MARQUETTE UNIVERSITY
College of Business Administration
Applied Investment Management

AIM
APPLIED INVESTMENT MANAGEMENT

Applied Investment Management (AIM) Program

AIM Class of 2016 Equity Fund Reports
Fall 2015

Date: Friday, October 30th | ***Time:*** *3:00 – 4:15* p.m. | ***Location: AIM Room 488***

Student Presenter	Company Name	Ticker	Sector	Page No.
Connor Muth	Arris Group	ARRS	Information Technology	2
William Pink	Cynosure, Inc.	CYNO	Healthcare	5
Michael Reardon	U.S. Silica Holdings, Inc.	SLCA	Energy / Materials	8
Brendan Fanning	Restaurant Brands Intl Inc.	QSR	International Consumer Discretionary	11
Daniel Kralovec	Lannett Company, Inc.	LCI	Healthcare	14
Joanne Wycklendt	EnerNOC, Inc.	ENOC	Information Technology (Micro Cap)	17

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 8-10 minutes of Q & A.

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

Arris Group, Inc. (ARRS)
October 30, 2015

J. Connor Muth | Domestic Technology

Arris Group, Inc. (NASDAQ: ARRS) is a global communications technology company that designs, produces, and supplies broadband network services to consistently deliver voice, video, and data to end customers. ARRS operates their business through two segments: Customer Premises Equipment (CPE) (69% of revenue) and Network & Cloud (N&C) (31% of revenue). The CPE segment manufactures set-tops, gateways, modems, and other equipment that provides reliable voice, video, and high-speed data services for residential and business customers. Their N&C Segment manufactures all components and products required by service providers when constructing residential and metro distribution networks. Arris Group, Inc. was founded in 2001, and is headquartered in Suwanee, GA.

Price ($):	$ 29.10
Price Target ($):	$ 36.08
52WK H-L ($):	37.50-24.46
Market Cap (mil):	$ 4,266
Float (mil):	132.68
Short Interest (%):	11.46%
Avg. Daily Vol (mil):	1.0
Dividend ($):	0.00
Yield (%):	0.0

Beta:	1.21
WACC	9.27%
M-Term Rev. Gr Rate Est:	8.00%
M-Term EPS Gr Rate Est:	6.25%
Debt/Equity:	91.89%
Debt/EBITDA (ttm):	2.47x
ROA (%):	6.37%
ROE (%):	18.01%
ROIC (%):	9.15%

FY: Dec	12/31/2013	12/31/2014	12/31/2015	12/31/2016
Revenue (Mil)	3,621	5,323	4,961	5,283
% Growth	167.5%	47.0%	-6.8%	6.5%
Gross Margin	28.2%	29.7%	29.1%	29.7%
EBITDA Margin	11.1%	9.0%	12.0%	13.1%
EPS (Cal)	($0.37)	$2.21	$1.96	$2.34
FCF/Share	$2.35	$2.29	$2.53	$2.80
P/E (Cal)	12.7	13.7	14.8	10.7
EV/EBITDA	11.0	7.7	8.2	8.9

Source: FactSet

Recommendation

Arris Group, Inc. generates revenues by providing cable network operators, telecommunication service providers, and content programmers with a mix of networking products (modems, servers, gateways), wireless solutions, cloud based products, and global support services. ARRS is a unique technology communications company because they are able to adapt their modem, gateway, and cloud based products in such a dynamic industry. They have a global customer base, however, the majority of their revenues are based in the United States (72%). Other global revenues include Brazil (6%), Canada (4%), Mexico (3%), and China, Argentina, Germany, and the UK, each with 1%. ARRS has a leading market position in their industry, strong FCF capabilities, and positive future growth prospects in the cable industry. Revenue is expected to grow between 5% and 9% year-over-year. Sales rose 47% in FY14, despite investor skepticism about the Motorola Home acquisition. However, YTD performance has been relatively weak, suggesting a FY15 revenue decline of 6%. This decline in FY15 is partly due to a weakened industry capex environment. In recent years, the cable industry has experienced numerous mega-mergers which have significantly reduced cable providers' capital expenditures. ARRS has identified growth prospects from cable providers as Comcast, TWC, and AT&T, all of whom are beginning to enter an industry-wide equipment upgrade stage. These network upgrade periods are highly beneficial because they normally last 2-4yrs in duration and generate consistent revenues. Further, increased revenues, earnings, and operational and cost synergies from the Pace acquisition are expected to boost FY16 revenues by 6-7%. Finally, in order to maintain their competitive advantages, ARRS holds 141 patents, 323 utility patent applications, and 65 provisional patent applications for their technologies. Due to the increasing expectations of top line revenue growth from an expanding global market share, a forthcoming industry-wide cable equipment upgrade, and synergies to be recognized from recent acquisitions, it is recommended that Arris Group, Inc. be added to the AIM Small-Cap Equity Fund with a target price of $36.08, representing a 23.99% upside. ARRS does not pay a dividend.

Investment Thesis

- **Expanding Global Market Share.** Over the past few years, Arris has experienced growth in their global customer base and have benefitted from increased engineering capabilities and an expanded product portfolio. They have further made significant commitments to internal growth by steadily investing in R&D over the years, adjusting their business model during the difficult

financial times from 2009-2011. ARRS holds a strong market position in the networking equipment market, which is a sizeable segment of the cable industry. They have become one of the largest providers of video equipment in the world, and are the global leader in manufacturing cable edge routers, with a commanding 50% market share.

- **Growth from Acquisitions.** Arris has completed a select number of tactical acquisitions. In 2013, ARRS acquired Motorola's Home business segment from Google, Inc. for $2.35B, which has improved revenue & product diversification for ARRS, grown the top line in FY14 by over $1B, and improved overall FCF. On April 22, 2015, Arris announced the acquisition of Pace plc for $2.1B. The deal is expected to benefit ARRS through supply chain efficiencies, product cost reductions, and a further expansion of the overall product line. On October 22, 2015, the shareholders of both Arris and Pace approved the acquisition, and both firms are awaiting DoJ regulatory approval, which is highly likely to happen by the end of Q4 2015 or early Q1 2016.
- **Long-Term Customer Relationship Management.** In the communications and technology industries, consumers want flexibility with their content consumption. Cable service providers need to be able to accommodate increasing bandwidth demands and develop new products geared for IPTV platforms. Content providers rely heavily upon products manufactured by Arris to support the current cable video delivery model, positioning ARRS well to help them upgrade their equipment to be able to handle higher quality voice, video, and high speed data transmission.
- **Strong Management Team.** The ARRS management team is skilled at recognizing how to expand their market position and effectively utilize the company's FCF. They successfully executed the Motorola Home integration, delivering results that exceeded projections and de-levered the balance sheet. They have additionally identified and grown Arris's global presence by expanding into the Australian, Japanese, and Latin American markets.

