Applied Investment Management (AIM) Program

AIM Class of 2017 Equity Fund Reports
Fall 2016

Date: Friday, December 2nd | ***Time:*** *10:30 – 1:30* p.m. | ***Location:*** *Union League Club Chicago*

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These student presentations are an important element of the applied learning experience in the AIM program. The students conduct fundamental equity research and present their recommendations in written and oral format – with the goal of adding their stock to the AIM Equity Fund. Your comments and advice add considerably to their educational experience and is greatly appreciated. Each student will spend about 5-7 minutes presenting their formal recommendation, which is then followed by about 8-10 minutes of Q & A.

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Criteo SA (CRTO)
December 2, 2016

Taylor Smith International Technology

Criteo SA (NASDAQ: CRTO) is a global technology company that dedicates itself to digital performance marketing. They focus on delivering post-click sales at scale and corresponding to the clients' targeted return on investment. CRTO helps ecommerce companies leverage large swaths of granular data to help predict consumer behavior and convert users into customers. Criteo's solution is compiled of Criteo Engine, data assets, access to display advertising inventory, and advertiser and publisher platforms. Additionally, CRTO offers its advertiser clients an integrated platform that enables advertising campaign management through an easy-to-use dashboard and software that automates nearly all of the campaign process. Revenues are reported under only one business segment: Internet Display Advertising. Criteo was founded in 2005 and is headquartered in Paris, France.

Price ($): (2/6/15)	42.09	Beta:	1.22
Price Target ($):	62.63	WACC	8.17%
52WK H-L ($):	24.2-47.8	M-Term Rev. Gr Rate Est:	25.0%
Market Cap (mil):	2,684	M-Term EPS Gr Rate Est:	36.0%
Float (%):	94%	Debt/Equity:	2.2%
Short Interest (%):	11.0%	Debt/EBITDA (ttm):	0.09
Avg. Daily Vol (mil):	781	ROA:	7.8%
Dividend ($):	0.00	ROE:	13.4%
Yield (%):	0	ROIC:	13.3%

FY: Dec	2015	2016E	2017E	2018E
Revenue (Mil)	$1,323	$1,852	$2,408	$3,010
% Growth	34.00%	40.00%	30.00%	25.00%
Gross Margin	35.00%	35.00%	34.50%	34.00%
Operating Margin	6.00%	6.00%	6.50%	7.00%
EPS (Cal)	$0.93	$1.16	$1.66	$2.27
FCF/Share (Cal)	$0.92	$0.87	$2.04	$2.74
P/E (Cal)	45.1x	36.2x	25.3x	18.5x
EV/EBITDA	14.7x	11.1x	8.1x	5.8x

Recommendation

Criteo recognizes that having the capability to engage and convert customers into buyers is a crucial driver of success in business, especially for companies operating in the electronic commerce sector. Often times these businesses spend a massive portion of their cost base developing this ability to successfully convert people to paying customers. 2016 has marked a major year for ecommerce growth, increasing at a rate of 23.7% worldwide, totaling $1.6 trillion of business to consumer retail ecommerce. This figure is expected to reach $2.5 trillion in 2018, growing at a CAGR of 16%. As a result, the need for customer engagement and advertising will correspondingly increase. The two major channels for customer engagement and conversion are internet display advertising and search engine marketing. Display advertising is estimated to grow at an 18% CAGR to $120 billion in 2018, while search marketing will grow at a 14% CAGR to $129 billion over the same period. Criteo remedies a fundamental obstacle for ecommerce, travel, and other transactional companies by locating, engaging, and converting customers cost-effectively. CRTO maintains the second larger user network with over 13,000 advertisers and 17,500 publishers and located in nearly 20 countries. The company has an unparalleled revenue retention rate of 138% for its existing clients, and is adding more by the quarter. Due to its well-tailored offerings, global and expanding presence, and its focus on strategic acquisitions, it is recommended that Criteo be added to the AIM International Equity Fund with a price target of $62.63, yielding an upside of 48.81%. The company does not pay a dividend.

Investment Thesis

- **Predictive Search.** In the third quarter of 2016, Criteo launched a feature that firmly establishes user intent when sifting through online products. Revolve, a West Coast fashion design company, test drove the beta for Predictive Search, resulting in an increase of conversions by 16% and ROAS (return on ad spend) by 36%. The trial indicated the differentiating factor to be the level of granularity in selected ads. Predictive Search provides bidding pricing based on specific products rather than brand and category, making advertisements more cost efficient and tailored to the right clients, which drives clicks and ultimately sales. Additionally, this feature is set to be disruptive. While other platforms charge fixed rates and percentages of media spending, Criteo would be able to simply charge a fee commensurate with the incremental results and performance it provides.

- **HookLogic.** The company recently acquired HookLogic, a pioneer for performance marketing of brands that will deliver seamless performance across consumer browsing for a more integrated and personalized advertising experience. The acquisition is expected to enhance Criteo's reach to consumer brand manufacturers, contribute stronger retailer relationships, and improve search-based solutions. HookLogic works with over 1000 consumer brands, none of which belong to Criteo. The acquisition is expected to be single digit accretive to global revenue until 2019, when it will reach 10% of global revenue. Network partners of HookLogic include Walmart, Tesco, Target, Best Buy, Microsoft, and much more.
- **Geographic Expansion**. APAC countries will account for roughly 60% of all ecommerce transactions worldwide by 2018. Criteo has 200 employees in eight APAC offices and is focusing and investing intensely in the mobile-first markets. These emerging markets have commenced the movement toward the ecommerce market place, such is the case in Southeast Asia. Places like Vietnam only have ecommerce yielding 1-2% of total retail, representing a huge growth opportunity. As for company performance, Criteo sales in the APAC region increased 52.6% for the nine months ended September 30, 2016, as compared to the nine months ended September 30, 2015. This expansion is exemplified through Criteo's newly founded relationship with Yahoo! Japan. In 2015, the two entered into a strategic relationship, giving Criteo the opportunity to access Yahoo!'s advertising inventory to display personalized advertisements.

Valuation

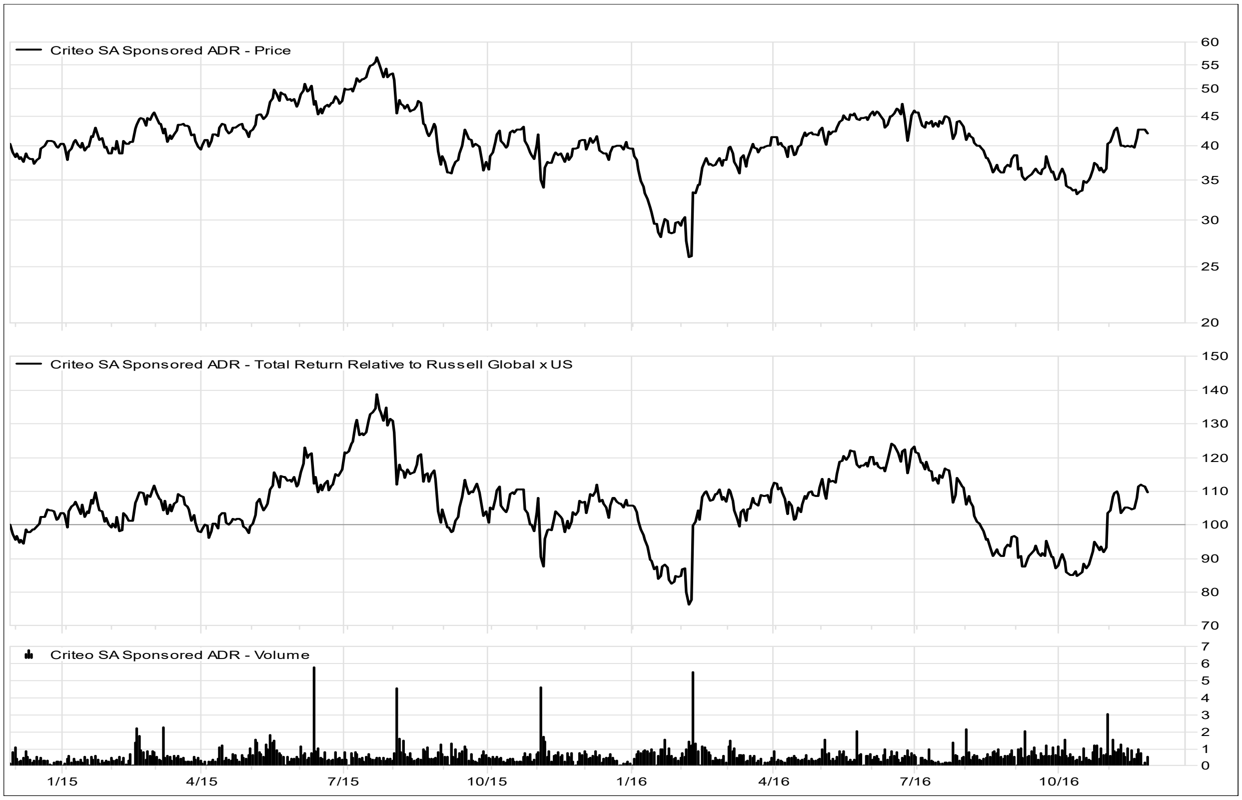
To reach an intrinsic value for Criteo, a five year DCF model was assembled. By using a terminal growth rate of 2.0% and a WACC of 8.17%, an intrinsic value of $64.91 was reached. A ± 2% senstitivity analysis on the WACC and terminal growth rate ranged from $64.91-74.58. Additionally, an EV/EBIDTA multiple valuation was conducted using 2016 EBITDA estimate of $213.70MM and a blended multiple of 15.48x resulting in a valuation of $51.87. A P/E multiple valuation was also conducted using a 2016 EPS estimate of $1.86 and a blended multiple of 29.67x to reach a price of $55.19. By weighing the three valuation models 80/10/10, a price target of $62.63 was achieved, representing an upside of 48.81%

Risks

- **Web-browser and Regulatory Changes.** Changes to web browsers and other factors could significantly prohibit the amount of data that Criteo can collect from users to augment display ads for its clients. The company collects information through web-browsers and applications using cookies and other tracking technologies. Certain browsers, such as Safari, use tools in order to block third-party cookies by default. Criteo does use first party cookies, but regulation could be subject to change on the matter.
- **Ad-blocking.** The increasing availability of "ad-blocking" software could impair the capacity for the company to collect data and display advertisements. If this software continues to increase in prevalence, fewer of Criteo's cookies and its sellers' cookies may be set in browsers or in mobile devices. The effect could result in advertisement restrictions and the Criteo Engine being denied the data and impression collecting.

