Applied Investment Management (AIM) Program

AIM Class of 2011 Equity Fund Reports
Spring 2011

Date: Thursday, February 10th

Time: 5:00 pm – 6:30 pm

Location: AIM Research Room (DS488)

Student Presenter	Company Name	Ticker	Price	Page No.
Tim Hildebrand	Credit Suisse Group	CS	$46.14	2
Caitlin Johnson	Empresas ICA SAB de CV	ICA	$10.62	5
Tim O'Donnell	NewStar Financial, Inc.	NEWS	$10.32	8
Aaron Socker	Knology, Inc.	KNOL	$14.81	11
James Werner	Lifetime Brands, Inc.	LCUT	$12.00	14

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Credit Suisse Group (CS)
February 10, 2011

Tim Hildebrand — International Financial Service Sector

Credit Suisse (NYSE: CS) operates as a global financial services company. The company operates in three segments: Private Banking, Investment Banking, and Asset Management. The Private Banking segment (34.3% of revenue) offers advisory services, banking products, and a range of wealth management solutions. The Investment Banking segment (60.3%) provides investment banking and securities products and services to corporate, institutional, and government clients. Their products and services include debt and equity underwriting, sales and trading, mergers and acquisitions advice, corporate sales, restructuring and investment research. The Asset Management segment (5.4%) offers integrated investment solutions and services to institutions, governments, foundations and endowments, corporations and individuals. The company operates in Switzerland, Europe, the Middle East, Africa, the Americas, and the Asia Pacific. Credit Suisse Group was founded in 1856 and is headquartered in Zurich, Switzerland.

					FY: Aug	2009A	2010E	2011E
Price ($): (2/4/10)	$46.06	Beta:	1.53		Revenue (Mil)	33,150.00	27,514.50	31,366.53
Price Target ($):	56	WACC	13%		% Growth	256.68%	-17.00%	14.00%
52WK H-L ($):	36.36-54.24	L-Term Rev. Gr Rate Est:	3%		Net Interest Margi	0.78%	0.80%	0.85%
Market Cap (mil):	54,510.00	L-Term EPS Gr Rate Est:	3%		Pretax Margin	15.67%	15.00%	19.00%
Float (mil):	944.31	Financial Leverage	11x		EPS (Cal)	3.88A	4.24E	5.15E
Short Interest (%):	N/A	ROA:	0.6%		P/E (Cal)	11.9	10.9	8.9
Avg. Daily Vol (mil):	1.173	ROE:	17.1%		BVPS	$29	$32	$34
Dividend ($):	1.16	Tier 1 Capital Ratio	17%		P/B	1.53x	1.44	1.35
Yield (%):	2.5%	Credit Provisions/Loans	0.96%					

Recommendation

CS is a major global investment bank – for instance, they were ranked first in Latin American mergers and acquisitions in 2009 with a market share of 27%. They are also one of the world's best capitalized banks with a tier 1 ratio of 16.3% as of Q3 2010. CS quickly regained their profitability in 2009 after posting a loss as a result of the financial crisis of 2008 growing their revenue by 183.4% YoY. The company has increased their net margin at a 21.1% CAGR over the last 2 years and their operating margin at a CAGR of 6.08%. In the Private Banking segment, CS generated 41.6 billion Swiss Francs of net new assets and launched new domestic wealth management businesses in Japan, Mexico, and Poland. Fixed income sales and trading results have shown strong revenue growth driven by US residential MBS trading and credit businesses with solid results in global rates and emerging markets. CS is well positioned for the new regulatory environment, having maintained a strong capital base, while benefiting from early action to reduce risk and illiquid legacy assets. CS has benefited from improved pricing and margins resulting from the decline in competition and from increased volume in a number of product areas. CS has put an emphasis on exiting non-core businesses and successfully completed the sale of most traditional long-only business interests outside of Switzerland and Brazil to Aberdeen Asset Management for a 23.9% equity stake. Credit Suisse reduced their risk-weighted assets by 32% since the end of 2007 and have exited most proprietary trading businesses. CS also ensured client's trust by strengthening capital and liquidity.

Investment Thesis

- **Strong Market Position.** Credit Suisse currently holds a strong position in the investment banking industry with an 11.46% market share, with the possibility to gain more market share. CS has repositioned their business to build a new client-focused and capital efficient investment bank, by significantly reducing risk capital usage and volatility as well as focusing on client and flow-based businesses. Credit Suisse also will benefit in global banking from globalization, individual wealth creation in the developing world, and international capital flows.

- **Growth in Wealth Management.** Credit Suisse is positioning their business strategy to put a greater emphasis on cost control by moving operations abroad. They are also looking to for strong growth in net new money (NNM). Growth in new high net worth investors will appear in China and the Asia Pacific with economic growth rates expected to be 9% and 8%, respectively. They will be able to penetrate these new markets with their strong reputation, as they were recently named the best private bank globally for the second consecutive year based on *Euromoney* magazine's Private Banking Survey 2011.

Valuation

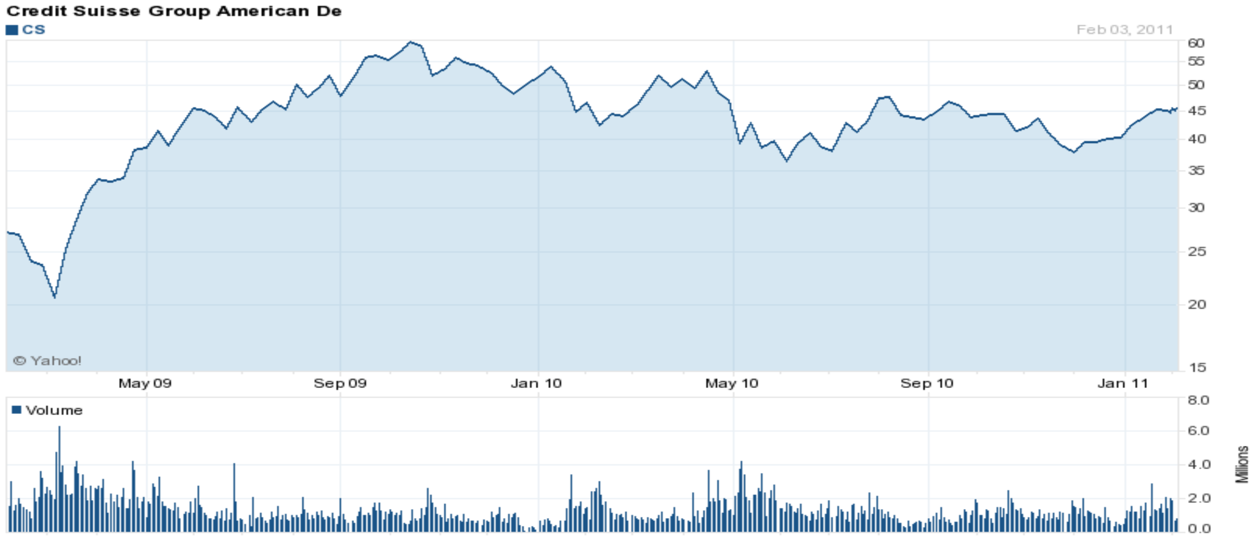
Applying a peer average 1.47x P/BV to my estimate 2010 book value per share of $33.90, produces a relative value of $50. Applying a conservative 1.5x multiple to the estimate 2010 revenue per share of $41.05, a 5x multiple to the estimate EV/Sales value, and a 13x multiple to my 2010 EPS of $4.24 per share, produces a relative valuation of $58.61. A 10-year Free Cash Flow to Firm model with a cost of equity of 15.98% and terminal growth rate of 6% yielded an intrinsic value of $56.01. Using an equal weighting of each valuation technique, and taking into consideration management growth assumptions and the firm's competitive position in its client-focused business model, a stock price of $56 was established for CS, offering upside potential of 21.6%. CS currently has a dividend yield of 2.50%.