Valuation

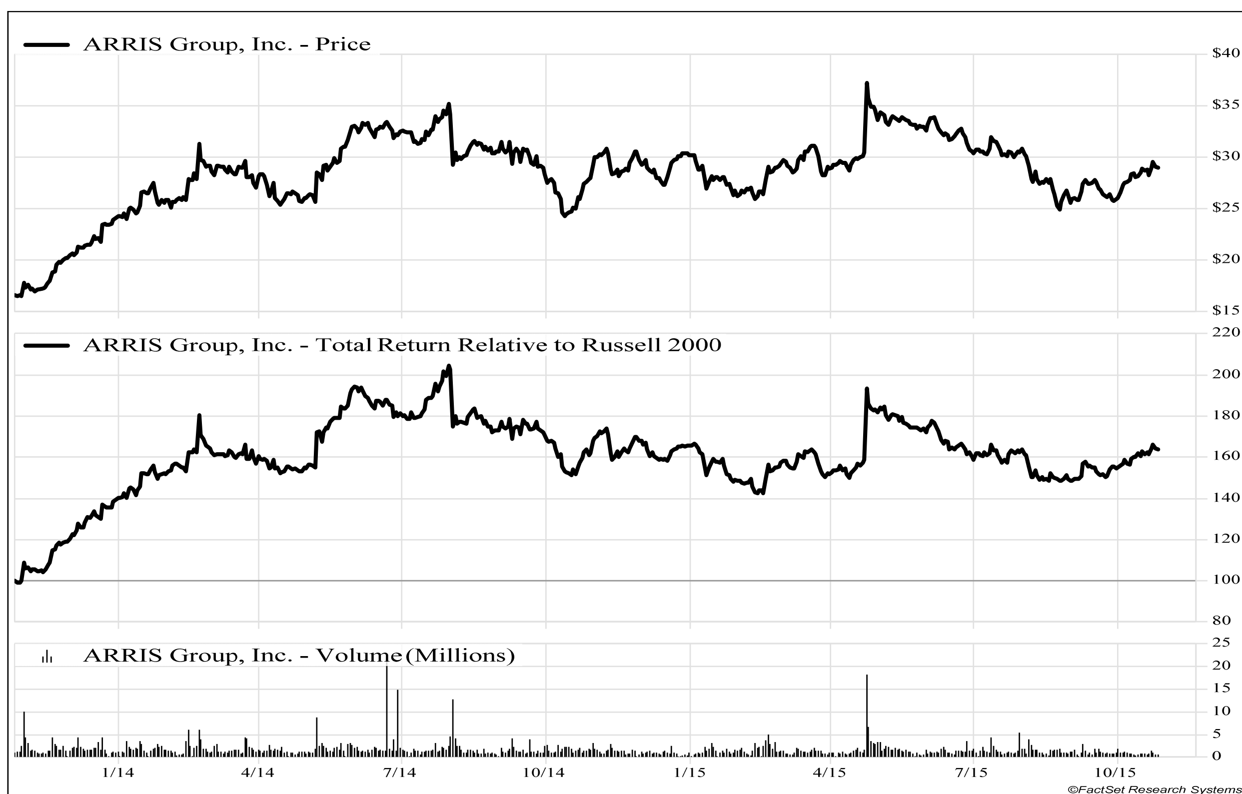
In order to reach an intrinsic value for ARRS, a five year DCF model was constructed. Using a terminal growth rate of 1.5% and a WACC of 9.27%, an intrinsic value of $28.28 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $25.47-$32.09. Additionally, an EV/EBITDA and P/E multiple valuations were conducted by analyzing the five year historical, peer analysis, and forward multiples, resulting in an EV/EBITDA target multiple of 11.05x and a P/E target multiple of 12.8x, collectively yielding a value of $43.88. By weighting the three valuation models 50/25/25, a price target of $36.08 was reached, yielding a 23.99% upside. ARRS does not pay a dividend.

Risks

- **Highly Competitive Environment.** Arris operates in a dynamic, highly competitive technology field (broadband communication). Companies must react quickly in order to fully capitalize on technological changes. The technology industry can be characterized as having low barriers to entry and cycles of rapid growth, both of which would benefit startup competitors.
- **Currency Fluctuations.** Arris Group, Inc. is subject to currency and exchange rate fluctuations. Most international customers make purchases that are denominated in USD. However, due to the extent that the dollar strengthens, it may impact their future abilities to purchase ARRS products.
- **Customer Concentration.** ARRS's three largest customers (Comcast, TWC, & AT&T) represent over 33% of total sales, accounting for 19.0%, 13.0%, & 11.5%, respectively.

Management

ARRS was formerly Arris Interactive, LLC (1995-2001). In 2001, the company acquired ANTEC from Nortel Networks. Robert J. Stanzione is currently the Chairman of the Board, President, and CEO of Arris Group, Inc., and has been with the company since 1995. He formerly held numerous senior management positions at AT&T from 1969 to 1995. David B. Potts is the CFO of Arris Group, Inc., joining in 1995 with Robert Stanzione. He previously held numerous senior management positions at Nortel Networks.



Source: Factset

Ownership

% of Shares Held by All Insider Owners:	9.49%
% of Shares Held by Institutional & Mutual Fund Owners:	98.20%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
The Vanguard Group, Inc.	10,471,936 ▲	7.14
First Pacific Advisors LLC	9,937,463 ▼	6.78
Wellington Management Co. LLP	8,882,164 ▲	6.06
BlackRock Fund Advisors	8,350,528 ▲	5.70
Hotchkis & Wiley Capital Management LLC	7,824,618 ▼	5.34

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA	Dividend Yield	EV/ EBITDA
ARRIS Group, Inc.	ARRS	4,266	5,144	641.84	0.00	7.87
Comtech Telecommunications	CMTL	383	307	46.81	4.17	N/A
Harmonic Inc.	HLIT	519	423	22.57	0.00	18.34
Cisco Systems, Inc.	CSCO	147,273	49,161	13,715.00	2.82	8.18
Motorola Solutions, Inc.	MSI	14,485	5,850	-677.00	1.94	8.80
Harris Corporation	HRS	9,334	5,083	1,127.00	2.42	12.49
Peer Averages		34,399	12,165	2,847	2.27	11.95

**Removed For Relative Valuation Analysis*

Source: FactSet

Cynosure, Inc. (CYNO)
October 30, 2015

William Pink — Health Care

Cynosure Inc., (NSDQ: CYNO develops and markets aesthetic treatment systems that enable plastic surgeons, dermatologists, and other medical practitioners to perform non-invasive and minimally invasive procedures to remove hair, revitalize skin and remove unwanted fat and cellulite through laser lipolysis. CYNO includes 20 light system products that provide fast treatment through laser technology while limiting side effects to surrounding tissue. Their growth strategy is based upon organic innovation through launch of new products and disciplined M&A by integrating complementary products and distribution networks. The company sells their products through a direct sales force in North America (54%), Europe (17%), Asia/Pacific (22%) and other countries (7%). Cynosure was incorporated in 1991 and is headquartered in Westford, Massachusetts.

Price ($):	34.31
Price Target ($):	44.88
52WK H-L ($):	42.97 - 23.09
Market Cap (mil):	779
Float (mil):	22.6
Short Interest (%):	5.9
Avg. Daily Vol (mil):	0.2
Dividend ($):	0.00
Yield (%):	0.0

Beta:	1.00
WACC	7.56
M-Term Rev. Gr Rate Est:	14.6%
M-Term EPS Gr Rate Est:	8.2%
Debt/Equity:	4.5
Debt/EBITDA (ttm):	0.40
ROA (%):	6.85
ROE (%):	8.70
ROIC (%):	8.33

FY: Dec	12/31/2013	12/31/2014	12/31/2015	12/31/2016
Revenue (Mil)	277	292.37	332.67	372.60
% Growth	80.34	5.62	13.79	12.00
Gross Margin	64.65	55.50	58.32	59.41
EBITDA Margin	31.46	13.51	14.47	16.45
EPS (Cal)	($0.09)	$1.41	$1.44	$1.52
FCF/Share	($0.00)	$1.18	$0.94	$1.30
P/E (Cal)	-	19.4	36.3	26.2
EV/EBITDA	4.7	13.2	13.4	13.9

Recommendation

Cynosure, Inc. has a wide array of aesthetic treatment products that target twelve major treatment areas. The U.S. market for non-surgical cosmetic procedures totaled $5 billion in 2014 and CYNO has enjoyed only 5% of that market share. CYNO offers their products in 132 countries and distribute their products from a direct sales force (81%) and through third party distributors (19%), and will see their exposure increase due to an increase in their international sales force. Over the past five years revenue has grown at an 18% growth rate YoY but gross margins have not increased as expected due to increasing expenses with patents and third party license agreements. However, patent expenses along with R&D expenses have been correlated with the development of new product SculpSure that is set to launch in Q1 2016. History of successful mergers and acquisitions through acquiring Palomar in 2013 and MonaLisa Touch in 2014 provides an additional growth to the company outside of their central operations. The acquisition of MonaLisa Touch will allow CYNO to become exposed to the women's vaginal health market and specifically 49 million postmenopausal women in the U.S. Revenue in North America continued to increase up 29% YoY and totaled 63% of total revenue for Q3 2015, due to the additional sales of new product MonaLisa Touch and existing products PicoSure and Icon. International sales have been flat this year because of currency fluctuations and economic weakness in China and Europe. Revenues are expected to increase internationally with a focus on expanding direct CYNO offices located in UK, France, Germany, and Spain. After beating expectations in Q3 2015 CYNO is entering their seasonally strongest quarter with solid momentum from sales of existing products and will roll out the SculpSure launch in Q1 2016. Due to the rising exposure of CYNO products worldwide and launching of new products such as SculpSure and MonaLisa Touch it is recommended that Cynosure, Inc. be added to the AIM Equity Fund with a target price of 44.88, representing a 30.81% upside. The company does not pay a dividend.

