Applied Investment Management (AIM) Program

AIM Class of 2016 Equity Fund Reports
Spring 2016

Date: Friday, March 11th | ***Time:*** *3:00 – 4:15* p.m. | ***Location: AIM Research Room 488***

Student Presenter	Company Name	Ticker	Sector	Page
Colin Canfield	AngloGold Ashanti	AU	International Materials	2
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These student presentations are an important element of the applied learning experience in the AIM program. The students conduct fundamental equity research and present their recommendations in written and oral format – with the goal of adding their stock to the AIM Equity Fund. Your comments and advice add considerably to their educational experience and is greatly appreciated. Each student will spend about 5-7 minutes presenting their formal recommendation, which is then followed by about 8-10 minutes of Q & A.

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AngloGold Ashanti Ltd. (AU)
March 11, 2016

Colin Canfield International Basic Materials

AngloGold Ashanti (XNYS: AU) is a global gold mining company with 20 operations in 10 countries around the world. Headquartered in Johannesburg, South Africa, the company's focused exploration program relies on long-life, relatively low-cost assets with differing ore body types in key, gold-producing regions. As the world's 3rd largest gold mining company in the world in terms of production, the company has focused on maintaining production growth while cutting costs over the last two years of reduced industry demand. The company reports earnings through its only segment, Gold Mining, although it provides production information about the company' four key operations groups: South Africa, Continental Africa, Americas, and Australasia. The company as it is known today was founded after the merger of AngloGold and Ashanti GoldFields Corporation in 2004.

Price ($):	12.6	Beta:	0.56	FY: Dec	12/31/2015	12/31/2016	12/31/2017	12/31/2018
Price Target ($):	16.04	WACC	9.00	Revenue (Mil)	3,976	4,135.24	4,300.65	4,558.69
52WK H-L ($):	14.31 - 5.64	M-Term Rev. Gr Rate Est:	5.5%	% Growth	0.77	4.00	4.00	6.00
Market Cap (mil):	5,577	M-Term EPS Gr Rate Est:	3.2%	Gross Margin	14.40	15.76	17.08	18.06
Float (mil):	400.8	Debt/Equity:	0.49	EBITDA Margin	29.84	30.21	30.46	30.76
Short Interest (%):	1.6	Debt/EBITDA (ttm):	2.35	EPS (Cal)	($0.14)	$ 0.89	$ 0.97	$ 1.07
Avg. Daily Vol (mil):	3.2	ROA (%):	0.38	FCF/Share	$2.99	$1.61	$0.98	$1.41
Dividend ($):	0.00	ROE (%):	1.20	P/E (Cal)	-	13.0	11.8	9.6
Yield (%):	0.0	ROIC (%):	0.55	EV/EBITDA	6.6	6.5	6.0	5.7

Recommendation

Over the past four years, the price of gold has cratered in historic fashion, declining from its lofty peak of $1905/oz. in August 2011 down to $1059/oz. just this past November for an overall -44.5% decline. While losing 85.2% of its value during that period, AU has rebounded with a 109% return since that point, outperforming the global gold miner's index ("GDX") return of 48.2%. While the vaunted Q42015/Q12016 investor optimism has begun to lose some of its sheen, behavioral trends are giving way to deeper fundamental value, albeit over a much longer time frame than three months. The reasoning for this is as follows: First, given the huge spike in volatility in emerging markets, as well as slowdown of U.S. and European recoveries, investors have looked to put money into risk-free assets. With global treasury yields at all time historic lows and dollar strength proving to be a barrier for foreign investment, gold has become the substitute of choice. Second the two part inflation story carries as well in that, on one hand short run disinflation has begun to give way to a YoY "lapping" effect within commodities as the effect 2014's meltdown impacts prices less and less. On the other, the negative interest experiment, coupled with the impact of gargantuan injections of liquidity into global markets and continued wage pressure, looks to push inflation higher in the medium term. With key economists such as Jeffrey Bullard warning against an inflation surprise, the shift from a disinflation environment could come much sooner than previously thought. The final benefit that AU looks to gain during this shift in global investor preferences comes due to the way the company has worked to cut costs while expanding operations through the leveraging of its proximity to high margin operations in Africa. With these factors in mind, it is recommended that AngloGold Ashanti be added to the AIM International Portfolio with a price target of $16.04, representing a 24.55% upside. The company does not pay a dividend.

Investment Thesis

- **Risk-Off Environment.** While central bank asset purchases by China and Russia had helped support gold's value (+33t) over the last year, investor demand (+25t) on the margin gave strength to the metal's rally with Chinese demand growing 25% YoY. The way this plays into the AU story depends on the performance of EM equities over the next twelve months. In spite of China's monetary policy actions, EMs have continued to sell off at a rapid pace. The impact of this is twofold: On one hand, Chinese and Indian have begun to rapidly expand investment in this

zero-beta asset as a means of protecting their portfolios from the extremely volatility in their domestic markets. On the other, foreign currency devaluations have further pushed investors away from domestic assets as they become worth less and less relative to global assets.

- **Inflation and Growth.** Shifting now to the long run factors in AU's story, the influx of "easy money" into global markets has fundamentally altered the way investors make decisions In the run up to the 2011 sell-off, gold was largely viewed as the key hedge against the pending wave of inflation. As over supply issues set in, investors sold out, and the wave of deflationary pressures in the form of low wage growth and commodities' price collapse mired the metal's prospects for higher returns. In the short run, we will begin to see the previously noted "lapping effect" where YoY inflation becomes based on last year's deflated commodity price levels in addition to burgeoning wage growth due to the U.S. and EU's recoveries. In the long run, the Fed's monitoring of inflation levels looks to change from a preemptive policy to a reactive one, wherein the Fed weighs the importance of the global recovery over the drawbacks of inflation. In effect, slower rate raises coupled with higher inflation look to provide a boost for gold.
- **Two Stories: Cost Cutting, Deleveraging.** Over the past two years, AU management has looked to achieve the impossible by cutting costs while growing production. By selling out of more expensive American production centers and shifting to Continental Africa and S. America, they have been able to drastically cut costs (-18% FY2015) while growing production (9% FY2015). In effect, by continuing to increase the efficiency of the business and de-lever the B.S., AU looks poised to not only last, but perform in the pending shift of gold's pricing cycle.

Valuation

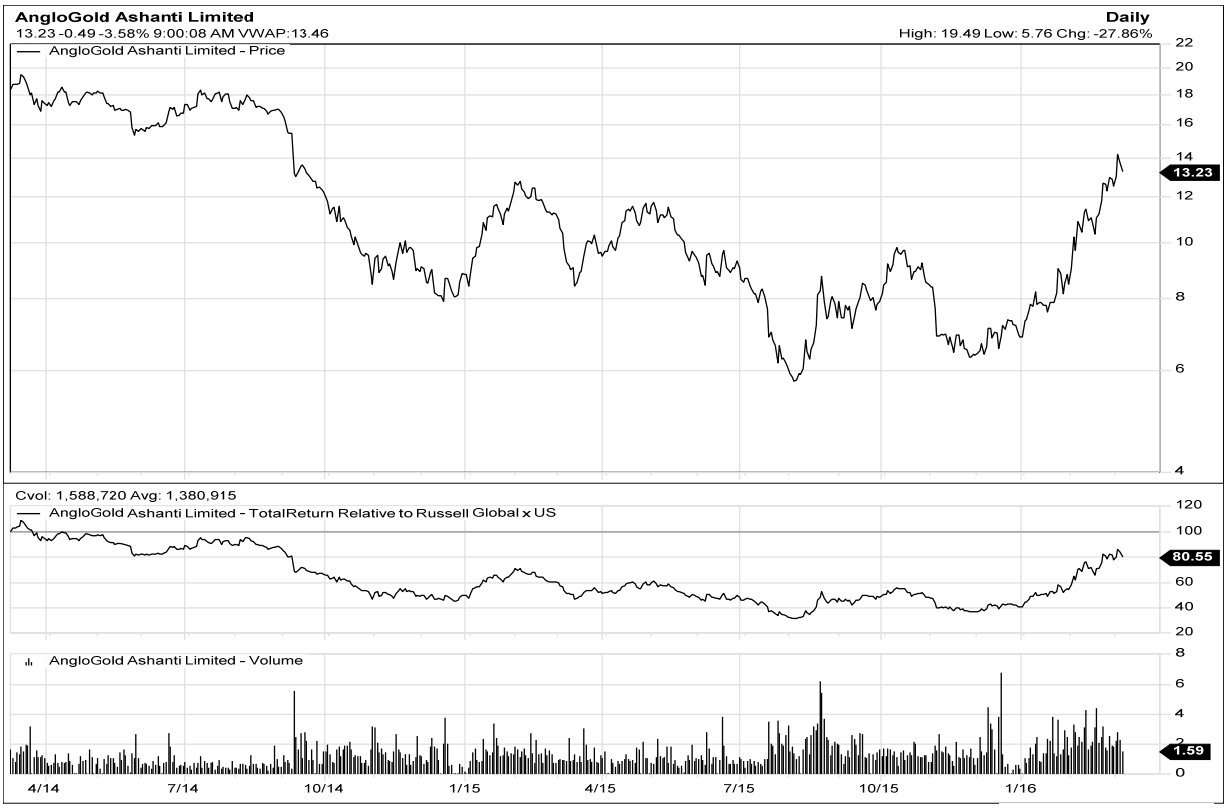
To find the intrinsic value of AU, a comparable peer model using FY1 P/E, FY1 P/B, and EV/EBITDA as well as a discounted cash flow model were conducted to calculate the share price. On a FY1 P/E basis, AU trades as 14.2x while its' peers trade at 26.5x. Looking now at EV/EBITDA, AU trades at 6.6x while peers trade at 9.6x. Finally, on a FY1 P/B basis, AU trades at .85x with a peer average of 1x. Weighting FY1 P/B 25%, FY1 P/E 25% and EV/EBITDA 50% an intrinsic value of $18.93 was determined. Pivoting now to the DCF, a WACC of 9% with a long term growth rate of 3% and incorporated sensitivity analysis yielded an intrinsic value of $15.11 per share. Blending the two valuation methods evenly, an intrinsic value of $16.04 was determined, representing a 24.55% upside. Due to continued industry pricing pressure, company does not pay a dividend.

