Applied Investment Management (AIM) Program

AIM Class of 2018 Equity Fund Reports
Spring 2017

Date: Friday, March 31st | ***Time:*** *2:00 – 3:45* p.m. | ***Location: AIM Research Room 488***

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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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MercadoLibre, Inc. (MELI)
March 31, 2017

Jack Gorski International Technology

MercadoLibre, Inc. (NASDAQ: MELI) is an e-commerce company that provides a Latin American online marketplace platform which links buyers and sellers. They also offer a portfolio additional services that complement the marketplace. MELI operates under one business segment, their E-Commerce & Payments Platform, which generates revenue from two sources: Marketplace (60% of revenue) and Non-Marketplace (40%). MercadoLibre Marketplace allows for the engagement of e-commerce, from which they acquire after sale final value fees and up-front fees from the sellers. Non-Marketplace revenue is generated from the following five accompanying services. MercadoPago is an integrated online payment solution that facilitates transactions on and off the marketplace. MercadoEnvios is the company's cost effective shipping service. The Classified Services is a separate marketplace, in which individuals can list offerings for vehicles, boats, aircrafts and real estate. MercadoLibre Advertising offers a cost per click opportunity for large retailers to promote their products on the Marketplace. MercadoShops allows retailers to link their webstores to the Marketplace, and pay a monthly fee for enhanced functionality and payment/advertising services. MELI is headquartered in Delaware, but all of its operations take place in nineteen Latin American countries, the most significant of which are Brazil, Argentina and Mexico.

Price ($):	214.22
Price Target ($):	262.88
52WK H-L ($):	218.75 - 114.07
Market Cap (mil):	9,340
Float (mil):	39.9
Short Interest (%):	4.8
Avg. Daily Vol (mil):	0.3
Dividend ($):	0.60
Yield (%):	0.3

Beta:	1.44
WACC	12.0%
M-Term Rev. Gr Rate Est:	22.5%
M-Term EPS Gr Rate Est:	30.2%
Debt/Equity:	73.1%
Debt/EBITDA (ttm):	1.40
ROA (%):	11.50
ROE (%):	35.50
ROIC (%):	19.99

FY: Dec	12/31/2015	12/31/2016	12/31/2017	12/31/2018
Revenue (Mil)	652	844.40	1,241.20	1,725.20
% Growth	17.1%	29.6%	47.0%	39.0%
Gross Margin	63.6%	60.4%	62.6%	61.6%
EBITDA Margin	27.4%	26.5%	25.9%	26.0%
EPS (Cal)	$2.40	$3.09	$4.10	$6.00
FCF/Share	$3.60	$2.57	$2.67	$4.87
P/E (Cal)	47.6	50.5	47.3	35.8
Price to Sales	9.7	7.8	7.5	5.4

Recommendation

As MELI continues to grow their marketing division, it seeks to develop a stronger brand awareness, allowing the company to profit from the region's internet user growth. Since the year 2000, the number of internet users has grown by 660%. In recent years, Latin America's internet users have grown at a three year CAGR of 6.1%, contributing to the internet penetration rate, which has grown by about 2.5% YoY. With internet reach levels of 35% in Brazil, 44% in Argentina, and 22% in Mexico, MELI can expect to bring on users and potential buyers as more individuals receive access to the internet. In addition to internet reach, MercadoLibre has established itself as the leading online retailer in Latin America, ranking highest in retail reach for every company that it operates. In their largest revenue generating countries, Brazil, Argentina, Mexico and Venezuela, they have retail reaches of 47%, 67%, 37% and 76%, respectively. In order to complement potential retail expansion, MercadoLibre has implanted its additional marketplace services, which are now beginning to establish an economic moat for the firm. Latin America suffers from a low percentage of adults holding bank accounts (roughly 54%), and even lower credit card holder rates, but has implemented the MercadoPago Service to combat this issue. MercadoPago offers e-wallet payment options and operates similarly to PayPal. Through this service, MELI is successfully able to allow online commerce transaction capabilities to everyone, even unbanked individuals. They do so by offering several delivery of funds options, the most popular of which are cash on delivery and the purchase of cash card, an approach that has given them an advantage over online retail giant, Amazon. MercadoEnvios is also now providing an exceptionally cost effective means of shipping for marketplace customers, a feature hard to find elsewhere in the region. Even major competitors such as Amazon have had hard times displaying value to the region's customers beyond what MercadoLibre has already established. It is for these reasons, it is recommended that MercadoLibre be added to the AIM International Equity Fund, with a price target of $262.88, representing a 22.71% upside. MELI pays a small quarterly dividend of 0.3%.

Investment Thesis

- **E-commerce Growth.** Latin America is the second fastest growing e-commerce region in the world. The online retail market is expected to grow by a CAGR of nearly 20% through 2019 reaching $85 billion in sales. Large growth is being fueled by the increase in possession of mobile devices, internet penetration rates and rising online retail purchases. Brazil, Argentina and Mexico are the three countries from which MELI receives the most marketplace revenue and they are expected to grow at a CAGR of 12.5%, 14.6% and 15.6%, respectively. Increases in e-commerce transactions will grow MELI's Gross Merchandise Volume, from which they receive a percentage fee. The fee is currently trending around 6% of final sale value, but is projected to increase to 8% by 2019. With increasing GMV and transaction fee rates it is expected that MercadoLibre will have YoY marketplace revenue growth of 21% respectively.
- **Increased Use of MercadoPago.** In 2016, approximately $5,627 million was paid by users over MercadoPago, representing 69.9% of MercadoLibre's GMV. This was an increase from $3,765 million, representing 52.6% of GMV, from the year prior. MercadoPago has seen average growth above 60% over the past five years and now has a 100% penetration rate in Brazil and over 85% in Argentina. MELI is beginning to make use of MercadoPago mandatory for all marketplace transactions. Mandatory usage will help push for a higher transaction count, which grew 72.6% in 2016. MercadoPago is also continued to see massive growth for unbanked individuals making their platform widely accessible to many more individuals where credit card ownership is low. MercadoLibre currently receives a commission of 4.95%.
- **Targeting Mobile Users.** In 2016, roughly 45% of the Latin American population had cell phones. By 2019, it is expected to grow to 57% of the total population. About two-thirds of new MercadoLibre users register on a mobile device and mobile GMV has continued to show high growth potential with 2015 and 2016 YoY growth rates of 88.7% and 98.7% respectively. As the mobile penetration rate grows, MELI can expect mobile users to grow and thus increase their mobile derived GMV.

Valuation

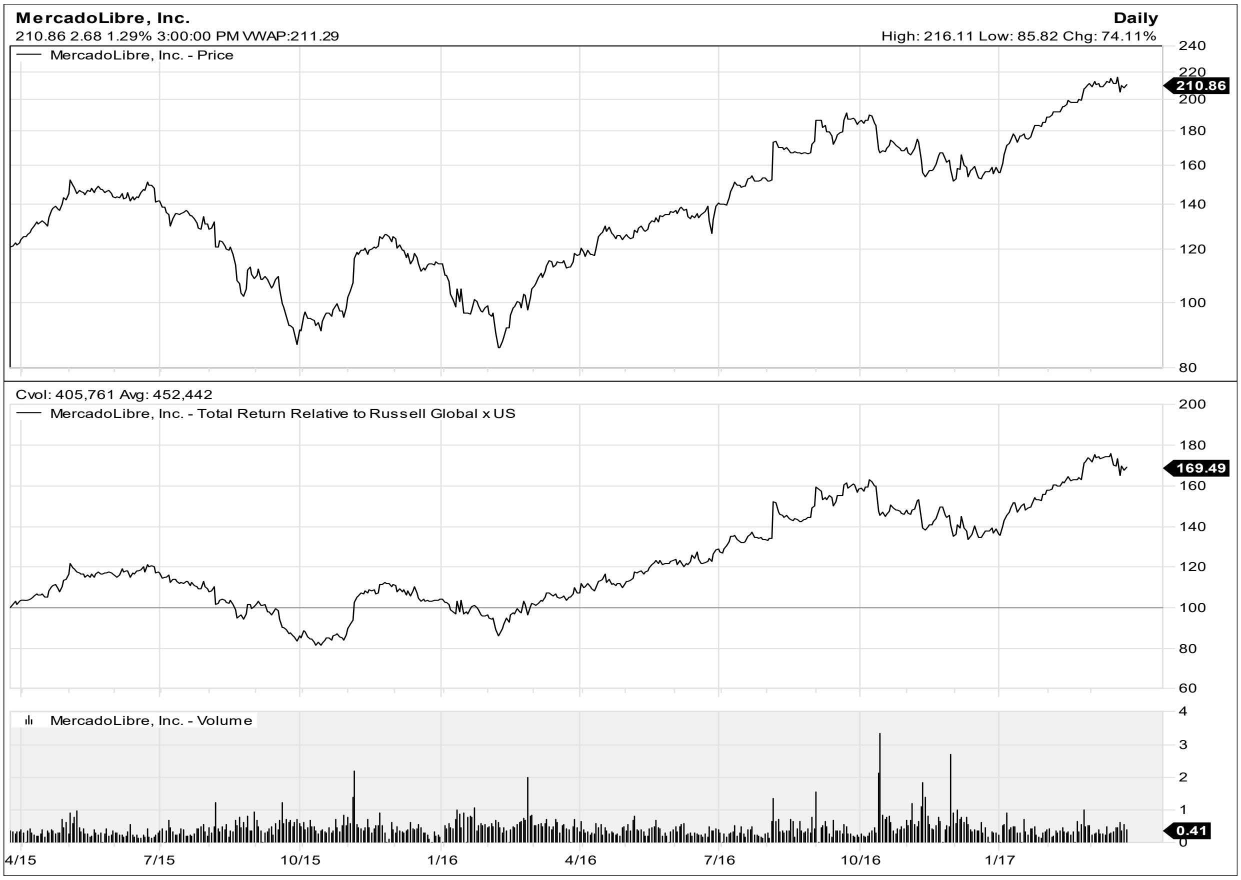
In order to reach an intrinsic value for MELI, a ten year DCF model was constructed. Using a terminal growth rate of 2.00% and WACC of 11.98%, an intrinsic value of $274.49 was reached. A sensitivity analysis on the teminal growth rate and WACC ranged from $336.47 to $239.58. A P/E and Price to Sales multiple valuation were also constructed, which produced estimated intrinsic values of $251.66 (P/E) and $262.47 (Price to Sales). Weighing these valuations evenly, a price target of $265.17 was reached, producing an upside of 22.71%. MELI pays a regular 0.3% quartely dividend.

