Applied Investment Management (AIM) Program

AIM Class of 2012 Equity Fund Reports
Fall 2011

Date: Friday, December 2nd Time: 2:30 pm – 4:00 pm
Road Show Location: American Family Insurance

Student Presenter	Company Name	Ticker	Price	Page No.
Patrick Keeley	Cloud Peak Energy Inc.	CLD	$17.91	2
Kaili Wang	Autodesk, Inc.	ADSK	$32.40	5
Harrison Davis	Vanguard Health Systems	VHS	$9.82	8
Jonathan Schwerin	Johnson Outdoors Inc.	JOUT	$14.65	11

Thank you for taking the time today and participating in the AIM 'road show' at American Family. 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 American Family.

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Cloud Peak Energy Inc. (CLD)
December 2, 2011

Patrick Keeley | Domestic Energy

Cloud Peak Energy Inc. (CLD) is the third largest producer of coal in the U.S. (based on 2010 production of 95.3 million tons) and operates out of the Powder River Basin in Montana and Wyoming. CLD is one of the country's cleanest producers of high quality, low sulfur, sub-bituminous coal, which makes it attractive to power plants to utilize in electricity generation because of reduced SO_2 emissions requirements. The company operates three coal mines in the Powder River Basin and serves 47 customers which provide coal for 108 domestic power plants. In 2010, the coal produced by CLD provided 4% of the electricity in the U.S and the firm recognizes 87% of their revenue from domestic sales. The company has control of 970 million tons of proven and probable coal reserves. Previously an entity of Rio Tinto Energy America, the company was incorporated in 2008 and is headquartered in Gillette, Wyoming.

Price ($): 11/26/11	17.91	Beta:	1.34	FY: Dec	2010 A	2011 E	2012 E
Price Target ($):	28	WACC:	8.28%	Revenue ($mil)	$ 1,371	$ 1,535	$ 1,589
52 WK H-L ($):	25 - 16	Mid Term Rev Gr. Rate Est:	25%	% Growth	-2.0%	12.1%	3.4%
Market Cap (mil):	1,222	Mid Term EPS Gr. Rate Est:	11%	Gross Margin	21.1%	26.1%	27.4%
Float (mil):	60.33	Debt/Equity:	110%	Operating Margin	15.50%	15.60%	15.90%
Short Interest (%):	10.6	Financial Leverage:	1.28	EPS (Cal)	2.59	2.31	2.25
Avg Daily Vol (K):	1098	ROA:	7.83%	FCF/Share	2.46	0.95	-1.59
Dividend ($):	N/A	ROE:	32.07%	P/E (Cal)	9.59	9.26	8.85
Yield (%):	N/A			EV/EBITDA	4.41	4.76	4.39

Recommendation

Cloud Peak Energy is one of the leading coal production firms in the United States. CLD sells their coal domestically to power plants and to Asian steel companies in the Pacific Rim. Asian demand for coal is expected to double by 2025 according to the Energy Information Administration. The company's Asian exports have increased 47% as of the first half of 2011, totaling 3.7 million tons. CLD has an agreement with a port in Vancouver, BC, Canada through 2023 to capitalize on proximity to key Pacific Ocean shipping routes. The Powder River Basin coal is among the cleanest in the world because of it's' almost nonexistent levels of sulfur, making it safer for the environment according to the EPA. The coal of the Powder River Basin is likely to continue to raise in demand as the U.S. Government increases the restrictions on utility plant emissions. Also, the company has 970 million tons of coal in reserve which equates to 10 more years of production at 2010 levels. In Q2 2011, the company reached a lease agreement for expanding their Antelope mine and will benefit from an additional 407 million tons of coal in reserve. With solid management and strong demand for cleaner coal, it is recommended that CLD be added to the AIM Equity fund with a price target of $28, offering over a 35% upside.

