Applied Investment Management (AIM) Program

AIM Class of 2012 Equity Fund Reports
Fall 2011

Date: Friday, October 28th   Time: 2:30 pm –4:00 pm
Road Show Location: Mason Street

Student Presenter	Company Name	Ticker	Price	Page No.
Bronson Wetsch	Fresenius Medical Dialysis	FMS	$72.44	2
Daniel Leibforth	Gulfport Energy Corp.	GPOR	$28.35	5
Katherine Curiel	Westpac Banking Corporation	WBK	$110.58	8
Theodore Linn	Ferro Corp.	FOE	$6.04	11
Jonathan Nolan	YPF Sociedad Anonima	YPF	$36.32	14

Thank you for taking the time today and participating in the AIM 'road show' at Mason Street. 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. Today, each student will spend about 5-7 minutes presenting their formal recommendation, which is then followed by about 8-10 minutes of Q & A. Again, thank you for allowing us the opportunity to present at Mason Street.

For more information about AIM please contact:

David S. Krause, PhD
Director, Applied Investment Management Program
Marquette University
College of Business Administration, Department of Finance
436 Straz Hall, PO Box 1881
Milwaukee, WI 53201-1881

mailto: AIM@marquette.edu

Website: MarquetteBuz/AIM   AIM Blog: AIM Program Blog
Twitter: Marquette AIM   Facebook: Marquette AIM

Fresenius Medical Care AG & Co. ADR (FMS)
October 28, 2011

Bronson Wetsch — International Healthcare

Fresenius Medical Care AG & Company (NYSE: FMS) is the largest kidney dialysis company in the world, operating in two business segments: dialysis products (75% of 2010 revenue), and dialysis services (25% of 2010 revenue). The company provides these products and services to patients undergoing dialysis due to End-Stage Renal Disease (ESRD) in both hemodialysis (HD) and peritoneal dialysis (PD). FMS provides dialysis treatments at its own clinics and supplies them with a wide range of products (e.g., dialyzers, HD machines, and related disposables). In 2010, revenue topped $12 billion, providing dialysis treatments to over 226,000 patients in 2,840 clinics worldwide in more than 35 countries. United States sales account for 67% of revenue and international sales represent 33%. Sources of U.S. revenue include Medicare (49%), private payors (42%), and Medicaid and hospitals (9%). Domiciled in Bad Homburg, Germany, FMS was founded in 1996.

Price (10/21/11) ($):	72.44	Beta:	0.82	FY: Dec	2010A	2011E	2012E
Price Target ($):	85.00	WACC	8.03%	Revenue ($, K)	$12,053,490	$13,047,599	$15,005,997
52WK H-L ($):	55.20-80.08	M-Term Rev. Gr Rate Est:	7.0%	% Growth	7.17%	8.25%	15.01%
Market Cap ($) (bil):	20.92	M-Term EPS Gr Rate Est:	10.0%	Gross Margin	34.61%	35.01%	35.24%
Float (mil):	212.16	Debt/Equity:	87.2%	Operating Margin	16.18%	16.15%	16.57%
Short Interest:	1.00%	ROA:	6.17%	EPS (Cal)	$3.24	$3.63	$4.36
Avg. Daily Vol (K):	105	ROE:	13.51%	FCF/Share	2.8	(2.0)	(3.0)
Dividend:	$0.91	Debt/EBITDA	2.77x	P/E (Cal)	19.4	17.6	15.0
Yield:	1.30%	S&P Credit Rating	BB/pos	EV/EBITDA	10.1	10.0	8.8

Recommendation

The global dialysis market is a $70+ billion/year industry ($58 billion in dialysis services and $12 billion in dialysis products) that is expected to grow at a 6% CAGR through 2020. The three largest manufacturers of dialysis products account for 67% of the market worldwide (FMS captures at 33% share). In terms of servicing patients, FMS owns nearly 1 out of every 3 dialysis clinics in North America. With the recent acquisitions of Liberty Medical and American Access Care for $1.7 billion (2.0x sales) and $375 million (2.2x sales), respectively, FMS looks to add nearly 20,000 patients and 290 clinics. These purchases will provide 4-5% EPS accretion in 2012/13, including ~$10-20 million in synergies from selling its own products in the new clinics. They are strategically positive as they come at competitive multiples in comparison to recent market transactions by competitor DaVita. Moreover, they strengthen FMS's regional presence in North America and expand critical areas such as vascular access. FMS provides an attractive investment with strong fundamentals and defensive healthcare characteristics suitable for current market conditions with increased uncertainty and volatility. It is recommended that FMS be added to the AIM International Fund with an $85 price target—providing a 20% potential return.