Management

Jean-Baptiste Rudelle founded the company in 2005 and is responsible for driving its global reach. At the beginning of this year, he transitioned from his role as the CEO to executive chairman, where he is able to hone in on the long term strategic vision of the company. Eric Eichmann assumed the CEO position after serving as the company's CRO, President, and finally COO. His work has been extremely contributive in making Criteo a multibillion dollar company traded on the NASDAQ. Lastly, Benoit Fouilland has served as CFO since 2012, after holding CFO positions at SAP and Business Objects.



Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA	Dividend Yield	EV/EBIDTA
Criteo SA ADR	CRTO	2,684	1636.1	159	0.00	14.65
Alphabet A	GOOGL	529,533	84,854	27,636	0.00	16.3
Alliance Data Systems	ADS	13,402	7,059	1,961	0.90	15.7
Acxiom Corporation	ACXM	2,103	878	120	0.00	17.6
Ecommerce Partners	*Private*	n/a	n/a	n/a	n/a	n/a
Peer Averages		181679	30930	9906	0	17

Source: Factset

Ownership

% of Shares Held by All Insider Owners:	**5.71%**
% of Shares Held by Institutional & Mutual Fund Owners:	**79.14%**

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
Fidelity Management & Research Co.	6,071,941 ▲	9.97
Comgest S.A.	1,895,700 ▲	3.11
Allianz Global Investors U.S. LLC	1,730,751 ▲	2.84
Oddo Meriten Asset Management SA	1,542,366 ▲	2.53
Sumitomo Mitsui Asset Management Co., Ltd.	1,367,270 ▲	2.24

Source: FactSet

Deutsche Bank AG (DB)
December 2, 2016

Nicholas Christman International Financial Services

Deutsche Bank (NYSE: DB) is German bulge bracket bank that provides financial services through their four major business lines. The bank was formed in 1870 by Alelbret Delbrück as the last joint-stock bank to be issued a license in Prussia. DB's geographic revenue breakdown is: Germany (30.7%), United States (24.5%), United Kingdom (19.0%), Mainland China (5.9%), and Other (19.9%). Net revenues are broken down into the following segments: Global Markets (34.8%), Corporate & Investment Banking (23.3%), Private Wealth & Commercial Clients (20.9%), and Deutsche Asset Management (8.0%). DB also reports their German retail bank Postbank (9.2%) their Non-Core Assets unit (3.1%) separate. Deutsche Bank is headquartered in Frankfurt, Germany and has 101,104 employees worldwide.

Price ($): (11/27/16)	15.75
Price Target ($):	19.62
52Wk H-L ($):	26-11
Market Cap (mil):	21,720
Float (mil):	1379.0
Short Interest (%):	2.80%
Avg. Daily Vol (mil):	3.07
Dividend ($):	0.00
Yield (%):	0.00%

Beta:	1.50
COE	10.1%
M-Term Rev. Gr Rate Est:	1.7%
M-Term EPS Gr Rate Est:	134.4%
Financial Leverage	27.11x
ROA:	-0.1%
ROE:	-3.0%
Tier 1 Capital Ratio	11.1%
Loan Loss Reserves/Loans	1.0%

FY: Dec	2015A	2016E	2017E	2018E
Income (Mil)	40,402	30,749	31,195	31,825
% Growth	-11.22%	-31.39%	1.43%	1.98%
Net Interest Margin	1.54%	1.60%	1.70%	1.80%
Pretax Margin	-16.18%	3.93%	8.47%	11.58%
EPS (Cal)	($5.61)	$0.43	$1.76	$2.35
P/E (Cal)	-	36.8	9.0	6.7
TBVPS	41.4	42.0	41.0	42.0
P/TBV	0.6	0.4	0.4	0.5

Recommendation

DB has had a very rough 2016, as a number of negative economic and political factors have caused significant uncertainty about the strength of Germany's largest lender. Specifically, Brexit and the disclosed DoJ initial settlement request of $14B sent the stock down by over 50%. Additionally, the negative interest rate experiment in Europe has caused a secular downturn in all European bank stocks. Despite these negatives, there have been recent developments within the business and macro environment that may suggest that DB's woes are behind them. In the most recent quarter, DB beat consensus expectations for revenue, operating costs, and net profit. DB also cut RWAs faster than consensus expectations during Q3'16, from €402,217mn to €384,701mn. This highlights the ongoing effort to shed low return assets, as the bank refocuses their portfolio. There are three initiatives which DB can rely on to achieve normalized profitability in the next three years. These efforts include lowering unusual expenses ($3.7B TTM drag), cutting 9,000 employees by 2018 to reduce operating costs, and lastly focusing on IT infrastructure to make the bank more efficient and competitive. On the macro side, the German yield curve has steepened over the last month with the 10 yr and 30 yr Bund yield rising 15 bps and 18 bps, respectively. The US election of Trump also gives DB a boost, not just in terms of higher rates, but also though multiple possible regulatory benefits. Trump is expected to join European regulators in encouraging an easing of Basel III capital standards. DB would benefit directly from this because they are primarily a sales and trading firm, which is by its nature a capital intensive business. European regulations are being proposed currently to toughen capital and liquidity requirements on foreign banks, which will help DB compete in their domestic market. DB is currently priced with low expectations based on their recent struggles. Based on the potential upside from a successful turnaround, it is recommended that DB be added to the AIM International Equity Fund with a price target of $19.62, representing a 24.5% upside. DB suspended their dividend for 2016, but targets a 50%+ payout ratio through their Strategy2020.

Investment Thesis

- **Postbank IPO.** After John Cryan's Q2 comments about waiting for better market conditions to IPO the retail subsidiary, many analysts wrote off the possibility of an offering. Investment in Postbank could become much more attractive; however, as the yield curve steepens and business confidence is restored. German business confidence has risen steadily from their February lows of 105.7 up to 110.4 in November. The IPO of Postbank could add 100 bps of capital their CET 1 ratio, which would be significant in helping DB meet their 12.5% target ratio.

- **Lower Litigation Penalties.** DB has previously set apart €5.9 bn of reserves for litigation and €1.7 bn of additional contingent liabilities. The incoming Trump administration could put significant pressure on the current DOJ to resolve the current probes outstanding for risk of being overruled by the new leadership. This should give DB more leverage to negotiate a lower settlement, which is materially beneficial to their capital position. Bloomberg Intelligence analysts see the settlement coming in the \$4-\$8 bn range.
- **Strategy 2020 Prompts Global Markets Turnaround.** Since 2015, DB has primarily been focused on cutting down their RWAs to meet the Basel III capital requirements. DB's large dependence on their S&T franchise makes their business highly capital intensive. Through their restructuring plan, they have shifted the focus toward their top clients with stronger, more focused product portfolio. Despite recent challenges for the entire capital markets industry, the Global Markets division grew revenues in Q3 by 8% and future strong quarters would provide support for more upside for the stock.

