Applied Investment Management (AIM) Program

AIM Class of 2013 Equity Fund Reports
Spring 2012

Date: Friday, March 2, 2012 Location: Chicago, IL

Student Presenter	Company Name	Ticker	Price	Page No.
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Varun Varma	Compagnie Generale de Geophysique-Veritas S.A.	CVG	$31.20	11

Thank you for taking the time today and participating in the AIM 'road show' during our Chicago visit. 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 minutes presenting their formal recommendation, which is then followed by about 5-10 minutes of Q & A. Again, thank you for allowing us the opportunity to present at your firm.

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Computer Programs and Systems, Inc. (CPSI)
March 2, 2012

Elizabeth Buckton Healthcare

Computer Programs and Systems Inc. (CPSI) is a healthcare information technology company that designs, markets, installs and supports computerized information technology systems to small and midsized healthcare providers (i.e. <300 beds). CPSI is a single-source vendor that provides products and service solutions in the areas of patient management, financial accounting, clinical and patient care, and enterprise and office applications. CPSI's revenue is derived from three distinct segments: System Sales (40.7% 2011 revenue), Support and Maintenance (38.9%), and Business Management Services (20.3%). The company employs 1,200 specialized personnel at their Alabama and Louisiana offices. CPSI was founded in 1979 and is headquartered in Mobile, Alabama - they have grown to serve over 650 hospital customers across 47 states and the District of Columbia.

				FY: December	2010A	2011E	2012E
Price ($) (2/24/12)	61.96	Beta:	0.86	Revenue (Mil)	153	173	200
Price Taget ($):	78.42	WACC	9.6%	% Growth	19.97%	13.20%	15.00%
52WK Range ($):	41.80-79.06	M-Term Rev. Gr Rate Est:	11.0%	Gross Margin	42.02%	45.77%	46.00%
Market Cap:	685.40M	M-Term EPS Gr Rate Est:	16.2%	Operating Margin	18.99%	23.80%	24.20%
Float	10.2M	Debt/Equity	0.0%	EPS (Cal)	$1.71A	$2.36E	$2.88E
Short Interest (%):	5.2%	ROA:	32.0%	FCF/Share	1.33	2.36	2.97
Avg. Daily Vol:	115.9 K	ROE:	42.0%	P/E (Cal)	36.24	26.29	21.55
Dividend ($):	$ 1.44						
Yield (%):	2.82%						

Recommendation

CPSI is well positioned to continue to capitalize on the rising demand for healthcare information technology - especially with the onset of additional government regulation. Since 2009, CPSI has been able to double their free cash flow to $14.55M, which has been used to increase shareholder wealth through debt reduction, capital expenditures and regular dividends (2.82% yield). CPSI's quarterly cash dividend was recently raised from $0.36 to $0.46 in Q411, which supports the firm's financial stability. Additionally, while the company carries no debt, they have also sought ways to decrease their other liabilities. In the most recent quarter CPSI paid $9.5M to acquire their headquarters which they previously had been leasing since 1992. This acquisition is expected to yield an additional $0.06 to the annual EPS. Of the 97 critical access hospitals listed in the CMS data, 40 of these hospitals, (41%) have CPSI as the complete electronic medical records "EMR" they attested with, making them the leader by far. Because of CPSI's proven ability to maintain market share and expand into a highly competitive market place, it is recommended that CPSI be added to the AIM Small Cap Fund with a target price of $78.42, representing a 26.5% upside.

Investment Thesis

American Recovery and Reinvestment Act of 2009. In 2009, President Obama signed this economic stimulus package into law, which included a number of healthcare policy provisions, including $19B in funding for health information technology initiatives. Since 2009, CPSI's annual revenues have jumped from $127M to $173M. In addition, this plan offers reimbursement incentives to Medicare and Medicaid providers that utilize certified electronic health records. The incentives for hospitals are set to expire as of October 2015. With pressures mounting to reduce medical errors and improve patient safety, it is expected that most hospitals will continue to actively seek information technology solutions. Additionally, of CPSI's current 650 clients, all of them will have to buy the physician documentation module in order to reach the Stage 2 requirement which will continue to expand on the baseline for electronic data capture and be developed through future rule making.

Expanding Presence in Target Markets. CPSI will continue to target their core market of mid- and small sized hospitals. According to the American Hospital Association, there are approximately 5,000 hospitals within CPSI's target market – a segment that has traditionally been overlooked. As of Q411, the company had penetrated 41% of critical access hospitals. Thus far, CPSI has received 41 orders for 2012 and expect that this trend will continue, resulting in an anticipated 12% increase in gross revenues. The company is well positioned to continue to capitalize on this target market because these hospitals typically demonstrate a greater commitment to enterprise-wide, fully integrated systems than larger hospitals.

Emphasizing Reoccurring Revenue Opportunities. In addition to revenues from new system installations, CPSI has developed, and will continue to develop, sources of reoccurring revenues. CPSI's current principal source of recurring revenues is the support and maintenance fees paid by existing customers, which increased 15% from 2010 to 2011. Currently, add-on sales from existing clients make up 31% of CPSI's total revenue and are expected to grow as their customer base grows. Software products on a "Software as a Service" (SaaS) basis provide remote access to the CPSI system offer monthly fee reoccurring revenue streams.