Investment Thesis

- **Attractive Demographics.** Given improved mortality rates (FMS boasts 7-10% lower mortality rates than independent clinics), the aging population, increasing prevalence of hypertension, obesity, and diabetes, FMS expects the worldwide dialysis population to reach 4 million by 2020 (currently ~2 million, 6% CAGR). FMS treats around 226,000 patients, and each patient adds nearly $42,000/yr. in revenue. The average wait time for a kidney transplant is over 3 years, and only 2.4% of patients start treating their condition with a transplant. With lacking alternative treatments, any delay to treatment is life threatening—proving the necessity and stability of FMS's products.
- **Cost Cutting Opportunities.** The CMS recently changed the reimbursement landscape for dialysis clinics in administering anemia drugs such as erythropoietin (EPO) from cost + basis to a

bundled rate. With that headwind aside, FMS is now heavily focused on optimizing drug utilization. In June, the FDA recommended taking lower doses of erythropoesis-stimulating agents (ESA), which results in lower EPO utilization at lower costs. Specifically, management noted that EPO utilization already declined by 15-16%, and expects it to decline further. This will result in an estimated 100bp+ margin expansion through 2013 driven by lower EPO utilization and better IV iron and Vitamin D pricing.

- **Emerging Market Growth.** Management noted in the second quarter that its two most salient focuses include international expansion and coping with the bundling rate in the US (i.e., cost utilization). Through active acquisitions exposed to emerging markets, FMS has added 9% of sales to its International products and services business over the past year. In addition to the acquisitions, FMS posted an impressive 8% QoQ organic growth rate in 2Q, and expects to hold that growth in the range of 5-10% for the foreseeable future. No other competitor is truly focused on international expansion like FMS (e.g., DaVita is focused on the US market), and its market power will allow for a leg-up on its competition.
- **Global Dominance.** FMS is the leading provider of dialysis products and services worldwide, and serves as the leading cost efficient player in the market given its large economies of scale and vertically-integrated business model. Such characteristics give FMS a narrow economic moat with significant barriers to entry into the dialysis market.

Valuation

FMS was valued via a 10-year DCF analysis in combination with EV/EBITDA and P/E multiple valuations. Based on a calculated WACC of 8.03% and a terminal growth rate of 2.00%, the DCF analysis yielded a value of $82.00. Applying a 19x P/E multiple—based on the historical average during similar growth periods—to 2012 EPS derives a price target of $83.00. In addition, applying a 9x EV/EBITDA multiple based on the historical average of 10x to 2012 EBITDA derives a price target of $93.00. Weighting the three methodologies equally, a final price target of $85.00 was obtained—representing a potential upside of nearly 20% including the 1.30% dividend yield. In terms of sensitivity, every ~1% cut in the bundled US reimbursement rate will result in a 7-9c decline in EPS.

Risks

- **Healthcare Reform.** FMS receives 54% of its dialysis services revenue from Medicare and Medicaid. With austerity filled governments and political pressures on the rise, the reimbursement landscape for dialysis firms remains uncertain. Any unplanned reduction in reimbursement rates for dialysis clinics will have a negative effect on profitability.
- **Increasing Leverage.** FMS relies heavily on acquisitions to drive the firms' inorganic growth. With its most recent acquisitions, management guides that Debt/EBITDA will increase, yet stay below 3.0x by the end of 2011 (currently 2.77x). Upon announcement of the acquisitions, however, Fitch upgraded FMS's debt from BB to BB+. FMS's stated reliance on future acquisitions puts pressure on future cash flow generation to pay down debt. Being a vertically integrated firm, FMS also adds about a turn of leverage through its operating leases.
- **Management Transition.** The current CEO, Benjamin Lipps, is due to retire in 2012, with Rice Powell named successor. Powell is the current CEO of FMS North America, but the transition may provide some hurdles given the successful tenure of Lipps and his management team.

Management

Dr. Benjamin Lipps has served as the CEO and Chairman since 2005, earning his degree from MIT in chemical engineering and held various senior research management positions in companies such as DOW Chemical. Michael Brosnan has been the CFO and member of the Management Board since 2010, while previously serving as the CFO of North American operations for seven years. Fresenius SE (parent company) owns 30% of voting ordinary shares.

Source: Yahoo! Finance

Ownership

% of Shares Held by All Insider and 5% Owners:	45.99
% of Shares Held by Institutional & Mutual Fund Owners:	4.09

Source: Bloomberg

Top 5 Shareholders *(from German Listing)*

Holder	Shares	% Out
Fresenius SE & Co KGaA	105,630,000	30.40
BlackRock Institutional Trust Co.	10,671,634	3.57
Fidelity Worldwide Investment	8,943,410	2.99
Fidelity Management & Research Co.	5,502,198	1.84
Allianz Global Investors	2,972,818	0.99

Gulfport Energy Corp (GPOR)
October 28, 2011

Dan Leibforth Energy

Gulfport Energy Corporation (Gulfport) is a value-driven, growth oriented independent oil and natural gas exploration and production company with its principal producing properties located along the Louisiana Gulf Coast in the West Cote Blanche Bay (WCBB) and Hackberry fields; as well as, in the West Texas in the Permian Basin. During the year ended December 31, 2010, the Company acquired an acreage position in the Niobrara Formation of Western Colorado. In May 2011, it also acquired certain leases in the Utica Shale in Ohio. GPOR also holds an acreage position in the Alberta oil sands in Canada, through its interest in Grizzly Oil Sands ULC (Grizzly), as well as interests in entities that operate in Southeast Asia, including the Phu Horm gas field in Thailand. As of December 31, 2010, the Company had 22.4 million barrels of oil equivalent of proved reserves. Gulfport Energy Corp was founded in 1997 and is headquartered in Oklahoma City, Oklahoma.