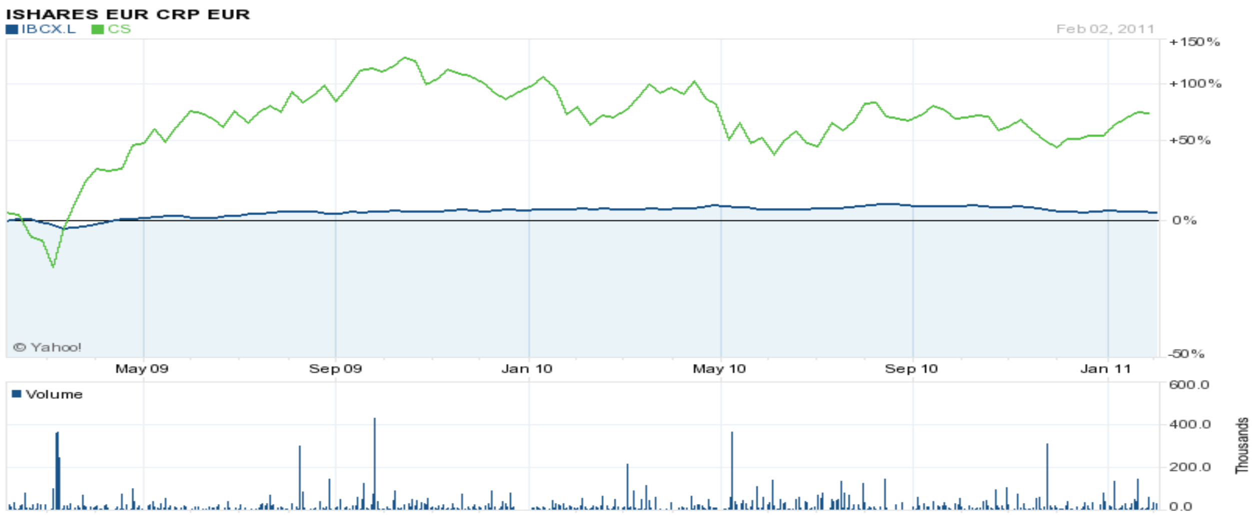
Risks

- **Liquidity Risk.** Credit Suisse's ability to borrow can be affected by increases in interest rates or credit spreads, the availability of credit, or the perception among market participants that CS is experiencing greater liquidity risks. If they are unable to access the credit markets in order to liquidate unencumbered assets to meet liabilities, CS may need to sell assets at depressed prices, which could affect results of operations and financial condition.
- **Credit Risk.** CS's business model is subject to the risk that borrowers or other counterparties will be unable to perform their obligations. Concerns about default by an institution could lead to further liquidity problems. Their credit risk exposure will also increase if collateral held cannot be realized upon as liquidated prices may not cover the entire exposure.
- **Currency Risk.** Credit Suisse is exposed to risk from fluctuations in exchange rates for currencies, particularly the US dollar. A major portion of assets and liabilities in the Investment Banking and Asset Management businesses are denominated in currencies other than the Swiss franc, which is the primary currency of financial reporting. CS's capital is also stated in Swiss francs and they do not fully hedge their capital position against changes in currency exchange rates.

Management

Credit Suisse's strong management team is shown by their use of deferred, share-based compensation instruments for many years and, in 2009, became the first financial institution to align their compensation model to G-20 best practice guidelines. Management is also rebuilding its client-focused business model to take advantage of the expected growth in the Private Banking segment. CS also understands their responsibility to restore trust to the financial services sector. They have successfully helped their clients invest in growth as well as manage difficult restructuring and liquidity issues. They also promote the creation of local jobs by freeing up around 100 million Swiss francs as risk capital for medium-sized enterprises and young entrepreneurs. Brady Dougan has been the CEO of Credit Suisse since May 2007. Brady started his career in a derivatives group in Banker's Trust, before joining Credit Suisse First Boston in 1990. David Mathers became the COO in October 2010 after serving as the head of European equities and equity research. Tobias Guldimann is the CRO, who has also served as the strategic risk manager for private banking as well as heading the treasury and derivative sales.





Ownership

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

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
FISHER INVESTMENTS, INC	10,396,992	0.88
DODGE & COX INC	3,560,887	0.30
SOUND SHORE MANAGEMENT, INC	3,067,495	0.26
WELLINGTON MANAGEMENT COMPANY, LLP	2,917,550	0.25
JANUS CAPITAL MANAGEMENT, LLC	2,887,021	0.24

Source: Bloomberg

Empresas ICA SAB de CV (ICA)

February 10, 2011

Caitlin Johnson International Industrial Materials

Empresas ICA (NSYE:ICA) is the largest engineering, procurement and construction company in Mexico as well as the largest provider of construction services to both public and private-sector clients. ICA is separated into four reportable segments: Construction, Infrastructure, Housing Development and Corporate & Other. In 2009, the Construction segment accounted for 81% of revenues, with Infrastructure and Housing Development contributing 13% and 7%, respectively, and Corporate & Other generating -2% . The company is involved in a full range of construction activities including highways, bridges, manufacturing facilities and urban buildings. ICA is known to have a solid track record in the execution of complex projects across various sectors even in this highly competitive industry. Founded in 1947, ICA began trading on the Mexican and New York Stock Exchanges in 1992 and is headquartered in Mexico City, Mexico.

