



Applied Investment Management (AIM) Program

AIM Class of 2011 Equity Fund Reports Spring 2011

Date: Friday, February 11th

Location: Road Show to Wells Capital Management

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Kristin Holzhauer, Christina Starkey	Gentiva Health Services	GTIV	\$23.80	11
Mark Rutherford, Kristin Holzhauer, Christina Starkey, Luke Darkow, and David Zakutansky	QuadGraphics	QUAD	\$44.00	14

Thank you for taking the time today and participating in the AIM ‘road show’ at Wells Capital Management. These student presentations are an important element of the applied learning experience in the AIM program. The students conduct fundamental equity research and present their recommendations in written and oral format – with the goal of adding their stock to the AIM Equity Fund. Your comments and advice add considerably to their educational experience and is greatly appreciated. Today, each student will spend about 5-7 minutes presenting their formal recommendation, which is then followed by about 8-10 minutes of Q & A. Again, thank you for allowing us the opportunity to present at Wells.

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Teekay Tankers, LTD (NYSE: TNK)

February 11, 2011

David Hermann

International Energy

Teekay Tankers Ltd. (TNK) is a Bermuda-based, Marshall Islands-incorporated company that engages in the international marine transportation of crude oil. TNK was formed in December 2007 through a spin-off from its parent company Teekay Corporation (TK). TK, through its 100%-owned subsidiary Teekay Holdings Ltd., still maintains a 54% controlling stake in TNK. In addition to its controlling stake, Teekay Corp. also manages all of TNK's assets and operations. TNK's tanker fleet consists of nine Aframax oil tankers (80,000-120,000 deadweight tonnage carrying capacity, or approximately 0.8 million barrels of oil) and six Suezmax oil tankers (120,000-200,000 deadweight tonnage carrying capacity, or about 1 million barrels of oil). Six of these vessels (3 Aframax and 3 Suezmax) operate in the volatile tanker spot market through pooling arrangements managed by a subsidiary of Teekay Corporation, while nine vessels (6 Aframax and 3 Suezmax) operate under fixed-rate time-charter agreements ranging from 1-3 years. Finally, TNK employs a full payout dividend policy whereby all cash available for distribution, less reserves set aside to cover interest payments and capital expenditures primarily related to drydocking costs, is distributed to shareholders via quarterly dividends.

Price (\$) (2/7/11):	11.34	Beta:	1.28		FY: December	2009A	2010E	2011E
Price Target (\$):	\$ 12.00	WACC	9.38%		Revenue (\$Mil)	109.40	116.1	126.6
52WK H-L (\$):	8.91 - 13.96	LT Rev. Gr Rate Est (3-5 yr):	N/A		% Growth	-24.13%	6.1%	9.1%
Market Cap (mil):	\$492M	LT EPS Gr Rate Est (3-5 yr):	N/A		Gross Margin	N/A	N/A	N/A
Float (mil):	28.9M	Debt/Equity:	57.9%		Operating Margin	36.38%	27.29%	27.22%
Short Interest (%):	2.2%	ROA:	2.0%		EPS (\$Cal)	\$0.96	\$0.59	\$0.52
Avg. Vol (10 day)	1.2M	ROE:	2.9%		FCF/Share	2.43	\$1.23	1.50
Dividend (2011E):	\$ 71.88				P/E (Cal)	11.82	19.16	21.87
Div. Yield (2011E):	10.6%				EV/EBITDA	13.57	11.85	10.52