Price ($): (10/17/11)	28.35	Beta:	1.80	FY: Dec	2010A	2011E	2012E
Price Target ($):	37.19	WACC	12.45%	Revenue (Mil)	$ 126.94	$ 213.27	$ 262.32
52WK H-L ($):	38.09 - 15.87	Mid-Term Rev. Gr Rate Est:	15.0%	% Growth	48.90%	68.00%	23.00%
Market Cap (mil):	1,540.00	Mid-Term EPS Gr Rate Est:	19.0%	Gross Margin	75.10%	79.50%	83.00%
Float (mil):	41.52	Debt/Equity:	2.24%	Operating Margin	38.80%	39.00%	43.00%
Short Interest (%):	12.5%	ROA:	21.0%	EPS (Cal)	$ 1.06	$ 1.81	$ 2.46
Avg. Daily Vol:	1,063,660	ROE:	28.7%	FCF/Share	-$0.32	$0.46	$0.89
Dividend ($):	0.00			P/E (Cal)	18.10	15.69	11.53
Yield (%):	0.0%			EV/EBITDA	11.54	10.01	7.75

Recommendation

Gulfport Energy Corporation has strategically positioned its self in several geographic locations both domestically and internationally. They have taken advantage of the Canadian oil sands boom, which has provided exposure to over 500 million barrels of oil - including 28.5 million barrels of reserves, while an estimated 65% of the sands remain unexplored. Additionally, GPOR has expanded their exploration into areas of Eastern Asia, including Thailand which provides Gulfport with significant acreage potential, over 5,000 feet of unexplored gas saturated columns and further exposure to world class resource potential. Permian, Oil Sands, Niobrara, and Utica are expected to drive long-term production growth and increase operating capacity, which was 85% in 2010. Gulfport will continue to capitalize on existing shales and oil sands as production will continue to increase (management estimated 16% growth in 2011). Gulfport will continue to have extremely high cash margins, generating 90- 95% gross profit per barrel of production of oil. With revenue growing at 68% in 2011 and gross and operating margins increasing to 83% and 43% respectively, GPOR is expected to see strong earnings and cash flow generation in the near future. Due to these factors, it is recommended that GPOR be added to the AIM Equity Fund with a price target of $37.19 representing a 31.2% upside. The company does not currently offer a dividend.

Investment Thesis

- **Expansion of acreage position in Utica Shale.** Gulfport has increased acreage in one of the most promising up-and-coming oil-levered plays in North America**.** The Utica Shale, located in eastern Ohio, has provided GPOR with commitments in place that will increase their position to 57,500 acres. Furthermore, there are on-going talks to increase the overall position even further to 65,000 net acres. Successful development will provide a further catalyst for crude oil reserves and production growth.

- **Potential JV in Utica Shale.** Given its ‘early mover’ advantage and likely acreage position of 65,000 net acres, Gulfport could enter into a joint venture in the area. On its conference call, management mentioned it has already been approached by a number of other operators and private equity firms that are interested in partnering up in the play. A potential joint venture would likely create a mark-to-market at a higher price than its average cost (~$2,400 per acre) and have a meaningful impact on the stock price.
- **Increased Reserves in Oil Sands.** Grizzly Oil Sands (25%-owned by Gulfport) received its mid-year resource report, showing a roughly 50% increase in proved and contingent reserves to ~2 billion barrels. To date only 35% of Grizzly’s 712,327 acreage position has been plotted and evaluated for resources.
- **Substantial Free Cash Flow Generation.** At current prices and 2Q11 production levels, Gulfport’s South Louisiana assets would generate over $85 million ($1.92 per share) in free cash flow (after CAPEX) that it can use to fund its Utica, Permian, Niobrara and oil sands activity. This valuable asset is underestimated by investors and should allow Gulfport to fund aggressive activity (and expected production growth) in its emerging plays going forward.

Valuation

To find the intrinsic value of GPOR, a 10 year DCF analysis was conducted. Revenue growth rates were estimated based on management guidance, historical and industry growth and estimated production levels of oil shales. A WACC of 12.45% was calculated and sensitivity analyses were also conducted based on variations in WACC and long term growth as well as fluctuations in oil prices. This yielded an intrinsic value of $37.53. An EV/EBITDA multiple of 11x was also used based on historical levels and estimated EBITDA, which yielded an intrinsic value of $36.84. With the DCF and EV/EBITDA weighted equally, a $37.19 price target was established, providing a potential upside of 31.2%.