Price ($): (02/03/11)	$10.67		Beta:	1.54		FY: Dec	2009A	2010E	2011E
Price Target ($):	$14.25		WACC	10.39%		Revenue (Mil)	$2,364	$2,624	$3,068
52WK H-L ($):	8.49-11.42		Near Term Rev. Gr Rate Est:	10.0%		% Growth	20.00%	11.00%	16.93%
Market Cap (mil):	$ 1,750		Near Term EPS Gr Rate Est:	11.0%		Gross Margin	14.72%	15.00%	16.00%
Float (mil):	143.51		Debt/Equity:	110.0%		Operating Margin	7.91%	7.75%	8.75%
Short Interest (%):	0.50%		ROA:	1.02%		EPS (Cal)	$0.48	$0.66	$0.87
Avg. Daily Vol (mil):	0.1614		ROE:	3.86%		FCF/Share	(2.1)	0.9	1.5
Dividend ($):	$0.00					P/E (Cal)	36.1	22.1	16.3
Yield (%):	0.00%					EV/EBITDA	10.3	8.9	8.5

Recommendation

In 2008, the Mexican federal government created the Plan Nacional de Infraestructura, a strategy to finance infrastructure projects worth $25B over the following 5 years. PNI failed to make much headway since its inception after being hindered by financial and regulatory delays; however, those setbacks have now been resolved and PNI is expected to fund 300 infrastructure projects worth over $300B. ICA should benefit considerably from the PNI budget given its solid performance record with public sector projects and its familiarity with the Mexican government. In addition to the acceleration of PNI, the 2011 federal budget recently increased fund allocations to Pemex and CFE, both state-owned entities, by 4% and 9%, respectively. As these companies together accounted for 40% of 2009 revenues, ICA should be able to capture a significant amount of additional awards in 2011. Going forward ICA is focusing on margin expansion by increasing the share of Infrastructure and Concessions per total revenues. This strategy also has the potential to reduce ICA's overall business risk as the Infrastructure and Concession segments are relatively more stable in comparison to the Construction segment. Additionally, the Mexican Construction Industry Trade Association projects a 3.9% expansion in the total construction sector of GDP which should give the industry a boost after the 0.6% contraction expected for 2010. Due to the aforementioned factors and the accompanying valuation, it is recommended that ICA be added to the AIM International Equity Fund with a price target of $14.25, offering an upside potential of approximately 34%.

Investment Thesis

- **Acceleration of Infrastructure Investment.** As noted earlier, the Plan Nacional de Infraestructura is expected to boost infrastructure expenditures in the coming years as the Mexican government pledges more capital for the development of much needed infrastructure projects. Along with Mexican GDP expected to increase 3.5% in both 2011 and 2012, construction activity tends to accelerate in the latter half of the federal administration. During the last four administrations, construction sector GDP growth in the last two years of the term outpaced growth in the first two years by an average of 8.34%. With President Calderón's term ending in 2012, there should be a significant ramp up in infrastructure investment from 2011 to 2012.

- **Strong Backlog and New Awards.** As of Q3 2010, ICA posted a high order backlog of $2.69B, a 30% increase from Q3 2009. Of the backlog, 9% is expected to be completed during 2011, followed by 26% and 24% in 2012 and 2013, respectively. The increase in order backlogs will provide ICA with consistent workflow, higher revenues and added growth prospects as well as ease the threat of increased competition in the Mexican construction market. In addition to ICA's already substantial level of backlog, the company is expected to add approximately $1.9B in additional awards by virtue of the revamping of the Plan Nacional de Infraestructura.
- **Strong Business Relationships.** As a result of ICA's long and robust industry experience, the company has an advantage over international and smaller domestic companies as ICA has developed solid long term relationships with Pemex and CFE. Since ICA already has vast experience in undertaking government projects, it is one of the preferred contractors of the Mexican government. With the slowing of construction activities in 2010, ICA's public sector portfolio has generated a steady revenue flow for the company.

Valuation

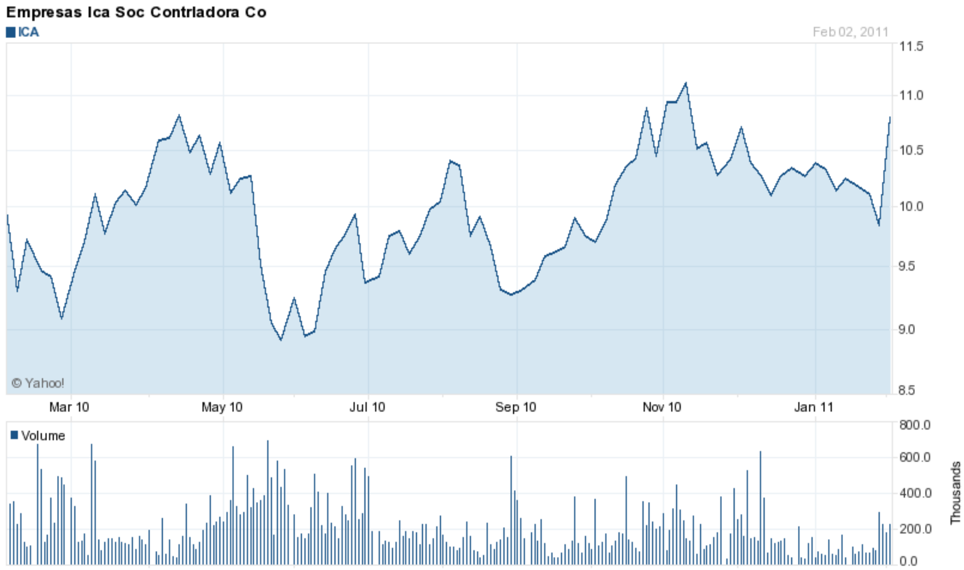
ICA is currently trading at an EV/EBITDA multiple of 10.8, but an 8x multiple was selected as it is closer to historic levels. The 8x EV/EBITDA multiple generated a price target of $15.93 when applied to the 2011 EBITDA estimate of $338M. Based on a five-year DCF analysis with a computed WACC of 10.4% and a terminal growth rate of 3%, an intrinsic value of $13.16 was obtained for ICA. A sensitivity analysis which adjusts both the WACC (10%-10.8%) and the long-term terminal growth rate (2.5%-3.5%), yields a price range of $9.05-$19.08. Considering the calculated intrinsic values, a target price of $14.25 was determined, resulting in an upside potential of 34%.

