Applied Investment Management (AIM) Program

AIM Class of 2013 Equity Fund Reports
Spring 2012

Date: Friday, April 13, 2012  Time: 2:00 pm to 3:30 pm
Road Show Location: Geneva Capital Management

<table>
<thead>
<tr>
<th>Student Presenter</th>
<th>Company Name</th>
<th>Ticker</th>
<th>Price</th>
<th>Page No.</th>
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<tbody>
<tr>
<td>Brent Adams</td>
<td>Home Properties Inc.</td>
<td>HME</td>
<td>$60.15</td>
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<tr>
<td>Greg Trunk</td>
<td>Masimo Corporation</td>
<td>MASI</td>
<td>$22.86</td>
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<td>Jillian Morrissey</td>
<td>Procrea Network, Inc.</td>
<td>PKT5</td>
<td>$23.81</td>
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<td>Kobe Park</td>
<td>PT Bank Mandiri Persero Tbk ADR</td>
<td>PPERY</td>
<td>$7.62</td>
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<tr>
<td>Stavros Demogerontas</td>
<td>Westamerica Bancorporation</td>
<td>WABC</td>
<td>$47.40</td>
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Thank you for taking the time today and participating in the AIM ‘road show’ at Geneva Capital. These student presentations are an important element of the applied learning experience in the AIM program. The students conduct fundamental equity research and present their recommendations in written and oral format – with the goal of adding their stock to the AIM Equity Fund. Your comments and advice add considerably to their educational experience and is greatly appreciated. Today, each student will spend about 5-7 minutes presenting their formal recommendation, which is then followed by about 8-10 minutes of Q & A. Again, thank you for allowing us the opportunity to present at Geneva.

For more information about AIM please contact:

David S. Krause, PhD
Director, Applied Investment Management Program
Marquette University
College of Business Administration, Department of Finance
436 Sfraz Hall, PO Box 1881
Milwaukee, WI 53201-1881
mailto: AIM@marquette.edu

Website: MarquetteBuz/AIM  AIM Blog: AIM Program Blog
Twitter: Marquette AIM  Facebook: Marquette AIM
Home Properties Inc. (HME) is a real estate investment trust which owns, operates, acquires and rehabilitates multifamily apartments in select Northeast, Midwest, Mid-Atlantic and Southeast markets in the United States. HME’s portfolio consists of 124 properties, containing 41,951 units, earning an average rent of $1,222 per unit. HME’s largest markets in terms of percentage of net operating income include Washington D.C. (30.6%), Baltimore (22.7%), Philadelphia (14.1%), Long Island (11.3%) and New Jersey (9.6%). The corporate headquarters are located in Rochester, NY.

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<tr>
<td>Price Target ($)</td>
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<td>Revenue (mil):</td>
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<td>52WK H-L ($)</td>
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<td>% Growth:</td>
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<td>Market Cap (mil)</td>
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<td>Operating Margin (%):</td>
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<td>Short Interest (%)</td>
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<td>EPS ($):</td>
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<td>P/FFO (Cal):</td>
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<td>14.53</td>
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<tr>
<td>Dividends ($)</td>
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<td>EV/EBITDA (Cal):</td>
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<td>16.02</td>
<td>14.99</td>
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<td>Yield (%)</td>
<td>4.35</td>
<td>Average Rent Per Unit ($)</td>
<td>1,222</td>
<td>FFO/Share ($)</td>
<td>3.54</td>
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**Recommendation**
The U.S. multifamily apartment market has gradually improved since bottoming out in 2009. The recent growth in rent rates has been driven by an increase in potential renters, improved employment levels and limited new supply (~1.0%). Uncertainty in the housing market will keep potential buyers as renters in the foreseeable future while keeping rental turnover low allowing operators to raise rents. Additionally, the home affordability index in the Northeast, where 94.8% of HME’s net operating income is generated, is well below the overall market (167.1 vs. the national average of 206.6). With secondary markets and Class-B assets expected to post higher growth than core markets, HME is well positioned to take advantage of the growth and earn higher cap rates than comparable operators. HME was an active buyer in 2011 purchasing a total of 8 communities with a total of 2,817 units. Its acquisitions totaled $501 million, the highest annual level in the Company’s history. The recent acquisition activity provides an opportunity to earn higher cap rates by upgrading Class C properties to Class B properties. HME enjoys barriers to entry in its markets as rising development cost drive down returns on new developments. In light of these reasons and a favorable valuation, it is recommended that HME be added to the AIM Equity Fund with a target price of $69.00, offering an upside of 15.27%. In addition to the potential share price appreciation, HME pays a yearly dividend of $2.64, representing a 4.35% dividend yield.

