Applied Investment Management (AIM) Program

AIM Class of 2015 Equity Fund Reports
Fall 2014

Date: Friday, November 7th   Time: 2:30 pm – 4:00 pm
Road Show Location: Geneva Capital Management

Student Presenter	Company Name	Ticker	Price	Page No.
Stef Yordan	Chuy’s Holdings, Inc.	CHUY	$22.00	2
Cole Johnson	TELUS Corporation	TU	$35.85	5
Joe Simonelli	Encore Capital Group Inc.	ECPG	$45.51	8
Hendrik van der Zandt	Actavis	ACT	$243.67	11
Kyle Lawrence	Grupo Aeroportuario del Pacifico S.A.B.	PAC	$68.15	14

We appreciate the opportunity to take an AIM ‘road show’ to Cortina Asset 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. Each student will spend 4 minutes presenting their formal recommendation, which is then followed by about 5 minutes of Q & A.

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Chuy's Holdings, Inc. (CHUY)
November 7, 2014

Stef Yordan — Domestic Consumer Discretionary

Chuy's Holdings, Inc. (NASDAQ: CHUY) is a fast-growing, full-service casual restaurant concept offering a distinct menu of authentic, freshly-prepared, generously-portioned Mexican and Tex-Mex inspired food. Each restaurant has a common décor, but is unique in format, offering an "unchained" look and feel, as expressed by the motto "If you've seen one Chuy's, you've seen one Chuy's!" With an upbeat, funky, eclectic, and somewhat irreverent atmosphere, while still maintaining a family-friendly environment, the Chuy's culture is one of the company's most valuable assets. Founded in Austin, Texas in 1982, the company operates 59 restaurants across 14 states, predominantly in Southern regions.

Price ($): (11/6/14)	$ 22.00	Beta:	0.99
Price Target ($):	$ 33.38	WACC	10.74%
52WK H-L ($):	$ 43.40 - 20.45	M-Term Rev. Gr Rate Est:	17.3%
Market Cap (mil):	360.5	M-Term EPS Gr Rate Est:	12.8%
Float (mil):	15.20	Debt/Equity:	5.74%
Short Interest (%):	18.17%	ROA:	7.38%
Avg. Daily Vol:	250,393	ROE:	10.98%
Dividend ($):	N/A	ROIC:	10.44%
Dividend Yield	N/A	EV/EBITDA	13.41

FY: Dec	2013A	2014E	2015E
Revenue (Mil)	204.36	244.70	287.00
% Growth	18.37%	19.74%	17.29%
Gross Margin	72.65%	71.75%	71.50%
Operating Margin	7.52%	6.75%	6.50%
EPS (Cal)	$ 0.68	$ 0.72	$ 0.81
P/E	53.09	34.93	37.11
P/S	2.90	1.67	1.71
FCF	-8.72	-3.62	-1.80

Recommendation

With an aggressive five-year growth plan, a nearly debt-free balance sheet and consistently positive same-store-sales growth, CHUY would be a valuable addition to the AIM Equity Fund. With an average check price of $13.94, Chuy's offers an affordable, unique and fun casual-dining option for its Southern U.S. consumers. Revenues increased by 19.9% in 3Q14, which is supported by 14 newly opened restaurants YoY. Comparable-store-sales also increased 3% in the quarter, representing both their 17th consecutive quarter of positive comps and an upward-moving trend for the restaurant industry as a whole, in spite of increasing commodity prices. With bar sales down 0.3% YoY, CHUY is consistent with its promise as a dining-room-centric atmosphere opposed to a bar-centric atmostphere, which makes it optimal not only for the younger generation who can visit the bar and eat from the complimentary "Nacho Car," but also for families who want an entertaining sit-down experience. With prospects to move outside the South and penetrate other markets in the U.S., as it has already begun its to shift to the East coast, Chuy's offers a tremendous growth opportunity in an industry that is finally showing signs of recovery from the financial crisis of 2008-2009. With a thriving culture, and a favorable valuation, it is recommended that CHUY be added to the AIM Equity Fund at a discount with a price target of $33.38, representing a 51.74% upside.

Investment Thesis

- **Favorable Changes Consumer Trends.** With consumer confidence for the under-35 crowd at an all-time high of 123.1 in October, this should fare well for Chuy's, as their target demographic is between ages 21-44. Additionally, there is a strengthening CPI trend between costs of food at home versus away from home due to commodity price inflation. As a result, consumers at home have incurred more of the price burden buying food rather than eating out, and restaurants have generally withheld price increases, attracting more consumers. Industry-wide same-store-sales have also accelerated over the last two months by 200+ bps across all restaurant sub-sectors. These trends may signal the infleciton point for restaurants as a whole, which is the last industry to fully recover from the economic recession.
- **Attractive Long-Term Story.** Given that CHUY went public in July 2012, the company is still in its early stages of growth, which is a key reason for current low store-level proft contributions. With about 33% of its exsting restaurants in the "immature" phase, or are less than 3 years old

and/or are single-store markets, the market maturation curve is soon approaching. Class of 2011 per-store profits on average hover around $1.6 M, whereas those currently under-performing generate $0.62 M. If historical 2011-2013 margin seasonality continues, coupled with an accurate implied 4Q14 store-margin guidance from management of 18.8%, then there exists a substantial margin-driven upside going into 2015 and further on.

- **Experienced Management.** Current President and CEO, Steve Hislop, headed up O'Charley's Restaurants for 18 years, where he helped transform the business from 12 to 347 restaurants. Frank Biller, the VP of Operations, also spent 18 years at O'Charley's with Hislop, so they are already a tried-and-true team. They also developed a 20-week training program for the managers of the restaurants, with 11 weeks of restaurant training and the remaining 9 used for cultural training, during which managers observe a Chuy's restaurant's operations and consumer interaction. Seeing as the culture is one of Chuy's most valued assets, the training program and upper-management have done an excellent job investing in and preserving it.

Valuation

In order to reach an intrinsic value for CHUY, a five-year discounted cash flow model was conducted. Using a WACC of 10.74%, the DCF resulted in a valuation of $44.70. Additionally, peer P/E, P/S and EV/EBITDA comparisons were conducted, which resulted in price targets of $23.41, $28.97 and $25.13, respectively. These valuations are coupled with a sensitivity analysis that produced price targets between $31.71 and $35.24. Each of the valuations (P/E, P/S and EV/EBITDA) weighed 20% while the DCF valuation weighed 40%, resulting in a final intrinsic value of $33.38, representing a 51.74% upside. CHUY does not pay a dividend.

