Applied Investment Management (AIM) Program

AIM Class of 2011 Equity Fund Reports

Fall 2010 Chicago "Road Show"

Date: **November 12, 2010**
Location: **CCS Learning Center, 155 N Wacker Dr, Ste 1790**
Time: **Session I: 11:00 – 12:00 PM**
Lunch Break: 12:00 – 12:15 PM
Session II: 12:15 – 1:15 PM

Student Presenter	Company Name	Ticker	Price	Page No.
Peter Stucki	SolarWinds Inc.	SWI	$18.98	2
David Hermanny	Banco Santander (Brasil)	BSBR	$15.30	5
Caitlin Johnson	Covidien Ltd.	COV	$41.73	8
James Werner	G-III Apparel Group Ltd.	GIII	$27.98	11
Ben Hariri	Helix Energy Solutions Group	HLX	$13.67	14
Tim O'Donnell	Affiliated Managers Group	AMG	$91.55	17
Mark Rutherford	Shuffle Master	SHFL	$9.65	20
Ethan Matter	SAP	SAP	$52.74	23

Thank you for taking the time today and participating in the AIM 'road show' in Chicago. 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 in Chicago and a special thank you to Brian Liedlich Marquette University Managing Director, Regional Development – Midwest, and his team for hosting us today.

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SolarWinds, Inc (SWI)
November 11, 2010

Peter Stucki Software

SolarWinds, Inc. (NYSE:SWI) is a leading provider of Information Technology (IT) enterprise solutions to large businesses (500-10,000 employees), small-mid size businesses (0-500 employees), and state, local and federal government agencies. SWI's flagship product, Orion Network Performance Management (NPM), allows customers to quickly detect, diagnose, and resolve performance issues within their working network anywhere in the world. Furthermore, NPM allows the IT professional to quickly solve a problem relating to certain networks before employees even realize the network is down. SWI currently offers four tiers of tools: Free Tools, Tools for Engineers, Entry Level Monitoring, and Enterprise-Class Network and IT Management Products. SWI's customer base has grown from 28,000 in June of 2006 to over 93,000 clients worldwide (80% U.S. and 20% International) as of December 2009. It was founded in 1999 and is headquartered in Austin, Texas.

Price ($) (8/27/10)	18.98	Beta:	1.00
Price Target ($):	25.00	WACC	10.9%
52WK Range ($):	12.10 - 24.95	L-Term Rev. Gr Rate Est:	20.0%
Market Cap:	1326.18M	L-Term EPS Gr Rate Est:	25.0%
Float	47.25M	Debt/Equity	0.0%
Short Interest (%):	11.3%	ROA:	18.6%
Avg. Daily Vol:	271,845	ROE:	34.4%
Dividend ($):	N/A		
Yield (%):	N/A		

FY: Dec	2009A	2010E	2011E
Revenue (Mil)	116,446	151,380	196,794
% Growth	25.03%	30.00%	30.00%
Gross Margin	95.83%	96.20%	96.20%
Operating Margin	37.61%	50.60%	51.10%
EPS (Cal)	$0.58A	$0.78E	$1.01E
FCF/Share	1.86	1.08	1.39
P/E (Cal)	29.8	23.59	20.42
EV/EBITDA	24.6x	14.2x	12.4x

Recommendation

- SWI provides network management tools to IT professionals in order to provide better control over their network. Revenue is derived from new licenses (53.6%) and maintenance (46.4%). While license growth has slowed (54% in 2009 vs. 62% in 2008), maintenance has proven strong with continued growth (46% in 2009 vs. 38% in 2008). This is due to their unique way of using list pricing, which is more attractive than the usual way of negotiating, and promotes continued high customer retention. Although SWI is a low cost provider, revenue growth YTD is at levels of 27.2% versus its peers, such as IBM, HP, CA, and EMC, which average 18.9%. SWI's operating margins were 37.6% while the peers only generated 21.7%. Despite the fact that SWI has had a rocky 1Q10 and 2Q10 with license growth coming in below estimates (17.3% vs. 18.6% est.) and a drop in government licenses by 43.6%, due to a decrease in large projects coming from the Department of Defense, SWI now has limited future downside due to their current position and above average growth and margins relative to their peers. With a price target of $25, a 34% potential return, it is recommended that SWI be added to the AIM Equity Fund.

Investment Thesis

- **Cross-Selling of Products.** SWI's current strategy is to sell their flagship product, NPM, and follow the sale with module add-ons. These add-ons further allow the customer to dig deeper in managing their network. For example, their storage profiler add-on enables the customer to see what servers are reaching full capacity and which users are using the most space in real time. This strategy has proven well for SWI with an average transaction cost of $7,700 (up 22% y/y) as of December 2009. In hopes of license growth, SWI's R&D department is currently working to de-link a few of their main products. De-linking a product means to break it apart into separate stand-alone products which, although offered separately, can work seamlessly together as one. This will allow for lower entry costs and further enabling SWI the ability to get a foot in the door and begin cross selling.

- **Low Cost Provider.** Although SWI competes with top names like BMC, CA, IBM, and HP, these systems are usually very costly (costing hundreds of thousands of dollars compared to SWI's $30,000 range) and are overkill for small businesses. SWI fills the gap between these large, expensive, and complicated systems by providing a smaller, easy-to-use, reasonably priced alternative. Furthermore, as these systems are usually monitored and used by network administrators, it is usually paid for by an annual budget that must be approved. Since SWI's systems are offered at significantly lower prices compared to the top names (80% less expensive depending on network system), administrators are able to use less of their budget and obtain approval from authority more easily. Although budgets are expected to increase over the next two years with the upturn of the business cycle, firms will still desire a cost effective, easy-to-find, -evaluate, -use and -maintain, and scalable network management system.
- **Direct Download.** Both SWI and their clients materially benefit from the ability to download the product directly off of SWI's site. Time is saved on the customer's end as it only takes a few hours for the product to be downloaded and set up. In addition, web delivery also keeps SWI's margins stronger. Without the need to load the product onto discs and pay shipping costs, SWI saves money and adds to their operating margins. This sales model further leads to shorter sales cycles of 45 days instead of the average 7.5 months of standard enterprise software businesses.

Valuation

Using a ten-year DCF, a WACC of 10.9%, and a terminal growth rate of 3%, an intrinsic value of $27.13 was obtained for SWI. A sensitivity analysis that adjusts long-term growth rates (2.0% - 4.0%) and a WACC (9.9% - 11.9%) derived a price range of $22.88 – $34.10. Based on 2011 earnings estimate of $0.98 and a P/E of 25 xs, which is set at a premium to competitors and justified due to higher revenue growth and operating margins, a price of $25 was computed. In examining both of these analyses, a price target of $25 was established, which allows for an upside of 34%. The firm does not pay a dividend.

Risks

- **De-Linking Challenges.** According to SWI's current strategy, R&D should have the NPM de-linked by 1Q11 and continue on other products over the next three years. If this process takes longer than expected or is not capable of being de-linked, SWI's hope to increase cross selling will decrease. This could further hurt SWI's margins and average transaction costs could fall.
- **Increased Competition.** SWI offers enterprise level quality at a significantly lower cost to its larger competitors. If some of these top names, such as IBM or HP begin offering a product at a more competitive price, competition could increase for SWI and revenues could decline.
- **Decrease in Federal Licenses.** Revenues from government agencies and groups related to the Department of Defense account for 15% of SWI's overall revenues. As these have declined by 43.6% in 2Q10, new license revenue has been hindered (48.6% 2Q10 down from 50.2% 1Q10). If Federal licenses continue to decrease, further revenue growth for SWI could be delayed.

Management

Although Kevin Thompson has only been President and Chief Executive Officer of SWI since March of 2010, he had previously served as Chief Financial Officer and Treasurer since July 2006 and assumed the responsibilities of Chief Operating Officer in July 2007. In addition to these executive roles, Mr. Thompson has previously served on the executive boards of Surgient, Inc., a software company, SAS Institute, a business intelligence software company, and Red Hat, Inc., an enterprise software company. Michael Berry serves as SWI's Senior Vice President and Chief Financial Officer since March of 2010. Like Mr. Thompson, Mr. Berry has also served on various executive committees prior to joining SWI. Companies he previously worked for include i2 Technologies, The Reynolds and Reynolds Company, Inc., Comdata Corp., and Travelers Express Co., Inc.

