Applied Investment Management (AIM) Program

AIM Class of 2014 Equity Fund Reports
Fall 2013

Date: Friday, November 15, 2013 | Time: 1:00 PM
Road Show Location: Timpani Capital Management

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Thank you for taking the time today and participating in the AIM 'road show' Timpani Capital Management. 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 Timpani.

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Encore Capital Group, Inc. (ECPG)
November 15, 2013

Sean Brackin Financial Services

Encore Capital Group, Inc. (NASDAQ:ECPG) is a provider of debt management and recovery solutions that functions through two operating segments: portfolio recovery and tax lien transfer. The focus is primarily on its debt collection segment through which ECPG purchases receivables from originating institutions and sellers of charged off consumer receivables. The portfolio purchasing segment is operated by utilizing valuation methods along with proprietary statistical and behavioral models to deem the collectability of potential accounts. Relationships are developed and maintained with many of the nation's largest credit and telecommunications providers. Encore Capital Group services customers in the United States, United Kingdom, and Ireland and has call centers in India and Costa Rica. ECPG was incorporated in Delaware in 1999 and has now moved headquarters to San Diego, California. The firm employs about 4,200 people.

Price($): (11/8/13)	47.45		Beta:	1.84		FY:	2012A	2013E	2014E
Price Target ($):	62.42		WACC	12.00%		Revenue (mil)	556.00	744.00	921.00
52WK H-L ($):	51.95-24.34		M-Term Rev. Gr Rate Est:	20.00%		Growth	19.06%	33.81%	23.79%
Market Cap (mil)	1,206.30		M-Term EPS Gr Rate Est:	16.00%		Operating Margin	28.39%	33.56%	38.65%
Float (mil):	23.70		Debt/Equity (bil)	2.2		Profit Margin	12.38%	16.80%	19.50%
Shares Outstanding (mil)	25.40		ROA:	5.5%		EPS (Cal)	3.22	3.65	4.4
Avg. Daily Vol:	265,231		ROE:	16.2%		P/E (Cal)	15.06	16.60	17.25
Dividend ($):	0		ROIC:	9.2%		P/S	1.40	2.05	2.20
Yield (%):	-		EV/EBIT	7.47		P/B	1.65	2.23	2.45

Recommendation

As a leader in the debt collection industry, yielding revenue just over $530 million last year, second to only Portfolio Recovery Associates, Encore Capital Group has, and continues to position itself at the forefront of the industry. The competitive advantages ECPG maintains are analytic strength in the valuation of potential portfolios, consumer intelligence, cost leadership, and principled intent. ECPG's cost-to-collection ratio is currently 40.7%. This cost advantage is maintained by outsourcing call centers to India and Costa Rica. Nearly 75% of Encore's call centers are located internationally which account for about 50% of collections, India being the largest bring in 20% of company cash collections. The acquisition of Cabot Credit Management that occurred on the 31st of May was a huge step forward in Encore's global positioning. Cabot is a market leader in the United Kingdom and Ireland which allows ECPG to shift from its domestic leadership position to being one of the largest global players in the industry of portfolio recovery. The United Kingdom is the second largest mature debt purchase market in the world, trailing on the United States. With the acquisition of Cabot, Encore now maintains a meaningful position in country whose barriers to entry continue to stiffen. The acquisition of Asset Acceptance Capital Corporation closed in the middle of June, and the two companies have purchased over 60 million individual consumer accounts amounting to a face value of $130 billion to be added to the overall estimated cash collections. Revenue from receivable portfolios is $225 million so far this year which is up nearly 60% from 3Q12 and $265 million have been collected from the legal channel which is about a 40% increase from 3Q12. Given the firm's success in acquiring new businesses, ability to remain low cost, and a favorable valuation, it is recommended that Encore Capital Group be added to the AIM Equity Portfolio with a target price of $62.42, representing an upside of 30.72%.