Risks

- **Disappointing Class of 2013 Starts.** As previously mentioned, 33% of current Chuy's restaurants are considered in their "immature' phase, and are incurring the necessary costs to establish themselves in the market. This period of growth is reflected poorly in the company's financial statements, as they missed earnings the last two quarters. If these restaurants are unable to recover as well as expected, Chuy's could continue to produce lower-than-expected earnings, which will not only hurt the company financially, but investors will eventually lose faith in the long-term success of management and the company as a whole.
- **Rising Commodity Prices.** CHUY is exposed to market price fluctuation in food product prices. According to the USDA, the production of beef declined since January by 6%. This deficiency in supply with an increase in demand will continue to raise the price for beef, which is a necessity for Chuy's, and an inability to negotiate prices with its its suppliers could hurt their bottom line.
- **High Industry Competition and Lawsuit Exposure.** The restaurant industry naturally presents higher competition, with Chuy's main competitors being Texas Roadhouse, Chipotle, Darden Restaurants and BJ's. While Chipotle may dominate the market share for fast-casual Mexican cuisine, the company is currently facing 5 suits for labor law violations, and Darden, a competitor in the casual-dining space, is facing four. Exposure to wage and overtime-related lawsuites will likely increase given the current activism around the minimum wage vs. costs of living. CHUY will have to remain cautious of this trend and continue to invest in its dedicated employees.

Management

In addition to those mentioned above, the management team includes Jon Howie, CFO since 2011, who previously served as CFO for 5 years at DFRG, one of the current holdings in the AIM Equity Fund. He also has 15+ years of accounting experience both in the restaurant and public accounting space and advised a number of companies in conjunction with their IPO's, which CHUY just underwent under his watch. He adds another level of credibility and experienced to an already-established management team.

Source: Bloomberg

Ownership

% of Shares Held by All Insider and 5% Owners:		0.40%
% of Shares Held by Institutional & Mutual Fund Owners:		121.90%

Source: Bloomberg

Top 5 Shareholders

Holder	Shares		% Out
Fidelity Management & Research LLC	2,247,310		13.67
Lord Abbett & Co., LLC	1,265,715		7.70
Next Century Growth Investors LLC	1,235,761		7.52
TIAA - CREF	1,087,245		6.62
Stephens Investment Management Group	1,002,116		6.10

Source: Bloomberg

Comparable Firms	Ticker	P/E	P/S	EV/EBITDA	WACC
Brinker International, Inc.	EAT	19.27	1.2	10.98	7.47%
Texas Roadhouse, Inc.	TXRH	26.17	1.41	11.58	8.87%
Darden Restaurants Inc.	DRI	30.87	0.92	11.24	7.86%
Del Frisco's Restaurant Group	DFRG	29.83	1.94	16.31	8.63%
Chipotle Mexican Grill Inc.	CMG	49.61	5.14	25.21	8.16%
BJ's Restaurants Inc.	BJRI	44.07	1.52	15.12	10.94%

TELUS Corporation (TU)
November 7, 2014

Cole Johnson — International Telecom Services

TELUS Corporation (NYSE: TU) is a telecommunications provider which offers a range of products and services including wireless, data, Internet protocol, voice and television. The firm operates in two segments: Wireless and Wireline. The Wireless segment, which includes voice, data and equipment sales, represented $5.6 billion (54%) of total revenues in fiscal year 2013. The Wireline segment, which includes data (television; Internet, enhanced data and hosting services; and managed and legacy data services), voice local, voice long distance, and other telecommunications services excluding wireless, represented $4.8 billion (46%) of total revenues in the same period. TU is headquartered in Vancouver, Canada and was founded in 1993 and incorporated in 1998.

Price ($): (10/31/14)	35.85	Beta:	0.63	FYE: December	2013A	2014E	2015E
Price Target ($):	42.11	WACC	5.7%	Revenue (Mil)	11,074.28	10,902.00	11,338.08
52WK H-L ($):	38.76-32.76	M-Term Rev. Gr Rate Est:	4.2%	% Growth	1.33%	-1.56%	4.00%
Market Cap (mil):	22,010	M-Term EPS Gr Rate Est:	4.6%	Gross Margin	44.4%	45.0%	45.3%
Float (mil):	611	Debt/Equity:	114%	Operating Margin	19.4%	20.0%	20.4%
Short Interest (%):	0.8%	Debt/Total Assets:	42%	EPS (Cal)	$1.96	$2.15	$2.28
Avg. Vol (10d):	146,578	ROA:	6.7%	FCF/Share	$2.40	$1.19	$1.94
Dividend ttm ($):	1.40	ROE:	18.0%	P/E (Cal)	18.8	16.80	14.6
Yield (%):	3.90%	ROIC:	12.2%	EV/EBITDA	7.6	7.6	7.1

Recommendation

The Canadian telecommunications industry is an oligopoly characterized by strong competition among three leading firms: Telus, Rogers Communications and Bell Canada (BCE). TU has managed to build a strong competitive position within the market and serves as the region's second largest and fastest growing incumbent operator with 5.5 million wireline connections and 8.1 million wireless customers; with a 29% market share in Canada. TU's vast network presently covers 85% of the Canadian marketplace. In addition, relatively low penetration rates (80% of wireless market), rational competitive intensity and strong economic efficiency provide a compelling backdrop for investment in this regional market. Over the past several years, the company has decisively out-executed its peers, now boasting the strongest Average Revenue per Unit (ARPU) and lowest churn rates (1.26% in Q2) in the country. High barriers to entry in the market have been evidenced by the inability of small carriers such as Mobilicity, Wind Mobile and Public Mobile to enter and compete even with aggressive pricing pressure on the low end of the market. Without the scale, spectrum and network infrastructure to create market disruption, these firms are on the brink of bankruptcy. TU has fared well throughout the past year, generating a 4.0% return compared to a 2.5% decline in the relative North American index. Looking forward, management expects organic wireless revenue growth in the 5-7% range with 4-8% growth in EBITDA. This compares to approximately 3.2% wireless revenue growth and 5.4% EBITDA growth for the industry. Over the past two years, the company has returned $2.6 billion to shareholders through share buybacks and dividends. Management has stated a target objective of increasing dividend payouts approximately 10% annually through the end of 2016. Due to a favorable competitive environment and strong fundamentals, it is recommended that Telus be added to the AIM International Equity Fund with a price target of $42.11, representing a 18.2% upside. TU also currently pays a 3.9% dividend yield.