Ownership

% of Shares Held by All Insider and 5% Owners:	22.96%
% of Shares Held by Institutional & Mutual Fund Owners:	77.04%

Source: Yahoo! Finance

Top 5 Shareholders

Shareholder	Shares	% Out
Donald Yonce	10,321,934	15.04%
Jennison Associates	5,634,666	8.21%
Maverick Capital	3,125,095	4.55%
Coatue Management	2,634,853	3.84%
Insight Holdings Group	2,581,543	3.76%

Source: Yahoo! Finance

Banco Santander Brasil S.A. (NYSE: BSBR)
November 12, 2010

David Hermanny International Financial Services

Banco Santander Brasil SA (BSBR) is the third largest private-sector bank in Brazil, and the fourth largest full-service bank in the country overall. The company operates in three segments: Commercial Banking (91.4% of Net Interest Income, 60.1% of pre-tax profit), Global Wholesale Banking (7.8%, 32.6%), and Asset Management and Insurance (0.6%, 7.3%). The Commercial Banking segment offers traditional banking services, including checking and savings accounts, home and auto financing, consumer financing, credit cards, and foreign trade financing to individuals and corporations. As of December 31, 2009, the commercial segment operated 2,091 branches, 1,502 onsite service units located at its corporate customers' premises, and 18,094 ATMs. The Global Wholesale Banking segment provides structured financial services, such as global transaction banking, syndicated lending, corporate finance, and treasury services to over 700 large local and multinational corporations. The Asset Management and Insurance segment offers fixed income, money market, equity, and multi-market funds, as well as insurance products, such as home, life insurance, and capitalization and pension products to its retail and enterprise customers. BSBR is headquartered in Sao Paulo, Brazil and was founded in 1957.

Price ($): (11/4/10)	15.30	Beta:	1.44	FY: Aug	2009A	2010E	2011E
Price Target ($):	21	WACC:	13%	Revenue (mil):	33,710	35,150	40,100
52WK H-L ($):	9.82-15.66	LT Rev. Gr Rate Est:	N/A	% Growth:	N/A	4.3%	14.1%
Market Cap (mil):	58,150	LT EPS Gr Rate Est:	N/A	Net Interest Margin:	9.6%	9.7%	9.7%
Float (mil):	699	Financial Leverage	0.98x	Pretax Margin:	15.2%	22.0%	22.5%
Short Interest (%):	1.1%	ROA:	2.0%	EPS (Cal):	0.87A	0.90E	1.15E
Avg. Daily Vol (mil):	6.29	ROE:	11.5%	P/E (Cal):	17.6	17.0	13.3
Dividend ($):	0.33	Tier 1 Capital Ratio:	19.5%	BVPS:	9.7	10.3	10.3
Yield (%):	2.2%	Credit Provisions/Loans:	7.3%	P/B:	1.6x	1.5x	1.5x

Recommendation

After Santander Brasil's acquisition of Banco Real and its subsequent IPO in October 2009, the company experienced several hiccups in achieving certain cost synergies and loan growth objectives. Recently, BSBR has been successful in hitting cost-reduction targets and growing their loan portfolio in line with guidance and market expectations. Even so, the company has not yet realized the full benefits of the acquisition that approximately tripled the bank's net loan portfolio (R$44.6B to R$132.3B) and more than doubled its deposit base (R$46.7B to R$124.0B). Going forward, BSBR has set aggressive targets for growing its loan portfolio, expanding its branch network, and improving profitability. What's more, the company's Brazilian domicile is especially attractive considering the country's stable political outlook following last month's elections, strong economic growth forecast, growing middle class, and overall favorable demographics. Brazil's newfound political stability and business-friendly economic policies should encourage domestic and foreign investment, and in effect increase demand for the financial services BSBR offers, particularly in the Wholesale segment. In terms of economic growth, Brazil's GDP and GDP per capita are estimated to grow 7.5% and 27.4% in 2010 and 4.1% and 7.4% in 2011, respectively, according to IMF estimates. Regarding demographics, and demand for retail financial services should increase significantly as a greater portion of the relatively young population (28.6 median age) begins to enter their prime earnings years. Considering the company's internal growth initiatives, attractive emerging market exposure, and favorable valuation, it is recommended that BSBR be added to the AIM International Portfolio with a price target of $21/share, representing 35% upside.

Investment Thesis

- **Accelerating Loan Growth.** The company aims at generating 20% annual loan growth, primarily via individual and small-medium sized enterprise (SME) loans. In the individual loans segment,

BSBR plans on aggressively growing its branch network and cross-selling to acquired Banco Real customers, particularly credit cards where the customer base is 3x less penetrated than that of BSBR. SME loan growth should also accelerate following internal initiatives to hire more loan officers and simplify the SME loan approval process. The company has begun to see the benefits of these initiatives as evidenced by strong 4.7% QoQ SME loan growth last quarter.

- **Cost Synergies.** BSBR has made noticeable progress in reducing redundant expenses thus far in FY10. At the end of FY09, for instance, personnel and administrative expenses to average assets was 4.4%, compared to 4.1% through 1H10. By 1Q11, the company expects to eliminate an additional R$1.0B in expenses by merging advertising budgets and integrating branch IT platforms. However, rather than cost reductions driving margin expansion, management has indicated that the benefit from these synergies will be used as a funding source for expanding their branch network (goal of 600 new branches over the next 4 years).
- **ROE Expansion.** The company's low 11.5% ROE relative to peers is mostly due to overcapitalization following the IPO. BSBR maintains a 23.4% BIS-ratio (risk-bearing capital to risk-weighted assets) compared to 16.0% and 15.7% for domestic competitors Bradesco (BBD) and Itaú Unibanco (ITUB), respectively. The company aims to bring its BIS ratio down to around 16% by 2013 primarily via 20%+ annual loan growth, which will increase risk-weighted assets, reduce excess capital, and thus expand ROE. Consequently, the higher ROE (20% goal by year-end 2012) should reduce the multiple differential between BSBR and its Brazilian competitors boasting ROEs of 21.8% (BBD) and 24.3% (ITUB).

Valuation

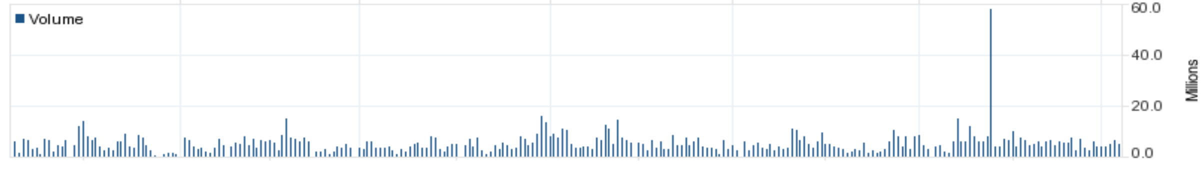
Due to the ROE differential, BSBR (1.8x) trades at a P/BV discount compared to its Brazilian peers—Bradesco (3.0x) and Itaú Unibanco (3.2x). Assuming that BSBR can grow its ROE to 18% by year-end 2012 (vs. 20% company goal), a 2.5x multiple was applied to BV/share of $8.65 in determining a $21/share 2012 price target, which implies a 35% upside to its $15.30 market price. In determining the 2.5x multiple, an analysis of the three Brazilian banks' correlation between the P/BV multiple and ROE was conducted - an 18% ROE implies an average multiple of 2.55x based on the current ratios.

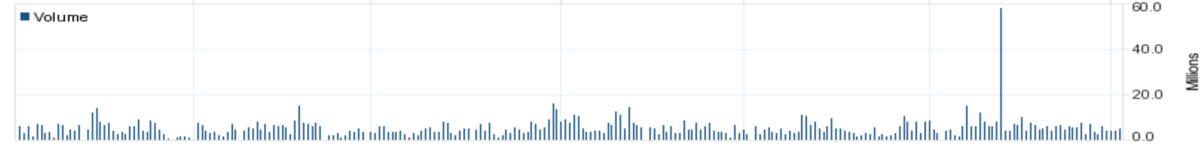
Risks

- **Slow Loan Growth.** Should economic conditions in Brazil deteriorate, loan demand could worsen and delinquency rates (currently around 6%) could increase. If that were to happen, BSBR would fail to achieve its growth targets and ROE would remain depressed, resulting in stock underperformance.
- **Integration Risk.** While the major hurdles in integrating Banco Real appear to have passed, BSBR could still fail to realize the remaining R$1.0B in cost synergies by 1Q11 as planned. Not only would this lead to higher than expected costs, but it would eliminate a source of funding for achieving its branch network expansion goals that will be needed in generating loan growth.
- **Parent Company.** Though being a part of the Santander Group offers the company significant competitive advantages (e.g. acquisition expertise, multinational client base, global IT platform), the interests of the parent company, which owns 82% of the shareholder equity, and BSBR may conflict in certain instances. For example, the Group could forego accretive growth investments to maintain a conservative capital position during times of financial stress.