Valuation

Using a 10-year DCF with a computed WACC of 9.6% and a LT growth rate of 3%, an intrinsic value of $78.42 was determined for CPSI. The DCF model grew revenues in the near term at an average of 15% per year and maintained operating margins at around 20%. In addition, a 25x PE multiple was applied to 2012 EPS forecast of $2.88 and yielded an intrinsic value of $104.19. Taking both methods equally into account, a $78 price target was established, representing a potential 26.5% upside. The firm pays a $1.44 yearly dividend.

Risks

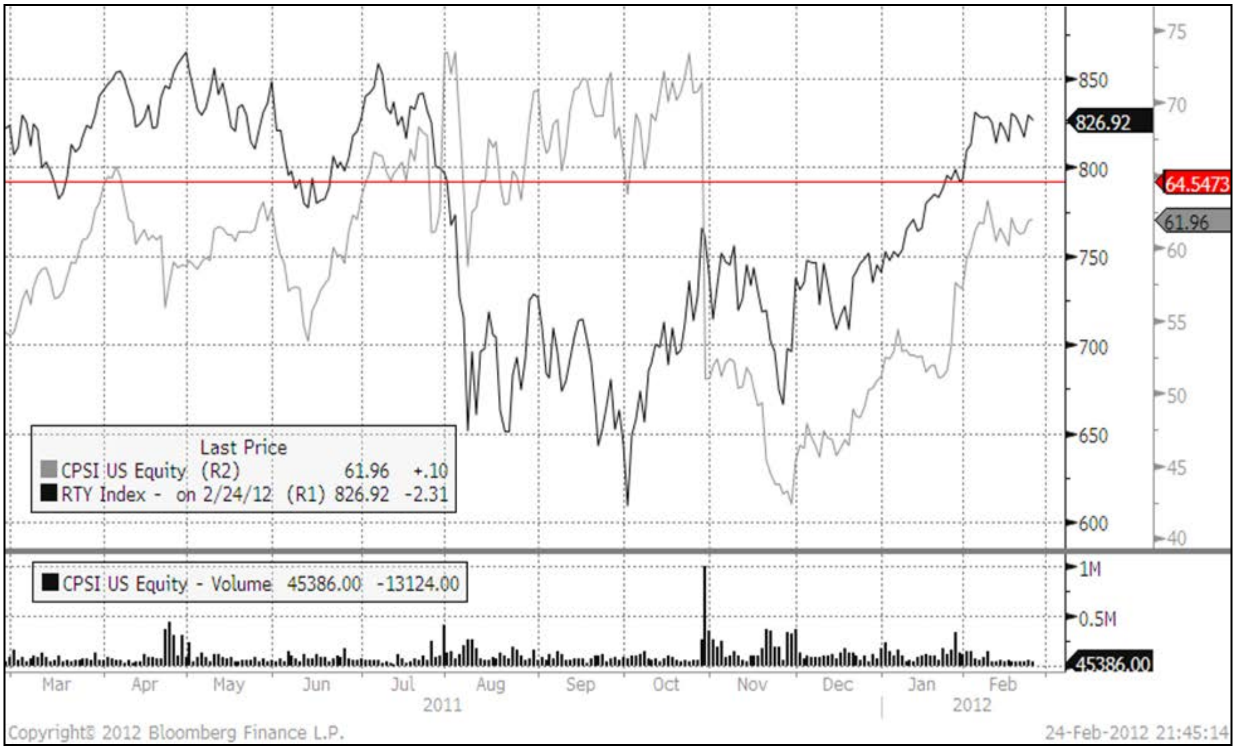
Potential Changes in the Medicare and Medicaid Program. Small reimbursement changes in federal and state healthcare programs can have large impacts on community hospitals as compared to large facilities that typically generate large proportions of their revenue from private beneficiaries. Consequently, reductions in reimbursements from Medicare and Medicaid could lead to hospitals postponing expenditures on information technology.

Heightened Competition. Government regulations have resulted in more than 750 companies offering some kind of electronic medical records ("EMR") solution entering in the span of two years. This competition from emerging and established companies is expected to continue in the future. Some of these companies, including McKesson Corporation and Siemens Corporation, are significantly larger than CPSI (30x and 115x, respectively).

Cyclical Nature. CPSI's new systems sales are driven by the cyclicality of the markets. Such factors include: changes in hospital volume, change in the regulatory environment, and change in reimbursement policies. These unpredictable events affect the timing of purchasing decisions, all of which are beyond CPSI's control.

Management

David A. Dye is Chairman of the Board, Chief Financial Officer of CPSI. He has been employed by CPSI for more than 16 years in a number of positions and areas and has served in senior executive positions for over 10 years, including as Chief Executive Officer for seven years, providing him with knowledge of CPSI's operations. J. Boyd Douglas has served as President and CEO since May 2006 and was elected as a director in 2002. He first began his career with the company in August 1988 as a Financial Software Support Representative. Despite having a relatively younger management team, the senior management team has an average tenure with CPSI in excess of 15 years.