Investment Thesis

- **Further penetration of Canadian wireless market.** Smartphone customers currently represent 75% of TU's postpaid subscriber base and the company's ability to transfer pre-paid revenues to post-paid contract revenues has been a key factor for lowering their wireless churn rate. TU's 79% smartphone penetration rate, in combination with net positive post-paid additions and expansion of ARPU, will provide them with the ability to grow wireless penetration in Western Canada and throughout the country. Wireless ARPU has expanded from $56.95 in 2010 to $61.24 through 2013, driven by higher data and roaming fees and lower-than-anticipated declines in voice revenues.

- **Launching of "connected car" technology with affiliate.** Telus agreed this fall to an operating agreement with Mojio through which they will launch an innovative connected car solution in the region powered by Telus' wireless network. The platform will allow any driver with an onboard diagnostic port (OBD II) to provide vehicle diagnostics, automated trip tracking and vehicle monitoring solutions to enhance the subscribers' driving experience – all on an open platform which supports broad application development. By 2022, the "connected car" market is expected to represent a $422 billion opportunity, representing a CAGR of 44.7% up from $22 billion today. During this period, it is estimated that total automotive connections with this technology will reach 1.8 billion, including 700 million connected cars and 1.1 billion aftermarket devices. The Mojio device is expected to have a market of over 22 million vehicles in Canada by 2018.
- **Attractive cash returns to shareholders.** In 2013, Telus completed a C$1.0 billion share repurchase program, buying back approximately 4.8% of outstanding shares. The company intends to purchase C$500 million in shares annually from 2014-2016. Since commencing the repurchase program in 2014 as of September, the 2015 and 2016 programs will reduce outstanding share count by an additional 4.1%. In combination with annual growth in dividend payments, the company should generate cash return yield of 6.1% in 2014; this compares to 5.2% at Bell Canada and 4.2% at Rogers Communications.

Valuation

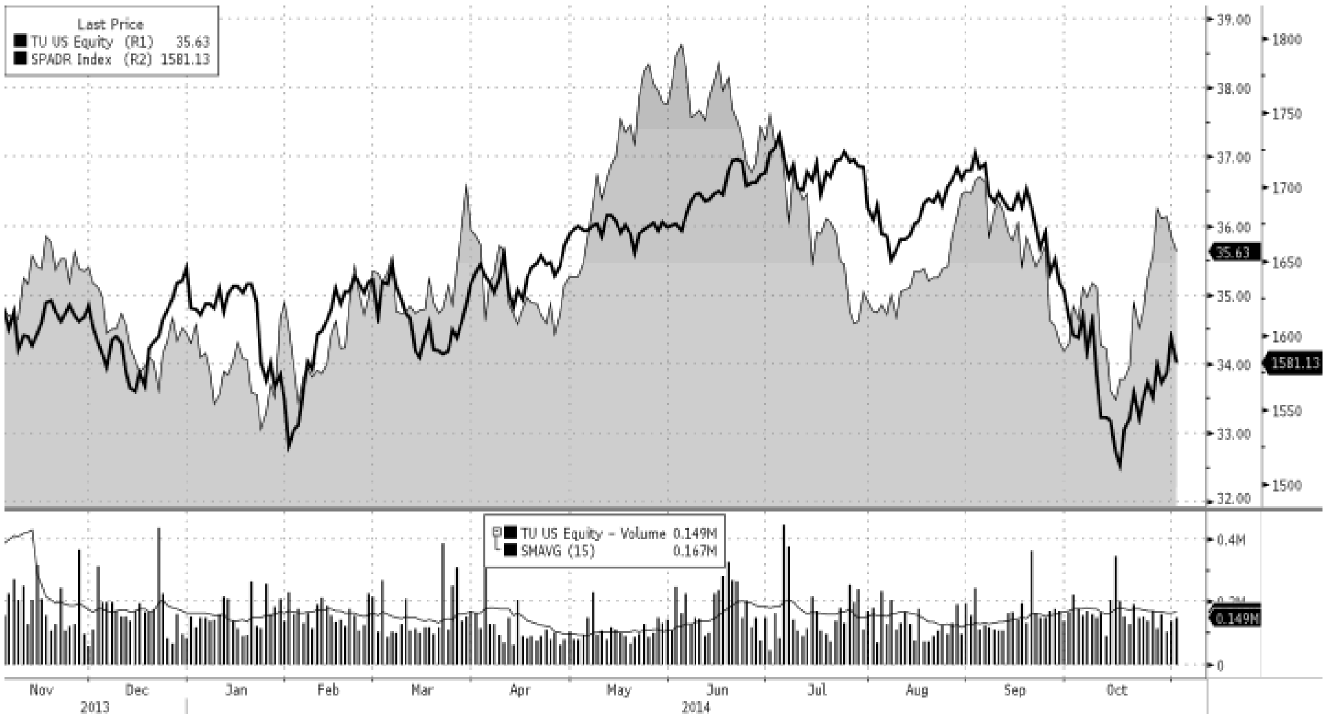
In order to reach an intrinsic value for TU, a five year discounted cash flow model was conducted. Using a terminal growth rate of 2.5% and a WACC of 5.7% resulted in a valuation of $45.32. Sensitivity analysis on both the terminal growth rate and WACC provided for a range between $35.60 and $53.60. Additionally, an EV/Sales peer multiple comparison and Discount Dividend Model were also analyzed. Using an industry average forward EV/Sales multiple of 3.08x and 2014 projected sales of $10.9 billion, a value of $39.73 was obtained. Further, by assuming a 7.1% cost of equity, a WACC of 5.7% and consistent 5% semi-annual growth beginning in 2015, the DDM generated a value of $40.10. By weighing the DCF, EV/Sales and DDM approaches at 40%, 20% and 40%, respectively, a price target of $42.11 was reached, representing a potential upside of 18.2%. TU also pays a 3.90% dividend.

Risks

- **Regulatory Challenges.** Industry Canada, one of two primary regulators for the communications industries, has stated that it wants a fourth national carrier. Despite the failure of the regulator to attract new entrants through AWS auction advantages, a new push by the regulator through new M&A rules or future spectrum auctions could allow for a large foreign carrier to enter the market and apply significant pricing pressure to the primary three players in the market.
- **Heavy reliance on Bell Canada (BCE) for nationwide coverage wireless network.** TU and Bell Canada share CDMA, HSPA+ and LTE networks for wireless service throughout Canada. Both companies require reliance on one another in order to provide quality service, maintenance and network build-outs. Accordingly, certain company-specific disruptions could impact subscribers of the other firm.
- **Failure to expand IPTV market penetration.** The video and content market has grown fiercely competitive with the rise of independent streaming services. As the company continues rollout of its IPTV business, its particularly large satellite business is being somewhat cannibilized despite it stealing a large share of Shaw's business in the process. Penetration in the video/pay-TV market remains challenging and if TU is unable to increase penetration over time, its IPTV business could remain a substantial drag on the company.

