Applied Investment Management (AIM) Program

AIM Class of 2016 Equity Fund Reports
Fall 2015

Date*:* Friday, October 2nd | ***Time:*** *3:00 – 4:15* p.m. | ***Location: Wells Capital Management***

Student Presenter	Company Name	Ticker	Sector	Page
Connor Muth	Sparton Corp.	SPA	Technology (Micro-Cap)	2
John Grant	Mobileye	MBLY	International Producer Durrables	5
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These student presentations are an important element of the applied learning experience in the AIM program. The students conduct fundamental equity research and present their recommendations in written and oral format – with the goal of adding their stock to the AIM Equity Fund. Your comments and advice add considerably to their educational experience and is greatly appreciated. Each student will spend about 5-7 minutes presenting their formal recommendation, which is then followed by about 7 minutes of Q & A.

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Sparton Corporation (SPA)
October 2, 2015

J. Connor Muth Domestic Technology

Sparton Corporation (NYSE: SPA) engages in the design, development, and manufacturing of services for electromechanical devices and other engineered technology products. SPA serves the medical and biotechnology, military and aerospace, and industrial and commercial markets through its three operating segments: Medical Devices (MD) (46% of revenue), Defense & Security Systems (DSS) (31%), and Complex Systems (CS) (23%). Sparton develops and manufactures sonobuoys, or anti-submarine warfare (ASW) devices, for the U.S. Navy and other U.S. State Department—approved foreign governments. They also produce ruggedized display systems for military computer workstations, air traffic control, and other high performance industrial applications. SPA further develops embedded software and quality assurance services in connection with medical devices and diagnostic equipment. Sparton Corporation was founded in 1900 and is headquartered in Schaumburg, IL.

Price ($):	21.35
Price Target ($):	28.62
52WK H-L ($):	29.49 - 19.60
Market Cap (mil):	211.1
Float (mil):	8.8
Short Interest (%):	5.2
Avg. Daily Vol (mil):	0.0
Dividend ($):	0.00
Yield (%):	0.0

Beta:	0.94
WACC	7.57%
M-Term Rev. Gr Rate Est:	30.4%
M-Term EPS Gr Rate Est:	4.9%
Debt/Equity:	132.2
Debt/EBITDA (ttm):	4.72
ROA (%):	4.05
ROE (%):	9.57
ROIC (%):	5.15

FY: Dec	06/30/2014	06/30/2015	06/30/2016	06/30/2017
Revenue (Mil)	336.50	382.13	458.55	504.41
% Growth	26.36%	13.56%	20.00%	10.00%
Gross Margin	19.30	19.50	19.00	19.00
EBITDA Margin	8.40	7.50	7.30	6.10
EPS (Cal)	$1.28	$1.10	$1.64	$2.00
FCF/Share	$0.88	($0.13)	$0.60	$1.98
P/E (Cal)	21.7	24.8	13.2	10.8
EV/EBITDA	9.7	12.3	10.5	11.4

Recommendation

Sparton Corporation generates revenues by manufacturing, distributing, and servicing a variety of technologies for use in the aerospace, defense, and medical industries. SPA is unique micro-cap player in their target markets with strong cash flow and constant recurring revenues year-over-year from their contracts with the U.S. Navy. They have a global customer base, however the majority of their revenues are based in the United States (88%). Other notable country sales include China (1.9%), Japan (1.0%), Germany (0.8%), France (0.6%), England (0.5%), Brazil (0.5%), and Italy (0.4%). Sparton has identified that future growth will depend on their ability to win business over industry competitors, develop new products, and discover new strategic acquisition opportunities. SPA's products increased in demand between FY15 and FY14, as reflected by a 113% growth in order backlog. Order backlog was $313.4M at FYE15 compared to $147.1M at FYE14. FY15 further marked a strong year in terms of national recognition for Sparton Corporation. In June 2015, the firm received recognition from Raytheon as a 5-Star Supplier due to their excellence in price, quality, and component performance for Raytheon's Patriot Air and Missile Defense System, Zumwalt Class Destroyer, and Radar Systems programs. In July 2015, the Department of Defense (DOD) recognized SPA as a Tier 1 Superior Supplier, an award only given to a select number of companies who provide the greatest overall value to the DOD. In May 2015, the U.S. Navy placed an $87M contract order for the production of additional sonobuoys. Sparton will receive $47M in revenues from ERAPSCO/Sonobuoy, through their UK joint venture counterpart relationship with Ultra Electronics USSI, who will receive the other $40M in revenues. Additionally, in August 2015, SPA landed another $16.1M in foreign sales contracts for the Sonobuoy which was approved by the U.S. State Department. Sparton will receive $9.2M in revenues and Ultra $6.9M in revenues. Due to the increasing expectations of growth through additional major contracts, strategic corporate acquisitions, and synergies recognized through these acquisitions, it is recommended that Sparton Corporation be added to the AIM Micro-Cap Fund with a target price of $28.62, representing a 34.07% upside. SPA does not pay a dividend.

Investment Thesis

- **Future Expected U.S. Government Contracts.** Since it is costly for the U.S. Navy to vet U.S. military suppliers, it is highly likely that the U.S. Government will favor awarding their existing suppliers with future contracts. Sparton incurred research and development (R&D) expenditures of $11.4M, $10.9M, and $11.7M in FY 2015, 2014, and 2013, respectively. As part of their existing contracts with SPA, the U.S. Navy covered $9.9M, $9.7M, $10.4M of R&D expenses in FY 2015, 2014, and 2013, respectively.
- **Sonobuoy Manufacture Protected by the U.S. Navy.** Sparton Corporation has a major contract for the design and manufacture of sonobuoys for the U.S. Navy. Sonobuoys are anti-submarine warfare (ASW) devices that are used for detection, classification, and localization of adversary submarines during peacetime and combat operations. Their production is restricted by the International Tariff and Arms Regulations Act (ITAR) and the U.S. Navy, eliminating competition for this ASW product.
- **Synergies from Acquisitions.** Sparton has made numerous strategic acquisitions over the past five years. In FY15 alone, SPA acquired Hunter Technology Corporation ($55.0M), Stealth.com ($12.6M), KEP Marine ($4.3M), Real-Time enterprises, Inc. ($2.3M), ArgoTec, Inc. ($0.4M), Industrial Electronic Devices, Inc. ($3.3M), and Electronic Manufacturing Technology, LLC. ($22.1M). All of these FY15 acquisitions were made as all-cash transactions.
- **Competitive Advantages.** Sparton believes that it has certain advantages over their competitors in a variety of categories. SPA identified the principal competitive factors in their target markets as quality, reliability, ability to meet delivery deadlines, customers service, geographic location, and price. Their sonobuoy technology has been a major source of repeat business from the U.S. Navy, implying that the product is high in both quality and reliability.

Valuation

In order to reach an intrinsic value for SPA, a five year DCF model was constructed. Using a terminal growth rate of 1.5% and a WACC of 7.57%, an intrinsic value of $36.88 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $29.57-$43.50. Additionally, an EV/EBITDA multiple valuation was conducted by analyzing the five year historical, peer analysis, and forward looking multiples, resulting in a target multiple of 13.01x and a price of $20.36. By weighting the two valuation models 50/50, a price target of $28.62 was reached, yielding a 34.07% upside. SPA does not pay a dividend.