Investment Thesis

- **Increased Demand in Asia.** CLD's exports to Asia were up 46% in 2010 and the company views Asia as a very promising market to penetrate. With steel production increasing in China, Japan, and South Korea, estimates are that the Pacific Rim's usage of coal is going to grow by 1 billion tons over the next 10 years and that 10% of the coal will be provided by imports. Thus, the supply chain from transporting coal from Montana and Wyoming to shipping ports is vital to the company. CLD has come to terms with a port in Vancouver through 2023 to export their coal to Asia.
- **High Amount of Coal Reserves.** Between CLD's three mines and their partial ownership interest in a fourth, management forecasts that they have 970 million tons of proven and probable coal under control. Based on 2010's production of 95.3 million tons, this means that the

company has 10 years of operations based on what they currently own with a reserve present value of $4.4 billion. The company is continuously seeking new sources and they reached a lease agreement on a mine that has 407 million tons in reserve-- expanding the life of the company by 12 years, all else equal.

- **Contract Agreements with Purchasers.** CLD is able to benefit from entering into contracts with their clients and 72% of sales are to long-term (i.e. 10 years) customers. As of Q3 2011, the company already has committed 83 million tons of coal at a weighted average price of $13.44/ton for 2012, which alone will generate $1.1 billion in revenue. With 2010 extraction costs averaging $8.57/ton, the company will improve their margins as they move forward. Additionally, the company has committed 9 million tons at variable prices and the company has similar agreements into 2013. CLD actively engages in 1-5 year contracts with their customers to maintain good client relations and continues to be a clean coal provider to power plants heading into the future.

Valuation

To find the intrinsic value of CLD, a five year DCF analysis was conducted. An 8.28% WACC was used along with a terminal growth rate of 2.5% to determine an intrinsic value of $29. The 970 million tons of proven and probable reserves are worth $4.4 billion and provide an intrinsic value of $32. Additionally, a peer average P/E multiple of 11-x to 2011 EPS estimates provided intrinsic value of $24. Weighing these valuations equally provides a price target of $28, which presents over 35% upside.

Risks

- **Downward Pressure on Coal Prices.** The company's revenue is based off the selling price of coal, which is currently $12.35/ton. Although the price is fairly stable, significant downward trends in coal prices could impact CLD. Competition in the industry is high which could drive prices down if demand falls. The price is also impacted by competition for electricity production from non-coal sources, like natural gas, crude oil, and alternative fuel sources. However, 45% of the U.S. is powered by coal burning power plants and long-term demand is expected to persist. The demand for the low sulfur coal from the Powder River Basin is increasing because there is less sulfur dioxide (which causes acid rain) as a byproduct.
- **Increasing Government Regulations.** Due to the threat of climate change, the EPA is increasing regulations on greenhouse gas (GHG) emissions like carbon dioxide, which is a major by-product of burning coal. The U.S. Government might seek to place caps on GHG emissions and institute a carbon emissions tax which would be enforced by the EPA. This tax would be imposed on GHG emitters like coal burning power plants, which could create the need to reduce coal usage and seek alternative fuel sources. Permits for new coal power plants have been contested, some successfully, due to GHG emissions. However, stricter regulations could cause a shift to cleaner coal, like what CLD mines from the Powder River Basin and could be beneficial to the firm as the plants will have difficulty converting to alternative sources while maintaining present capacity.

Management

Colin Marshall is President and CEO of Cloud Peak Energy. Mr. Marshall began his career as a Graduate Trainee with Rio Tinto in 1987 and worked his way up to CEO of Rio Tinto Energy America, overseeing the operations in the Western Hemisphere. Marshall has both a Masters of Mechanical Engineering from Brunel University and an MBA from London Business School. CFO Michael Barrett held the same position with Rio Tinto Energy America before assuming the role with Cloud Peak Energy.