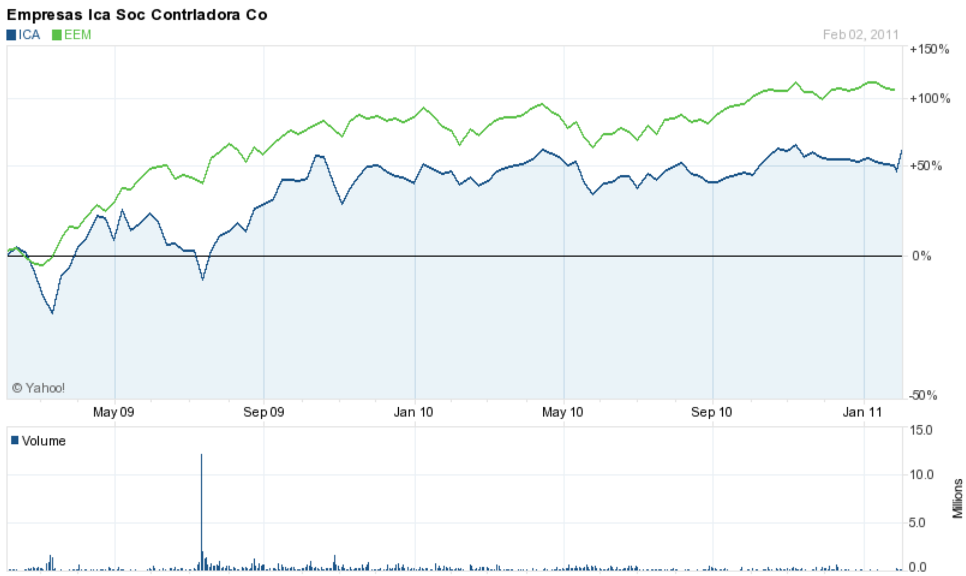
Risks

- **Mexican Market Dependence.** ICA is highly concentrated in Mexico with 92% of FY2009 revenues and 98% of construction backlog attributed to domestic projects. The Mexican economy shrunk by 6.5% in 2009 as a result of the credit crisis and remains sluggish. The lack of geographic diversification increases operating risk for ICA as the Mexican construction industry can be unpredictable and government construction spending is often variable.
- **Competitive Bidding.** ICA operates in a highly competitive infrastructure construction market in which new projects from the Mexican public-sector are awarded through a competitive bidding process. Since projects are granted through tenders to the lowest bidder, too low of a bid from ICA could weaken margins and profitability - on the other hand, bidding too high may result in the loss of a potential project.
- **Concentrated Customer Base.** In 2009, 55% of receivables were related to the Mexican federal government and public sector projects represented 84% of total backlog. Approximately 74% of 2009 revenues from the Industrial Construction segment were generated from public-sector work and together Pemex and CFE, both government-related entities, represented 40% of revenues.

Management

José Luis Guerrero Álvarez is the CEO of ICA, a position he has held since 2007. Dr. Álvarez has been with the company for 29 years and prior to becoming CEO served as Executive Vice President and CFO. He has extensive experience in the industry and holds both a master's and doctorate in engineering. Alonso Quintana Kawage is Director, Executive Vice President and CFO of ICA. Since 1994, Mr. Kawage has been with Empresas ICA in several capacities until becoming CFO in 2007. Despite increased competition, management's strategy has allowed ICA to remain the dominant construction firm in Mexico.





Ownership

% of Shares Held by All Insider and 5% Owners:	5.65%
% of Shares Held by Institutional & Mutual Fund Owners:	39.89%

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
Dimensional Fund Advisors	3,070,659	1.90
Emerging Markets Management LLC	2,665,800	1.65
Pax World Management Corp	1,181,213	0.73
Fidelity Management and Research Company	911,700	0.56
Credit Agricole Asset Management Group	854,508	0.53

Source: Bloomberg

NewStar Financial, Inc (NEWS)

February 10, 2011

Timothy O'Donnell Financial Services

NewStar Financial, Inc. is a commercial finance company that provides customized debt financing solutions to middle-market businesses and commercial real estate borrowers. The firm also manages investment funds for large institutional investors. NEWS's total portfolio consists of approximately $2.3 billion in loans and other debt products. Two major segments make up the loan portfolio: Middle Market Corporate (84.3% of loan portfolio) and Commercial Real Estate (15.7%). NEWS principally focuses on direct origination of loans, which provides NEWS with access to its customers' management, enhances due diligence, and allows for significant input into its customers' capital structure and direct negotiation of transaction pricing and terms. NewStar also manages the NewStar Credit Opportunities Fund (NCOF), which has a loan portfolio consisting of nearly $600 million in commitments. The NCOF allows NEWS to invest in loans and other debt products originated or acquired by NEWS. The corporation was founded in 2004, and is headquartered in Boston, Massachusetts.

						2009A	2010E	2011E
Price ($): (02/04/11)	10.38	Beta:	2.01			2009A	2010E	2011E
Price Target ($):	14	WACC	6.32%		Revenue (Mil)	136.57	111.37	133.64
52WK H-L ($):	4.30-11.44	L-Term Rev. Gr Rate Est:	10%		% Growth	-28.00%	-18.00%	20.00%
Market Cap (mil):	520.59M	L-Term EPS Gr Rate Est:	13%		Pretax Margin	-51.00%	10.00%	34.00%
Float (mil):	42.77M	Financial Leverage	2.91x		EPS (Cal)	(0.82)	0.12	0.56
Short Interest (%):	2.5%	ROA:	-0.59%		P/E (Cal)	NA	86.50	18.54
Avg. Daily Vol (mil):	.090M	ROE:	-2.27%		BVPS	$12	$11	$13
Dividend ($):	0.00				P/B	0.87x	0.97x	0.80x
Yield (%):	0.0%							

Recommendation

NEWS' financial condition should continue to stabilize as its provision for credit losses returns to more normal (pre-recession) levels. Since its height in Q1 2010, NEWS's provision for credit losses has been cut in half. Even with a significant reduction in the provision for credit losses, NEWS's provision remains at an elevated level of $72.8 million when compared to the pre-recession levels of approximately $25 million. With reduced credit losses, NEWS should be able to take advantage of the rebounding debt market with its added ability to obtain capital at a reasonable cost. With demand for debt issuances outpacing the new entrance of competitors, NEWS is in the unique position to capitalize on basic supply and demand conditions for credit. The past two quarters have demonstrated NEWS's true potential with its reduced levels of provision for credit losses. Taking into consideration NEWS's limited competition, its growth prospects with a stronger economy, and an attractive valuation, it is proposed that NEWS be added to the AIM Equity Fund with a price target of $14, resulting in an upside potential of 40%.