Investment Thesis

- **Increasing Worldwide Market.** As of 2014, more than 1.3 billion adults over the age of 18 were overweight worldwide with a BMI between 25 and 30. An increase in BMI creates risks for life threatening diseases such as high blood pressure, stroke, diabetes, and specific cancers. By 2020, it is predicted that 33%-36% of the world population is going to be classified as overweight. With

non-invasive body contouring becoming the fastest growing area of aesthetic medicine, there will be a larger demand and market for CYNO products such as SculpSure, Icon, and Smartlipo.

- **Launching of SculpSure.** In Q1 2014, CYNO launched their new product ScuplSure a hyper thermic laser treatment for non-invasive lipolysis of the flanks and abdomen. It is designed to reduce fat non-invasively by sending frequencies through the skin to eliminate fat cells in approximately thirty minutes. The company received FDA clearance in May of 2015 and a CE Mark in September of 2015 allowing them to market their new product. The company has begun initial shipments of SculpSure and conducted sales training with personnel. The full U.S. launch is set for Q1 2016 and planned to coincide with the rollout of the product in European direct offices.
- **Expansion of Internal/External Team.** CYNO is looking to expand numerous departments of their teams with a plan to increase employment by 65 employees before the end of Q1 2016. Departments included are internal marketing specialists, field clinical specialists, and marketing reps, who provide strategies and promotions to drive existing patient base along with providing advanced training on CYNO products. Although international revenue and income has dipped in the past fiscal year, this is largely due to the currency flunctiation and should hopefully return to prior stable conditions.

Valuation

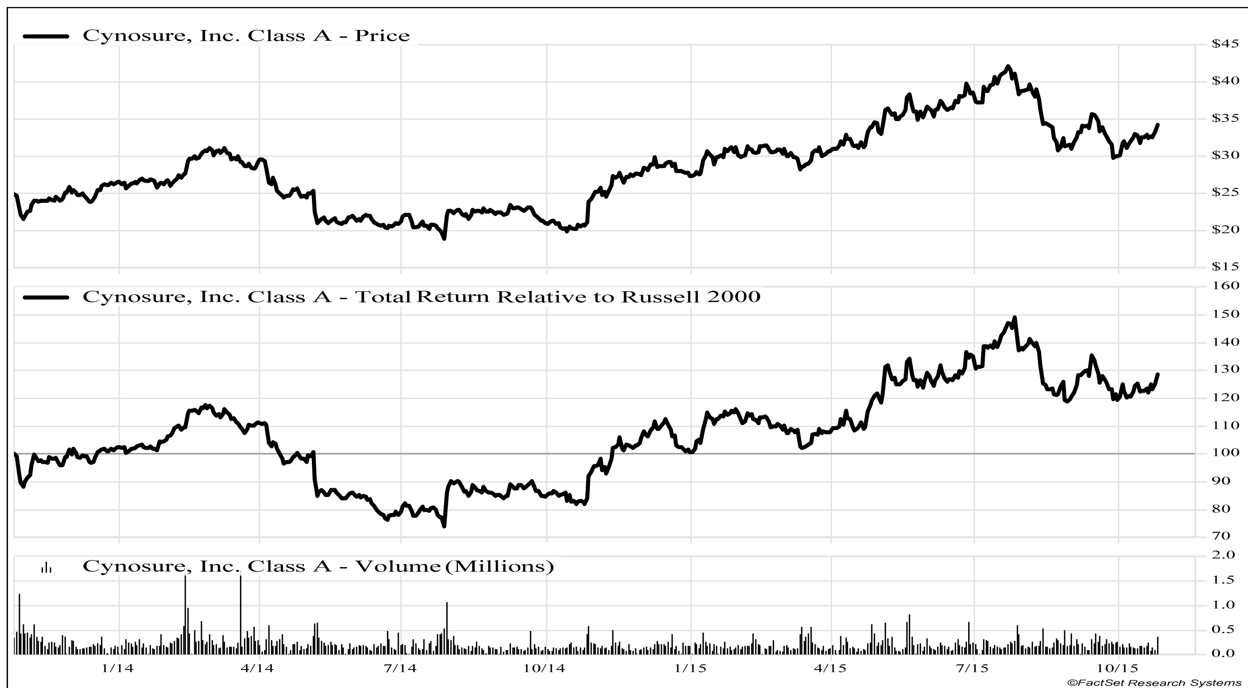
In order to reach an intrinsic value for CYNO, a five year DCF model was constructed. Using a terminal growth rate of 3.0%, WACC of 7.80%, an intrinsic value of $45.92 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $30.14-59.35. Also, an EV/EBITDA multiple valuation was conducted using CYNO EV/EBITDA of 13.21 and a comparables average EV/EBITDA of 14.93x, which resulted in a valuation of $42.46. By weighting the the two valuation models 70/30 in favor of the five year DCF model, an intrinsic value of $44.88 was found resulting in a potential upside of 30.81%.

Risks

- **Consumer Demand.** The aesthetic laser and light based treatment industry is extremely vulnerable to economic trends. Most of the procedures performed using CYNO products are not reimbursable through government or private health insurers. Therefore the cost of CYNO products can influence customers to not undergo the procedures.
- **Competition.** There are numerous competitors in the aesthetic device industry and with the expansion of CYNO they are likely to compete with new companies in the future. Also, the non-light based products have heavy competition with products such as BOTOX and collagen injections and this could result in a loss of market share and revenue for CYNO.
- **Foreign Currency Exposure.** By having international exposure in over 120 countries and more than half revenues outside of the U.S., CYNO faces currency risks. Fluctuations in exchange rates between the currencies in which revenues and costs are incurred can have a material adverse effect on results of operation.
- **Pipeline Failures.** Investment in product development often involves a long payback cycle and risks with new technology. SculpSure can see a rejection of approval from the market and sales cannot meet the expectations set forth by CYNO for the product. Some products will face elongated applications and not realize revenues on their products until two to three years after their launch. There are no guarantees that products will pass the approval stage and CYNO can face sunk R&D costs.

Management

Michael Davin has been the CEO and director since 2003 and became chairman of the board in 2004. He has over 25 years of experience in light-based technology field. Timothy Baker is the CEO and President, roles he has held since 2004, and was named to COO in 2013. Douglas Delaney is the EVP of Worldwide Sales, a position he has held since 2005. Other VP include William Kelley, David Mackie, and Rafael Sierra.



Ownership

% of Shares Held by All Insider Owners:	0.30%
% of Shares Held by Institutional & Mutual Fund Owners:	93.00%

Source: FactSet

Top 5 Shareholders

Holder	Shares		% Out
BlackRock Fund Advisors	2,019,696	▲	8.90
Dimensional Fund Advisors LP	1,058,546	▲	4.66
TimesSquare Capital Management LLC	991,820	▲	4.37
Loomis, Sayles & Co. LP	969,333	▼	4.27
The Vanguard Group, Inc.	878,708	▲	3.87

Source: FactSet

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA	Dividend Yield	EV/ EBITDA
Cynosure, Inc. Class A	CYNO	779	316	42.445	0.00	13.21
Cutera, Inc.	CUTR	191	86	-7.7	0.00	-
Syneron Medical Ltd	ELOS	297	271	9.0	0.00	23.45
Dynatronics Corporation	DYNT	8	29	-0.2	0.00	-
IRIDEX Corporation	IRIX	82	42	1.7	0.00	25.23
Lumenis Ltd. Class B	LMNS	#N/A	292	25.6	0.00	11.54
Peer Averages		145	107	0.7	0.00	14.9

U.S. Silica Holdings, Inc. (SLCA)
October 30, 2015

Michael Reardon — Domestic Energy

U.S. Silica Holdings, Inc. (SLCA) is an industrial sand company specializing in the production of commercial silica, which is a critical input in a diverse array of end markets. U.S. Silica operates in two segments: Oil & Gas Proppants (75.6% of 2014 sales) and Industrial & Specialty Products (24.4%). The Oil & Gas segment produces fracking sand used in the oil and gas recovery process, while the Industrial & Specialty products segments serves a wide variety of industries, selling over 250 products and materials including those used to make glass, fiberglass, building products, and filtration products. The Company operates 17 production facilities, most of which are located in the Upper Midwest, and controls approximately 363 million tons of reserves, about half of which meet the size and quality standards of the American Petroleum Institute. The Company was founded in 1900, began trading publically in 2008, and is currently headquartered in Frederick, MD.