Ownership

% of Shares Held by All Insider and 5% Owners:	11.17%
% of Shares Held by Institutional & Mutual Fund Owners:	85.26%

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
Kanye Anderson Rudnick Inv. Management	714,522	6.46
Vanguard Group, Inc.	634,951	5.74
Wasatch Advisors Inc.	535,285	4.84
Blackrock Fund Advisors	456,937	4.13
BlackRock Institutional Trust Company, N.A.	387,578	3.12

Source: Bloomberg

Kilroy Realty Corporation (KRC)
March 2, 2012

Brent Adams | Financial Services

Kilroy Realty (KRC) is a real estate investment trust which owns, operates, develops, and acquires Class A suburban office and industrial real estate in key submarkets in Southern California and Washington state. KRC's portfolio consists of 104 office and 39 industrial buildings, encompassing 11.4 million and 3.4 million square feet, respectively. KRC's top five markets in terms of percentage of net operating income include San Diego (49%), Los Angeles/Ventura County (20%), San Francisco (14%), Greater Seattle (6%), and Orange County (4%). KRC operates in two reportable segments: office properties and industrial properties representing 92% and 8% of total annualized base rental revenue, respectively. Headquartered in Los Angeles California, KCR has extensive experience and significant working relationships with major Southern California corporate tenants, municipalities, and landowners, given the company's 60 year presence in the Southern California market.

Financial Services/REIT

					FY: Dec	2011A	2012E	2013E
Price ($): (2/24/12)	43.76	Beta:	1.13		Revenue (mil):	367.13	404.09	432.45
Price Target ($):	45.00	WACC (%):	7.5		% Growth:	27.74	10.07	7.02
52WK H-L ($):	44.20-28.34	L-Term Rev. Gr Rate Est (%):	4.00		Profit Margin (%):	17.98	1.07	3.36
Market Cap (mil):	2,989.12	L-Term EPS Gr Rate Est (%):	2.00		Operating Margin (%):	2.33	5.25	8.75
Float (mil):	66.91	Debt/Equity (%):	142.75		EPS (Cal):	0.87	0.11	0.16
Short Interest (%):	6.48	ROA (%):	2.11		P/FFO (Cal):	16.62	18.44	17.23
Avg. Daily Vol (mil):	0.655	ROE (%):	4.78		P/E (Cal):	43.75	390.91	268.75
Dividend ($):	1.40	Cap Rate (%):	6.21		EV/EBITDA (Cal):	18.50	19.31	18.03
Yield (%):	3.2				FFO/Share ($):	2.29	2.44	2.67

Recommendation

The U.S. commercial real estate market has improved steadily since bottoming out in 2009. The recent increase in demand has been driven by improved corporate profits and improved employment levels with the unemployment rate dropping to 8.3%. Limited new supply emerging in 2012 (<1% growth) should help increase absorption and reduce the vacancy rate of 12.8%. As vacancies decrease and rental rates increase, with KRC's attractive properties and a vacancy rate of 7.6%, it will be well positioned to take advantage of the growth. KRC has outperformed in its markets and its sector taken as a whole with an occupancy rate of 92.4% compared to ~87% for the overall market. Additionally, KRC's prime locations in Southern California will benefit from the influx of new technology companies looking for high quality office space. Because of these reasons and a favorable valuation, it is recommended that KRC be retained in the AIM Equity Fund with a target price of $45.00, which offers an upside of 2.85%. In addition to the potential upside KRC also pays a yearly dividend of $1.40, yielding 3.24%.

Investment Thesis

- **Improving U.S. Economic Picture.** The CEO Confidence Index has improved each month since the end of September 2011 with business spending and hiring coming in above expectations. As corporate profits continue to rise, with the U.S. Corporate Profits Index increasing 6.1% through the first three quarters of 2011 and 25.3% since the beginning of 2010, job growth should increase resulting in an increased need for office space driving occupancy rates and rents higher.
- **Increased Acquisition Activity.** KRC was an active buyer in 2011 purchasing nearly $640 million of assets amounting to 11 office properties and 1.98 million-square-feet. The purchases

spanning San Diego, San Francisco and Seattle further diversified its holdings and beefed up the office portfolio.

- **Looking to Sell California Industrial Portfolio.** Kilroy has received several unsolicited bids for industrial properties that exceed its internal valuations. The portfolio is expected to draw strong interest because it consists of similar quality properties in one market. Given the intense demand from investors attracted by strong tenant demand and rising rents, KRC should be able to sell the properties at a premium to its internal valuations. With proceeds of the property sales, KRC will look to acquire more office properties and pay down a piece of its $1.9B outstanding debt. The 3.4 million-square-foot industrial portfolio encompasses 39 fully leased warehouses.