Investment Thesis

- **Improving Economic Conditions.** As the world economy continues to make a comeback, ECPG should be able to maintain record growth. Call center and legal collections are up 41% and 40% respectively from 3Q12 numbers. Bad economic conditions generally bring in more business, but the initial stages of recovery increases the amount of debtors able and potentially even more willing to repay outstanding debt. The legal channel stands to gain significant increases if there remains irrational unwillingness in the cash collection segment. The amount of able debtors will increase, cutting down on the write-offs. With more people entering the workforce and promise of easy money until that workforce number is sustained, ECPG could recognize similar increases for the next 2-6 quarters.

- **Acquisitions in Foreign Markets.** ECPG acquired Cabot Credit Management in May of this year and Asset Acceptance in June. These acquisitions have allowed Encore's estimated remaining collections to grow to nearly $4 billion. Encore is incorporating its Consumer Bill of Rights into both Cabot and Asset Acceptance as a synergy project beneficial for both the firm and its customers. The increased barriers to entry due to government regulation, as aforementioned, presents an opportunity for Encore to make considerable increases in market share. The Indian market currently presents $10 billion in defaulted debt and is expected to be $19 billion by 2017. With ECPG being the only debt collection agency to currently have operations in India, they have a considerable advantage that they are looking to capitalize on by the end of 2014.
- **Increased Regulatory Oversight.** The Office of Comptroller of the Currency (OCC) is discussing the possibility of holding credit issuers liable for actions of the debt purchasers they sell to. Credit issuers are now encouraged to continue to form "forward flow" with the same companies and develop reliable relationships with them as oppose to risking involvement with a company they lack familiarity with. There has not been a new entrant to this industry in the past number of years.

Valuation

In order to reach an intrinsic value for Encore Capital Group, a ten year discounted cash flows model was conducted. A current WACC of 12.00% was developed and a discount rate of 12% along with a perpetuity growth rate of 2% were used. This generated an intrinsic value of $60.76. Additionally, a P/E comparable was used and resulted in a multiple of 17.56x yielding a price of $64.08. Weighting the valuation methods 50/50 respectively, an intrinsic value of $62.42 was yielded representing an upside of 30.72%. Encore does not pay a dividend.

Risks

- **Potential Issues with U.S. Debt Sellers.** The OCC has stated in a recent report that debt sellers should "consider" whether or not a debt purchaser has collections domiciled in the United States. Encore has approximately 75% of its collectors located outside of the U.S. and these collectors generate as much as 50% of cash collections. OCC action should be watched closely as this could be an issue for Encore as it progressively reenters the market.
- **Low Industry Credit Losses.** The credit card industry as a whole has seen charge-offs decrease enormously to a record low. A material increase will most likely not surface until 2015, but there still exists a hefty backlog of bad debt from the financial downturn that lessens the intensity of this potential risk.
- **Poor Valuations in New Assets.** Encore has developed great methodology in its valuation of new potential receivables and the collection of these receivables, but as ECPG continues to grow, challenges of valuing new asset classes will arise. It is crucial that ECPG develops effective valuation for these new portfolios, or it may see a decrease in its ability to generate profit in this segment.

Management

George Lund is the current Chairman of the company and has been so since July of 2009. He is also currently the Chairman and CEO of Torch Hill Investment Partners. Kenneth Vecchione is the President and CEO and has been so since May of this year. Vecchione is the Vice Chairman of the Bank of Nevada as well and used to be President and COO of Western Alliance Bancorp. Paul Grinberg has been the Executive Vice President, CFO, and Treasurer since January of 2010. He has been with the company since 2004 and is the founder of Brio Consulting Group.

Ownership

% of Shares Held by All Insider and 5% Owners	20%
% of Shares Held by Institutional & Mutual Fund Owners	103%
% of Float Held by Institutional & Mutual Fund Owners	129%
Number of Institutions Holding Shares	165

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Outstanding
Blair (William) Mutual Funds, Inc. - Small Cap Growth Fund	2,747,489	10.88%
FMR, LLC	1,859,241	7.36%
Time Square Capital Management	1,654,800	6.55%
Vanguard Group, Inc. (The)	1,527,691	6.05%
Red Mountain Capital Partners, LLC	1,332,036	5.27%

Check Point Software Technologies LTD (CHKP)