**Investment Thesis**
- **Negative Sentiment Towards Housing Favors Rentals.** While home buyer affordability is near historical highs (206.60), the decline in home values has kept many potential buyers as renters. Growing uncertainty in the financial markets and the political environment has also hindered a rebound in home purchases. As a result, rental turnover levels are at historical lows, allowing REITs to push rents on renewals.
- **Rent Growth in Class B and Class C Properties.** Rent growth in secondary and tertiary markets is expected to exceed growth in gateway markets as it lagged Class A properties the past two years. With growth forecasts for the overall market in the 4.0-6.0% range, secondary and tertiary markets are expected to be at the top end of the range. Increased rental demand will drive the growth aided by limited new supply and the strategic renovation of select Class C properties to Class B units.
• **Limited New Supply Favors Multifamily Operators.** Annual new supply as a percentage of total rental inventory is expected to average 1.0% through 2014, below the 10-year average of 1.3%. New demand from the echo boomers should help keep vacancies stable and rent growth should remain modest.

**Valuation**

To find the intrinsic value of HME, 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. A cost of equity of 10.1% was used and yielded an intrinsic value of $58.61. A five-year Dividend Discount Model was also constructed using the current dividend payout ratio of 274% and yielded an intrinsic value of $73.41. A P/FFO multiples approach was also used taking HME’s historical average of 14.95x and a peer average of 21.05x. Applying the calculated P/FFO multiple of 18.00x to a projected 2012 FFO per share of $3.92, yielded an intrinsic value of $70.57. Weighting the DDM valuation at 50% and the FCFE and P/FFO valuations at 25% each, a price target of $69 was derived. The firm also pays a yearly dividend of $2.64, representing a 4.35% dividend yield.

**Risks**

• **Home Values Closing Gap in Cost to Rent vs. Buy.** With home buyer affordability near historical highs, it has become more expensive to rent than buy in some markets. If home prices stabilize and spreads continue to decrease, renters with the financial ability will begin to purchase more homes.

• **Higher Commodity Costs Drive Down Development Yields.** The Fed’s QE2 stimulus program inflated construction costs. If another stimulus package is enacted, inflation could increase the price of many of the raw materials necessary to build an apartment complex. Even if a nation of renters takes flight, development returns could decrease 50 bps.

**Management**

The CEO and President, Edward J. Pettinella, has worked for Home Properties Inc. for 11 years and has served in his current role since 2004. His compensation remained steady during the recession when HME’s EPS took a hit and its stock price dropped over 50%. David P. Gardner has served as the CFO since he initially started with the company in 1994. Management remained conservative and smart with developments and acquisitions through the recession allowing HME to earn higher cap rates than most of its competitors.
Ownership

% of Shares Held by All Insider and 5% Owners: 7%
% of Shares Held by Institutional & Mutual Fund Owners: 92%

Source: Yahoo! Finance

Top 5 Shareholders

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<td>BlackRock Fund Advisors</td>
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Source: Bloomberg
Masimo Corporation (MASI) is a biomedical technology company which creates, manufactures, and markets noninvasive patient monitoring vital sign products and services to healthcare providers across the world. MASI products consist of a monitor or circuit board attached to sensors and synchronized to SafetyNet IT medical alert software. Revenue is comprised of 77% direct sales to end user, 15% sales to original equipment manufacturers, and 8% licensing royalties. The company derives 70% of revenue from the US and 30% international. The company was founded in 1989, went public in 2005, and is headquartered in Irvine, California with 2500 total employees.