Management

Since 1996, CEO and Vice Chairman Fábio Colletti Barbosa has served as chairman of Banco Real's board. Barbosa is also a member of the board of Petrobras, president of the Brazilian Banking Federation, and a member of the President of Brazil's Social and Economic Development Council. CFO Carlos López Galán began with Santander in 1986, became controller, and served as CFO and COO at Santander Investment Mexico while also serving on the board of directors for various other companies.





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
Capital Research Global Investors	31,633,050	0.83
Genesis Asset Managers, LLP	30,719,211	0.81
Bank of New York Mellon Corporation	16,546,152	0.44
Massachusetts Financial Services Co.	14,964,518	0.39
TPG-AXON Capital Management LP	13,940,000	0.37

Source: Yahoo! Finance

Covidien plc (COV)
November 12, 2010

Caitlin Johnson — International Healthcare

Covidien plc (NSYE: COV) is a global leader in the development, manufacture and sale of medical and imaging devices, pharmaceuticals and other healthcare products. Formerly the healthcare unit of Tyco International, COV is divided into three business segments: Medical Devices, Pharmaceuticals and Medical Supplies. In 2009, the Medical Devices and Pharmaceutical segments generated 84% of net sales, (57% and 27%, respectively), with the Medical Supplies segment accounting for 16% of net sales. COV is known for being a leading innovator in the field through its dedication to pioneering medical solutions to enhance patient outcomes and medical performance. COV's products are utilized in almost every hospital in the United States and are gaining a growing presence in markets outside of the U.S. (U.S. net sales – 58%, non-U.S. net sales 42%). COV separated from Tyco International in 2007 and in 2008 moved its domicile from Bermuda to Dublin, Ireland.

Price ($): (11/05/10)	$41.73	Beta:	0.87
Price Target ($):	$52	WACC	9.25%
52WK H-L ($):	$35.12-$52.48	L-Term Rev. Gr Rate Est:	3.5%
Market Cap (mil):	$ 20,042	L-Term EPS Gr Rate Est:	4.0%
Float (mil):	500.59	Debt/Equity:	34.0%
Short Interest (%):	0.50%	ROA:	7.99%
Avg. Daily Vol (mil):	3.48	ROE:	14.91%
Dividend ($):	$0.80		
Yield (%):	2.00%		

FY: Dec	2009A	2010E	2011E
Revenue (Mil)	$10,677	$10,869	$11,250
% Growth	3.08%	1.80%	3.50%
Gross Margin	53.75%	55.00%	56.00%
Operating Margin	17.38%	18.88%	19.63%
EPS (Cal)	$1.81	$3.27	$3.53
FCF/Share	2.99	2.93	3.42
P/E (Cal)	14.6	12.3	11.8
EV/EBITDA	7.4	8.4	7.3

Recommendation

After investing in research and development, boosting its sales force and marketing, and trimming its product lineup over the past few years, COV has regained eminence in the medical device field. After building its healthcare reputation on its robust technological knowledge, COV has gained leadership positions in most of the major product categories it manufactures. As the medical device arena is a swiftly evolving field, prolonged success depends on continuing innovation as competition remains strong. With COV's increased R&D and recent acquisitions in medical technology, the firm is in a prime position to remain successful. While there is a strong rivalry within the medical device field, COV benefits from the high barriers to entry in its pharmaceutical segment. As a manufacturer of controlled substances such as morphine and codeine, COV is highly regulated by the Food and Drug Administration and the Drug Enforcement Administration. The company has an exemplary precedent in dealing with both agencies, something that is a substantial hurdle for firms attempting to move into the controlled substance domain. Therefore, due to the aforementioned factors and the accompanying valuation, it is recommended that COV be added to the AIM International Equity Fund with a price target of $58, offering an upside potential of approximately 39%, with a 2% dividend.

Investment Thesis

- **Expanding prevalence of bariatric surgeries.** As obesity-related health conditions continue to rise substantially and minimally invasive surgery (MIS) technology progresses, the frequency of bariatric surgeries is expected to grow significantly. COV estimates that by 2020 1.5 million bariatric surgeries will be performed annually, a significant growth from the mere 300,000 performed in 2009. With COV having a leading position in bariatric surgical instruments, it will benefit substantially from this growth, especially as a significant portion of its R&D focus continues to develop the future of MIS devices.
- **Increased R&D spending.** Since its separation from Tyco International, COV has increased its R&D budget by almost 130% as it strives to be a leading innovator in the Medical Device arena. In 2003, R&D as a percentage of sales was only 1.8% compared to 4.1% in 2009 and the

expected rise to 5% by 2014. Recently, COV has targeted its R&D focus on developing ways to treat medical conditions through less invasive methods in a more cost-effective manner. Minimally invasive surgery is progressively replacing traditional surgery, making COV's initiatives more adept to the future. More specifically, COV has aimed its expenditures on laparoscopy and energy-based devices, which are expected to be the largest areas for growth in the next decade.

- **Margin growth.** Per management, one of the key strategic initiatives of COV is maximizing profits through higher-margin product lines. Management indicates that operating margin will increase to 20-21% over the next few years, compared to an operating margin of 17.4% in 2009. As a part of enhancing portfolio management, COV plans to divest segments that provide the lowest margins and to reallocate resources from these former areas to higher-margin and faster-growing businesses in which COV can develop a global competitive advantage.

Valuation

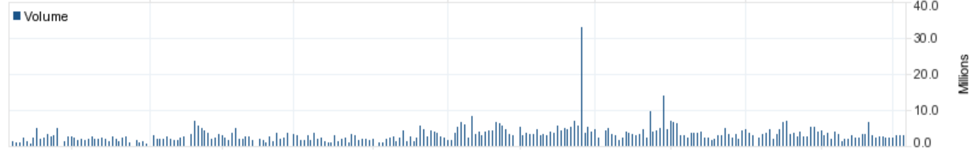
COV is currently trading at an EV/EBITDA multiple of 7.9, lower than the 8.9 multiple of its peers (JNJ, ABT, BAX, BDX & BCR). By applying a 9x EV/EBITDA multiple to the 2014 EBITDA estimate of $3.19 B generates a price target of $56.13. Based on a five-year DCF analysis with a computed WACC of 9.25% and a terminal growth rate of 3%, an intrinsic value of $61.32 was generated for COV. A sensitivity analysis which adjusts both the WACC (8.75%-9.75%) and the terminal growth rate (2.5%-3.5%), yields a price range of $51.56-$74.75. Considering the obtained intrinsic values, a target price of $58 was chosen, resulting in an upside potential of 39%. COV pays a 2% dividend.

Risks

- **Pricing pressure.** A key problem for COV over the past year has been increased pricing pressure, especially in the Pharmaceutical segment of COV. However, as this pressure is expected to remain into 2011, it is not anticipated to worsen. The Pharmaceutical segment of COV has faced increased pricing pressure from aggressive generic drug manufacturers but some of that price decline has been offset from medical devices. For fiscal year 2011, pressure is supposed to decrease by approximately 100 basis points.
- **Legal contingencies.** Although no longer affiliated with Tyco International, COV is still on the hook for Tyco Healthcare's legal contingencies. These contingencies include $144 million in unresolved tax liabilities as well as a lengthy list of outstanding legal proceedings. After entering into a Separation and Distribution Agreement and a Tax Sharing Agreement with Tyco International and Tyco Electronics, COV faces the additional risk of covering its partners' liabilities. If any party were to default on its obligations, COV would be responsible for paying the amounts in default. This, however, is an unlikely scenario.

Management

Richard Meelia is the Chairman, President and CEO of COV a position he has held since early 2006, when COV was still part of Tyco International. Prior to being CEO, Mr. Meelia was Group President of Kendall Healthcare Products, the foundation of Tyco Healthcare, from 1991 to 1995, before becoming President of Tyco Healthcare in 1995. Charles J. Dockendorff is Executive Vice President and CFO of COV. Mr. Dockendorff served as Vice President and Controller of Kendall and later as CFO of Tyco Healthcare. Management has a strong commitment to innovation and enhancing portfolio management through reallocating resources to faster-growing, higher-margin businesses.