Management

Joseph Natale has been President and CEO of TELUS Corp. since May 2014. After joining TELUS in 2003, Joe has served as EVP within their Business Solutions and Consumer Solutions businesses. Prior to joining TELUS, Joe held successive senior leadership roles within KPMG Consulting. John Gossling is Chief Financial Officer and Executive Vice President of TELUS Corporation. He formerly served as Vice-President of Financial Operations at Rogers Communications Inc. and CFO of CTVglobemedia.



Ownership

% of Shares Held by All Insider & 5% Owners:	5%
% of Shares Held by Institutional & Mutual Fund Owners:	77%

Source: Thompson ONE

Top 5 Shareholders

Holder	Shares	%Out
I.G. Investment Management, Ltd.	27,256,596	4.43%
TD Asset Management Inc.	22,032,221	3.58%
RBC Global Asset Management Inc.	20,601,609	3.35%
Fidelity Management & Research Company	15,100,900	2.45%
BlackRock Asset Management Canada Limited	15,001,666	2.44%

Source: Thompson ONE

Encore Capital Group Inc. (ECPG)
November 7, 2014

Joe Simonelli | Financial Services

Encore Capital Group Inc. (NASDAQ: ECPG) operates as a global specialty finance company. The company provides debt recovery solutions for consumers and property owners across a range of financial assets. Encore operates in two segments, Portfolio Purchasing and Recovery (98%) and Tax Liens (2%). The Portfolio Purchasing and Recovery segment buys portfolios of defaulted consumer receivables at a large discount from banks, credit unions, and utility providers. Once Encore owns these receivables they work closely with the consumers to negotiate a mutually acceptable payment plan tailored to their financial situation. This segment is also involved in portfolio debt management for semi-performing accounts, management of non-performing loans, and financial solutions to keep individuals from defaulting. Tax Liens pay for property taxes on behalf of delinquent owners in exchange for payment agreements secured by a lien on the property. Encore was founded in 1998 in San Diego, CA.

Price ($): 10/30/14	45.51	Beta:	1.35	FY: Dec 31	2013A	2014E	2015E
Price Target ($):	61.54	WACC(%):	3.60	Revenue	773.4	1,095.0	1,237.4
52 WK L-H ($):	40.62-51.95	D/E	4.96	% Growth:	39.1%	41.6%	13.0%
Market Cap (B):	1.10	P/B	2.02	Operating Income	198.36	272.74	316.42
Float (M):	23.71	ROA:	3.39	% Growth:	28.66%	37.5%	16.0%
Short Interest (%):	25.49	ROE:	16.98	EPS	3.05	4.10	4.71
Avg. 3 Month Vol:	246,721	Est. Remaining Collections	4.9B	% Growth:	8.93%	34.29%	15.00%
Dividend	-	Cost to Collect	38.0%	BVPS:	$22.47	$27.05	$32.70
Yield(%)	-	Revenue Recognition Rate	59.8%	FCF/Share	$2.40	$3.48	$4.28

Recommendation

Encore has grown to become one of the U.S. market leaders in portfolio purchasing and recovery, generating about $773M in revenue last year, second in the industry to Portfolio Recovery Associates (PRAA). Smaller boutique firms have not been able to keep up with the increasing amount of regulation expenses in this industry; however, many of these companies are run well which makes them attractive acquisition opportunities. Encore has been able to grow their book assets over the last year by being active in this space - since June 2013, they have acquired six subsidiaries. Through these subsidiaries they have expanded their geographic presence and now operate in the US, UK, Ireland, Columbia, India, and Peru. These subsidiaries also diversify Encore's portfolio recovery product line. For example, ECPG has built their business specializing in collecting older and lower-balanced paper. Their most recent acquisition (Q2 2014) of Atlantic Credit & Finance added a significant footprint in higher-balanced and fresh paper, a segment that Encore has historically not been present in. Another favorable past acquisition (Q3 2014) is Cabot Credit Management who is the market leader in Ireland and the UK for debt management of "semi-performing" accounts. This was further complemented by their acquisition (Q1 2014) of Marlin Financial Group who specializes in non-performing consumer debt collection in the UK. The UK is the second largest debt purchasing market and Encore is positioned for further growth opportunities domestically and internationally as they have solidified their global existence. Even with three suppliers currently out of the market, Encore has been able to grow its revenue by 33.81% and its estimated remaining collections (ERC) by over 102% in 2013. For these reasons and a valuation expressing a favorable outlook, it is recommended that ECPG be added to the AIM Equity Fund with a target price of $61.54, representing a potential upside of about 35.25%. Encore does not pay a dividend.

Investment Thesis

- **Recent Acquisitions Allow Penetration into New Global Markets and Business Segments.** The total ERC as of Q2 2014 is $4.9B, up 78.7% from Q2 of 2013. This figure grew because of their busy year with acquisitions, but organic growth has also increased by integrating all of their subsidiaries strengths together. Having a larger presence has also granted them the ability to keep their cost to collect stable, even as Encore has increased their investment in compliance. Encore's current cost to collect rate is about 38%, down from 42% at the start of the year. They have been able to sustain this competitive advantage by outsourcing call centers in India and Costa Rica. Encore is the only debt collector in India, whose defaulted debt is expected to rise by about $8B by 2017, giving them an advantage to dominate this market and increase their market share considerably. Cash flow growth will continue to grow due to these additional asset classes and geographies, enhancing collections and ERC for Encore.

- **Consumer Credit Research Institute (CCRI) Increases Revenue Recognition Rate.** Encore has an extremely disciplined investment selection process. Once a portfolio is deemed a potential purchase candidate the firm deeply analyzes each consumer's credit, savings, purchasing habits, and payment behavior. They analyze this information using asset valuation, statistical analysis, and forecasting to predict the expected collection value of each potential consumer. This high focus on analytical research allows them to accurately predict their ERC and allow their revenue recognition rate to expand as they gain access to more tools and expertise. Encore's revenue recognition rate for Q2 2014 was 59.8%, up from 53.3% a year ago.
- **Consistent Long-Term Growth Strategy Positioned by Management.** Encore's management team understands the business and acts when acquisition opportunities arise. Their business model has proven to be successful and a favorable outlook remains in the upcoming years. Their "four pillars" are superior analytics, operational scale and cost leadership, strong capital stewardship, and an extendable business model. A culture of constant improvement at the company has been formed to drive better operating results and take advantage of consolidating markets. This model's financial achievement is supported by five year CAGR's of 19.57%, 24.38%, and 17.90% in revenue, operating income, and net income respectively.