Recommendation

As a result of its relationship with parent company TK, the world's largest operator of mid-sized tankers, TNK profits from numerous operational and strategic advantages that a tanker company with its relatively small scale would not otherwise benefit from. These advantages include superior access to low-cost financing, a dropdown method of acquiring new tankers from the parent company to support future growth, and economies of scale from operating one-third of its fleet in spot-rate pools managed by Teekay Corp. In addition, the parent company's global customer network significantly enhances TNK's ability to lock-up fixed-rate charters and avoid the lost revenue opportunity and costs that would result from having to maintain idle tankers after charters expire. What's more, the company's strategic balance between fixed-rate time-charters and spot-rate market exposure allows TNK to partially protect and provide visibility on its dividend while also positioning the company to benefit from potential increases in tanker spot-rates. In the current environment with low daily spot rates owing to a glut of tankers entering the global fleet in late 2010 and 2011, this model will allow TNK to maintain a floor on its dividend despite the challenging rate environment. For 2011, approximately 50% of expected total operating days are under fixed-rate time-charter contracts at an average rate of \$25K per day, compared to current average Aframax and Suezmax daily spot rates of \$13K and \$9K, respectively. Finally, due to TNK's strategic growth opportunities, strong business model, and attractive dividend yield, it is recommended that TNK be added to the International AIM Equity Fund with a price target of \$12, which along with a current 2011 forward dividend yield of 10.6%, represents a 16% return potential off of Monday's \$11.34 closing price.

Investment Thesis

- **Built-In Fleet Growth Strategy.** Since its IPO in 2007, TNK has acquired a total of five tankers from parent Teekay Corp. through vessel dropdowns. TNK has stated its preference for growing its fleet via this method, and the parent company currently has 20 tankers that TNK has identified as suitable dropdown candidates. With about \$270m in remaining revolver capacity, TNK is well-positioned financially to take advantage of these dropdown opportunities when they arise. Management pegs Aframax and Suezmax tanker values in the upper \$50M's and \$60M's, respectively, depending on the vessel's age. Based-off of TNK's average current fixed-rate time-charters, one additional vessel could provide incremental annual revenue close to \$10M, which assuming no change in margins implies about an additional \$5M of distributable cash flow.
- **Economic Growth Driving Higher Oil Demand.** In its January report, the IEA increased 2010 and 2011 global oil product demand estimates to 87.7 mb/d and 89.1 mb/d for 2010 and 2011, which represents yoy growth of 3.2% and 1.6%, respectively. The oil production needed to meet this growing demand should support higher tanker demand, which will help to counteract the downward pressure on rates from increasing vessel supply in 2011. Representative of the healthy demand outlook—as well as political instability in the Middle East, slight USD devaluation, and market speculation—WTI oil prices have risen 14% over the past year to \$88/barrel, while Brent Crude is up 30% to \$99/barrel. Out of concern that these higher prices could choke-off global economic growth, the IEA has applied moderate pressure on OPEC to increase production from its spare capacity (currently 5.5 mb/d) to contain rising oil prices. Although OPEC has been resistant to doing so, any increase in the cartel's production output would likely serve as an immediate catalyst for tanker spot rates, TNK, and the tanker group as a whole.
- **Sustainable dividend.** TNK's balance between fixed-rate charters and spot rate exposure provides TNK with partial insulation from tanker spot rate volatility. This allows the company to provide a floor on its dividend even in the face of a difficult spot-rate environment like we're now seeing. The company's fixed-rate revenue coverage varies from 40-60% depending on management's spot-rate outlook.

Valuation

A forward dividend yield analysis was performed in determining a price target. Since mid-2010, TNK has traded at a level representing a forward dividend yield ranging from 10-13%. Dividing an estimated forward dividend/share of \$1.20 by a 10% target dividend yield generates a \$12 price target, representing 6% upside. With a share price upside of 6% coupled with a current 10.6% 2011 dividend yield, TNK represents a total return potential of 16%.

Risks

- **Global Tanker Fleet Growth:** Despite progressively improving global economic growth resulting in a strong crude oil demand, tanker spot rates have dropped considerably in recent months as overall Aframax and Suezmax fleet growth is expected to rise 5% and 10%, respectively, in 2011. Global Aframax and Suezmax fleets currently stand at 753 and 407 vessels, respectively. Thus the nominal increase in tankers is estimated at around 35 and 40 vessels.
- **Macroeconomic Weakness.** In tandem with the expected global tanker fleet growth in 2011, weakened crude oil demand would have a severely negative impact on already low tanker spot rates. The likely drop in tanker spot-rates could lead to lower revenue derived from spot-market pools and may also force TNK to re-charter at lower than expected rates their three vessels whose fixed-rate time-charters are set to expire in late 2011.