November 15, 2013

Stefanie Wu International IT

Check Point Software Technologies LTD. (NASDAQ: CHKP) is an information technology security solutions provider. The company offers their customers an extensive portfolio of network security, endpoint security, data security and management solutions. Revenue is derived mainly from three geographic regions: Americas (45%), Europe, Middle East and Africa (37%), and Asia Pacific and Japan (18%). The company has a well-diversified customer base that covers organizations of all sizes, including all Fortune and Global 100 Companies and the U.S. Department of Defense. Growth has been mainly driven by the software division, which has recorded a 13% YOY growth rate that represents over 60% of CHKP's total revenue. Incorporated in 1993 in Tel Aviv, Israel, CHKP now employs 2,900 employees worldwide.

Price($):(11/15/2013)	$59.72	**Beta vs.SPADR**	0.75	**Years**	FY 2013	FY2014	FY2015
Price Target	$68.70	**WACC(%)**	9.6%	**Revenue (mil)**	$1,438.40	$1,610.44	$1,815.61
52 week H-L($)	$42.91-$62.32	**M-term Rev Gr Rate Est**	13.3%	**% Growth**	12.0%	12.7%	12.8%
Market Cap(mil)	11,886	**M-term EPS Gr Rate Est**	13.8%	**Gross Margin(%)**	88.4%	88.4%	88.5%
Float (Mil)	152.9	**Debt/Equity**	0.0%	**Operating Margin (%)**	55.5%	55.6%	55.8%
Short Interest(%)	2.16%	**ROA(%)**	14.28%	**EPS**	$ 2.99	$ 3.37	$ 3.83
Avg Daily Volume	1,023,227	**ROE(%)**	19.32%	**FCF/Shares**	$ 2.80	$ 3.18	$ 3.64
Dividend ($)	0	**ROIC (%)**	19.18%	**P/E (Cal)**	19.96	17.71	15.59
Yield(%)	0			**EBITDA Margin**	54.1%	54.3%	54.6%

Recommendation

As an industry pioneer with its FireWall-1 and patented Stateful Inspection Technology, Check Point has achieved an impressive CAGR of 20.3% in operating income over the past 5 years. The company has recently extended its IT security innovation with the development of its Software Blade architecture that delivers secure, flexible and simple solutions to meet customers' security needs of any size or environment. CHKP's products are considered to contain the world's most advanced security technology. The company currently holds 35 United States patents, with 19 pending and additional patents issued worldwide. The major growth strategies of CHKP have been through acquisitions and successful R&D activities. Over the past 10 years, the company has spent over $8B on 7 acquisitions and has achieved an average YoY growth rate of14% on its R&D expense. Both strategies have helped CHKP to increase its global presence and technological advantage. The company is in excellent financial health with no debt and $3.6B cash on its balance sheet, and during the Q3 13', CHKP repurchased 2.3M shares at a total cost of $128.3M. With the positive outlook for IT services and increasing global demand for security solutions, CHKP is well positioned for further penetration into both growth areas. Due to the above-mentioned reasons, it is recommended that CHKP be added to the AIM International Equity fund with a target price of $68.70, providing an upside of 15%. The stock does not pay a dividend.

Investment Thesis

- **Increasing Connectivity, Cyber-attacks, and Government Regulations.** The continuing increase and evolution of world-wide connectivity among internet users and cyber-attacks are the two main factors that drive the need for enterprise security. These attacks are likely to continue to be major threats for normal business operations and the overall economy. As a result, governments around the world have been implementing rules on data privacy and compliance. These market conditions created an immense opportunity for cyber security companies like CHKP.

- **Sturdy R&D Activities and New Security Solution Offerings.** The company's product development effort has always focused on reducing security complexity and lowering the total cost of ownership. With over 900 employees dedicated to R&D as of Q3 2013, CHKP delivered two of its most valuable products: the R77 and a new Threat Emulation software. The R77 delivered over 50 important product enhancements and will boost firewall performance by up to 50%, and the Threat Emulation software serves an effective prevention from undiscovered exploit. Both new products will be materialized in Q4 2013.
- **Potential Market Share Gains in the SMB and Data Center.** The company's applications continue to perform well, with the main strength coming from two new product families: low-end appliance and appliance deployed for data center. Currently the SMB market is under penetrated and lacks effective new products dedicated to this space. On the other hand, the adoption of higher-end solutions for data centers has opened up another potential for CHKP. Both segments have reported impressive sales growth last quarter, and management continues to see potential increase in Q4. According to Q3 Conference call, the company will start to recruit a group that will focus on the small business channel.