Risks

- **Foreign Market Instability.** All operations of MercadoLibre are conducted in the emerging markets of Latin America. The unstable economies and political entities of these regions make them more susceptible to crises including economic downturn, major exchange rate fluctuations shifts in laws and regulations, as well as government cataclysm.
- **Dependency on E-commerce growth.** MercadoLibre's future growth potential is dependent on ecommerce growth and any slowdown will result lead to lower future revenues.
- **Internet Reliability.** As all of MELI's operations exist online, poor connection and possible outages will result in lower than expected earnings. Latin America is reported to have low broadband connection speeds.

Management

Marcos Galperin has served as President, CEO, and Chairman of the Board since the company was founded in 1999. Pedro Arnt serves as the firm's CFO and Executive Vice president. He assumed these roles in 2011 after previously operating as the vice president of business development and marketing for MercadoLibre.



Source: FactSet

Ownership

% of Shares Held by All Insider Owners:	9.56%
% of Shares Held by Institutional & Mutual Fund Owners:	>90.00%

Source: FactSet

Top 5 Shareholders

Holder	Shares		% Out
Baillie Gifford & Co.	6,378,243	▲	14.44
T. Rowe Price Associates, Inc.	4,100,134	▲	9.29
Carmignac Gestion Luxembourg SA (UK)	2,383,523	▲	5.40
Carmignac Gestion SA	2,383,523	▲	5.40
Columbia Management Investment Advisers LLC	1,679,375	▼	3.80

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA	Price to Earnings	Price to Sales
MercadoLibre, Inc.	MELI	9,340	844	223.795	68.45	8.17
Amazon.com, Inc.	AMZN	408,458	135,987	11835.0	174.69	2.67
Alibaba Group Holding Ltd. Sponsored A	BABA	261,973	21,562	7931.8	46.70	12.73
Jumei International Holding Ltd Sponsor	JMEI	327	2,468	197.4	28.64	-
Wirecard AG	WDI-De	6,178	950	286.7	23.70	7.44
Peer Averages		169,234	40,242	5062.7	68.43	7.6

Source: Factset

Zoe's Kitchen, Inc. (ZOES)
March 31, 2017

Paige Chiang — Domestic Consumer Discretionary

Zoe's Kitchen, Inc. (NYSE: ZOES) is a fast-casual dining restaurant company that operates in 20 states. ZOES serves an assortment of Mediterranean inspired freshly prepared dishes, which are mostly additive and preservative free. In addition to dining-in, ZOES offers catering and home meal replacement services. As of December 2016, ZOES operates 204 restaurants and has three franchised restaurants. ZOES prides itself on its ability to "deliver goodness inside and out" by its friendly and family like staff. The company was founded in Birmingham, Alabama in 1995, and has been publicly traded since 2014.

Price ($): (3/29/16)	$ 18.34	Beta:	1.41	FY: December	2015A	2016A	2017E	2018E
Price Target ($):	$ 22.16	WACC	11.3%	Revenue (Thous)	226.56	275.96	325.64	384.25
52WK H-L ($):	16.39-41.76	M-Term Rev. Gr Rate Est:	18.0%	% Growth	32.17%	21.83%	18.00%	18.00%
Market Cap (mil):	331.6	M-Term EPS Gr Rate Est:	91.4%	Gross Margin	68.87%	69.74%	70.00%	70.00%
Float (%):	98.50%	Debt/Equity:	23.0%	Operating Margin	2.28%	2.33%	2.19%	2.69%
Short Interest (%):	8.90%	Debt/EBITDA:	1.3	EPS (Cal)	$ 0.06	$ 0.12	$0.10	$ 0.20
Avg. Daily Vol (thous):	534	ROA:	0.8%	FCF/Share	($1.08)	($1.07)	($0.80)	($0.52)
Dividend ($):	0.00	ROE:	1.1%	P/E (Cal)	316.4	152.3	177.1	92.5
Yield (%):	0.00%	ROIC:	1.2%	P/Sales	3.03x	2.41x	1.42x	1.40x

Recommendation

From 2015 to 2016, ZOES' same store sales growth has declined from 6.3% to 4% respectively. Similarly, its price has declined from its high in July 2015 of $46.61 to its current price of $18.34. ZOES is combatting the annual decline in same store sales and their decreases in share price from many different angles. ZOES cites the performance lag in new stores sales as one reason for the decline. ZOES grew from 94 company-owned restaurants at the start of 2014 to 204 company-owned restaurants at the end of 2016 with a CAGR of 32.9%. They would like to have 400 restaurants by 2020 and 1,600 locations long-term. The lag in new restaurant sales combined with the amount of new locations opened relative to ZOES' current restaurant base has negatively affected same store sales growth. While continuing their aggressive expansion, this will create an economies of scale and lessen the effect of new store sales performance. ZOES is also revamping their current marketing plan with hopes of better reaching customers and increasing traffic. Due to nationally increasing labor costs, ZOES will introduce new meal preparation techniques and kitchen display systems. This will satisfy customer needs by adding new menu options and increasing throughput while avoiding the increased labor costs that would be incurred by hiring additional employees for current stores. ZOES also recently found new ways to grow its customer base and catering service through recent partnerships with a business catering facilitating service and through the addition of delivery to 30 stores. Though ZOES has seen a recent decline in price and same store sales growth, its expansion, efficiency, marketing, growth in catering, and delivery indicates that ZOES is poised for a turnaround. Therefore, it is recommended that Zoey's Kitchen, Inc. be bought by the AIM Equity Fund with a target price of $22.16, representing 20.8% upside.

Investment Thesis

- **Excelled Expansion & Enhancing Efficiency.** In 2016, ZOES opened 38 company-owned restaurants, and is planning to open another 38-40 company-owned restaurants in 2017. ZOES' long term goal is to eventually have at least 1,600 company-owned locations (204 locations currently). ZOES has a hub and spoke expansion model with hubs being specified markets chosen because of their appealing market potential and geographic locations and spokes being markets developed around successful hubs. New restaurant openings in 2017 should be more profitable than those opened in 2016 because management will open 10-15% of new restaurants in new markets vs. the 21% in 2016. New restaurants in already penetrated markets have higher sales and thus higher margin due to new market inefficiencies (further marketing efforts to increase brand awareness and traffic, human resources difficulties, etc.). Increasing their restaurant base will also allow a decrease in some input prices as ZOES will increase their negotiating power and lock in prices. Currently, ZOES must use the fluctuating market price to purchase important commodities such as chicken. Coupled with the expansion, ZOES is pushing to improve the throughput in their restaurants by introducing a new kitchen display system (KDS) and simplified meal prep techniques. The new KDS, which will be fully installed by December 2017, will include a more user-friendly interface that will improve order accuracy and throughput during peak dining hours. The simplified meal prep techniques include more efficient ways of preparing customers' food such as using precut lettuce or proteins vs. cutting lettuce or proteins. These simplified options would allow ZOES to introduce more new items to their menu without increasing their labor expenses. Projected 2017 labor expenses are expected to increase due to the increasing minimum wages and the rise in wage inflation. According to Federal Reserve data over the past 12 months, average hourly wages have increased 3.2%. The ability to increase product offerings without additional labor expenses would greatly benefit ZOES. The expected savings is around 25-50bps of labor expenses, which would increase the expected 2017 EBIT by 13% and 30% respectively.

- **Marketing Makeover:** After realizing that their past marketing campaign generated lower than expected returns, management has shifted its marketing focus from pure brand awareness building to increasing sales and traffic. Seeing how the company is growing and the amount of hubs that need the most brand awarness is relativly shrinking, ZOES believes that marketing efforts should now work to strengthen rather than build relationships with their target customers. It will also empahsize their new push towards delivery and adapting to the convenience trend.
- **Dashing Delivery & Convenient Catering.** In 2016, ZOES tested delivery in roughly 30 stores, and expects that delivery will be available to roughly 50% of their stores (100 stores) by the end of first quarter 2017. ZOES recognizes the high demand for convenience by the consumer, and views delivery as an opportunity to increase sales growth and their customer base. ZOES offers catering by Zoe's Kitchen to customers, and their catering business made up 16% of 2016 revenue. Earlier this year, ZOES partnered with Dinova, a service that connects restaurants with various businesses which should increase ZOES's catering base, and expand brand awareness.

Valuation

In order to reach an intrinsic value for ZOES, a five year DCF model was constructed. Using a terminal growth rate of 2.5%, WACC of 11.3%, an intrinsic value of $23.07 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $21.47 to $25.17. Additionally, a Price to Sales multiple valuation was conducted using NTM P/S of 1.1x, a comparables weighted average P/S of .91x, and ZOES's current price of $18.34, which resulted in a valuation of $19.41. By weighting the two valuation models 75/25, a price target of $22.16 was reached yelding a 20.81% upside. ZOES does not pay quarterly dividends.