Ownership

% of Shares Held by All Insider and 5% Owners:	4.53%
% of Shares Held by Institutional & Mutual Fund Owners:	87.5%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Fidelity Management & Research	23,598,994	4.72
Wellington Management Co	22,478,479	4.50
UBS Global Asset Management	19,694,244	3.94
Harris Associates	18,339,115	3.67
Dodge & Cox	15,799,368	3.16

Source: Yahoo! Finance

G-III Apparel Group, Limited
November 12, 2010

James Werner | Consumer Goods

G-III Apparel Group, Ltd. (Nasdaq: GIII) designs, manufacturers and markets a wide array of outerwear and sportswear apparel. In the sportswear category GIII offers of coats, jackets, pants and skirts to retailers along with women's dresses and suits. The company also provides luggage, handbags and accessories to retailers. GIII operates out of three main business segments: licensed wholesale, unlicensed wholesale (proprietary brand) and a retail segment. The licensed wholesale business segment (66% of sales) deals with licenses to produce branded fashion apparel under the Calvin Klein, Sean John, Kenneth Cole, Cole Haan, Guess, Guess?, Jones New York, Jessica Simpson, Nine West, Ellen Tracy, Tommy Hilfiger, Enyce, Levis, Touch by Alyssa Milano, and Dockers brands. GIII also holds sports licenses under the wholesale licensed business with the National Football League, National Basketball Association, Major League Baseball, National Hockey League and with major U.S. universities. The unlicensed wholesale business segment (23% of sales) deals with producing apparel under its own brands including: Andrew Marc, Marc New York, Jessica Howard, Eliza J, Black Rivet, G-III and G-III Sports by Carl Banks, Winlit, and Marvin Richards. The third and final business segment is retail (12% of sales), which was started in 2007. GIII's retail segment operates out of 121 retail stores in 35 states, of which 118 are outlet stores operated under the Wilsons Leather name. The company was founded in 1956 and is based in New York, New York.

Price ($): (11/03/10)	27.98	Beta:	1.55
Price Target ($):	37.00	WACC	13.7%
52WK H-L ($):	15-33	L-Term Rev. Gr Rate:	5%
Market Cap (mil):	566.29	L-Term EPS Gr Rate Es	5%
Float (mil):	15.62	Debt/Equity:	32.29%
Short Interest (%):	9.6%	ROA:	10.35%
Avg. Daily Vol (mil):	.270	ROE:	16.08%
Dividend ($):	0.00		
Yield (%):	0.0%		

FY: Jan	2009A	2010E	2011E
Revenue ($Mil)	1,025	1,100	1,191
% Growth	10%	15%	12%
Gross Margin	33.33%	33.50%	34.00%
Oper Margin	7.02%	7.15%	7.5%
EPS($Calc)	2.18A	2.65E	2.80E
FCF/Share	$2.50	$2.62	$2.70
P/E (Calc)	12.8	12.75	12.65
EV/EBITDA	10.8x	10.2	9.9

Recommendation

G-III Apparel Group's market position has allowed the company to attract prime retailers in the marketplace. For instance, GIII recently entered into a $250M contract with the NFL. This license is for the NFL's outerwear category for both men and women beginning in 2012. GIII in Q2 2010 had impressive QoQ revenue growth of 39%. Along with this large revenue growth in Q2, GIII recently entered into a joint venture with The Camuto Group, which will allow them to gain exposure in the footwear and associated accessories in retail stores. GIII is seen in the retail marketplace as having an excellent infrastructure, which is illustrated they recent licensing agreements. GIII has outdone the Street analysts' estimates for the past 6 quarters. Q2 2010 earnings were $0.15 per share, in comparison to the consensus estimate of $-0.02 per share. This perception gap allows for significant upside, along with an attractive PEG ratio of 0.6. With increasing top line and bottom line growth, strong infrastructure and continued expansion, and a favorable DCF valuation, it is recommended that GIII be added to the AIM Equity Fund with a target price of $37, offering an upside of 32%.

Investment Thesis

- **Market Position.** GIII currently has less than 1% market share in the retail industry. At the company's inception in 1959, GIII was undiversified and recorded over 90% of its sales as outerwear. Over the past five years the company has undergone significant changes as a result of its acquisition of a retail outlet and numerous license agreements. These have helped GIII grow from $518M in the previous year in sales to over $800M presently. The firm currently has a

reliance of 60% of sales in outerwear which helps reduce the cyclicality of GIII's revenues. The company is also maintaining ambitions of adding 1400 slots in stores within next five years. To support this point, GIII has already increased its Calvin Klein's sportswear exposure from 250 slots in 2009 to 500 slots YTD in 2010.

- **Corporate Outlook.** GIII management has been adamant on increasing the margins of their products, not only in their wholesale non-licensed business, but also their retail business, which constitutes one-third of GIII net sales. The firm has increased their gross margin 5% YoY in their overall business and GIII has a retail outlook for Wilson's Leather Outlet to provide the company with a gross margin of 50% in five years. Currently the retail outlook only constitutes for 12% of the firm's sales. The overall corporate outlook by the Street has remained extremely conservative over the past six quarters – a period in which GIII beat earnings estimates in each quarter. The company's forward guidance of EPS for fiscal year end 2010 is $2.60 to $2.70 per share, in comparison to the Street's and GIII's previous guidance of $2.30 per share. This retail season has been seen as slightly more optimistic than the previous two years. The early read of fall merchandise has been positive and re-orders are reported to be high in the overall marketplace, putting GIII in a favorable position for Q4 and early 2011.
- **Infrastructure.** GIII's management has been able to increase top line and bottom line growth, not only organically, but through large acquisitions. The recent joint venture with The Camuto Group allows for significant exposure to the footwear industry with a respectable brand backing them. With the recent $250M licensee agreement with the NFL, GIII should see the potential for 10% growth within the wholesale license apparel segment.

Valuation

To find the intrinsic value of GIII, a five year DCF was conducted. Sales growth rates were varied year to year to account for possible economic changes and industry changes through each of the three product segments. A terminal growth rate of 3% was used. A conservative WACC of 13.70% was used to yield an intrinsic value of $37.82. Applying a 12x Price to Earnings ratio to the 2011 EPS forecast of $3.05 yields an intrinsic value of $36.60. Taking both valuations into consideration a $37.00 price target has been established – an upside of over 30%. The company does not pay a dividend.

Risks

- **Slowdown in Consumer Spending/Discretion.** With GIII having a favorable and diversifying market position, the company still competes in overall in the broad retail space. If the consumer perceives large discounts in the post-holiday time frame then demand could be weaker than expected.

  Licensee Dependence. GIII sales constitute from 66% of licensee positions. If a licensee was to leave GIII it will have an adverse impact on the company; however, there is no indication of unhappiness from any companies that GIII holds licensing contract from.

Management

Mr. Morris Goldfarb is the Chairman and Chief Executive Officer of G-III Apparel Group, Ltd. He has spent his entire career here and was groomed for this position. His father Mr. Aron Goldfarb is the founder of G-III Apparel Group, Limited. Ms. Jeanette Nostra-Katz is the President of the Company. Mr. Neal Nackman is the Chief Financial Officer and Treasurer for G-III Apparel Group, Ltd. Overall GIII's board members and officers average sixteen years of experience in comparison to the peer average of just less than ten years. G-III Apparel Group, Ltd. is considered medium risk in the overall marketplace and below average risk in comparison to their peers.

Ownership

% of Shares Held by All Insider and 5% Owners:	20%
% of Shares Held by Institutional & Mutual Fund Owners:	87%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
MORRIS GOLDFARB	2,916,872	14.25
VCRAMER ROSENTHAL McGLYNN LLC/ADV	874,578	4.56
DIMENSIONAL FUND ADVISORS LP	3,609,400	4.18
CENTURY CAPITAL MANAGEMENT, INC.	2,787,849	3.14
VANGUARD GROUP, INC. (THE)	2,163,328	3.10

Source: Yahoo! Finance

Helix Energy Solutions Group, Inc. (HLX)
November 12, 2010

Ben Hariri Domestic Energy

Helix Energy Solutions Group (NYSE: HLX) is an international offshore oil and natural gas services contracting company. HLX provides products and contracting services to over 200 international independent oil and natural gas producers and suppliers, pipeline transmission companies, and offshore engineering and construction companies. In addition to these products and services, HLX is also engaged in the exploration, development, and production of its own oil and natural gas properties located primarily in the Gulf of Mexico. HLX has four business segments: subsea construction, well intervention, production facilities, and Helix Oil and Gas (contracting services represents 76% of revenues and oil and gas represents 24%). The company has operations in the U.S. Gulf of Mexico, North Sea, Asia Pacific, and West Africa. HLX was founded in 1990 and is headquartered in Houston, Texas.