Investment Thesis

- **Reduced Competition in Debt Origination Market.** Middle-market debt financing is a highly fragmented industry with a significant amount of loan default risk. Many of the industry's customers are middle-market private companies, which creates additional liquidity risk due to the added difficultly in a private company's ability to raise capital through the equity markets. Additionally, many of NEWS's competitors do not have large market capitalizations and are highly sensitive to loan losses. NEWS has been able to weather the storm through extensive diversification in specific industries, which its bankers have high levels of experience. Many of the firm's competitors were not able to meet the challenge during the credit crunch and were dissolved. With reduced competition, NEWS is poised to take advantage of the recent debt issuance frenzy, and should have an advantage for the next few years as new competitors emerge at a slower pace than debt issuance demand increases.

- **Increased Creditworthiness as a Debtor.** On September 7, 2010, NEWS increased its corporate debt financing with an affiliate of Fortress Investment Group from $75 million to $100 million. Along with the increase in debt capacity, the note's borrowing cost was reduced from 9%-12% above Libor to a much more favorable level of 7% over Libor. Although borrowing costs remain at an elevated level, this amendment was a step in the right direction and will improve the company's net interest margins. The note amendment allows NEWS to meet liquidity needs and build growth capital. The increased facility and lower cost of funding not only provides greater flexibility for NEWS's expansion in the debt markets, but it also paints a much brighter picture for NEW's outlook as an independent creditor.
- **Favorable Timing.** NEWS is expected to announce its earnings release on February 16, 2011. Analyst average expectations are at a conservative $0.10 per share, while the DCF that was conducted below has an expectation of $0.124 EPS. It appears that most sell-side analysts have not completely bought into the idea that NEWS has turned the corner and will remain profitable. Additionally, management has recently begun a stock repurchase plan to buy back up to $10 million of NEWS' stock. Not only is this a reason for the price per share to rise in the future, but it also demonstrates management's optimism regarding the company's future valuation.

Valuation

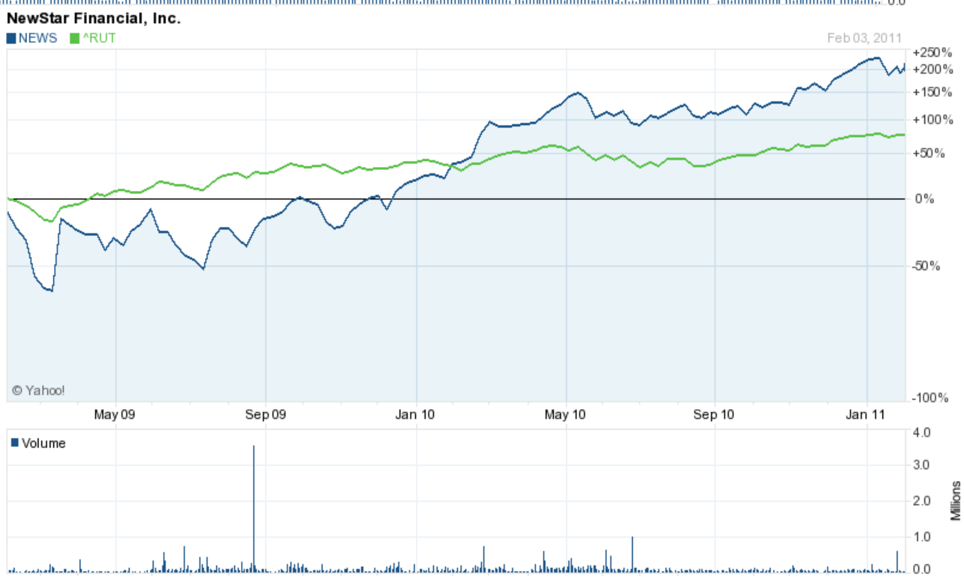
To value NEWS, a five-year DCF model and a relative valuation of NEWS's top competitors were used. NEWS's current price to book ratio of 0.97x indicates it is selling at a 35% discount to its peer average of 1.49x. Based on a five-year DCF model with a computed WACC of 6.32% and a terminal growth rate of 3%, an intrinsic value of $13.16 was obtained for NEWS. Taking into account the future growth opportunities and economic uncertainties, a price target of $14 was established. With NEWS currently trading around $10, the $14 price target would yield a 40% return. The company does not pay a dividend.

Risks

- **Increased Charge-Offs.** The provision for credit losses has been declining since its height of $134.83 million to the current level of $72.8 million. The decline has accelerated substantially during the second half of 2010. In Q2 and Q3 2010, provisions were reduced by 22.7% and 30.1% on a QoQ basis. The rapid decrease in the provision for credit losses is a result of both a decline in the loan portfolio balance and improved economic conditions. If there were to be a significant downturn in the United States economy, the provision for credit losses would once again balloon to higher levels and depress earnings drastically.
- **High Levels of Balloon and Bullet Loans.** Balloon and bullet loans currently account for approximately 82% of the outstanding balances of the loan portfolio. These loans involve a greater degree of risk than other types of debt instruments due to the method of principal repayment. Balloon loans require only small amounts of principal payments throughout the life of the loan, while bullet loans require no principal payments throughout the life of the loan. In both cases, a large portion of the principal of the loan comes due at one time. NEWS is highly dependent on its customer's ability to make this large final payment.

Management

Timothy J. Conway founded the company in 2004 and is the current CEO of NewStar Financial, Inc. From 1996 to 2002, Timothy managed Corporate Finance and Capital Markets for FleetBoston Financial Corporation. Mr. Conway has a B.A. from Fairfield University and a MBA from the University of Connecticut.



Ownership

% of Shares Held by All Insider and 5% Owners:	13%
% of Shares Held by Institutional & Mutual Fund Owners:	74%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Capital Z Partners Management, LLC	4,000,000	7.88
Swiss Re Financial Services Corporation	3,000,000	5.91
Northwestern Investment Management Company, LLC	2,523,032	4.97
Dimensional Fund Advisors LP	1,546,971	3.05
Putnam Investment Management, LLC	1,368,016	2.69

Source: Yahoo! Finance

Knology, Inc. (KNOL)
February 10, 2011

Aaron Socker Telecomm

Knology, Inc. (KNOL) is a leading provider of interactive communication and entertainment services to the southeastern and midwestern regions of the United States. Its offerings include video (43% of revenue), voice (31%), data (23%), and advanced communication services (3%). KNOL's serves both residential (593K connections) and commercial (107K connections) customers. Their offerings include over 200 channels of digital cable, local and long distance digital telephone services and high speed internet. The company provides services through its wholly owned 750-megahertz interactive broadband network connecting both residential and business entities. KNOL was founded in 1995 and is headquartered in West Point, Georgia.