Risks

- **Managing Rapid Expansion.** Opening new restaurants is very capital intensive. Management stated that the cash build-out cost alone per restaurant is approximately $750,000. Expansion costs are even higher when entering new markets as ZOES has noticed that new markets have less predictable competitive conditions and consumer spending habits. It is critical that ZOES's market expansion be successful due to their slim margins. Historically, net income has been less than 1% of sales due to their high operating costs.
- **Riding the Wave:** At the core of ZOES is its health conscious and casual chic concept. This concept plays very well to the current trends in consumer preferences. Zoe's Kitchen meets the current consumer demand for a fresh high quality meal at a fast casual dining pace and affordable price. Should consumer preferences change, ZOES may face difficulties.

Management

Kevin Miles left his VP of Operations position at Pollo Campero in 2009 and joined ZOES as the Executive VP of Operations. In 2012, he was promoted to the position of President and CEO. Sunil Doshi has served as ZOES's CFO since 2015, and was previously the CFO for Fossil Americas.

Source: FactSet

Ownership

% of Shares Held by All Insider and 5% Owners:	1.49%
% of Shares Held by Institutional & Mutual Fund Owners:	> 90%

Source: FactSet

Top 5 Shareholders

Holder	Shares		% Out
Brown Captial Management LLC	16,570,000	▲	16.57
Jennison Associates LLC	10,600,000	▲	10.60
JPMorgan Investment Management, Inc.	10,240,000	▲	10.24
1832 Asset Management LP	8,220,000	▲	8.22
Franklin Advisors, Inc.	7,750,000	▼	7.75

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Same Store Sales Growth	P/S	Net Margin	EV/EBITDA
Zoe's Kitchen Inc.	ZOES	332	3.37%	1.26x	0.70%	16.29x
Fiesta Restaurant Group Inc.	FRGI	642.1	-1.91%	.88x	2.30%	7.7x
Potbelly Corp.	PBPB	342.2	1.18%	.86x	2.00%	7.29x
Chuy's Holdings Inc.	CHUY	839.4	0.92%	1.51x	5.20%	11.76x
Noodles & Co.	NDLS	125.4	-0.57%	.31x	-14.70%	17.34x
Peer Meadians		492	0.92%	.88x	2.00%	11.76x

Source: FactSet

FormFactor, Inc. (FORM)
March 31, 2017

Joseph Amoroso — Domestic Technology

FormFactor, Inc. (NASDAQ: FORM) is the world's leading provider of test and measurement solutions for the semiconductor industry. FORM generates its revenues in the following segments: Probe Cards and Systems, which represented 88% and 12%, of the company's total revenue for fiscal year 2016, respectively. The company's core business, Probe Cards, is split into three different product segments: Foundry and Logic, DRAM, and Flash (NAND), which accounted for 62%, 23%, and 4% of total revenue in fiscal year 2016, respectively. FORM derives more than 75% of its revenue from four countries: United States, South Korea, Taiwan, and Japan, which represent 33%, 17%, 15%, and 10% of total revenue, respectively. FormFactor was founded in 1993, and is led by President and CEO Michael D. Slessor and is headquartered in Livermore, CA.

Price ($): (3/28/17)	11.40
Price Target ($):	14.75
52WK H-L ($):	$6.48-$13.15
Market Cap (mil):	818.60
Float (mil):	70.75
Short Interest (%):	2.19%
Avg. Daily Vol (k):	421.91
Dividend ($):	0.00
Yield (%):	0.00

Beta:	1.55
WACC:	1.71%
M-Term Rev. Gr Rate Est:	5.0%
M-Term EPS Gr Rate Est:	N/A
Debt/Equity:	34.5%
Debt/EBITDA (ttm):	5.5%
ROA:	(1.36)
ROE:	(1.88)
ROIC:	(1.60)

FY: Dec	2015	2016	2017E	2018E
Revenue (mil)	282.36	383.88	495.00	520.00
% Growth	5.15%	35.96%	28.95%	5.05%
Gross Margin	30.40%	26.70%	33.50%	34.80%
Operating Margin	-1.46%	-12.48%	0.04%	0.59%
Net Margin	-0.54%	-1.71%	0.04%	2.41%
EPS (Cal)*	0.22	0.15	0.25	0.45
FCF/Share	0.47	0.09	0.79	0.92
P/E (Cal)	nm	nm	nm	nm

*Reported non-GAAP

Source: FactSet

Recommendation

FORM operates in a small, but vitally important segment of the global semiconductor industry, offering testing solutions and equipment to the world's largest semiconductor makers. The company's Probe Card business, which represented 88% of the company's total revenue in 2016, involves creating customized probe cards which act as interfaces between testing equipment, the products represented by the company's Systems business, and semiconductor wafers. These solutions allow semiconductor manufacturers to test the performance of individual chips on a wafer before being dicing and packaging. The four business segments in which FORM operates equate to a total addressable market of $1.4B; Foundry and Logic (40%), DRAM (23%), Flash (14%), and Systems (23%). Looking forward, the company's total addressable market is forecasted to grow to $1.75B by 2020. Of those markets, FORM represented 37% of the Foundry and Logic segment, 39% of the DRAM segment, 6% of the Flash segment and 25% of the Systems segment, making FORM the largest supplier in the market. Among FORM's largest customers are industry giants such as Intel and Samsung. In 4Q 2016 it was announced that FORM had successfully won its first design with the world's third largest semiconductor manufacturer, Taiwan Semiconductor, making FORM the only probe card manufacturer supplying to all three of the world's largest semiconductor manufacturers. With two key acquisitions, MicroProbe, Inc. in 2012 and Cascade Microtech, Inc. in 2016, FORM has been able to expand its existing product portfolio as well as expanding into new business segments in an effort to expand, diversify, and stabilize the company's revenue stream. Therefore, it is recommended that FormFactor, Inc. be added to the AIM Equity Fund with a price target of $12.92, which represents an upside of 11.58%. FORM does not pay a dividend.

Investment Thesis

- **Cascade Microtech, Inc. Acquisition.** The 2016 acquisition of Cascade, FORM's second major acquisition, helps to diversify the company's revenue streams and raise the company's margins. Management expects to see $10-12M in synergies between the two companies in the first 18-24 months. FORM was also able to reorganize their product development roadmap and address any redundancies in the R&D spending of the two companies representing. Ultimately, this is expected to have significant impact on the top line of the company with expansion into the RF and Systems market segments. RF represents a significant growth opportunity within the industry and will serve as a significant driver going forward. The addition of the systems segment will help to diversify and smooth the revenue stream of FORM. Ultimately, as simultaneous consolidation takes place within the semiconductor industry, this acquisition was a move to expand the company within the testing market, while also lowering volatility and producing present gains and future opportunities.

- **Margin Accretion.** With the acquisition of Cascade Microtech, Inc. there is expected to be a significant expansion in margin. For fiscal year 2015, Cascade reported gross margin and operating margin of 55.6% and 16.2% compared to FORM's respective margins of 30.40% and -1.46%. For the 4Q 2016, non-GAAP gross margin for the Probe Cards segment was 39.8% and gross margin for the newly added systems segment was 52.1%. Additionally, management's central goal in redirected synergy gains back to R&D is to fuel further revenue growth and gross margin expansion. These gains will arise through exploiting the combined technologies of the two companies to create new products as well as simplify and improve existing products, while also reducing the production cost on existing mainstream foundry and logic products, therefore, increasing margins.
- **Automotive RF Growth.** Semiconductors are quickly penetrating the automotive market place and with the proliferation of the "Connected Car", including infotainment and driver assistance, radio frequency (RF) transceivers are beginning to play an increasingly important role in the evolution of the automotive industry. The auto semiconductor segment is expected to expand at 7.5% CAGR through 2020, representing one of the fastest growing markets in the semiconductor industry and a significant growth opportunity for any company involved. With the acquisition of Cascade, FORM has jumped into this rapidly growing marketplace.

Valuation

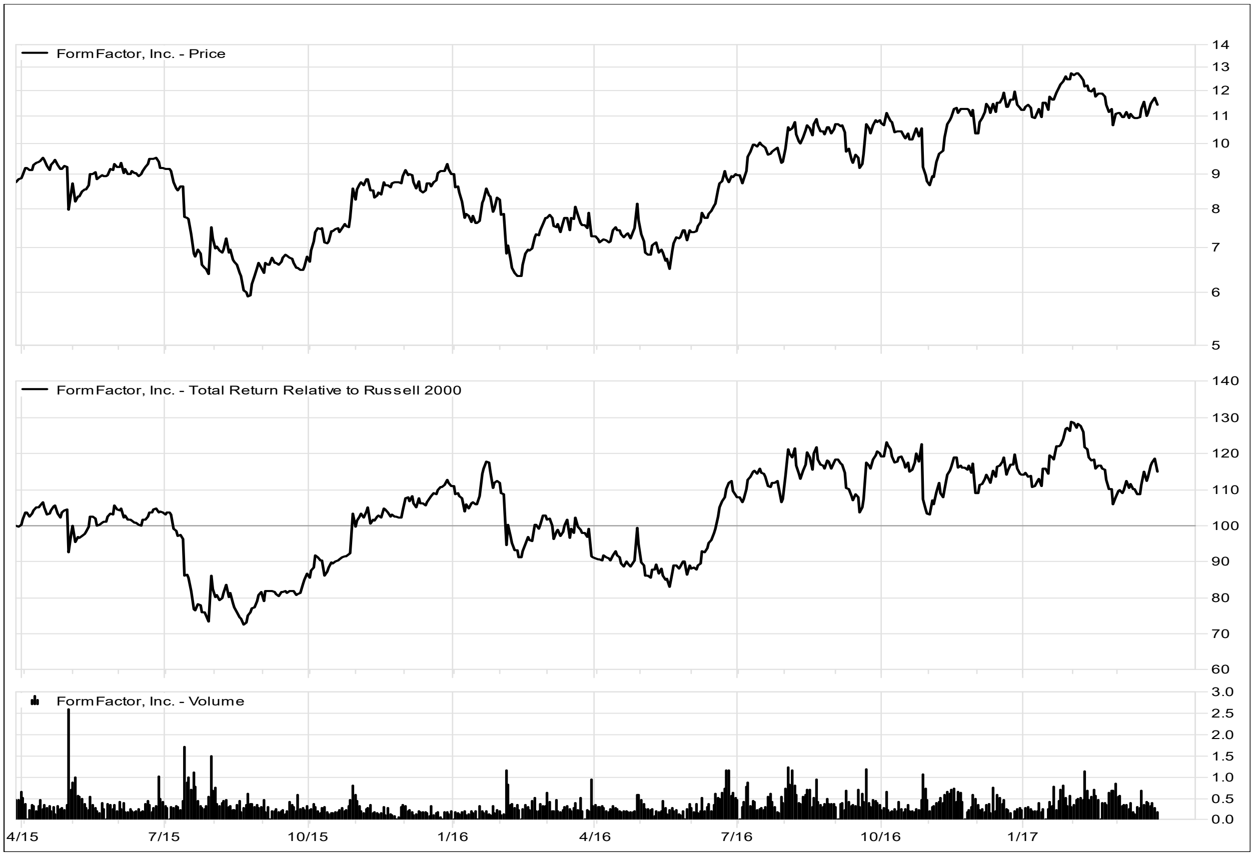
To reach an intrinsic value for FORM, a 5-year DCF was constructed. Utilizing a terminal growth rate of 2.50%, and a WACC of 11.71%, a price of $14.03 was reached. A ± .5% sensitivity analysis on the WACC and terminal growth rate ranged from $13.15 to $15.12. Further, a EV/Sales multiple valuations were conducted. Using 2017E Sales of $495M and a predicted multiple of 2.09x, a price of target $15.46 was reached. By weighting the two valuation methods equally, a price target of $14.75 was reached, resulting in a 29.38% upside.