Valuation

To find the intrinsic value of CHK, a five-year DCF was conducted with terminal growth rate of 3%. The mid-term revenue growth rate was gradually ramped down due to the high level of competition in the cyber security industry. Using a WACC of 9.7%, the DCF method generated an intrinsic value of $53.98 per share. Relative multiple valuation using both P/E and EV/EBITDA was also used with a peer multiple of 27.58x and 17.51x respectively. Weighting these three valuations 25%, 15% and 60%, a price target of $ 68.70 was established, representing a 15% upside. The firm does not pay a dividend.

Risks:

- **Competition:** The market for information the network security solution is intensely competitive and will continue to increase in the future. CHKP competes with many well-known cyber security companies such as Cisco, Juniper, and Fortinet.
- **Reliance on a limited number of distributors:** CHKP deliver sales primarily through indirect channels. In 2012, the company derived approximately 55% of the sales from its ten largest distributors.
- **Currency Risk:** With 18% revenue came from Asia, Middle-East and Africa, CHKP suffer currency risk especially with the recent weakening in emerging markets.

Management:

Mr. Gil Shwed was the founder and served chairman and CEO of the Check Point Software Technologies since 1998. He was considered the inventor of the Modern Firewall and holds several patents and has received numerous accolades for his industry contribution, including an honorary doctorate of Science from the Technion-Isreal Institute of Technology.

Ownership	
%Shares held by Insider %	23.20%
% Shares Held by Institutional & Mutual Fund Owners:	84.58%

Source: Bloomberg

TOP 5 Shareholders

Holder		Shares	% Out
Shwed Gil	Founder, CEO	24,963,760	12.54%
Nacht Marius	Founder, Vice President	21,214,986	10.66%
Franklin Resources		12.302,482	6.18%
Harris Associates LP		9,706,000	4.88%
Schroder Investment Mgmt Ltd		8,029,181	4.03%

Source: Bloomberg

Ticker	**Company Name**	Market Cap	**EV/EBITDA**	**PE**
CHKP	Check Point	0	14.54	19.09
SYMC	Symantec Corporation	16,120	7.54	17.05
FTNT	Fortinet Inc	3,170	27.54	63.60
CSCO	Cisco Systems Inc	126,050	6.56	14.91
PANW	Palo Alto Networks Inc	2,940	354.56	N/A
JNPR	Juniper Networks Inc	9,660	10.46	23.24

Source: Bloomberg

ACE Ltd. (NYSE: ACE)
November 15, 2013

Su Li International Financials

ACE Limited (NYSE: ACE) is a Swiss-incorporated holding company that provides a broad range of insurance and reinsurance products worldwide through its various subsidiaries. ACE opened its business office in Bermuda in 1985 and became a global property and casualty insurance company with both a commercial and specialty product orientation. ACE sells its insurance policies to brokers, commercial customers, and individual clients in more than 170 countries across the globe. North America and Asia are the major target markets. ACE operates through the following business segment: Insurance-North American P&C (38%), Insurance-North American Agriculture (3%), Insurance-Overseas General (28%), Global Reinsurance (16%), and Life (15%). ACE is headquartered in Zurich, Switzerland. Currently, the company has 19,000 employees worldwide.