Management

TNK is currently in a transitional phase as current CEO Bjorn Moller is set to cede his position to Bruce Chan, 38, in spring 2011. Mr. Moller has served as the TNK's CEO since it was formed in 2007 and will remain on the company's Board of Directors. In addition to his roll at TNK, Moller has also served as President and CEO of Teekay Corp. since 1998. CEO-elect Bruce Chan currently serves as President of Teekay Tanker Services, the unit of parent company Teekay Corp. that manages the crude oil and product

tanker fleets within the Teekay Group, including the pools in which TNK's spot tankers operate. CFO Vincent Lok has served in his present capacity since TNK spun-off in 2007. Like many of TNK's executives who hold dual roles with TNK and TK, Lok also holds the CFO position with Teekay Corp.

Teekay Tankers Ltd Class A Comm



Teekay Tankers Ltd Class A Comm



Ownership

% of Shares Held by All Insider and 5% Owners:	N/A
% of Shares Held by Institutional & Mutual Fund Owners:	N/A

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Kayne Anderson Capital Advisors, L.P.	3,551,329	11.1
Bank of America Corp.	1,386,887	4.33
BlackRock Fund Advisors	631,257	1.97
Morgan Stanley	482,747	1.51
State Street Corporation	457,097	1.43

Source: Yahoo! Finance

Texas Roadhouse (TXRH)

February 11, 2011

Michael Muratore

Consumer Services

Texas Roadhouse, Inc. (TXRH), together with its subsidiaries, operates a full-service, casual dining restaurant chain in the United States. TXRH offers its patrons an assortment of steaks, ribs, fish, seafood, chicken, pork chops, vegetable plates, hamburgers, salads, and sandwich offerings. The company also provides supervisory and administrative services for other licensed and franchised restaurants. TXRH operates 338 Texas Roadhouse restaurants comprised of 267 wholly owned restaurants and 71 franchised and licensed restaurants in 46 states. TXRH was founded in 1993 and is headquartered in Louisville, KY.

Price (\$)	17.37	Beta:	0.994	FY: Dec	2009A	2010E	2011E
Price Target (\$):	21.50	WACC:	8.95%	Rev. (Mil)	942	1,084	1,279
52 WK H-L (\$):	11.6-18.5	5yr. Rev. Gr. Rate:	20%	% Growth	7%	15%	18%
Market Cap (mil):	1,270	5yr. EPS Gr. Rate:	25%	Op Margin	8.05%	8.30%	8.60%
Float (mil):	58	Debt/Equity:	0.13	Net Margin	5.04%	5.20%	5.50%
Short Interest %:	13%	ROA:	8.65%	EPS (\$)	0.67	0.82	0.99
Avg. Daily Vol (mil):	0.746	ROE:	12.84%	FCF/Share (\$)	0.58	0.87	0.78
Dividend (\$):	0.00			P/E (Cal)	22	21	19

Recommendation

Texas Roadhouse has been offering consumers a strong value option in the casual dining space, which provided the restaurant chain a solid defensive during the weak macroeconomic environment. As consumers regain confidence and increase their desire to spend, TXRH should be able to capture market share from its weakened rivals in the casual dining steakhouse space. Additionally, management is confident they will be able to raise menu prices in 2011 by about 2%, giving TXRH additional earnings power and some protection against higher food prices resulting from possible commodity inflation. In the coming years, management will place a strong focus on unit growth, which will be a critical driver for top-line growth. Annual revenue growth has averaged 20% since 2005, and same stores sales growth has averaged 2.5% annually since 2002. TXRH has emerged as one of the top chains in the casual steakhouse segment with impressive key growth metrics in market share and Average Unit Volume (AUV) that significantly outpace their primary competitors, Outback and LongHorn. Furthermore, TXRH has some unique characteristics compared to other national casual dining chains, such as their incentive-driven manager compensation program and a dinner-only focus that will continue to foster margin expansion. TXRH has strong operating and profit margins of 8.05% and 5.04%, respectively, relative to its Russell 2000 casual dining peers which average 7.28% and 3.25%. Management's effectiveness can be seen in the ttm ROA of 8.65% and ROE of 12.84%, both of which are stronger than most of their peers (average ROA of 5.76% and ROE of 11.17% in 2009). Because of these reasons and with a favorable valuation, it is recommended that TXRH be added to the AIM Equity Fund with a target price of \$21.50, offering a potential upside of 25%.