Risks

- **Customer Concentration Exposure.** Intel Corporation is the single largest customer of FORM, representing 30.1% of total revenue for FY16. Samsung Electronics, Micron Technology, and SK hynix represent FORM's largest customers. Consequently, more than 50% revenues have come from these four key customers. The loss of any of these customers, as well as any cancelations, purchase volume reductions, or deferrals could result in a significant decrease in revenue.
- **Revenue Volatility.** Because FORM does not operate with a significant order backlog, intra-quarter orders account for the majority of the company's revenue. This makes forward results fairly unpredictable and requires that company to be able to scale quickly in the instance of large orders. Overall, the semiconductor industry is a volatile and cyclical market place and FORM moves in lock-step with the industry, therefore any decreases within the industry or one of FORM's segments could result in significant declines for the company.

Management

Michael D. Slessor, Ph.D. is the current CEO of the company and has held his positon since 2014. Previously, he was the President and CEO of MicroProbe, Inc., which was acquired by FORM in 2012. Michael M. Ludwig is the CFO of the company and has held this positons since 2011. Benjamin Eldridge is the CIO and has held that position since 2014 after holding the position of CTO since 2001.



Ownership

% of Shares Held by All Insider and 5% Owners:	1.60% ▲
% of Shares Held by Institutional & Mutual Fund Owners:	91.38% ▼

Top 5 Shareholders

Holder	Shares		% Out
PRIMECAP Management Co.	6,993,918	▼	9.89
Wellington Management Co.	5,484,373	▲	7.75
The Vanguard Group, Inc.	5,477,441	▲	7.75
Dimensional Fund Advisors	5,274,906	▲	7.46
BlackRock Fund Advisors	3,918,552	▲	5.54

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	Enterprise Value	Debt/ Equity	EV/ Sales
FormFactor, Inc.	FORM	816.8	383.9	846	34.5	2.2
Advantest	6857-JP	3,656.3	1,393.8	3245.2	44.5	2.3
Micronics Japan	6871-JP	349.2	235.8	293.8	8.6	1.3
MPI	6223-TW	244.1	142.8	272.2	43.6	1.9
Technologies	RTEC	685.7	232.8	560	0.0	2.4
Peer Averages		1,233.8	501.3	1,092.8	24.2	2.0

Source: FactSet

Bank of the Ozarks (OZRK)

March 31, 2017

James Hannack — Financial Services

Bank of the Ozarks (NYSE: OZRK) operates as the bank holding company for Bank of the Ozarks and its subsidiaries. The bank offers a variety of deposit accounts such as: checking, savings, money market, time deposit and individual retirement accounts. OZRK also provides various services such as mortgage lending, trust and wealth management services, among others. The bank has a $14.6 billion loan portfolio consisting of mostly Real Estate (83.0%), which is comprised of residential, non-farm/non-residential, construction/land development, agriculture, and multifamily residential loans. OZRK's other loan types include Consumer (7.1%), Commercial and Industrial (3.0%), Direct Financing Leases (.9%) and Other (6.0%). Bank of the Ozarks operates over 250 branches, spanning across nine states, which are primarily located in the south and southeast. Founded in 1903, the company has more than 2,300 employees and is headquartered in Little Rock, Arkansas.

Price ($): (3/10/17)	50.44
Price Target ($):	59.80
52Wk H-L ($):	57-34
Market Cap (mil):	6,142
Float (mil):	94%
Short Interest (%):	13.34%
Avg. Daily Vol (mil):	1184.58
Dividend ($):	0.63
Yield (%):	1.20%

Beta:	1.30
WACC	11.2%
M-Term Rev. Gr Rate Est:	24.7%
M-Term EPS Gr Rate Est:	24.2%
Total Debt/Total Assets	2.4%
ROA:	1.9%
ROE:	12.7%
Tier 1 Capital Ratio	10.0%
Efficiency Ratio	35.8%

FY: Dec	2015A	2016A	2017E	2018E
Interest Income (Mil)	409.72	662.56	918.30	1,112.06
% Growth	40.58%	61.71%	38.60%	21.10%
Net Interest Margin	5.19%	4.92%	5.12%	5.37%
Pretax Margin	53.77%	55.53%	56.02%	56.29%
EPS (Cal)	$2.09	$2.58	$3.06	$3.67
P/E (Cal)	23.7	19.6	19.5	16.3
BVPS	16.2	23.0	25.3	28.2
P/B	3.1	2.2	2.9	2.8

Recommendation

Bank of the Ozarks has grown net interest income (NII) at a 5-Yr CAGR of 36.3% and a net income margin at a 5-Yr average of 32.3%. It has also experienced strong improvements in efficiency while expanding its footprint with M&A. Over the past five years the efficiency ratio has fallen from 46.6% to 35.8% and has contributed significantly to earnings growth. The company's goal is to bring the ratio down to sub-30% levels, enabling a favorable leverage of operating expenses. M&A has also driven EPS growth by use of accretive acquisitions. Since 2012, OZRK has completed eight traditional acquisitions. These acquisitions have accounted for just over half of OZRK's growth in assets, loans, and deposits since 2012. They have also been responsible for 106 of OZRK's 139 new office openings, allowing OZRK to penetrate markets in new states quicker and more effectively. Lastly, the Federal Reserve is expected to continue raising interest rates which should help Bank of the Ozarks experience above industry growth by making continued improvements to their net interest margin and organic loan growth due to their operating leverage, and prudent acquisitions. Based on these new opportunities for growth, coupled with the economy in the southeast set to grow faster than the rest of the U.S., and signals of multiple rate increases from the Fed, it is recommended that OZRK be added to the AIM Equity Fund with a price target of $59.80, representing a potential upside of 18.12%. OZRK also paid a $0.63 dividend in 2016, yielding 1.20%.

Investment Thesis

- Well Managed. OZRK's performance during the Great Recession was incredible. From '06-'09 they increased net income (NI) each year, with an overall increase of 36%. In comparison, OZRK's four comps all had negative growth for the same period and averaged a decrease of 100.9%. As for loan performance, OZRK had only one net charge-off (NCO), totaling just 1.5% of their loan balance. In comparison, the four comps averaged NCO's of 2.29%. OZRK's strong performance in the Great Recession is a testament to how well the bank is managed. Looking forward, investors can be confident OZRK's current management team will be able to effectively steer the bank through the next financial downturn.

- Rising Rates and Increasing Operating Leverage. Looking forward, OZRK is poised to experience the double benefit of experiencing both top and bottom line growth. OZRK ran an earnings simulation model in an attempt to measure how their NII would change over the next one-year period if rates were increased. It was estimated that a 200 basis-point instantaneous increase in the general level of interest rates would increase OZRK's NII by 6.6% and a 100 basis-point instantaneous increase in interest rates would increase NII by 3.2%. Due to OZRK's continuous improvements of their efficiency ratio, even more of these increases in NII will be reflected in NI.
- M&A Activity. In 2016, OZRK completed two 2015 acquisitions with C&S Holdings and C1 Financial, who had efficiency ratios of 71% and 66% respectively. Prior to the acquisitions, OZRK was a 12.3 billion bank, and was charged with integrating a combined 5.9 billion in acquisitions into their operations. OZRK was able to effectively complete this tall order. Even though both acquired banks had very poor efficiency ratios, in the first full quarter of combined operations, OZRK was able to bring the banks total efficiency ratio down to 34.3%. Now that the 2015 deals are finished, management is looking to be active again in 2017, this time looking for financially attractive targets as opposed to geographically attractive ones.