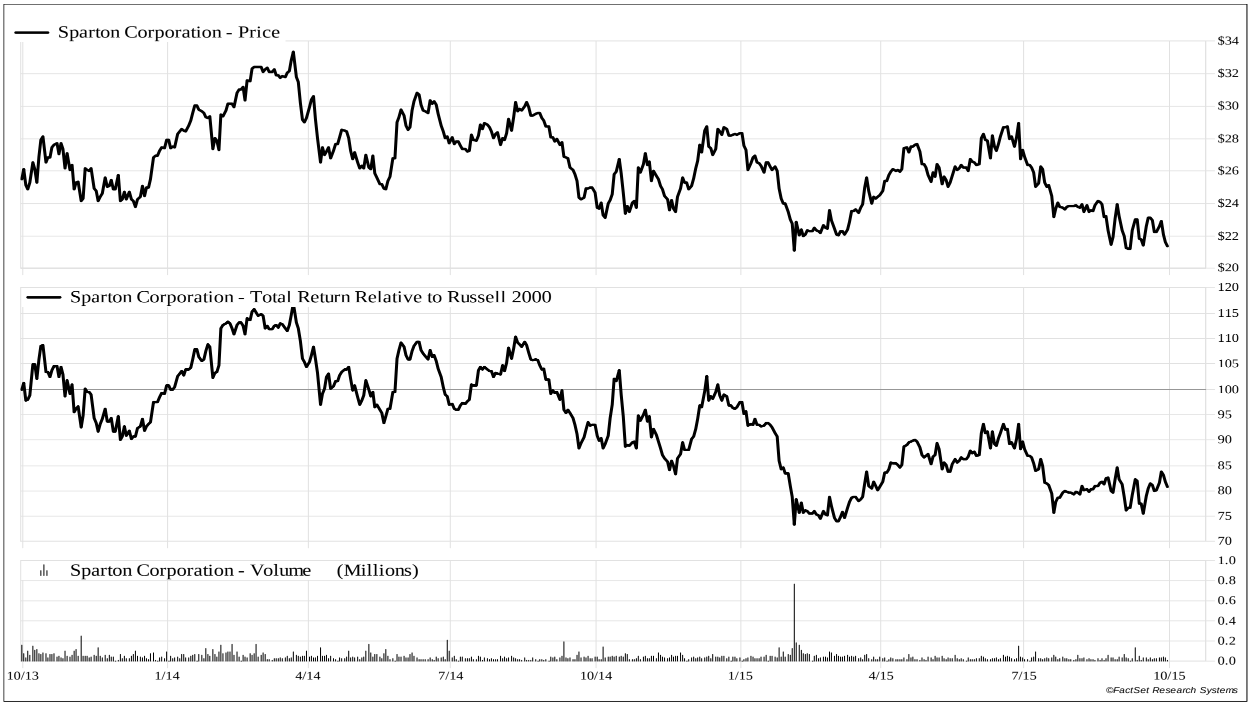
Risks

- **Highly Competitive Environment.** Sparton operates in multiple extremely competitive industries (military, aerospace, medical, and biotechnology). Within Sparton's target markets, there are fewer competitors due to numerous barriers to entry yet competition remains fierce.
- **Congressional Budgetary Restraints.** Sparton is subject to reduced sales to the U.S. Navy in times of recessions and military budget cuts. While the company maintains their competitive manufacturing and customer service advantages over competitors, changes in negotiations for program funding or unforeseen global events can interrupt program and contract funding.
- **Customer Concentration.** At FYE 2015, SPA's ten largest customers represented 56% of total net sales. The U.S. Navy and Fenwal Blood Technologies accounted for 20% and 10% of sales, respectively.
- **Varying Operational Results.** Sparton is subject to a variety of economic risks, such as inflation and interest rate changes, in addition to unforeseen national and global events that could cause significant fluctuations in annual and quarterly results. Additionally, the timing of sales to the U.S. Navy is dependent upon successful completion of product tests performed by the U.S. Navy.

Management

Joseph J. Hartnett joined Sparton in 2011 as the Chairman of the Board. Prior to joining, he held multiple positions at U.S. Robotics Corporation (2000-2006), and was the President and CEO of Ingenient

Technologies until their sale in 2011. Mr. Hartnett has been a licensed CPA in IL since 1982, and served as a Partner at Grant Thorton LLP (1992-2000). Cary Wood joined Sparton in 2008 as President and CEO. He previously worked for Citation Corp. (2004-2008), United Technologies Corp., and General Motors.



Source: Factset

Ownership

% of Shares Held by All Insider Owners:	10.82%
% of Shares Held by Institutional & Mutual Fund Owners:	94.31%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
Dimensional Fund Advisors LP	836,589	8.44
Beddow Capital Management, Inc.	584,607	5.90
Janus Capital Management LLC	542,320	5.47
Kennedy Capital Management, Inc.	443,744	4.48
Thomson, Horstmann & Bryant, Inc.	349,381	3.53

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA	Dividend Yield	EV/ EBITDA
Sparton Corporation	SPA	226	382	28.4	0.00	12.85
United Technologies Corporatior	UTX	77,331	64,203	11362.0	2.05	11.10
Boeing Company	BA	87,064	94,902	9437.0	2.25	10.09
Lockheed Martin Corporation	LMT	62,175	45,398	6296.0	2.85	10.42
Raytheon Company	RTN	32,082	22,753	3822.0	2.24	9.45
AeroVironment, Inc.	AVAV	466	255	7.4	0.00	33.62
Peer Averages		51,824	45,502	6184.9	1.88	14.94

**Removed For Relative Valuation Analysis*

Mobileye N.V. (MBLY)

October 2, 2015

John Grant International Producer Durables

Mobileye N.V. (NYSE: MBLY) is the leading developer of software algorithms used in camera-based Advanced Driver Assistance Systems (ADAS). MBLY recognizes revenues from the United States (54% of total revenues), United Kingdom (14%), Sweden (11%), Israel (9%), Japan (2%), and other countries (10%) each representing <1% of total revenues. Revenues are recognized through two segments; the Original Equipment Manufacturing OEM segment (84.8% of total revenues) and the After Market segment (15.2%). The company's proprietary software algorithms and EyeQ system have established MBLY as a leader in the ADAS segment over the past 15 years. Mobileye is a Tier 2 supplier with end markets consisting of OEMs and Tier 1 suppliers, due to the nature of their business they are able to operate with an asset-light business model with zero debt. MBLY was founded in 1999 by Ziv Aviram and Amnon Shashua and is headquartered in Jerusalem, Israel.