Ownership

% of Shares Held by All Insider and 5% Owners:	11%
% of Shares Held by Institutional & Mutual Fund Owners:	85%

Top 5 Shareholders

Holder	Shares	% Out
Artisan Partners Limited Partnership	3,627,000	5.95
The Vanguard Group, Inc.	3,087,495	5.07
Ameriprise Financial, Inc.	2,544,230	4.19
FMR LLC	2,361,000	3.87
State Street Corporation	2,188,053	3.59

Source: Yahoo! Finance

Autodesk, Inc. (ADSK)

December 2, 2011

Kaili Wang Software Services

Autodesk, Inc. is a world leader in software design and services. ADSK offers their customers productive business solutions through powerful technology products and services. It serves customers in the architecture, engineering and construction; manufacturing and digital media and entertainment industries. The company's software products are sold globally, both directly to customers and through a network of resellers and distributors. Since its introduction in 1982, Autodesk's Auto CAD has been the dominant product in the Computer-Aided Design (CAD) market. Autodesk's wide range of products includes four main segments: Flagship (56%), Suites (26%), Subscription (39%) and Upgrade (8%). As of 2011, Autodesk serves over 10 million users in over 160 countries across the globe, delivering software in 18 different languages and maintaining a thriving reseller network with over 1,700 partners. Its customer-related operations are divided into three geographic regions. In FY 2011, net revenue in the Americas, EMEA and APAC was $701.5 M (36%), $ 782.8 M (40%) and $467.5 M (24%) respectively. The company now has 6,800 employees and is headquartered in San Rafael, CA.

Price ($) : (11/21/11)	32.40	Beta	1.25	FY: Dec	2010 A	2011 A	2012 E
Price Target ($)	41.67	WACC	11.25%	Revenue (Mil)	1,713	1,951	2,209
52 WK H-L ($)	22.99-41.65	Mid-Term Rev. Gr Rate Est:	15%	% Growth	-26.0	13.9	13.2
Market Cap (mil)	5,732	Mid-Term EPS Gr Rate Est:	10%	Gross Margin	90.91%	91.71%	91.21%
Dividend ($)	0.00	Debt/Cap	0.00%	Operating Margin	16.73%	21.46%	23.96%
Yield (%)	0.00	ROA	8.10%	EPS (Cal)	$0.25	$0.91	$1.23
Avg Daily Vol (mil) :	4.00	ROE	13.75%	EV/EBITDA	11.0	15.7	10.0

Recommendation. Autodesk's sophisticated software products enable their customers to experience their design ideas beforehand by allowing them to create and document their designs and to visualize, simulate and analyze real-world performance early in the design process by creating digital prototypes. The company's core product: Autodesk Factory Design Suite includes a comprehensive set of compatible 2D and 3D design tools that are among the industry's most respected and widely used, including AutoCAD and Autodesk Inventor software. In 2Q12, sales in Americas rose 13%, 13% in EMEA, and 16% in APAC regions, which included strong results in Japan. The company finished 3Q12 with revenue of $549 M increased15% YOY. Manufacturing 15% YOY and Architecture, Engineering, Construction (AEC) verticals grew 12% YOY and remained steady, while Platform Solutions and Emerging Business (PSEB) grew 21%. License revenue (60% of total) increased 18% YOY and maintenance (40% of total) increased 12% YOY. The company's maintenance revenue remained strong and grew double-digits for the second consecutive quarter, benefiting from the strong license revenue growth over the prior seven quarters, but also from the growing proportion of suite sales. The maintenance deferred revenue growth of 23% YOY should drive further acceleration in maintenance revenue growth going forward. Maintenance revenue will further benefit next year when customers that recently upgraded to suites (with grandfathered subscription pricing) renew their subscriptions. Operating margin was 24.6%, up 360 bps YOY, driven primarily by operating leverage. Management expects to offer electronic delivery of all of its software, which should aid gross margin in FY13. Consequently, because of Autodesk's sophisticated product's characteristics and robust sales growth, it is recommended that Autodesk, Inc. be added to the AIM Equity Fund with a target price of $41.67.