				FY: Dec	2009A	2010E	2011E
Price($): (2/5/11)	14.81	Beta:	1.12				
Price Target ($):	18.4	WACC:	8.7	Revenue (Mil)	426	465	529
52 WK H-L ($):	10.40-16.06	L-Term Rev Gr Rate Est:	3%	% Growth	3.90%	9%	13.70%
Market Cap (mil):	550	L-Term EPS Gr Rate Est:	5%	Gross Margin	68.80%	69%	69%
Float (mil):	26.44	Debt/Equity:	0	Operating Margin	11%	13%	13.5%
Short Interest (%):	5.90%	ROA:	5.54%	EPS (Cal)	-0.09	0.55	1.28
Avg Daily Vol (mil):	.087M	ROE:	neg	FCF/Share	1.37	1.33	1.55
Dividend ($):	0			P/E (Cal)	n.a.	26.92x	11.57x
Yield (%):	0			EV/EBITDA	7.71x	7.05x	5.95x

Recommendation

Using its unique edge-out/fill-in penetration strategy as a small market player in the diverse communications field, KNOL is presently set up for continued customer growth (8.5% yoy increase) and into the future. Turning profitable in Q4 2009 with increasing revenue over the past five years (5 yr. CAGR of 16.75%), KNOL continues to expand its network to new and existing markets achieving more efficient economic metrics while bolstering its operating margins ('07: 4.5%, '09: 11%). As an industry leader in customer satisfaction (94% vs. a peer average of 61%), KNOL's customer base is highly bundled recording average monthly revenue on a per customer basis of $147 (10.5% yoy increase vs. peer average of $115) as households are opting for additional premium services (i.e. DVR, premium channels). The increase in product bundling is an EBIDTA driver for the company with margins improving from 21.6% in 2007 to 30.1% for 2009 - in future years a 40bps margin increase is expected. Additionally, the company completed in October 2010 a $165M (all credit, 7.1% cost) acquisition of Sunflower Broadband, a Kansas based firm with similar verticals to KNOL. The acquisition gives KNOL an expanded footprint in Kansas (at least 100,000 additional homes) where it can implement its edge-out/fill-in strategy. Having comparable business models, management expects to add $5M of EBIDTA to Sunflower's $27M EBITDA (2011 estimate) as a result of synergies. Due to its unique edge-out/fill-in strategy, customer satisfaction, and expansion potential, it is recommended that KNOL be added to the AIM Equity Fund with a price target of $18.40, an upside potential of 24%.

Investment Thesis

- **Edge-Out-Fill-In Strategy.** KNOL's "Edge-Out-Fill-In" market penetration strategy has turned into a core competency unique to its peers. Two years ago management initiated the fill-in program to enter neighborhoods that the company's network missed when running fiber optics through and whose residents were limited to a fixed line or satellite provider. Early in 2010 the edge-out program was initiated to extend the reach of the network to incorporate business customers. The fill-in projects have been very successful with the 31 projects started last year having a penetration rate of nearly 80% (with 8>100% and 1>200%). When a 75% penetration rate is reached these projects have an attractive 49% IRR (management guidance). Management states the edge-out program should result with returns in a similar range and has thus far generated 1,100 additional business customers (as of Q3'10). The customer base has additional room to grow as the strategy is applied to additional markets and leveraged through future M&A opportunities contributing to top (and bottom) line growth.

- **Capital Expenditures.** Management expects the $15 million of edge-out/fill-in capex spent in 2010 will yield roughly $6-7M in annual EBITDA over the next couple of years. Identifying $100M of these projects to be implemented in coming years with prospects similar to previous opportunities provide sufficient growth prospects in new and existing markets. With management's commitment to spend roughly $15M-20M a year in these edge-out/fill-in projects, operating margins are expected to increase by 150-250bps once target penetration rates are achieved in these projects (78.5% penetration).
- **Customer Satisfaction-** Superior customer satisfaction leads to sticky customers. According to an industry survey, KNOL's customer satisfaction rating is 94%. While its competitors do not disclose similar satisfaction criteria, according to an American Customer Satisfaction Index survey these companies scored 60% and 61% respectively. KNOL also boasts an 86% first call resolution rate, far above its competitors (roughly 63%). As a result over the past 3 yrs KNOL has grown its commercial customer base every quarter which is essential as business customers are EBITDA catalysts (160bps yoy margin increase) typically opting for premium services.

Valuation

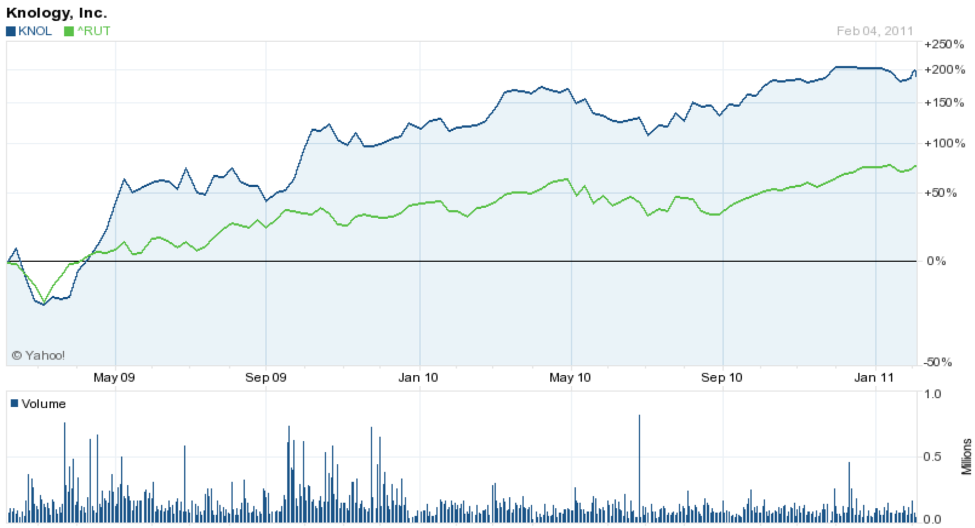
Based on a 5 year DCF analysis with a computed WACC of 8.7% and a terminal growth rate of 3.00%, an intrinsic value of $18.20 was obtained for KNOL. A sensitivity analysis that adjusts for both the long term growth rate (2%-4%) and WACC (6.7%-10.7%) generates a price range of $13.39-$20.50. Also, KNOL is currently trading at a forward P/E of 12.37x 2011 EPS of $1.28. Applying a 15x to2011 EPS estimates suggest a fair value of $19.20. Using these two approaches, a price target of $18.40 has been established. With the stock currently trading at $14.81, the $18.40 price target presents a 24% return. The firm does not pay a dividend.