Valuation

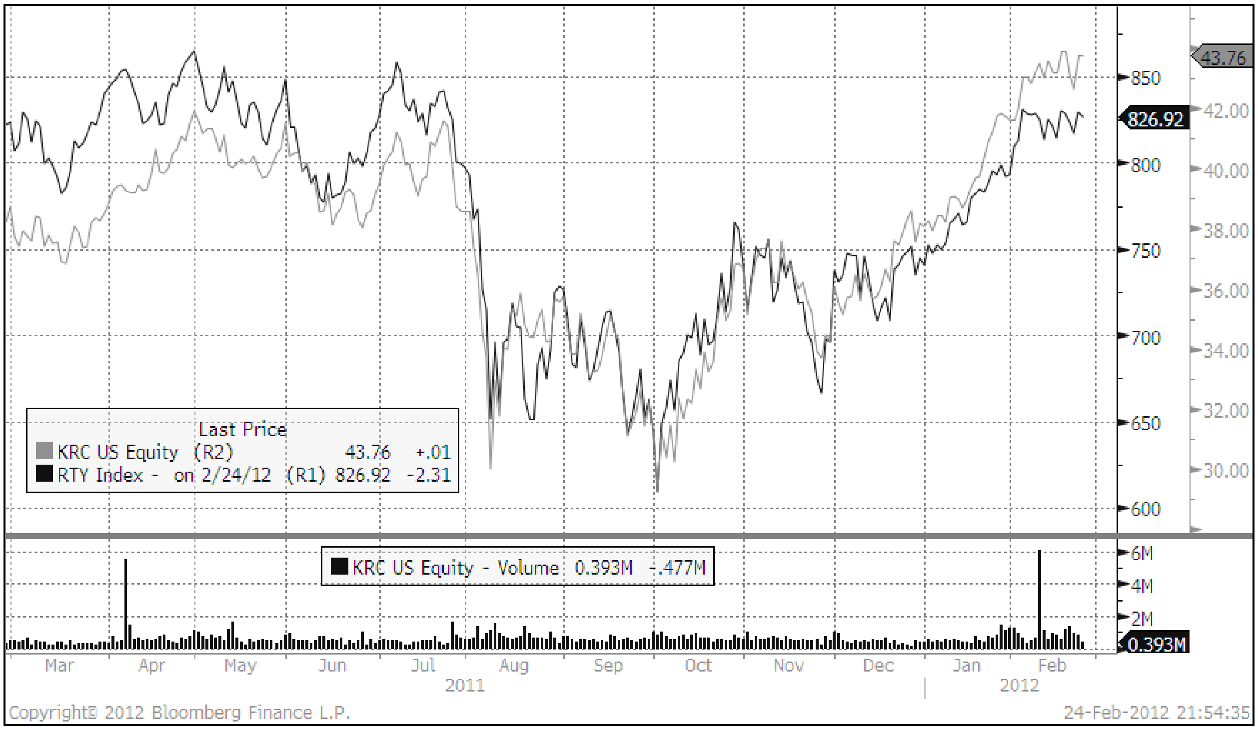
To find the intrinsic value of KRC, a five-year Free Cash Flow-to-Equity Model was conducted. A blended growth rate of 3.08% was applied to account for historical growth, fundamental calculations and analysts' predictions. The sensitivity analysis accounted for variations in the current growth rate. A conservative cost of equity of 12.1% was used and yielded an intrinsic value of $38.05. A five-year Dividend Discount Model was also constructed using a dividend payout ratio of 161% and yielded an intrinsic value of $55.51. A P/FFO multiples approach was also used taking KRC's historical average of 14.96x and a peer average of 16.46x. Applying the calculated P/FFO multiple of 15.71x to a projected 2012 FFO per share of 2.44, yielded an intrinsic value of $38.33. Weighting the DDM and P/FFO valuations at 40% each and the FCFE valuation at 20%, a price target of $45 was derived. The firm also pays a yearly dividend of $1.40, yielding 3.24%.

Risks

- **Shifting Focus to Office Properties.** As KRC looks to sell off its entire industrial portfolio, the sell-side analysts' main focus has shifted to how KRC will use the extra cash. It will be important for KRC to make informed purchases and avoid wasting shareholder money.
- **U.S. Economic Growth.** With GDP growth expectations at a measly 1.8% for 2012, companies may not be able to generate sufficient new job growth to reduce unemployment significantly until 2H12. Corporate profits will need to improve at a higher rate to sustain growth and avoid the risk of a double-dip recession. However, the recovery seen in New York, Boston, San Francisco Houston, Dallas and Seattle can be attributed to increased development in energy and technology companies.

Management

Mr. John B. Kilroy, Sr. has served as Chairman of the Board of Kilroy Realty Corporation since its incorporation in September 1996 and founded the company in 1947. Mr. Kilroy is a nationally recognized member of the real estate community, providing the Company with strategic leadership and a broad based network of relationships. Mr. John B Kilroy, Jr. has acted as CEO since the company's incorporation.



Ownership

% of Shares Held by All Insider and 5% Owners:	2%
% of Shares Held by Institutional & Mutual Fund Owners:	67.8%

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
Cohen & Steers Capital Management	7,274,911	10.65
Vanguard Group Inc.	6,210,393	9.09
T. Rowe Price Association	5,905,760	8.65
Invesco Ltd.	4,472,094	6.55
Daiwa Securities Group	3,187,606	4.67

Source: Bloomberg

Lao Feng Xiang Co. (900905)
March 2, 2012

Atena Liu — Consumer Cyclical

Lao Feng Xiang (SSE: 900905) produces and markets jewelry products in mainland China and other parts of Asia. Currently it operates 1080 stores in 26 of 34 Chinese provinces. The company sells gold, silver, diamond, jade and other types of jewelries under the brand name Lao Feng Xiang (LFX). The firm also sells non-jewelry products such as stationary and handicrafts. As of last fiscal year, the jewelry sector accounted for 79.7% of total revenue, contributing 87.1% of total operating income. Currently, LFX is traded under two classes of shares on Shanghai Stock Exchange (SSE). Class A shares (code: 600612) are trading under CNY and Class B shares (900905) are trading under USD. Established in 1848, the corporate headquarters are located in Shanghai, China with three domestic production facilities and one international production facility.