Valuation

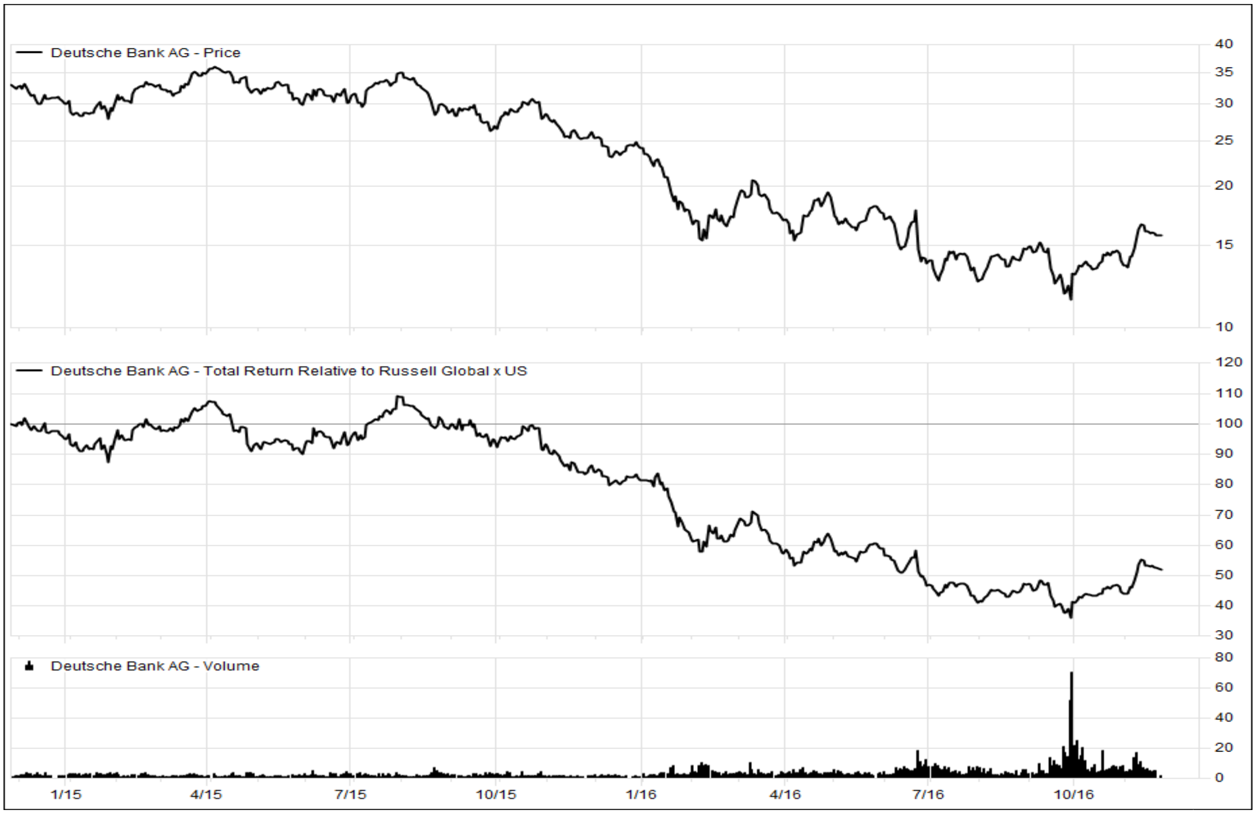
To find the intrinsic value of DB a price to tangible book multiple was used. The 10 quarter weighted average historic price to tangible book for DB was .45x with its weighted peer average being higher with a P/B of .51x. A target price to book valuation was created alternatively using a Gordon Growth Model, using a COE of 10.1%, 2017 ROTE of 5%, and growth of 1%. This resulted in a price to tangible book value of .44x. A sensitivity analysis was run altering COE ± .4% and 2017 ROTE ± 1%, yielding a price range of 13.44-24.45. Weighting these valuations 40/20/40, the final estimated intrinsic value of DB is \$19.62, which provides an upside of over 24.55%.

Risks

- **Populist Political Movements.** The Italian Referendum occurring on December 4th is only one of many anti-EU risks which exists within the European single market. The vote is being promoted by PM Renzi as a way to streamline decision making and jumpstart the economy. Yet, the consequences of a No vote seem much more negative than just a rejected referendum. Mr. Renzi has stated his intentions to step down if his referendum is rejected. Any additional anti-EU political disruption in EU countries would undermine business confidence throughout the bloc.
- **Legal and Reputational.** DB has struggled to distance itself from the negative image associated with G-SIBs. Any future litigation would not only create capital ratio issues, but continue to erode investor confidence in DB's internal controls.
- **European Market Conditions.** DB has lagged behind their US peers because the European business environment has been much less robust since the crisis. Benchmark rates have held traditional credit spreads thin, and growth has stayed below 2% since 2011. If the European Union economic struggles continue, this would impede the outlook for DB's turnaround efforts.

Management

John Cryan is the CEO of Deutsche Bank and has served in this role since May 20th 2016. He served as Co-CEO alongside former CEO Juergen Fitschen since July 1, 2015, and has held multiple roles at large investment houses during his career. Most notably, he served as the President of Temasek Holdings Pte. Ltd. from 2012-2014 and was the group CFO for UBS AG from 2008-2011. Mr. Cryan graduated from the University of Cambridge.



Ownership

% of Shares Held by All Insider and 5% Owners:	8.24%
% of Shares Held by Institutional & Mutual Fund Owners:	37.49%

Source: Factset

Top 5 Shareholders

Holder	Shares (000)	% Out
BlackRock Investment Management LLC	70,990	5.15
Al Thani Hamad Bin Jassim Bin Jabor	42,069	3.05
Deutsche Asset Management Investment GmbH	37,217	2.70
Merrill Lynch International	36,496	2.65
Norges Bank Investment Management	35,251	2.56

Source: Factset

Peer Analysis

Name	Ticker	Market Cap (mil)	Net Income (mil)	Div. Yld. %	P/TBV	D/E
Deutsche Bank	DB	20,482	-1,908	0.00	0.39	4.4
Commerzbank	CRZBY	8,264	293	2.09	0.33	5.0
Societe Generale	SCGLY	32,241	4,023	4.70	0.57	3.2
Credit Suisse	CS	26,726	-5,269	3.32	0.74	6.5
Barclays	BCS	42,875	-1,540	2.89	0.74	2.9
UBS*	UBS	57,195	3,225	5.86	1.28	2.2
Peer Averages		33,460	146	3.77	0.7	4.0

**Removed For Relative Valuation Analysis*

Source: Factset

Shake Shack (SHAK)

December 2, 2016

Casey McClelland — Consumer Discretionary

Shake Shack (NYSE:SHAK) is a Manhattan based, upscale, fast causal restaurant. The main offerings from SHAK are fine dining takes on the American classic cheeseburger. Their flagship product is the Shack Burger which is a classic cheeseburger topped with their famous Shack sauce. Along with their burger offerings, SHAK provides innovative interpretations on other classics such as the hot dog and chicken sandwich. Shake Shack pride themselves on providing all natural and GMO free products to its customers. Shake Shack's restaurant base is split evenly between company owned (55% of total) and licensed restaurants (45%), while their revenue breakout is mainly driven by the company owned stores (96% of total revenue). The firm's restaurant base is currently made up of 105 stores, with 58 being company owned and 47 being licensed. SHAK began operations in New York in 2004 and has now grown nationally and has international locations in Europe and the Middle East. The company was founded by Danny Meyer who is a restauranteur and is still involved in the company as chairman of the board.

Price ($): 11/29/2016	$ 36.78
Price Target ($):	$ 46.21
52WK H-L ($):	$30.00-47.00
Market Cap (mil):	923
Float (mil):	18.8
Short Interest (%):	41.4
Avg. Daily Vol (mil):	0.7
Dividend ($):	0.00
Yield (%):	0.0

Beta:	1.10
WACC	7.46%
M-Term Rev. Gr Rate Est:	39.3%
M-Term EPS Gr Rate Est:	34.2%
Debt/Equity:	0.0%
Debt/EBITDA (ttm):	0.00
ROA (%):	2.48
ROE (%):	7.14
ROIC (%):	7.13

FY: Dec	2015	2016E	2017E	2018E
Revenue (Mil)	190.6	267.4	361.3	437.2
% Growth	60.8%	40.3%	35.1%	21.0%
EBITDA	31.20	43.59	56.15	68.43
Adj. EBITDA Margin	16.4%	16.3%	15.5%	15.7%
Adj. EPS (Cal)	$ 0.33	$ 0.47	$ 0.62	$ 0.76
FCF/Share	$0.08	$0.30	$0.48	$0.77
EV/S(Cal)	4.7x	3.4x	2.5x	2.1x
EV/ EBITDA	28.8x	20.6x	16.0x	13.1x

Recommendation

Since the turn of the century, we have seen the emergence of fast casual restaurants as major players in the restaurant industry as the segment has grown by more than 550% since 1999. There has been a call for more quality than speed and this has led to the rapid increase in fast casual restaurants. Lead by major brands such as Chipotle and Panera, the restaurant count in the fast casual category is continuing to increase. An up and comer in this growing category is Shake Shack. Operating in the niche "better burger" market, Shake Shack has seen immense expansion since starting as just a hot dog stand in Union Square. Now operating across the United States, Shake Shack provides a modern twist on America's favorite food with $75B in annual burger sales according to Guggenheim Securities. Basing their model off a roadside burger shack, Shake Shack has a narrow menu that strives to provide high quality organic and GMO free food at an affordable price. The company is in the early stages of their growth plan and they have seen success in their recent openings in new markets. Along with current momentum in their growth plan, they have major brand power with relatively low geographic exposure. Finally, the company's small amount of offerings on the menu allows them flexibility to add new items to the menu to help grow the customer base by adding new selections. Taking all of this into consideration, it is recommended that Shake Shack be added to the AIM Equity Fund at a price target of $46.21, which represents a 25.6% upside. SHAK does not currently pay a dividend.

Investment Thesis

- **Massive Expansion Opportunity.** Shake Shack has stated that they believe the company can successfully operate as many as 450 company owned restaurants nationally. With the current base only accounting for 13% of the stated goal, SHAK has a major runway for expansion in the long term. When Shake Shack opens a new store they look for premium real estate locations that they feel fit the concept. The company is able to invest heavily into the development of their shacks due to their industry leading Average Unit Volumes (AUVs) of $3.2 million. Recently, the company has furthered its expansion into western markets by opening SHAK's West Hollywood location. Early indications show that the restaurant is thriving in the new market as management has described the West Hollywood location as a "heavy hitter". With the success of their first

California locations, an expansion into this vast marketplace is being described by management as a crucial step for the company going forward. Along with expansion in LA, Shake Shack has yet to hit major markets such as Detroit, St. Louis, San Diego, and Texas. They plan to enter these markets within the next year.