Risks

- **Programming Expense Growth -** As with the entire cable industry, programming expense growth is a headwind that all cable providers must deal with. As a smaller provider compared to some of its competitors, KNOL does not have significant market share when negotiating programming fees and can end up paying more per customer compared with some of its larger competitors. However, as KNOL continues to saturate its markets with its edge-out/fill-in strategy, pricing on a per customer basis should compress to the peer average norm (approximately 10%).
- **Competition -** AT&T, CenturyTel, Qwest, and Verizon are the primary ILEC (Incumbent Local Exchange Carrier) operators in KNOL's operating markets which puts pressure on the company to retain current and future telephony customers. Also, providing data services has become a rapid growing business with increasing competition in KNOL's current markets.
- **Regulatory Oversight -** As a player in the cable industry KNOL is subject to potential increases in regulatory oversight which could include pricing restrictions and/or bundling requirements. This would affect their business model and be detrimental to KNOL's margins.

Management

Roger Johnson joined KNOL as President/CEO Officer in 1999 after being appointed as Chairman in 2008. Prior to joining KNOL, he served as President/CEO of Communication Central, a publicly traded provider of pay phone services. He began his career in the telecomm industry in 1971 with AT&T where he worked in sales, operations, and human resources. The CFO, Todd Holt joined KNOL in 1998 as corporate controller. He holds a CPA and previously practiced accounting as an audit manager with E&Y.



Ownership

% of Shares Held by All Insider and 5% Owners:	22%
% of Shares Held by Institutional & Mutual Fund Owners:	87%

Source: Yahoo!Finance

Top 5 Shareholders

Holder	Shares	% Out
Farallon Capital Management LLC.	3,562,394	9.60
T Rowe Price Associates Inc.	2,563,550	6.91
Alydar Partners LLC.	1,900,000	5.12
Cortina Asset Management LLC.	1,476,758	3.98
Brown Advisory Holding Inc.	1,462,722	3.94

Source: Yahoo!Finance

Lifetime Brands, Inc. (LCUT)
February 10, 2011

James Werner — Consumer Goods

Lifetime Brands, Inc. (NASDAQ: LCUT) is a leading designer, developer and marketer of consumer products primarily consisting of food preparation, tabletop and home décor products. LCUT's sales emphasis is presently solely focused on the U.S. market. LCUT's food preparation category products group includes kitchenware and cutlery products (52.4% of sales). The tabletop category products group includes dinnerware and flatware products (27.34%) and the home décor category products include wall décor and shelving décor (12.86%). Within these three main product categories the company has proprietary and licensing brands. Some of the top proprietary brands include Farberware, Mikasa, Pfaltzgraff, and Wallace Silversmiths – and the top licensed brands include KitchenAid and Cuisinart. LCUT has two reportable operating segments: wholesale (93.74% of sales) and direct-to-consumer (6.26%). LCUT distributes its products through a wide array of channels including major retailers such as Wal-Mart (16% of sales), warehouse clubs, supermarkets, home centers and internet retailers. Lifetime Brands, Inc. holds approximately 30% of the capital stock of Grupo Vasconia S.A.B., a Mexican manufacturer and distributor of aluminum disks, cookware and other related items. LCUT was founded in 1945 and is headquartered in Garden City, New York.

Price ($): (2/04/11)	11.99	Beta:	1.55
Price Target ($):	17.90	WACC	9.91%
52WK H-L ($):	16.1-7.1	L-Term Rev. Gr Rate Est	3%
Market Cap (mil):	144.49	L-Term EPS Gr Rate Est	3%
Float (mil):	5.99	Debt/Equity:	63.7%
Short Interest (%):	4.1%	ROA:	3.0%
Avg Daily Vol (M):	0.028	ROE:	9.5%
Dividend ($):	0.00		
Yield (%):	0.0%		

FY: Aug	**2009A**	**2010E**	**2011E**
Revenue ($Mil)	415.04	435.4	475.8
% Growth	-14.90%	5.00%	6.70%
Gross Margin	37.88%	38.50%	38.75%
Operating Margin	4.75%	8.25%	9.00%
EPS ($Cal)	0.30A	1.33E	1.67E
FCF/Share	NEG	2.13	2.75
P/E (Cal)	11.21	13.0	13.0
EV/EBITDA	6.07x	6.49	5.93

Recommendation

Lifetime Brands, Inc. (LCUT) is a North American leader in consumer products consisting of food preparation, tabletop, and home décor products. LCUT focuses on advancing innovation and bringing advanced technology into the marketplace for consumers. LCUT is the leader in market share in food preparation products (28%) - with market shares of 30% in tabletop and 20% in home décor products. According to the *Home Furnishing News Brand Survey* for 2009, three of LCUT's brands (KitchenAid, Cuisinart and Farberware) are among the most recognized brands in the "Kitchen Tool, Cutlery and Gadgets" category. This bodes extremely well for LCUT since it targets moderate to premium price points through every major level of trade. Top line growth of -14.90% from 2008 to 2009 was due to decreased U.S. consumer spending which resulted in a net loss in LCUT's retail operations. LCUT is seeing top line growth of about 5% this year and management's outlook for FY 2011 is a 6.7% increase. LCUT trades at a discount to its peers in the marketplace likely in response to a loss of market share in North America during the previous two years. LCUT's management has begun implementation of a margin expansion program targeting a 13% level – up from the current margin of 8% and under 4.7% in 2009. With the strong brand recognition and rising consumer demand, along with a favorable valuation, it is recommended that LCUT be added to the AIM Equity Fund with a target price of $17.90, which offers a potential upside of nearly 50%.

Investment Thesis

- **Market Position.** LCUT is the leader in the U.S. housewares and accessories operating space. The company continues to focuses on strengthening its business line through mergers and acquisitions. Lifetime Brands went through a large restructuring during the recession in 2008 and shifted its focus away from trying to become a retail store operator and focused on strengthening their core business. The company is entering into the private label business arena and should be able to increase EPS and net sales due to similar margins on both retail and private label in the overall marketplace. This has the potential to increase sales y/o/y by 10-15% in the food preparation business category which constitutes for 47% of LCUT's revenue.