Price ($) (4/29/11)	2.32	Beta:	0.98
Price Taget ($):	6.10	WACC	11.7%
52WK Range ($):	1.87-2.99	M-Term Rev. Gr Rate Est:	14.9%
Market Cap:	3.54B	M-Term EPS Gr Rate Est:	10.0%
Float	156.22M	Debt/Equity	12.1%
Short Interest (%):	0.0%	ROA:	6.0%
Avg. Daily Vol:	800.2K	ROE:	19.4%
Dividend ($):	N/A		
Yield (%):	N/A		

FY: December	2010A	2011E	2012E
Revenue (Mil)	$2841.4E	$3717.0E	$4617.0E
% Growth	53.20%	30.60%	23.97%
Gross Margin	8.91%	9.00%	9.10%
Operating Margin	4.56%	4.54%	4.58%
EPS (Cal)	$0.14A	$0.24E	$0.33E
FCF/Share	-$0.15A	$0.00E	$0.01E
P/E (Cal)	16.6x	9.7x	7.0x

Recommendation

LFX's revenue has been growing at a CAGR of 27% for the past five years and 30% for the past ten years. According to a research report produced by AM Mindpower Solutions, China is currently the second largest jewelry market in Asia (India is the largest). Gold jewelry holds a 55% market share and is expected to grow at a five-year CAGR of 16.4%. In this rapidly growing market, LFX has achieved a reputational brand name across China. The firm's jewelry market share is 15% and they possess an 88.5% customer satisfaction rate. They are targeting to open annually one or two flagship stores in major cities and at least 100 new franchise stores. With a solid market among middle-aged and older citizens residing in tier 2 and tier 3 cities in China, LFX is planning to develop products for the younger generation. They also intend to extend into the western part of mainland China, Hong Kong, and Southeastern Asia. The company's management is poised to substantially increase the portion of chain stores in order to better market the favorable brand name. Currently, their major revenues come from precious metal products, yet they are trying to expand into gemstone-made products. This category has already achieved a 64% revenue growth since FY10. Eventually, this shift in product mix will help reduce the negative impact that volatile gold prices bring to their margins. Given the growth of the Chinese urban population and the solid brand name LFX enjoys in the market, it is recommended the LFX be considered a long-term buy for investors seeking exposure to the Chinese consumer market.

Investment Thesis

- **Increase in urbanization rate in China drives the huge demand for luxury products.** By the end of 2010, the urbanization rate in China reached roughly 50%. According to a government report, there will be approximately 300 million more Chinese living in urban centers between now and 2025. According to Albert Cheng from the World Gold Council, China can potentially reach 50% of the global luxury market, up from the current 27%. Analysts from HSBC estimate that 80% of luxury sales are from first-time buyers, thus the growing urban population and wealthy class will be the major drivers of LFX's future sales.
- **Inflation in China in recent years and uncertainty of political factors are the drivers making more people buy gold to preserve value.** For the past few years, China experienced a 10.4%

annual GDP growth, along with 4.5% inflation as of January 2012, which has caused some consumers to purchase gold as a defensive investment strategy. The volatility of inflation can be viewed as a benefactor for LFX as it will drive up the demand for gold and other precious metals and jewels.

- **Strong management and prestigious brand name provide a wide economic moat**. The current management has done extremely well in growing the company since the current CEO took control in 1998. The company is supported, but not heavily regulated by the Chinese government. Compared to other brand names, LFX is more well-known in mainland China, and therefore has a comparative advantage in marketing to the growing urban population. In terms of inventory turnover, LFX has the highest five-year geometric growth rate of 3.27% compared to its peers.
- **Diversified product portfolio and extensive sales network provide shield from competition**. With 164 years of experience, LFX utilizes its understanding of jewelry in traditional Chinese culture. Apart from the function as personal accessories, certain jewelries artifacts are also cultural symbols that bring good fortune to the house or a new year. Compared to its major competitors, LFX developed a wider variety of products that fulfill this function. Also, their national chain has the most extensive network in the country. LFX is the pioneer to open stores in inland provinces where few other competitors exist. From the reasons stated above, it is hard for both domestic and international competitors to threaten LFX's market leadership position.