Risks

- **Dollar Strength Bullying Bullion.** With recent consumer spending and jobs' numbers providing corresponding signs of underlying strength for the U.S. economy, Fed hawks have begun to put pressure on Janet Yellen to continue the Fed's plan for continued rate hikes. This matters because, as heightened dollar strength has put downward pressure on gold prices, a rate hike would further this trend as well as reduce the share value of AU's ADR.
- **Operational Hazards.** With a significant portion of operations located in Continental Africa, continued geopolitical tensions throughout the continent pose a serious risk to the viability of continued production growth.
- **Hungry for Risk, Not for Gold.** As bullion demand has spiked during Q12016, especially within the Indian and Chinese investment communities, an improvement within EM and FM equities would drastically reduce investor demand for this dual risk/inflation hedge.

Management

Srinivasan Venkatakrishnan (Venkat) was appointed as CEO in 2013, had previously served as CFO since 2005, and as the Finance Director of Ashanti Goldfields since 2000. Before joining the mining industry, Venkat worked with Deloitte & Touche as a Director in the Reorganization Services. Coming from a working class family in London, Venkat is known around the industry for his personal touch and aptitude for handling tough decisions. Christine Ramone, AU's CFO, joined on in 2014.



Source: FactSet

Ownership

% of Shares Held by All Insider and 5% Owners:	56.14% ▲
% of Shares Held by Institutional & Mutual Fund Owners:	43.86% ▲

Source: ThompsonOne

Top 5 Shareholders

Holder	Shares (000)	% Out
Van Eck Associates Corp.	26,942 ▼	6.6
Paulson & Co., Inc.	22,891 ▼	5.6
Dimensional Fund Advisors, L.P.	19,247 ▲	4.7
Blackrock Investment Managegement (UK) Ltd.	15,893 ▲	3.9
Franklin Advisers, Inc.	15,750 ▲	3.9

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Net Income (mil)	D/EBITDA	16 P/E	EV/ EBITDA
AngloGold Ashanti	**AU**	**5,680**	**31**	**2.29**	**14.2**	**6.6**
Newcrest Mining	NCM	1,278	59	2.3	40.3	10.1
Newmont Mining	NEM	1,340	-140	1.7	37.8	15.3
Goldfield Corp.	GV	3,130	124	2.33	19.7	5.2
Sibanye Gold	SBGL	3,230	78	0.62	11.4	6.8
Barrick Gold	ABX	15,250	-3,630	3.35	34.8	7.7
Peer Averages		4,846	-702	2.1	26.5	9.6

**Removed For Relative Valuation Analysis*

Source: Bloomberg

Trinity Biotech PLC (TRIB)
March 11, 2016

Ryan Woo International Healthcare

Trinity Biotech (NASDAQ: TRIB) specializes in acquiring, developing, manufacturing and marketing medical diagnostic devices for viruses, diseases, and disorders including HIV, diabetes, and myocardial infarction. TRIB is also a supplier of raw materials to the life sciences industry. The two main business segments are clinical laboratories (81% of revenues) and point of care (19%). Point of care refers to diagnostic tests which are carried out in the presence of the patient while clinical laboratories are labs where tests are conducted on patients to determine their health. By business unit, TRIB derives its revenue from infectious disease (41%), diabetes (30%), HIV (19%) and Life Science (10%). By geography, Americas account for 58% of revenues while Asia/Africa (24%) and Europe (18%) compose the remainder. Trinity Biotech PLC was incorporated in 1992 and is headquartered in Bray, Ireland.

Price ($):	11.02	Beta:	0.84	FY: Dec	2014A	2015A	2016E	2017E
Price Target ($):	14.98	WACC	7.50	Revenue (Mil)	103	100	107	125
52WK H-L ($):	19.69 - 9.2	M-Term Rev. Gr Rate Est:	11.5%	% Growth	13.1%	-3.5%	7.6%	17.0%
Market Cap (mil):	249	M-Term EPS Gr Rate Est:	14.8%	Gross Margin	48.7%	46.2%	48.5%	52.0%
Float (mil):	22.8	Debt/Equity:	45.8%	EBITDA Margin	21.1%	20.8%	21.7%	25.1%
Short Interest (%):	6.2	Debt/EBITDA (ttm):	6.13	EPS (Cal)	$0.71	$0.79	$0.51	$0.90
Avg. Daily Vol (mil):	0.2	ROA (%):	7.29	FCF/Share	$0.32	$0.15	$0.31	$0.60
Dividend ($):	0.22	ROE (%):	10.71	P/E (Cal)	15.4	13.9	21.6	12.3
Yield (%):	2.1	ROIC (%):	8.62	EV/Sales (Cal)	3.8	2.8	2.6	2.2

Recommendation

Since its incorporation in 1992, Trinity Biotech has grown to become a competitive player in the fragmented medical diagnostics industry, which is expected to be an area of strong growth going forward. In vitro diagnostics are expected to be the largest healthcare industry segment by 2018, with an impressive total addressable market of $54.5 billion and a CAGR of 4.4% vs. projected pharmaceutical growth of 2.5%. Additionally, according to the Bureau of Labor Statistics, medical diagnostic technician employment is projected to increase by 26% vs. the national average of 7% from the period of 2014-2024. TRIB should be a major beneficiary of this industry growth due to its positive geographic and demographic exposure, specific strategic initiatives and experienced management. On December 15, 2015, Congressional leaders removed the medical device excise tax (MDET), which should provide further tailwinds for earnings and margins. On March 3, 2016, the company reported its 4Q15 results and preliminary FY2015 numbers. Although TRIB experienced declining revenue growth and margin compression primarily due to foreign currency issues and unusual disease patterns globally, the stock has outperformed the Russell Global ex-US by 1100bps in the past week due to positive commentary toward its clinical trials and an improved FX environment going forward. Prior to this latest fiscal year, TRIB had grown sales at a 5-Year CAGR of 9.7% since 2009, which is more indicative of the company's growth prospects in the medium term. On March 3, 2016, the company announced the suspension of its dividend and the commencement of a share buyback program authorized for up to 10% of its shares outstanding (~2.3 million ADRs), justifying it by citing the depressed current share price. With new product releases and expected margin expansion due to the following drivers, it is recommended that Trinity Biotech be added to the AIM International Fund with a target price of $14.98, an upside of 35.9%.

Investment Thesis

- **Expansive Market Opportunities.** Medical device companies figure to benefit from a global trend in healthcare from curative measures to early diagnosis and prevention. TRIB is also positioned to benefit from demographic trends as more individuals are suffering from diabetes, HIV, Lyme disease and syphilis. Diabetes revenue for TRIB has grown at a 3-Year CAGR of 15%, which is expected to continue in the medium term per company management. TRIB's infectious disease segment is also expected to experience low double digit growth going forward through niches and market share gains.