Investment Thesis

- **Growth with Suites.** An important new area of expansion for ADSK is from suites revenue. Suites are appealing to SMB customers (which amounts to roughly half of the firm revenue) in particular as they reduce purchasing complexity and the cost to deploy, improve interoperability and most importantly, come at a discount to buying the products separately. Unlike other software companies, ADSK has traditionally not offered many suite packages. Since its launching of suite-based offerings in March 2011, suites generated 29% of revenues in Q211, compared to 23% in

Q111, and this trend is expected to continue. The profit from the suite-based strategy is massive. For instance, a sale of ADSK's Building Design Suite for its most popular Premium SKU would generate 18% more in license and subscription fees than its flagship Revit product over the course of a 5-year period. Subscription costs 20-35% higher on suites versus other point products.

- **2D-to-3D Migration**. Autodesk's flagship product, AutoCAD, has become the dominant 2D drafting and design product in the market. A major trend driving Autodesk's growth is the migration of AutoCAD customers to higher-priced 3D products. 3D design has a great power in the data, which makes modifying design elements easier, and promotes a more efficient workflow. As 3D design becomes more pervasive in the field, 3D formats are increasingly demanded by downstream partners. As of 3Q11, less than 15% of the installed base has moved to 3D, and management believes a majority will eventually move. Autodesk is expected to continue to benefit from the trend for several years.
- **Going Green.** A recent innovation of the company's product is to incorporate energy efficiency calculation into actual designing process. Autodesk Revit Architecture allows buildings to be designed to consume less energy-better for the environment and the bottom line. With the concept of "green design" emerges in Building Information Modeling (BIM), this product would strongly benefit from the trend. Before actually breaking ground on a new project, architects and engineers can analyze a building's energy efficiency and expected energy costs during design.

Valuation

To find the intrinsic value of ADSK, a ten-year DCF analysis was conducted. Based on a calculated WACC of 11.25% and terminal growth rate of 3.00%, a value of $ 40.02 was obtained. Using a sensitivity analysis with WACC ranging from 10.25% to 12.25% and terminal growth rate of 2.50% to 3.50% yields a range of values from $32.22 to $48.89. Applying a 12.4x historical average EV/EBITDA multiple to the 2012_EBITDA derives a price target of $45.56. With the DCF and EV/EBITDA weighted equally, a $41.67 price target was established, providing a potential upside of 28.61%. The firm does not pay a dividend.

Risks

- **Economy and Credit Availability.** The lack of credit will limit project activity by Autodesk's customers over the next few quarters, making the current downturn potentially more challenging to the company's fundamentals relative to the prior downturn in 2011-2002.
- **Piracy.** Autodesk rely on a combination of patent, copyright and trademark laws, trade secret protections, confidentiality procedures and contractual provisions to protect its proprietary rights. Despite such efforts to protect its proprietary rights, unauthorized parties from time to time have copied aspects of the company's software products. Piracy rates on Autodesk software are particularly high in emerging economies such as India and China. There is risk that piracy rates fail to improve.

Management

Carl Bass serves as the president and CEO of the company. Formerly Carl Bass was Autodesk's chief operating officer, responsible for worldwide sales, marketing, and product development. Earlier roles included CTO and EVP of product development. Bass co-founded Ithaca Software, the developers of HOOPS, which was acquired by Autodesk in 1993. Bass is a member of the Executive Advisory Boards of Cornell Computing and Information Science and UC Berkeley School of Information. He holds a bachelor's degree in mathematics from Cornell University. Mark Hawkins has served as the CFO of the company since April 2009.