Valuation

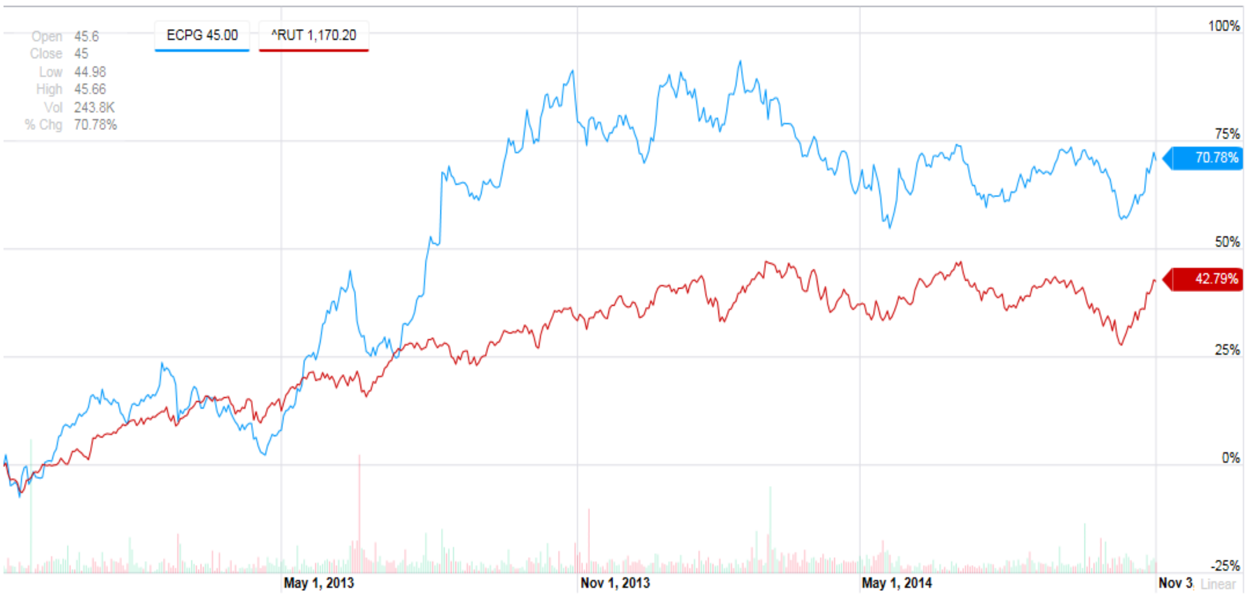
In order to obtain the intrinsic value of ECPG, two valuation models were constructed, P/B and P/FCF multiples. In the P/B multiple, a comparable P/B multiple was combined with Encore's P/B average to form a blended average P/B of 2.14. This number multiplied by a calculated BVPS of $29.87, distributed an intrinsic value of $63.97. The P/FCF multiple was obtained by a blended average P/FCF of 13.77 multiplied by an average FCF/share of $4.29 to delivered a $59.11 intrinsic value. Weighting the two valuations evenly resulted in a value of $61.54.

Risks

- **Increased Debt Level.** Encore's total long-term debt rose to $1.8B in 2013, up 162% from 2012. The current debt level as of Q2 2014 has risen even higher to $2.7B, which delivers a D/E ratio of 4.96. This places a heavy reliance on Encore's subsidiaries to deliver the expected benefit to the company and generate more income. If the debt recovery industry undergoes any unforeseen event that would limit revenue then Encore would be in an ugly situation themselves.
- **Tightening US Credit Regulations.** An argument can be made that because of tighter regulations in the credit industry would decrease the amount of purchasing opportunity for Encore. However, there is still a massive amount of consumer debt from the financial crisis. This risk is also limited by a stronger job market and rising household incomes that not only give the consumers the confidence to spend again but also the ability to repay their past debt obligations.

Management

Kenneth Vecchione has been Encore's CEO since May of 2013. The CFO, Paul Grinberg for over 9 years and took the lead role in recent acquisitions. Because of his success and Encore's dedicated investment to expansion, the company has decided to transition his expertise to a position focused on overseeing these acquisitions. The search for a new CFO is something to watch closely.



Source: Yahoo!Finance

Ownership

% of Shares Held by All Insider and 5% Owners:	2%
% of Shares Held by Institutional & Mutual Fund Owners:	129%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
EJF Capital LLC	2,164,273	8.44
FMR, LLC	2,100,945	8.20
Vanguard Group, Inc. (The)	1,612,672	6.29
Broad Run Investment Management, LLC	1,512,447	5.90
Red Mountain Capital Partners, LLC	1,332,036	5.20

Source: Yahoo! Finance

Actavis (ACT)

November 7, 2014

Hendrik van der Zandt — International Healthcare

Actavis (NYSE: ACT) is a global, integrated specialty pharmaceutical company focused on developing, manufacturing and distributing branded, generic, and biosimilar products. ACT's largest segment is North American Brands (36%), which the company significantly expanded with its recent acquisition of Forest (FRX; July 2014). Actavis is one of the largest and most successful players in the North American generics market (33%). The company has a diverse international business (which includes brands, generics, OTC, and hospital products; 18%), as well as a generics distribution business (Anda; 13%). Actavis has an efficient tax structure (16.3%) that allows the company to maximize cash flows and support business development activity. The company is headquartered in Dublin, Ireland.