- **Millennial Domination.** The social media exposure by Shake Shack shows their massive brand appeal even though their restaurant exposure is limited. Comparing the social media profiles of Shake Shack and its competitors, Shake Shack either beats or rivals their peer's amount of followers despite having significantly less locations than those companies. For example, Chipotle and Shake Shack have almost the same amount of Instagram followers despite Shake Shack restaurants only equating to 5% of Chipotle's current restaurant base. This shows how Shake Shack's modern roadside burger shack concept has captured the attention of millennials. With 18-34 year olds as the main driver of the fast casual restaurant emergence, this social media presence is key for Shake Shack going forward.
- **Menu Innovation.** The firm's main method for growing comp store sales which are on pace for a 4-5% increase for the year, is by their ever changing menu. Currently the company has a narrow menu with over half of the entrée offerings coming from burgers. This affords the company the flexibility to branch out into other categories. The company is constantly developing new menu items to attract customers with Limited Time Offerings (LTOs). These new products help to grow sales in current stores and help to bring new customers with offerings that breakaway from the traditional hamburger. SHAK is also willing to keep these new items on longterm if they perform well which was the case for the Chicken Shack which is a consistent top three menu item. Currenty SHAK is testing chicken and hamburger LTOs, called the Salt & Pepper Honey Chick'n and Bacon Cheddar Shack respectively. SHAK has also begun to develop a breakfast menu and is being tested at multiple locations to see if it could be added to their current menu.

Valuation

In order to reach an intrinsic value for SHAK, a five year DCF model was constructed. Using a terminal growth rate of 2.3%, WACC of 7.46%, an intrinsic value of $47.23 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $41.92-$54.18. Additionally, an EV/EBITDA multiple valuation was conducted using projected 2017 EBITDA of $56.15, a comparables average EV/EBITDA multiple of 18.8x which resulted in a valuation of $45.20. By weighting the two valuation models evenly, a price target of $46.21 was reached, which yields a 25.6% upside.

Risks

- **Rapid Expansion.** The company's hopes to continually grow units could lead to pressure on net income and free cash flow going forward. For Shake Shack to continue their level of investment in their restaurants, they will need to consistently perform at their high volumes.
- **Commodity Prices.** SHAK does not contract out commodities and therefore puts themselves at risk for real time downward pressures. The bulk of cost of sales is connected to beef and dairy prices going forward.
- **Food-Borne Illness.** Shake Shack could be exposed due food borne illness due to its high concentration in beef products. These types of illnesses and scandals can be very detrimental to the company's value. i.e. Chipotle

Management

Randy Garutti is the current CEO of the company and has been with Shake Shack since 2012. Before his time at Shake Shack, Randy Garutti held the title of Director of Operations for Shake Shack's parent company Union Square Hospitality Group. Jeffery Uttz is the CFO of Shake Shack and has held the role since 2013. Jeffery Uttz brings over 20 years of restaurant experience to the team and was the former CFO of Yard House. The management team has garnered a 5.5 rating for corporate governance for their ESG rating which is in the top quartile for the industry. The company overall is rated an A and is part of the top ten percent in the industry in regards to ESG score.

Ownership

% of Shares Held by All Insider Owners:	21.69%
% of Shares Held by Institutional & Mutual Fund Owners:	80.86%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
Morgan Stanley Investment Management, Inc.	2,051,135 ▲	8.56
Gilder, Gagnon, Howe & Co. LLC	2,000,102 ▲	8.35
William Harris Investors, Inc.	1,331,436 ▼	5.56
The Vanguard Group, Inc.	1,176,675 ▲	4.91
ETHENEA Independent Investors SA	1,000,000 ▲	4.17

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Averagre Unit Volumes (mil)	LTM Sales (mil)	LTM EBITDA	P/E 2017	EV/ EBITDA 17
Shake Shack, Inc. Class A	SHAK	922.86	3.20	246.27	46.62	66.92	15.41
Chipotle Mexican Grill, Inc.	CMG	11,561.94	2.00	3,867.33	276.71	42.34	19.02
Wingstop, Inc.	WING	896.03	1.13	87.18	30.58	48.12	25.72
Habit Restaurants, Inc. Class A	HABT	316.39	1.90	270.60	27.61	54.00	--
Panera Bread Company Class A	PNRA	4,632.74	--	2,760.02	402.72	27.64	11.62
Zoe's Kitchen, Inc.	ZOES	495.60	1.60	266.67	23.48	195.92	18.92
Peer Averages		3,580.54	1.66	1,450.36	152.22	73.60	18.82

**Removed For Relative Valuation Analysis*

Source: FactSet

Heineken NV ADR (HEINY)

December 2, 2016

Dominic Delia — International Consumer Staples

Heineken NV ADR (OTC: HEINY) engages in the manufacture and distribution of alcoholic and non-alcoholic beverages. The company markets its products under a diverse portfolio of brands including Amstel, Desperados, Foster's, Heineken, Sol, Tecate, and Tiger. Heineken segments its operations by region: Europe (~46% of total revenue); Americas (~25%); Africa, Middle East & Eastern Europe (~16%); Asia Pacific (~12%); and Other (~1%). The firm also segments its revenues by individual country: United States (18.2% of total revenue); Germany (9.8%); United Kingdom (8.3%); France (7.1%); Mainland China (5.4%); Italy (5.3%); Spain (3.5%); and Russia (2.5%). The company was founded in 1864 by Gerard Adriaan Heineken and is headquartered in Amsterdam, Netherlands.

Price ($) (11/28/16):	$38.19
Price Target ($):	$49.19
52WK H-L ($):	47.70-37.13
Market Cap (Mil):	43,573
Float (%):	33%
Short Interest (%):	0.00%
Avg. Daily Vol:	63,230
Dividend ($):	$0.63
Yield (%):	1.65%

Beta:	0.74
WACC:	8.72%
M-Term Rev. Gr Rate Est:	5.00%
M-Term EPS Gr Rate Est:	7.97%
Debt/Equity:	116.50%
Debt/EBITDA (ttm):	2.67x
ROA:	3.54%
ROE:	10.15%
ROIC:	5.60%

FY: Dec.	2015	2016E	2017E	2018E
Revenue (Mil):	$22,637.20	$22,750.39	$24,115.41	$25,321.18
% Growth:	6.00%	5.00%	4.00%	3.00%
Gross Margin:	13.79%	14.48%	14.98%	15.48%
Operating Margin:	13.79%	14.48%	14.98%	15.48%
Net Margin:	9.22%	9.23%	9.48%	9.75%
EPS (Cal):	$1.83	$1.82	$1.98	$2.14
FCF/Share (Cal):	$1.43	$2.18	$2.46	$2.72
P/E (Cal):	20.91	20.95	19.25	17.82

Recommendation

As the world's second largest brewer (10% of global volume), trailing only AB InBev (26%), HEINY boasts an impressively diversified revenue stream with sales stemming from 70 countries and a 250 brand portfolio - justifying its title as the "World's Most International Brewer." The company has recently focused on expanding into higher margin, emerging markets, most notably Mexico, Brazil, Nigeria, the Philippines, and Vietnam, where its Tiger brand volumes have grown at an impressive 24% YoY. HEINY is trading at an attractive discount relative to its peers (-12% vs broad consumer staples sector) and has been further undervalued as defensive investors have shifted their preferences out of staples and into bonds following the post-election spike in U.S 10-year Treasury yields. Despite 2Q16 FX headwinds stemming from weakness in the Nigerian Naira, UK Pound, and Mexican Peso, management has maintained their +40 bps guidance for annual EBIT margin expansion. HEINY reported flagship brand volume growth in 3Q16 (3.5% vs 2.6% in 3Q15) and a slight increase in European volumes (+0.6% vs -0.4% consensus), which surprised to the upside. After thoroughly analyzing the performance of the firm's flagship premium brands, its growth seeking initiatives into emerging markets, and the expansionary prospects of the global beer profit pool (+5.8% CAGR 2016-2018E), it is recommended that HEINY NV ADR be added to the AIM International Equity Fund with a target price of $49.19, representing a 28.79% upside.

Investment Thesis

- **Vietnam Sales Growth & Positive Macro Trends.** HEINY has spent the last two decades solidifying itself as the market leader within the Vietnamese profit pool. This market is expected to grow ~23% in 2017, driven by a shifting consumer preference towards beer, specifically in the premium segment (12% 5-yr volume CAGR) where HEINY holds a 67% market share between its Tiger and HEINY brands. Overarching macroeconomic tailwinds (6.8% projected GDP growth in 2017) coupled with a burgeoning middle class are projected to grow consumer spending by 47% over the next four years and beer intake alone by 33% according to Euromonitor International. With Vietnam accounting for the second largest portion of HEINY's EBIT (~10%), overall near term EBIT growth is highly probable. Furthermore, acquisitions via the government's privatization and projected sale of Sabeco and Habeco (~60% of Vietnamese market share) may loom on the horizon with HEINY's Net Debt to EBITDA of 2.3x falling below management's target of 2.5x. If these potential acquisitions fail to materialize, >$1 billion in share buybacks are projected to provide near term value to investors.