Price Target ($) 31.00 WACC 10.4% Revenue (Mil) $434 $483 $533
52WK Range ($) $35.15-$17.62 M-Term Rev. G Rate Est: 15.0%
Market Cap (Billions) 1.33B % Growth 8.40% 11.20% 10.22%
Float (Mil) 51.90M Gross Margin 67.00% 66.40% 66.90%
Short Interest (%): 7.6% Operating Margin 19.70% 19.50% 21.10%
Avg. Daily Vol: 571,811 EPS (Cal) $1.07A $1.16E $1.37E
Dividend ($) N/A FCF/Share $1.23A $1.60E $1.65E
Yield (%): N/A EV/EBTIDA 10.49A 11.38E 10.06E

Recommendation
MASI’s innovative product line offers both medical treatment improvement and cost reduction, positioning the company to capitalize from growing demand for healthcare. The company has over 600 patents covering various vital sign measurements including proprietary oximeters for blood measurements, respiration rate, different types of hemoglobin, and neurological functioning. Its wide patent portfolio has created sustainable large gross margins of approximately 60-70%. Driven by oximetry, total operating income has risen every year since 2006 at a rate of 13.3%. Oximetry related sales represent an estimated 70% of the company’s revenue. The current oximetry market is estimated at $1 billion worldwide, growing at a CAGR of about 5.3% annually. Furthermore, the company expects strong sales growth from its multiple medical award winning Rainbow platform. The Rainbow platform is focused upon providing the first FDA approved treatments for immediate monitoring of various vital signs that previously required elaborate procedures. Rainbow related sales accounted for 8% of revenue in the last fiscal year and are projected to increase by 35% this year. Due to its innovative product lines, and patent protected core oximetry line, it is recommended MASI be added to the AIM portfolio with a target price of $31, offering a potential upside of about 36%.

Investment Thesis
- **Rainbow Sales Growth** - The Rainbow technology platform contains the only FDA approved technology for on-the-spot measuring of hemoglobin. Over 400 million invasive hemoglobin tests are performed annually, which require collecting a patient’s blood and manually analyzing it. Each unit of blood is estimated to cost between $522 and $1,183 at .1 units per patient. A clinical study performed by MASI showed an 87% reduction in transfusion frequency and 90% estimated blood volume. In addition, Rainbow technology could reduce hospital costs by $47 to $106 per patient monitored. There is an estimated potential target market worth $20 billion. Due to MASI’s patent protected product and estimated potential $20B target market there is substantial room for MASI to realize explosive high margin revenue growth.

- **Moving Beyond ICU** - Current inadequate monitoring of patients in general care has led to higher costs and more deaths in hospitals. Published medical research shows MASI’s vital signs monitors have the highest true alarm rate of over 97%. In addition, the monitors decrease false alarms by over 97%. An estimated 120,000 general care beds currently have inadequate vital sign
monitoring, resulting in 184,800 deaths. Lawsuits, such as an approximate $100,000 litigation expense in one medical malpractice case, are common throughout the medical industry. MASI’s best in class vital sign monitoring products provide hospitals with a cost effective means to limit exposure to potential lawsuits. Furthermore, false alarms lead to transfers to the ICU from general care, resulting in a $1200 higher daily rate. An ERCI winning technology adaption trial of PatientNet at Dartmouth Hospital showed a 46% decrease in patient transfers to intensive care, 65% decrease in distress codes and activations, and 166 ICU days saved annually. The potential to save unneeded transfers represents an estimated potential untapped target market opportunity of $5 billion.

- **Legislative Resilience** - MASI is well positioned to withstand ongoing proposed changes in US healthcare laws. Most direct sales to hospitals are made under multiyear contracts, resulting in a set price and volume for both parties. Sales to original equipment manufacturers are not directly contingent upon government healthcare reimbursement. Furthermore, the share of international revenue is projected to approach 40% within two years.
- **Industry Position** - Oximeters utilizing Masimo technology comprise an estimated half of the US market. Furthermore, its main competitor, Nellcor, was recently judged by courts to have violated the company’s patent, resulting in settlement and ongoing licensing agreements. MASI’s semi-monopoly position allows it to dictate terms to hospitals in multiyear contracts, producing a key competitive advantage in the closely contested medical device market.

**Valuation**

To compute the intrinsic value of MASI, a ten-year DCF, P/E multiple, and EV/multiple approach was used. In the DCF analysis a growth rate of 15% was used in years 3-10, a 3% perpetual growth rate, and a WACC of 10.3% to arrive at an intrinsic value of $30 a share. A sensitivity analysis was conducted using growth rates ranging from 12% to 16% and WACC from 9% to 11% to arrive at range of $20 to $43. Through using a multiple approach with a long term historical P/E of 30x and EV/EBTIDA of 15X yields respective values of $32.10 and $31.90. Based upon a triangulation approach with weightings of 50% DCF, 25% P/E, and 25% EV/EBTIDA, an estimated price target of $31 was established, representing a potential upside of 36%.