Price ($):	$ 42.50
Price Target ($):	$ 61.88
52WK H-L ($):	64.48-32.41
Market Cap (mil):	9,210
Float (mil):	69.1%
Short Interest (%):	28.4%
Avg. Daily Vol (mil):	8.1
Dividend ($):	$ -
Yield (%):	0%

Beta:	1.42
WACC	10.10%
M-Term Rev. Gr Rate Est:	56.7%
M-Term EPS Gr Rate Est:	58.8%
Debt/Equity:	0.0
Debt/EBITDA (ttm):	0.00
ROA (%):	4.13%
ROE (%):	4.82%
ROIC (%):	4.82%

FY: Dec	2014	2015E	2016E	2017E
Revenue (Mil)	144	237.00	367.35	551.03
% Growth	77%	65%	55%	50%
Gross Margin	74%	73%	74%	75%
EBITDA Margin	-8%	48%	53%	55%
EPS (Cal)	($0.15)	$0.37	$0.63	$1.00
FCF/Share	$0.37	$0.63	$1.00	$1.60
P/E (Cal)	193.1	98.1	65.4	43.6
EV/EBITDA	676.1	270.4	202.8	101.4

Recommendation

Nine automotive companies, including: BMW, Ford, GM, Mazda, Mercedes, Tesla, Toyota, Volvo, and VW/Audi (representing 60% of total sales), have agreed to increase the usage of AEB's (autonomous emergency breaking system) as a standard feature in their vehicles. MBLY is expecting nine launches of their EyeQ3 with eight OEMs in FY15, in 1Q15 they executed two EyeQ3 launches and three launches through two OEMs in 2Q15. MBLY is a part of two programs with Tier 1 supplier TRW titled E2xx and K2xx. GM will be adding a camera-only, low-cost pedestrian crash avoidance EyeQ3 to the Chevy Malibu through the E2xx program. The Audi Q7 was EyeQ3's first launch in 1Q15, Mobileye was then selected to partner with VW Group as a part of their FAST Program (Future Automotive Supply Track). The regulatory front has shown strong tailwinds for companies operating in this space. In June 2015 the NTSB recommended to the NHTSA to implement a standardization of collision avoidance technologies in all cars, it is likely this trend of AEBs will soon be reflected in U.S. NCAP requirements for vehicles to achieve top safety rankings. MBLY has seen strong 2Q15 revenues growth; total revenue grew 57% y/y from $33.7M - $52.8M driven largely by revenues from OEMs, which increased 51% y/y and 19% from the prior quarter to $43.6M. OEM revenues were driven by increased demand of existing programs and deliveries related to new launches. After market revenues grew 90% y/y to $9.8M in 2Q15 largely due to the Mobileye Shield + product, US programs increased from 14 to 32 since 1Q15. The Ministry of Education in Israel has incorporated Mobileye Shield + to their buses and several municipalities, in Israel and Latin America, have placed orders. Gross margin has increased from 64.2% to 74.21% from FY11 to FY14, largely due to a light-asset business model as a Tier 2 supplier and stable ASP of ~$44 in 2Q15. Due to a favorable valuation and strong belief for future growth, it is recommended that Mobileye N.V. be added to the International AIM Portfolio with a target price of $61.88, representing a 45.60% upside.

Investment Thesis

- **Favorable Legal Environment.** Secretary General of the European NCAP released a statement in May 2015 citing results from study on Low Speed AEB technology leading to a 38% reduction in real-world rear-end crashes to support the decision to make AEB technology a key factor in new vehicle saftey ratings. OEMs in Europe have added AEBs to meet 4.5 crash ratings, by 2016 automakers will need atleast one AEB for a five star crash rating. European revenue exposure increased from 16.2% to 30.2% ($13.16M – $43.38M) between 2013-14. The United States (55.4% of total revenues) NHTSA published a Request for Comments notice to add AEB systems to the NCAP list of Recommended Advanced Technology Features, specifically noting forward collision warning, lane departure warnings, and rearview video systems. NHTSA found saftey innovations have saved 613,501 lives since 1960.

- **Winning Contracts, Promising ASPs, Product Development.** Three generations of EyeQ software, with substantial deals placed for the developing EyeQ4, accompanied by Mobileye Shield +'s unique exposure to trucks and the Mobileye 5-Series' ADAS product give MBLY a competitive advantage across multiple segments. MBLY is working with 13 OEMs (eight at their IPO) to develop autonomous driving capabilities in future launches. MBLY has indicated wins for major contracts on 2018-2020 launches, MBLY maintains 100% RFQ win record, largely due to their technology and wide suite of potential applications. EyeQ chip volume increased 55% year/year in 2Q15 to 969,000 units vs 627,000 in 2Q14. OEM ASPs were relatively flat year/year in 2Q15, $43.7 vs. $44.6, largely due to standardizedization. The Euro NCAP has been a main driver increasing bundle size, indicating long term ASP growth (74.21% 2Q15 gross margin).
- **Established Barriers to Entry.** MBLY'S software has been developed over the past 15 years with over 12 million miles of real-world driving experience across 40 different countries in multiple conditions and environments. Test results prove the systems ability to thrive in multiple scenarios and increased MBLY's database to further develop product offerings. MBLY is the only company to offer a full suite of technologies, this eliminates the risk of another competitor because MBLY can add additinonal software. For another company to deploy a competitive ADAS or AEB, MBLY believes it would take seven years to develop a functioning technology.

Valuation

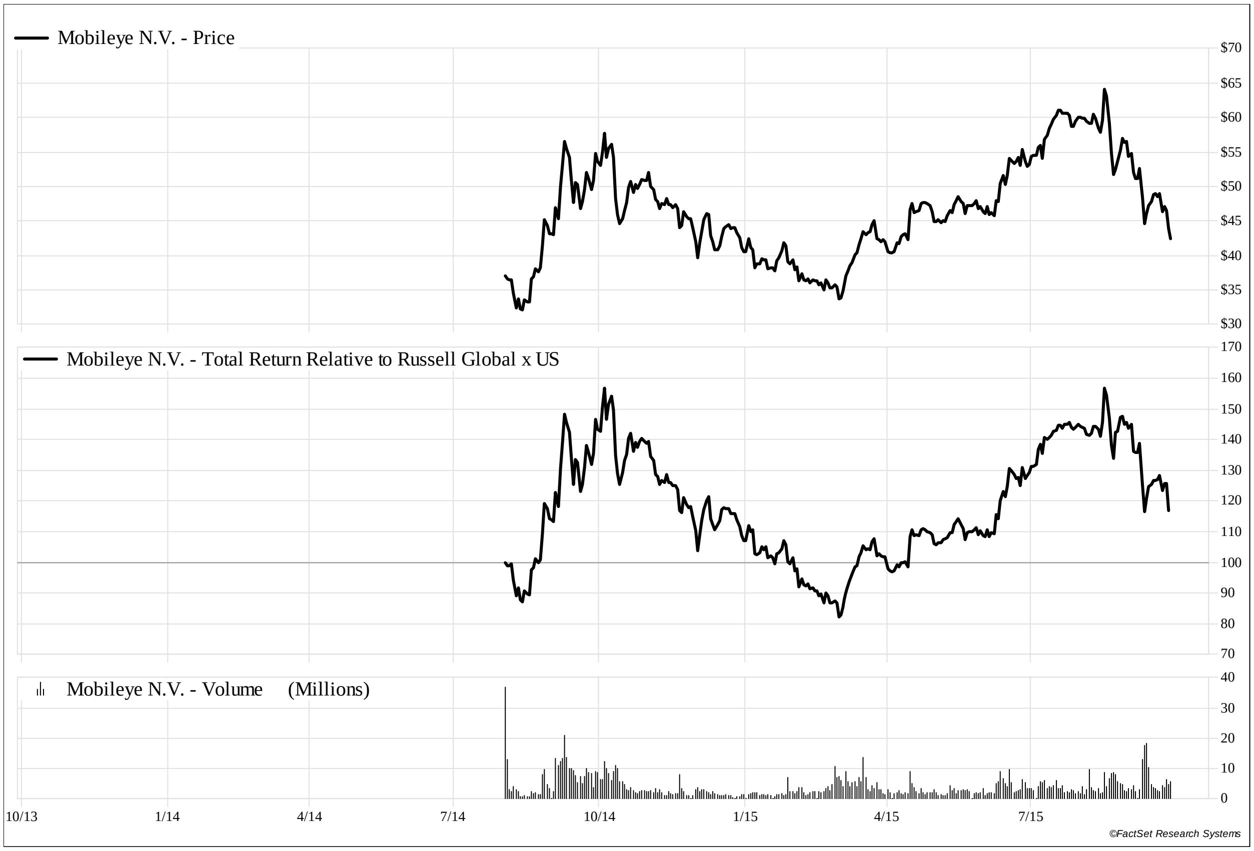
In order to reach an intrinsic value for MBLY, a five year DCF model was constructed. Using a terminal value growth rate of 7.5% and a WACC of 10.10%, an intrinsic value of $63.89 per share was reached. In addition, a P/E multiple valuation was constructed using three comparable firm's average P/E multiple of 66.06x, MBLY P/E of 193.1x and a 2015E EPS of $.37 an intrinsic value of $59.87 was reached. Comparable firms were determined by screening for 50%+ revenue growth, 50%+ gross margin, and 40%+ earnings per share growth. Weighing the two valuation models 50/50, a target price of $61.88 was obtained, providing a potential upside of 45.60%. MBLY does not pay a dividend.