Investment Thesis

- **Strong Growth in Units and Comparable Sales.** Management expects to ramp up unit development in 2011 by opening 24 units (7% increase) in the coming year and 31 (9% increase) in 2012 - with more aggressive expansion possible as the economic recovery continues. TXRH's strong operating cash flow coupled with low leverage makes this expansion a realistic goal. With only 15 restaurants west of the Rockies, TXRH is far from being saturated on the national level. Analysts estimate that while there are about 340 restaurants today, expansion to over 900 restaurants in the U.S. and Canada is realistic over the long-term. Same store sales growth has been solid at 2.5% annually since 2002, and long-term comp growth is expected to continue to be in the 2-3% range. These same store sales numbers, along with their average revenue growth rate

of 20%, are reasonable expectations as TXRH continues to be committed to expanding the Texas Roadhouse brand.

- **Gaining Market Share in the Steakhouse Segment.** TXRH competes in the mid-scale casual steak restaurant segment. Between 2003 and 2010, TXRH gained 424 bps of market share in this space, outpacing all competitors. TXRH also improved AUV by 23.2% during the same period, which was the best performance in the segment. Overbuilding in the steakhouse segment in the mid-2000s by competitors led to industry turmoil, which has included consolidations, unit reductions (9% average decrease among the top 12 chains), and bankruptcies of national brands such as Ponderosa, Black Angus, and Charlie Brown's. TXRH, Outback (private) and LongHorn (Darden) have emerged from the consolidations as the clear market leaders with economies of scale advantages along with nationally recognized brand names and differentiated concepts that will allow them to continue strong growth as the economy recovers. TXRH has outperformed LongHorn and Outback in AUV (Outback -6.5%, LongHorn 7.9%) and market share growth (Outback 92bps, LongHorn 213 bps) making TXRH an attractive brand as it continues to expand.
- **Favorable Restaurant Industry Dynamics and Improving Macro Environment.** The National Restaurant Association is forecasting a 3.6% increase in restaurant sales for 2011, with revenues totaling \$604 billion, an all-time record high. Full service restaurants are estimated to increase sales \$194 billion, a 3.1% increase. With an average ticket of \$14.64, TXRH is an appealing mid-priced dinner option for consumers that are regaining their desire to spend. Recent positive consumer spending numbers, coupled with the decrease in payroll taxes bode well for restaurant and other consumer discretionary demand in 2011.

Valuation

To find the intrinsic value of TXRH, a DCF model and a P/E multiples analysis were conducted and given equal weights. Revenue growth rates were projected out initially using management guidelines for 2011 at 15%, ramping up towards the 5 year average of about 20% in years 2013 and beyond, taking into account the firm's expansion plans. The terminal growth rate used was 3%. TXRH is currently trading at 21x 2010 expected EPS, and an 18x multiple was applied to the 2012 EPS estimate to determine a target price of \$21.50. With an equal weight given to both the DCF and P/E multiples analysis, an intrinsic value of \$21.70 was obtained - a price target of \$21.50. TXRH does not currently pay a dividend.

Risks

- **Higher Than Anticipated Increases in Food Prices.** Management seems confident that a small, single digit menu price increase will be enough to offset any rises in food prices, and management's pricing policies have locked in 2011 prices for 55% of total food requirements, including 80% of proteins. However, the effect of an inflationary environment on food prices continues to be a risk to TXRH.
- **15% of Total Units are in Texas.** Because of the concentration of TXRH units in Texas, the company is unusually subject to regional economic and weather risks in the state. While management is looking to expand to all parts of the country, particularly on the West Coast, the Texas concentration is still a risk, until units become more geographically diversified.