Price ($): (10/27/15)	15.83
Price Target ($):	19.52
52WK H-L ($):	51-13
Market Cap (mil):	845
Float (mil):	47.8
Short Interest (%):	28.5
Avg. Daily Vol (mil):	2.5
Dividend ($):	0.50
Yield (%):	2.8

Beta:	1.74
WACC	8.4%
M-Term Rev. Gr Rate Est:	2.5%
M-Term EPS Gr Rate Est:	19%
Debt/Equity:	122.1%
Debt/EBITDA (ttm):	2.55
ROA:	10.3%
ROE:	30.0%
ROIC:	10.5%

FY: Dec	2013	2014	2015E	2016E
Revenue (Mil)	546.0	876.7	658.0	654.0
% Growth	23.5%	60.6%	-24.9%	-0.6%
Gross Margin	29.5%	30.2%	24.4%	28.0%
Operating Margin	21.0%	20.1%	15.9%	18.1%
EPS (Cal)	$1.40	$2.24	$1.15	$1.35
FCF/Share	$6.51	$1.43	$1.64	$2.27
P/E (Cal)	11.3x	7.1x	13.8x	11.7x
EV/EBITDA	6.8x	4.6x	6.1x	5.3x

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 of, and waning demand for, domestic shale oil. In the last year, Baker Hughes rig count has fallen by 60% as large swaths of most major domestic oil basins have become unprofitable under legacy assumptions about well productivity and marginal cost of production. As rig count and oil prices have fallen, exploration & production and oilfield services companies have cut CapEx and made major efforts to boost deteriorating well economics by cutting costs and experimenting with untested frac mixes. This experimentation included reevaluating the supposed economic benefits of expensive ceramic proppants. Ceramic and other types of proppant, including frac sand, are materials that are pumped into oil and gas wells to create and maintain fractures in shale rock, thereby allowing oil to flow out of the shale and to the surface. This reevaluation has resulted in the market's shifting from ceramic proppant-intensive frac mixes towards mixes utilizing more industrial frac sand. As a result, ceramic volumes are down nearly 60% year over year; however, sand volumes have only fallen 25% over the last 12 months despite the 60% decline in rig count and completion activity from peak levels. This transition is due to E&P's recent tendency to complete shale wells with increasingly sand-intensive frac mixes – oil companies are now using 15-20% more sand per than a year ago. The shift to sand-intensive completions has the potential to be more structural than cyclical, and companies using increased sand loads have seen a 15% to 20% surge in economic performance (and up to a 50% increase in production) versus wells of comparable geologies that are fracked using sand loads in line with historical intensity (FANG 2Q15, WLL 2Q15 earnings calls). U.S. Silica has benefitted greatly from this shift, with revenues from the Oil & Gas segment increasing sequentially by 12.3% in 3Q15 despite continued weakness in the domestic oil industry. U.S. Silica is poised to benefit from the industry's movement to more sand-intensive fracks, as well as the potential improvement in the broader domestic energy market. For these reasons, it is recommended that U.S.

Silica Holdings, Inc. be added to the AIM Equity Fund with a price target of $19.52, which represents a 23.30% upside. SLCA pays a $0.50 dividend, currently yielding 3.2%.

Investment Thesis

- **Increasing sand load of frac mixes.** As the industry recognizes the economic benefit of substituting frac sand for expensive ceramic proppant during the completion process, industry-wide demand for sand will increase. As the third largest industrial sand supplier in the industry, SLCA will be able to deliver outsized revenue and earnings growth as it leverages its competitive position and superior scale.
- **Strong competitive position.** U.S. Silica is one of the largest players in a fragmented industry. This has allowed SLCA to push volume over price over the last twelve months and secure further market share – including growing share of key accounts like SLB and HAL. This positions SLCA well for an eventual reacceleration of the fracking market. Additionally, U.S. Silica's balance sheet is levered at only 2.55x debt/EBITDA and is one of the few in the industry with capacity for a meaningful acquisition.
- **Mix shift will drive margin upside.** At 39%, U.S. Silica's Oil & Gas Proppant segment contribution margin is ten points higher than its Industrial & Specialty business segment. As sand volumes increase and pricing stabilizes, consolidated margins and earnings will benefit from the favorable mix shift.

Valuation

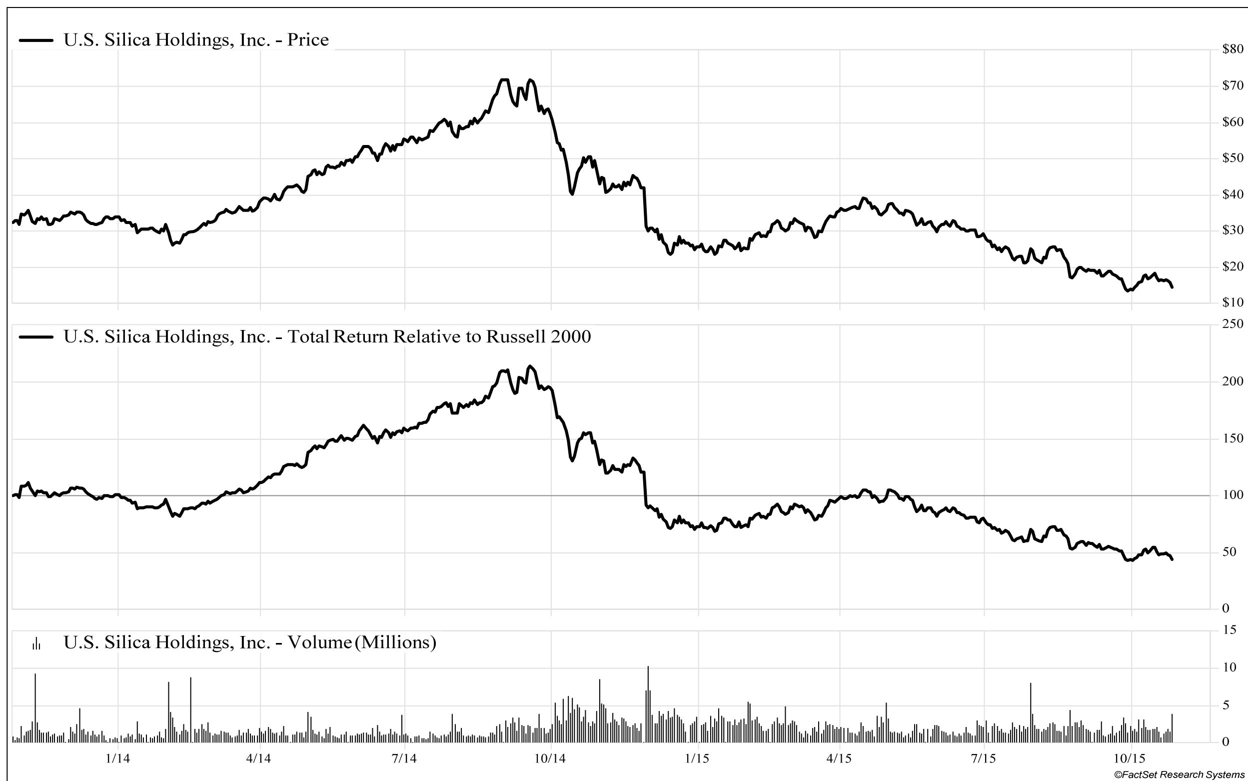
To reach an intrinsic value for SLCA, a five year DCF model was constructed. Using a terminal growth rate of 3.0% and a WACC of 8.38%, an intrinsic value of $20.19 was reached. A ± 1% sensitivity analysis on the terminal growth rate and WACC ranged from $17.80-25.25. Additionally, an historical EV/EBITDA multiple valuation using 2016 EBITDA of $195MM and a cyclically-adjusted multiple of 5.6x, was conducted, resulting in valuation of $16.98. By weighting the valuation models equally, a price target of $18.58 was reached, representing a 17.39% upside.

Risks

- **Decline in completion activity.** U.S. Silica's revenue is highly correlated to activity within the oil and gas market. A decline in rig count or an increase in delayed completions by E&P companies could reduce on delay demand for proppant, including frac sand produced by U.S. Silica.
- **Continued pricing pressure.** Although recent data suggests pricing pressure appears to have begun to moderate, the 25% fall in sand prices is among the smallest decline of all oil & gas related products, and further downward pressure may persist or accelerate. Additionally, Chinese manufacturers have begun to and sell low-quality ceramic proppant. Chinese entrants may force down the price of ceramic proppants and change the economics of a ceramic well enough to materially impact the demand for ceramic proppants and frac sand.
- **Environmental concerns.** Though fracking sand is typically limestone, quartz, or bauxite and therefore entirely environmentally friendly, the fracking process has been criticized for contaminating groundwater or destabilizing naturally occurring geologic formations. Any political, regulatory, or environmental rhetoric in opposition to the fracking process would decimate demand for proppants and critically impair U.S. Silica's business model.