Price ($): (11/8/10)	13.67	Beta:	1.94
Price Target ($):	17	WACC	15.17%
52WK H-L ($):	17-8	3-5 yr. Rev. Gr Rate Est:	11-6%
Market Cap (mil):	1,470.0	3-5 yr. EPS Gr Rate Est:	29%
Float (mil):	98.04	Debt/Equity:	100.2%
Short Interest (%):	6.3%	ROA:	-3.4%
Avg. Daily Vol (mil):	1.505	ROE:	-9.5%
Dividend ($):	0.00		
Yield (%):	0.0%		

FY: Dec	2009A	2010E	2011E
Revenue ($Mil)	1,461.7	1,243.5	1,350.0
% Growth	-30.86%	-14.93%	8.56%
Gross Margin	21.94%	20.59%	21.00%
Operating Margin	11.51%	11.39%	12.00%
EPS ($Cal)	1.51A	0.49E	0.58E
FCF/Share	$0.34	$1.75	$1.63
EV/EBITDA	4.9x	4.4x	4.0x

Recommendation

HLX is the industry leader in the subsea well intervention markets in both the U.S. Gulf of Mexico and the North Sea, and their construction segment has supported many world record-setting subsea construction projects. Additionally, the company offers unique production facilities services that provide customers with significant economic, quality, and schedule benefits. Major competitors include Global Industries, Ltd., Oceaneering International, Ltd., Acergy S.A., and Subsea 7 Inc. Major customers include Shell Offshore, Inc. and Louis Dreyfus Energy Services. The Deepwater Horizon explosion and subsequent BP Macondo oil spill that occurred in the Gulf of Mexico in April hit energy companies significantly hard, specifically those with revenue exposure to the Gulf of Mexico. While many deepwater offshore service companies suffered the consequences of underutilized assets, HLX was able to benefit from the spill by deploying three vessels to ultimately play a key role in the response effort. Due to these efforts, HLX managed to increase their 2010 revenues QoQ from $201.6 million in Q1, to $299.3 million in Q2, and to $392.7 million in Q3. HLX was also able to increase their EPS YoY from $0.04 in Q3 2009 to $0.25 in Q3 2010. HLX has been able to differentiate themselves by offering a wide range of services spanning the entire lifecycle of an offshore field, utilizing their innovative and unique mix of offshore service assets, and employing highly skilled personnel. Therefore, it is recommended that HLX be added to the AIM Equity Portfolio at a target price of $17, an upside return potential of 24%.

Investment Thesis

- **Divestment of Oil and Gas Business.** In 2009, HLX announced plans to sell all non-core assets in order to be able to refocus on the company's core strengths. Since then, HLX's dispositions of six oil and gas properties, 61 million shares of DVR common stock, and Helix RDS Limited, HLX's subsurface reservoir consulting business, have resulted in pre-tax profits of $554.4 million. In March 2010, HLX announced that they had engaged advisors to assist with the disposition of their oil and gas business. With the sale of this business segment, HLX will have completed their transition back to a company focused solely on deepwater offshore services. Eliminating the two-stranded approach of being both a service provider and oil and gas producer

should assist with earnings predictability for HLX, margin expansion, and judging by their previous dispositions, should result in proceeds for the company.

- **Strengthening Financial Position.** In the past two years, HLX has been able to decrease their long-term debt from a peak $2.1 billion to $1.3 billion as of September 30, 2010, a decrease of 38.1%. HLX has also increased the cash on their balance sheet from $270.7 million as of December 31, 2009 to $325.5 million as of September 30, 2010, an increase of 20.2%. Furthermore, as of September 30, 2010, HLX had capacity under their revolving credit facility of $373.8 million. The company's increasing cash requirements demonstrate their intentions to service current debt, pay down long-term debt, and fund capital expenditures. This available liquidity may also be used to fund inorganic growth opportunities to expand the core businesses.
- **Innovative and Unique Mix of Offshore Assets.** HLX currently has 13 vessels in its fleet, consisting of three well intervention vessels, five Canyon Offshore support vessels, four subsea construction vessels, and one ship-shaped floating production unit (FPU). HLX also has over 40 ROV and trenching systems and two additional offshore production facilities. The Helix Well Ops' flagship vessel, the Q4000, is a DP3 semisubmersible vessel that offers extreme flexibility for completing a variety of tasks at operating costs significantly less than those of a drilling rig. The fleet's HP1 vessel, designed by HLX, is the first ship-shaped FPU positioned in the Gulf of Mexico. With these vessels, HLX is able to deliver services that reduce customers' finding and development costs, providing HLX with significant pricing power and higher margins.

Valuation

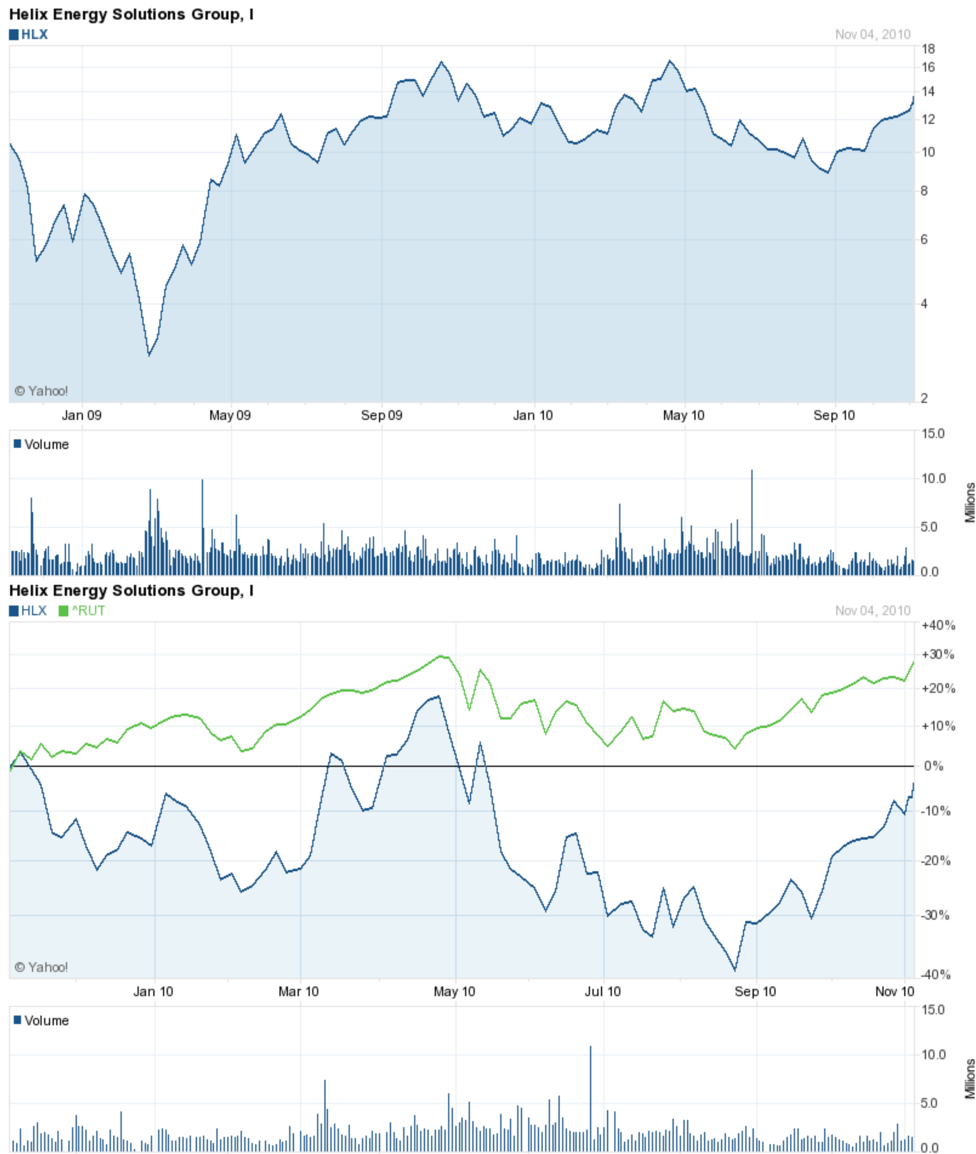
Based on a 5 year DCF analysis with a computed WACC of 11.41% and a terminal growth rate of 3%, an intrinsic value of $17.02 was obtained for HLX. A sensitivity analysis that adjusts both the long-term growth rate (2-4%) and the WACC (9.41-13.41%) generates a price range of $9.23-33.40. An EV/EBITDA multiple approach was also used with a multiple of 6.0x, yielding an intrinsic value of $15.99. Taking these into account, a price target of $17 was established. With the stock currently trading around $14, the $17 price target would yield a 24% return.