- **Pre-Established Footprint in Emerging Markets.** CEO Jean-Francois van Boxmeer has exhibited estimable foresight in expanding HEINY's global footprint into emerging markets (~60% of EBIT), while cementing the firm as a major player in Vietnam and Mexico (the only two countries accounting for >10% EBIT). With continuity provided by van Boxmeer's expected nomination for another four year term, management has begun laying the seeds for future penetration into emerging and frontier markets, placing Brazil, Nigeria, and the Philippines at the forefront of this initiative. Drivers of growth in these regions include an untapped 75% share of throat in Africa, double digit premium brand volume growth in Brazil, and 6-7% volume growth in India through HEINY's actively increasing, 43.7% stake in United Breweries (~85% of India's beer EBIT). Potential currency headwinds in these historically volatile markets will be partially offset by a 5% drop in barley costs (~15% COGS) during 2017.
- **Continued Innovation in Developed Markets.** While negative population growth and saturated customer bases have recently stymied growth in HEINY's European business segment, the company is continuing to foster innovation and foresight into potential areas of expansion over the next decade through its targeting of non-traditional customer segments (Women & Non-Alcoholic) via its cider portfolio. While the cider market is projected to grow ~4% annually, according to CMO Alexis Nasard, some analysts are hinting at a tipping point with growth rates similar to those exhibited by craft beer over the past decade. As the world's leading cider producer (24% market share) and owner of Strongbow, the number one cider brand, HEINY's management team has strategically positioned the company at the forefront of a potential market disruption.

Valuation

In order to reach an intrinsic value for HEINY, a five year DCF model was constructed. Using a terminal growth rate of 2% and a WACC of 8.72%, an intrinsic value of $42.17 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $39.97-$44.74. Additionally, a P/E multiple valuation was conducted using a comparables average P/E of 31.5x, along with an EV/EBITDA multiple valuation using a comparables average EV/EBITDA of 21x, which resulted in valuations of $55.45 and $52.28 respectively. By weighting the three valuation models 40/30/30, a price target of $49.19 was reached, representing a 28.79% upside. HEINY paid an annual dividend of $0.63 in 2015, yielding 1.65%.

Risks

- **Peer Pressure.** SAB Miller and AB InBev's record $100 billion merger has cemented BUD as the clear cut leader in market share while spurring a number of divestitures in order to meet regulatory hurdles. Despite the potential temptation to follow suit and tighten the gap via rash acquisitions, HEINY must remain steadfast in its commitment to near term organic volume growth through further innovation and increased cost efficiencies, while also preserving balance sheet liquidity for potential synergies in the future.
- **Regulatory Changes.** In many markets, alcohol remains under high scrutiny by regulators due to the implicit danger of abusive consumption, coupled by the religious constraints that have whipped up headwinds for the firm's expansion into areas of the Middle East and Africa. Potential risks include restrictions on advertising and commercial freedom, increased taxes levied by local and sovereign governments, and increased restrictions on availability, as evidenced by the continued collapse in Russian volumes brought on by slew of regulatory changes in 2011 and prohibition referendums in select Indian states.

Management

Jean-Francois M. L. van Boxmeer has served as CEO and Chairman of the Executive Board for the past 11 years after joining HEINY in 1984. He currently sits on the Board of Directors of Mondelez International and the Consumer Goods Forum. In 2014, Laurence Debroux was appointed as CFO after a four year stint at JC Decaux in the same role.

Ownership

% of Shares Held by All Insiders and Owners	66.67%
% of Shares Held by Institutional & Mutual Fund Owners	15.94%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
Heineken Family	149,021	51.7%
Fomento Economico Mexicano SAB de CV	43,018	14.9%
Harris Associates LP	8,773	3.1%
Lindsell Train Ltd.	6,707	2.3%
Tweedy, Browne Co. LLC	3,578	1.2%

Source: FactSet

Peer Comparables

Name	Ticker	Market Cap (Mil)	Debt/Equity (%)	P/E (ttm)	EV/EBITDA (ttm)
Heineken ADR	HEINY	43,573	116.50%	29.43x	11.74x
Anheuser-Busch InBev ADR	BUD	176,507	320.70%	39.87x	14.34x
Molson Coors Brewing Co.	TAP	21,442	99.70%	36.80x	36.98x
Constellation Brands, Inc.	STZ	31,447	111.80%	30.01x	16.61x
Diageo Sponsored ADR	DEO	63,126	121.60%	19.35x	15.97x
	Peer Averages	67,219	163.45%	31.51x	20.98x

Source: FactSet

Credicorp (BAP– US)
December 2, 2016

Jaclyn Godwin International Financial Services

Credicorp Ltd. (NYSE: BAP) is the largest financial services holding company in Peru. The firm offers commercial banking services through Banco de Credito del Peru (BCP) and micro-lender Mibanco, insurance services through Grupo Pacifico, pension fund management through Prima AFP, and investment banking services through Credicorp Capital. Of these, commercial banking is the largest segment producing 82% of company revenues in 2015. Its geographic markets include Peru, Panama, the Cayman Islands, Bolivia, Colombia, Chile, and the U.S., with 87% of 2015 revenues coming from Peru. The company has 830 branches, of which 460 were for BCP in Peru. BAP was founded on October 20, 1995 and is headquartered Lima, Peru.

				FY:	Dec 2015A	Dec 2016E	Dec 2017E	Dec 2018E
Price as of 11/29/16 ($):	$153.41	Beta:	0.88	Revenue (Mil)	$3,071	$3,378	$3,801	$4,285
Price Target ($):	190.20	WACC	7.2%	% Growth	1.6%	10.0%	12.5%	12.8%
52Wk H-L ($):	166.26 - 84.72	M-Term Rev. Gr Rate Est:	11.9%	Net Interest Margin	5.8%	5.6%	5.5%	5.5%
Market Cap (mil):	12,136	M-Term EPS Gr Rate Est:	14.7%	Net Income Margin	31.6%	30.8%	33.1%	34.9%
Float (mil):	66,637	Debt/Equity	1.24x	EPS	12.19	13.08	15.85	18.82
Short Interest (%):	1.10%	ROA (%):	2.1%	P/E	7.97x	14.76x	12.70x	11.70x
Avg. Daily Vol (mil):	316,263	ROE (%):	20.6%	BVPS	59.48	65.88	72.21	77.13
Dividend ($):	2.32	Tier 1 Capital Ratio (%)	9.7%	P/B	1.64x	2.33x	2.22x	2.27x
Yield (%):	2.38%	Credit Provisions/Loans (%)	2.2%					

Source: Factset

Recommendation

Despite the recent commodity and market volatility, Peru endures as a sweet spot for investors. In recent quarters, the region has observed accelerating economic activity, due in part to the strengthening mining sector and growing business investment. Copper production, a core of Peru's growth story, expanded by an average of 20% Yoy in 2016 due to the onset of production at an extensive copper mine. Growth in the mining sector is expected through 2017 due to other projects in the pipeline. Additionally, public expenditures grew by 32.4% in 1Q'16 alone, reversing a seven-quarter streak of contraction. The need for investment in infrastructure is likely to drive growth moving forward. As commodity production matures and infrastructure investment develops, GDP is expected to reach 3.8% in 2016 and 4.2-4.8% in 2017. Meanwhile, the 2016 presidential election of Ms. Keiko Fujimori ushers in a market friendly administration. The region's recent economic activity and political environment bode well for the banking sector, of which BAP is an integral player. With its roots dating back to the mid-1990s as a small commercial bank, Credicorp has since emerged as a leading firm due to its financial strength and strategic acquisitions. As the company transformed from a small bank to a large financial holding company, it has shown strengths in cost efficiency and capital adequacy. From 2014 and 2015, BAP improved its efficiency ratio from 46.6% to 42.1%, due primarily to its efficiency initiatives. Furthermore, its well-capitalized base, which produced a Tier 1 ratio of 9.7%, far exceeds the capital requirement of 6%. With BCP generating a ROE of 23% and loan growth of 10%, excess capital is anticipated, which will likely contribute to larger dividend payouts and strategic investments. BAP'S efficient cost and capital management has allowed it to expand its operations to include Chilean healthcare provider, Banmedica and micro-lender, Mibanco, each providing opportunities for organic growth. With its leading position in the Peruvian market, financial strength, and focused business initiatives, it is proposed that BAP be added to the AIM International Fund at a target price of $190.20, with an upside of 24.0%. The firm pays a dividend that yields 2.38%.

Investment Thesis

- **Emerging Market Sees Emerging Middle Class**: A surge in Peru's economic environment has initiated a rise in the middle-class population. By 2021, it is expected that 52% of the population will be classified as middle-class, up from 29% in 2009 and 44% in 2014. This shift will move more of the country into the banking system, increasing the firm's deposit base. At the end of July, only 30.4% of GDP was composed of bank deposits; this figure is likely to rise as banks expand into underserved regions, especially rural areas. For BAP, its network is primarily concentrated within the city of Lima, providing for a sizeable opportunity as it expands its reach beyond the metropolitan area.

- **Banks Go Digital**: Digitalization has swept through the financial industry with banks scrambling to initiate their own strategies. The introduction of a Peruvian mobile money network in February of 2016 created an added sense of urgency to this phenomenon. The effort was established to reach the four out of five Peruvian citizens operating outside of the formal banking system. Further, the payment industry is expected to grow at a five-year CAGR of 8.5% between 2015 and 2020 as a result of mobile penetration and e-commerce development. BAP has responded to these findings with plans to digitize their strategy. In 2016, $25-30MM were invested, while $45-50MM were committed for the following year. During the next 12 months, management further plans on extending the strategy to 200 branches. Digitization has the ability to enhance BAP's market penetration, increasing its loan and deposit reach.
- **Small Loans Make Big Business**: Local micro-lender, Mibanco, offers BAP a significant opportunity for growth. In 2014, the enterprise was acquired by subsidiary Edyficar. By 2015, the operations of Mibanco and Edyficar were consolidated, creating the largest micro-lending institution in Latin America. The combined entity has expanded to include four segments serving the small and medium enterprise (SME) market. It began showing accelerating growth in the second half of 2015. By September 2016, Mibanco reported net income Yoy growth of 18%, growing at its fastest pace in three years. Management is confident that Mibanco has plenty of room for growth as the consolidation process concludes.