**Risks**

- **Cercacor License** - In May 1998 MASI spun off the company Cercacor, resulting in loss of rights to use SET to commercialize non-vital signs monitoring applications. Complicating matters the chairman and CEO of Masimo is also the chairman and CEO of Cercacor. The companies cross-license all technology to each other under perpetual and exclusive terms. Masimo currently uses the equity method for accounting since it is judged to be the main beneficiary of Cercacor.
- **Intellectual Property** – MASI currently derives almost all of its revenue from the SET and Rainbow platform. Although its technology is patent protected, Masimo could incur substantial legal fees for any challenges as well as competition from any possible alternative technologies. In 2006, Masimo reached a settlement with Nellcor to settle a patent case in which Nellcor was judged by court to have violated multiple Masimo patents. In the licensing agreement Masimo receives 7.75% of Nellcor revenue at expected value of $7.6 million annually for next three years.

**Management**

Masimo’s founder, chairman, and CEO is Joe Kiani. Joe Kiani received the Frost and Sullivan CEO of the Year Award in 2009. In addition to running the company Kiani also serves as Chairman and CEO of Cercacor, a board member of SABA, and previously served as Chairman of the Medical Device Manufacturers Association. The COO is Tony Allen. Allen joined the company in 2010 and previously served as VP Global Business Units, Instrumentation and Medical Sector for Jabil. Both the CEO and COO have made purchases of the company’s stock in the last six months.
Ownership

% of Shares Held by All Insider and 5% Owners: 17.5%

% of Shares Held by Institutional & Mutual Fund Owners: 85%

Top 5 Shareholders

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<td>Joe Kiani</td>
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<td>Janus Capital Management LLC</td>
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<td>Vanguard Group</td>
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<td>Fidelity Management and Research</td>
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<tr>
<td>Blackrock Fund Advisors</td>
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Source: Bloomberg
Procera Networks Inc is a provider of wire-speed networking solutions. PKT offers an integrated platform of products and is the leading provider of Intelligent Policy Enforcement (IPE) solutions. IPE uses Deep Packet Inspection (DPI) to gain awareness and visibility into users, which is used in their 3GPP policy ecosystem to manage and enforce policies. Customers of PKT include businesses, higher education institutions, and government entities. PKT has three main product lines: PacketLogic Subscriber Management (PSM), PacketLogic Intelligence Center (PIC), and PacketLogic Real-Time Enforcement Platform (PRE). These programs provide awareness and analysis into the subscriber’s behavior and provide mobile and broadband network operators more detailed reporting and control-enabling them to better manage congestion and maintain network speed. PKT’s main operations are in the United States (59%), but it also has operations in Europe, Middle East, and Africa (24%), and Asia (17%). PKT has 89 full-time employees and is headquartered in Fremont, California.

**Recommen**

PKT is well positioned to profit from the rising demand for policy management and network enforcement solutions. Network traffic has risen sharply, and IP traffic expected to grow from 20,151 petabytes/month in 2010 to 80,456 petabytes/month in 2015 (32% CAGR) according to Cisco Visual Networking Index. This new age of hyper-connectivity is referred to as the New Digital Lifestyle. In addition to the increase in usage, the New Digital Lifestyle demands that devices be able to support data-intensive information in real-time. PKT’s product line, PacketLogic, provides network operators with an IPE solution that is designed to enable a policy enforcement layer instructed by a policy management layer. This technology increases business intelligence, network optimization and network protection which allows for service flexibility and personalization as well as bill shock prevention. PKT’s products are sold through direct sales as well as channel partnerships. All research on new software programs is done internally so as to keep PacketLogic modules up to date with features and functionality addressed to the needs of mobile and broadband operators. PKT’s main competitors include Allot Communications, Tektronix, Blue Coast Systems, Cisco Systems, SAIC, and Sandvine. PKT differentiates themselves from these competitors by having a powerful patent-protected product that is user-friendly and simple. Many of PKT’s larger customers have complimented the firm on their ability to swiftly and efficiently install products with limited wait time. PKT allows for flexibility and real-time analytics as well as granular accuracy. For all these reasons and the significant growth potential, it is recommended PKT Networks be added to the AIM Domestic portfolio with a target price of $31.11, representing upside of nearly 35%.