Price ($): (10/31/14)	243.67	Beta:	0.80	FY: Dec	2013A	2014E	2015E
Price Target ($):	329.82	WACC	8.9%	Revenue (Mil)	8,677.60	12,622.30	14,904.51
52WK H-L ($):	153-250	M-Term Rev. Gr Rate Est	19%	% Growth	46.71%	45.46%	18.08%
Market Cap (mil):	64,409.60	M-Term EPS Gr Rate Est	51.5%	Gross Margin	45.94%	57.30%	59.50%
Float (mil):	263.2	Debt/Equity:	19.1%	Operating Margin	19.13%	28.37%	31.86%
Short Interest (%):	0.79%	ROA:	0.3%	EPS (Dil)	9.37	14.60	16.33
Avg. Daily Vol:	2,404,310	ROE:	0.9%	FCF/Share	$5.45	$11.51	$15.53
Dividend ($):	N/A			P/E (Cal)	26.01	16.69	14.92
Yield (%):	N/A			EV/EBITDA	40.41x	20.84x	14.94x

Recommendation

Actavis' strong organic growth (25% in 2014) comes from its talented management, capturing opportunities in developed and emerging markets, creating market-leading brand and generic drugs and investing extensively in R&D (>$1Bn) to develop cutting-edge products. The company's impressive late-stage drug pipeline is likely to drive future growth in all areas of the business. The specialty pharma producer has sufficient drivers, scale and product diversity to compete in a rapidly growing industry. In addition to strong fundamentals, management has been active in its business development by completing 16 acquisitions over the past 7 years to grow to a leading global player in the generic and branded pharmaceuticals industry. With respect to its efficient tax structure, balance sheet and cash flows, Actavis is not over leveraged and has adequate cash flows to service existing debt, as well as contiuing to look for attractive business development opportunities. Actavis stands out with the soundness of its business, its drive to expand into new and existing markets constantly and a strong management team. Because of the drivers below and a favorable valuation, it is recommended that Actavis be added to the AIM International Equity Fund with a price target of $329.82, representing an upside of approxiamtely 35%. ACT does not offer a dividend.

Investment Thesis

- **Strong pipeline.** Actavis has one of the strongest pipelines in the industry and with the Forest acquisition in July 2014, it has significantly increased its product portfolio. North American Generics contribute $4Bn (LTM) of sales with 18 significant drug pipeline opportunities through 2018. Through the acquisition, Actavis will enter into the CNS (Central Nervous System), Cardiovascular and Respiratory markets. Therefore, the company will see additional synergy revenues of $1.7Bn in 2H14 and $3.6Bn in FY2015. ACT also has an extensive pipeline of late-stage specialty drugs in their North American segment with many candidates originated through the recent $20Bn Forest acquisition. Management strongly believes in extensive R&D research to continue stimulating organic growth with at least $1Bn invested annualy going forward.

- **Competitive global size with diverse product portfolio and growth.** Actavis explores opportunities to grow internationally, brands and generics both, organically, as well as through 16 completed acquisitions since 2007. Management estimates around $1Bn in operational and tax synergies will be achieved. This will lead to improving operating and gross margins of projected 43% and 64%, respectively in 2018, compared to 28% and 57% currently. The company's current market cap is around $64Bn, which makes it one of the largest pharma companies in the world and the leader in generics. The combined ACT/FRX company will be a product-diverse and well-balanced branded/generic pharmaceuticals combination with critical size and scope across multiple therapeutic areas, generic product categories, and developed and emerging markets.
- **Future acquisitions.** This industry has seen significant M&A activity, even with changing regulations and potential limits to tax and syngery benefits. Almost all public competitors of ACT announced heavy deal activity going forward. Out of all companies, Actavies is the best positioned one in respect to leverage, access to cheap capital and opportunities to continue to make a meaningful impact in the small to midsize M&A deal space.

Valuation

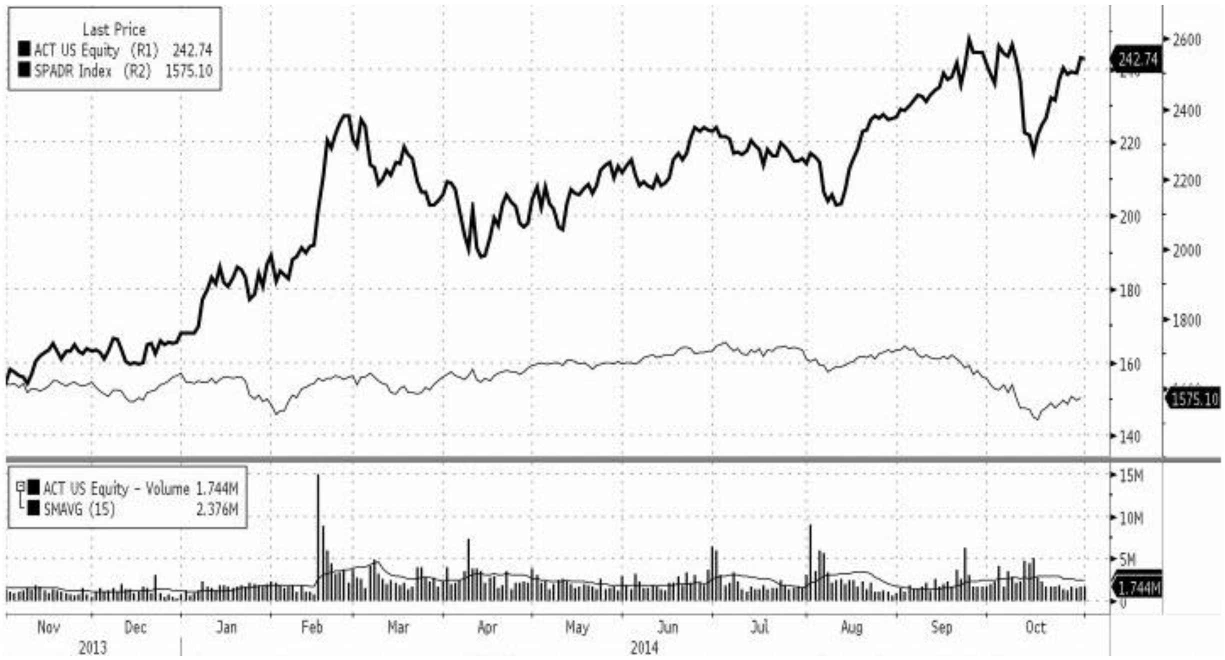
To reach an intrinsic value for ACT, a five year discounted cash flow model along with a EV/EBITDA comp analysis were conducted. Using a terminal growth rate of 0% and a WACC of 8.95%, an intrinsic value of $346.44 was determined through the DCF model. A sensitivity analysis on both the growth rate and the cost of capital resulted in a range of $330 - $390. For the EV/EBITDA valuation, an industry peer average multiple of 18.48x was used along with a 2014 EBITDA of $4394, which yielded an intrinsic value of $291.02. Weighing the DCF model 70% and the EV/EBITDA valuation 30%, a price target of $329.82 was obtained, representing a 35.35% upside. Actavis does not offer a dividend.

