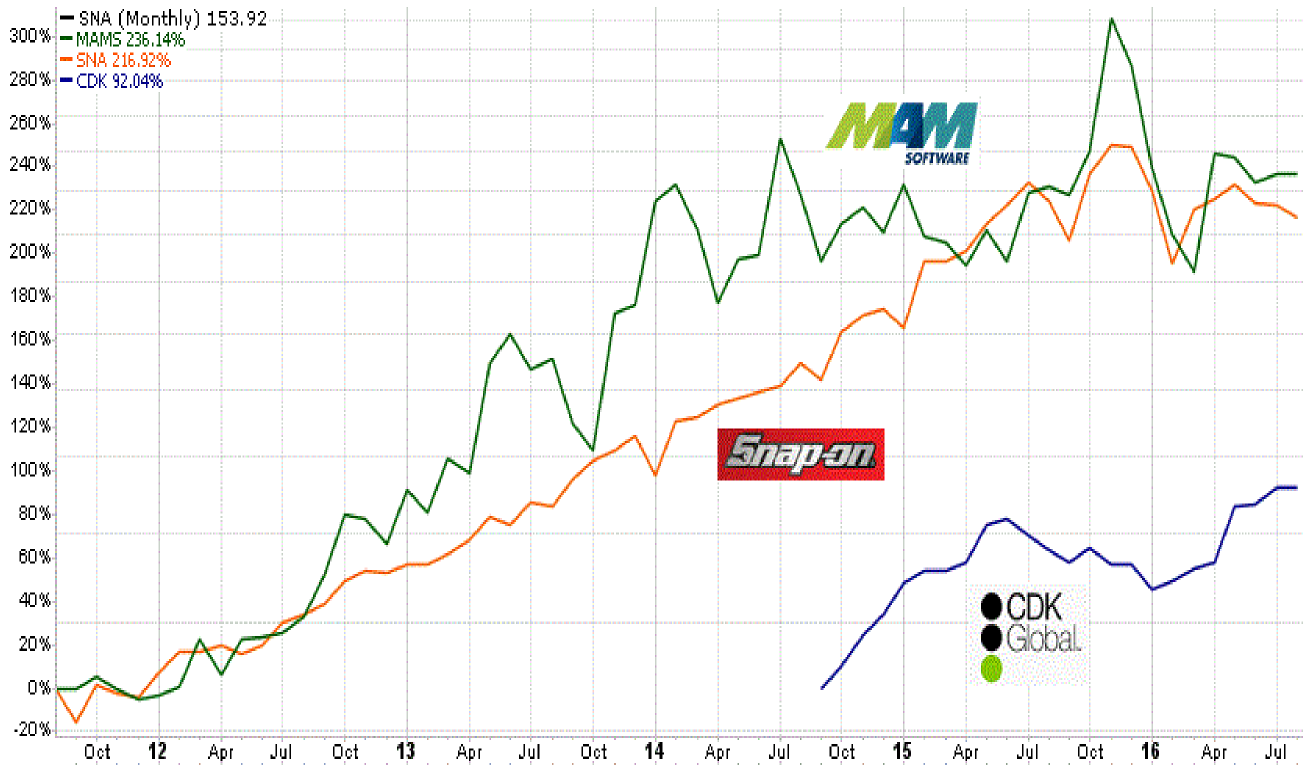



**Total average gain of 1,461% among the big three auto parts suppliers over the past 15 years.**

Stated growth areas for ARIS going forward are tire & wheel, aftermarket auto service and home medical equipment.

- **Tire & Wheel -** 20,000 dealers nationwide.
- **Aftermarket Auto Service –** By 2020 ,there will be about 76 million units of vehicles aged 16+ years. A majority of the aftermarket auto service market continues to move online.
- **Home Medical Equipment** - 25,000 service providers in the U.S. Target market for ARIS is 15,000 to 18,000 of those prospects.

## Direct Publicly Listed Competitors




| | Business Management | Digital Marketing | Ecommerce Websites | eCatalogs |
|---|---|---|---|---|
| ARIS | X | X | X | X |
| MAMS | X | | | |
| SNA | | | | X |
| CDK | X | | X | |

The primary advantage for ARIS is that it integrates all facets of management, marketing, websites and catalogs. This creates a business proposition that is extremely difficult to replicate and even more difficult to pry ARIS customers away from, once they sign up. The recurring revenue rate here exceeds 90% for that reason.