Valuation

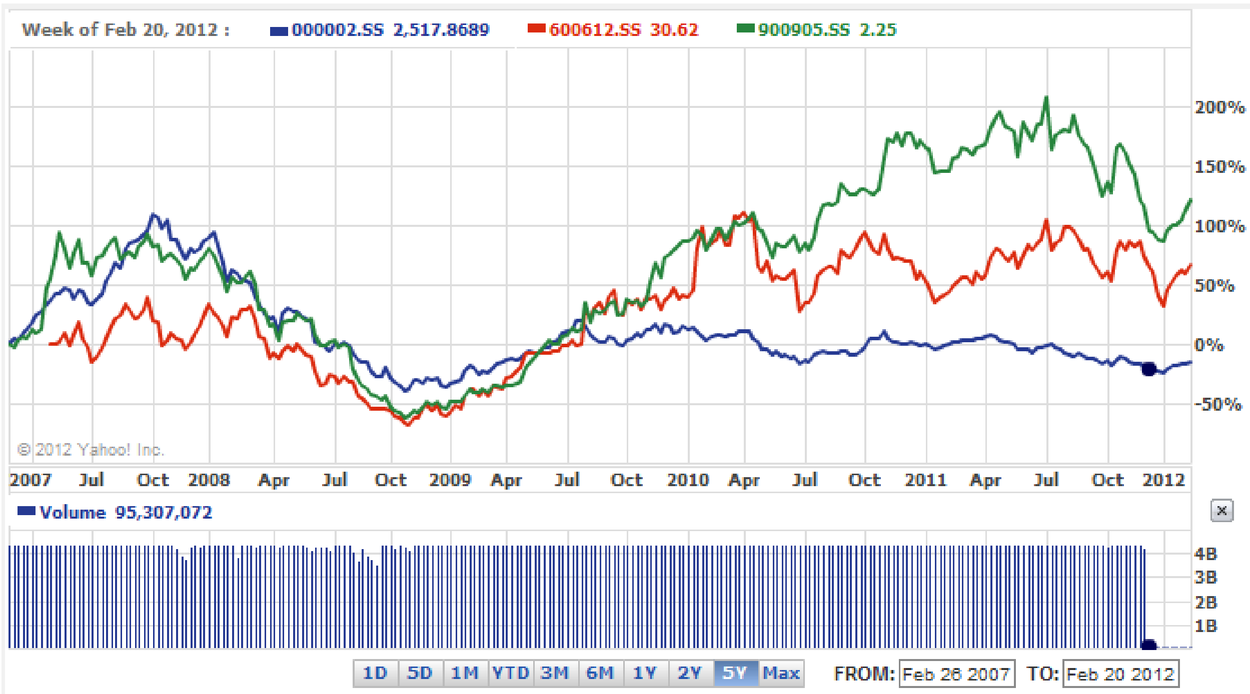
To find the intrinsic value of LFX, a ten-year DCF was conducted. Sales growth rates were varied year-to-year to account for the phasing out of non-strategic brands. A WACC of 11.69% was used and yielded an intrinsic value of $2.48. A sensitivity analysis accounted for variations in WACC and also in COGS as a percent of total sales resulting in a range of values from $1.65 to $3.99. An EV/EBITDA multiples approach was also used. With an EV/EBITDA (ttm) of 14.19x, this method provided an intrinsic value of $7.22. Giving a 70/30 weight to multiples and growth method respectively, a price target of $5.80 was established which represents a 152% upside. The firm does not pay a dividend.

Risks

- Volatility in gold prices due to uncertainty in the global economy increases pricing risk for the firm. A dip in the price of gold could tremendously hurt their inventory value and current profit margins. Consumers might also have less incentive to purchase gold to preserve value if gold prices were to fall significantly.
- Increased competition from international jewelry retailers is a risk. Some of LFX's major competitors, such as Tiffany and Chow Sang Sang, have targeted the younger generation in coastal cities of mainland China. The inability to differentiate their products and develop new markets could substantially hurt LFX's market penetration.
- Instability in the global and domestic economic market could possibly affect consumer confidence. Additionally, the uncertainty of the global economy could bring greater volatility to gold prices. Also, China's change in political leadership, as well as pressure to reduce state holdings in companies, could impact the company's operation in both directions.

Management

Shugang Hu is the CEO as well as the Chairman of Board of Lao Feng Xiang. He has been working for the company since 1985 and became CEO in 1998, when the company is still named China First Pencil. He has been very successful at implementing revolutionizing measures to achieve rapid growth and increase Margins. Hua Huang is the CFO. He joined the company in 2007 and became one of the members of the Board of Directors in 2008.



Legend: 000002.SS: Shanghai Stock Exchange A share Index
600612.SS: LFX A Shares
900905.SS: LFX B Shares

Ownership

% of Shares Held by All Insider and 5% Owners:	9.4%
% of Shares Held by Institutional & Mutual Fund Owners:	13.74%

Source: Company Financial Statement

Top 5 Shareholders

Holder	Shares	% Out
State-owned Assets Supervision and Administration Committee of Huangpu District of Shanghai	183, 476, 494	54.7%
GaoLing Fund, L.P	15, 457, 326	4.61%
HTHK-Manulife China Value Fund	7, 585, 151	2.26%
Manulife TEDA Market Value Selection Stock Fund	7, 495, 774	2.23%
China International Domestic Demand Dynamic Stock Fund	7, 166, 216	2.14%