**Investment Thesis**

- **Industry Growth-** Infonetics Research has predicted IPE projects to increase from $249M in 2009 to $2.1B in 2015 (43% CAGR). This rapid growth is attributable to multiple sources. Within IP traffic, global broadband users in both mobile and fixed segments are expected to grow at a 13 CAGR from 725M at the end of 2011 to 1.3B by 2015, according to reports done by Gartner. The primary reason for this growth is specific to mobile broadband, which is forecasted to grow at a 32% CAGR. With this increase in traffic, it will become critical for both broadband
and mobile providers to invest in an IPE solution in order to maintain control, manage their networks, and provide the proper quality of service.

- **Technology Shift Toward Mobile Devices** - As technology expands, more and more customers are buying smartphones, tablets, and laptops resulting in an increase in devices trying to access broadband connectivity. Smartphones are expected to grow at a 26% CAGR (482M in 2011 to 1.2B in 2015) and, over that same period, tablets are forecasted to grow at a 47% CAGR (69M in 2011 to 318M in 2015). Not only are more devices being purchased but they are also being used for data-intensive services like videos and gaming, which require more network capacity. Competitors in the network operator market risk losing market share by not appropriately meeting customer expectations for the speed and capabilities of their broadband networks and thus will need to employ PKT’s solutions.

- **Tier-1 Customer Growth** - In addition to an increase in demand for PKT’s IPE solutions, the firm is also attracting more Tier-1 customers. By the end of 2011, PKT’s Tier-1 customer count was up to 18 (with 7 out of the total 23 mobile customers being Tier-1). Recently USS MSO, a Tier-1 company, entered a $2.5M follow-up order. PKT has proven to have an edge on their competitors by easily scaling and integrating PacketLogic solutions on a large-scale. Having a Tier-1 company base is an advantage for PKT as they are the leaders in the industry and represent attractive sell-through opportunities.

**Valuation**

PKT was valued using a ten-year DCF model. Based on a calculated WACC of 14.9% and perpetual growth rate of 2.50%, the DCF analysis yielded an intrinsic value of $30. A sensitivity analysis was also conducted on the DCF adjusting the WACC from 12% to 15%, the long-term growth rate from 0% to 4% and next year’s cash flow from $10M to $16M. From this a target price range of $23 to $45 was obtained. An EV/Sales multiples approach was also conducted using a multiple of 7.7x. The approach yielded an intrinsic value of $33. Weighting the DCF at 50% and the EV/Sales at 50% and intrinsic value of $31.11 was found which offering a 33.44% upside. The company does not pay a dividend.

**Risks**

- **Losses in Previous Periods** - For 2009 and 2010, PKT incurred losses from operations of $6.3M and $2.7M, respectively. While PKT was profitable in 2011, it is likely they could revert back to losses because the profitability may not be sustainable. These losses may come from increased costs related to sales and marketing, product development and administration. If revenue is less than expected the operating expense could exceed revenue. This could then translate to not enough free cash flow for the firm to properly develop and sustain the business.

- **PacketLogic is Only Family of Product Line** - All revenues for PKT are derived from three products within one product family. Significantly all growth anticipated in the future stems from the PacketLogic product family. If delays in development occur this could adversely affect the company. PKT does not currently have the resources to develop additional product lines.

- **Competition.** The market in which PKT operates, is highly competitive and if the firm fails to further enhance their products and features their competitive position will fall behind and the average selling price will decline. PKT’s competitors are much larger in size and have significantly more financial resources to invest in product development, which could hurt PKT’s market position.

**Management**

James F. Brear has been the President, CEO and member of Board of Directors for PKT since 2008. Mr. Brear has over 20 years of experience within the industry working as VP of Worldwide Sales and Support at Bivio Networks, another maker of DPI technology. Charles Constanti had served as PKT’s CFO since May 2009 and has over 25 years of experience within public company finance. Before PKT, Mr. Constanti was VP and CFO of Netopia Inc.
Ownership

% of Shares Held by All Insider and 5% Owners: 2.74%
% of Shares Held by Institutional & Mutual Fund Owners: 97.26%