Risks

- **New Regulations in Gulf of Mexico.** After the Deepwater Horizon explosion, BP Macondo oil spill, and the resulting deepwater offshore drilling moratorium in the Gulf of Mexico, the U.S. government put into place new safety standards and regulations for deepwater offshore drilling. In order to meet these standards and conform to the new regulations, HLX may experience increased costs. Since HLX's oil and gas business operates solely in the Gulf of Mexico, these costs could have a significant impact on the segment's profitability. Furthermore, these regulations and their associated costs could decrease the demand for oil and gas services in the Gulf of Mexico region. If HLX cannot obtain new drilling permits in the future, and if the company's service vessels cannot be redeployed to a similarly profitable region, then the company, its financial condition, and its operational results could be at jeopardy.
- **Significant Debt Level.** As of September 30, 2010, HLX had approximately $1.3 billion of outstanding long-term debt. This higher level of debt could reduce the availability of the company's cash flows to fund working capital requirements, capital expenditures, acquisitions and investments; intensify the effects of a continued economic downturn or industry downturn; and/or put HLX at a competitive disadvantage to its competitors who are not as leveraged.

Management

Owen E. Kratz serves as Chairman of the Board, President, and CEO. Mr. Kratz previously has served in roles as President, Chairman, CEO, Director, and COO at HLX. Mr. Kratz joined HLX in 1984. He boasts over 28 years in the marine contracting services industry and has held various offshore positions. Mr. Kratz is also the Chairman of the Board of Directors of Cal Dive International, Inc.



Ownership

% of Shares Held by All Insider and 5% Owners:	8%
% of Shares Held by Institutional & Mutual Fund Owners:	84%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
FMR, LLC	6,982,678	6.62
Dimensional Fund Advisors, LP	5,466,159	5.18
Earnest Partners, LLC	5,438,063	5.16
LSV Asset Management	5,333,605	5.06
Owen E. Kratz	4,848,327	4.60

Source: Yahoo! Finance

Affiliated Managers Group (AMG)
November 12, 2010

Timothy O'Donnell — Financial Services

Affiliated Managers Group (NYSE: AMG) is a global asset management company with equity investments in a diverse group of boutique investment management firms (the "Affiliates"). The Affiliates hold a substantial equity interest that ensures the Affiliate managers remain incentivized as they continue to take a share of their firm's profits. Revenue is primarily collected based on a 2% of assets under management fee. The fees are originated from three business segments which are: institutional (51% of collections), mutual fund (37%), and high net worth (12%). AMG manages approximately $208 billion through their Affiliates, in more than 300 investment products. The Affiliates are deemed by management to be the strongest and most stable investment firms with the best growth prospects - characterized by a strong multi-generational management team and culture of commitment to building a firm for its long-term success, a focused investment discipline and long-term investment track record, and diverse products and distribution channels. AMG was founded in 1993 and is headquartered in Prides Crossing, MA.

Price ($): (11/4/10)	91.55	Beta:	1.76		2009A	2010E	2011E
Price Target ($):	105	WACC	12.30%	Revenue (Mil)	841,840	1,321,545	1,651,932
52WK H-L ($):	58.08-92.10	L-Term Rev. Gr Rate Est:	12%	% Growth	-27.00%	57.00%	25.00%
Market Cap (mil):	4670.33M	L-Term EPS Gr Rate Est:	10%	Pretax Margin	29.00%	27.00%	33.00%
Float (mil):	50.50M	Financial Leverage	2.91x	EPS (Cal)	1.44	2.80	5.74
Short Interest (%):	3.1%	ROA:	2.47%	Economic EPS	4.34	5.64	8.53
Avg. Daily Vol (mil):	.486M	ROE:	7.19%	P/E (Cal)	22.59	16.22	10.73
Dividend ($):	0.00			BVPS	$33	$36	$40
Yield (%):	0.0%			P/B	2.72	2.54	2.29

Recommendation

AMG should continue to expand as the global markets continue to stabilize following the financial crisis of 2008-09. With renewed access to the equity and debt markets, AMG is in an exceptional position to acquire a controlling interest in firms at relatively attractive valuations. Furthermore, AMG should continue to grow its assets under management with strong performances derived from their Affiliates. The first three quarters of 2010 have demonstrated AMG's growth possibilities with revenue and net income increasing by 57% and 120%, respectively. Taking into consideration AMG's extensive diversification strategy, its growth prospects, and its relative undervaluation, it is proposed that AMG be added to the AIM Equity Fund with a price target of $105, resulting in an upside potential of 15%.

Investment Thesis

- **Mitigated Risk Though Multi-Dimensional Diversification.** AMG's business model is one focused on the maximization of possible diversification opportunities. Currently, revenue fees are collected from three different investment style forms: institutional (51%), mutual fund (37%), and high net worth (12%). Diversification is not limited to the type of revenue; it is also applied to geographical regions. Currently, assets under management are spread between domestic (43%), global/international (45%), and emerging markets (12%). Additionally, AMG has a substantial amount of asset class diversification in equity (74% of assets under management), alternative (15%), and fixed income (11%). Diversification across asset classes, investment styles, and distribution channels should continue to mitigate exposure to the risks created by an ever changing global market.

- **Increased Assets Under Management and Performance Fees.** Reduced volatility in the market has been welcomed by money managers as capital outflow has reversed. In 2010, AMG returned to a net capital inflow with a $300 million inflow and, as the market continues to stabilize, AMG should expand its capital inflows. In addition to the reversal in capital flows, AMG's Affiliates performance surged in 2009 at a rate of 29%, while the Russell 2000 returned 23%. A reversal in capital flows and exceptional performance should lead to increases in assets under management - resulting in increased management revenues from fees.
- **Limited Risk Exposure.** Most of AMG's acquisitions involve purchasing a controlling interest in the acquired firm. As a result, management from the acquired firm maintains a minority interest in the firm, thereby incentivizing them to perform well. Management used the term "Owners' Allocation" to describe the proportion of profits that are allocated to be shared between AMG and each individual Affiliate. Additionally, AMG determines an "Operating Allocation" for each Affiliate in order to cover the firm's operating expenses. If operating expenses exceed the Operating Allocation for the Affiliate, the excess expenses first reduce the portion of the Owner's Allocation of the Affiliate before reducing the portion allocated to AMG. Any portion taken from AMG's allocation will be paid back by a proportion of the future Owners' Allocation. These expense stipulations in AMG's contracts with its Affiliates incentivize the Affiliates to grow revenues and reduce expenses.

Valuation

To value AMG, a five-year DCF model and a relative valuation of AMG's top competitors were used. AMG's current price to book ratio of 2.72x indicates it is selling at a 25% discount to its peer average of 3.42x. Based on a five-year DCF model with a computed WACC of 12.30% and a terminal growth rate of 3% an intrinsic value of $104.98 was obtained for AMG. Taking into account the future growth opportunities and economic uncertainties, a price target of $105 was established. With AMG currently trading around $91.50, the $105 price target would yield a 15% return. AMG does not pay a dividend.

Risks

- **Severe Global Recession.** AMG's revenue is based primarily on the total amount of assets under management. The recent credit crisis has emphasized the importance of a relatively stable global macroeconomic environment. During the peak of the downturn in 2008, assets under management fell by 38%. The decrease was a result of both negative returns and capital outflows. Although AMG has managed the harsh macroeconomic environment, there is no guarantee that this resiliency can be repeated. Additionally, AMG grows primarily through acquisition. Their acquisitions are financed primarily though equity issuances. In an unstable economy, it may be difficult to issue equity to expand.
- **Limited Ability to Alter Affiliate Management Practices.** Due to AMG's typical controlling interests in the Affiliates, AMG has the authority to control and vote for certain business activities - but does not have the power to influence Affiliates' day to day activities. Some of AMG's Affiliates are partnerships or limited liability companies, of which AMG is the general partner or a managing member. Consequently, if these Affiliates incur liabilities or expenses that exceed their ability to pay for them, AMG may be liable to pay for them.

Management

Sean M. Healey is the current President and CEO of Affiliated Managers Group. Prior to his appointment as CEO, Mr. Healey served as President and Chief Operating Officer. Mr. Healey joined the company in 1995. Before joining AMG, Mr. Healey was a Vice President in the Mergers and Acquisitions Department at Goldman Sachs with a focus on financial institutions. Mr. Healey received a J.D. from Harvard Law School, an M.A. from University College, Dublin and an A.B. from Harvard College.

Ownership

% of Shares Held by All Insider and 5% Owners:	1%
% of Shares Held by Institutional & Mutual Fund Owners:	>90%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
William Blair & Company LLC	2,260,303	4.42
Lateef Management Associates	1,798,246	3.52
Vanguard Group Inc	1,618,821	3.17
Invesco Ltd	1,500,396	2.94
Rainier Investment Management	1,353,150	2.65

Source: Yahoo! Finance

Shuffle Master (SHFL)
November 12, 2010

Mark Rutherford — Industrial Materials

Shuffle Master (Nasdaq: SHFL) is a gaming company which supplies casino products that enhances profitability, productivity and security. Shuffle Master derives revenue from four product segments: Utility (40.0%), Proprietary Table Games (21.6%), Electronic Table Systems (12.5%) and Electronic Gaming Machines (26.0%). SHFL products include: card shufflers, roulette chip sorters, intelligent table modules, traditional slot machines and wireless gaming solutions allow casinos to improve efficiency. SHFL provides products and services around the globe as it renders 57.0% of revenue from North America, 31.6% from Australia, 5.7% from Asia 4.3% in Europe and 1.3% from other nations. SHFL was founded in 1992 and is headquartered in Las Vegas, Nevada.