Management

Bryan Shinn has served as President, Chief Executive Officer, and Director of U.S. Silica since October 2009. Previously, he was Director of Global Sales for E.I. du Pont de Nemours & Co.'s specialty chemical business. Donald Merril has over 15 years of experience in CFO roles across a number of manufacturing companies. Prior to Chief Operating Officer Michael Winkler's 2011 appointment, Winkler held a number of increasingly senior industrial engineering roles at Campbell Soup Co. and Mars, Inc.



Ownership

% of Shares Held by All Insider Owners:	10.5%	▲
% of Shares Held by Institutional & Mutual Fund Owners:	>90%	▲

Source: ThompsonOne

Top 5 Shareholders

Holder	Shares		% Out
BlackRock Fund Advisors	4,589,490	▼	8.60
The Vanguard Group, Inc.	3,970,622	▲	7.44
Ariel Investments LLC	2,584,126	▲	4.84
Van Berkom & Associates, Inc.	2,334,238	▲	4.37
Morgan Stanley Smith Barney LLC	2,084,403	▼	3.90

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	D/E	Net Income	2016 EBITDA	2016 EV/ EBITDA
U.S. Silica Holdings, Inc.	SLCA	845	122.1%	$121M	$195M	5.3x
Hi-Crush Partners LP	HCLP	249	147.8%	$123M	$70M	6.9x
Fairmount Santrol Holdings, I	FMSA	387	1635.4%	$1M	$149M	9.9x
CARBO Ceramics Inc.	CRR	382	13.1%	$55M	$8M	46.7x
Emerge Energy Services LP	EMES	120	222.6%	$89M	$47M	7.8x
Peer Averages		285	504.7%	$67M	$69M	17.8x

Source: FactSet

Restaurant Brands International Inc. (QSR)
October 30, 2015

Brendan Fanning International Consumer Discretionary

Restaurant Brands International Inc. (QSR) is the parent company for Tim Hortons Inc. and Burger King Worldwide, Inc. The Company operates more than 18,000 restaurants in 100 countries under its two distinct brands. The consolidation of Burger King and Tim Hortons created Restaurant Brands International, the third-largest global QSR chain with $23.5 billion in system wide sales and 19,000 units in 2014 (99% franchised). Revenue comes from franchise royalties, company-owned stores, and distribution sales to franchisees. There are almost 14,500 Burger King locations, with 7,400 in North America, 3,900 in Europe/Middle East/Africa, 1,700 in Latin America, and 1,500 in Asia Pacific. Tim Horton's franchisees operate 3,800 units in Canada and 900 in the U.S. QSR was founded on August 25, 2014 and is headquartered in Toronto, Canada.

				FY: Dec	2014A	2015E	2016E	2017E
Price ($): (10/27/15)	38.28	Beta:	1.04	Revenue (Mil)	4,192	4,150	4,370	4,558
Price Target ($):	45.50	WACC	7.76	% Growth	---	-1.0%	5.3%	4.3%
52WK H-L ($):	45.71 - 32.98	M-Term Rev. Gr Rate Est:	31.4%	Gross Margin	39.5%	40.6%	41.4%	38.0%
Market Cap (mil):	7,732	M-Term EPS Gr Rate Est:	17.9%	EBITDA Margin	31.0%	33.0%	36.5%	32.5%
Float (mil):	201.7	Debt/Equity:	183.0	EPS (Cal)	$0.93	$1.10	$1.43	$2.96
Short Interest (%):	6.4	Debt/EBITDA (ttm):	8.94	FCF/Share	$0.17	$1.26	$1.47	$1.52
Avg. Daily Vol (mil):	1.0	Current Ratio	1.37	P/E (Cal)	---	37.1	30.3	27.4
Dividend ($):	0.48	ROA (%):	2.2%	EV/EBITDA	13.4	13.5	11.5	12.5
Yield (%):	1.3	ROE (%):	22.4%					

Recommendation

The consolidation of the Burger King and Tim Hortons franchisee systems as Restaurant Brands International creates meaningful unit growth and cost reduction opportunities, as well as the potential to add to its house of brands over time. As the integration process continues, management's priorities are relatively straightforward: combine unit growth and same-store sales layers to drive system wide sales, optimize its corporate cost structure, and bolster franchise-level returns. This combination will better-position both brands to adapt to an evolving restaurant landscape, highlighted by struggling industry leader McDonald's, the increased popularity of fast-casual concepts, and the rapid retail and wholesale growth of specialty coffee players like Starbucks and Dunkin' Brands. It appears that the consolidation of both brands will create meaningful synergy for QSR as there are several similarities between Burger King and Tim Hortons recent strategic vision overhauls. For example, the four pillars underpinning Burger King's "menu/marketing communications/image/operations" strategic vision match up well with components of the five-year plan Tim Hortons unveiled in February 2014, which focused on brand awareness, increased use of technology as a marketing tool, and international expansion. Under the stewardship of 3G Capital, which has helped to drive a meaningful improvement in franchisee relations and fundamentals across the Burger King system through a simplified menu and aggressive operating cost cuts, both companies are expected to accelerate their respective strategic plans while leveraging best practices. Using the international master franchise structure developed with Burger King, QSR plans to accelerate Tim Horton's unit growth and position the brand for global expansion. QSR is an attractive buy due to its runaway growth momentum in the US with TH and globally with BK, as well as management's ability to remove costs from the business and drive free cash flow. As a result, it is recommended that QSR be added to the AIM International Equity Fund with a price target of $45.50 representing a 19% upside.

Investment Thesis

- **Acquisition of France's #2 Fast Food Player.** In late September, Burger King France, QSR's master franchisee partner in France, announced that its majority shareholder, Groupe Bertrand, acquired Quick, a 500 unit hamburger chain, and France's number two fast food player behind MCD. BK France plans to convert all Quick units in France to BK restaurants over time. Because

the acquisition is by a franchisee, not the parent, the immediate impact will likely be modest. Going forward, management expects this deal to result in $20-$40M in incremental franchisee revenue to QSR over time as France is regarding as one of the most profitable quick service markets in the world. Besides offering a real estate platform to speed up growth plans, this deal favorably signals QSR's ability to gain market share in untapped markets with growth potential.

- **Cost Cutting Focus.** Since inception, RBI has been fervent in implementing a zero-base-budgeting scheme with both brands to improve margins. TH SG&A was trimmed 45% y/o/y in 2Q while BK's SG&A expense dropped 50bps y/o/y for the quarter. An ongoing focus on cost cutting measures through menu simplifications, promotion of a strong cost ownership culture, and closing of unprofitable locations is expected to further improve margins. A 99% franchised model within RBI's holdings also gives the company a cost cutting advantage over less franchised competitors like McDonald's (82% franchised), Yum Brands (77%), and Starbucks (46%).
- **Further Expansion.** BK is among the handful of restaurant brands to be successfully replicated across the globe backed by its strong brand recognition and consistent customer experience. Based on consumers' international acceptance of its brand, master francisee joint venture partners with operating and financial expertise, and distrubtion infrastructure already established in several emerging market economies, management sees the potential to open more than 10,000 net new systemwide BK locations over the next ten years. With existing experitise and suppliers in place, QSR also looks to grow TH through a similar international master franchise structure.
- **Tim Hortons' Brand Power.** TH is Canada's leading QSR chain by a wide margin with a 27% share of the $24B Canadian QSR marketplace (including 42% of all QSR transactions and 87% share of the doughnut/coffee category). This leadership not only makes TH one of Canada's best-known brands, but also provides its franchisees with access to prime retail real estate, supplier bargaining power, and inherent pricing power. Management expects to see continued strength in Canada due to TH's dominant brand.

Valuation

In order to reach an intrinsic value for QSR, a five year DCF model was constructed. Using a terminal growth rate of 2%, WACC of 8.3%, an intrinsic value of $48.82 was reached. A sensitivity analysis on the WACC and terminal growth rate ranged from $39.15-$67.09. Additionally, an EV/EBITDA multiple valuation was conducted. Using five comparable firms, an average EV/EBITDA of 14.4x was used with QSR's current multiple of 21.5x and a 2015E EBITDA of 1,368M produced an intrinsic value of $42.18. Weighting the DCF and the EV/EBITDA models evenly, a target price of $45.50 was reached, representing a 19% upside. QSR pays a dividend yieleding 1.3%.