- **Meritas Troponin I and BNP.** In December 2015, TRIB submitted data regarding its Troponin I Point-of-Care product, which diagnoses type I and II myocardial infarctions, to the Federal Drug Administration. Thus far, the data has been extremely positive with sensitivity of 66% and specificity of 94%, far exceeding any other product that is currently sold in the US. Management expects significant correspondence between themselves and the FDA, and the projected approval date is to fall in 3Q16/4Q16. FDA approval guidance has tightened and the six competing devices do not meet this new criteria, meaning TRIB can gain significant market share and create a high barrier to entry in a $2 billion market opportunity.
- **Strong Balance Sheet.** TRIB has a relatively unlevered balance sheet. This has given the company flexibility with respect to cash deployment. Commentary during its latest earnings call suggest that TRIB is bringing strategic M&A back into its corporate strategy, after having successfully integrated Immco (2013) and Fiomi (2012) with greater than expected synergies and having issued 30-year exchange notes which net $111 million. Management is experienced and disciplined when it comes to acquisitions, which includes a significant growth profile, earnings and cash flow positive, and synergy opportunities.

Valuation

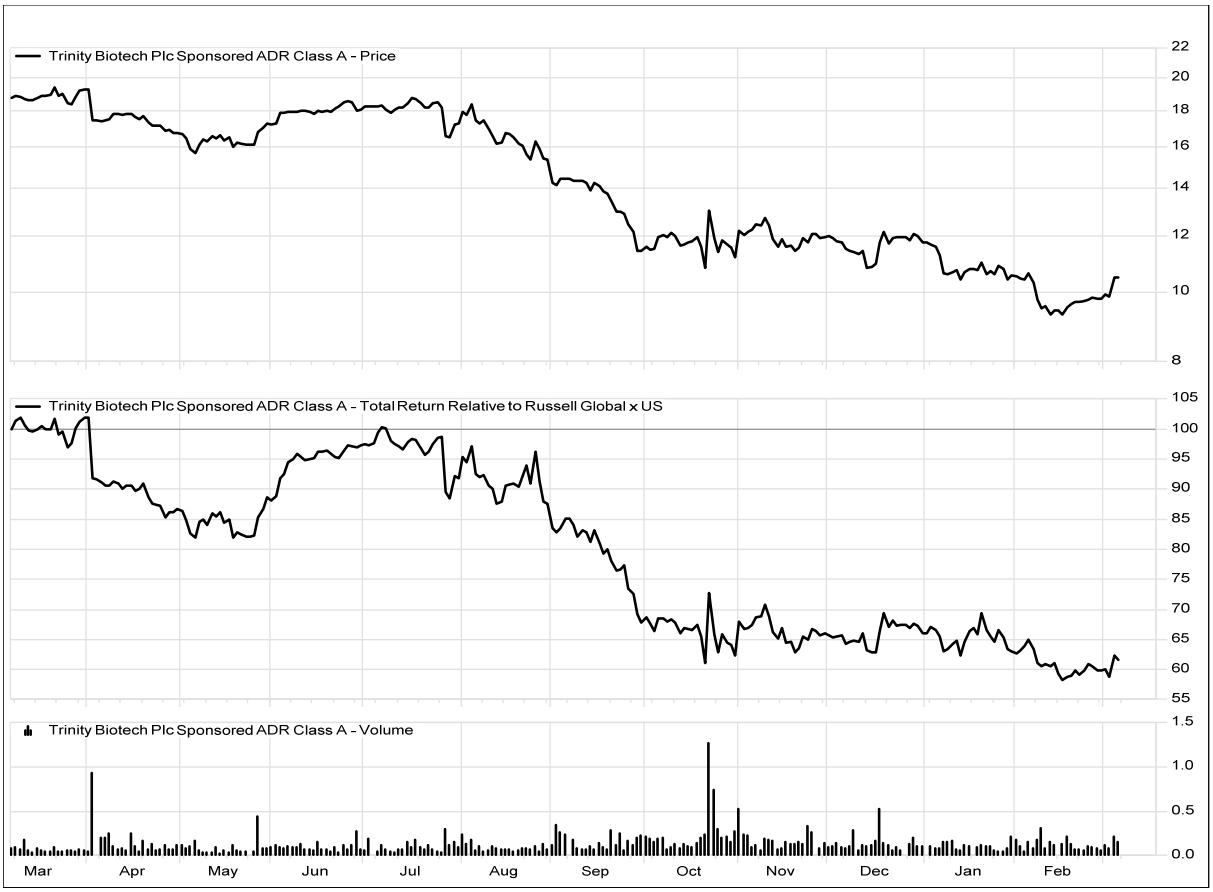
In order to reach an intrinsic value for TRIB, a five year DCF model was constructed. Using a terminal growth rate of 2.5% and a WACC of 7.5%, an intrinsic value of $14.97 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $13.62-$16.72. Additionally, a P/E multiple valuation was conducted using a TRIB blended EPS of $0.57 and a forward average of TRIB and comparables P/E of 25.6x, which resulted in a valuation of $14.59. Finally, an EV/Sales multiple valuation was calculated. Using a TRIB and similar comparables average of 3.5x and TRIB 2016 sales of $107MM, the multiple resulted in a valuation of $15.38. By weighting the three valuation models evenly, a price target of $14.98 was reached, which yields a 35.9% upside. TRIB has suspended its regular annual dividend of $0.22, which had yielded 1.20%.

Risks

- **High Regulations.** In addition to the FDA in the US, Trinity faces heavy regulation from other authorities in various jurisdictions. As a result, receiving approval for products generally is time-consuming, expensive, and extremely detailed. Should TRIB not receive approval, time and money will be spent with little to no returns on investment.
- **Currency Exchange Risk.** Further currency headwinds could have a significant impact on both sales volume and margins. This depends on whether the price is quoted locally or in USD and whether the domestic currency is appreciating or depreciating. While management does not expect these issues to continue, further difficulties could have impacts that were similar to FY15. Especially important currencies include the Euro, Brazilian Real, Canadian dollar, and Sterling.
- **Competitive Diagnostic Industry.** Trinity Biotech operates in the ultra-competitive medical devices industry. As a result, TRIB must continue to provide advanced technology with accuracy and responsiveness. If a competitor receives approval for a product that trumps TRIB's existing product portfolio, it may result in market share loss and negative revenue surprise.
- **Reliance Upon Management:** Every member of the management team has been with Trinity for several years. Should any one of the executives decide to leave the company, there could be adverse effects on the operations of the company and its future growth strategy.

Management

Ronan O'Caoimh has been the CEO since 1994. He is also the Chairman of Trinity Biotech. Previously, he was the CFO after having helped cofound the company in 1992. Rory Nealon is the COO and has been with the company since 2003. Kevin Tansley is the current CFO and started at Trinity Biotech in 2003 as well. Jim Walsh, who is the current Chief Scientific Officer, has a PhD and started at Trinity Biotech in 1995 as the COO.



Source: FactSet

Ownership

% of Shares Held by All Insider Owners:	10.90%
% of Shares Held by Institutional & Mutual Fund Owners:	80.75%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
Robeco Investment Management, Inc.	1,589,960	6.71
Janus Capital Management LLC	1,429,681	6.03
Paradice Investment Management LLC	1,373,357	5.79
Heartland Advisors, Inc.	1,252,350	5.28
BMO Asset Management Corp.	1,106,049	4.66

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA (mil)	Net Margin %	P/E NTM
Trinity Biotech Plc.	TRIB	249	100	20.7	22.7	23.2x
Changsha Sinocare	300298-CN	1,004	103	20.2	22.3	24.2x
Advanced Medical Solutions	AMS-GB	539	104	29.1	20.5	25.8x
Meridian Bioscience	VIVO	870	194	63.4	18.8	23.0x
Orasure Technologies	OSUR	393	116	7.2	0.8	39.0x
Peer Averages		701	129	30.0	15.6	28.0x

Source: FactSet

Beacon Roofing Supply, Inc. (BECN)
March 11, 2016

Patrick Schulz | Domestic Industrials

Beacon Roofing Supply, Inc. (NASDAQ: BECN) is the largest publicly traded distributor of residential and non-residential roofing materials. Beacon operates primarily in three segments: residential roofing products (49% of 2015 revenue), non-residential roofing products (35%) and other complimentary building materials (16%). Both of their roofing products segments provide customers with a multitude of roofing products and services. Their other segment, complimentary building materials, offers customers a variety of sidings, windows and waterproofing systems for residential and non-residential building exteriors. Beacon operates in 356 branches across 45 states in the United States and six provinces across Canada, with leading positions in key metropolitan markets in both countries, serving over 53,000 customers. Beacon Roofing Supply, Inc. was founded in 1928 and is headquartered in Herndon, VA.