Ownership		
% of Shares Held by All Insider and 5% Owners		0.26%
% of Shares Held by Institutional and Mutual Fund Owners		93.0%
Top 5 Shareholders		
Shareholder	**Shares**	**% Out**
Price Associates Inc	21,896,605	9.66
Vanguard Group, Inc	12,580,130	5.55
Manning & Napier Advisors Inc	11,000,759	4.85
Massachusetts Financial Services Coother	10,813,169	4.77
State Street Corporation	8,373,725	3.70

Vanguard Health Systems, Inc. (VHS)
December 2, 2011

Harrison Davis — Healthcare

Vanguard Health Systems (NYSE: VHS) owns and operates acute care hospitals, outpatient facilities, and managed health plans in five urban and suburban markets throughout the United States. The company's acute care and specialty hospitals provide a full array of medical services such as emergency services, general surgery, orthopedics, open-heart surgery, and advance neurosurgery. Vanguard focuses its growth strategy on expanding its market presence through acquisitions into new urban markets and through capital investments in existing hospitals. As of September 30, 2011, the company owned and operated 28 hospitals consisting of a total of 7,064 licensed beds and outpatient service facilities in San Antonio and Brownsville, Texas; Detroit, Michigan; Chicago, Illinois; Phoenix, Arizona; and Worcester, Massachusetts. The company also owns three health plans with approximately 245,000 members and two surgery centers in Orange County, California. Vanguard's urban market generates a large concentration of Medicaid and uninsured patients due to the economic downturn; therefore, this uninsured base could benefit under recent healthcare reform. Founded in 1997, VHS is headquartered in Nashville, TN.

Price ($) (9/15/11)	9.82	Beta:	0.97
Price Taget ($):	14.50	WACC	8.9%
52WK Range ($):	8.61-18.58	M-Term Rev. Gr Rate Est:	5.0%
Market Cap:	754.7M	M-Term EPS Gr Rate Est:	5.0%
Float	30.85M	Debt/Equity	698.0%
Short % of Float:	4.30%	ROA:	-0.3%
Avg. Daily Vol:	390.5K	ROE:	-4.5%
Dividend ($):	N/A		
Yield (%):	N/A		

FY: June	2011A	2012E	2013E
Revenue (Mil)	4,896	6,448	6,770
% Growth	44.98%	31.70%	5.00%
Operating Margin	4.59%	4.63%	4.85%
Net Income Margin	-0.22%	1.13%	1.19%
EPS (Cal)	-$0.24A	$0.87E	$1.00E
FCF/Share	1.45	1.42	0.54
P/E (Cal)	N/A	11.32	9.85
EV/EBITDA	7.04	6.00	5.57

Recommendation

VHS has tremendous growth opportunities due to its wide range of services and reputation for providing quality healthcare that enables the company to separate itself from its competitors in its chosen markets. The company has continued to focus on external acquisitions as well as improving existing hospital facilities to attract more patients through providing higher quality care. VHS has made two acquisitions in 2011 with the purchase of Detroit Medical Center in January and Valley Baptist (Brownsville, Texas) in September. The acquisition of the Detroit Medical Center, purchased for $368.1M (0.2x revenue), is the primary reason revenues increased 45% in FY 2011. VHS has also committed $850M in capital expenditures to improve the facilities at DMC and begin new capital projects. Valley Baptist, purchased for $201.4M, was responsible for $32.2M of revenue in Q1 2012. VHS's successful track record of integrating acquisitions and capital investments will continue to spur growth in new and existing markets. Additionally, the rise in the average age of the population in the U.S. ensures an inflow of individuals ridden with diseases and aging disorders. According to the U.S. Census Bureau, there will be 72.1M people above the age of sixty-five in 2030 compared to forty million currently. Individuals between the ages of 65-75 consume roughly 1100 inpatient days per 1000 people per year. Given the substantial growth opportunities through acquisitions, changing demographics, and an experienced management team executing acquisitions, it is recommended VHS be added to the AIM Equity Fund with a with a target price of $14.50, which offers an upside potential of 43%.

Investment Thesis

- **Health Benefits Coverage Expansion.** The Patient Protection and Affordable Care Act (PPACA) is expected to expand healthcare coverage to approximately 32M individuals beginning in 2014. This is significant for the acute care sector as uncompensated care costs run at 20-25%. Therefore, expanded coverage will assure that acute care hospitals will receive a greater amount of reimbursement payments for their services versus the current nothing. Approximately, 9.5% of the newly covered individuals reside in Texas, Michigan, and Illinois, which are the three largest markets for VHS.