## ARIS Provides a TOTAL Solution For Its Customers

Let's take an auto repair shop as a simple example. ARIS software perform the following functions:

- ✔ **Point of Sale**
- ✔ **Customer Information**
- ✔ **Customer History**
- ✔ **Recent Activity**
- ✔ **Customer Statements**
- ✔ **Credit Card Processing**
- ✔ **Tire Database**
- ✔ **Pricing Solutions**
- ✔ **Supports Major Partners**
- ✔ **License Plate Lookup**
- ✔ **Parts & Labor Guide**
- ✔ **Marketing Integration**
- ✔ **Web Design**
- ✔ **SEO**
- ✔ **Coupon Module**

The eCatalog guide provides a significant barrier to entry for competitors, in addition to the total solution ARIS provides. ARIS has 14.3 million active part numbers and SKUs from 1,400 different manufacturers in their database, providing a simple, effective way for customers to search their proprietary database. Additionally, the database becomes integrated into the customer's website, making switching websites a difficult and time consuming process.

## <u>Substantial Room For Organic Growth</u>

- ***Growth by increasing market share***

| Market Served | Total Market Share Available | ARIS Market Share |
|---|---|---|
| Powersports | 5,000 dealers | 66.00% |
| Outdoor Power | 11,000 dealers | 40.00% |
| Marine | 2,500 dealers | 90.00% |
| RV | 1,500 dealers | 10.00% |
| **Home Medical Equipment** | **25,000 dealers** | **2.00%** |
| **Tire & Wheel** | **20,000 dealers** | **17.00%** |
| **Aftermarket Auto Service** | **80,000 dealers** | **0.00%** |

- ***Growth through operational efficiency and capacity***

Q3 Conference call 6/9/16 ROY OLIVIER – CEO: *As we discussed in the last call, one of those initiatives resulted in opening an office in New Delhi, India. Almost a year ago we assigned a senior operation resource to investigate building additional capacity in India, we conducted a comprehensive review of the options and hired a VP General Manager in November and have continued to add staff. We now have an operations team up and running in India, the leader of that team was trained in our Duluth office for three weeks and one of our senior US resources is in New Delhi now completing that team's training. We expect this team to start working on our backlog in the next few weeks.*

*I do want to remind everyone that this will not have a large impact short-term given the time it takes to fill vacancies in India. So we are confident that this will help us build out a cost-effective way to accelerate our development and operational velocity in the future. Long-term, we are very excited about the efficiency and scale this office will bring to our business.*

- ***Growth through accretive, strategic acquisitions***

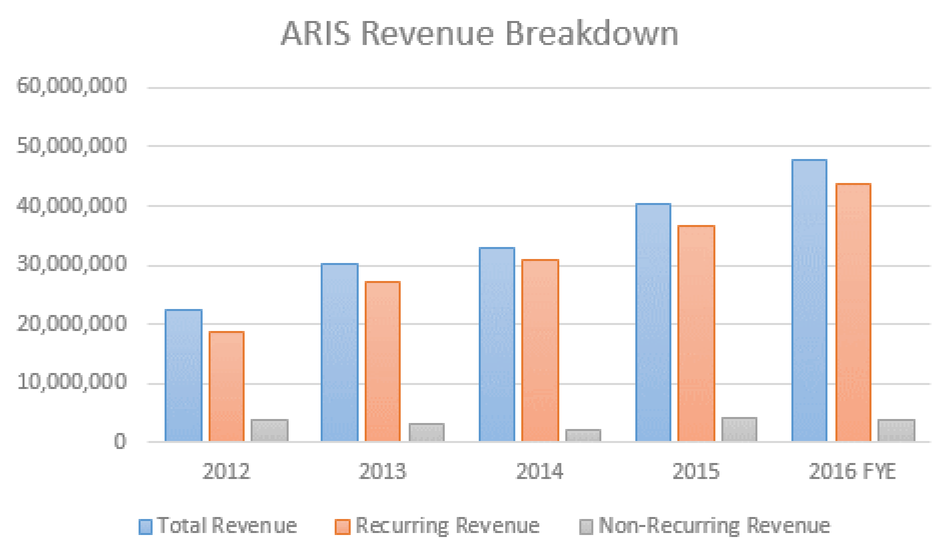
Q2 Conference call 3/10/16 ROY OLIVIER – CEO: *That said we're not operating on a timeline, we're operating on what's a good valuation, what's a good business, what lines up for our strategy and what make sense if that were to come available in Q4, great, if it comes available in Q2 of next year. That's fine too.*

Q2 Conference call 3/10/16 BILL NURTHEN – CFO: *Yeah. I think just in the interim, we continue to want to be in the best position we can to finance any deals through the use of debt. And so, as I pointed out on the script and in the press release that's really why we continue to drive as much as we can to both increase that cash balance and reduce the net debt balance. So, we just have to leverage we need available to us to do with the right deal when it comes along.*