Source: Bloomberg

Top 5 Shareholders

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<td>Marathon Capital Management</td>
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<tr>
<td>Driehaus Capital Management LLC</td>
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Source: Bloomberg
PT Bank Mandiri Persero Tbk (OTC: PPERY) is an Indonesian bank formed by the government-planned merger of four state-owned banks during the Asian financial crises in 1998. The bank operates through six business segments: institutional banking; corporate banking; commercial and business banking; consumer finance; micro and retail banking; and treasury, financial institution and special asset management. Bank Mandiri employs about 27,000 employees with 1,526 branches across Indonesia and 7 overseas branches. The bank reported net profit of $1.34B for 2011, YoY increase of 32.85%. Headquartered in Jakarta, PPERY is 60% owned by the Indonesian government. In 2011, 98% of its revenue came from inside Indonesia.

### Recommendation

As the global economy shows signs of recovery, Indonesia appears to be the strongest emerging country. It presents a robust growth opportunity while the inflation rate is expected to remain moderate. Real GDP grew by 6.46% YoY for the Indonesian economy and is expected to grow at between 6% and 6.5% in the next four quarters, while inflation should stay around 5%. Starting in 2010, Bank Mandiri started to focus on expanding its interest income after few years of rebuilding profitability and stability. Its interest income increased from $3.06B in 2010 to $3.9B in 2011, while net profit of the bank increased 33% YoY. Bank Mandiri is expected grow rapidly in the next two years as the Indonesian economy is expected to grow strongly. The management is expanding aggressively and is expected to maintain its NIM at its current level with an expanded earnings asset base and improved loan mix. For such reasons, it is recommended that Bank Mandiri be added to the AIM International Equity Fund with a target price of $9.25, which offers a potential upside of 21% with a 3.64% dividend.

### Investment Thesis

- **Robust growth in Indonesian market.** Real GDP grew by 6.4% in 2011 and is expected to grow by 6.3% in 2012. Unemployment fell to 6.7% in 2011 and is expected to drop further to 6.5% in 2012. Abundant natural resources, a booming middle class, and a relatively young population together suggest a strong opportunity to grow. The World Bank reported that around 7 million Indonesian people per year move into the middle class and this trend is expected to continue in the near future. Even as Indonesia grows rapidly, the country has been able to keep its inflation at moderate level. Its inflation rate of 5.38% in 2011 is expected to fall to 4.90% in 2012 (while other countries like Vietnam have an inflation rate of nearly 20%). Unlike some other Asian countries, Indonesia depends less on exports, making it resilient in case of another global slowdown; and private consumption accounts for about 60% of its total GDP. Even when its main exporters like China, Europe, Japan, and U.S. start to import less, Indonesia will still be able to grow since a big part of its growth comes from inside the country.

- **Revenue expansion.** Bank Mandiri suffered in 2005 after expanding too rapidly and its profitability dropped while NPL increased significantly. To recover, management started a two-stage transformation plan to regain balance sheet stability and profitability of their overall
business. During the first stage, the gross non-performing loan ratio that was as high as 15.34% in 2005, dropped to .62% in 2010. During the second stage, from 2011 to 2014, PPERY’s management is planning to focus back on growth. During the four quarters of 2011, its interest income grew at CAGR of 23.13%, while non-interest income grew at CAGR of 44.16%. In 2012, PPERY targets to increase loan growth by 20% by taking aggressive approaches as it opens 1,200 more micro units and 60 branches. It also plans to increase non-interest income by installing 1,500 ATMs and over 70,000 ADC machines.

- **Solid ROE and strong resilience.** Even with the rapid growth in the past two years, Bank Mandiri managed to keep its profitability high and NPL low. In the past three years, ROE stayed between 21.81% and 23.7%. By increasing the amount of low-cost funding (e.g. checking and savings accounts), Bank Mandiri reduced cost of funding significantly since 2002 (from 10.8% to 3.44% in Q4 2011). PPERY also plans to expand its earnings asset base. This can reduce the floating rate as a percentage of overall earning assets, which will prevent its profitability from fluctuating. In 2005, floating rate bonds accounted for 43% of total earnings assets. It accounts for merely 16% in 2011. PPERY also plans to improve its loan mix it plans to focus on a higher yielding loan portfolio such as consumer/commercial segments. In 2012, the bank is targeting broad loan growth of 20-22%, but consumer/retail segments would have higher growth of 27-28%. Tier 1 capital ratio of 13.09% suggests a financial stability on top of that.