Valuation

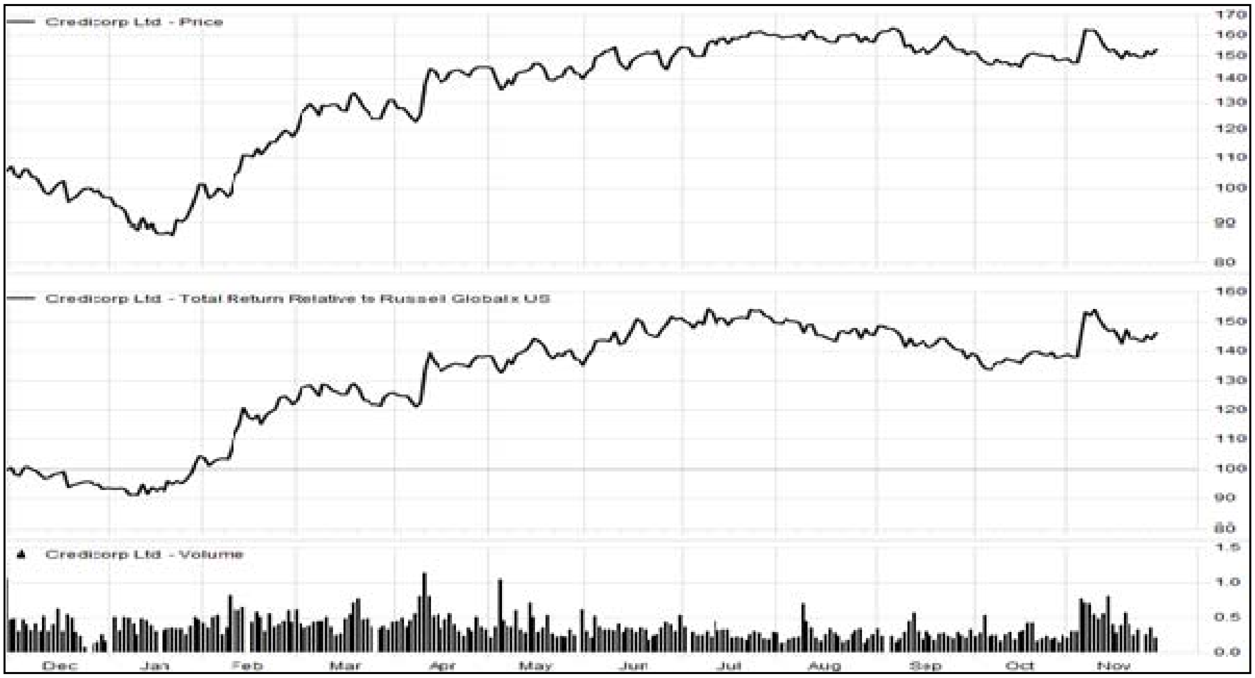
To find BAP's intrinsic value, a five-year discounted dividend model and price to book valuation were performed. Using an average interest income growth rate of 12%, a terminal growth rate of 3.5%, and a WACC of 7.2%, the DDM produced a value of $189.39 with an upside of 23.5%. The cash flows were discounted and summed appropriately. A sensitivity analysis of the WACC and terminal growth rate produced a price range of $171.85 to $211.13. To compare BAP to its relative peers, a P/B valuation model was created. Using a peer average P/B of 2.36x and an estimated 2016 book value of $65.88, a value of $191.41 was found. This produced a 24.8% upside. Weighting the valuations 60/40, an intrinsic value of $190.20 was reached, providing a 24.0% upside. The firm yields a dividend of 2.38%.

Risks

- **Decline in Asset Quality:** Over the past several quarters, many Latin American regions, including Peru, have faced deterioration in asset quality, increasing the level of non-performing loans (NPL). NPL were 2.9% in 2016, compared to the 2.2% average in 2010. Projections of NPL levels set to decline in line with economic improvements may ease asset quality concerns.
- **Commodity Exposure**: As a copper-exporting country, Peru is at risk of volatile commodity prices moving forward. With China's slowing demand for metals, the Latin American country could potentially experience a decline in the mining sector.
- **Foreign Currency Fluctuations**: Credicorp and its subsidiaries generate revenues in USD, Peruvian Soles, Columbian Pesos, Chilean Pesos, and Bolivian Pesos. Any shift in currency levels could have an adverse impact on business results.

Management

Dionisio Romero Paoletti serves as Chairman of the Board and CEO of Credicorp. Romero began his term as Chairman in 2003 and CEO in 2009. He obtained an economics degree from Brown University and an MBA from Stanford. The Romero family holds a 13.22% stake in the firm.



Peer Analysis

Name	Ticker	Market Cap (mil)	Net Income (mil)	Div. Yld. %	P/B	D/E
Credicorp	BAP-US	12,136	971	2.38%	1.64x	1.24x
BBVA Banco Continental	CONTINC1-PE	17,297	1,372	5.87%	1.68x	1.80x
Interbank	INTERBC1-PE	8,813	860	5.15%	2.07x	1.79x
Scotiabank Peru	SCOTIAC1-PE	13,487	1,011	3.59%	1.37x	1.40x
Intercorp Financial Services	IFS-PE	3,456	387	NA	NA	2.04x
Peer Averages		10,763	907	4.87%	1.71x	1.76x

Source: Factset

Ownership

% of Shares Held by All Insider and Owners:	16.54%
% of Shares Held by Institutional & Mutual Fund Owners:	> 70%

Source: Factset

Top 5 Shareholders

Holder	Shares	% Out
BlackRock Fund Advisors	2,586	3.25%
Genesis Investment Management LLP	2,314	2.91%
Mondrian Investment Partners Ltd.	1,981	2.49%
The Vanguard Group, Inc.	1,830	2.30%
Acadian Asset Management LLC	1,825	2.30%

Source: Factset

Ardelyx, Inc. (ARDX)
December 2, 2016

Joe Mungenast | Domestic Healthcare

Ardelyx, Inc. is a clinical-stage biopharmaceutical company focused on the discovery, development and commercialization of innovative, minimally-systemic therapeutic drugs that work exclusively in the gastrointestinal (GI) tract to treat GI and cardio-renal diseases. The lead product candidate, tenapanor, is currently being evaluated in two Phase 3 clinical studies in patients with constipation-predominant irritable bowel syndrome, or IBS-C. In a separate Phase 2b clinical trial, tenapanor lowered elevated blood phosphorus levels in patients with end-stage renal (kidney) disease, or ESRD. Ardelyx expects to receive results from this trial by early next year. Another drug candidate, RDX022 is being tested for the treatment of hyperkalemia, or elevated serum potassium. Ardelyx expects plans to proceed with a Phase 3 clinical program, which they expect to initiate by early next year.

Price ($): (11/30/16)	15.85
Price Target ($):	21.12
52WK H-L ($):	6.4-21.3
Market Cap (mil):	750
Float (mil):	46.0
Short Interest (%):	3.13%
Avg. Daily Vol (mil):	0.17
Dividend ($):	0.00
Yield (%):	0.00%

Beta:	2.18
WACC	13.5%
M-Term Rev. Gr Rate Est:	37.5%
M-Term EPS Gr Rate Est:	NA
Debt/Equity:	0.0%
Debt/EBITDA (ttm):	0.00
ROA:	-56.5%
ROE:	-61.3%
ROIC:	-27.0%

FY: Dec	2015	2016E	2017E	2018E
Revenue (Mil)	24.03	0.00	0.00	37.00
% Growth	-24.02%	0.00%	0.00%	--
Gross Margin	NA	NA	NA	60.00%
Operating Margin	NA	NA	NA	NA
EPS (Cal)	($1.29)	($2.21)	($2.50)	($2.22)
FCF/Share	($1.59)	($3.98)	($0.73)	($1.16)
P/S (Cal)	31.2	NA	NA	20.3
EV/Sales	35.8	NA	NA	23.2

Recommendation

The need to treat the aging population is becoming an increasingly more important focus within US healthcare. As bodies get older, not only do organs such as the heart, liver, and kidneys begin to slow down, but entire organ systems – such as the gastrointestinal tract – also show signs of deterioration. Irritable Bowel Syndrome (IBS) alone generates between 2.4 and 3.5 million physician visits each year in the United States, and estimates show that indirect and direct costs to society exceed $21 billion annually. A 2015 study by Dr. Joel Heidelbaugh showed that over half of patients suffering from IBS-C rate their pain as “extremely bothersome” and led to a monthly average of 4.9 days of disrupted productivity and 0.8 days of missed work. An increasingly popular solution, surgery, puts patients at unnecessary levels of risk and expense. Ardelyx seeks to provide a far less invasive solution to the 4.4 million Americans suffering from IBS-C with Tenapanor. Tenapanor regulates sodium and phosphate levels in the gut while also being largely undetectable; the most recent clinical trial showed a stronger efficacy and less side effect prevalence than current oral solutions to IBS-C. Tenapanor and another clinical drug, RDX022, are also under Phase IIb and III testing, respectively, for their ability to treat ESRD - which affects over 650,000 Americans each year, increasing by 5% per annum. ESRD is correlated with high sodium and potassium levels in the blood, which is why Ardelyx seeks to treat more than just one issue per drug. Due to Ardelyx’s strong late-stage pipeline featuring 3 drugs in Stage III trials and 2 in Stage IIb, it is suggested that this company be added to the AIM portfolio with a price target of $20.12, representing an upside of 38.5%. Ardelyx does not pay a dividend.