Management

W. Kent Taylor is the founder of TXRH and became chairman of the board in 2004 after serving as Chief Executive Officer. He is also the largest shareholder, putting his interests well in line with those of shareholders, owning approximately 11% of shares outstanding. The current Chief Executive Officer, G. J. Hart has held the position since 2004, and has over 25 years experience in the restaurant industry. Scott Colosi is the Chief Financial Officer, and has held the position since 2002. With over 20 years experience in the restaurant industry, Mr. Colosi was most recently employed in corporate finance for Yum! Brands.



Ownership

% of Shares Held by All Insider and 5% Owners:	17%
% of Shares Held by Institutional & Mutual Fund Owners:	82%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Mr. Wayne Kent Taylor	8,100,000	11.29
Capital Research Global Investor	4,672,200	6.51
Jennison Associates	3,623,073	5.05
Ameriprise Financial	2,926,750	4.08
Vanguard Group	2,449,609	3.41

Source: Bloomberg

Sina Corporation (Nasdaq: SINA)

February 11, 2011

April Qi

International Media

Founded in 1997, SINA is a leading online media company and MVAS (Mobile Value Added Services) provider in China and the global Chinese communities. SINA offers targeted content on its regional specific websites and operates in five segments, including SINA.com (online news and content), SINA Mobile, SINA Community (Web 2.0-based services and games), SINA.net (search and enterprise services) and SINA E-Commerce. The company generates 63% of revenues from advertising, 34% from MVAS and the remainder from other non-advertising services. The firm's advertising product offerings include banner campaigns, text links and button link advertisements. SINA currently ranks the No.3 most visited website in China and No.14 in the world based on the number of unique visitors. SINA is headquartered in Shanghai, China.

Price (\$): (02/04/11)	\$90.70	Beta	1.25		FY Dec	2009A	2010E	2011E
Price Target (\$)	\$125	WACC	12.12%		Revenue (mil)	359	445	559
52WK H-L (\$)	\$32.00-91.50	3-5 Yr Rev.Gr.Rate Est.	25.0%		% Growth	-3%	24%	26%
Market Cap	5.56B	3-5 Yr EPS.Gr.Rate Est.	37.0%		Gross Margin	56%	62%	63%
Float (mil)	61.11	D/E	0.07		Operating Margin	11%	17%	20%
Short Interest (%)	11.70%	ROA	36.50%		EPS (Cal)	1.46	2.21	3.09
Avg. Daily Vol (mil)	2.10	ROE	46.35%		FCF/Share	0.15	0.25	0.44
Dividend (\$)	N/A				P/E (Cal)	69x	50x	37x
Yield (%)	N/A				EV/EBITDA	48x	33x	24x

Recommendation

SINA operates in an oligopoly in China with a market share of 26% in the portal website business. The company has generated the highest operating margin (17%) among its peers and a 5 year earnings growth CAGR of 44%. In Q3 2010, SINA achieved robust y/o/y revenue growth of 50% and earnings' growth of 87%. As one of the first and largest portal service providers, SINA enjoys both strong economies of scale and an economic moat of solid brand recognition. Since 2009, SINA further distinguished itself by introducing a micro-blogging site and re-establishing itself as a vital player in multimedia and as the 'go to' site for news, networking and games. Meanwhile, SINA has been a beneficiary of the strong media advertising trend that has achieved a 55% y/o/y growth rate in China. These factors contribute to SINA's high pricing power - it expects to increase advertising prices in the 10%-20% range. With the sizable community of 230 million registered users, SINA is poised to take advantage of its multimedia offerings and continue to grow sales while improving its profitability. SINA has abundant cash of \$857 million with no long-term debt. With a valuation target price of \$125, offering a more than 35% upside, it is recommended that SINA be added to the AIM International Equity Fund.

Investment Thesis

- **Strong Micro-Blogging and Media Advertising Trends.** In less than one year, 14% of the Internet users in China are projected to have used a mini-blogging service. SINA is the leader in the early adoption of this trend and dominates this segment with over 87% of the Chinese market share. As one of world's top two micro-blogging service providers, SINA currently covers over 70 million users. The number of micro-blog users in China has increased y/o/y by 837% and is projected to grow from nearly 80 million to 145 million by the end of 2011. SINA's micro-blogs have become a major source for news and social communication – and has the advantages of the presence of numerous

registered celebrities and an unrivaled service experience. The growing popularity of micro-blogging and a strong existing customer base will continue to drive traffic to the company's main website and hence increase overall advertising sales for SINA.