**Valuation**

To find the intrinsic value of PPERY, three approaches were used (P/E, P/B, and expected excess return methods). After taking the country premium into consideration, a WACC of 15.07% was used to discount future cash flows and earnings. A six-year expected excess returns analysis generated a price target of $9.05. The sensitivity analysis for different possible discount rates and short-term growth rates suggested a price range of $8.18 to $10.13. With a historical P/E of 13.95x and current peers P/E of 13.62x, this method resulted in an intrinsic value of $9.75, while a P/B ratio method (using the company’s historical value and the peers’ current multiples) suggested a target price of $8.54. Taking these into account equally, a price target of $9.25 was established, providing a 21% upside from the current price. The company pays a 3.6% dividend yield.

**Risks**

- **Uncertainty in Indonesia** 98% of PPARY’s revenue comes from Indonesia. Slowdown in the Indonesian market, a change in local regulatory system, or a natural disaster in the country could all negatively affect Bank Mandiri. Although Indonesia has a more stable inflation rate of 5% compared to emerging market peers, uncertainty exists. In Indonesia, fuel is subsidized by the government. In March, the parliament did not approve fuel price hikes but approved the option that allowed the government to raise the price if crude oil reaches a certain point. The government is expected to raise fuel price in the next few months by 30%. As 2014 presidential election is on its way, there are chances for insecurity in the country.

- **Interest rates fluctuation.** Since 2009, interest rates stayed around between 6.50% and 6.00%. The Bank of Indonesia increased the benchmark interest rates 25 basis point to 6.75% in February 2011, lowered it to 6.00% in Q3 2011, and lowered again to 5.75% in February this year to support growth. If interest rate goes higher, the projected revenue growth might be hard to achieve as the company is focusing on growing its micro-financing and retail sectors. However, as the inflation rate is moderate, consensus is that the government will keep the interest rate around 5.75% - 6.00% in the next two years. Even lower interest rate is unlikely but is still possible. As PPERY decreasing its portion of floating rate earning assets, this will have smaller effect on its profitability.
Management
Zulkifli Zaini was promoted to President Director in July 2010 from a Managing Director Technology role. Born in 1956, he graduated with a BSc from the Bandung Institute of Technology in 1980 and received an MBA in Finance from Washington University in 1994. He worked as an engineer for eight years before embarking upon a banking career in 1988. In November 2010, he was selected as chairman of the Indonesian Chamber of Commerce and Industry’s Standing Committee on Financial Policy (Banking and Finance Section), in which capacity he continues to serve.

Ownership

| % of Shares Held by All Insider and 5% Owners: | 59.6% |
| % of Shares Held by Institutional & Mutual Fund Owners: | 12.53% |

Source: Bloomberg

Top 5 Shareholders

<table>
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<tr>
<th>Holder</th>
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<th>% Out</th>
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<td>Norges Bank Investment Management</td>
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Source: Thomson One
Westamerica Bancorporation (WABC) is a bank holding company that provides a full range of banking services to individual and corporate customers mainly in Northern and Central California. The bank’s strategic focus is mainly on the banking needs of small businesses. In addition, WABC owns 100% of the capital stock of Community Banker Services Corporation (CBSC) a company engaged in providing WABC and its subsidiaries with data processing services and other support functions. They offer commercial lending, mortgage banking, cash management, and many other financial services. WABC has consolidated assets of approximately $5.0 billion, deposits of approximately $4.2 billion and shareholders’ equity of approximately $558.6 million.

Recommendation
In terms of profitability, WACB has been one of the best performing community banks in the U.S., with ROE of 1.7% and ROE of 15.9% reported in 4Q11. They have managed to stay patient throughout challenging economic times, as the firm avoided potential growth opportunities in real estate investments, a market that many of WABC’s peers eagerly competed in. Now, while many of their peers are struggling with troubled loans, WABC is finding growth opportunities at favorable prices. WABC purchased essentially all of Sonoma Valley Bank’s net assets at a discount of $43MM and paid a $5MM deposit premium in 1Q11. WABC has turned its focus to banks with $500MM to $2BB in assets and wants to double its balance sheets to $10BB in the future. In the meantime, management will continue to buy back shares for their shareholders (1.3% outstanding in 4Q11), and have trended their dividend payout higher. With most of their peers dealing with troubled loans, WABC has managed to maintain one of the cleanest balance sheets with a long term debt/ total assets ratio of 0.81 recorded in 2011. Another big quality WABC possesses is that they have managed to keep their expenses low year after year. WABC’s cost control generates an efficiency ratio of below 50%, while many of their peers have trouble to keep one below 55%. Their ability to keep costs low has helped them maintain a high net operating margin of 46.52%. Lastly, their credit quality has improved greatly with their non-performing assets dropping 30% from the past two years. Because of these reasons and a favorable valuation, it is recommended that WABC be added to the AIM Equity Fund with a price target of $56.83, which would give WABC an upside of 19.90%.