Risks

- **Decrease in Oil and/or Natural Gas Prices.** A decline in oil and/or natural gas prices may adversely affect the business, financial condition, or results of operations and the ability to meet capital expenditure obligations and financial commitments. Furthermore, a decrease in pricing would place constraints on margins, which are essential to the investment thesis going forward.
- **Inaccuracy of Reserve and Production Estimates.** Reserve and production estimates depend on many assumptions that may turn out to be inaccurate. Any change in these figures could materially alter assumptions made about future growth. If these assumptions were to be revised downward, GPOR may not be able to generate enough revenue or cash to finance emerging plays and/or capital expenditures necessary for the continuation of on-going operations.

Management

James D. Palm, 66, has served as a director since February 2006 and Chief Executive Officer since December 2005. Prior to joining GPOR, Mr. Palm pursued oil and gas investments primarily in Oklahoma, the Texas Panhandle and Kansas as the manager and owner of Crescent Exploration, LLC, a company he founded in 1995. Mr. Palm currently serves as a member of the Industry Advisory Committee of the Oklahoma Corporation Commission. Michael G. Moore, 54, has served as Vice President and Chief Financial Officer since July 2000. From May 1998 through July 2000, Mr. Moore served as Vice President and Chief Financial Officer of Indian Oil Company.

Source: Yahoo Finance

Source: Yahoo Finance

Ownership		
% of Shares Held by All Insider and 5% Owners		27.0%
% of Shares Held by Institutional and Mutual Fund Owners		60.0%
Top 5 Shareholders		
Shareholder	**Shares**	**% Out**
Neuberger Berman Group LLC	2,804,860	5.51
Guggenheim Capital, LLC	2,263,964	4.45
Vanguard Group Inc.	2,184,531	4.29
Bank of New York Mellon Corporation	2,141,657	4.21
Marshall & Ilsley Corporation	2,124,308	4.17

Westpac Banking Corporation (WBK)

October 28, 2011

Katherine Curiel — International Financial Services

Westpac Banking Corporation (NYSE: WBK), the fourth largest bank in Australia, offers a range of banking services and financial products to commercial, corporate, institutional and government customers. Its core competencies include sales and customer service to 5.1 million retail customers, wealth management, insurance products and investment banking solutions. The Company serves approximately 11.8 million customers under 6 distinctive brands: Westpac Retail & Business Banking (43% of revenue), Institutional Banking (15%), St. George Bank (acquired in 2010 and formerly the fifth largest bank, (22%)), BT Financial Group (3%), New Zealand Banking and Other (17%). WBK operates in Australia (90%), New Zealand (9%), the US, the UK and Asia (1% collectively) and maintains a distribution network of 1600 branches and 3540 ATMs. The company employs 38,000 employees and is headquartered in Sydney, Australia.

Price 10/19 ($):	110.58	Beta:	1.21	FY: Sept	2010A	2011E	2012E
Price Target ($):	136.66	Discount Rate:	13.55%	Revenue (M)	15181.8	17307.3	18518.8
52 WK L-H ($):	89.41-138.57	M-Term Rev. Gr Rate Est:	6.9%	% Growth	25.3%	14.0%	7.0%
Market Cap:	68.8B	M-Term EPS Gr Rate Est:	7.4%	ROE:	16.6%	16.9%	17.4%
Float (mil):	595.52M	Debt/Equity	4.83x	EPS:	$ 9.43	$ 11.80	$ 12.64
Short Interest (%):	0.03%	ROA:	1.63%	Div Per Share:	$ 1.53	$ 1.57	$ 1.58
Avg. 3 Month Vol:	34,796	NIM	2.20%	BVPS:	$ 64.37	$ 75.34	$ 87.08
Dividend ($):	$ 1.53			P/B:	1.72x	1.47x	1.27x
Yield (%):	6.80%						

Recommendation

Long-term sustainability for WBK is likely as it benefits from a leading market position, strong brand recognition, strong financial position and an improving ROE. On top of these factors, WBK has positioned itself to take advantage of future growth in its core markets by expanding through acquisitions and an additional brand launch in markets where it has opportunity to gain more market share. WBK has experienced a strong and sustainable revenue increase even throughout the financial crisis with a 4 year net revenue CAGR of 13.7%. Following the trend in Australia's banking system to cut costs, WBK maintains a focus on its productivity program and is ahead of the cost curve with an expense to income ratio of 38% (versus the peer average of 44%). Management expects cost savings due to an increase in automated systems and electronic banking usage that will allow it to significantly decrease its headcount adding about $450 million in the upcoming fiscal year. Its asset portfolio and liquidity position remains strong with its Tier 1 capital ratio at 9.2% and customer deposits continuing an upward trend, currently at 52% of total funding. In addition to consistently reporting higher ROE than its three main competitors (13.4% average), WBK reported a significant increase in its ROE to 16.6% in FY2010 due to a reported a net income increase of 84%. WBK also maintains a sustainable and positive dividend trajectory with a dividend yield and payout ratio of 6.8% and 70%, respectively. Another key strength for the company is the economic position for the Australian economy. Although it was affected by the financial crisis and growth remains at relatively low levels, a strong outlook is supported by the low unemployment rate (5%), inflation at 2.7% and attractive 10-year yield of 4.5%. For these reasons, it is recommended that WBK be added to the International Fund portfolio with a target price of $136, implying an upside of 23%.