Price ($): (03/04/16)	$	39.07
Price Target ($):	$	48.79
52WK H-L ($):		61.70-25.52
Market Cap (mil):		2,305
Float (mil):		59.17
Short Interest (%):		4.40%
Avg. Daily Vol:		564,675
Dividend ($):	$	-
Yield (%):		0.00%

Beta:	1.16
WACC	8.29%
M-Term Rev. Gr Rate Est:	12.90%
M-Term EPS Gr Rate Est:	21.08%
Debt/Equity:	92.77%
Debt/EBITDA (ttm):	7.07
ROA (%):	4.18%
ROE (%):	7.33%
ROIC (%):	5.89%

FY: Dec	2015A	2016E	2017E	2018E
Revenue (Mil)	2,515	3,651	4,094	4,360
% Growth	8.09%	45.15%	12.13%	6.50%
Gross Margin	23.15%	22.46%	23.54%	23.71%
EBITDA Margin	6.32%	8.19%	8.39%	8.67%
EPS (Cal)	$1.23	$1.91	$2.41	$2.77
EBITDA	$158.93	$298.82	$343.64	$378.00
P/E	31.8x	20.5x	16.2x	14.1x
EV/EBITDA	21.4x	11.4x	9.9x	9.0x

Recommendation

Beacon Roofing Supply completed their IPO in 2004 and has developed into a dominating force in the re-roofing industry. Since going public, Beacon has experienced an 11-year sales CAGR of 13%, an operating income CAGR of 10% and has maintained their operating margins between 5%-6%. This growth has allowed them to become the second largest roofing distributor in North America, with an estimated 16% of the roofing market share. During this same time period, they have opened 73 new branches, of which they have only closed seven, and have completed 29 successful acquisitions. Beacon stocks between 2,000-11,000 SKUs per branch, enabling them to deliver their high quality branded products to customers on a timely basis. According to The Freedonia Group and Beacon's management team, the total U.S. roofing market is estimated at $20 billion in sales in 2014 and is forecasted to grow by 5% annually through 2019. The domestic roofing market can be broken down into two segments: residential (58% of sales) and non-residential (42%). This growing market continues to allow BECN to capture growth, especially in both of their re-roofing segments. These segments contribute to 84% of the firm's revenue, a figure that is expected to increase due to their recent acquisitions. Beacon has been able to maintain their growth due to both organic and inorganic contributions. In FY 2015, they opened six new branches and acquired an additional eight, leading to an 8% revenue growth rate. In addition, they have controlled their capital expenditures by historically utilizing a mere 1.1% of their sales. Additionally, the average age of owner occupied housing has increased from 23 years in 1985 to 38 years in 2014. With houses continuing to grow older, the demand for re-roofing projects will continue to remain relevant, even during periods of recession or slow economic growth. Due to the stability in the re-roofing industry and increased opportunities in both residential and non-residential markets, including stronger demand and older houses, it is recommended that Beacon Roofing Supply, Inc. be added to the AIM Equity Fund with a price target of $48.79, representing a potential upside of over 25%.

Investment Thesis

- **Inorganic Acquisitions.** On October 1st, 2015, Beacon acquired Roofing Supply Group, a leading roofing products distributor with 85 branches in the U.S., for $1.1 billion in cash and

stock. Not only will this acquisition include $50 million projected annual run-rate pre-tax synergies, but also expand Beacon's geographic footprint across the Southwest, South Central and Northwest territories in addition to increasing their exposure to the residential and non-residential re-roofing market. Moreover, they have completed 29 strategic and complimentary acquisitions since their IPO in 2004. These acquisitions have a positive trend of successful integration with both margin and revenue improvement. With over 1,500 roofing distributors in the U.S., Beacon has maintained a strong position in this highly fragmented market to continue their acquisitions.

- **Strong and Increasing Re-roofing Demand.** According to the National Association of Home Builders, approximately 94% of re-roofing demand in the U.S. in non-discretionary. Owners are forced to invest in roofing repairs in order to respond to unanticipated circumstances. Roofing demand is projected to grow by 5% annually through 2019 in both the U.S. and Canada, thus allowing Beacon to capture increased revenues. Historically, 78% of expenditures in the roofing market are for re-roofing projects. Although building construction expenditures become cyclical over time, re-roofing projects are generally considered to be maintenance updates and these must be taken care of immediately. Even during periods of recession or slow economic growth, customers are not willing to delay expenses relating to fixing their roof.
- **Superior Customer Service.** An overwhelming majority of customer's orders require further assistance from Beacon's services. These services include advice to contractors throughout the construction process, job site delivery logistics, insulation design services, marketing support and more. Beacon's additional services encourages stronger customer relationships, which distinguishes them from competitors. As a result, BECN has earned a reputation for delivering high-quality services through their product availability and experienced employees.

Valuation

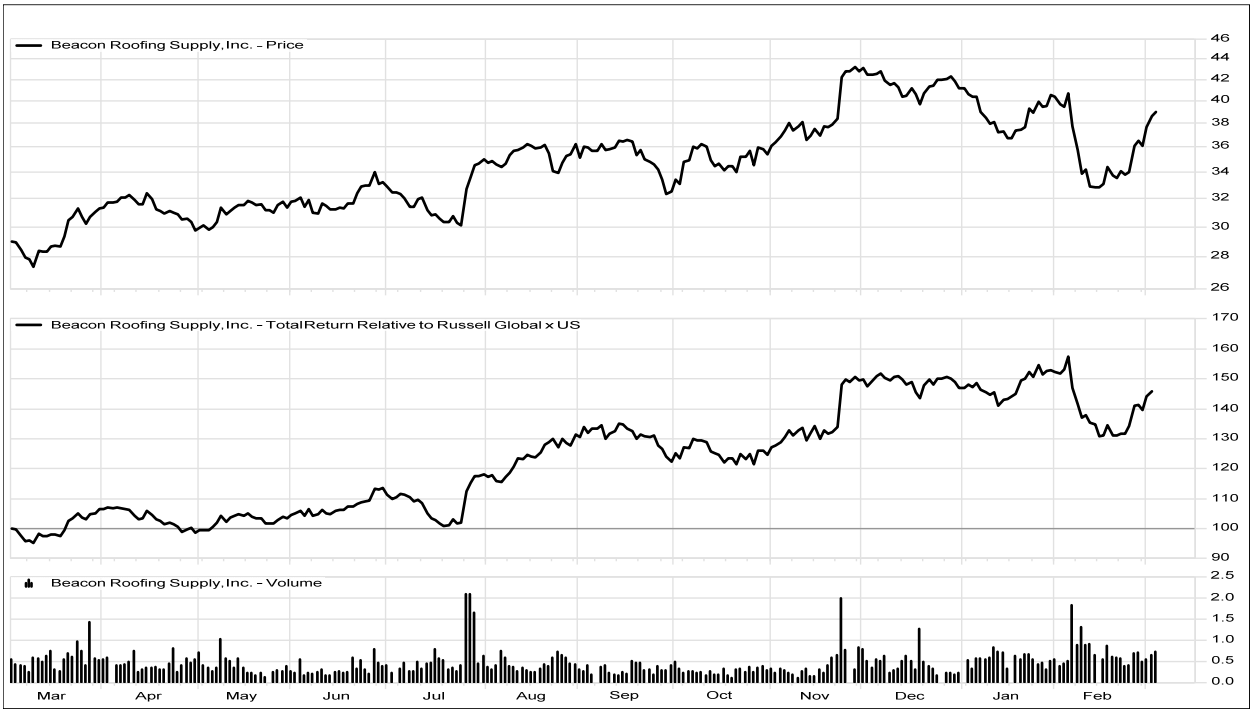
In order to reach an intrinsic value for BECN, a five year DCF model was constructed. Using a terminal growth rate of 2.00% and a WACC of 8.29%, an intrinsic value of $51.95 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $38.66-$75.69. Additionally, a P/E multiple valuation was calculated. Using a 2016E EPS of $1.91 and utilizing a blended average P/E mutplie of 21.9x, resulted in an intrinsic value of $41.72. Finally, an EV/EBITDA multiple valuation was conducted using a blended average EV/EBITDA multiple of 12.8x, resulting in an intrinsic value of $46.37. By weighing the three models 60/20/20, a price target of $48.79 was reached, resulting in a 25% potential upside. BECN does not pay a dividend.

Risks

- **Integration of Acquisitions.** Although Beacon has a successful history of strong integration among their acquisitions, this trend may not continue to occur going forward. The inability to affectively integrate a newly acquired business may result in lost cost savings or profitability.
- **Suppliers of Products.** While the average relationship Beacon has with their suppliers' ranges from 15-25 years, any disruption may cause material impact to Beacon's operations. A loss of supplier would result in a slowdown of revenue and possible damage to customer relationships.
- **Adverse Weather.** BECN's Q2 goes from January to March, which typically has adverse weather conditions resulting in a slowdown of revenue. During these months, Beacon experiences net losses, and a lengthened winter period will produce increased difficulties.