Valuation

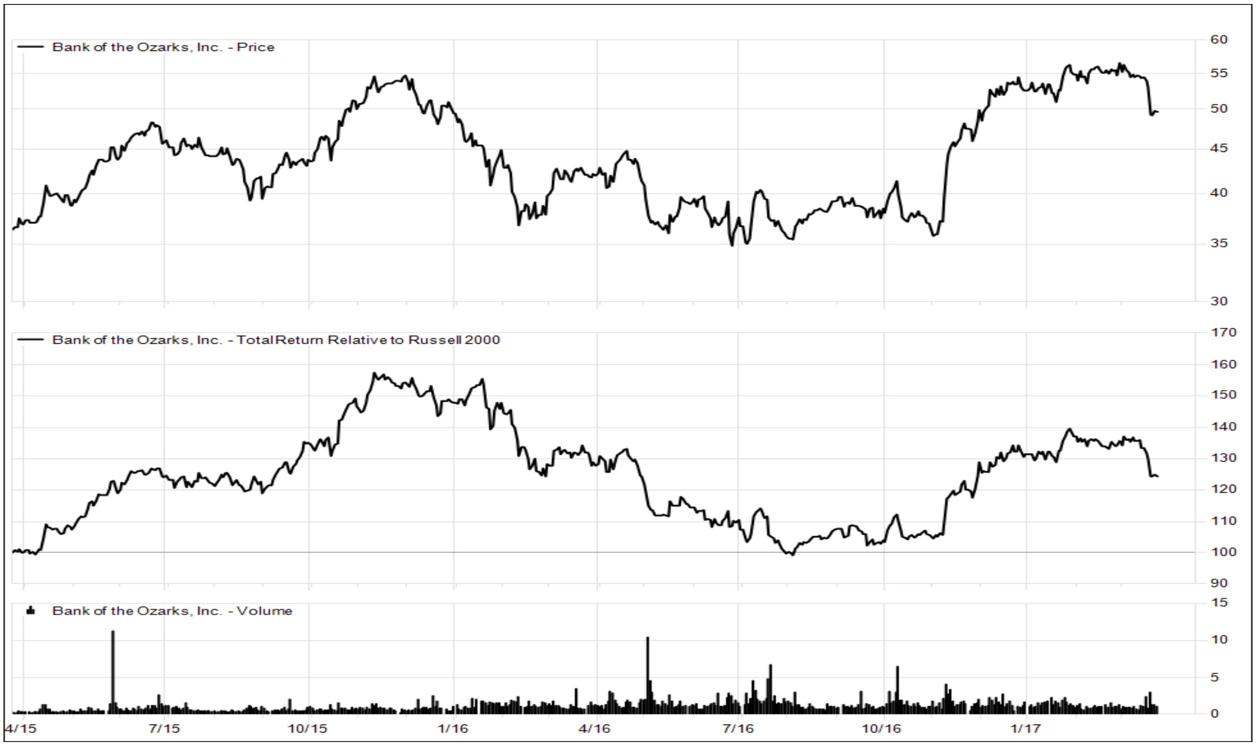
To find the intrinsic value of OZRK, a dividend discount model and a price to book and price to earnings multiple was used. For the dividend discount model approach, a WACC of 11.23% and a long-term growth rate of 3.0% was used to calculate an intrinsic value of $63.82. A sensitivity analysis of the WACC and long-term growth rate produced a range of $59.80 – $68.69. A predicted P/E and P/B multiple of 19.6x and 1.95x respectively was used. These multiples were then multiplied by OZRK's EPS ($2.58) and BVPS ($23.02) to reach an intrinsic value of $50.55 for P/E and $44.96 for P/B. Weighing these multiples 50/50, an intrinsic value of $47.76 was reached. Weighing the DDM and Multiple valuations 75/25, the final estimated intrinsic value of OZRK is $59.80, which provides an upside of 18.12%.

Risks

- High Real Estate Exposure. Currently 83% of OZRK's loan mix is tied up in real estate loans. Of that 83%, 60% of the real estate is in the southern part of the United States. Due to the consolidation and the nature of real estate markets potential to decline quickly, OZRK could face large losses due to loan defaults if the real estate market in the south significantly sours in the next few years.
- Repeal of Dodd-Frank. Although there has been discussion by the President to repeal Dodd-Frank, at this point such actions remain uncertain. If it is not repealed, then starting in Q317, OZRK will be subject to the Durbin Amendment. Had OZRK been subject to the it in 2016, it is estimated that NI. would have decreased by 2.74%. On top of the Durbin Amendment, there is a possibility other regulatory laws could be created that would have material effects on OZRK's earnings.
- Competition. Competition is fierce in the banking industry and currently it is difficult for midsized bank holding companies to compete in the market. They are caught between large financial conglomerates and small community banks. The large financial conglomerates benefit from economies of scale, a broader range of products and services, and access to better technology. On the flipside, small community banks are often privately held and are not subject to the same regulatory controls and costs. These pose significant challenges for OZRK when it is competing for market share, causing operations and liquidity to potentially be affected.

Management

George Gleason is Chairman and CEO of Bank of the Ozarks. Mr. Gleason has served the Company or the Bank as Chairman, CEO and/or President since 1979, when he bought controlling interest in the Bank when he was just 25 years old.



Ownership

% of Shares Held by All Insider and 5% Owners:	27.81%	▲
% of Shares Held by Institutional & Mutual Fund Owners:	93.31%	▲

Source: FactSet

Top 5 Shareholders

Holder	Shares		% Out
Wellington Management Co. LLP	10,174,000	▲	8.39
The Vanguard Group, Inc.	9,294,000	▲	7.66
BlackRock Fund Advisors	8,400,000	▲	6.93
SSgA Funds Management, Inc.	5,852,000	▲	4.83
George Gleason (CEO)	5,796,000	▲	4.78

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Net Income (mil)	Div. Yld. %	P/B	P/E	ROA
Bank of the Ozarks	OZRK-US	6,036.00	269.98	1.20	2.16	19.24	1.88
BancorpSouth	BXS-US	2,751.58	132.73	1.45	1.60	20.85	0.01
Ameris Bancorp	ABCB-US	1,640.67	72.10	0.69	2.40	21.39	1.15
Simmons First National A	SFNC-US	1,708.52	96.81	1.54	1.48	17.41	1.21
LegacyTexas Financial Grp	LTXB-US	1,863.72	97.32	1.35	2.10	18.62	0.01
Peer Averages		1,991.12	99.74	1.26	1.90	19.57	0.60

Source: Factset

YY Inc. ADR (YY)
March 31, 2017

Tim Milani International Technology

YY Inc. ADR (NASDAQ: YY) is a Chinese online social media platform primarily focused on live streaming content that engages its users through its game, online education, dating, music and other services. Through its capacity to support millions of users concurrently, YY offers an immersive, interactive, enriching and engaging entertainment experience through its large social community. The majority of content that YY features is user created being generated from its 10 million active channels and consumed by its 142 million active monthly users. YY operates its business through four categories including Live Streaming (80.47% of revenue, of which 73.47% is from YY Live and 7.01% is from Huya), Online Games (11.02%), Paid Membership (4.32%), and Other Segments (4.18%). YY Inc. was founded in April 2005 and went public in November 2012. The firm is headquartered in Guangzhou, China.

Price ($): (3/28/2017)	$46.34
Price Target ($):	$70.15
52WK H-L ($):	31.07-63.96
Market Cap (mil):	2,571
Float (mil):	152
Short Interest (%):	7.4%
Avg. Daily Vol (mil):	0.896
Dividend ($):	0.00
Yield (%):	0.00

Beta:	1.39
WACC	8.51%
M-Term Rev. Gr Rate Est:	22.6%
M-Term EPS Gr Rate Est:	21.9%
Debt/Equity:	55%
Debt/EBITDA (ttm):	1.72x
ROA (%):	26.65%
ROE (%):	31.43%
ROIC (%):	20.32%

FY: Jan	2015A	2016A	2017E	2018E
Revenue (Mil)	937.8	1,232.4	1,503.5	1,729.1
% Growth	57.3%	31.4%	22.0%	15.0%
Gross Margin	49.7%	39.3%	37.6%	39.9%
Operating Margin	27.3%	16.6%	18.8%	20.0%
EPS (Cal)	$2.96	$4.13	$4.70	$5.36
FCF/Share	$2.39	$8.59	$5.97	$6.00
P/E	15.6x	11.2x	14.9x	13.1x
EV/EBITDA	3.0x	4.1x	7.7x	6.7x

Recommendation

The live streaming segment of the social media market in China more than doubled in size in 2016 with revenues of approximately $3 billion. Credit Suisse expects live streaming to be $5 billion in 2017, an increase of 67%. At this rate streaming will soon equate to total box office revenues in China of $6.8 billion. The Chinese live streaming market is expected to grow at a CAGR of 30% after 2017 through 2020. Live streaming social media sites in China, such as YY generate some revenue from paid advertising but primarily through micro-transactions that users send to live-streamers from which companies collect a substantial margin, usually 70% or higher. The industry in China is also protected from major players in the West including Google's YouTube, which is blocked in the country. For YY total revenue in 2016 increased at 31.41% to $1.23 billion and YY is poised in several ways to continue this momentum. YY has expanded its user base for its content, reaching 141.9 million monthly active users (MAUs) by the end of 2016, a 16% increase from 2015. YY has also improved margins by 24% in 2016 and is predicted to continue this trend for 2017 and 2018. YY is also potentially undervalued as it was the target of failed bid in May 2016 that collapsed because of market conditions and government regulations in China. Due to its strong revenue, active user growth, improvement of margins, undervaluation from a failed bid and the live streaming market in China, it is recommended that YY be added to the AIM International Equity Fund with a price target of $70.15 per share, representing a 51% upside to the current market price of the stock. YY does not pay a dividend.

Investment Thesis

- **User and Marketplace Growth:** China's internet user base has 700 million users currently and another 200 million expected by 2020. The live streaming market in China more than doubled in size in 2016 with revenues of $3 billion and a projected CAGR of 30% after the end of 2017 to 2020. The total number of MAUs for YY has been increasing steadily with a 16% increase from 2015 at the end of 2016. In their most recent earnings call on March 14, 2017, YY reported a total of 56.1 million MAUs on their mobile app for Q4 2016, representing a 4.8% increase from Q3 2016. Paying users also grew by 91.9% YoY to 5.2 million.