- **Proven Track Record of M&A Integration.** Since inception, VHS has continued to expand operations into desired markets by acquiring hospital systems that fit the company's strategic profile. For instance, VHS acquired Baptist Health System in San Antonio, Texas in 2003 with 1,537 licensed beds and annual revenues of approximately $431M. As of FY 2011, revenues from Baptist Health had grown to $1,039.5M. In Q1 2012, the acquisitions of Detroit Medical Center and Valley Baptist spurred revenue increases of 67% from Q1 2010 for VHS. The ability to continue to integrate these acquisitions and continue with capital investments to improve facilities will greatly increase the growth opportunities in the future to improve market share.
- **Attractive Markets with Growth Opportunities, Especially in Detroit.** VHS is located in five urban markets located throughout the U.S. VHS has operations in regions that display favorable demographics, large populations, and opportunities for expansion. While Detroit has unemployment of 20%, the unemployment rate in Detroit is recovering faster than the national average, and only 12.7% of the Michigan population is uninsured compared to 16.7% nationally. Additionally, DMC was a very reputable hospital in the Detroit MSA prior to the acquisition; however, the facilities were not up kept due to the lack of capital resulting in individuals opting for other hospital care. Therefore, VHS's $850M capital commitment to improve the facilities will seize the volumes of individuals that are leaving the city for the suburbs.

Valuation

Using a 10-year DCF with a computed WACC of 8.90% and a terminal growth rate of 3%, an intrinsic value of $14.08 was determined for VHS. The DCF model had 30% revenue growth in 2011 due to the increase in patient revenue from the continued integration of the Detroit Medical Center and the acquisition of Valley Baptist. The following years' revenues were estimated to grow at 5% from 2013-2017 followed by 3% increases in revenue from 2018-2021. Additionally, a 6x EV/EBITDA multiple was applied to the FY 2012 EBITDA estimate; VHS's peers trade between 5.8-7.2x. This approach yielded an intrinsic value of $14.91. Blending these two approaches produced a price target of $14.50, which offers a 43% return.

Risks

- **Reimbursement Risks.** Approximately 59% of the VHS's net patient revenues were generated from Medicaid and Medicare programs. The prolonged weak U.S. economy has increased pressure on governmental payers to reduce or limit increases in reimbursement to healthcare providers. Due to the high unemployment and lack of consumer spending, states have seen their tax revenues decreased, resulting in state deficits. To combat the budget shortfalls, states have begun and may continue to cut Medicaid reimbursement rates and adjust eligibility requirements.
- **Competition.** The healthcare industry is extremely competitive and competition from other hospitals for patients has increased in recent years. While VHS is, in most cases, and strives to be the market leader in each of its urban markets, other hospitals in its surrounding areas provide similar services and care as VHS. Additionally, specialty hospitals and surgery centers in their geographic region could pose a threat to VHS's patient revenues.

Management

Charles Martin founded VHS in 1997 and has served as the company's Chairman and CEO since inception. Prior to creating VHS, Mr. Martin served as President and CEO of OrNda Healthcorp where he grew revenue from $450M to $3B in four years to become the nation's third largest investor-owned hospital management company. Kent Wallace has been the COO of VHS since 2005. Prior to joining VHS, Mr. Wallace was Group President for Province Healthcare, Columbia/HCA and Health Trust. He has accumulated over 25 years of experience in the healthcare operations industry.