Management

Paul Isabella has been the President and CEO of Beacon Roofing Supply, Inc. since 2007 and 2011, respectively. Prior to beginning his work for Beacon, Mr. Isabella worked with General Electric Company for over 22 years. Joseph Nowicki has been the Executive Vice President and CFO since March 2013. Prior to joining Beacon, Mr. Nowicki was the CFO and Treasurer for Spartan Motors, Inc.



Source: FactSet

Ownership

% of Shares Held by All Insider and 5% Owners:	15.00% ▲
% of Shares Held by Institutional & Mutual Fund Owners:	89.60% ▲

Source: FactSet

Top 5 Shareholders

Holder	Shares		% Out
Clayton Dubilier & Rice LLC	8,537,000	▲	14.40
The Vanguard Group	3,776,000	▲	6.40
Riverbridge Partners LLC	3,406,000	▼	5.80
BlackRock Fund Advisors	3,052,000	▼	5.20
Dimensional Fund Advisors LP	2,577,000	▲	4.40

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA (mil)	Price to Earnings	EV/EBITDA
Beacon Roofing Supply, Inc.	BECN	2,305	2,515	159	22.3	11.4
Watsco	WSO	4,585	4,086	34	23.5	14.7
HD Supply	HDS	5,686	7,526	277	16.6	12.1
CRH	CRG-IE	22,460	24,125	922	15.9	10.7
BMC Stock Holdings	STCK	1,015	1,323	106	26.0	16.8
Pool Corporation	POOL	3,419	2,325	859	24.7	16.7
Peer Averages		7,433	7,877	439	21.3	14.2

Source: FactSet

Fogo de Chão (FOGO)
March 11, 2016

Dan Riley — Consumer Discretionary (Micro-Cap)

Fogo de Chão (NASDAQ:FOGO) is a Brazilian steakhouse that has specialized in the traditional Southern Brazilian churrasco method of roasting meat since its founding in 1979 in Porto Alegre, Brazil. Fogo de Chão currently owns and operates 31 restaurants in the U.S (77% of revenue), 10 in Brazil (23%), and 1 in Mexico through a joint venture. The company operates in a differentiated model, where Brazilian gauchos prepare and serve the food and guests pay a fixed price for a two-course meal that includes market table offerings such as fresh vegetables, salads, and aged cheeses. This also includes a selection of up to 20 different grilled meats, such as filet mignon, Brazilian sausages, and lamb chops. FOGO is headquartered in Dallas, Texas and had its initial public offering on June 18, 2015.

Price ($): (3/7/16)	16.18	Beta:	0.81	FY: Dec	2014A	2015E	2016E	2017E
Price Target ($):	25.65	WACC:	7.9%	Revenue (mil)	262.28	276.44	312.93	359.87
52WK H-L ($):	27.1-13.4	M-Term Rev. Gr Rate Est:	14.1%	% Growth	19.63%	5.40%	13.20%	15.00%
Market Cap (mil):	448.6	M-Term EPS Gr Rate Est:	22.1%	Gross Margin	31.40%	31.60%	31.50%	31.40%
Float (mil):	5.2	Debt/Equity:	69.6%	Operating Margin	16.98%	16.24%	17.29%	17.91%
Short Interest (%):	18.2%	Debt/EBITDA (ttm):	3.4x	EPS (Cal)	0.64	0.86	1.05	1.28
Avg. Daily Vol (k):	77.8	ROA:	3.7%	FCF/Share	$0.60	$1.72	$0.77	$1.01
Dividend ($):	0.00	ROE:	11.5%	P/E (Cal)	N/A	18.8	15.5	12.6
Yield (%):	0.0	ROIC:	4.4%	EV/EBITDA	N/A	10.3	8.7	7.4

Recommendation

While there is no shortage of high-growth restaurant stocks, Fogo de Chão stands out as a company with a compelling story and solid business model. FOGO's unique system of using gauchos as its chefs and servers results in significantly lower labor costs than its peers, which translates into immensely higher profits and excellent unit economics. Each Fogo de Chão location averages $8 million in annual revenue, almost double that of its peers. Likewise, labor costs are only about 20% of sales vs. 32% for peers. This results in a restaurant margin of 32%, compared to 20% for full-service peers, and a net income margin of about 10% vs. less than 5% for peers. This heightened level of profitability has allowed FOGO to generate cash-on-cash returns of 57%. Compared to peer average cash-on-cash returns of only 32%, Fogo de Chão clearly possesses a competitive advantage. Adding in expected unit and revenue growth of almost 15% annually, as well as earnings growth in excess of 20%, and FOGO looks like a great company. However, fears over the strength of Brazil's economy and political system have pushed the stock well below its IPO price of $20 per share. But given the company's decreasing reliance on Brazil, strong growth prospects, and the aforementioned superior profitability, FOGO's valuation appears attractive. For this reason, it is recommended that FOGO be added to the AIM Micro-Cap Fund with a price target of $16.18.

Investment Thesis

- **Large runway for expansion.** Over the long term, management expects to open more than 100 new restaurants in large and mid-size markets across the U.S. In 2015, management proved its commitment to this goal by opening 5 new restaurants (19% unit growth rate). With only 31 locations in the U.S. currently, market penetration is low, leaving plenty of room for growth. FOGO also has opportunities outside the U.S., including opening more locations in Brazil and pursuing joint ventures in new countries in the Americas, Asia, and the Middle East. While expanding via joint venturing may not be ideal for capturing profits, it will allow FOGO to spread its brand in a less capital-intensive manner.
- **Push for same-store sales growth.** While Fogo de Chão's management team has conservatively guided same-store sales growth in the 1-2% range going forward, several of its initiatives will

likely help it exceed this range. For one, alcohol currently accounts for only 17% of sales vs. 30% for its steakhouse peers. In an effort to improve this mix, FOGO has been renovating its bars and offering an improved drink selection, which should help drive sales. Secondly, FOGO is offering more a-la-carte seafood options in an effort to stop vegetarians from "vetoing" a trip to Fogo de Chão. Finally, the company has started to offer Sunday lunch and special holiday menus, which will help attract customers it may have lost to other restaurants in the past.

- **Opportunity with different customer segments.** Fogo de Chão stands out as a more modern alternative to traditional steakhouses in several regards. Its average check size is lower by up to $50, its customers tend to come for family meals, dates, and meetings with friends rather than for business meals, and 33% of its customers have household incomes under $75,000. Given that younger consumers are less willing to spend large amounts of money at traditional steakhouses, FOGO is in the enviable position of appealing to a wider range of customers than its peers, which will allow for greater growth.

Valuation

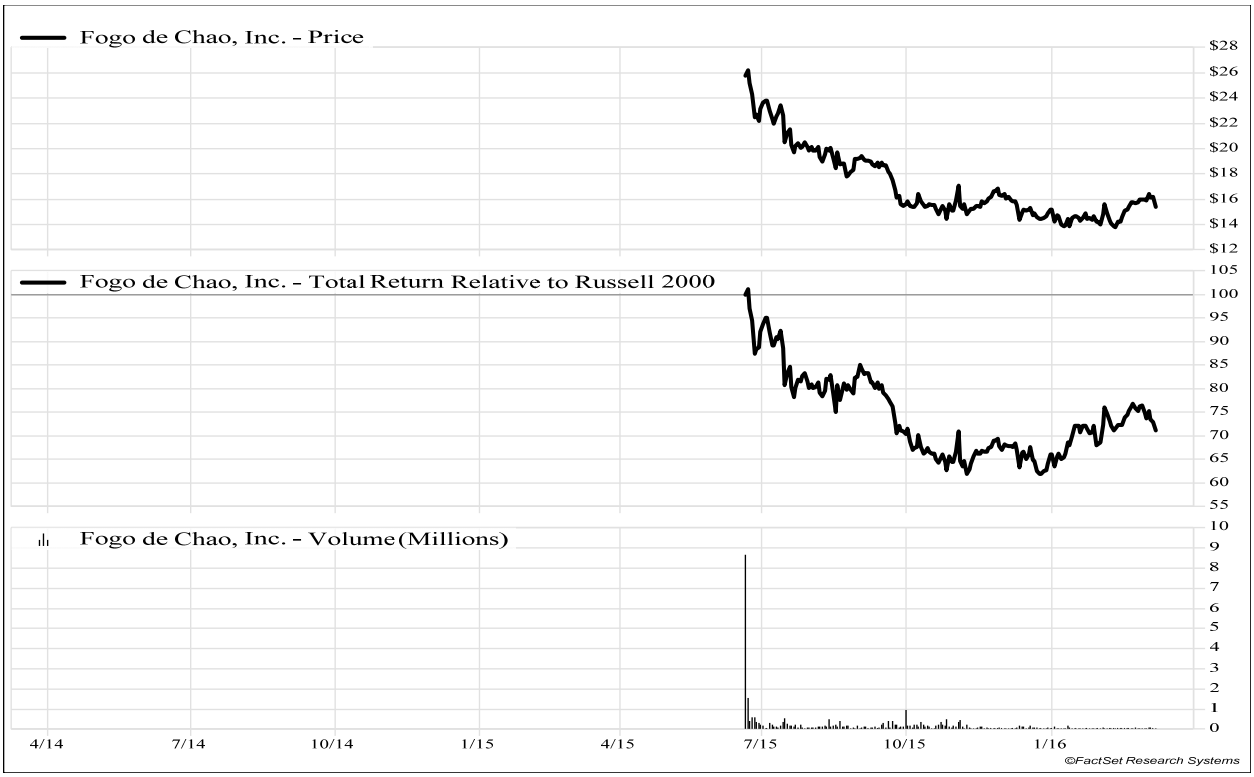
In order to reach an intrinsic value for Fogo de Chão, a 10-year discounted cash flow model was constructed. Using a WACC of 7.92% and a terminal growth rate of 2.00% resulted in a target price of $26.64. A +/- 1% sensitivity analysis on the WACC and the terminal growth rate yielded a range of $21.38 - $49.16 per share. In addition to the DCF, an EV/EBITDA model was employed. Using a 12.0x multiple and FOGO's 2016E EBITDA of $68.09 million returned a target price of $23.02 per share. Finally, a P/E model was utilized using a peer average P/E multiple of 26.1x and FOGO's 2016E EPS of $1.05, which produced a target price of $27.30 per share. Weighting the DCF, EV/EBITDA, and P/E valuation models 33% each yielded a final target price of $25.65, or an upside of 58.54% over FOGO's current price. The company does not pay a dividend at this time.