Risks

- **Threat of Substitutes.** There is no dassurance tha tmonocular processing will be the dominant modality in ADAS. Modality radar and LiDAR systems are pinned as potential substitues to vision-based softwares. MBLY identifies these as compliments, a vision-based system is the only system or sensor that can detect and react to traffic signs, traffic lights and other situations.
- **Supplier Dependency.** All EyeQ chips are purchased form STMicroelectronics, all chips are produced at a single facility in France. The high degree of complexity the production of EyeQ requires makes STMicroelectronics financial stability, production scale and contract critical.
- **VW Emission Scandal.** VW represents less than 1% revenue exposure and management never indicated they had won or bid for contracts with VW aside from their successful Audi Q7 launch. MBLY's technology is not used by vehicles to increase emission efficiency, this is merely a spill over benefit and not a main driver of their services.

Management

MBLY was founded by Amnon Shashua and Ziv Aviram. Aviram is the acting President and CEO, prior to MBLY he was the CEO of three Israeli companies. Shashua is the current CTO and Chairman, he holds a computer science degree from the Hebrew University of Jerusalem. Aviram and Shashua co-founded OrCam and are acting President & CEO and Chairman & CTO, respectively.



Ownership

% of Shares Held by All Insider Owners:	5.60%
% of Shares Held by Institutional & Mutual Fund Owners:	90.30%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
Fidelity Management & Research Co.	82,649 ▲	15.3%
The Vanguard Group, Inc	42,797 ▲	7.9%
Primecap Management Co.	32,847 ▼	6.1%
SSgA Funds Management, Inc	23,501 ▼	4.4%
Huang Jen Hsun	22,751 ▲	4.2%

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	EPS	Price/ Earnings	EV/ EBITDA
Mobileye N.V.	MBLY	9,210	144	0.37	198%	539.49
Harmonic Drive Systems Inc.	6324-JP	162	26	52.77	50.2	27.82
Kornit Digital Ltd.	KRNT	372	66	0.13	80.69	56.50
Visteon Corporation	VC	4,074	7,509	3.56	67.29	2.80
Peer Averages		1,536	2,534	18.8	66.06	29.0

Source: FactSet

Flotek Industries, Inc. (FTK)
October 2, 2015

Michael Reardon Domestic Energy

Flotek Industries, Inc. (FTK) is a technology-driven specialty chemical company and global supplier of drilling, completion, and production technologies and related services for the Oil & Gas production industry. The company operates in four segments: Energy Chemical Technologies (59.8% of 2014 revenue), Drilling Technologies (25.2%), Consumer & Industrial Chemical Technologies (11.4%), and Production Technologies (3.6%). The company was originally founded in Canada in 1985 as an oilfield services company, but has spent most of the last decade refocusing its business on its chemical products. The primary applications of these specialty chemicals are in the fracking process, with additional use as ingredients in a wide range of consumer products, including perfumes and food products. The company began trading publically in 2007 and is currently headquartered in Houston, TX.

Price ($): (9/29/15)	16.98
Price Target ($):	21.13
52WK H-L ($):	27-11
Market Cap (mil):	910
Float (mil):	51.3
Short Interest (%):	21.5
Avg. Daily Vol (mil):	1.1
Dividend ($):	0.00
Yield (%):	NA

Beta:	1.34
WACC	9.1%
M-Term Rev. Gr Rate Est:	7.6%
M-Term EPS Gr Rate Est:	NA
Debt/Equity:	5.7%
Debt/EBITDA (ttm):	0.85
ROA:	13.3%
ROE:	18.5%
ROIC:	15.7%

FY: Dec	2013	2014	2015E	2016E
Revenue (Mil)	371.1	449.2	362.4	442.5
% Growth	18.6%	21.0%	-19.3%	22.1%
Gross Margin	37.8%	38.6%	30.4%	33.5%
Operating Margin	16.4%	18.1%	1.2%	7.0%
EPS (Cal)	$0.67	$0.97	($0.22)	$0.32
FCF/Share	$1.61	($0.13)	$0.59	$1.05
P/E (Cal)	25.3x	17.6x	N/A	52.8x
EV/EBITDA	12.8x	10.0x	31.6x	15.6x

Recommendation

The global energy industry has continued to face considerable pressure in 2015 following the sharp decline in energy prices that began in June 2014 amid concerns of oversupply and waning demand. In the last year, Baker Hughes rig count has fallen by 55% as large swaths of most major oil basins have become unprofitable under legacy assumptions about well productivity and marginal cost of production. As a result, exploration & production and oilfield services companies have made major efforts to boost deteriorating well economics by cutting costs and experimenting with untested frac mixes. These experiments have come at the detriment of proppant companies, who have seen demand for their products wane in favor of certain substitutes that can provide more attractive production levels at competitive prices. One such substitute is Flotek's patented Complex nano-Fluid (CnF) product, which is a citrus-oil based surface active agent (common referred to as a "surfactant") which essentially reduces the surface tension between oil particles and the shale rock within which they are held, thereby allowing oil to flow at an increased rate compared to untreated wells. The chemistry of the surfactant can be tailored to individual basins and specific geologies, which results in both superior initial production volumes and flatter decline curves. The data collected by Flotek's FracMax data platform confirms the efficacy of CnF across basins and geologies, and adoption has recently begun to accelerate in key basins as a result (the Energy Chemical Technologies segment grew revenue 21.1% sequentially in 2Q15). Management believes the product has reached a tipping point in the domestic market, with volume and revenue set to continue to grow sequentially despite softness in the overall oil market. Flotek's innovative products, including the CnF surfactant product line, and first-mover market position offer considerable opportunity to take advantage of the E&P industry's desire to improve well economics during the current low price environment. Due to a rapidly expanding market for its core product and an improving macroeconomic backdrop for the energy industry, it is recommended that Flotek Industries, Inc. be added to the AIM Equity Fund with a price target of $21.13, which represents a 24.43% upside. FTK does not pay a dividend.