Price 11/08/13 ($):	98.28	Beta:	0.95	FY: Dec 31	2012A	2013E	2014E
Target Price ($):	105.08	Cost of Equity:	9.80%	Revenue ($M):	17,936.0	18,874.0	20,478.3
52 WK L-H ($):	75.95-98.39	M-Term Rev. Gr Rate Est:	8.5%	% Growth:	6.5%	5.2%	8.5%
Market Cap (M):	33,421.60	M-Term EPS Gr Rate Est:	13.7%	Pretax Margin:	16.6%	18.1%	19.2%
Float (M):	309.5	Debt/Equity:	17.1%	Operating Margin:	18.0%	19.7%	20.8%
Short Interest (%):	4.23	ROA:	3.7%	EPS (Cal):	$ 7.72	$ 8.64	$ 10.04
Avg. Daily Vol (K):	1,127	ROE:	12.8%	BVPS:	$ 80.95	$ 88.49	$ 97.13
Dividend:	$ 2.02	ROC:	11.4%	Est. P/B:	0.83	0.91	1.00
Yield:	2.06%	Credit Rating	AA-	Est. P/E:	8.87	10.77	10.95

Recommendation

As the recovery of U.S. economy continues and the firm is further able to penetrate the market in Mexico and Asia, ACE Limited has good upside potential. The firm offers a healthy combined ratio of 89.8% along with a strong return of 25% to shareholders increase in Q3 2013. ACE retains the lowest Debt/Equity ratio (17.1%) of any firms in the industry with an AA- credit rating by Standard & Poor's. Historically, ACE has achieved a sustainable revenue CAGR growth about 5% over the past 10 years. Also, an increase in net premium from high-quality underwriting in their P&C business segment has been the main driver supporting the company's growth pace. Under the implementation of a better pricing strategy in their North America operations, the specialty insurance provider increased their market to 15.5% with a 9% growth in net premium of policies compared to Q2 2013. As far as the rest of the world, Asia and Latin America share about a 40% increase in specialty insurance sales. The main customers of the company are large institutions who maintain ample insurance budgets. Finally, the company has entered into a relative stable growth period and will seek out additional strategic acquisitions in order to outpace their competitors. For the following reasons and favorable valuations, it is recommended that ACE be added to the AIM International Equity Fund with a target price of $105.08, which offers a potential upside of 10%. ACE offers a 2.06% dividend and it is likely to continue to increase.

Investment Thesis

- **Strategic Acquisitions.** ACE Limited acquired ABA Seguros for approximately $690M in cash, a property and casualty insurer in Mexico on May 2, 2013. The transaction provided ACE the opportunities to penetrate the Latin America region with automobile, homeowners, and small business coverage. Last quarter, the acquisition offered a robust 10% increase in net income and will continue to benefit ACE's business. The company implements a targeted specific acquisition strategy instead of a country focused one. Although ACE Limited had acquired three companies in 2012 and 2013, 75% of the firm's growth is still created from organic sources.

- **Strong Financial Condition.** ACE maintains a strong balance sheet with a free cash flow of $928M. This has allowed ACE to establish a favorable net loss reserve of $25.9B to back policyholder commitments and promises a higher loss guarantee with higher premium charge. Also, the combined ratio of 89.8%, which is significantly lower than the industry average, indicating that the company is in a well-positioned condition to gain profits in near future. The management team is expected to achieve a 15% ROE at the end of the cycle with the lowest Debt/Equity ratio of 17.1% among major peers.
- **Construction Wrap-Up Program.** The company released a white paper in terms of wrap-up program targeting for cost reduction. The program can provide the guidance on how to build a strong safety culture throughout the organization. Meanwhile, the program eliminates potential exposures on claims and litigation. The program is fully complemented with the new global accounts division for international penetration purpose, which is likely to drive the company's multinational offering procedure. Finally, the program will continue to monitor disciplined underwriting culture of the company, which is rather unique in the industry and becomes the brand for this company.

Valuation

In order to reach the intrinsic value of ACE, a dividend discount model along with equity excess return and P/B multiple were used. Utilizing a WACC of 9.80% in DDM, an intrinsic value of $110.94 was achieved. In addition, an equity excess return model was executed to reach an intrinsic value of $100.35. Finally, a P/B multiple calculation using peer average of 1.2 and company's historical P/B of 1.07 was used to find an intrinsic value of $103.26. Weighting three methods 35%, 30%, and 35%, a combined intrinsic value of $105.08 was generated, which provides a potential upside of 7.9%. The company also has a dividend yield of 2.06%.