Risks

- **Macroeconomic risk.** Being a higher-end restaurant, FOGO is susceptible to economic downturns. While this is a concern, FOGO's lower exposure to business customers insulates it somewhat from economic changes. In 2008-2009, for instance, SSS were down by single digits, compared to declines of 15-20% for other high-end steakhouses. Furthermore, 25% of FOGO's sales come from Brazil, where economic and political instability have weighed on sales growth. As Fogo de Chão continues to grow in the U.S., Brazil will eventually only be approximately 10% of sales, but in the meantime the economic and political environment should be monitored.
- **Exposure to fluctuating input prices.** About 50% of FOGO's input costs are related to beef, and 19% of its input costs come from lamb, pork and chicken. Prices for these commodities shift frequently, and beef prices have risen substantially in recent years. While this is no doubt a risk, FOGO's unique model serves as a natural hedge and allows it to adapt its menu and move away from meats experiencing outsized inflation. As a result, cost of goods sold actually declined from 31.6% in 2012 to 29.9% in 2014 despite rising beef prices.
- **Ability to recruit talent.** Every Fogo de Chão location employs 8-10 Brazilian gauchos, and they currently rely on L-1B visas to bring them to the U.S. In 2009, the U.S. government temporarily stopped extending visas to FOGO's gauchos until the decision was eventually overturned on appeal. If eligibility for these visas in the future is denied, FOGO may be forced to use more American employees, which could dilute its authentic Brazilian image.

Management

Larry Johnson has been the CEO of Fogo de Chão since 2007. Prior to joining the company, Mr. Johnson was a partner at Baker & McKenzie LLP. He holds a B.A. from Arizona State University and a J.D. from Southern Methodist University. Barry McGowan and Tony Laday serve as President and CFO, respectively, and bring years of experience in the restaurant industry. Several members of the management team are Brazilian, which reinforces the company's heritage.



Source: FactSet

Ownership

% of Shares Held by All Insider and 5% Owners:	81.20%
% of Shares Held by Institutional & Mutual Fund Owners:	12.80%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
Thomas H. Lee Partners	22,199,000	79.20
Private Capital Management	697,000	2.50
Lawrence J Johnson	402,000	1.40
ClearBridge	328,000	1.20
Hawk Ridge Management	326,000	1.20

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA Margin	EV/16E EBITDA	P/16E EPS
Fogo de Chão	FOGO	449	262	21.4%	8.7x	15.2x
Ruth's Hospitality Group	RUTH	613	312	18.3%	9.5x	18.4x
Buffalo Wild Wings	BWLD	3,175	1,813	15.1%	9.8x	27.4x
Texas Roadhouse	TXRH	3,001	1,807	11.9%	11.6x	25.0x
Chuy's	CHUY	569	278	12.3%	13.8x	33.0x
Dave & Buster's	PLAY	1,553	840	21.0%	9.9x	26.6x
Peer Averages		1,782	1,010	15.7%	10.9x	26.1x

Source: FactSet

Exact Sciences Corporation (NYSE: EXAS)
March 11, 2016

Conor Connelly Domestic Health Care

Exact Sciences Corporation (EXAS) is a molecular diagnostics company focused on the early detection and prevention of colorectal cancer. The company has developed a non-invasive, stool-based DNA screening test, called Cologuard, for colorectal cancer. Cologuard is used to detect DNA markers for the presence of pre-cancerous lesions or polyps as well as the four stages of colorectal cancer. The test includes a protein marker to detect blood in the stool, utilizing 11 biomarkers (10 DNA & 1 protein) and an antibody-based fecal immunochemical test (FIT). By detecting pre-cancers and cancers early with Cologuard, affected patients are referred to a colonoscopy so the infected polyps or lesions can be removed. Exact Sciences has intellectual property rights on this product. The company also has a product pipeline that includes lung cancer nodules, pancreatic cancer screening, and esophageal cancer screening. Exact Sciences was founded in 1995, has 677 employees and is headquartered in Madison, Wisconsin.

Price ($):	6.17	Beta:	1.33	FY: Dec	12/31/2014	12/31/2015	12/31/2016	12/31/2017
Price Target ($):	9.62	WACC	7.80	Revenue (Mil)	2	39.44	95.00	150.00
52WK H-L ($):	32.85 - 4.67	M-Term Rev. Gr Rate Est:	78.8%	% Growth	-56.61	2093.38	140.90	57.90
Market Cap (mil):	654	M-Term EPS Gr Rate Est:	22.5%	Gross Margin	-229.53	27.48	55.00	60.00
Float (mil):	95.4	Debt/Equity:	1.5	EBITDA Margin	-5385.37	-384.08	-403.30	-191.60
Short Interest (%):	26.7	Debt/EBITDA (ttm):	--	EPS (Cal)	($1.25)	($1.71)	($1.65)	($1.23)
Avg. Daily Vol (mil):	1.6	ROA (%):	-46.69	FCF/Share	($1.16)	($1.67)	($1.82)	($1.54)
Dividend ($):	0.00	ROE (%):	-51.25	P/E (Cal)	--	--	--	--
Yield (%):	0.0	ROIC (%):	-50.77	EV/EBITDA	--	--	--	--

Recommendation

The colorectal cancer screening that Exact Sciences provides has the potential to change the entire framework of gastroenterology. Colon cancer is currently America's second deadliest form of cancer with 134,490 diagnoses and 49,190 deaths per year. Detecting colon cancer early is critical. It is referred to by doctors as the most preventable, yet least prevented form of cancer. This is due to the fact that pre-cancerous polyps that form in a person's colon needs ten-plus years to develop into a fully cancerous cell. Unfortunately, 60% of patients are diagnosed in stages III and IV. Of patients diagnosed in stage IV, only 10% survive for five years, while 90% of patients diagnosed in stages I and II survive at least five years. With such an alarming late-stage diagnosis rate, one would think that more people would be encouraged to undergo screening for colon cancer. However, the invasiveness of a traditional colonoscopy has kept America's colon cancer screening rate stagnant. 40% of people do not undergo colonoscopies to screen for colon cancer. Exact Sciences estimates that the potential market for U.S. colorectal cancer screenings is represented by 80 million potential patients, which translates to a $4 billion market opportunity for Cologuard. The product's performance efficiency and customer satisfaction confirms the credibility of the expectations surrounding the product. The test has 92% effective sensitivity in detecting precancer and colorectal cancer, whereas gastroenterologists have 95% effective sensitivity in detecting the cancer. In the world of medicine, that 3% discrepancy is inconsequential. Additionally, if a person has a negative screening, there is 99.6% probability that that person does not have precancer or colorectal cancer, which is a phenomenally low false-negative rate. In the instance that a person tests positive, they are recommended to undergo a traditional colonoscopy to confirm the diagnosis. Cologuard has also seen strong customer satisfaction from both physicians and patients. 98% of physicians surveyed stated that the screening process exceeded or met expectations, while 88% of patients rated Cologuard as a very positive experience. Due to the outstanding efficacy rates and extremely large penetrable market, it is recommended that Exact Sciences be added to the AIM Equity Portfolio with a price target of $9.62.