Investment Thesis

- **Increased penetration into domestic shale market.** Flotek estimates that its suite of CnF products is used in only 10% of the 100,000 oil and gas wells in the US. Flotek's product is the unquestioned market leader (with total "clone" technology penetration estimated at an additional 3% of wells). Flotek's FracMax big-data analytics platform estimates that the application of CnF products can drive incremental revenue of $2.5MM to 3.0MM or greater during the first twelve months of a well's production. As the FracMax platform continues to validate the CnF value proposition, increased market penetration will help drive Flotek's top line.
- **Increased usage per customer.** Historically, chemistry solutions have represented only 0.1% of frac fluid used in a horizontal well. The data collected by Flotek indicates that E&P's receive an incremental economic return when the fluid load is increased from 1 to 1.5 or 2 parts per thousand (depending on geology). This incremental return will provide incentive to Flotek's end users to increase their chemistry load in the frac fluid and drive incremental revenue for Flotek amount its existing client base (which now numbers over 250).
- **Growth of Energy Chemical Technologies business will drive margin upside.** Flotek's Energy Chemical Technology business has the company's highest margins, consistently generating EBIT margins in excess of 30% over the last five years. The continued growth of this business will drive consolidated margins above the company's typical cyclical peak EBIT margins in the high teens.

Valuation

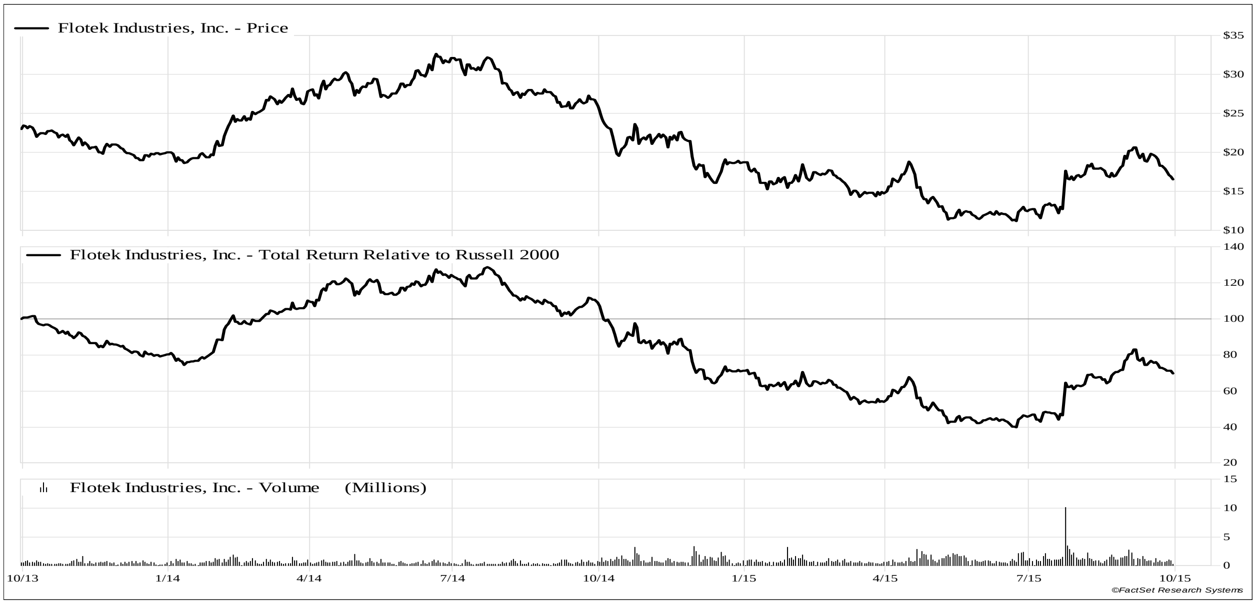
To reach an intrinsic value for FTK, a five year DCF model was constructed. Using a terminal growth rate of 3.0% and a WACC of 9.07%, an intrinsic value of $23.87 was reached. A ± 1% sensitivity analysis on the terminal growth rate and WACC ranged from $17.38-34.40. Additionally, a EV/EBITDA multiple valuation was conducted using 2016 EBITDA of $62.4MM and peer comparable multiple of 17.0x, resulting in a valuation of $18.38. By weighting the two valuation models equally, a price target of $21.13 was reached, resulting in a 24.43% upside.

Risks

- **Decreased completion activity.** Flotek's CnF products are primarily used during the completion stage of horizontal drilling. An industry-wide reduction in completion activity would decrease demand for products used in the completion process, including CnF and other products produced by Flotek.
- **Increased competition.** The oil and gas industry is hyper-competitive, and the potential for an industry peer to develop a competitive product or leverage a superior distribution network could significantly harm Flotek's position within the industry. This risk is elevated in Flotek's international markets because of differences in intellectual property law or a lack of patent protection within those countries.
- **Activist investor involvement.** Praesidium Management recently disclosed a 5.2% stake in Flotek's common stock and sent a letter to Flotek's Board of Directors. The investment firm hopes to engage the Board in a strategic review of Flotek's FracMax software assets, including the potential of licensing or selling the software to better monetize its value. A strategic move of this nature could diminish Flotek's ability to demonstrate the value of the CnF product to its key customers and allow for increased competition in the customized chemistry space, thereby harming Flotek's industry-leading position.

Management

John W. Chisholm has served as a Director of Flotek since November 1999, and assumed the roles of President and Chairman in 2010 before also being named CEO in 2012. Mr. Chisholm has a total of 30 years of experience in the energy industry. H. Richard Walton currently serves as CFO Emeritus while responsibility is being transferred to the new CFO, Robert Schmitz, who is a CPA with 38 years of experience in finance and accounting roles at energy companies.



Peer Analysis

Name	Ticker	Market Cap (mil)	D/E	Net Income	2016 EBITDA	2016 EV/ EBITDA
Flotek Industries, Inc.	FTK	910	18.0%	$54M	$62M	15.6x
Core Laboratories NV	CLB	4,163	37601.1%	$257M	$242M	19.0x
CARBO Ceramics Inc.	CRR	467	13.1%	$2M	$18M	24.4x
TETRA Technologies, Inc.	TTI	481	249.4%	-$170M	$228M	7.7x
Peer Averages		1,704	12621.2%	$130M	$163M	17.0x

Source: FactSet

Ownership

% of Shares Held by All Insider Owners:	4.3% ▲
% of Shares Held by Institutional & Mutual Fund Owners:	82.2% ▲

Source: ThompsonOne

Top 5 Shareholders

Holder	Shares		% Out
Gates Capital Management, Inc.	8,097,314	▲	15.11
T. Rowe Price Associates, Inc.	6,546,672	▲	12.21
BlackRock Fund Advisors	4,358,709	▼	8.13
The Vanguard Group, Inc.	3,739,778	▲	6.98
BAMCO, Inc.	2,945,948	▲	5.50

Source: FactSet

Aviva PLC (AV)
October 2, 2015

Travis Mantel | International Financial Services

Aviva PLC (NYSE: AV) is a holding company that provides its customers with insurance (long-term, general, and health), savings, and fund management products and services. Long term insurance includes products such as life insurance and long-term health and is their most profitable segment (58.6%). General insurance and health includes products related to motor vehicles, property liability, and medical expenses and is the second most profitable segment (41%). While they offer fund management services, it is not as profitable for them. AV operates out of six main geographic segments: United Kingdom and Ireland, France, Poland, Italy, Asia, and Spain and other. Aviva PLC was founded in 2000 and is headquartered in London with more than 26,000 employees.