- **Superior Brand Name.** SINA operates in an oligopoly-like market of Chinese Internet portal service providers and together with the other three players control nearly 90% of the market. With a positive image with the 420 million Chinese Internet users, SINA should be able to lever its strong brand into new product offerings and continue to achieve high revenue growth. Among its major competitors, SINA distinguishes itself by offering the most comprehensive information and news coverage, user-friendly functions, and reliable safety features. The company has also been a pioneer in introducing third-party software on its micro-blog site and has formed exclusive web partnership with the NBA and MSN China. These advantages will continue to drive SINA's revenue and allow for margin expansion.

Valuation:

Using a 5-year DCF model with a computed WACC of 12.12% and a medium term growth rate of 6%, an intrinsic value of \$123 per share was determined for SINA. The DCF model grew revenues in the near term at a constant 25% annual rate. Applying a peer average of 4.20x P/BV on an estimated 2010 book value per share of \$30.71, produced a relative value of \$128. Taking both of these valuation methods into account, a rather conservative price target of \$125 was established, offering a more than 35% upside above current price of \$91. The company currently pays no dividend.

Risks:

- **Competitive Market.** SINA faces increasing competition in its various product offerings including publicly traded companies as Baidu, Tencent, and Sohu in the portal and micro-blogging space. The intensified competition will lead to SINA continuing to work hard to innovate and demonstrate leadership position in order to continue to add to its customer base.
- **Market Trend and Technology.** With rapidly changing trends and new emerging technology in the online media services space, SINA will be required to constantly innovate and accurately anticipate changing Internet users' tastes. Failure to respond to those changes in a timely manner could result in lost of market share and less than expected financial performance.

Management

Mr. Charles Chao has served as the President and CEO of SINA since 2006. Mr. Chao joined SINA as Vice President of Finance in September 1999 and has had strong background in public accounting, media and consulting. Mr. Chao currently serves as the co-chairman of China Real Estate Information Corporation (Nasdaq: CRIC) and a director of Focus Media (Nasdaq: FMCN). Herman Yu serves as the company's CFO. Prior to joining SINA, Mr. Yu worked at Adobe Systems, as the Corporate Marketing Controller and Chief Auditor.



Source: Yahoo! Finance

Ownership

% of shares held by insiders and owners	9.00%
% of shares held by institutions and funds	91.00%

Major Shareholders

Holder	Shares	% Outstanding
T. Rowe Price	6,062,423	10.80%
Fil LTD	5,485,223	9.77%
Orbis Holdings LTD	3,785,788	6.75%
Baile Gifford and Co.	3,129,300	5.58%
Wells Fargo and Co.	2,715,849	4.84%

Gentiva Health Services, Inc.

February 11, 2011

Kristin Holzhauser
Christina Starkey

Domestic Healthcare

Gentiva Health Services (GTIV) is the largest home healthcare services company in the United States, serving 500,000 customers through more than 400 company-operated locations and third-party providers. GTIV's agencies are Medicare-certified, offering direct home nursing and rehabilitation therapies through its Home Health segment (55% FY09 net revenues), and further, serves terminally ill patients through its Hospice segment (45% FY09 net revenues). GTIV has six mobile, specialty units: Orthopedics, Safe Strides, Cardiopulmonary, Neurorehabilitation, Senior Health, and its hallmark Rehab Without Walls. The acquisition of hospice giant Odyssey HealthCare in August 2010, is expected to bring FY11 revenues to from just over \$1.0B to \$1.8B annually. The company's direct competitors are Amedisys, LHC Group, and Almost Family. GTIV is headquartered in Atlanta, GA.