Source: Company Financial Statement

Compagnie Générale de Géophysique-Veritas S.A- ADR(CGV)
March 2, 2012

Varun Varma | International Energy

Compagnie Générale de Géophysique-Veritas (CGGVeritas) (NYSE: CGV) is a global participant in the geophysical seismic industry. They are primarily a manufacturer of geophysical equipment and a provider of wide ranging services including seismic data acquisition and related software to the oil and gas exploration & production industry. The company operates in two segments: Services and Equipment, which account for 72% and 28% of revenues, respectively. The Services segment is composed of Marine Seismic Data Acquisition (41%), Land Seismic Data Acquisition (18%), and Data Processing, Imaging, and Reservoir Management (13%). The Equipment segment operates through its subsidiary, Sercel, which is the leading seismic equipment producer. The business operates globally and recognizes revenue from North America (27%), South and Central Americas (13%), Europe, Africa, Middle East (40%) and Asia Pacific (20%). After the merger of Compagnie Générale de Géophysique and Veritas in September 2006, CGGVeritas is the world's largest seismic company with approximately 7000 employees. Founded in 1931, CGGVeritas is headquartered in Paris, France.

Price ($) (2/24/12)	30.41	Beta:	1.89	FY: December	2010A	2011E	2012E
Price Taget ($):	31	WACC	11.2%	Revenue (Mil)	2,900	3,235	3,785
52WK Range ($):	15.08-38.12	M-Term Rev. Gr Rate Est:	15.0%	% Growth	-6.87%	11.55%	17.00%
Market Cap:	4.74B	M-Term EPS Gr Rate Est:	15.0%	Gross Margin	20.12%	22.20%	26.40%
Float	134.41M	Debt/Equity	51.0%	Operating Margin	3.07%	8.63%	14.90%
Short Interest (%):	0.2%	ROA:	-1.1%	EPS (Cal)	-$0.39A	$0.43E	$1.82E
Avg. Daily Vol:	78.40K	ROE:	-2.1%	FCF/Share	-0.71	0.17	1.92
Dividend ($):	N/A			P/E (Cal)	(78.94)	71.15	16.67
Yield (%):	N/A						

Recommendation:

The last few years have been extremely difficult for the geophysical seismic industry because of the highly cyclical and volatile nature of the industry which has cycles that last 2 to 3 years. The cycles are caused by the significant reliance on the spending of oil E&P companies, which in turn is influenced by factors related to geopolitical uncertainties and the balance of supply and demand for oil and natural gas. There is growing expansion efforts into off-shore and deep-water drilling within the E&P industry for the next few years. With 40% of CGV's revenue coming from the marine segment, this increase will be beneficial as high end data and technology is needed because of increased pressure to have successful drilling rates. In order to maintain their market share (33%), CGV is also looking to expand their data acquisition into new growing basins of Brazil and Angola, and are looking to get back into the Gulf of Mexico after the moratorium from the Macondo spill. However, even with the strong potential growth which might be limited due to the cyclical nature of the industry, it seems as if the market has priced in the potential growth into the current market price and therefore CGV is recommended as a hold with a price target of $31 – only providing a 1.50% upside.

Investment Thesis

- **Growing Demand for Seismic Data Translates to Price Increases.** Revenues for the seismic industry are heavily reliant on the capital expenditures and demand from E&P companies. There is anticipation of a 15% growth rate in the demand for seismic data in 2012-2013 as E&P firms look to increase their exploration spending. This increase in demand should allow for increased volume and prices for seismic data services. Price increases of about 10% should allow operating margins to increase back to historical averages of about 15% - they have only been in the 5-10% range during the past few years. CGV is positioned well to take advantage of the anticipated growth since it has the largest global fleet of marine vessels, which means they will be able to acquire higher volume of seismic data than their competitors.

- **Marine Technology Differentiation.** Demand for geophysical services will continue to be driven by the development of new technologies because the industry is demanding clearer seismic imaging and better visibility of data in order to be efficient in producing oil. In order to meet this demand CGGVeritas has launched a new marine data acquisition technology, BroadSeis. By widening the range of recorded frequencies by streamers along with innovative processing algorithms, BroadSeis provides enhanced resolution and more detailed imaging deeper into the earth than ever before. BroadSeis technology has allowed CGV to take advantage of 10-15% price increases from their other acquisition methods. There has been great success of BroadSeis with more 15% of the fleet being dedicated to BroadSeis projects and fleet utilization anticipated to increase as demand for data increases.
- **Strong Growth of Sercel**. Sercel has been able to maintain its leading position in the seismic equipment market (60% market share) by capitalizing on growth opportunities from its strong product base and technological advances. A greater market presence in the seismic equipment industry has enabled Sercel to have pricing power, which has allowed for strong operating margins around 30%, on average, the past several years. Sercel recently acquired Geophysical Research Company (GRC) in January 2012. The acquisition will allow Sercel to diversify their products into the well management market, especially the artificial lift market, which is expected to see promising growth in the next few years.