Price ($): (9/28/15)	13.69	Beta:	1.24	FY: Dec	2013A	2014A	2015E	2016E
Price Target ($):	18.48	WACC	9.3%	Revenue (Mil)	50,911.0	51,141.0	54,976.3	56,845.4
52Wk H-L ($):	13-18	M-Term Rev. Gr Rate Est:	6.8%	% Growth	-1.03%	0.45%	7.50%	3.40%
Market Cap (mil):	26,883	M-Term EPS Gr Rate Est:	2.0%	Gross Margin	5.95%	6.72%	6.86%	6.78%
Float (mil):	0.0	Financial Leverage	.6x	Pretax Margin	4.16%	8.10%	8.48%	9.13%
Short Interest (%):	N/A	ROA:	0.6%	EPS (Cal)	$1.41	$1.49	$1.55	$1.58
Avg. Daily Vol (mil):	0.33	ROE:	15.0%	P/E (Cal)	10.7	10.0	9.5	8.7
Dividend ($):	0.53	Tier 1 Capital Ratio	N/A	BVPS	9.0	10.6	11.8	12.1
Yield (%):	4.10%	Credit Provisions/Loans	N/A	P/B	1.7	1.4	1.1	1.1

Recommendation

AV has been a larger provider of insurance in Europe for over a decade. With revenues and income beginning to slip in 2012 for them they brought in a new CEO, Mark Wilson. They created a turnaround plan that included consolidating their regions and focusing on cutting costs. Finally in 2015 the plan is starting to show results. They have reported a 9% increase in first-half profits compared to 2014 and have increased their dividend 15% this year. The increase in the dividend is just a start to achieving their target payout ratio. The combined ratio just reported was at 93.1% which is the best it has been in eight years. For the combined ratio, anything below 100% means they are making underwriting profits rather than incurring losses. Underwriting profits have also increase 45% so far this year. The company is generating profits off of the premiums and not incurring losses from policies like they once were. Mark Wilson has also been cutting expenses for AV since he took over. Operating expenses have decreased about 1% from last year to this year. Aviva has done a great job of cleaning up their balance sheet in recent years. With the acquisition of Friends Life, they have well-diversified assets. They have decreased their debt from $14.24 billion in 2012 to $10.10 billion. Over half this debt matures after 2025 which gives them ample time to pay it off. With a strong balance sheet, reducing expenses, the acquisition of Friends Life, and higher than anticipated profitability, I recommend that Aviva PLC be added to the AIM International Equity Fund with a target price of $18.48, representing an upside of 35%. Aviva also pays a dividend that yields 4.10%

Investment Thesis

- **Friends Life Acquisition/UK Exposure.** AV completed the purchase of Friends Life earlier this year. This gives them stronger position than they already had in the United Kingdom. More than that, the deal adds attractive segments such as corporate pensions. With the immense resources of AV, they will realize larger profits from this acquisition than initially anticipated. According to the last earnings call, the Friends Life integration is ahead of schedule and has delivered higher rates of synergy than initially budgeted. The target is £225 million in synergy and through the first three months they have delivered £63 million in run-rate synergies. They are ahead of schedule with the Friends Life integration.

- **Restructuring.** The focus of AV since 2013 was to turn the company around. They had experienced losses in 2012 and appointed a new CEO in Mark Wilson. His restructuring plan includes reallocating capital to higher returning and faster growing business cells (UK). The plan has been profitable in the first half of 2015. The general insurance compound ratio has improved 2.4 percentage points since 2014. They also focused on revamping their asset management business after it declined nearly 31% due to the disposal of River Road (asset management firm in US). By the end of Q2 they have grown their asset management sector by 28.3%.
- **New Business Growth.** Friends Life added 5 million new customers to AV's customer base. AV offers products that Friends Life didn't such as general insurance. New business growth has been the foundation of growth for them. In 2015 they have seen a 25% increase in new business. New business will continue to grow in the future and with the larger customer base.

Valuation

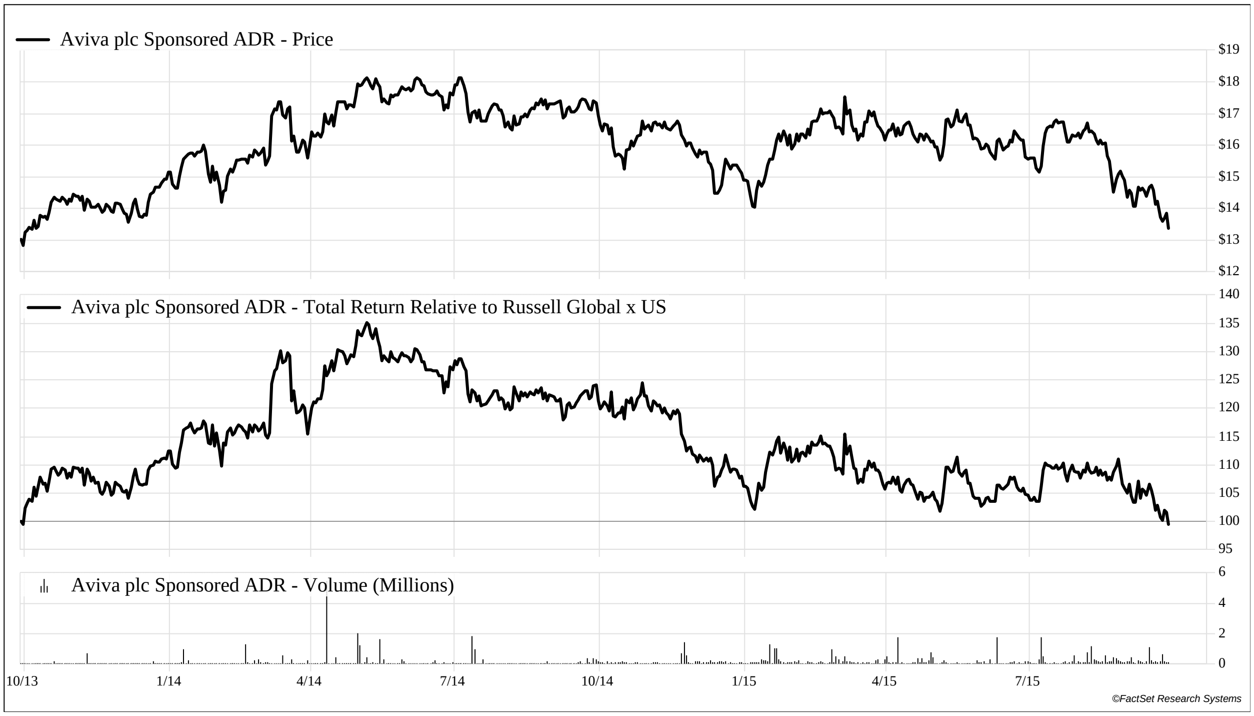
To find the intrinsic value of AV a price to book multiple was used, as well as a dividend discount model. The 5-year average historical price to book for AV was 1.21x while its peers' 5-year historical average was 1.16x which lead me to an average P/B multiple of 1.18x. Using a BVPS of 9.53, the P/B multiple yielded an intrinsic value of $11.27. The discounted dividend model was used with a WACC of 9.25% and a long term growth rate of 2% which resulted in an intrinsic value of $8.57. Weighting these valuations 25/75 respectively, the final estimated intrinsic value of AV is $9.24. The ADR's on the NYSE represent two shares of AV so we find the true intrinsic value of this security by doubling the single share intrinsic value which gives us an intrinsic value of $18.48 and offers us an upside of 35%.