## A History of Strategic Acquisitions

Since 2012, ARIS has completed 6 acquisitions:

| YEAR | COMPANY | PRODUCT | VERTICAL |
|---|---|---|---|
| 2015 | DCi | eCat | Automotive Aftermarket |
| 2015 | TASCO Corporation | DBMS | Tire & Wheel |
| 2014 | TCS | Dealer Business Management System ("DBMS"), Lead Gen/eCommerce | Tire & Wheel |
| 2013 | DUO Web Services | Digital Marketing Services | Powersports |
| 2012 | 50 Below | Lead Gen/eCommerce | Home Medical, Tire & Wheel |
| 2012 | Ready2Ride | eCat | Powersports |




Since stepping up the pace of acquisitions beginning in 2012:

**Total Revenue CAGR:** 16.21%

**Recurring Revenue CAGR:** 18.57%

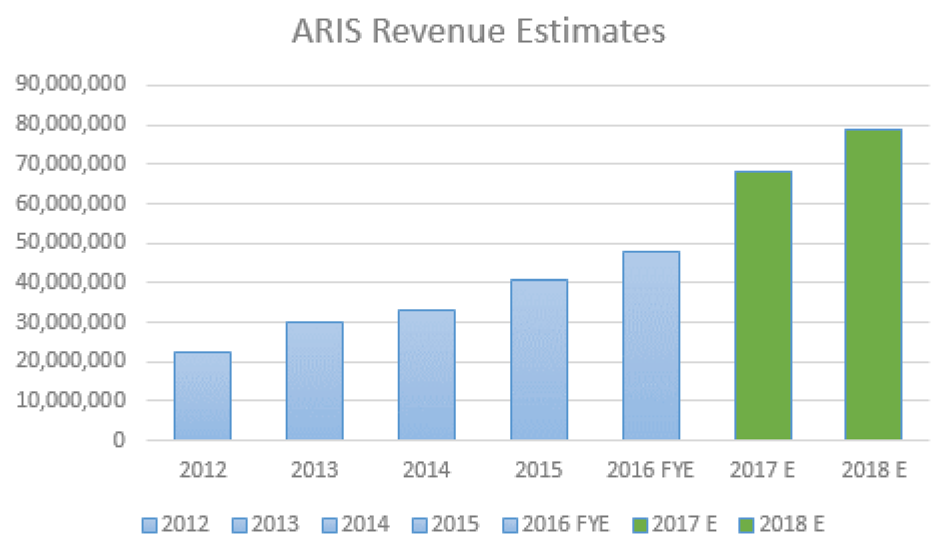
**Non-Recurring Revenue CAGR:** 0.19%

## Increasing Pace of Acquisitions Will Accelerate Growth

Q1 Conference call 12/9/15 ROY OLIVIER – CEO: *That said, we think the scale we have built over the past few years in terms of cash flow and EBITDA generation, put us in a position to execute those opportunities through primarily senior debt. We have a strong relationship with our banker, Silicon Valley Bank and we seek to fund future deals primarily through debt sources.*

While the past series of acquisitions have been mildly dilutive in nature to shareholders, future acquisitions will be financed primarily through debt offerings. Additionally, they will scale up in size as cash flow and EBITDA generation now allows them to pursue larger targets.

**Targeting revenue of $1 to $10 million for further acquisitions**, with an average number of acquisitions per year since 2012 of 1.2. Recent acquisition activity has slowed, as no acquisitions have been announced during calendar year 2016. **Assuming two acquisitions taking place over the next 12 months, revenue could near $70 million for fiscal year 2017.**



## Management

**Roy Olivier CEO -** *Mr. Olivier joined the Company in September 2006 as Vice President of Global Sales and Marketing, and was appointed as President and CEO in May 2008. He has been a director since 2008. Before joining ARI, Mr. Olivier was a consultant to start-up, small, and medium-sized businesses. Prior to that, he was Vice President of Sales and Marketing for ProQuest Media Solutions, a business he founded in 1993 and sold to ProQuest in 2000. Before that, Mr. Olivier held various sales and marketing executive and managerial positions with several other companies in the telecommunications and computer industries, including Multicom Publishing Inc., BusinessLand, and PacTel.*

**Bill Nurthen CFO -** *Mr. Nurthen joined ARI as Chief Financial Officer in November 2013. Before joining ARI, Mr. Nurthen served in a variety of high-level financial leadership positions, most recently as CFO of Cabrera Capital Markets, LLC. Prior to joining Cabrera in 2011, he was CFO of bioLytical Laboratories. From 1999 to 2007, Mr. Nurthen served as Vice President of Finance and then CFO of Inforte Corp., a NASDAQ company. From 1997 to 1999, Mr. Nurthen worked in various financial operations roles at Platinum Technology International, Inc. Mr. Nurthen earned his MBA from The Kellogg School of Management at Northwestern University. He received his BBA undergraduate degree from The University of Notre Dame.*

Worth noting, the company that purchased Mr. Olivier's company in 2000 (Proquest), was eventually sold to ARIS competitor SnapOn in 2006 for close to $500 million.