Risks

- **Exposure to Commodity Price.** The company maintains a long-term contract agreement with U.S. Department of Agriculture on crop insurance business. With the recent price drop in corn, the company is likely to cause a loss exposure about 2%, which increases combined ratio to 90.8%.
- **Occurrence of Natural Disasters.** The company has substantial exposure to losses resulting from natural disasters, man-made catastrophes, and other catastrophic events. ACE is still bearing the losses from hurricane Isaac (2012) in U.S. and flood in U.K. The company projected that it will continue to trigger the loss of $95M in Q4 2013.

Management

Evan G. Greenberg has been the Chairman, President, and CEO of ACE Limited since 2007. Over the course of more than 35 years' experience in the insurance industry, Mr. Greenberg has held various underwriting and management positions. Phillip Bancroft joined ACE Limited as CFO in 2002 and brings a considerable knowledge of the insurance industry and expertise in corporate finance that was gained over the course of his 20-year career. Timothy Boroughs became CIO of ACE Group in 2000 with responsibility for managing ACE's Global Investment Portfolio.

Source: Bloomberg

Ownership

% of Shares Held by All Insider and 5% Owners:	0.69%
% of Shares Held by Institutional & Mutual Fund Owners:	99.31%

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
Capital Group Companies Inc.	29,714,558	8.74%
Blackrock	28,250,582	8.31%
Wellington Management Co.	23,730,729	6.98%
JP Morgan Chase & Co.	18,121,718	5.33%
Vanguard Group Inc.	17,327,640	5.10%

Source: Bloomberg

Peers

Name	P/B
ACE LTD (ACE)	1.17
Arch Capital Group Ltd (ACGL)	1.51
Renaissancere Holdings (RNR)	1.28
Endurance Specialty Holding (ENH)	1.03
Everest Re Group Ltd. (RE)	1.1

The Vitamin Shoppe (VSI)
November 15, 2013

Dayton Hoell Domestic Consumer Discretionary

The Vitamin Shoppe (NYSE: VSI) is the second-largest specialty retailer and direct marketer of vitamins, minerals, nutritional supplements, herbs, sports nutrition formulas, and other health and wellness products. VSI sells its products through 640 stores across 42 states and Canada and directly to consumers through Internet websites and catalog. The company carries national brand products as well as exclusive products under the Vitamin Shoppe, BodyTech and True Athlete proprietary brands. Vitamin Shoppe was founded in 1977 and is headquartered in North Bergen, New Jersey.

Price ($) (11/8/2013):	$ 51.02	Beta:	0.99	FY January	2012A	2013E	2014E
Price Target ($):	$ 58.48	WACC:	9.64%	Revenue ($Mil)	$ 950.90	$ 1,087.83	$ 1,202.05
52WK H-L ($):	$65.93 - $39.92	Debt/Equity:	-	% Growth	11.01%	14.40%	10.50%
Market Cap (mil):	$1,551.50	2012 ROE:	15.2%	Gross Margin (%):	35.02%	35.50%	36.00%
Float (mil):	28.4	2012 ROA:	11.3%	Operating Margin (%):	10.45%	11.00%	12.00%
Short Interest (%):	11.9%	Mid-Term Rev Gr Rate Est	11%	EPS	$ 2.06	$ 2.29	$ 2.60
Avg. Vol (3 month):	543,103	Mid-Term EPS Gr. Rate	14%	P/E (Cal)	22.52	22.27	19.64
Yield (%)	0.0%	EV/EBITDA	11.36	FCF/Share	1.98	1.86	2.97