Price ($):	9.65	Beta	1.45
Price Target ($):	12.00	WACC	10.0%
52 Wk H-L ($):	10.19-7.16	L-Term Rev. Gr Rate Est:	10.0%
Market Cap (mil):	525.0	L-Term EPS Gr Rate Est:	10.0%
Float (mil):	52.6	Debt/Equity	54.7%
Short Interest:	4.0%	ROA	7.8%
Avg. Daily Vol (mil):	0.291	ROE	14.3%
Dividend	0.0		
Yield	0.0%		

FY: Dec	2009A	2010E	2011E
Revenue ($mil)	$185	$207	$227
% Growth	-0.7%	11.6%	10.0%
Gross Margin	58.9%	62.6%	62.1%
Operating Margin	17.8%	21.4%	21.1%
EPS (Cal)	0.37	0.50	0.53
FCF/Sh	0.80	0.78	0.85
P/E (Cal)	25.9x	19.4x	18.1x
EV/EBITDA	9.7x	8.5x	7.9x

Recommendation

We are in the midst of a cyclical upturn in the gaming sector. Historically this sector has shown remarkable strength in economic downturns as gaming revenues in Las Vegas had never declined until 2008. Over the past two years casino operators have deleveraged and have underinvested in capital expenditures. From 2002 to 2008, MGM, LVS, WYNN and PENN collectively invested anywhere from 10-50% of their revenue in capex with an average of 27% over the period. In the last four quarters capex as a percentage of sales seems to have bottomed out at 15%. As capex begins to increase, firms like SHFL stand to benefit. A recent report showed that Las Vegas is improving as Q3 'strip' revenue to date was up 14% yoy. Casino room rates are also rising steadily. As of October 25, boarder strip room rates were up 37% yoy, premium rates up 56%, mid-level rates up 18% and value down 8%.

Management has posted impressive results over the past five years with a top line CAGR of 13.8% and on a trailing twelve month basis revenues have increased for the last five quarters from $178M to $197M. In FY2009 operating margins improved to 17.8% from 12.2% in FY2008 and this trend has continued into 2010 (23.7% TTM). Management has also deleveraged the company over the past four years. As of Q2 debt-to-equity was 54.7% compared to 61.6% in 2009 and 83.7% in 2008. With lower debt levels management has begun to aggressively reinvest money back into the company. For the last twelve months they have spent $25M (13% of sales) on capex, which is much higher than the five-year average of 8%. As a leader with global exposure to a growing industry, it is recommended that SHFL be added to the AIM Domestic Equity Fund with a price target of $12.00, providing a 24.3% upside.

Investment Thesis

- **New i-Table Product is Adopted Rapidly.**
  Shuffle Master recently launched a brand new product called the i-Table which utilizes six touch-screen player stations embedded in a standard blackjack table. The i-Table automates the betting process which reduces chip theft and dealer errors. Results show that the i-Table increased the

number of rounds per hour by 30%. Finally, this product has great versatility allowing casino's to efficiently switch to other games such as baccarat, three card poker and Texas holdem.

- **Slot Machines Ramp up in 2011.** According to a recent survey of a casino operator in Las Vegas most casinos are only replacing 3-5% of their slot machines this year, just as they did in 2009. This is abnormally low for the highly-competitive gaming industry which thrives on new and exciting games to bring people into casinos. Historically the survey indicated that replacement rates are over 10% per year. After two years of underinvestment, capex should ramp up next year closer to normalized levels driving revenue higher for the Electronic Gaming Machines segment.

- **Exposure to Australia and Asia.** Bolstered by an expanding resources sector and hungry Asian trading partners, Australia's GDP is expected to grow at 3.75% in 2010. SHFL has 32% of revenues in Australia and another 5% in Macau and Singapore, which have been bright spots in the global economy. In October Macau's casino revenues increased by almost 50% yoy to $2.37B. Penetrating the Australia/Asian market is a huge revenue opportunity for SHFL.

Valuation

SHFL is trading at 18.1x 2011 EPS estimates of $0.53. Historically SHFL trades at 20.9x TTM earnings. Applying a 20.0x multiple to 2011 EPS estimates of $0.53 yields a price target of $10.69. From 2003 to 2009 SHFL has traded at 15.4x TTM EV/EBITDA and it is currently trading at 8.5x. Applying a 10.0x EV/EBITDA multiple to TTM EBITDA of $71.7M generates a price of $11.98 per share. Using an industry average 15x P/FCF multiple produces a value of $12.72 per share. Based on a five-year DCF analysis with a computed WACC of 10.0% and a terminal growth rate of 3.0%, an intrinsic value of $12.59 was obtained. A sensitivity analysis that adjusts both the long-term growth rate (2-4%) and the WACC (9-11%) generates a price range of $9.80-17.61. After equally weighting the relative multiples and the DCF analysis, a target price of $12.00 was established offering an upside of 24.5%.

Risks

- **New CEO Still to Be Named.** Earlier this year SHFL unfortunately lost former CEO Tim Parrot due to his unsuccessful battle with cancer. The board of directors has hired Korn/Ferry International to help find a new CEO. David Lopez who is the Chief Operating Officer is presently serving as the interim CEO.
- **Legal Proceedings.** SHFL sells products with proprietary patented and unpatented technologies and they have been forced to go sue several firms for patent infringement. If SHFL is unable to protect intellectual property that could adversely affect the company going forward.
- **Currency Risk.** With roughly 50% of revenues coming from outside the U.S., SHFL is exposed to currency risk, especially with the Australian dollar. Management does not use derivatives to hedge currency risk.

Management

As mentioned above, David Lopez, who is Chief Operating Officer, is serving as interim CEO until the company can find a suitable replacement. Mr. Lopez has been with the company since 1998 and has worked overseen various product rollouts and has ample experience from a marketing perspective. Linster Fox recently joined SHFL as CFO in August of 2009 and brings nine years of CFO experience from both private and public technology companies. Prior to SHFL, Mr. Fox was CFO at Cherokee International LLC and also spent 18 years with Anacomp Inc. On average the management team has 6.8 years of experience with SHFL compared to the peer average of 7.0 years.

Ownership

% of Shares Held by All Insiders:	2.43%
% of Shares Held by Institutional & Mutual Fund Owners:	85.38%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Wells Capital Management	4,230,545	7.9
BlackRock Institutional Trust Company N.A.	4,195,218	7.8
Oppenheimer Funds, Inc.	3,939,360	7.3
Eagle Asset Management	3,497,728	6.5
Fidelity Management & Research	2,674,028	5.0

Source: Yahoo! Finance

SAP AG (SAP)
November 12, 2010

Ethan Matter International Software

SAP's core business is selling licenses for business software solutions and related services. The Company's software application portfolio includes a suite of products designed to meet the needs of all organizations, ranging from multinational corporations to small businesses. Important offerings include: SAP Business Suite, SAP Business All-in-One Solutions, SAP Business ByDesign, SAP BusinessObjects and SAP NetWeaver. The Company reports earnings in three segments: Product, Consulting, and Training. The Product segment (73.5% of 2009 revenue) is primarily engaged in marketing and licensing software products and providing support for them. The Consulting segment (23.4%) is engaged in the implementation of software products. The Training segment (3.1%) provides educational services for the use of software products. In 2009, SAP received 52.9% of revenues from the EMEA region, 33.9% from the Americas, and 13.2% from Asia Pacific Japan. SAP was founded in 1972 and is headquartered in Walldorf, Germany.