Risks

- **Competitive Industry Environment.** The Global QSR industry is fiercely competitive, marked by a history of aggressive price wars, nonexistent consumer switching costs, and recent health food trends. Rivalry with McDonald's, Starbucks, and Dunkin' and the maturation of the fast-casual category could make it diffucult for BK and TH to compete.
- **Tight Global Credit Market.** Bankrupcies among quick-service franshisees increase during recessions. Tigher global credit markets could constrain growth or maintainance initiatives among franchisees.
- **Potential of Canadian Recession.** Canada's labor market could negatively affect TH trends and the potential Canadian housing bubble could have negative implications for industry restraunt traffic.

Management

Upon the completion of the BK-TH merger, Alex Behring, executive chairman of BK and managing partner at 3G Capital, will oversee the company as executive chairman and director, with Marc Caira becoming the vice-chairman and remaining TH CEO. Daniel Schwartz will become the CEO of the new company while maintaining his role as the CEO of the BK brand.

Ownership

% of Shares Held by All Insider Owners:	0.37%
% of Shares Held by Institutional & Mutual Fund Owners:	115.53%

Source: FactSet

Top 5 Shareholders

Holder	Shares		% Out
Pershing Square Capital Management LP	38,003,984	▲	18.78
Pyramis Global Advisors (Canada) ULC	12,822,517	▲	6.34
Berkshire Hathaway, Inc. (Investment Management)	8,438,225	▲	4.17
Franklin Templeton Investments Corp.	6,277,223	▼	3.10
Principal Global Investors LLC	5,873,789	▲	2.90

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	Operating Margin	P/E (NTM)	EV/ EBITDA
Restaurant Brands International Inc.	QSR	7,732	4,192	29.3%	31.3x	30.4x
McDonald's Corporation	MCD	105,652	26,016	28.4%	21.5x	13.1x
Starbucks	SBUX	94,143	18,422	17.2%	33.4x	22.7x
Wendy's	WEN	2,454	1,956	11.6%	26.1x	8.7x
Dunkin' Brands Goup	DNKN	3,945	783	42.4%	19.4x	15.2x
YUM! Brands	YUM	31,990	13,151	15.2%	21.0x	12.5x
Peer Averages		47,637	12,066	23.0%	24.3x	14.4x

Source: Factset

Lannett Company, Inc. (LCI)

October 30, 2015

Daniel M. Kralovec — Domestic Healthcare

Lannett Company (NYSE: LCI) is a pharmaceutical company that develops, manufactures, markets, and distributes generic versions of branded pharmaceutical products to address a wide range of therapeutic areas. The company sells its products to generic pharmaceutical distributors, private label distributors, mail-order pharmacies, managed care organizations, hospital buying groups, government entities, and health maintenance organizations. Lannett is well diversified with thirteen fully developed drugs with many more promising pipeline products. The company currently operates three manufacturing facilities throughout the United States. LCI was reincorporated in 1991 and is headquartered in Philadelphia, PA.

Price ($):	46.38
Price Target ($):	55.69
52WK H-L ($):	72.44 - 39.61
Market Cap (mil):	1,613
Float (mil):	29.0
Short Interest (%):	36.7
Avg. Daily Vol (mil):	1.1
Dividend ($):	0.00
Yield (%):	0.0

Beta:	1.57
WACC	10.72
M-Term Rev. Gr Rate Est:	19.0%
M-Term EPS Gr Rate Est:	48.8%
Debt/Equity:	0.2
Debt/EBITDA (ttm):	0.00
ROA (%):	35.21
ROE (%):	39.56
ROIC (%):	39.46

FY: June	6/30/15	6/30/16	6/30/17	6/30/18
Revenue (Mil)	407	637.58	849.04	896.92
% Growth	48.60	56.7	33.16	5.60
Gross Margin	75.30	61.05	57.63	58.70
EBITDA Margin	58.74	42.05	39.69	39.63
EPS (Cal)	$4.04	$4.13	$4.82	$5.16
FCF/Share	$2.61	$4.04	$4.04	$4.95
P/E (Cal)	14.7	11.2	9.6	9.0
EV/EBITDA				

Recommendation

Global drug spending has declined since generic drugs have become more popular in the marketplace. Generic medicines play an essential role in the healthcare system by increasing the accessibility and affordability of pharmaceutical products. Lannett Corporation develops and disseminates a wide variety of generic versions to many common brand name drugs. In the past, the company has grown mostly through acquisitions ranging from a few products to entire business segments. After the recent acquisition of Kremers Pharmaceuticals, LCI has absorbed 18 fully developed and profitable products, two new manufacturing facilities, and an entirely new research staff. Diversification is a way for LCI to survive and sustain a competitive advantage in the marketplace. As a mid-size generics company, LCI has begun to shift its focus more towards segments with higher margins, primarily the pain management segment. Historically, the company has derived much of their revenue from three products: Levothyroxine used for the treatment of thyroid deficiency (FY2016 guidance ~ $155M/22.7% market share), Digoxin for congestive heart failure (~$30M/28.2%), and Ursodiol for gallstones (~$75M). The markets for these drugs are expected to remain stable. For LCI, the everyday generic area has provided and will most likely continue to remain the backbone of the operation. Additionally, the firm prides themselves on their ability to remain vertically integrated in the pain management area. As one of only seven companies licensed to import opiated-based materials, they have a competitive edge in the controlled substance generic market as it has historically provided favorable margins ranging around 60%. By 2019, the company hopes to derive at least 50% of its revenue from the development of controlled products. As a reference point, pain management drugs accounted for roughly 7% of sales in FY2014. With the driving force being an aging population, a more favorable pricing scheme may be attractive to the many individuals who may eventually look towards generics rather than brand name products. In many respects, the specialization of this business segment will play a very large part in the future growth of the company as larger margins may offset some struggling or emerging products. Leveraging the vertically integrated controlled substance segment combined with sustainable growth and revenue streams from various in the marketplace will guarantee further future growth. Due to an already well established but expanding product mix, increasing organic growth, and unrivaled vertical integration, it is recommended that LCI be added to the AIM Equity Fund with a price target of $55.69, representing an upside of 20.09%. The company does not pay a dividend.

Investment Thesis

- **Organic Growth.** The company recently acquired Kremers Urban Pharmaceuticals (KU). This recent acquisition will help to diversify LCI's current revenue stream while adding 28 more products to their development pipeline. 18 fully developed products were added, 6 of which combine to generate $20 million annually. In the near term, this transaction will boost LCI's operational and manufacturing capacity from the addition of two manufacturing facilities. From a long-term perspective, the firm can focus more of its efforts towards the controlled substances area due to the addition of an already well-established research team.
- **Vertical Integration in Controlled Substance Area.** LCI is one of the only US based pharmaceutical companies allowed to legally import concentrated poppy straw for use in pain management drugs. As the population ages, the market the need for pain management drugs will increase. The company has historically achieved high gross margins (60%) in this space due to limited domestic competition and the ability to control supply.
- **Generic Pharmaceutical industry.** Since 2001, $158 million in brand sales have been lost due to patent expiration. LCI plans to cash in on this so-called "patent cliff" with already filed P-IV certifications with the FDA. P-IV certifications attempt to challenge or invalidate existing patents. Successful approval, invalidation of current drug patents, gives generic companies the ability to enter the marketplace as the sole competitor to the brand name firm for six months. Currently, LCI has 10 pending P-IV certifications.