Recommendation

The Vitamin Shoppe is the fastest-growing national specialty retailer in the VMS (vitamins, minerals, supplements) industry and has been the second largest in retail sales in each of the past five years behind GNC. VSI has grown revenues in aggregate 58.1% compared to GNC’s 46.7% between 2008 and 2012. VSI is positioned to further increase market share based on its unique combination of broad product selection, knowledgeable health enthusiasts and the company’s total value proposition. Additionally, the company has a sound business model with strategies consistently on target providing for solid long-term growth. Approximately 35% of VSI’s stores have been opened within the last four years - with 50 new stores projected for 2013 and 60 new stores in 2014. Vitamin Shoppe recently acquired Super Supplements for $50M with cash and some short-term borrowing. Super Supplements operates 31 stores throughout the northwest coast of the U.S. Also in Q3 2013, VSI opened up a new distribution center in Virgina to support store growth in the region. Same store sales have also been able to grow an impressive 6% CAGR over the past two years. Beyond the retail stores, e-commerce sales increased 17.7% in Q3 2013, extending VSI's string of double-digit online growth to nine quarters. This growth is attributable to competitive pricing strategies and VSI’s “Healthy Awards,” which helps the company achieve customer service and retention both in stores and online. The top four companies in the supplement industry control only 14% of the highly fragmented market share. With expected consolidation, both GNC and Vitamin Shoppe are prepared to take advantage of this situation with their different business models. Unlike GNC and other competitors, Vitamin Shoppe tends to charge a lower price. Considering the strong growth potential and solid financials with zero long-term debt, it is recommended that VSI be added to the AIM Domestic Equity Fund with a price target of $58.48 representing a nearly 15% upside.

Investment Thesis

- **Favorable Secular Trends.** The U.S. VMS industry is non-cyclical, fragmented and boasted approximately $32 billion of sales in 2012. Secular tailwinds favoring this industry include the aging U.S. population, an increasing emphasis on preventative health, increased focus on active lifestyles, and rising healthcare costs. Those factors are expected to support industry growth of 6%-7% over the next several years making the VMS industry one of the fastest growing sub-sectors within hardline retail. Vitamin Shoppe has had steady growth in market share from 1.3% in 2001 to an estimated 3.1% in 2012 through consistent store growth, value-added customer service, and a competitive price position. Considering those factors, the company is on track for profitable market share gains in the years ahead as it continues to roll out its effective store model and tailor its products to the fastest growing in the industry.

- **Company Specific Growth.** VSI holds potential to nearly double its existing footprint. Management foresees approximately 900 domestic stores vs. 640 currently. With 50-60 new stores planned per year, VSI has at least five more years of unit growth ahead before reaching 900 stores. Management also noted its recent wave of new stores are experiencing comp growth of about 30% in their first year, which compares favorably to historical growth rates of 20%-25%. VSI's existing new stores beginning to mature provides an additional embedded comp tailwind. New stores generally have a negative impact on overall operating margin, but with 200 stores less than 4 years mature management expects they will be contributing to positive overall operating results.
- **Vitamin Shoppe's Private Label.** VSI's private label is an important growth opportunity. The company continues to develop, improve, and feed the market with new products. For example, a product such as MyTrition is now one of the top-selling private labels that as a group represent 21% of the company's sales and possess higher gross margin. New product offerings include a probiotic product line which tailor higher potency formularies and increasing demand by women. As a result of customer feedback, VSI has also created a premium-priced line of herbs that include key attributes that herb and botanical customers identified as most important to them. Lastly, new labeling on the Vitamin Shoppe and BodyTech branded products are more indicative of who VSI is and what they're all about.