Risks

- **Rapid Expansion.** ACT's recent expansion in business strategy, size, and scope represent potential risks to ongoing management, integration and execution. The company used to dominantly focus on the U.S. market with generic pharmaceuticals. After multiple transformative acquisitions in the last few years, Paul Bisaro grew the Irish company to a large, multinational, brand, and generic organization that could be challenged on multiple ends; however, the company recently divested its European business and performs steps towards risk mitigation.
- **Change in Management.** CEO Paul Bisaro assumed the role of Executive Chairman after the Forest acquisition in July and Forest CEO Brent Saunders transitioned to be CEO of Actavis. Mr. Bisaro joined Actavis (back then Watson) in 2007. Under his leadership, the company underwent 16 completed acquisitions and shareholders experienced a 600% stock price appreciation since 2007. Mr. Saunders has both experience and the necessary skill set to lead the company in a growing environment.

Management

Paul Bisaro was the CEO from 2007 until 2014, before Brenton (Brent) Saunders assumed his role in July of this year after leading Forest's management. Mr. Bisaro currently serves as Executive Chairman of the Board and will remain involved in the business. Robert Stewart has been the Chief Operating Officer since 2009. Siggi Olafsson recently left the company to join competitor Teva Pharmaceuticals (NYSE: TEVA). His expertise in growing ACT's generics unit will be continued by former Chief Legal Officer David Buchen, who will be assisted by Paul Bisaro. The management's complementory backgrounds, extensive experience and in-depth knowledge provide a strong foundation for future growth.



Ownership

% of Shares Held by All Insider and 5% Owners:	7%
% of Shares Held by Institutional & Mutual Fund Owners	55%

Source: Yahoo! Finance

Top % Shareholders

Holder:	Shares	% Out
Fidelity Management & Research Company	16,594,609	6.28
The Vanguard Group, Inc.	9,021,418	3.41
State Street Global Advisors (US)	8,616,895	3.26
Wellington Management Company, LLP	8,471,877	3.21
BlackRock Institutional Trust Company, N.A.	6,628,888	2.51

Source: ThomsonONE

Grupo Aeroportuario del Pacifico S.A.B. de C.V. (PAC)

November 7, 2014

Kyle Lawrence | International Industrials

Grupo Aeroportuario del Pacifico S.A.B. de C.V. (NYSE:PAC) manages, operates and develops twelve airport facilities in the Pacific and Central regions of Mexico. Through these facilities, it serves several metropolitan areas, tourist destinations and medium-sized cities across the country, covering nine Mexican states and 28.2 million people. PAC classifies its business operations into two reportable divisions: aeronautical services and non-aeronautical services, which represented 69.2% and 24.5% of 2013 revenues. Their aeronautical division generates revenues through various sources including passenger charges, aircraft landing and parking charges, cargo handling and the leasing of space to airlines. PAC's non-aeronautical division generates revenues from directly-operated businesses and commercial activities, including parking, advertising, leasing of terminal space, food and beverage services, financial services and car rentals. PAC was founded in 1998 in Guadalajara, Jalisco, Mexico.

Price ($) (11/02/14):	68.15	Beta:	1.13	FY: December	2013A	2014E	2015E
Price Target ($):	81.73	WACC (%):	9.96	Revenue ($mil):	409.80	435.00	500.00
52 WK L-H ($):	44.99-77.43	M-Term Rev. Gr Rate (%):	10.38	Rev. Growth (%):	8.93	6.15	13.79
Market Cap ($mil):	3,823.20	M-Term EPS Gr Rate (%):	11.76	Gross Margin (%):	78.40	82.07	83.03
Float (mil):	47.69	Debt/Equity (%):	8.35	Operating Margin (%):	45.39	47.36	48.18
Short Interest (%):	0.30	ROA (%):	9.03	EPS ($):	3.32	3.45	3.97
Avg. Daily Vol. (mil):	0.09	ROE (%):	10.29	FCF/Share ($):	3.55	3.75	4.09
Dividend ($):	0.58			P/E:	16.47x	23.69x	20.59x
Yield (%):	1.71			EV/EBITDA:	11.80x	16.08x	14.20x

Recommendation

PAC's strong operational performance, unique business model and strategic location continues to attractively position the company to grow revenue streams and further improve margins. In 2013, PAC serviced 23.2 million people, or 15.37% of the total airline traffic in Mexico. Excluding airports servicing tourist destinations, PAC's facilities generally form natural monopolies in their respective geographic regions and service key international routes, such as Guadalajara-Los Angeles. Strong passenger traffic has and will continue to drive PAC's top-line. According to a forecast by the International Air Transport Association, airline passenger traffic is expected to grow at a CAGR of 5.4% through 2017 (6.2% international passengers and 4.6% domestic passengers). PAC reported revenues of $409.80M during FY13, growing at a CAGR of 13.28% during 2009-2013. Additionally, the company grew operating margins from 42.74% to 45.39% and net income margins from 35.84% to 42.97% between FY12 and FY13. Margins are expected to continue to expand as investments to renovate retail stores, food and beverage services and terminals materialize, spurring leasing activity. PAC recently released its 2014 Q3 results, beating analyst consensus EPS estimates by approximately 11.2%, even with the negative impact Hurricane Odile had on operations in mid-September. Due to PAC's attractive position in a growing industry and a favorable valuation, it is recommended that PAC be added to the AIM International Fund with a price target of $81.73, which offers an upside of 19.92%. PAC offers a dividend yield of 1.71%.

Investment Thesis

- **Non-aeronautical revenue growth.** Between 2006 and 2013, PAC grew their non-aeronautical revenues by 110.4%, while passenger growth increased 13.0% during the same period. This equates to non-aeronautical revenue per passenger growing at a CAGR of 9.3%. From 2012-2013, revenues from the leasing of space, food and beverage services and duty free operations were the fastest growing commercial activities, increasing 19.5%, 19.9% and 33.8%. Going forward, PAC is looking to obtain additional cost efficiencies through the businesses that they operate directly, including advertising, car parking and VIP lounges, where revenues increased 23.7% since 2012.

- **Expansion of airport infrastructure.** PAC is approaching the completion of projects in the Guadalajara, Tijuana and Los Cabos airports, their three most important facilities, representing 69.3% of total 2013 revenues. Investments to improve runways, add commercial leasing space and departure gates will increase capacity and begin to materialize in 2015 as average air traffic movements per hour rise approximately 15% from 27 to 31.
- **Positive outlook for Mexican T&T.** According to the World Travel & Tourism Council, direct contribution of the Mexican travel and tourism industry to the country's GDP is expected to increase by 4.4% in 2014 and continue to increase by a CAGR of 4.5% through 2024, reaching the USD equivalent of $115,000M. PAC is well-positioned, geographically, to capture the growth in tourism traffic, especially as the company continues to develop and improve existing facilities. All of PAC's airports are also designated as international airports under Mexican law.