Risks

- **Market Instabilities.** Europe has been a very unstable for the most part of the year. Greece had their scare of going bankrupt that would have affected the entire EU. China devalued their currency out of nowhere causing the markets to take a hit. Most of the profits generated by insurance firms are from spreads. They have to create a positive spread from the insurance policy and the investment income from the premiums. With markets being so unstable right now in Europe and Asia, their investment income could reflect those issues.
- **Interest Rate Concerns.** Along with the market concerns, an increase in U.S. interest rates could cause borrowing costs in the EU to rise before the economy is strong enough. This could cause more market instability in Europe which is would affect investment spreads for AV.
- **Friends Life Acquisition.** It is too soon to realize if this transaction will work out in the long run. So far it has been profitable for Aviva, but after a few years the cash flows might not be what anticipated. There can always be complications with acquisitions. A systems malfunction or management teams not cooperating could lead to lower than expectation earnings. It is too early to understand how this will go.

Management

Mark Wilson has served as Chief Executive Officer of AV since January of 2013. He has over 25 years of experience in the insurance industry. Before coming to Aviva, he was CEO and President of AIA Group which is based in Hong Kong. He has an excellent track record in the insurance industry and has helped turn AV around. Sir Adrian Montague has been appointed as Chairman of the Board in April of 2015. Adrian has served as chief executive of the Treasury Taskforce in the UK and then as deputy chairman of Partnerships UK. He has extensive experience as he has sat on 9 Boards over his career and is now helping AV as Chairman.



Ownership

% of Shares Held by All Insider and 5% Owners:	0.00%
% of Shares Held by Institutional & Mutual Fund Owners:	0.80%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
Thornburg Investment Management	3,198,000	0.20
Northern Trust Investments, Inc.	2,102,000	0.10
Causeway Capital Management LLC	1,323,000	0.10
Parametric Portfolio Associates LLC	1,105,000	0.10
ClearBridge Investments LLC	877,000	0.10

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Net Income (mil)	Div. Yld. %	P/B	D/E
Aviva PLC	AV	26,883	2,329	4.10	1.21	0.6
Allianz	ALV	70,227	7,603	4.99	0.95	0.5
AXA	CS	58,304	6,281	4.95	0.69	0.7
Assicurazioni Generali	G-IT	27,711	2,673	3.53	1.19	—
Legal & General	LGEN	21,506	1,702	4.53	1.74	0.4
Peer Averages		44,437	4,565	4.50	1.1	0.5

Source: FactSet

Dynavax Technologies Corporation (DVAX)

October 2, 2015

Daniel M. Kralovec Domestic Healthcare

Dynavax Technologies Corporation (NASDAQ: DVAX) is a clinical stage biopharmaceutical company that uses toll-like receptor (TLR) biology to discover and develop novel vaccines and therapeutics. It is involved in the discovery and development of products used for the treatment of infectious and inflammatory diseases. The firm's development programs are organized under three areas of focus: vaccine adjuvants, cancer immunotherapy, and autoimmune and inflammatory diseases. Currently, there are five product candidates in their pipeline, four in Phase 1/Preclinical and one in Phase 3. The portfolio's products will be used for the treatment of hepatitis B (Heplisav–B), inflammation (DV1179), cancer immunotherapy (SD-101), and asthma and chronic obstructive pulmonary disease (AZD1419). To date, DVAX has partnerships with pharmaceutical companies, including AstraZeneca, GlaxoSmithKline, and Merck. The Dynavax Technologies Corporation was incorporated in 1996 and is headquartered in Berkeley, California.

Price ($):	24.66
Price Target ($):	32.92
52WK H-L ($):	32.49 -13.4
Market Cap (mil):	954.7
Float (mil):	37.7
Short Interest (%):	10.7
Avg. Daily Vol (mil):	0.6
Dividend ($):	0.00
Yield (%):	0.0

Beta:	1.24
WACC	11.42
M-Term Rev. Gr Rate Est:	71.1%
M-Term EPS Gr Rate Est:	N/A
Debt/Equity:	12.7%
Debt/EBITDA (ttm):	N/A
ROA (%):	-72.03
ROE (%):	-90.51
ROIC (%):	-87.42

FY: Dec	12/31/14	12/31/15	12/31/16	12/31/17
Revenue (Mil)	11.00	5.76	22.20	90.52
% Growth	-1.95	-47.80	285.55	308.00
Gross Margin	N/A	86.82	144.12	35.40
EBITDA Margin	-814.97	-1910.05	-535.95	-66.20
EPS (Cal)	($3.45)	($3.26)	($3.01)	($1.72)
FCF/Share	($2.87)	($2.47)	($1.74)	($0.94)
P/E (Cal)	N/A	N/A	N/A	N/A
EV/EBITDA	N/A	N/A	N/A	N/A

Recommendation

Hepatitis-B, for which there is no cure, is a potentially life threatening infectious disease that attacks the liver. It is transmitted by contact with infectious blood or other bodily fluids. There are a number of groups that have a high risk of obtaining the virus. Some include: illicit drug users, men with multiple partners, healthcare workers, and frequent travelers. Individuals with diabetes, chronic liver disease, and HIV are also more likely to obtain the virus. In recent years, there has been an increasing amount of criticism over the effectiveness of the current Hepatitis-B vaccines, primarily in adults. Dynavax's lead product candidate, HEPLISAV-B, is being developed to combat some of the major issues with the current vaccines discussed below. In 2012, the FDA denied an application for this vaccine's approval. There wasn't a large enough test pool that could potentially identify the possibility of rare adverse side effects associated with the vaccine. In Q42014, DVAX began another phase 3 trial, (HBV-23) to increase their test subject database. On three separate occasions, the Data Safety Monitoring Board (DSMB), tasked with reviewing the safety data from HBV-23, recommended that the study continue unchanged. Historically, Hepatitis-B vaccines have been targeted at a specific number of high-risk groups and compliance rates within said groups have been low. HEPLISAV- B, if approved, will capture areas of the market that will benefit from an alternative to the traditional 6-month vaccination schedule. Two doses are administered within one month. Similarly, if the data from both phase 3 trials prove to be accurate, then HEPLISAV-B will provide the highest protection rates (immunogenicity) on the market while possessing a comparable safety profile to the competition. The current market for Hepatitis-B vaccines is already well established and is estimated to generate around $300 million annually. This vaccine offers a quicker and more effective way to prevent and reduce the spread of the disease. A successful launch will give Dynavax a competitive edge in the preexisting market. Additionally, the products in their pipeline promise significant future value, the likes of which are discussed below. Due to promising HBV-23 results, unique market opportunities, and a promising product pipeline, it is recommended that Dynavax Technologies Corporation (DVAX) be added to the AIM Equity fund with a price target of $32.92, represent an upside of 33.51%. The company does not pay a dividend.