Valuation

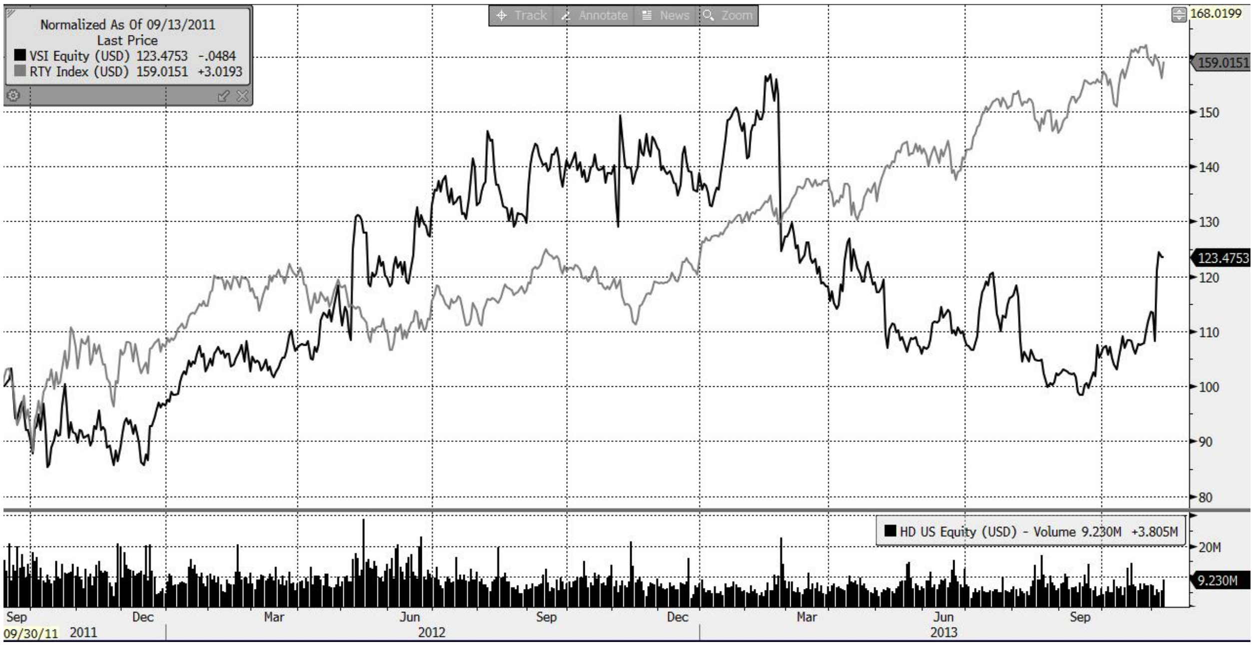
In order to reach an intrinsic value for VSI, a five year discounted cash flow model was conducted. A terminal growth rate of 2% and a WACC of 9.64% resulted in a valuation of $55.70. Sensitivity analysis on both the terminal growth rate and WACC provided for a range between $48.15 and $69.91 with an average of $57.44. Additionally, an EV/Sales comparable analysis resulted in an estimated price of $67.87. By weighing the DCF model 60%, the EV/Sales multiple 20%, and the sensitivity analysis 20%, a price target of $58.48 was obtained representing a 14.63% upside. The firm does not pay a dividend.

Risks

- **Failure to Respond to Consumer Demand.** VSI is subject to changing consumer trends and preferences. Failure to appropriately respond to changing consumer preferences and demand for new products and services could significantly harm customer relationships and sales. If new products or enhancements do not meet the changing needs of consumers in a timely manner, some of VSI's products could be rendered obsolete.
- **Product Liability Claims.** As a retailer of products designed for human consumption, VSI is subject to liability claims if the use of products is alleged to have resulted in injury, include inadequate instructions for use, or inadequate warnings concerning possible side effects and interactions with other substances. A liability claim could result in increased costs and could adversely affect the company's reputation with customers.
- **Integration of Super Supplements, Inc.** Failure to successfully integrate the assets of Super Supplements, Inc. into operations could have an adverse effect on financial results. Operations of Super Supplements to integrate include its personnel, financial systems, distribution, operations and general operating procedures. Inefficiencies could lead to increased costs.

Management

Anthony Truesdale has been the CEO and a board of director of Vitamin Shoppe, Inc. since 2011. Previously he served as a president and chief merchandising officer of the company between 2006 and 2011. Richard Markee has been the executive chairman of board of directors of the company since 2011. Brenda Galgano has been the chief financial officer and the executive vice president of Vitamin Shoppe, Inc. since 2011.



Ownership	
% of Shares Held by All Insiders and 5% Owners:	3%
% of Shares Held by Institutional & Mutual Fund Owners	>90%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Wells Fargo & Company	4,745,484	15.60%
Eagle Asset Management Inc.	3,682,553	12.11%
Blackrock	2,388,115	7.85%
Select Equity Group Inc.	2,315,285	7.61%
Vanguard Group Inc.	1,815,829	5.97%

Source: Bloomberg