Investment Thesis

- **Launch of Bank of Melbourne.** Westpac opened 14 branches in August 2011 and in the course of five years plans to open over 1000 more branches along with an additional 300 ATMs. The Bank of Melbourne serves the financing needs of the Victoria region, including the city of Melbourne, which is the second largest economic region in Australia and the growth driver for the country. Without the Bank of Melbourne, WBK had a market share in Victoria of 13.5% and now expects significant growth capability in this region. Further, the rise in the bankable population (+20% by 2013) in the region, expected from record overseas immigration, also presents growth opportunities for the group.

- **Aggressive Expansion in Small and Medium Enterprise Lending.** As the fastest growing sector in Australia, small and medium enterprises (SMEs) will drive growth in the Australian economy and contribute to increased funding demand for banks. Currently, the SME segment, a $60B market, represents 96% of all business and 33% of GDP. WBK maintains 20% of the market and has plans to become the country's largest lender within the next couple of years. Since 2009, Westpac has strategically placed priority to supporting these customers by establishing business centers and adding specialized staff and support to these customers through the recent global financial crisis. As a targeted customer, SMEs will enhance Westpac's profitability.
- **Growth in Wealth and Insurance Market.** Growth prospects for insurance and wealth management present ample opportunities for WBK. Australia's private wealth market was the third largest in Asia Pacific and after 2010 the number of high net worth clients in Australia rose by 35%, making it the 10th largest market in the world. Additionally, over 95% of families in Australia are underinsured representing a market of $8 billion. WBK's brand name, strong distribution network and its specialization through the BT Financial Group will allow it to take advantage of such growth opportunities.

Valuation

A variety of valuation techniques were utilized to find the intrinsic value of WBK. Using an average ROE of 17.3% and an estimated short-term cost of equity of 13.6% and 15.5% for long-term, an equity excess returns analysis was performed, resulting in an intrinsic value of $133. A terminal value rate of 3.2% was assumed. A sensitivity analysis based on changing terminal value growth rates A P/B multiple of 1.6, resulted from an equally weighted blend of historical and peer P/B multiples, was applied against a BV/Share of $87, resulting in a valuation of $138. Weighting these techniques equally, an intrinsic valuation of $136 was determined, providing a 23% upside. WBK pays a dividend of $1.39, or a yield of 6.8%.

Risks

- **Stiff Competition.** Australia's big four banks account for 85% of the home loan market and control a high percentage in retail markets. Such highly competitive market could adversely affect WBK's profitability if it fails to retain existing and attract new customers.
- **Heavy Reliance on Borrowed Funds.** The bank has a deposit to loan ratio of 52% compared to the average of 60% in the Australian banking sector. Such low ratio signifies that the bank is relying more on borrowed funds, which come at a higher cost than deposits. Overdependence on wholesale borrowing exposes the group to the risk of interrupted funding access as compared to its international competitors.
- **Slow Growth in Australian Economic Condition.** Australian GDP growth in 2011 will be reported at 2.7%. As in the US, growth in the Australian banking system depends on the country's economic performance and is constrained by low investment activities due to low consumer confidence. However, as opposed to the US, the Australian banking system benefits from opportunities from emerging markets like China, India and Thailand.

Management

Gail Kelly was appointed Managing Director and CEO of Westpac in 2008. Prior to this, she served as CEO of St. George Bank Ltd for 5 years. During this period, St. George doubled its assets and net profit after tax. Between 1997 and 2001, Kelly was employed at the Commonwealth Bank and was a member of the bank's Executive Committee.

Ownership

% of Shares Held by All Insider and 5% Owners:	N/A
% of Shares Held by Institutional & Mutual Fund Owners:	N/A

Top 5 Shareholders

Holder	Shares	% Out
AllianceBernstein, L.P.	15,766,215	2.62
Bank of America	538,475	0.09
Management Account Advisors, LLC	165,456	0.03
Northern Trust Corporation	113,234	0.02
Dimensional Fund Advisors LP	99,881	0.02

Source: Yahoo! Finance

Ferro Corp. (FOE)
October 28, 2011

Theodore J. Linn — Materials

Ferro Corporation (NYSE: FOE) is a producer of specialty chemicals and materials with about 50 manufacturing sites worldwide, selling to 30 different industries in approximately 100 countries. Operations are broken down by product into six reportable segments: electronic materials (32% of revenue), performance coatings (26%), color and glass performance materials (18%), polymer additives (14%), specialty plastics (8%), and pharmaceuticals (1%). One example of FOE's products is its new "black enamel 14303," which protects windshield bonding from UV rays for companies like Toyota and Volkswagen. Another is Evolution® performance enamel that provides the appearance of stainless steel with superior stain/scratch resistance and cost efficiency for household cooking and heating products. A few others are the Therm-Chek® PVC heat stabilizers, Plas-Chek® soybean-based plasticizers, and Synpro® lubricants, all that supply business from agricultural chemicals to wire & cable to personal care. FOE's products are small in proportion to their customers' total product cost, but can be critical to the appearance or functionality of end products. FOE's inputs include metal oxides, precious and non-precious metals, organic and inorganic materials, and polymers. These inputs are FOE's largest cost, reflected in the gross margin of 21.8% (industry average 28.8%). They, like all specialty chemical companies, attempt price pass through when input prices increase. FOE has more than 5,000 employees working in 23 countries with headquarters presently located in Mayfield Heights, Ohio.