Investment Thesis
- **Able to Hold their Own in Tough Economic Times.** 53% of WABC loans and deposits are in the faster growing markets around the San Francisco Bay area, while the other half of its franchise is in California’s Central valley where the economy is not recovering as fast. Management’s most recent conference call projected that loans will fall a bit this year (4.5%-5.0%). The company is also slowly reducing its funding costs, which are now down to 15bps. As such, management is optimistic it can hold a net interest margin of 5.00%. Finally, to offset the revenue pressure, there are upwards of $13MM of credit-related workout costs and provisions that management believes will be eliminated in the next two years.
• **Outstanding Balance Sheet.** The ability for WABC to keep a clean balance sheet allows them to bid for banks that are in distress. WABC’s strategic move of remaining conservative and patient during the real estate boom has helped them take advantage of purchasing banks at attractive prices helping them to continue to grow their balance sheet and deposit base. Management has indicated that they plan on doubling their balance sheet size to approximately $10BB. WABC’s high-quality balance sheet and consistently superior ROE (average 25% the past decade) offers investors a safe haven during periods of volatile market activity. Meanwhile, the company has substantial excess capital to take advantage of acquisition opportunities, further adding to their franchise value.

• **Keeping Costs Low.** One of the biggest reasons WABC is able to stay ahead of its competitors is because of its obsession with keeping their costs low. As mentioned earlier, WABC has had an outstanding efficiency ratio of below 50%, while many of its peers struggle to keep it below 55%. David Payne, CEO and Chairman, leads a cost conscience management team that has indicated keeping costs low is one of the firm’s main considerations moving forward. WABC has managed to grow and keep their costs low, and they will continue to do so in the future, giving them a huge competitive advantage.

**Valuation**

To find the intrinsic value of WABC, an equity excess return analysis was conducted. Net income growth rates were forecasted based on historical growth and management guidance. This equity excess return model helped yield an intrinsic value of $58.90. The other model conducted was a Price to Book multiple of 2.80x, which was also based on historical values, as well as the guidance from management. With the equity excess return model weighted at 70% and the Price to Book multiple weighted at 30%, a price target of $56.83 was established, providing a potential upside of 19.90%. The firm pays a 3% dividend.

**Risks**

• **WABC’s Locations are Exposed to Earthquakes and Natural Disasters.** Most of WABC’s properties are located in California. Additionally, most of the real and personal property used as collateral to secure the firm’s loans is located in California. A major earthquake, flood, prolonged drought, fire or other natural disaster in California could have a material adverse effect on the Company’s business, financial condition, results of operations and cash flows.

• **Current Market Developments Could Affect WABC’s Operations.** WABC has no direct operating exposure to European sovereign debt. However, WABC clears daily transactions through large domestic banks which have global operations and exposure. Any resulting lack of available credit, volatility in the financial markets and reduced business activity could materially and adversely affect WABC’s business, financial condition and operating results.

**Management**

David L. Payne, CEO and Chairman, has been the driving the force behind turning WABC into one of the best performing banks in the United States since taking over in 1984. Payne is the reason why WABC has managed to be a low cost franchise by keeping operating expenses, funding costs, and credit costs significantly below their peers. John Thorson, Senior Vice President, has been with the firm since 1989 and has been Chief Financial Officer since 2001. He managed human resources from 1995 to 2001. Russell Rizzardi, Senior Vice President since 2008, has been in the banking industry since 1979 and was previously with Wells Fargo and U.S. Bank.
Ownership

% of Shares Held by All Insider and 5% Owners: 4%

% of Shares Held by Institutional & Mutual Fund Owners: 70%

Source: Bloomberg

Top 5 Shareholders

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<td>Fisher Investments, INC.</td>
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<td>State Street Corporation</td>
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Source: Bloomberg