Valuation

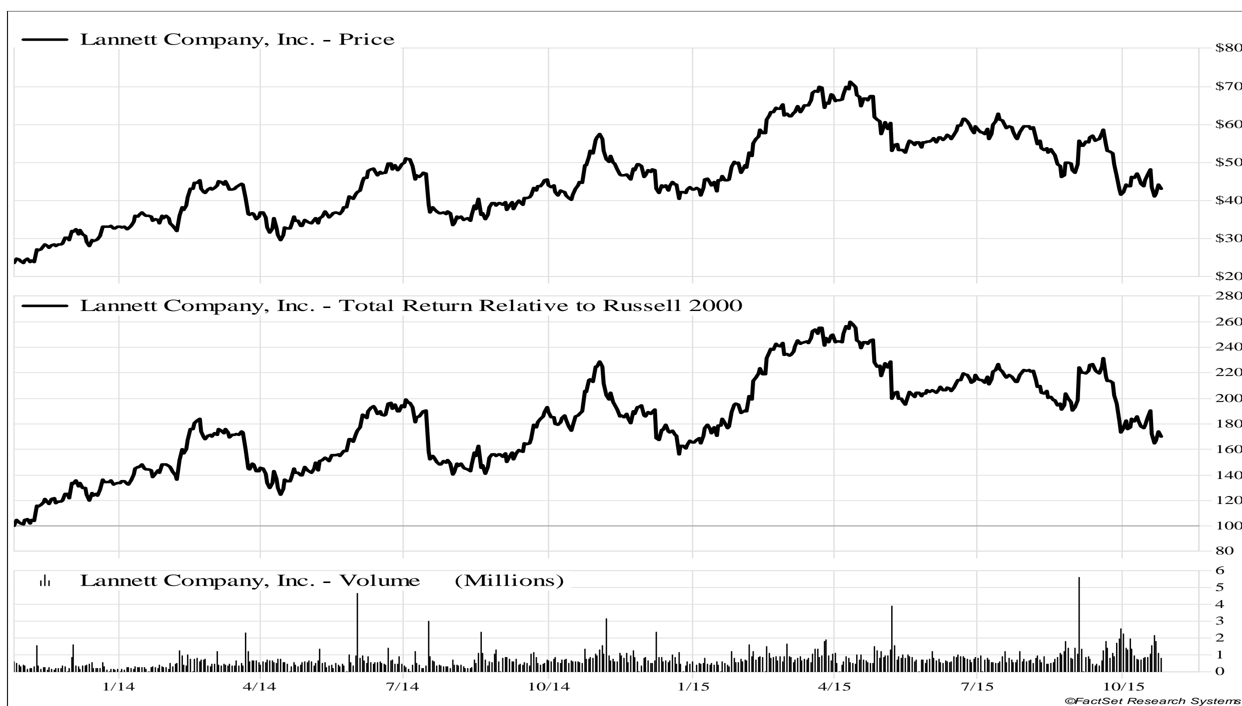
In order to reach an intrinsic value of LCI, a five year DCF model was constructed using a terminal growth rate of 3%, WACC of 10.71%, an intrinsic value of $50.83 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $29.12-$79.08. Also, a P/E mulitple valuation was conducted using NTM EPS of $4.03, a comparable average P/E of 16.07x, and LCI's 5-year historical average P/E which resulted in a valuation of $64.76. A 5-year average P/S multiple of 3.97x and an estimated Sales/Share of $17.46 generated a value of $69.32. By weighing the three valuation models 70/15/15, a price target of $55.69 was reached, which yields a 20.09% upside. LCI does not pay a dividend.

Risks

- **Pricing.** The Supreme Court's decision concerning Obamacare could change the industry's pricing structure and reimbursement levels, making consolidation and mergers more attractive. Shrinkage in the customer base or increased pricing pressure will adversely affect its operations.
- **Regulatory Environment.** LCI is constantly under scrutiny from regulatory agencies. Any changes in existing regulation could have an adverse effect on the business' performance. The FDA downgraded LCI's newly acquired ADHD drug. New tests will need to prove bioequivalence so that the drug may once again become an automatic substitute for the brand name drug. Although sales are not projected to decrease by any means, a downgrade of this magnitude poses potential reevaluation or downgrade risks for other newly acquired drugs.
- **Current Revenue Contraction.** Over the past few years, LCI's top five products have consistently accounted for greater than 70% of net sales.
- **Acquisition Integration.** Failure to integrate recent or future acquisitions could have a materially negative effect on LCI's growth. Historically, LCI has been able to successfully integrate products, however, an entire firm may prove to be more difficult.

Management

Arthur P. Bedrosia, J.D. has held the CEO position since 2006 and President position since 2002. He was elected as a director in 2000 and became the VP of Business Development in 2002. Michael Bogda joined the company in 2014 as President. Mr. Bogda previously served as EVP at Teva Pharmaceuticals. Other EVPs include: Martin P. Galvan, CPA (VP of Finance, CFO, and Treasurer), William F. Schreck (Materials Manager), Kevin R. Smith (VP of Sales and Marketing), John M. Abt (VP of Quality), and Dr. Mahendra Dedhiya (VP of Scientific Affairs).



Source: FactSet

Ownership

% of Shares Held by All Insider Owners:	20.59%
% of Shares Held by Institutional & Mutual Fund Owners:	109.93%

Source: FactSet

Top 5 Shareholders

Holder	Shares		% Out
BlackRock Fund Advisors	2,693,220	▲	7.38
The Vanguard Group, Inc.	2,158,600	▲	5.92
Gotham Asset Management LLC	1,728,019	▲	4.74
Invesco PowerShares Capital Management LLC	1,419,036	▼	3.89
Dimensiomal Fund Advisors	1,094,534	▲	3.00

Source: FactSet

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA	Dividend Yield	EV/ EBITDA
Lannett Company, Inc.	LCI	1,613	407	238.97	-	8.35
Allergan plc	AGN	105,711	17,729	4816.8	-	25.65
Abbot Laboratories	ABT	64,983	20,507	-	2.00	9.36
Akron, Inc.	AKRX	2,966	593	187.7	0.00	29.32
Cumberand Pharmaceutical Inc.	CPIX	97	37	4.9	-	9.43
Peer Averages		43,439	9,717	1669.8	1.00	18.4

**Removed For Relative Valuation Analysis*

EnerNOC, Inc. (ENOC)
October 30, 2015

Joanne Wycklendt Micro-Cap Technology

EnerNOC, Inc. provides demand response and energy efficiency solutions to power grid operators (~70% or revenue), utilities (~20%), and enterprise businesses (~10%). The company's energy intelligence software (EIS) assists power grid operators and utilities in managing their demand response programs with real-time data, dispatching applications, and customized measurement, verification, and reports. Additionally, ENOC offers varying levels – basic, standard, professional, and industrial – of EIS and SaaS solutions to help enterprise customers develop energy budgets, track costs and savings, monitor billing, and analyze demand and consumption patterns. EnerNOC has over 1000 employees in over 100 countries, and the majority of sales are generated in the U.S. (79% of revenue) and Australia (12%). The company was founded in New Hampshire in 2001, was incorporated in Delaware in 2003, and is headquartered in Boston, Massachusetts.

Price ($):	7.75
Price Target ($):	27.67
52WK H-L ($):	19.04 - 7.23
Market Cap (mil):	239
Float (mil):	27.4
Short Interest (%):	8.3
Avg. Daily Vol (mil):	0.2
Dividend ($):	0.00
Yield (%):	0.0

Source: FactSet

Beta:	1.15
WACC (%):	8.02
M-Term Rev. Gr Rate Est:	12.5%
M-Term EPS Gr Rate Est:	(15.8%)
Debt/Equity:	62.4
Debt/EBITDA (ttm):	2.61
ROA (%):	0.18
ROE (%):	0.37
ROIC (%):	0.28

FY: Dec	12/31/2013	12/31/2014	12/31/2015	12/31/2016
Revenue (Mil)	$383,460	$471,948	$417,330	$445,369
% Growth	37.9%	23.1%	-11.6%	6.7%
Gross Margin	49.9%	45.5%	42.8%	45.0%
EBIT Margin	7.2%	5.6%	-17.6%	-14.1%
EPS (Cal)	$0.76	$0.42	-$3.10	-$2.62
FCF/Share	$1.47	$1.21	-$2.13	-$1.66
P/S (Cal)	0.59x	0.47x	0.53x	0.50x
EV/S	0.64x	0.52x	0.59x	0.55x

Recommendation

Since the establishment of the U.S. power grid in 1884, few changes beyond expansion have been made to the grid's underlying infrastructure. In contrast, energy generation, transmission, and distribution have evolved into a complex system of renewable and nonrenewable resources with seasonal demand trends and increasing consumption rates. ENOC is well positioned to take advantage of this growing disconnect between the energy market's infrastructure and evolving trends by assisting utility companies and their customers in eliminating inefficiencies. The company currently holds less than 8% of the nearly $5 billion U.S. EIS market. With its sophisticated product that, unlike competitors, addresses all three energy cost drivers– price, quantity, and time of use- the company is poised to achieve organic revenue growth near 20% by 2020. Additionally, EnerNOC plans to grow sales inorganically via strategic acquisitions in the $20 billion global market. The company expects to generate more than 75% of its revenue growth from enterprise customers, as these companies work to meet new environmental and energy regulations while reducing energy expenditures. Revenue growth within the utilities segment will be driven by ENOC's demand response management solutions. ENOC's customer engagement and data analytics demand response products should increase utilities revenue at a 8-10% CAGR until 2020. EnerNOC is poised to outpace competitors in a growing, underpenetrated industry. The company is well positioned to take advantage of organic and inorganic growth opportunities that should increase revenues to nearly $850,000 by 2020. Finally, recent changes in customer contracts and revenue recognition has reduced ENOC's stock price in recent months, presenting an opportune time to invest. Because of these reasons, it is recommended that ENOC be added to the AIM Micro-Cap Equity Fund with a price target of $27.67.