					FY: Dec 31	2010A	2011E	2012E
Price ($): (10/20/11)	6.04	Beta:	1.99		Revenue (Mil)	2,102	2,205	2,313
Price Target ($):	12	WACC (%):	16.0		% Growth	22.77%	4.90%	4.91%
52WK H-L ($):	5.2-17.8	Mid-Term Rev. Gr Rate Est (%):	4.9		Gross Margin	21.80%	22.18%	22.56%
Market Cap (mil):	525	Debt/Equity (%):	55.6		Operating Margin	9.10%	9.24%	9.39%
Shs. Out (mil)	87	ROA (%):	2.7		EPS (Cal)	1.08	1.30	1.50
Float (mil):	85	ROE (%):	7.0		FCF/Share	$ 1.80	$ 1.97	$ 2.97
Short Interest (%):	6.9	P/B	0.8x		P/E	9.10	9.23	8.00
Avg. Daily Vol (mil):	1.6	P/S	0.2x					
Dividend ($):	N/A	EV/EBITDA	3.47x					

Recommendation

In 2009, FOE had a decrease in revenues y/o/y in all product segments (-28% total); resulting in a $4 million loss. In 2010, FOE returned to positive earnings because of a recovery of sales, most significantly a 58% increase in revenue of solar paste products (electronic materials segment). The brief stock price recovery was crushed after 2011 Q2 earnings when the electronics segment revenues dropped by 10% to $180 million and the two analysts downgraded from "buy" to "neutral" (then trading at $9). This was significant, however, as all other segments continued to grow post quarterly highs. The Company continues to innovate, recently spending an estimated $76 million in CapEx for emerging markets, which will drive revenue, margins, and hopefully expand the multiples. Additionally, all segments' operating margins are improving except for polymer additives, which is facing domestic pricing pressures. Other than the solar panel uncertainty in the electronic materials, sales are not expected to shrink. The Company has also diversified away risks like geographic and customer specific risk. For these reasons and a favorable valuation, it is recommended that FOE be added to the AIM Equity Fund with a target price of $12. The firm cut its dividend in 2008 and currently does not foresee paying a dividend in the near future.

Investment Thesis

- **Deep Cyclical, Asymmetrical Risk/Reward.** FOE has turned the corner from a period of revenue decline and loses in 2009, to a return to revenues exceeding $2 billion. Revenue for the first half of 2011 ($1.17 billion) has already exceeded any period over the past 5 years. Operating margins are also at higher relative levels (6.9%), although still worse than the industry average of 11.3%. FOE has also spent $70-80 million to develop presence in emerging countries, specifically Egypt, China, and Mexico. The Company's assets act as a soft pricing floor, as the majority of its assets are tangible goods: $270 million in precious metals and $1.0 billion in PPE. FOE is seen as a strong reward-risk cyclical opportunity in an improving economic environment.

- **Passes the One Call Rule.** The company has a 92-year track record and has operations that cannot be simply or cheaply rebuilt - even though the stock is trading at 0.80 times book value, compared to the industry average of 2.30x. Mr. Kirsch (CEO) could potentially sell to a competitor who can refinance at a cheaper WACC (16% vs. industry avg. of 11%). The EBITDA margin is 28% and possess as an interesting privatization play. Even if a buyer paid a price of 5x EV/EBITVA, there would still be a significant upside potential. The low relative price multiples serve as a safety net for the shareholders.
- **Diversified Market.** FOE's customer base is very well diversified, both geographically and by end market. The majority of sales are from outside the U.S.; 33% from Europe, 30% from Asia, 9% from Latin America, and the remaining 28% from the U.S. No single or related group of customers makes up for more that 10% of FOE's net revenue. Additionally, no segment is dependent on a single or related group of customers.

Valuation

To find the intrinsic value of FOE, a five-year DFC was conducted as well as a multiples valuation. The FY2011 FCF was calculated using a conservative revenue growth of 4.9% from guidance. Segment-specific operating margins were applied to the FY2011 growth, resulting in an operating income of $245 million. A generous capital expenditure estimation of $76 million for emerging market development left FCF of $169 million. The $154 million in FY2011 was extrapolated for the next four years and a perpetuity growth rate of 3% was applied. Future values were discounted at the WACC of 16% to come to a DCF valuation of $7.66. FOE is also trading at discounted multiples compared to its Bloomberg peers made up of companies like VAL, RPM, FUL, ASH, MTX, ROC, and CBT. The multiples valuation priced FOE at industry averages for Price/Book, Price/Sales, and Price/Earnings (peers trading at 2.3x, 0.8x, and 13.14x respectively). Even weights between the three come to a $15 share price. Weighting the two valuations, an intrinsic value of $12 was established, offering a near 100% upside.