Price ($): (11/4/10)	52.74	Beta:	0.88	FY: Dec	2009A	2010E	2011P
Price Target ($):	63.00	WACC	8.46%	Revenue (mil.)	€ 10,672	€ 11,786	€ 13,226
52 WK H-L ($):	55-41	L-Term Rev. Gr. Rate Est.:	10%	% Growth	-7.8%	10.4%	12.2%
Market Cap (mil):	62,620	L-Term EPS Gr. Rate Est.:	22%	Gross Margin	66.6%	66.4%	66.7%
Float (mil):	665.78	Debt/Equity:	50.60%	Operating Margin	24.3%	25.0%	26.0%
Short Interest (%):	4.50%	ROA:	12.40%	EPS (Cal.)	€ 1.47	€ 1.71	€ 2.12
Avg. 5-Day Vol. (mil.):	1.60	ROE:	24.30%	FCF/Share	€ 1.37	€ 1.55	€ 1.87
Dividend ($):	$0.70			P/E (Cal.)	35.8x	30.8x	24.9x
Yield (%):	1.10%			EV/EBITDA	19.2x	17.0x	14.9x

Recommendation

After a turbulent 2009 in which revenues declined nearly 8%, SAP has rebounded strongly over the past three quarters with top-line YoY growth of 4.7%, 12.4% and 19.8% respectively. Entering the seasonally strong fourth quarter, SAP is well-positioned in important markets to take advantage of rebounding enterprise spending on software. Although gross margins are currently an impressive 65% and operating margins are in excess of 25%, the Company still believes it has room for margin expansion. In fact, SAP's 3rd quarter earnings call reiterated its intention to increase operating margins by 100 bps per year. Operating in the economically stable German market, SAP is the top play in the software ADR universe for improving global enterprise software spending, expected to reach $297 billion by 2014 (6% CAGR). Due to its positive exposure to emerging market economies, attractive position in growing software sectors such as SaaS and mobile, and overweight position in its manufacturing vertical, it is recommended that SAP be added to the IAIM portfolio with a target price of $63, representing a 19.5% upside in addition to its 1.1% dividend yield.

Investment Thesis

- **Position in Growing Markets.** SAP's acquisition of BusinessObjects ($6.8bn, 16x EV/EBITDA, October 2007) and more recent purchase of Sybase ($5.8bn, 40% control premium, May 2010) offer the Company a solid platform in two powerful growth areas. First, BusinessObjects provides access to the Software as a Service (SaaS) sector. Gartner estimates that 25% of new business software will be delivered as SaaS by 2011 (up from 5% in 2005). SAP's SaaS platform gives the Company exposure to a market estimated to grow at a 15% CAGR through 2014. Meanwhile, Sybase offers SAP the opportunity to integrate its business applications onto a mobile platform. The mobile applications market is expected to become a $17.5 billion (65% CAGR) opportunity by 2012.

- **Manufacturing Vertical Dynamics.** Expanding IT budgets and an improving economic environment in SAP's largest industry vertical (40% of sales) will push above-consensus, double-digit licensing growth. A recent Credit Suisse survey (09/10) indicated 100% of manufacturing firms intend to increase IT budgets in 2010-2011, with 17% expecting 20+% YoY growth and 33% expecting 11-20% growth. In addition, the ISM Index indicates a continually expanding economic environment for manufacturers. October's 56.9 reading was the 15th consecutive month of >50 ratings. SAP's overweight exposure to the manufacturing vertical will drive strong top-line results.
- **Strong Emerging Markets Exposure.** SAP receives about 62.8% (2009) of its revenues from the EMEA and Asia Pacific regions, giving it solid exposure to emerging market economies. IT spending budgets are expected to expand at a higher rate in emerging economies (compared to mature economies) with an expected 4.6% increase in 2011 vs. an expected 3.0% increase for worldwide IT spending. In addition, enterprise software spending is expected to reach $76.2 billion in emerging markets by 2014 (11.5% CAGR). The combination of expanding IT budgets with a growing portion dedicated to enterprise software will aid SAP's EMEA and Asia Pacific results.

Valuation

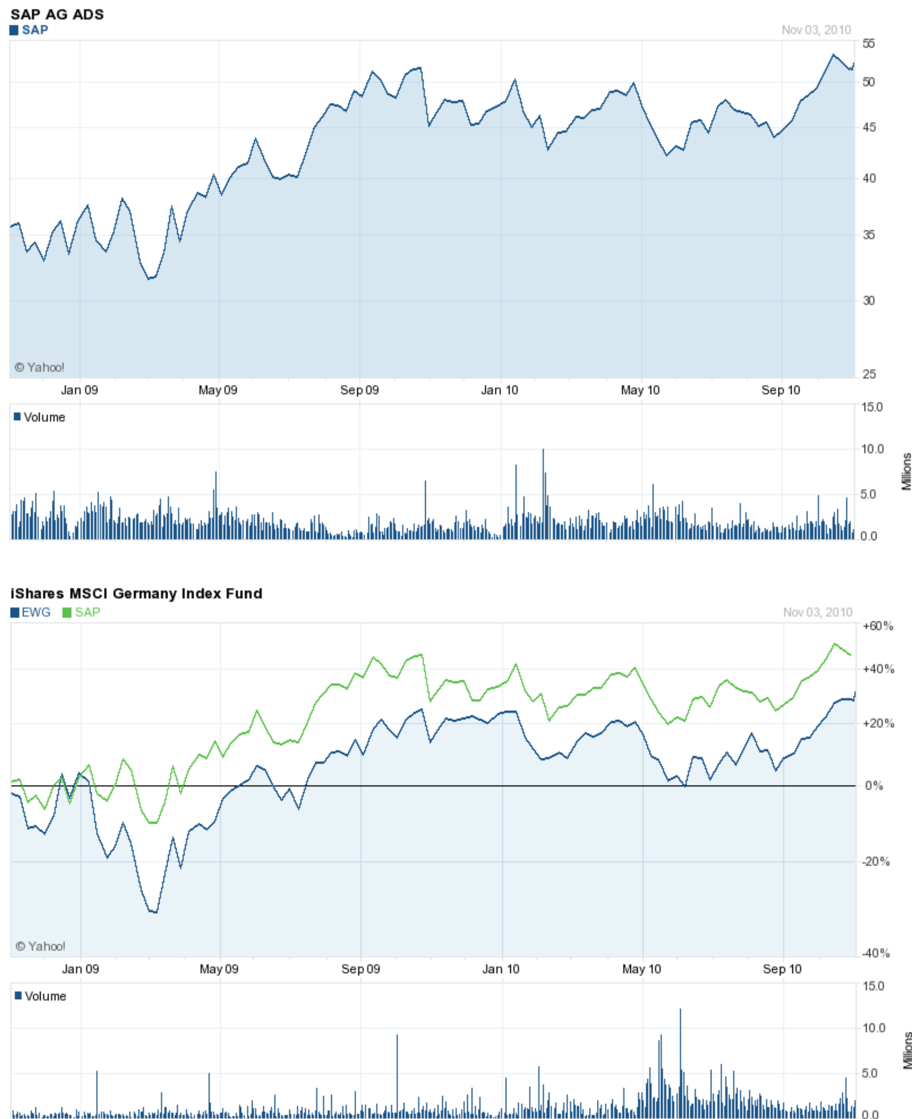
Utilizing a DCF approach with a computed WACC of 8.46% and a terminal growth rate of 3%, an intrinsic value of $67.41 was obtained. In addition, a 13x multiple was applied to SAP's 2011 EBITDA/Share of $3.97 which produced an intrinsic value of $59.00 and a 4x multiple was applied to SAP's 2011 Sales/Share of $14.47 which produced in intrinsic value of $60.12. Considering the three approaches, a price target of $63 was obtained, representing a 19.5% upside in addition to SAP's 1.1% dividend yield.

Risks

- **Competition.** The software industry is currently undergoing a massive amount of consolidation as large companies attempt to acquire new technologies. If any of SAP's large major competitors (such as Microsoft or Oracle) enters a market in which SAP has a firm market position, it could have an adverse effect on pricing and top-line results.
- **Intellectual Property Protection and Technological Innovation.** SAP's main asset is its ability to create new or improved products for customers to efficiently and quickly meet a wide array of business needs. If the Company is unable to protect intellectual property or undergoes a long period of time without significant improvements to its product line, its results will suffer.
- **Acquisition Integration.** As is true for any target company, SAP's acquisition of Sybase may not offer the synergies expected in order to capitalize on mobile platform exposure. If Sybase is not easily integrated into SAP's existing business, the Company may incur additional costs associated with its operation.

Management

Bill McDermott was appointed co-CEO of SAP alongside Jim Hagemann Snabe in February 2010. His main office headquarters are in Pennsylvania. Mr. McDermott graduated from Kellogg School of Business and has been on SAP's Executive Board since 2008. Meanwhile, Mr. Hagemann Snabe joined SAP in 1994 and has held various roles in consulting, sales and development. In addition to being co-CEO, Mr. Hagemann Snabe is the head of the Products & Solutions organizations which controls product and solution development.



Ownership

% of Shares Held by All Insider and 5% Owners:	0%
% of Shares Held by Institutional & Mutual Fund Owners:	5%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Capital World Investors	9,767,500	0.80
Manning & Napier Advisors	6,981,070	0.57
Goldman Sachs Group	3,513,469	0.29
Thornburg Investment Management	2,444,735	0.20
Franklin Resources	2,199,408	0.18

Source: Yahoo! Finance