Ownership

% of Shares Held by All Insider and 5% Owners:	9.89%
% of Shares Held by Institutional & Mutual Fund Owners:	90.11%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Blackstone Group	27,161,943	35.34
Wellington Management Company, LLP	9,156,008	11.91
Metalmark Capital LLC	7,515,136	9.78
Locked Shares	4,592,529	5.98
Senator Investment Group, LP	3,789,600	4.93

Source: Bloomberg

Johnson Outdoors Inc. (JOUT)
December 2, 2011

Jonathan Schwerin Consumer Cyclical

Johnson Outdoors Inc. (NYSE: JOUT) is a leading global manufacturer and marketer of branded seasonal outdoor recreation products used primarily for fishing, diving, paddling and camping. JOUT's portfolio of well-known consumer brands has attained leading market positions due to continuous innovation, marketing excellence, product performance and quality. JOUT's values and culture support innovation in all areas, promoting and leveraging best practices and synergies within and across its subsidiaries to advance the company's strategic vision. This innovation is important to JOUT as over 30% of revenues are composed of new products, for more than six years. JOUT's segments are broken down into Marine Electronics, Diving, Watercraft, and Outdoor Equipment, which represent 46%, 23%, 20%, and 12% of 2010 revenues respectively. JOUT was incorporated in Wisconsin in 1987.

Price ($): (11/28/11)	14.65	Beta:	0.90
Price Target ($):	17.62	WACC:	11.00%
52 WK H-L ($):	11.16-21.00	M-Term Rev. Gr Rate Est:	5.50%
Market Cap (mil):	134.46	M-Term EPS GR Rate Est:	14.72%
Float (mil):	6.84	Debt/Equity:	14.90%
Short Interest (%):	4.30%	ROA:	2.99%
Avg. Daily Vol:	9,972	ROE:	5.40%
Dividend ($):	N/A		
Yield (%):	N/A		

FY: Sept	2010A	2011E	2012E
Revenue (Mil)	$ 382.43	$ 402.70	$ 422.83
% Growth	7.27%	5.30%	5.00%
Gross Margin	40.14%	40.15%	40.10%
Operating Margin	3.80%	4.15%	4.60%
EPS (Cal)	$ 0.68	$ 0.85	$ 1.02
FCF/Share	$ 1.06	$ 1.27	$ 1.46
P/E (Cal)	20.80	17.24	14.36

Recommendation

Economic and weather conditions impacted the pace of recovery in outdoor recreational markets during the third quarter; however, for the nine-month period ending July 1, 2011, JOUT's sales increased 7% ($22.8 million) and net income grew 24% to $1.58 per diluted share over the same period last year. Additionally, some of the markets served by the company are showing signs of recovery and opportunity, most notably marine electronics and diving. In both segments, JOUT is gaining share and recovering faster than the industry. JOUT is also a highly innovative company which has played a key role in driving marketplace demand throughout their segments, leading to improved margins and fueling a 6% organic sales growth YTD. Along with these new products, JOUT has established strong brand identity in several segments. JOUT holds six number one brands in their respective market sector, along with two number two brands. This strong brand equity should serve them well as economic indicators are showing signs of mild recovery for the 2012 fiscal year. As a leading innovator in the outdoor recreation market and with a strategic management plan to improve efficiency as well as deleverage the balance sheet, along with a calculated intrinsic value of $17.62, it is recommended that JOUT be added to the AIM Equity Fund, offering a potential upside of 20.30%.

Investment Thesis

- **Improved Efficiency and Deleveraging.** In 2010, revenues increased 7.27% as operating profit climbed 68%, showing that profitability is growing faster than sales. JOUT has continually improved operating expense as a percent of net sales as it dropped from 47.1% in 2008 to 36.3% in 2010. Working capital has been reduced 23% in 2009 and over 8% in 2010. Debt is at a historic low, down 29% from June of 2010 and down 63% from two years ago. Net income continues to benefit from lower debt as well as reduced borrowing costs and YTD interest expense was $2.8 million, a 30% reduction from the prior year nine-month period. These steps towards improved efficiency and deleveraging should bode well for JOUT as revenues continue to grow, helping improve net margin.
- **Growth and Innovation in Marine Electronics.** Last year, JOUT introduced the Minn Kota i-Pilot, a revolutionary wireless steering and positioning system which exceeded expectations.