Price (\$): (02/6/2011)	23.42	Beta:	1.23	FY: Dec	2009	2010E	2011E
Price Target (\$):	33.00	WACC	10.00%	Revenue (Bil)	1.07	1.09	1.15
52WK H-L (\$):	18.9-30.8	L-Term Rev. Gr Rate Est:	6.30%	% Growth	-11.38%	1.90%	5.00%
Market Cap (mil\$):	699.67	L-Term EPS Gr Rate Est:	5.02%	Gross Margin	51.97%	51.00%	51.00%
Float (mil):	26.58	Debt/Equity:	174.71%	Operating Margin	5.14%	4.45%	4.47%
Short Interest (%):	5.45%	ROA:	5.95%	EPS (Cal)	\$2.01	\$1.91	\$2.87
Avg. Daily Vol (thou):	217.5	ROE:	9.95%	FCF/Share	\$2.21	\$1.33	\$1.99
Dividend (\$):	0.00			P/E (Cal)	15.8x	12.3x	9.2x
Yield (%):	0.00%			EV/EBITDA	10.1x	9.5x	8.7x

Recommendation

Medicare enrollment is expected to increase from 39.6M Americans in 2000 to 76.8M by 2030, with national home health expenditures rising 89% by 2017. GTIV is widely regarded as the home health and hospice leader because of its range and scope of nationwide services, and has posted an impressive 9.0% CAGR over the past four years compared to the industry's 4.0% patient growth. Ongoing regulatory and reimbursement scrutiny continues to pressure the industry, with a 4.89% Medicare rate cut estimated for the home health sector. With only a small segment of the market served by public companies, GTIV is positioned well for multiple expansion in 2011 due to its greater capability to drive volumes and adapt to the reimbursement changes. The company acquired hospice provider Odyssey HealthCare (ODSY) for \$1.1B in 3Q10 and has since indicated that debt pay down is the top cash flow priority. Management has already paid down \$50M of Odyssey-related debt since the deal closed in August, and intends to reduce debt levels by \$20M per quarter in FY11. Despite the uncertainty surrounding Health Care Reform and the adjustment of reimbursement rates, GTIV should be able to maintain solid gross and operating margins of 52.0% and 5.1%, respectively. We recommend adding GTIV to the AIM Domestic Equity portfolio.

Investment Thesis

- Odyssey Acquisition.** In August, 2010, GTIV acquired Odyssey HealthCare for \$1.1B in cash. ODSY was one of the largest providers of hospice care in the United States, and has shifted GTIV's revenue risk profile from 93% home health and 7% hospice to 55% and 45%, respectively. The acquisition is expected to increase revenue by \$800M to \$1.8B and provide \$25M corporate synergies through back-office consolidation and sales-force restructuring. As reimbursement cuts in the home health sector persist (-4.89%E), an increase in hospice rates (+1.82%E) coupled with GTIV's new expanded hospice market share will resuscitate operating performance and drive 6-8% top-line growth in FY11.
- Industry Trends.** The geriatric population is increasing at a rate 3 times that of the under-65 population. As a result, the \$70B home healthcare market is exhibiting strong consistent

historical growth with a 10.9% five-year CAGR. The threat of lower reimbursement revenues and increased scrutiny by the SEC has prompted many smaller players to sell their agencies, bringing the industry into a state of consolidation. GTIV has been able to cash in on the cost-advantage of home health for its customers: costs for a hospital day are estimated at more than \$3,800, while the average homecare visit is just over \$100.

- **Business Model.** GTIV has spent a majority of the past two years shedding non-core assets to become a pure-play home health and hospice business. As a result, GTIV is gaining operating leverage as its business mix becomes more specialized, offsetting the impact of rate reduction trends. In general, home healthcare agencies are difficult for referral sources to differentiate from one to another; GTIV has taken its specialty programs and branded them with names including “Safe Strides” and “Rehab without Walls,” making it easier for the sales force to communicate GTIV’s offerings. Since 2000, GTIC has introduced over 400 specialty programs, accounting for over 40% of revenue.