Investment Thesis

- **Growing Penetration**. The growing physician penetration rate, which measures the amount of Cologuard prescribers, has grown tremendously in the last year. As of year-end 2014, only 4,100

physicians had prescribed to Cologuard. Prescribers grew to 8,300 throughout Q1, 14,700 in Q2, 21,000 for Q3, and 27,000 throughout Q4. EXAS estimates that there are 200,000 potential Cologuard physician prescribers in the United States. As previously mentioned, 40% of adults have never been screened for colorectal cancer. These physicians will provide their patients with a screening option that can penetrate the market of unscreened patients. The patients will be consistent revenue contributors, as Cologuard screening is recommended to be used every three years. Cologuard's cost effectiveness over those three years compares favorably with established screening strategies, as its $11,313 quality-adjusted-life-year (QALYs) is lower than both cervical cancer screening ($15,500 QALYs) and breast cancer screening ($30,000 QALYs).

- **Margin Expansion.** Completed Cologuard tests continue to grow. The company reported 4,000 completed Cologuard tests in 4Q2014. Since that report, completed tests have grown at a QoQ CAGR of 84.9%. 104,000 completed tests were reported in 2015, generating $39.5mm in revenue. Guidance for 2016 accounts for 240,000 completed tests, generating $90-100 million in revenue. The company is unlikely to cut costs in the next 3-5 years due to product development, construction of new offices, and selling expenses, but a constant stream of revenue from the targeted unpenetrated market can finally propel EXAS to profitability.
- **Insurance Coverage.** Cologuard is revolutionary with respect to detecting colorectal cancer and it's also affordable. Cologuard is FDA-approved and covered by Medicare. The initial list price of the screening is $649, as the Medicare rate is $509. Medicare is covered at 100%, while the commercial market is at 24%. Nearly half of Anthem's 37.6 million members have access to Cologuard as an in-network service. The average cost of a colonoscopy is $3,500, giving patients a strong incentive to use Cologuard as a substitute. As negotiations with healthcare guidelines continue, the company is expected to reach even more customers affordably.

Valuation

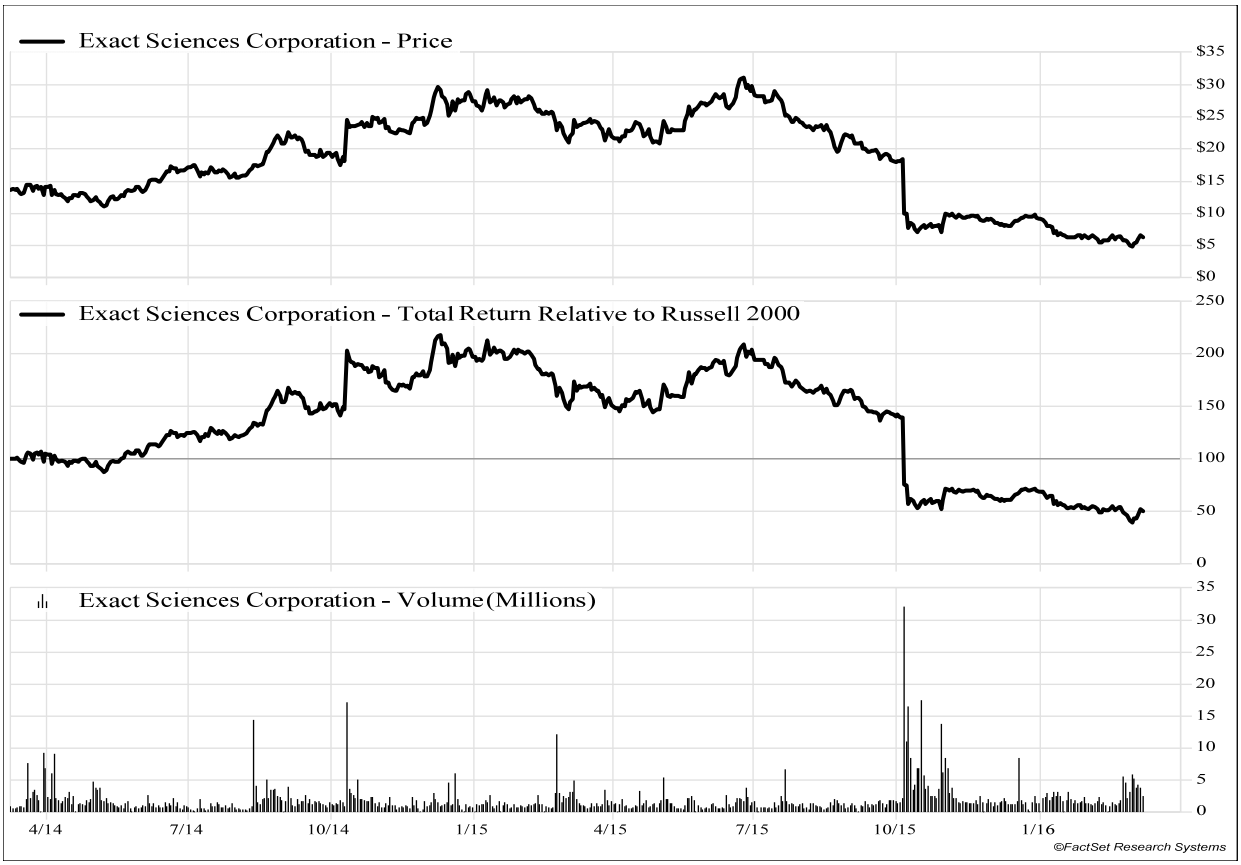
In order to reach an intrinsic value for EXAS, a five-year discounted cash flow model was constructed. Using a terminal growth rate of 2% and a WACC of 7.8%, an intrinsic value of $9.62 was generated, representing a 55.9% upside. The model expects free cash flow to become positive in 2019 and continue to grow as EBITDA margins expand.

Risks

- **Profitability**. EXAS, like many biotechnology companies, has incurred losses since its inception in 1995. The company's accumulated total deficit to date is approximately $578.6 million. Losses are expected to continue for the short-term and management expects to invest significant additional funds toward development and commercialization of Cologuard and other products. Revenue must grow significantly in order for EXAS to be profitable.
- **Dependence on Cologuard**. The success of EXAS depends heavily on the Cologuard product. Cologuard will provide the large majority of revenue generated for the company. Revenue growth depends heavily on Cologuard's acceptance in the medical community, the inclusion of Cologuard in healthcare guidelines, patient and physician acceptance of the screening technology, etc.
- **Capital Constraints**. Management believes that the company has sufficient capital to fund operations for at least the next twelve months, but may require additional capital to fully fund the current strategic plan in the long-term.

Management

Kevin Conroy has been the Chairman, President, and CEO since 2014. He previously served as the CEO of Third Wave Technologies. Additionally, Conroy was the Intellectual Property counsel at GE Health Care and served as the COO of multiple venture-backed technology companies. EXAS introduced a new CFO in 2016. John K. Bakewell was previously the CFO of Lantheus Holdings and Wright Medical Group. Graham Lidgard has been the Chief Science Officer since 2009 and oversees the company's research and product development organization.



Ownership

% of Shares Held by All Insider Owners:	2.09%
% of Shares Held by Institutional & Mutual Fund Owners:	141.65%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
The Vanguard Group, Inc.	6,697,527 ▲	6.87
William Blair Investment Management LLC	5,766,280 ▲	5.92
Capital Research & Management Co. (Global Investors)	5,531,844 ▲	5.68
SSgA Funds Management, Inc.	5,129,917 ▼	5.26
BlackRock Fund Advisors	4,697,770 ▲	4.82

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA	Dividend Yield	EV/ EBITDA
Exact Sciences Corporation	EXAS	654	39	-151.468	--	--
Epigenomics AG	ECX	103	2	-603.9	--	-9.10
Tearlab Corp	TEAR	28	18	-145.4	--	-1.20
Quest Diagnostics Inc.	DGX	9,938	7,493	20.8	2.30	8.70
Abbott Laboratories	ABT	58,446	20,405	4355.0	2.18	16.22
Baxter International Inc.	BAX	21,816	9,968	1447.0	3.33	13.91
Peer Averages		18,066	7,577	1014.7	2.60	5.7

RSP Permian, Inc. (RSPP)
March 11, 2016

Michael Reardon Domestic Energy

RSP Permian, Inc. (NYSE: RSPP) operates as an independent oil and natural gas exploration & production (E&P) company. The company extracts oil and natural gas from the Permian Basin in West Texas and is among the first operators to pursue multi-zone horizontal development in the Midland Basin, an attractive component basin of the Permian shale formations. RSPP has expertise in drilling across five different horizontal stacked pay zones within the Midland Basin. These horizontal wells comprise the bulk (70%) of production, though RSPP also drills vertically (30%) on some acreage. Production totaled 7.7 MMBoe (75% oil) during 2015, and the firm finished the year with proved reserves of 159.2 MMBoe. RSP Permian was founded by affiliates of energy-focused private equity firm Natural Gas Partners in October 2010. RSPP began trading publicly in January 2014 and is headquartered in Dallas, TX.