Investment Thesis

- **Increasing energy usage makes demand response essential.** Enterprise companies spend over $2.25 trillion on energy annually and world energy consumption is expected to increase by 37% by 2040. Without large scale capital investment, the well-established utility infrastructure will not be properly equipped to meet this growing demand for energy. ENOC's EIS solutions are a more affordable and flexible approach to managing system demand. As utilities work to manage

costs amid rapidly increasing demand, ENOC's portfolio of demand response technology and programs delivers value to both the utility and the customer by reducing demand at peak hours, effectively reducing utility capacity needs and increasing customer profits, and by increasing a utility's flexibility around rates, effectively increasing industry profitability.

- **Ability to attract and retain customers**. Since 2013, EnerNOC has organically grown its enterprise customer base at a 58% CAGR. The company has proven its ability to not only attract, but also retain new customers, as ENOC expects to generate nearly $142 million (+60% yoy) of annual recurring revenue (ARR) in 2015, representing approximately 10% of their $1.3 billion ARR opportunity among current customers. The majority of the ARR upside is being driven by the enterprise segment as ENOC establishs more long term contracts that show the customers' strong reliance on and willingness to invest in the company's products and solutions.
- **Opportunity to expand in new and existing markets.** ENOC currently targets approximately 1% of the U.S. Enterprise Market and 6% of the U.S. Utility Market. Additionally, site and spend penetration of approximately 1% at their current 542 enterprise customers and 52 utility customers presents an opportunity for significant revenue expansion among both new and existing customers in their established U.S. market. ENOC is also well positioned to expand into new international markets via organic and inorganic growth. While only 21% of ENOC's current revenue is generated internationally, the company has proven its ability to meet the global demand for energy solutions with its recent successes in Australia, Japan, and Germany.

Valuation

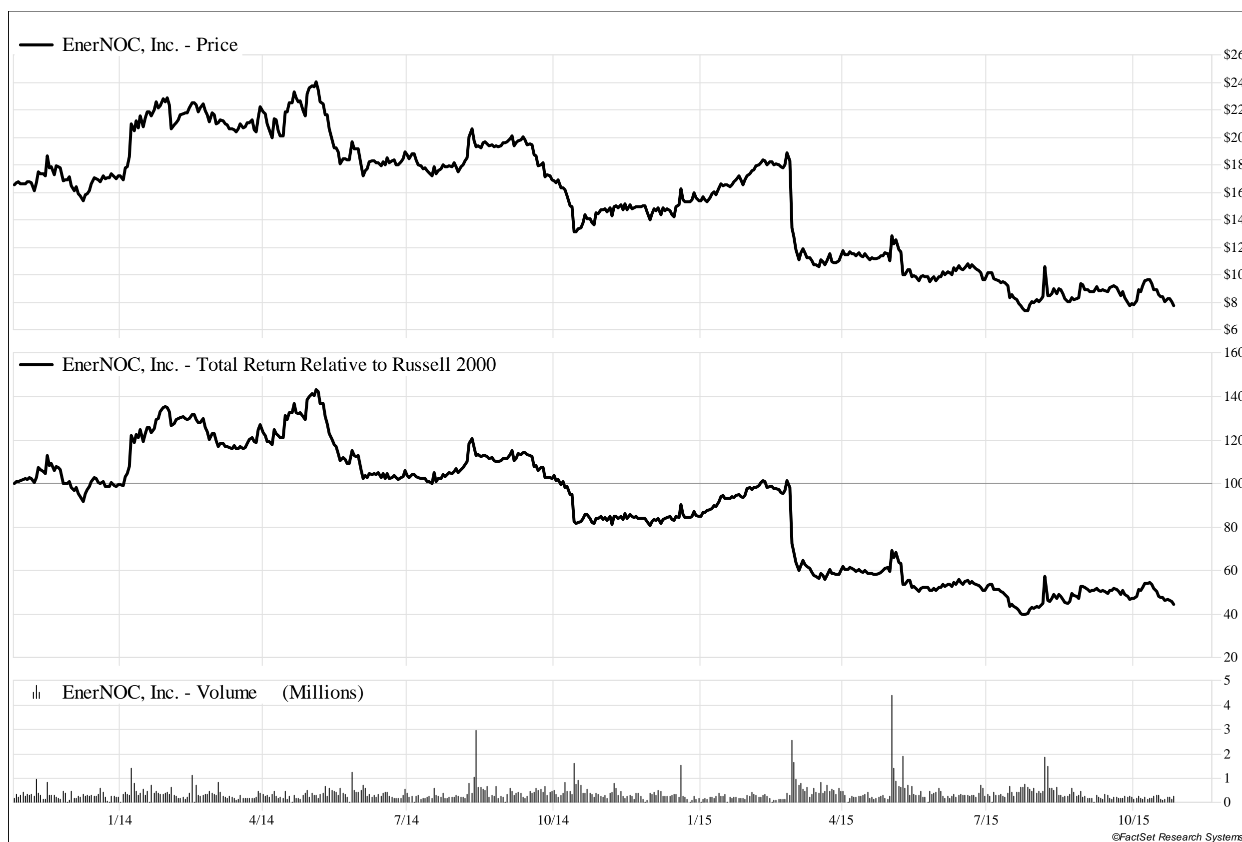
In order to reach an intrinsic for ENOC, peer P/S and EV/S comparisons were conducted. Using a peer average P/S multiple of 1.66x and 2015E sales per share of $14.98, a value of $24.90 was obtained. A peer average EV/S multiple of 2.03x resulted in a value of $30.44. By weighing the P/S and EV/S multiples equally, a price target of $27.67 was established. ENOC does not pay a dividend.

Risks

- **Regulatory changes.** Electricity and other energy regulations impact a customer's ability to quickly adopt ENOC's solutions, the prices ENOC can charge, the megawatts ENOC can enroll, and other business operations. Regulatory structures vary by market, and ENOC serves both deregulated and traditionally regulated electricity markets. Variability and inconsistency in regulatory policy across markets may materially impact ENOC's ability to do business and expand in to new markets.
- **Reliance on PJM.** ENOC generates over 50% of its revenues from sales to electric power grid operator PJM. Changes to PJM's open market programs could adversely affect ENOC's ability to manage demand response capacity and, effectively, ENOC's operational and financial performance. Additionally, ENOC is reliant on PJM for sales stability, and modifications to their sales agreement may require ENOC to materially alter their operations.
- **Seasonality of electricity demand.** Energy demand tends to be seasonal, with peak demand for electricity falling in warmer months. ENOC must carefully manage quarterly fluctuations in revenue, especially as the company expands into new international markets with different cyclical trends from ENOC's already established and understood markets.

Management

Co-founders Tim Healy and David Brewster serve respectively as CEO and President of EnerNOC. Healy led ENOC's IPO in 2007 and was recognized by MTLC as CEO of the year in 2012. Brewster's primary focus is on execution and market development. Both men have over 20 years of experience in their focus. CFO and COO Neil Moses joined ENOC in 2003 with almost 30 years of retail and technology experience, including at PTC and Dunkin' Brands.



Ownership

% of Shares Held by All Insider Owners:	11.18%
% of Shares Held by Institutional & Mutual Fund Owners:	> 90%

Source: FactSet

Top 5 Shareholders

Holder	Shares		% Out
Wellington Management Co. LLP	2,009,061	▲	6.51
TimesSquare Capital Management LLC	1,482,098	▲	4.81
Norges Bank Investment Management	1,448,827	▬	4.70
BlackRock Fund Advisors	1,402,949	▼	4.55
Dimensional Fund Advisors LP	1,241,240	▲	4.03

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA	P/S	EV/Sales	EV/ EBITDA
EnerNOC, Inc.	ENOC	239	498	54	0.46	0.55	5.03
Opower, Inc.	OPWR	462	138	-31	3.34	3.40	N/A
Hess Corporation	HES	16,342	8,610	4,052	1.94	2.79	5.93
Constellation Software Inc.	CSU-CA	11,730	2,025	476	6.05	5.34	22.70
Itron, Inc.	ITRI	1,389	1,925	117	0.73	0.95	13.58
Schneider Electric SE	SU-FR	31,501	31,370	5,083	1.20	1.35	8.33
Peer Averages		12,285	8,814	1,939	2.65	2.76	12.63