*Courtesy: Ari Network Services*

| Name of Officer / Director | Amount of Direct Beneficial Ownership | Percent Ownership |
|---|---|---|
| Roy W. Olivier (2)(3) – President & CEO | 856,645 | 4.77% |
| William A. Nurthen (3) – Chief Financial Officer | 151,215 | * |
| Chad J. Cooper – Director | 160,484 | * |
| William C. Mortimore – Director | 110,909 | * |
| William H. Luden, III – Director | 104,822 | * |
| Robert Y. Newell, IV - Director | 96,164 | * |
| P. Lee Poseidon – Director | 107,233 | * |
| **All current executive officers and directors as a group** | **1,587,472** | **8.84%** |

Mr. Olivier has a significant vested interest in ARIS, as a near 5% owner in the company.

**Additionally, insiders have purchased roughly 100,000 shares over the past 12 months at prices ranging from 3.20-4.60 per share.**

## Institutional Ownership

| Institution | Shares Owned | Percent Ownership |
|---|---|---|
| Wellington Trust | 1531300 | 8.92% |
| Cowen Prime Services | 1259200 | 7.35% |
| Michael D. Sifen Inc. | 1205128 | 6.71% |
| 12 West Capital | 1020000 | 5.90% |
| Park City Capital | 1000000 | 5.90% |
| Samjo Capital | 872000 | 5.16% |
| Briggs & Stratton | 840000 | 4.90% |
| Grand Slam Asset Management | 810051 | 4.72% |
| **Total** | **8537679** | **49.56%** |

**Notable Owner: 12 West Capital** - *12 West seeks to capitalize on short-term inefficiencies in the small-cap market, utilizing a myriad of creative research techniques, experience, judgment, flexibility, patience and financial resources. Joel Ramin serves as managing member and portfolio manager at 12 West Capital Management which he founded in 2011 after leaving Roberto Mignone's Bridger Capital, where he'd worked as an analyst. Prior to that, he'd worked at the Blackstone Group in the private equity division, performing fundamental research.*

**Notable Owner: Park City Capital -** *Michael J. Fox founded Park City Capital in 2008. Prior to founding Park City Capital, Mr. Fox spent eight years in equity research at J.P.Morgan in New York, most recently as Vice President and Senior Business Services Analyst. As J.P.Morgan's Senior Business Services Analyst, Mr. Fox headed the firm's Business Services equity research group from 2005 to 2008. From 2000 to 2005 Mr. Fox was a member of J.P.Morgan's Leisure equity research group, which was consistently recognized by Institutional Investor's All America Research Team. Park City Capital, LLC employs a fundamental long/short equity investment strategy to produce superior long-term returns through an opportunistic, research driven investment process that focuses on long-term value-oriented investments and event-driven special situations.*

**Balance Sheet**

| | FY16 Q3 |
|---|---|
| Cash and Investments: | $4.4M |
| Deferred Tax Assets[2] | $4.6M |
| Total Debt and Lease Obligations: | $9.6M |
| Shares Outstanding: | 17.3M |
| Stock Price[3]: | $4.99 |
| Market Cap.: | $86.1M |
| Enterprise Value: | $91.3M |
| TTM Enterprise Value/Adjusted EBITDA: | 11.3x |
| TTM Enterprise Value/Revenues: | 2.0x |

*Courtesy: Ari Network Services*

[1] As of and for the quarter ending April 30, 2016
[2] Includes Federal NOL Carryforwards of $2.5M
[3] As of Market Close 7/25/16

## RISKS

**Churn** – ARIS defines “churn” as the percentage of recurring revenue that does not renew. An increase in churn could cause revenue projections to fall short of estimates.

**Acquisitions –** ARIS can overpay, mismanage or take on excessive debt as a result of their acquisition strategy. This could effect the company's ability to service debt, negatively effecting future growth.

**Macro-Economic Factors –** ARIS is sensitive to the macro economy. Any disruption in domestic growth can effect customers of ARIS significantly, causing a slowdown in earnings and revenues.

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