Price ($): (3/2/15)	26.27	Beta:	1.56	FY: Dec	2014	2015	2016E	2017E
Price Target ($):	32.05	WACC	9.3%	Revenue (Mil)	281.9	284.0	303.7	427.4
52WK H-L ($):	31-17	M-Term Rev. Gr Rate Est:	9.8%	% Growth	284.9%	0.7%	6.9%	40.7%
Market Cap (mil):	2,671	M-Term EPS Gr Rate Est:	NA	MMBoe Produced	4.33	7.68	9.40	10.34
Float (mil):	77.4	Debt/Equity:	37.6%	% Growth	62.7%	77.3%	22.4%	10.0%
Short Interest (%):	9.8	Gross Debt/EBITDA (ttm):	3.86	FCF / Share	($8.29)	($7.48)	($0.26)	$0.63
Avg. Daily Vol (mil):	1.6	ROA:	-0.6%	P / FCF	NA	NA	NA	41.6x
Dividend ($):	0.00	ROE:	-1.0%	EBITDA (Mil)	$185.3	$181.2	$209.5	$297.0
Yield (%):	0.0	ROIC:	-0.7%	EV/EBITDA	15.3x	15.6x	13.5x	9.5x

Recommendation

The global energy industry has continued to face considerable pressure in 2016 following the sharp decline in energy prices and drilling activity that began in June 2014. In the last 18 months, the Baker Hughes domestic rig count has fallen by 75%, and current estimates suggest large swaths of major oil basins are unprofitable under legacy assumptions regarding well productivity and marginal cost of production. Nearly all basins fail to meet the industry's historical 15% IRR hurdle rate despite most E&P companies' cost structures running leaner than they have at any point during the last 10 years. Notable exceptions to this trend include the Northern Midland Lower Spraberry (27% estimated average IRR) and Wolfcamp (26%) plays, which remain profitable and are the focal points of RSPP's operations. If the low-commodity price environment persists, few independent E&Ps pursuing production outside of the Midland plays will be selling oil above breakeven costs. Combining this with the highly levered balance sheets of operators, many of these companies will face difficulties meeting debt payments – indeed, 14% of E&Ps defaulted on their debt over the last 12 months, and forecasts suggest this rate will continue to increase. Companies with operating cost advantages, strong balance sheets, and ample liquidity are likely to emerge from this current commodity cycle in a superior position. RSP Permian is a member of this group: it operates with peer-leading operating efficiency on superior acreage and has a solid balance sheet. For those reasons, it is recommended that RSP Permian, Inc. be added to the AIM Equity Fund with a price target of $32.05, which represents a 22.0% upside. RSPP does not pay a dividend.

Investment Thesis

- **Peer-Leading Efficiency.** RSPP pioneered the use of a multi-bench horizontal drilling in the Permian. RSPP's acreage sits above several different layers of oil-producing shale, and the firm has the flexibility and optionality to drill and produce from one or more of these benches at any one location. These advantages are evident in the P&L, with RSPP posting lower (and improving) F&D, LOE, production, and G&A expenses versus peers in 2015, and significantly higher cash margins versus peers (~$27/bbl vs. ~$23/bbl) in 4Q15.
- **Superior Acreage.** Materially all of RSPP's 64,000 surface acres are located on large, contiguous tracts in the Midland Basin in West Texas. Midland is the premier unconventional oil basin in the

US, characterized by lowest breakeven and production costs in the country. The basin is particularly advantageous for RSPP given the company's multi-bench expertise, and the contiguous acreage allows for ultra-long laterals (average ~7,100 ft, 8% greater than peer average 6,600 ft) which allows RSPP to further leverage fixed well costs and drive additional operational efficiency. RSPP has taken advantage of the recent distress in the energy industry and has been purchasing additional acreage at attractive valuations (resulting in the near tripling of proved reserves since 2013).

- **Strong Balance Sheet.** RSP Permian had $143 million in cash on hand at year end 2015, with an additional $600 million in liquidity available under revolving credit facilities. RSPP's only debt comes in the form of $700 million in senior notes due 2022. The firm is expected to generate ample operating cash flow (>$200MM) to cover interest payments (~$45MM), with additional cash available for discretionary purposes such as purchasing quality acreage opportunistically from distressed operators. Additionally, RSPP's 37.6% debt/equity ratio is better than peers' average of 54.4% and RSPP's net debt/EBITDAX multiple of 2.0x is better than its peers' average multiple by ~0.5x.

Valuation

To reach an intrinsic value for RSPP, a peer EV/EBITDA valuation model was constructed. Using a 2016 peer multiple of 16.8x and RSPP's estimated $210MM EBITDA resulted in a target price of $34.24. Additionally, a PV10 Net Asset Value analysis resulted in a target price of $29.86. Sensitivity analyses around the disocunt rate, production expense per barrel and value per undeveloped acre showed price ranges of $24.34 to $36.49. Weighting the NAV and peer multiple valuation methods equally, an intrinsic value of $32.05 was established, representing a 22.0% upside from the current share price of $26.27.

Risks

- **Cyclical Headwinds.** The energy industry faces continued pressure from an oversupplied commodity environment, which has depressed pricing for oil and natural gas and pressured industry margins. If a "lower for longer" scenario materializes, performance will be negatively impacted.
- **Supplier Risk.** OFS companies have been under extreme pressure over the last 18 months as E&Ps squeeze them for cost efficiencies. As a result, default risk is most evident in this segment of the energy industry. OFS defaults would remove capacity from the industry and cause an increase in production costs for E&Ps, which could erode RSPP's cost advantage.
- **Geographic Concentration.** Materially all of RSPP's operations and revenues are located in a five-county area in West Texas. Any disruption to this market, including supply/demand issues, transportation or capacity constraints, or weather-related factors could pose a risk to the business.
- **Incentives May Not Be Aligned.** Two non-executive insiders own a material portion of RSPP's common equity. Directors Ted Collins, Jr. and Michael Wallace could use their significant holdings to elect other directors that support interests in opposition to those of other shareholders.
- **Equity Dilution Risk.** RSPP has previously accessed the equity markets in order to finance purchases of additional acreage. A similar event would dilute the AIM Fund's investment; however, management has stated it prefers finance acquisitions with cash on hand and will only access the capital markets if an opportunity is significantly large and attractively valued.

Management

Steven Gray is the CEO of RSP Permian Inc and is one of the firm's founding members. Mr. Gray has worked as an executive for several Natural Gas Partners-backed ventures since 1993 and holds a degree in Petroleum Engineering from Texas Tech. CFO Scott McNeill has been in his role since September 2013. Previously, he was a managing director in the energy investment banking group of Raymond James and earned an MBA from the University of Texas. Two non-executive insiders own nearly 20% of the company: Directors Ted Collins, Jr. and Michael Wallace each contributed assets to RSPP in conjunction with the founding of RSPP and have each spent their entire careers in the energy industry.

Ownership

% of Shares Held by All Insider Owners:	23.2%
% of Shares Held by Institutional & Mutual Fund Owners:	>90%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
TIAA-CREF Investment Management LLC	13,007,429 ▲	12.90
COLLINS TED JR	8,906,088 ▲	8.83
Wellington Management Co. LLP	8,804,372 ▼	8.73
Wallace Family Partnership LP	8,689,126 —	8.62
Robeco Investment Management, Inc.	4,967,707 ▼	4.93

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	D/E	2015 Production (MBoe)	2016E EBITDA	2016 EV/ EBITDA
RSP Permian, Inc.	RSPP	2,671	37.6%	7,682	$210M	13.5x
Diamondback Energy, Inc.	FANG	5,283	26.4%	12,081	$264M	20.3x
Pioneer Natural Resources Co	PXD	21,429	43.7%	74,478	$1328M	15.9x
Range Resources Corporation	RRC	4,826	96.1%	84,888	$555M	12.8x
EOG Resources, Inc.	EOG	36,842	51.5%	208,900	$2341M	18.2x
Peer Averages		17,095	54.4%	95,087	$1122M	16.8x

Source: FactSet