Investment Thesis

- **Focus on the Elderly.** All of Ardelyx’s late-stage products cater to conditions that are more prevalent with the elderly. The reason for the growing population of ESRD patients in the United States is a product of typical high-potassium, high-phosphorus Western diets in older age as well as the prevalence of diabetes and its strain on the kidneys. From 2017 to 2025, the US population over the age of 65 is expected to grow from 52 million to 66 million individuals, which would mean a great market opportunity for Ardelyx.

- **Potential Benefit to and from the Government.** Currently, ESRD patients make up 1% of the Medicare population but take up 7% of its budget. Simple, effective, and unnoticeable solutions such as tenapanor could significantly reduce the burden on the government, increasing the likelihood of the FDA to accelerate approval of tenapanor and RDX022 moving forward. Trump has claimed to increase drug approval as well, which should help the likes of Ardelyx.
- **Safer for the Patient.** When compared to current solutions to hyperphosphatemia and ESRD, tenapanor – the lead drug candidate – is significantly less harmful. All currently approved methods for treating hyperphosphatemia involve phosphate binders, which add to the pharmacological complexity of patients who often are already taking 12-14 drugs a day. These binders clump together phosphates in the digestive tract to be later passed. Tenapanor, as of the stage III trial, not only is more effective than these drugs, but also uses a different approach: a sodium inhibitor. By regulating the absorption of dietary sodium, tests have shown that patients' bodies better regulate their phosphate and phosphorus blood levels and, most importantly, their GI water levels. Ardelyx's NHE3 performs the same tasks as drugs on the market, but the better regulation of GI water levels significantly reduces the most prevalent side effect: diarrhea.

Valuation

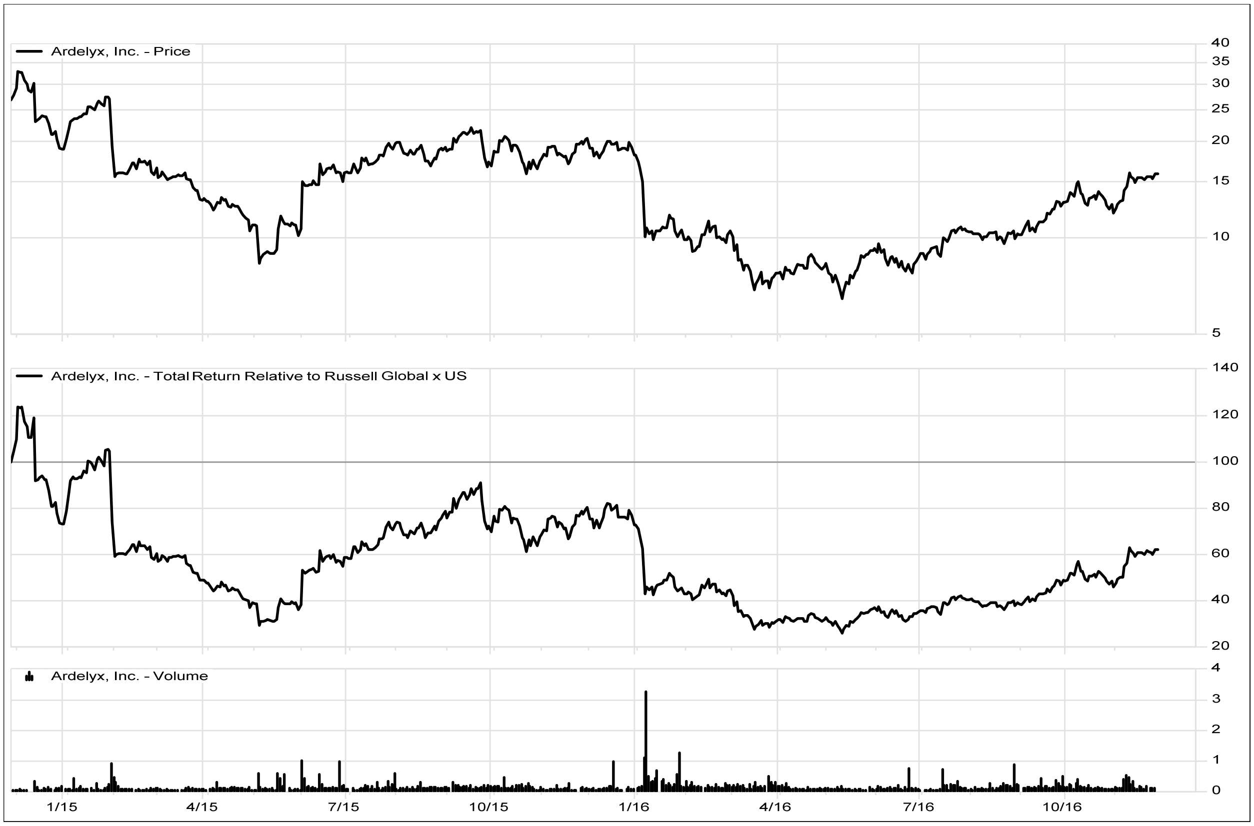
To reach an intrinsic value for ARDX, a ten-year DCF model was constructed. Using a terminal growth rate of 3.00% and a WACC of 13.47%, an intrinsic value of $21.30 was reached. Additionally, a EV/Sales multiple valuation was conducted. Using 2020 Sales of $280 MM and a peer comparable multiple of 2.92x, a valuation of $20.95 was reached. Weighting the two valuation models 50/50 resulted in a price target of $21.12, representing a 38.51% upside.

Risks

- **All Products Are In Testing.** Despite Ardelyx's portfolio of late stage products, all of their potential revenue streams still have to be approved by the FDA. Should none of the products make it to market, Ardelyx would not survive. Before their products can even make it to market, Ardelyx must also maintain a healthy cash balance to keep the value of their equity at a reasonable price. Due to the nature of expensive drug testing, Ardelyx released more equity to the market during 1Q 2016. As a result, the stock dropped over 32% on January 7. Currently, Ardelyx is burning cash at a rate where they will be out of cash by 2020, roughly when tenapanor is expected to be on the market. However, unexpected expenses could occur, and Ardelyx runs the risk of having to initiate an additional secondary offering to secure more funding, which would likely cause the market price to drop significantly.
- **Lack of Sales Team.** While Ardelyx has promising drugs that are close to being market-ready, they currently do not have a sales force to generate any revenue. They must invest more time and capital to create a sales team before any of the drugs can even be sold.

Management

Michael Raab has served as Ardelyx's CEO since March 2009. Prior to his time at Ardelyx, Mr. Raab was a partner at New Enterprise Associates, one of the world largest and most successful venture capital firms. While there, Mr. Raab specialized in healthcare investments, specifically biotech and pharmaceuticals. Prior to joining NEA, Mr. Raab was the Senior Vice President of Therapeutics and General Manager of the Renal Division at Genzyme Corporation, a Sanofi company. He received his BA from DePauw University. Mr. Raab is joined by the current CFO, Mark Kaufmann. Mr. Kaufmann joined the company in 2011 and assumed his role as CFO in May 2014. Before Ardelyx, Mr. Kaufmann spent 2 years as President of Allostera Pharma Inc., and President and CEO of Celmed Biosciences, Inc. Mr. Kaufmann received a BA in Biochemical Sciences from Harvard University, and an MBA from the University of Michigan School of Business.



Peer Analysis

Name	Ticker	Market Cap (mil)	Cash (mil)	Sales 2019	EV/Sales 2019	D/E
Aredlyx, Inc.	ARDX	750	257	175	4.91	0.00%
Sucampo Pharmaceuticals	SCMP	786	163	274	2.46	0.00%
Ironwood Pharmaceuticals	IRWD	2,296	325	542.5	4.36	0.00%
Enanta Pharmceuticals Inc.	ENTA	596	219	NA	NA	0.00%
Peer Averages		1,226	236	408.25	3.41	0.00%

**Removed For Relative Valuation Analysis*

Source: FactSet

Ownership

% of Shares Held by All Insider Owners:	39.53%
% of Shares Held by Institutional & Mutual Fund Owners:	52.84%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
New Enterprise Associates LLC	14,084	29.81
Fidelity Management & Research Co.	3,969	8.40
Future Fund Management Agency	3,436	7.27
RA Capital Management LLC	3,266	6.91
Presidio Partners	2,540	5.38

Source: FactSet

MDU Resources Group, Inc. (MDU)
December 2, 2016

Nathaniel Penn — Domestic Utilities

MDU Resources Group (NYSE: MDU) is a hybrid utility and construction company. The utility segment contains both electric and natural gas regulated utilities, serving over one million customers in North Dakota, Montana, Wyoming, Idaho, Oregon, and Washington. It also owns approximately 4,000 miles of transmission and pipelines under its WBI Energy interest. The construction segment is comprised of both services and materials, and currently holds over one billion tons of aggregates for construction use. Revenues are derived from regulated utilities (26.2%), pipeline and midstream services (6.8%), and construction aggregates and services (67.6%). MDU Resources was founded in March of 1924 and is headquartered in Bismarck, North Dakota. It is also the largest publicly traded company headquartered in North Dakota.