- **Scale of Margins:** With it's large established MAU base of 141.9 million YY is has been improving margins through activities such as increasing prices of microtransactions. This has enabled YY to have a nearly double the rate of revenue growth at 31.47% YoY for 2016 compared to its MAU growth at 16%. Margins for YY increased 24% YoY in 2016 and are predicted to contiune this trend.
- **Undervaluation from Failed Buyout:** In May 2016, YY was a target for a potential buyout from a group of investors, withdrawn due to uncertain market conditions in China. The stock had been trading in the $60-63 range prior to the bid and the offer for the stock had it priced at $68.50 per share. YY stock fell to a low of $33.07 in June after the failed buyout and has only recovered some of its lost value with a current price of $46.34 indicating potential for further upside.

Valuation

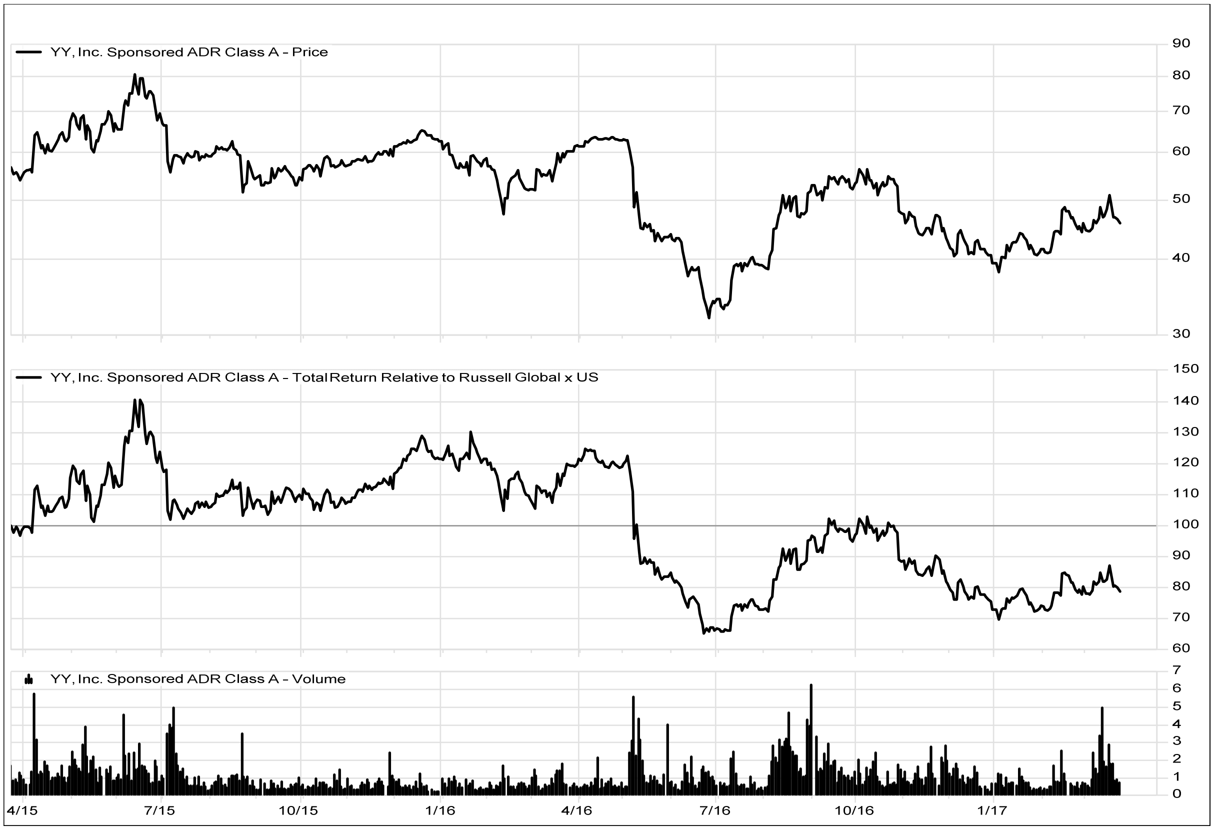
In order to reach an intrinsic value for YY, a ten year DCF model was constructed. Using preliminary supernormal growth rates of 22%, 15% and 5% for the first three years and a terminal growth rate of 2% for the remaining seven, with a WACC of 8.51%, an intrinsic value of $63.49 per share was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $57.17-$99.04. Additionally, a P/E multiple valuation was conducted using a comparables average P/E of 19.20x, and YY's 5-year historical average P/E of 18.18x which resulted in a valuation of $90.30. Finally, an EV/EBITDA multiple valuation was calculated. Using the comparables average of 14.78x and NTM EBITDA of $304.2 million, the multiple resulted in a valuation of $81.08 per share. By weighting the three valuation models 70/15/15, a price target of $70.15 was reached representing a 51% upside. YY does not pay any dividend.

Risks

- **Competitive Environment.** YY faces significant competition in the areas of social networking, online music, entertainment, and game live streaming services. Larger competitors could adopt a wide range of measures impacting YY including targeting their products to negatively affect YY's operations or sending virus-like programs to attack YY's platform. Conflict or disputes between YY and its competitors could lead to negative publicity for YY that could further impact operations. Several of YY's major competitors across segments include Baidu, NetEase and Tencent.
- **Reliance on a Limited Number of Games.** YY generates a significant portion of segment revenue (41.0%) in its online game category from the five most popular games on the service. In 2013, 2014, 2015 and 2016, the online game segment of YY accounted for 33.0%, 22.1%, 13.1% and 11.0% of all revenue for YY. In addition, if YY fails to renew the licenses on their most popular games from their third party developers the segment could be greatly impacted.
- **Government Intervention:** If the Chinese government deems that the structure of YY's operations and practices do not comply with existing or new national laws YY could be subject to severe penalties including the shutdown of its platform and business.

Management

David Xueling Lu is the Chairman of the Board and has been with the company since its inception in 2005. Lu is responsible for the overall management decisions, strategic planning and development of YY. Prior to his tenure at YY, Lu worked at YY competitor NetEase as its chief editor from 2003 - 2005. Eric He is the CFO of YY and has been with the company since 2011. He's previous experiences include time as a private equity director for AIG Global Investment Co. (Asia) and an MBA from the Wharton School of Business at the University of Pennsylvania.



Ownership

% of Shares Held by All Insider and 5% Owners:	5.92%
% of Shares Held by Institutional & Mutual Fund Owners:	68.53%

Source: FactSet

Top 5 Shareholders

Holder	Shares		% Out
T. Rowe Price Associates Inc.	2,696,409	▲	7.21
Shanghai Fosun Industrial Investment Co.	2,212,045	▲	5.92
Shanghai Greenwoods Asset Management Ltd.	1,471,894	▼	3.94
Capital Research & Management Co.	1,356,981	▬	3.63
Light Street Capital Management LLC	955,051	▲	2.56

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA	P/E	EV/Sales	EV/ EBITDA
YY ADR	YY	2,570.9	1,166.4	227.6	18.2	2.0	10.4
Baidu ADR	BIDU	1,511.0	10,871.5	1,747.9	11.8	5.0	30.8
Changyou.com Ltd. ADR	CYOU	2,570.9	524.0	130.5	10.4	2.1	8.3
NetEase Inc. ADR	NAS	274,800.0	5,200.7	1,753.3	18.6	6.5	19.2
Sohu.com	SOHU	37,959.6	1,650.4	-117.1	--	0.5	-7.0
Tencent	700-HK	58,882.8	22,870.0	1.0	37.0	10.7	22.7
Peer Averages		75,144.9	8,223.3	703.1	19.5	4.9	14.8

Source: FactSet

Lazard (LAZ)
March 31, 2017

Joe Flynn — Financial Services

Lazard Ltd. (NYSE: LAZ) is an independent financial advisory and asset management company. The firm operates through two segments: Financial Advisory (56% of revenue) and Asset Management (45%). LAZ's Financial Advisory segment offers corporate, partnership, institutional, government, sovereign and individual clients across the globe a wide array of services regarding mergers and acquisitions (M&A) and other strategic matters, restructurings, capital structure, capital raising, and various other financial matters. The Asset Management segment offers a broad range of global investment solutions and management services in equity and fixed income strategies, alternative investments and private equity funds. The company currently operate from 42 cities in key financial centers across 27 countries throughout North America, Europe, Asia, Australia, the Middle East, and Central and South America. LAZ was founded in 1848 and is headquartered in Hamilton, Bermuda.

Price ($):	$ 45.01	Beta:	1.5	FYE:	2015A	2016A	2017E	2018E
Price Target ($):	$ 53.58	WACC:	10.90%	Revenue (mil):	2,354	2,333	2,541	2,722
52Wk H-L ($):	$26.21 - 47.09	M-Term Rev Gr Rate:	5.33%	Growth %:	nm	-0.9%	8.9%	7.1%
Market Cap ($mil):	5,841	M-Term EPS Gr Rate:	9.60%	Net Dividend Yield	5.22%	5.98%	7.69%	8.33%
Float (%):	97.6	Financial Leverage Ratio	3.25	Pretax Margin	-0.7%	22.2%	24.0%	23.0%
Short Interest (%):	1.2	ROE (%)	30.41	EPS	$ 7.40	$ 2.92	$ 3.76	$ 3.99
30D Avg Vol (mil):	1.1	ROA (%)	8.57	P/E	6.1x	15.4x	12.0x	11.3x
Dividend Yield (%):	5.98%	ROIC (%)	16.32	P/B	4.3x	4.1x	4.8x	5.0x

Recommendation

On the news of the UK's Brexit last summer, LAZ posted its biggest two day drop since the company's IPO. The stock plunged 13% to $27 resulting in a sell trigger in the AIM International Fund. The drop was due to LAZ's high revenue exposure in Europe (34% of revenue) and expectations that uncertainty would reduce the level of M&A transactions. However, since the Brexit vote, the stock price has risen 67% as the threats to the business appeared to be overblown. LAZ increased its restructuring revenue by 91% to help offset the 7% decrease in M&A revenues in 2016. After a slow start to 2016, LAZ posted a record quarterly operating revenue in Q4 of $685mm, up 15% from Q4 2015. Q1 2017 looks strong relative to last year for both businesses. LAZ has been able to increase M&A transactions by 76% YoY - an impressive rate versus the industry's +4% growth. Asset Management is off to a strong start as well with inflows of $1.2B, and an AUM of $205B, up 4% from 4Q16. LAZ shares currently trade at a discount to their peer group despite being a one of the top players in M&A and maintaining solid flows in their asset management business during volatile markets. In 2017, LAZ is well positioned through its diversified revenue streams and global footprint. Financial Advisory revenues are set to increase as global M&A accelerates and stable market conditions would bode well for Asset Management. These margins should positively react to the continued increase in AUM anticipated in 2017. It is recommended that Lazard be added to the AIM International Equity Fund with a price target of $53.58, representing 19.03% upside.