Risks

- **Uncertainty in the Solar Energy Market**. FOE's conductive pastes are used in the manufacture of solar cells, which contributes the majority of the $250 million revenue gain in the electronic materials segment. The solar energy market is at a relatively early stage of development and the extent to which solar energy technology will be widely adopted is uncertain. Reductions in governmental and economic incentives could result in decreased demand for solar cells and adversely impact nearly 32% of FOE's revenue.
- **High Price Competition.** There is strong competition in all of FOE's markets, ranging from multinationals to local producers. This competition is primarily price, quality, and service, three areas that do not command an economic moat. Customers can generally buy their inputs from other sources if necessary. However, continued innovation in product development can set them apart from their competitors.

Management

James F. Kirsch has been the President and Chief Executive Officer of Ferro Corp. since 2004, and added responsibilities of Chairman in 2006. Prior to joining Ferro, Mr. Kirsch served as president for Premix Inc. and Quantum Composites, vice-president for Ballard Power Systems, and spent 19 years at Dow Chemical Company. He currently serves on the board of Cliffs Natural Resources, Inc., the Greater Cleveland Partnership, and the John Carroll University.

Ownership

% of Shares Held by All Insider and 5% Owners:	1%
% of Shares Held by Institutional & Mutual Fund Owners:	93%

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
Gamco Asset Management Inc.	6,148,679	7.10
Vanguard Group Inc.	4,769,249	5.51
Tocqueville Asset Management LP	4,523,930	5.23
Gabelli Funds LLC	4,002,400	4.62
Wellington Management Co. LLP	3,657,127	4.22

Source: Bloomberg

YPF Sociedad Anonima (YPF)

Jonathan Nolan

YPF Sociedad Anonima (NYSE: YPF) is Argentina's largest integrated energy provider, leading the Argentine market through both their upstream and downstream segments. The firm derives revenue from three sources – exploration and production (36% of total revenues), refining and marketing (57%), and chemicals (7%). YPF currently owns and operates over 90 oil & gas fields and produces 39% and 37% of the country's total oil & gas output respectively. Once a wholly owned subsidy of Spain's Respol, 42% of YPF's shares were liquidated in 2008 freeing a 17% interest to be traded publicly. YPF is headquartered in the Argentine capital of Buenos Aires and nearly 100% of the firm's revenues are derived in Argentina.

Price 10/20/2011 ($):	36.32	Beta:	0.85	FY: December	2010A	2011E	2012E
Price Target ($):	47.66	WACC:	12.70%	Revenue (Mil):	11265.28	13363.94	15368.54
52 WK H-L ($):	54.58-33.72	M-Term Rev. Gr	13.50%	% Growth:	22.9%	18.6%	15.0%
Market Cap:	16.43B	M-Term EPS Gr	32.90%	Gross Margin:	42.92%	34.67%	38.00%
Float (Mil):	64.06	Debt to Equity:	54.34%	Profit Margin:	14.99%	15.82%	14.88%
Short Interest (%):	0.36%	ROA:	11.76%	EPS (Cal):	$3.76	$2.78	$4.19
Avg. 3 Month Vol (Thou):	438.00	ROE:	28.06%	FCF/Share:	$3.17	$0.06	$1.92
Semiannual Dividend ($):	1.72	Dividend Payout:	86.95%	P/E (Cal):	10.08x	13.63x	9.04x
Yield (%):	8.90%						

Recommendation

The advent of new technologies in fossil fuel recovery, namely hydraulic fracturing or "fracing", has brought about a massive change in the outlook of the global energy markets. Since 2008, unconventional oil & gas reserves found in shale deposits have been the fastest growing source of energy in the world, a source of energy that Argentina was recently found to have in abundance. Argentina is currently estimated to be sitting on 774 trillion cubic feet of unconventional natural gas, giving it the world's third largest reserves. The majority of this shale oil & gas lies within the energy rich Neuquen Basin, an area where Argentina's YPF Sociedad Anonima owns more than 3 million acres. After nearly ten years of Argentine legislation that limited exports and kept domestic energy prices 73% below fair market value, the inability to satisfy domestic demand has forced the government's hand. With fuel prices already rising 17% YTD, YPF is returning to the drills, and doing so to the tune of 43 new wells over the next year. Early drilling success has shown the potential to revitalize Argentina's energy trade and greatly increase the profitability of an already profitable firm (2012E EPS growth of 50.78%). YPF also offers an industry high dividend yield of 8.90%, paying out nearly 87% of its profits to shareholders. It is recommended that YPF Sociedad Anonima be added to the AIM International Equity Portfolio with a target price of $47.66, presenting a potential upside of 31.21%.