- **Corporate Outlook.** LCUT's management has laid out a three year plan to increase its operating margin in their wholesale business to 13% from 8% in FY 2009. The 13% operating margin goal is highly achievable since this is the level of the operating margin before the recession. By closing the operations of their retail stores of Pfaltzgraff and Mikasa at the end of 2008, LCUT has brought the business back to profitability in FY 2009 (net income of $2.27M versus a net loss of -$47.8M in 20088). During that period, LCUT's top line growth only fell by 1.1%; however, in FY 2009 the top line fell by 17.5% which is attributed to decreased consumer spending.
- **Market Share and Innovation.** LCUT has anywhere from a 25-40% market share in each of its business lines. To continue to grow market share, LCUT will be focusing on innovation in new technology. The company will be focusing on the emerging arena of ceramic cutlery that has been receiving a favorable buzz by U.S. consumers and is considered to be a potential high growth market in the coming years. Ceramic cutlery represents 20% of the entire cutlery market in Europe, but is quite smaller in the United States. LCUT introduced 5,000 new or redesigned products in FY2009 and expects to introduce more than 5,500 new or redesigned products in FY2010 - with expectations of around 6,000 for new product innovations for LCUT in FY2011. The new products will allow them to reach untapped markets for consumers during a time when spending is expected to return to pre-recessionary levels.

Valuation

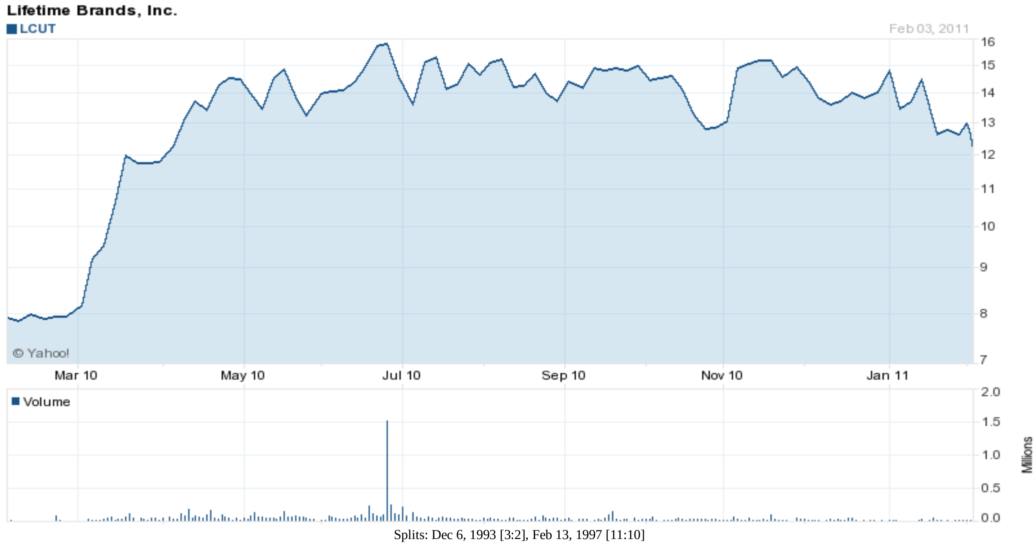
To find the intrinsic value of LCUT, a five-year DCF analysis was conducted. A computed WACC of 9.91% was used along with a terminal growth rate of 3% which yielded an intrinsic value of $17.88. A sensitivity analysis was used to account for variations in WACC (7-11%) and the terminal growth rate (2-4%) which produced a price range of $11-25. Applying a historical 12x Price-to-Earnings ratio to the 2011 EPS forecast of $1.50 yielded an intrinsic value of $18. Taking these two methods into account a $17.90 price target was established; offering about a 50% return potential. LCUT discontinued their quarterly dividend of $.0625 in Q1 2009 and has not indicated whether the dividend will be reinstated.

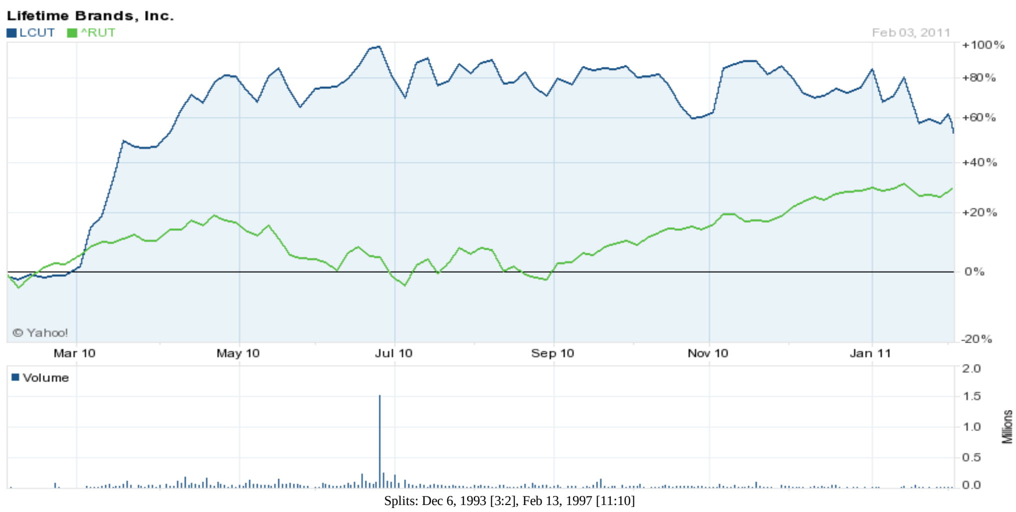
Risks

- **Foreign Sourcing** LCUT relies heavily on China in the sourcing of their products and thereby their supply chain has significant exposure to Chinese economic and political conditions. Any material changes to product costs could offset management's goal to expand margins to 13%.
- **Reliance on Major Retailer** Wal-Mart accounted for over 15% of net sales overall in 2009, 20% in 2008, and 21% in 2007; however, no other company accounts for 10% or more of LCUT's sales. Overall, the top ten customers represented 62% of sales in 2009. If one of these customers were to call for price concessions this could negatively impact LCUT's margins.
- **Commodity Inflation** LCUT also has significant exposure to commodities by being a consumer housewares and accessories company. This can also detract from margin expansion, but will not inhibit technology innovations since the company has continued this through even the recessionary times.

Management

Mr. Jeffrey Siegel is the CEO, President, Director and Chairman of the Board for Lifetime Brands, Inc. He has been in his current position since December 2000. Mr. Siegel has been a Director for Lifetime Brands, Inc. since 1967. Mr. Laurence Winoker is the Senior Vice President of Finance and CFO for Lifetime Brands, Inc. He has served in this capacity since July 2007. He previously held the same role at Macandrews & Forbes Holdings.





Ownership

% of Shares Held by All Insider and 5% Owners:	45%
% of Shares Held by Institutional & Mutual Fund Owners:	48%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Jeffrey Siegel	1,215,564	11.45
DIMENSIONAL FUND ADVISORS LP	1,005,294	8.34
Craig Phillips	776,692	6.01
BANK OF AMERICA CORPORATION	694,928	5.77
GOLDMAN CAPITAL MANAGEMENT, INC.	682,800	5.67

Source: Yahoo! Finance