Investment Thesis

- **Rebound in M&A.** After posting revenue growth of 23% in 2014 and 6% in 2015, Lazard's Financial Advisory segment cooled off in 2016. LAZ reported Financial Advisory net revenue of $1.3B, which was only a 2% increase compared to 2015. The slowdown was largely impacted by the 7% decrease in M&A revenue. Trends for M&A are highly correlated to the number of industry wide M&A transactions which was down 10% for the year. Given the potential changes in Washington D.C. around financial regulation and tax reform - and a European economic recovery, the future should bode well for M&A deals in 2017 and beyond. Lazard's Financial

Advisory business is expected to a return to growth of around 8% in 2017 through increased M&A revenues. The firm has already had a positive start to the year in both announced and completed M&A with estimated fees in January up 76% YoY and completions up 124% YoY.

- **Asset Management Growth.** Lazard's Asset Management segment has grown rapidly and has increased its AUM from $88B in 2005 to $198B in 2016. Last year, AUM increased 6% from $186B in 2015. The segments 7% net flows as percentage of AUM from 2014-2016 is ranked third among peers. Recent growth initiatives include various quantitative equity strategies, multi-asset strategies, and a real assets strategy. Given the favorable outlook in the markets and well-diversified product mix, operating margin for the segment is projected to increase to 30% in 2017.
- **Global Footprint.** The global scale of LAZ's Financial Advisory business allows the firm to advise on large, complex cross-border transactions. In 2016, LAZ advised on 5 of the top 10 completed global transactions. The company also expanded through the acquisition of an independent financial advisory firm based in Canada, and fully integrated their Latin American operations. In Asset Management, management expects an increasing share of AUM from developing economies in Asia, Latin America, and the Middle East as their retirement systems evolve.

Valuation

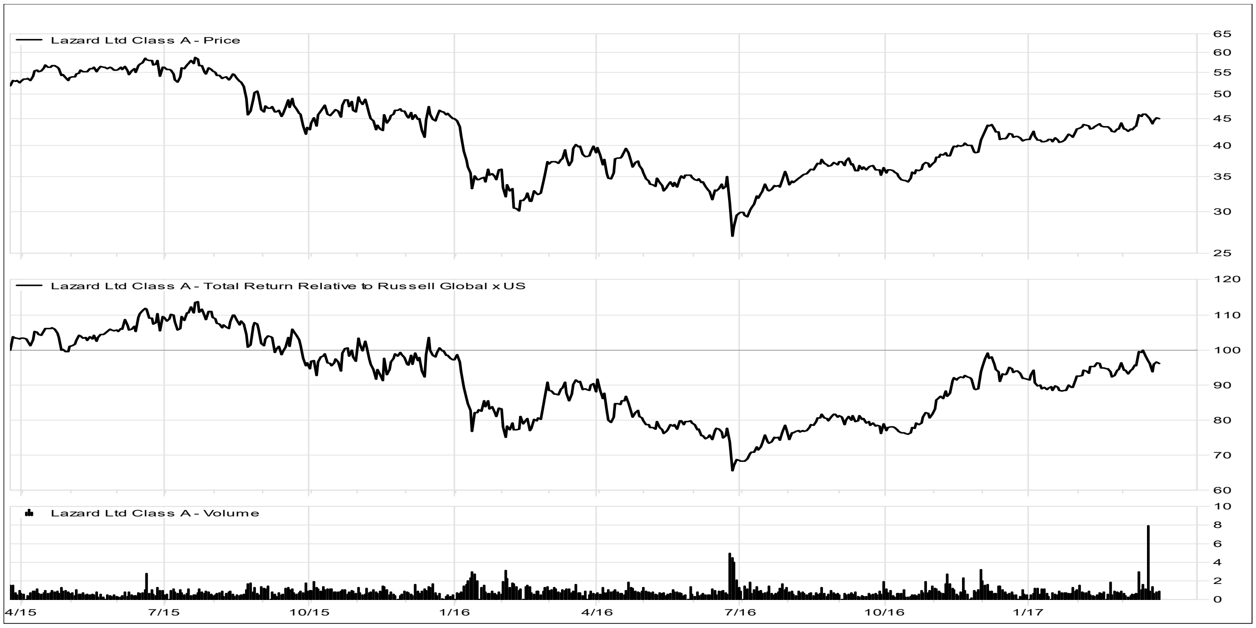
To find the intrinsic value of LAZ, a dividend discount model was used, as well as a price to book and a price to earnings multiple. Applying a weighted historical and competitor P/E multiple of 18.68x to LAZ's 2016 EPS resulted in valuation of $54.56. A weighted historical and competitor P/B multiple of 4.37x was also used against LAZ's 2016 BVPS resulting in a valuation of $44.23. Weighting these multiples 50/50, an intrinisc value of $49.39 was reached. The DDM approach using a WACC of 10.90% and a terminal growth rate of 3.25% resulted in an intrinisic value of $57.76. Weighting these valuations 50/50, the final estimated intrinsic value of LAZ is $53.58, which provides an upside of 19.03%. LAZ also pays a $2.69 annual dividend, yielding 5.98%.

Risks

- **Uncertainty of Global Financial Markets.** As a financial services company, LAZ's businesses are materially affected by conditions in the global financial markets and economic conditions throughout the world. If the economic picture deteriorates, equity markets decline significantly, or a shock to the markets occurs, M&A could be negatively impacted, leading to a reversal in the current cycle. A decline in the broader markets where the Asset Management segment has exposure could negatively impact AUM, leading to lower management and incentive fees.
- **Currency Fluctuation.** LAZ is exposed to fluctuations in foreign currencies and increased volatility could lead to negative effects on earnings being translated into US Dollars. In 2016, LAZ received 36% of revenue in other currencies predominantly in euros, British Pounds, and Australian Dollars. AUM with foreign currency exposure represents approximately 70% of LAZ AUM.

Management

Kenneth Jacobs is the Chairman of the Board and CEO of LAZ. He has served as a Managing Director since 1991 and had been a Deputy Chairman from 2002 until 2009. Mr. Jacobs is very experienced. He initially joined in 1988 and is a member of the Board of Trustees of the University of Chicago and the Brookings Institution. The CFO is Mr. Matthieu Bucaille. Mr. Bucaille joined in 1989 from the First Boston Corporation in New York.



Source: Factset

Ownership

% of Shares Held by All Insiders:	2.37%
% of Shares Held by Institutional & Mutual Fund Owners:	73.29%

Source: FactSet

Top 5 Shareholders

Holder	Shares (000)	% Out
The Vanguard Group, Inc.	399 ▼	7.57
Ariel Investments LLC	56 ▼	5.00
WCM Investment Management	549 ▲	4.47
T. Rowe Price Associates, Inc.	507 ▼	3.23
JPMorgan Investment Management, Inc.	240 ▲	2.98

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Net Income (mil)	Div. Yld. %	P/B	P/E	ROIC
Lazard	LAZ	5,840.80	387.70	5.98	4.45	14.47	16.63
JPMorgan Chase & Co.	JPM	311,797.00	24,230.00	2.18	1.36	14.10	4.70
Goldman Sachs	GS	89,694.00	7,398.00	1.09	1.17	13.84	2.70
Morgan Stanley	MS	79,237.40	5,975.00	1.66	1.15	14.54	2.70
Greenhill	GHL	840.90	60.80	6.50	2.83	15.03	20.40
Evercore Partners	EVR	3,538.80	107.50	1.85	5.75	31.81	15.80
Peer Averages		97,021.62	6,359.83	2.66	2.45	17.86	9.26

National Storage Affiliates Trust (NSA)

March 31, 2017

Robert Noble | Domestic Real Estate

National Storage Affiliates Trust (NYSE:NSA) is a self-administered and managed real estate investment trust that focuses on the ownership, operation, and acquisition of self storage facilities. NSA currently operates 453 self storage facilities located across 23 states. Operating approximately 28 million rentable square feet, NSA is the sixth largest owner and operator of self storage facilities in the United States. In 2016 NSA increased operating efficiency resulting in a 10.2% increase in same store NOI and a 7.7% increase in same store revenue. NSA also invested $1.3 billion to acquire 107 properties and enter a joint venture with a portfolio of 66 properties. NSA focuses its property acquisition on the 100 largest metropolitan populations in the U.S. NSA was formed in 2013 and began trading on the NYSE in 2015. The company's CEO is Arlen Nordhagen and is headquartered in Greenwood Village, Colorado.