Valuation

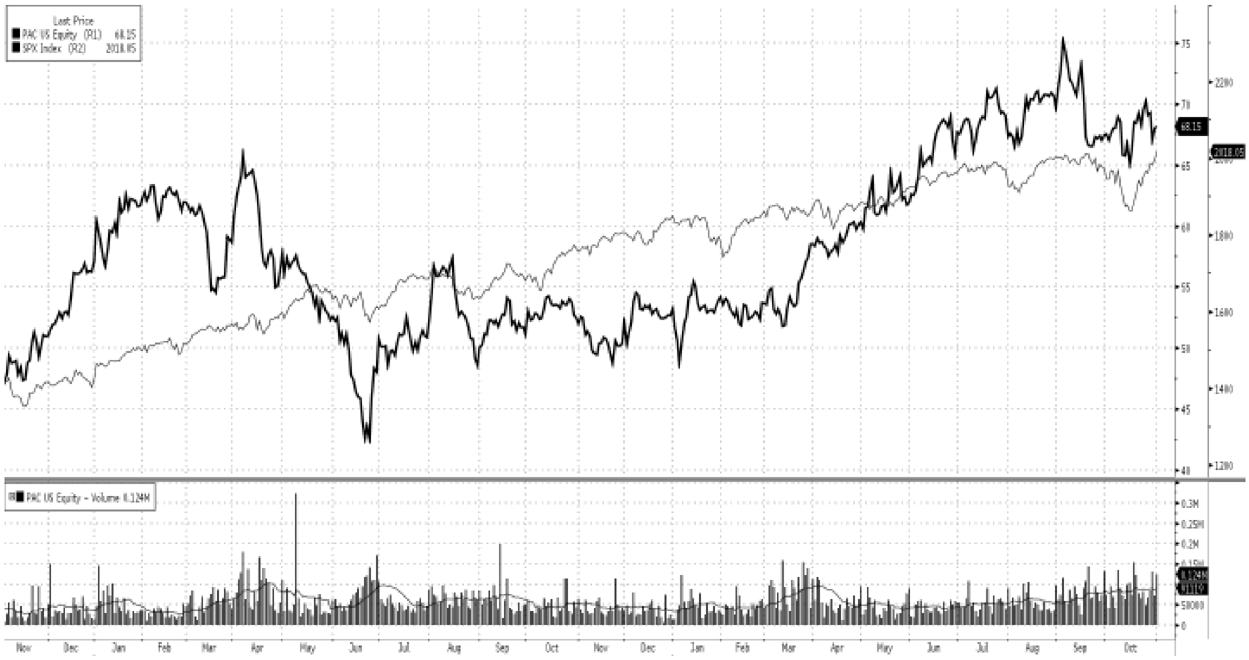
In order to reach an intrinsic value for PAC, a five-year DCF model was constructed. Using a terminal growth rate of 2.75%, a WACC of 9.96%, a short-term revenue growth rate of 13.79% and a mid-term revenue growth rate of 10.38%, the DCF model resulted in an intrinsic value of $77.74. Additionally, an EV/EBITDA multiple valuation was calculated using an industry comparables average of 15.61x and a 2015E EBITDA of $310.50M, which resulted in a valuation of $85.56. Finally, a P/E multiple approach was conducted by evenly weighting the industry comparables average P/E (ttm) of 22.89x and PAC's 5-year historical average P/E of 18.40x. The combined 20.65x P/E multiple and 2015E EPS of $3.97 resulted in a valuation of $81.88. By weighting the three valuation models equally, a price target of $81.73 was reached, which yields a potential upside of 19.92%.

Risks

- **Dependent upon the revenues from four airports.** PAC's business is highly dependent upon the revenues from four of their twelve airports and could be adversely impacted by any condition affecting those airports. In 2013, the Guadalajara, Los Cabos, Tijuana and Puerto Vallarta International Airports generated 35.4%, 19.6%, 14.3% and 13.1% of revenues, respectfully, representing 82.4% of total aeronautical and non-aeronautical revenues.
- **Fluctuation in the MXN exchange rate.** The peso depreciated 12.7% in 2011, appreciated 7.1% in 2012 and depreciated 1.0% in 2013, relative to the USD. Any future appreciation or depreciation of the Mexican peso could impact aggregate passenger traffic volume by increasing the cost of travel for passengers. In addition, although all current indebtedness is denominated in pesos, PAC may turn to dollar-denominated debt to finance investments in the future, depending on economic and credit market conditions. In this scenario, a depreciation in the MXN/USD exchange rate would materially increase debt servicing costs.

Management

PAC's management has considerable experience in the industry, making them valuable components to the company's business model. Fernando Bosque Mohino has been the CEO of PAC since 2011. He began his career in 1976 within Spain's Federal Aviation and Transport Department. He then went on to serve as CFO of AENA International and CEO of MBJ Airports Limited. Furthermore, he served as Concessions Director of Ferrovial, so he has a strong understanding of the privatization structure of Mexican airports.



Source: Bloomberg

Ownership

% of Shares Held by All Insider and 5% Owners:	0.12
% of Shares Held by Institutional & Mutual Fund Owners:	35.88

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
Dimensional Fund Advisors LP	1,324,598	2.78
Mondrian Investment Partners Ltd.	1,146,930	2.41
BlackRock	644,723	1.35
SunTrust Banks, Inc.	401,825	0.84
Cohen & Steers, Inc.	368,715	0.77

Source: Bloomberg

Peer Comparables

Name	Market Cap ($mil)	P/E (ttm)	EV/EBITDA(ttm)	Debt/Equity (%)
Grupo Aeroportuario del Pacifico	3,823.20	20.47	14.39x	8.35
Aeroports de Paris	9,147.90	25.26x	11.26x	109.20
Airports of Thailand	10,608.30	22.73x	16.45x	45.55
Auckland International Airport	4,607.20	23.09x	17.28x	51.63
Grupo Aeroportuario del Centro Norte	25,553.40	21.28x	17.72x	49.17
Grupo Aeroportuario del Sureste	3,965.90	22.09x	15.33x	17.45
Peer Averages	10,776.54	22.89x	15.61x	54.60

Source: Bloomberg