Price ($):	28.44	Beta:	0.97	FYE: Dec	2015A	2016E	2017E	2018E
Price Target ($):	33.00	WACC:	5.82%	Revenue (mil):	4190.2	4221.0	4383.8	4620.9
52Wk H-L ($):	15.57-28.67	M-Term Rev Gr Rate:	5.50%	Growth %	-1.7%	0.7%	3.9%	5.4%
Market Cap ($mil):	5,480	LT Debt/Total Capital:	43%	EBITDA	630.3	736.3	789.2	844.9
Float (%):	99.1	Debt/EBITDA:	2.6x	EBITDA Margin	15.0%	17.4%	18.0%	18.3%
Short Interest (%):	2.8	EBITDA/Interest:	6.8x	Adj. EPS	$ 0.88	$ 1.19	$ 1.45	$ 1.66
30D Avg. Vol (mil):	1.23	EV/Sales:	1.7x	FCF/Share	$ (4.87)	$ (0.32)	$ (0.29)	$ 0.09
Dividend Yield (%):	2.7			EV/EBITDA	11.1x	9.8x	9.2x	8.6x

Recommendation

MDU Resources posted a solid third quarter of 2016 beating on EPS, but missing on the top line. Shares of the stock reacted positively, as management tightened their 2016 EPS guidance around a higher midpoint. Construction backlog came in very strong with materials and services increasing 9% and 13%, respectively. While the company may face a headwind with its Electric and Natural Gas Utilities segment in a rising interest rate environment, this should be more than made up for with strength in its Construction segments, being an infrastructure and aggregates play. Expectations have continued to rise, placing an adjusted EPS growth rate around 5-8%. In addition, management continues to focus on organic growth in construction. We should feel comfortable taking a position given the intrinsic valuation upside coupled with the implied construction catalyst. The balance sheet remains strong and management did suggest potential for smaller acquisitions, especially in the pipeline and midstream business. Risks include a rising rate environment, less than expected US infrastructure spend, and construction materials suffering from higher input costs. It is recommended that MDU Resources be added to the AIM Equity Fund with a price target of $33.00, representing 16% upside. This valuation implies a lower utility multiple, construction growth around 5% with multiple expansion, and relatively flat pipeline from the prior fiscal year.

Investment Thesis

- **Construction Top Line Growth.** The construction business segment can be broken into two smaller segments; materials (60%) and services (40%). This past quarter saw record earnings in the materials segment with higher margins in aggregates. The backlog was up 9% year-over-year, and management highlighted lower than expected SG&A costs as the driver of margin expansion. On the services side, earnings were up 53% on lower sales and rental equipment margins. The backlog grew 13% from the prior year and SG&A costs were elevated due to higher input costs. In total, the backlog grew to $1,098M (up 11% over the prior year) with total bookings at $790.5M, implying a book-to-bill multiple of 0.79x (the highest recorded in the third quarter in 5 years). 10% of this backlog is from private entities, while 90% comes from the public sector. Backlogs have been elevated due to the recent passing of the Highway Bill, and any additional government infrastructure spend should be beneficial to MDU.

- **Portfolio Shaping = Simplified Business.** The business has recently been trimmed to three predictable segments, utility, construction, and pipeline and midstream. Earlier in the year, MDU divested its Dakota Prairie Refining assets to Tesoro. Consideration amounted to $0 cash with the elimination of associated liabilities. The company is now past a large $160M impairment charge and will have a more predictable business model going forward.
- **Capital Allocation.** In addition to shaping its portfolio, MDU continues to focus on organic growth with the potential for small, bolt-on M&A in its construction and regulated utility segments. The company also released its long-term capital expenditure forecast last week, indicating its focus on these segments. MDU will continue to increase its dividend in line with its long-term dividend growth rate of 4%.

Valuation

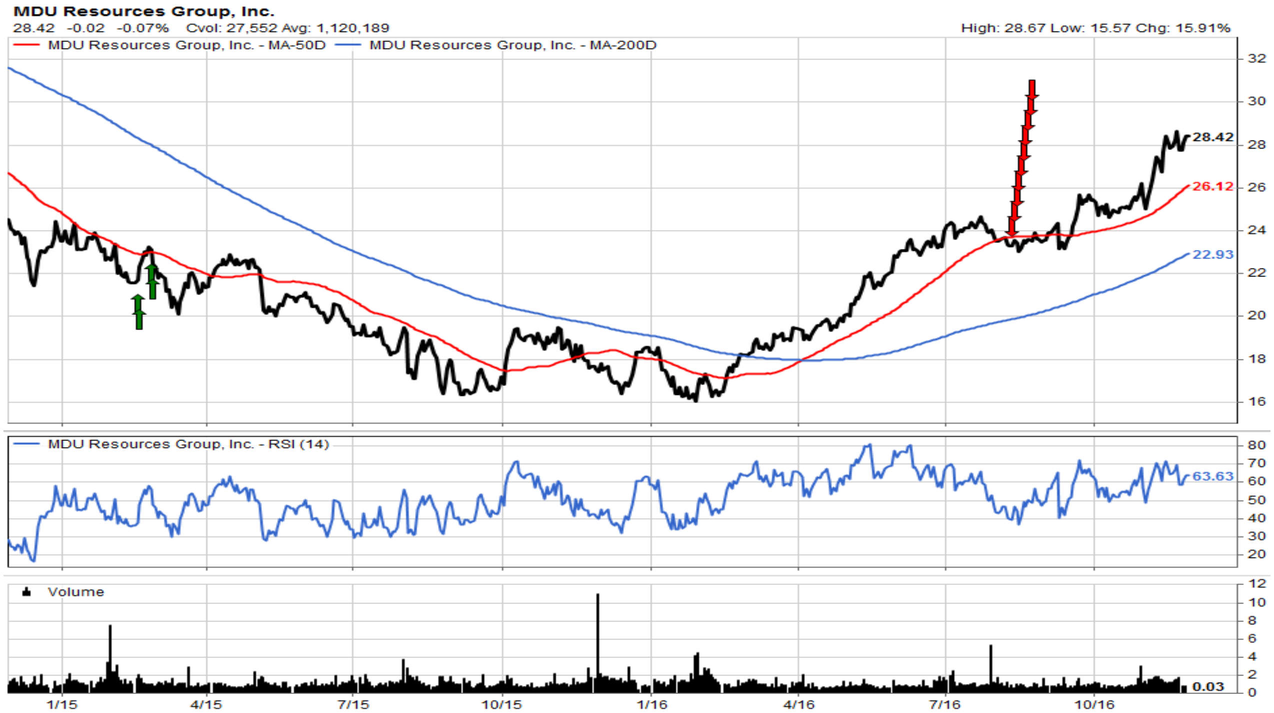
In order to compute an intrinsic value for MDU, an average of the valuations obtained from a sum of the parts (SOTP) analysis and discount dividend model (DDM) were utilized. The SOTP analysis was based on the estimated 2018 EBITDA figure and broke the company into the utility, pipeline and midstream, construction, and corporate segments. The matched multiples with EBITDA figures were $2.6BN at 9.5x, $722.3M at 10.0x, $4.7BN at 9.5x, and $34.9M at 7.0x respectively, yielding a share price of $32.20. The DDM model yielded $33.07 under a conservative 4.0% dividend growth estimate. Based on historical and peer multiples, the downside target is around $23 with a maximum downside of approximately $15. By weighting the two valuation models, a price target of $33.00 was reached, which yields a 16% upside. MDU has a dividend yield of 2.7%.

Risks

- **Rising Rate Environment.** With a quarter of its revenue tied directly to the regulated utilities market, MDU operates in a highly interest rate dependent industry. Odds of a rate hike by the end of the year are now nearing 100%, and many experts believe that 2017 will yield further hikes as well. 5 year inflation breakeven and the TIPS spread both imply elevated levels of inflation (from their previous lows over the past year), making this environment more conducive to these potential rate hikes.
- **Commodity Exposure.** Through its construction aggregates and services business lines, MDU has both direct and indirect exposure to commodity prices. If these prices rise, expect expansion in aggregates margins while experiencing compression in services margins with higher input costs. Commodities that could have a meaningful impact on performance include aggregates and oil.

Management

MDU is currently led by CEO David Goodin, who is 54 years old and has company tenure of approximately 33 years. His salary is $755K base, $2.5M total, and he currently holds 68K shares. MDU's CFO and Treasurer is Doran Schwartz. He is 46 years old and has been with the company for 11 years. His salary is $380K base, $818K total and he owns 41K shares.



Source: Factset

Ownership

% of Shares Held by All Insider and 5% Owners:	0.92%
% of Shares Held by Institutional & Mutual Fund Owners:	66.81%

Source: Factset

Top 5 Shareholders

Holder	Shares	
The Vanguard Group, Inc.	18,228,000	9.3
Parnassus Investments	13,701,000	7.0
BlackRock Fund Advisors	12,785,000	6.6
SSgA Funds Management, Inc.	12,105,000	6.2
Franklin Advisers, Inc.	3.600.000	1.8

Source: Factset

Peer Analysis

Name	Ticker	Market Cap (mil)	EBITDA (mil)	GPM %	P/B	Net Debt/ EBITDA
MDU Resources	MDU	5,480	602	11.9	2.4	3.1
Black Hills Corp	BKH	3,094	518	27.7	1.9	6.2
Northwest Nat Gas Co.	NWN	1,602	222	27.1	2.0	3.5
Martin Marietta Materials	MLM	14,016	977	23.0	3.4	1.7
Granite Construction, Inc.	GVA	2,307	164	12.7	2.6	0.3
Peer Averages		5,255	470	22.6	2.5	2.9

Source: Factset