Investment Thesis

- **Price Reform on the Rise in Argentina.** When economic crisis struck Argentina in 2002, the government sought to stimulate the Argentine economy by enacting policies to slash domestic energy prices. Although growth has returned to the South American nation, the policies enacted in 2002 remain. Last year, natural gas prices in Argentina were regulated down to an average of $1.96/mmBtu. This is a 73% discount to the $7.33/mmBtu that the nation paid neighboring Bolivia for its imported product. However, change is on the rise in Argentina. Nearly 10 years of policy making that disincentivized domestic energy providers to further their investment in E&P has caused reserves in the country to plummet more than 40%, driving Argentina into the import market. The Argentine government has already started to move toward a remedy. They now offer producers much higher contracted prices for their oil & gas under the Petroleo, Gas, and Refino Plus programs, an effort to spur production growth within their borders. In late 2010, a main competitor, Apache Argentina, signed a contract under the Gas Plus program to sell its product at $4.10/mmBtu and two other contracts at $5.00/mmBtu. Fuel prices have also been passed to consumers, with prices at the pump rising 17% YTD. As prices converge to market levels, YPF will not only see sizable top-line growth, but also great strides in the development of their resources.

- **Shale Gas & Oil in the Neuquen Basin.** In December 2011, YPF discovered a reservoir containing 4.5 trillion cubic feet of shale gas in the Lajas Loma La Lata area of the Neuquen province. Shortly after in May 2011, they struck shale oil in the Vaca Muerta formation, finding a reservoir containing an estimated 150 million barrels. Driven by the success of these early attempts, YPF is set to drill 43 additional wells in the coming year. In addition, YPF is a 30% partner in a joint offshore drilling venture to take place off the coast of French Guyana before the end of the year. This is an area that has proven to be very successful for U.K. based energy provider Tullow, also a 30% partner in the venture. If these drilling ventures carry on the success of the firm's earlier attempts YPF would be in a position to fully supply the remaining 25 million barrels of oil that they currently purchase from external sources to meet their downstream capacity demands.
- **Industry High Dividend Yield.** YPF has an immense cushion on the downside, held up by its very favorable dividend policy. The firm boasts an industry high dividend yield of 8.90%, backed up by consistently strong FCF generation. Since 2006, YPF has produced FCF/share at an average level of $3.30. YPF has also shown willingness to distribute excess cash in the form of special dividends, as they did with a $3.41 payout in 2008.

Valuation

To value YPF Sociedad Anonima a five-year DCF, P/E multiple, and dividend discount model were used and weighted 60%, 25%, and 15% respectively. The DCF used a WACC of 12.70% and a terminal growth rate of 2.50%, to establish an intrinsic value of $45.38. A weighted average historical and peer P/E multiple of 13.41x was applied to estimated 2012 earnings to yield intrinsic value of $56.18. YPF currently trades at 10.08x earnings, a sizeable discount to its 14.73x historical average. This is nearly right in line with the industry average of 9.44x earnings. At its current price of $36.32, YPF Sociedad Anonima is trading at a 31.21% discount to its final target price of $47.66. To account for changes in both WACC and terminal growth rate, a sensitivity analysis was conducted, yielding a price range of $37 to $61. As previously mentioned YPF pays a semiannual dividend of $1.72, yielding 8.90%.

Risks

- **Soaring Argentine Inflation.** Although the Argentine government has published numbers citing inflation near 10%, the consensus measure of independent economists is around 25%. If real wage increases do not mimic soaring inflation levels, YPF would inevitably see demand for its products substantially decreased. The effect of inflationary pressures has been limited thus far by a 25% hike in the minimum wage enacted by the Kirchner administration earlier this year.
- **Timeliness of Price Reform.** Although continued convergence of Argentine energy prices to market levels seems to be a foregone conclusion, a delay in the timeline of this reform could substantially decrease the value of YPF. As international oil giants such as ExxonMobil, Total, and Chevron have recently launched campaigns to capture share in Argentina, it is important that YPF is able to contract into higher prices before increased competition works against rate hikes.

Management

CEO Sebastian Eskenazi has captained YPF Sociedad Anonima since he took over the role in 2008. In addition to running YPF, Mr. Eskenazi is also co-CEO of Marviol S.R.L and Vice President of investment firm Petersen Inversiones. Although none of the operating officers directly hold stake in YPF, Petersen Inversiones is the firm's second largest owner with a 25% share.

Source: Yahoo!

Shareholder	Shares	% Out
Repsol YPF	224,186,700	57.00%
Petersen Group	98,327,500	25.00%
Lazard Asset Management	12,954,509	3.29%
Eaton Park Capital Management	9,775,857	2.49%
Capital International, Inc.	5,678,790	1.44%

% of Shares Held by All Insiders and 5% Owners	84.01%
% of Shares Held by Institutional & Mutual Fund Owners	13.66%