Valuation

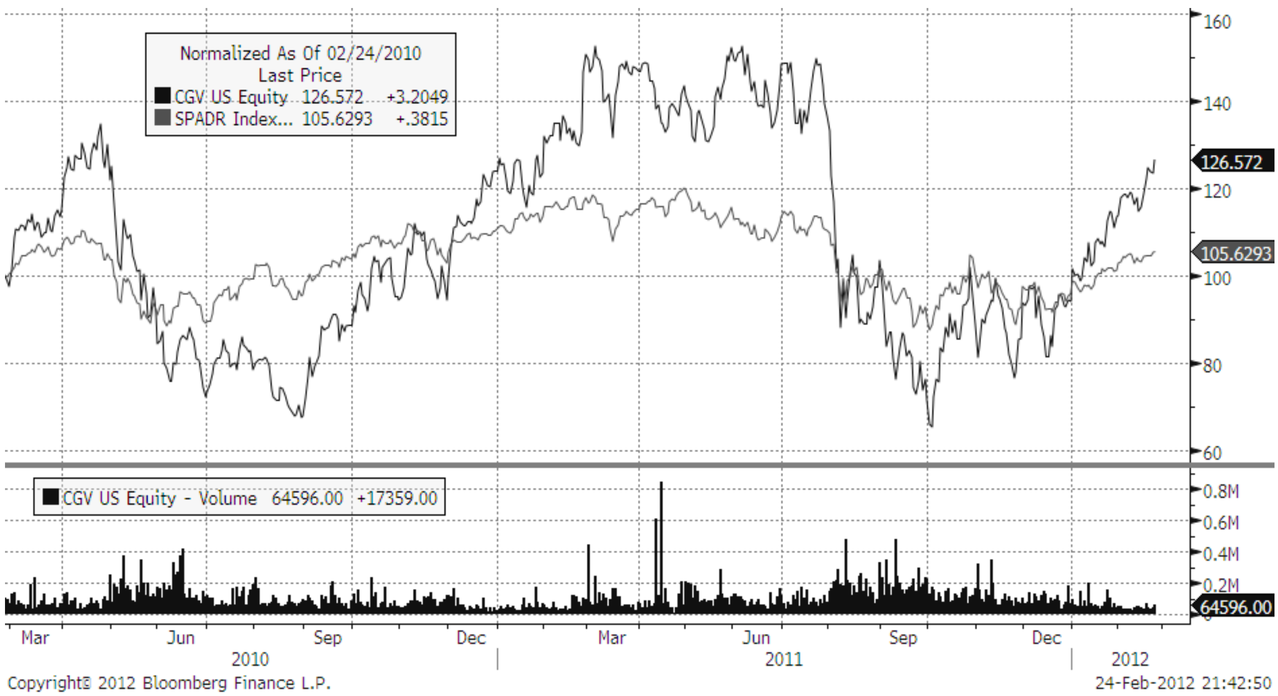
To find the intrinsic value of CGGVeritas, a 5-year DCF was calculated. Using a terminal growth rate of 2.5% and WACC of 11.20% resulted in a valuation of $23. Sensitivity analysis on both the WACC and terminal growth rate provides a range of $14-$44. Also, P/E and EV/EBITDA multiples were used to value the stock. Applying a 17.5x P/E multiple to 2012 EPS estimate of $1.68 provides a $29 price target. Using an EV/EBITDA multiple of 6.5x to 2012 estimated EBITDA of $840 million yielded a $39.55 price target. Weighing the DCF model 40%, EV/EBITDA multiple 40% and P/E multiple 20%, a final price target of $31 was determined, yielding an upside of 1.50%. The company does not pay a dividend and does not intend to do so in the foreseeable future.

Risks

- **Reduction of Capital Expenditure by Oil and Gas Industry.** CGV depends on the level of capital expenditure by the oil and gas industry. As seen in 2008 and 2009, there were negative adverse effects of reduced expenditures, as oil prices decreased with E&P spending lowered by about 15%. The company saw a decrease in revenue growth of about 10%, which led to lower operating margins because of fixed costs associated with equipment and data acquisition. Their top two customers accounted for 6% of revenue in 2008 compared to a historical average of 12%.
- **Currency Fluctuations.** CGV derives substantial portion of revenues from international sales with 95% of revenues being USD denominated. However, USD denominated earnings that are converted to euros is at risk with approximately €400 million in annual fixed expenses.
- **Rapid Technology Changes.** The seismic industry is subject to rapid changes in technology with new products and services frequently being introduced to the market. This is especially true in the equipment manufacturing and data processing sectors. If technology becomes obsolete or does not gain market acceptance it could have a negative effect on CGV's business**.**

Management

Robert Brunck is the Chairman of the board for CGGVeritas. Mr. Brunck served as the CEO of the company from May 1999 to July 2010 and has held several positions within the company since joining in 1985. Jean-Georges Malcor is the current CEO. Prior to joining CGGVeritas, Mr. Malcor served as a Senior Vice President of Thales SA. Stephane Paul Frydman is currently the CFO since 2007. Prior to joining CGGVeritas in 2002, he was an investor officer for Butler Capital Partners, a private equity firm.



Ownership (GA.FP)

% of Shares Held by All Insider and 5% Owners:	7%
% of Shares Held by Institutional & Mutual Fund Owners:	84%

Source: Bloomberg

Top 5 Shareholders (GA.FP)

Holder	Shares	% Out
Fonds Strategique D'Investissemt	9,867,345	6.50
Manning & Napier Advisors	7,578,065	4.99
BlackRock Inc.	7,486,791	4.93
IFP Energies Nouvelles	6,346,610	4.18
DNCA Finance	4,026,830	2.65

Source: Bloomberg