This year, the Minn Kota Talon, a push-button deployable shallow-water anchor has energized a once sleepy segment. Hummingbird pioneering Side Imaging and new Down Imaging technologies are now available across a range of fish finders at every price point suitable for the amateur to the professional angler. During the three months ended April 1, 2011, JOUT saw a 27% ($16.8 million) improvement in sales over the same period in 2010. Most of this is attributable to the success seen from the Hummingbird and Minn Kota brands.

- **Diving Segment Growth Strategy.** JOUT's growth strategy in Diving focuses largely on innovation at the mid-price point, the largest and fastest growing segment in the Diving marketplace. JOUT leverages the power of the premium SCUBAPRO brand equity to introduce a new brand, SUBGEAR from the maker of SCUBAPRO. SUBGEAR is a complement to SCUBAPRO and gives their dealers and consumers confidence in the quality, performance and durability of products at a more affordable price. Over the past 18 months, JOUT expanded global distribution of SUBGEAR with very little cannibalization of SCUBAPRO. As a complement to JOUT's focus of the mid-price point, the Diving segment of their business over the past nine months has grown almost 8% ($4.83 million) over the same period last year. The success and innovation in this area should continue to be reflected in revenue growth.

Valuation

In 2011 JOUT has traded anywhere from 9.5x to 12.9x EV/EBITDA and it is currently trading at 9.5x. Applying a conservative 8.5x EV/EBITDA multiple to the 2011 EBITDA of $30.21M generates a price of $19.87 per share. Based on a five-year DCF analysis with a computed WACC of 11% and a terminal growth rate of 3.0%, an intrinsic value of $15.38 was obtained. A sensitivity analysis that adjusts both the long-term growth rate (1.5-3.5%) and the WACC (10-12%) generates a price range of $10.33-$20.64. After weighting the EBITDA multiple 50% and the DCF analysis 50%, a target price of $17.62 was established offering an upside of 20.30%.

Risks

- **Common Stock Thinly Traded.** Because JOUT's common stock is thinly traded, its market price may fluctuate significantly more than the stock market in general or the stock prices of similar companies. JOUT believes there are 4,585,841 shares of their Class A common stock held by nonaffiliates as of November 20, 2010. Thus, their common stock will be less liquid than the stock of companies with broader public ownership, and as a result, the trading price for their shares of common stock may be more volatile.
- **Currency Exchange Rate Fluctuations.** JOUT has significant foreign operations, for which the functional currencies are denominated primarily in euros, Swiss francs, Japanese yen and Canadian dollars. As the values of the currencies of the foreign countries in which they have operations increase or decrease relative to the U.S. dollar, the sales, expenses, profits, losses, assets and liabilities of their foreign operations, as reported in their financial statements may increase or decrease accordingly. Approximately 27% of their revenues for the year ended October 1, 2010 were denominated in currencies other than the U.S. dollar.

Management

Ms. Helen P. Johsnon-Leipold serves as Chairwoman of the Board and CEO of Johnson Outdoors Marine Electronics, Inc. Ms. Johnson-Leipold has been CEO of Johnson Outdoors Inc. since March 1999. She served as Executive VP of North America Business of Johnson Outdoors Inc. from 1995 to 1997 and VP for Consumer Marketing Services Worldwide of S.C. Johnson & Son from 1992 to 1995. David W. Johnson has been the CFO and VP of Johnson Outdoors Inc., since November 21, 2005 and serves as its Principal Accounting Officer and Treasurer. Mr. Johnson joined Johnson Outdoors Inc., in December 2001 and served as its Director of Treasury Services and Financial Analysis.

Ownership

% of Shares Held by All Insider and 5% Owners:	23%
% of Shares Held by Institutional & Mutual Fund Owners:	47%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Johnson Financial Group, Inc.	2,563,470	29.94
Towerview LLC	861,965	10.07
Dimensional Fund Advisors, LP	721,056	8.42
Price, Michael F.	380,666	4.45
Thomson Horstmann & Bryant, Inc.	215,220	2.51

Source: Yahoo! Finance