Price ($): (2/6/15)	23.80
Price Target ($):	33.62
52WK H-L ($):	18.81-24.86
Market Cap (mil):	1,031
Float (mil):	43.3
Short Interest (%):	2.60%
Avg. Daily Vol (mil):	0.43
Dividend ($):	0.96
Yield (%):	4.00%

Beta:	0.897
WACC	6.4%
M-Term Rev. Gr Rate Est:	8.93%
M-Term EPS Gr Rate Est:	16.8%
Debt/Equity:	149.7%
Debt/EBITDA (ttm):	2.49
ROA:	1.20%
ROE:	4.41%
ROIC:	1.6%

FY: Dec	2015	2016	2017E	2018E
Revenue (Mil)	133.90	199.00	224.87	254.10
% Growth	73.90%	48.62%	13.00%	13.00%
Gross Margin	34.91%	33.36%	34.00%	34.00%
Operating Margin	4.57%	13.75%	25.74%	25.74%
EPS (Cal)	$0.18	$0.32	$1.01	$1.18
FCF/Share	$1.01	$1.05	$2.68	$0.15
P/E (Cal)	100.8	71.19	23.40	20.20
EV/EBITDA	13.3	16.8	13.7	11.9

Recommendation

Demand for self storage is expected to increase as economic conditions continue to improve. The storage industry is expected to surpass $30 billion by 2018, representing a growth rate of 2.9% according to IBISworld. Growth has been a result of all time low home ownership rates (62.9%) and modest population growth (0.73%), as well as two major demographic changes. One is millennials not buying homes and the second is baby boomers downsizing. In 2014 millennials made up 36% of the workforce and by 2020 they are expected to comprise 46%. Their demand is derived from moving around for jobs or other personal reasons. Millennials prefer to live in dense, urban environments where they likely will need extra space to store their belongings. Another key driver for the demand of self storage is the retirement of baby boomers. With over 10 thousand retiring everyday, they are driving demand for units as they downsize their homes or migrate to the Sunbelt. When they are moving baby boomers are unwilling to sell items with sentimental value to them. NSA is structured uniquely to capitalize on the growing market by absorbing regional storage providers and adding them to their portfolio of national properties. NSA's national platform allows them to capture economies of scale, while maintaining local management and expertise. Many existing self-storage facilities are independently owned (75%), while less than 9% are owned by the industry leaders Public Storage, Uncle Bob's, Cube Smart, and U-Haul. The largest self storage company, Public Storage owns and operates 2,200 locations. Absorbing small regional companies is the core of NSA's growth strategy and allows them to establish economies of scale and a competitive advantage. NSA's focus on operating efficiency (10.2% increase in 2016) and aggressive investment in real estate has positioned them to generate increases in net income and total value. Due to these factors it is recommended that NSA be added to the AIM Small Cap Fund, with a price target of $33.62, representing a 41.3% upside to the current market value of the stock. NSA pays an annual dividend of $0.96, a 4.0% yield.

Investment Thesis

- **Strong organic growth with large acquisition opportunities make a great combination:** they delivered a 7.7% same store increase in revenue in 2016 and is expected to continue to grow. In addition, there are over 50,000 storage facilities operating in the U.S. in 2016. NSA is the 6th largest in the storage industry, and acquisition impacts are more impactful for them then the larger companies.

- **High operating leverage:** self-storage facilities only require 45% occupancy to break even and the national occupancy rate is 87.4%. Every dollar over the break-even point falls disproportionally to the bottom line. NSA has capitalized on this by increasing same store NOI by 10.2% in 2016.
- **Acyclical financials:** during the recession of 2008, storage REITs outperformed the S&P 500 and were the only REITs to post positive returns (5%). Demand for self-storage is inelastic, posting 5% returns during 2008. According to Forbes, over 5, 15, 20, and 25 years equity REITs have outperformed the S&P 500. Demand for self-storage is not negatively impacted by downturns in the economy.

Valuation

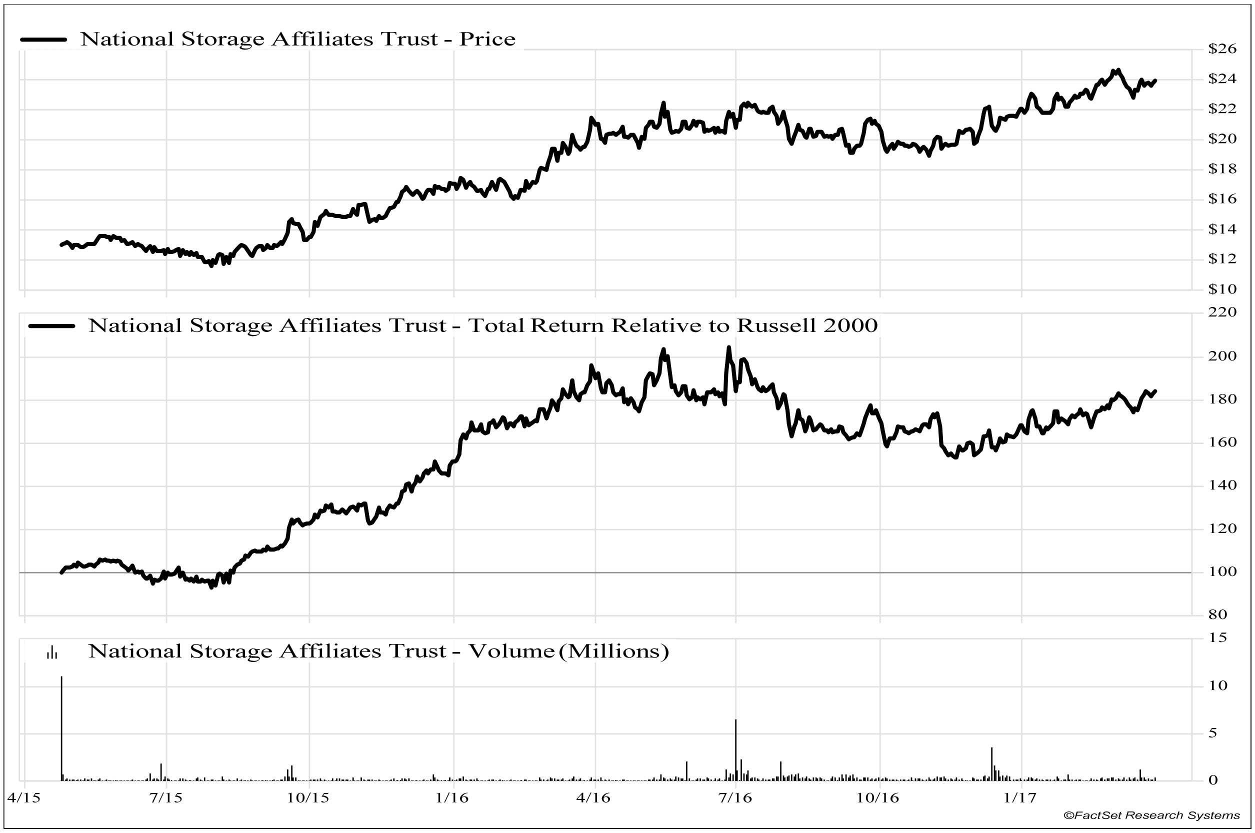
In order to find an intrinsic value for NSA, a ten year DCF was constructed. Utilizing a terminal growth rate of 2%, and a WACC of 6.4%, a price of $30.30 was reached. Sensitivity analysis of +- 0.5% on the WACC and terminal growth rate ranged from $27.53 to $33.12. Peer average P/E multiple of 41x was applied to NSA's 2017E earnings of $1.01. This yielded a price target of $41.41. Weighting the two valuation methods 70/30, a price target of $33.62 was reached, representing a 41.3% upside. NSA pays a $0.96 annual dividend.

Risks

- **Changes in interest rates:** increased interest rates and costs to finance the acquisition of new properties could influence their ability to execute their business plan. NSA's high growth strategy would be negatively impacted by higher rates. NSA made acquisitions in excess of $1.3 billion in 2016. NSA relies on financing to continue to acquire new facilities and compete with larger firms.
- **Inability to acquire new properties:** competition of deals and prices could inhibit NSA's growth strategy. Larger companies can dictate prices and force NSA out of deals. As investments in self-storage increase, independent businesses may be unwilling to sell or may dramatically increase in price.
- **Demographic changes don't effect demand as expected:** revenue increases are expected to be caused by baby boomers downsizing their homes and moving, as well as more millennials entering the workforce. If millennial home ownership trends change, their demand for self-storage units could dramatically decrease.

Management

Arlen D. Nordhagen is the CEO, as well as the President and Chairman of the Board of Trustees. Mr. Nordhagen has over 25 years of experience in the self storage industry including serving as the President and CEO of SecurCare Self Storage from 1999-2013. Tamara D. Fischer has served as the CFO since the company's inception in 2013. Prior to NSA, Ms. Fischer served as the Executive Vice President and CFO of Vintage Wine Trust, Inc.



Ownership

% of Shares Held by All Insider and 5% Owners:	44.13%
% of Shares Held by Institutional & Mutual Fund Owners:	91.38%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
The Vanguard Group, Inc.	4,791,000	11.29
BlackRock Fund Advisors	3,426,000	8.08
Jennison Associates LLC	2,794,000	6.59
AllianceBernstein LP	2,687,000	6.33
Arrowpoint Asset Management LLC	2,310,000	5.45

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Net Income (mil)	D/E	P/E	EV (mil)
National Storage Affiliates T	NSA	1,031	17.95	149.65	71.19	2,295.2
Life Storage	LSI	3,914	85.2	78.04	43.50	5,565.3
Public Storage	PSA	38,676	1,449.0	2.20	32.82	43,803.0
Extra Space Storage	EXR	9,448	365.3	189.25	26.54	14,106.1
CubeSmart	CUBE	4,775	85.0	95.74	59.49	6,455.8
Peer Averages		14,203	496.1	91.31	40.59	17482.6

Source: FactSet