Investment Thesis

- **Issues with current Hepatitis B Vaccines.** DVAX's Heplisav-B is designed to address the limitations of currently licensed HBV vaccines. Such limitations include: slow onset of protection (6 month vaccination process), poor protection for certain at high-risk subgroups, and weak compliance rates. HEPLISAV-B was developed to elicit an efficient immune response after two doses over a one-month span.
- **Heplisav-B Phase 3 Study, HBV-23.** In April of 2014, DVAX began a Phase 3 safety trial with more than 8,250 subjects. Since inception, the study has passed three separate Data Safety Monitoring Board meetings; each recommended the study continue unchanged. Any DSMB safety concerns would have warranted further tests and trials, none of which have occurred to date. With final tests results available by the end of the month, management expects the product to launch in Q4:16, pending FDA approval.
- **Prior Clinical Trials.** To date, Dynavax has completed four clinical trials comparing its vaccine to the current market leader, Energix-B. When compared to Energix-B, HEPLISAV produced higher protection rates with fewer doses. Both drugs exhibited similar safety and tolerability profiles. It is expected that the results from the most recent trial (HBV-23) will be in line with these prior findings.
- **Potential Pipeline Candidates.** SD-101 is being designed to produce a potent immune response to cancer. Currently, there are five phase 1/2 studies underway on this product. In collaboration with two Merck products, SD-101 will be tested against various cancer tumors. Data may be available mid-way through FY2016. DVAX and AstraZeneca are co-developing a drug for asthma. According to the World Health Organization, around 235 million people suffer from asthma. While current asthma therapies briefly relieve asthma symptoms, AZD1419 is aimed at providing long lasting relief. The market for asthma and COPD therapies is estimated to generate around $15 billion annually. DVAX is eligible to receive development milestones and royalties on sales if the product is approved. This opportunity, if properly commercialized, can provide significant value to the firm.

Valuation

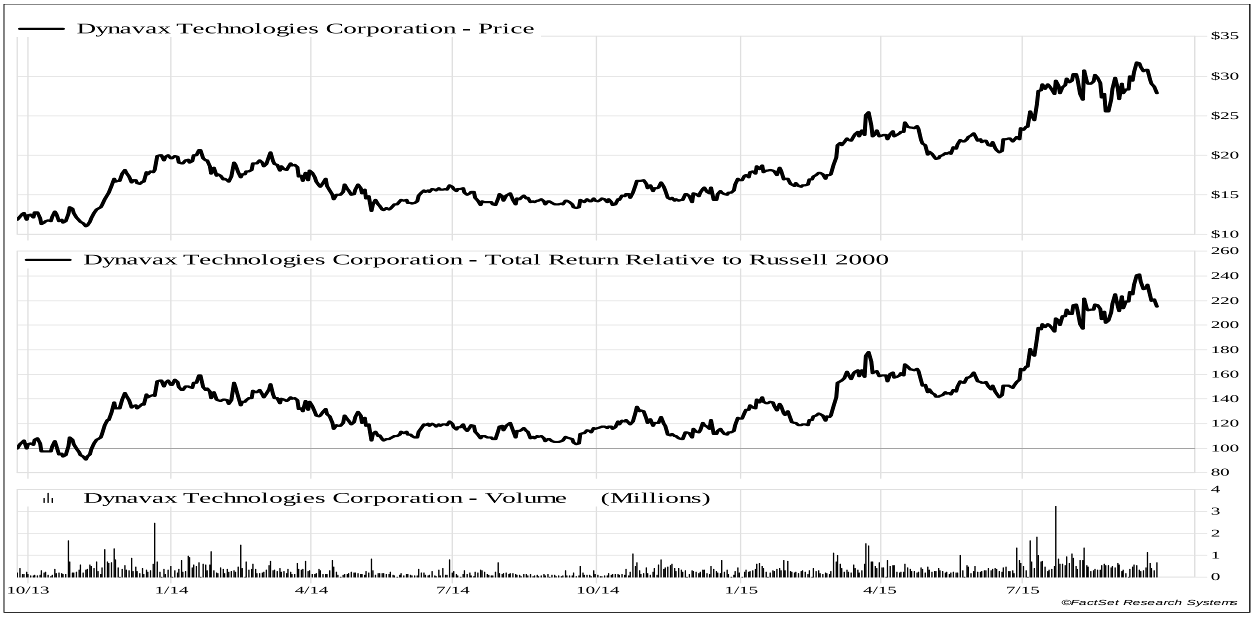
In order to reach an intrinsic value for DVAX, a ten year DCF model was constructed. Using a terminal growth rate of 2.5%, WACC of 11.42%, an intrinsic value of $32.92 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $15.72-$58.31. Relying soley on the DCF, a price target of $32.92 was reached, which yields a 33.51% upside. DVAX does not pay a dividend.

Risks

- **Regulatory Environment.** Dynavax and their partners are constantly under scrutiny from regulatory agencies. In 2012, the FDA denied the approval of HEPLISAV-B based on insufficient patient safety data, hence the 2014 trial with 8,000 plus test subjects. Although data suggests otherwise, the impending approval of HEPLISAV-B will remain major concern for investors. Similarly, the firm relies on their manufacturing facility in Dusseldorf, Germany to produce all product candidates. At any time before approval, the FDA may request data validating their manufacturing processes.
- **Lack of Sales Force.** It's expected that the firm will launch a product within the next 18 months. They do not have an inside sales force and will need to rely on external sales teams and distribution channels.

Management

Eddie Gray joined the firm as CEO and was appointed to the board in 2013. Prior to joining, Mr. Gray served as the President of Pharmaceuticals Europe at GlaxoSmitheKline plc from 2008 to 2013. Michel Ostrach joined the firm in 2006 as Vice President, Chief Business Officer and General Counsel. Mr. Ostrach became the firm's CFO in 2015. Other Executive Vice Presidents include: Robert Coffman, Ph.D. (Chief Scientific Officer), Robert Janssen, M.D. (Chief Medical Officer), and David Novak (Senior. VP of Operations and Quality).



Source: FactSet

Ownership

% of Shares Held by All Insider Owners:	1.96%
% of Shares Held by Institutional & Mutual Fund Owners:	102.69%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
Federated Global Investment Management Corp.	2,974,479	7.75
Amici Capital LLC	2,567,830	6.69
SSgA Funds Management, Inc.	1,674,364	4.36
BlackRock Fund Advisors	1,603,290	4.18
Westfield Capital Management Co. LP	1,443,447	3.76

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA	Dividend Yield	EV/ EBITDA
Dynavax Technologies Corporat	dvax	1,068	7	-99.803	#N/A	#N/A
GlaxoSmithKline plc	092528	61,101	23,342	7059.0	5.81	11.66
Merck & Co., Inc.	MRK	142,494	39,764	14690.0	3.12	10.84
Roche Holding Ltd Genusssch.	711038	211,776			2.96	14.53
Abbott Laboratories	ABT	62,509	19,519	7619.0	2.00	9.36
AstraZeneca PLC	098952	53,155	16,271	3488.7	3.91	17.41
Peer Averages		119,470	27,542	9789.3	3.47	11.6

**Removed For Relative Valuation Analysis*