Valuation

Applying a conservative historical P/E average of 14x to our 2011 EPS estimate of \$2.87 yields a \$45.35 price target. Based on a 5-year DCF analysis with a computed WACC of 10.00% and a terminal growth rate of 3%, an intrinsic value of \$31.30 was obtained for GTIV. A sensitivity analysis that adjusts both the perpetuity growth rate (2-4%) and the WACC (8-12%) generates a price range of \$23.12-52.28. We set our price target at a conservative \$33. With the stock currently trading around \$23.42, the \$33 price target would yield a 40.91% return.

Risks

- **Government Reimbursement Pressure.** GTIV derives over 80% of total net revenues from Medicare, Medicaid, and local government programs. The Patient Protection and Affordable Care Act, part of Health Care Reform, represents a \$39.5B reduction in Medicare home health spending over the next eight years, and a decrease in reimbursements of 4.89% that has been postponed for review until 2012. Additionally, the payments made to GTIV by Medicare are subject to timing regulation and cap amounts. The progression of Health Care Reform and implementation of these measures will have adverse effects on GTIV’s profitability and liquidity.
- **Demand for Labor.** According to the Bureau of Labor and Statistics, home healthcare services are projected to be the fourth fastest growing industry employers through 2018. This demand for staff will increase leverage of nurses and physical therapists to command higher wages and benefits, which will directly pressure gross margins for all home healthcare agencies.

Management

Anthony Strange is President and CEO of GTIV, and is a director on the company’s board. Holding a bachelor’s degree from the University of South Carolina, Mr. Strange joined GTIV in 2006 after 19 years of management experience in the healthcare industry. He is the largest individual shareholder. Ronald Malone has been Chairman of the Board since 2002 and was CEO from 2002-2008. Together, Mr. Strange and Mr. Malone have led five acquisitions and driven a 56.7% increase in GTIV’s share price.



Ownership

% of Shares Held by All Insider and 5% Owners:	6%
% of Shares Held by Institutional & Mutual Fund Owners:	88%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Lord Abbett & Co.	1,971,432	6.60
Wells Fargo & Co.	1,792,902	6.00
The Vanguard Group	1,725,008	5.77
Opus Capital Group, LLC	1,600,263	5.36
Dimensional Fund Advisors LP	1,567,691	5.25

Source: Yahoo! Finance

Quad/Graphics

CFA Global Investment Research Challenge 2011

Marquette University Team

Luke Darkow
Kristin Holzhauser
Mark Rutherford
Christina Starkey
David Zakutansky

GLOBAL I·R·C

Unique Opportunity for Students Worldwide

The CFA Institute Global Investment Research Challenge offers students the unique opportunity to learn from leading industry experts and compete with peers from the world's top finance programs. This annual educational initiative promotes best practices in equity research among the next generation of analysts through hands-on mentoring and intensive training in company analysis and presentation skills.

The challenge gathers students, investment industry professionals, publicly traded companies and corporate sponsors together locally, regionally, and globally for a real world competition.

Participation in the challenge promotes best practices in equity research and company analysis, as student's research, analyze, and report on a company as if they are practicing analysts.

Additionally, all participants are introduced to and held to the standard of the CFA Institute Code of Ethics and Standards of Professional Conduct.

How the Challenge Works

Local CFA societies host and launch an Investment Research Challenge in conjunction with the participating universities. The universities assemble teams of 3-5 business and finance students who work directly with a company in researching and preparing a company analysis.

The team's final presentations are locally evaluated by high-profile panels of heads of research, portfolio managers, and chief investment officers from the world's top firms. The local champions advance to regional competitions in the Americas, Asia, and Europe and then to the global finale.

Challenge Components

Analysis of a Public Company

Teams research a publicly traded company. Company management presents to the teams and participates in a Q&A session.

Mentoring by a Professional Research Analyst

Each team works with an investment professional, who mentors the team on research process and reviews and critiques its report.

Writing a Research Report

Each team produces an initiation of coverage report on its chosen company. The report is reviewed and scored by a group of judges.

Presentation of Research to a High-Profile Panel of Experts

Teams present their research to a panel of experts from top financial institutions. The team with the highest combined report and presentation score is the winner.

Advancement to the CFA Institute Global Challenge

The winners of local competitions advance to compete against teams within their geographic region, culminating in a global finale competition.