Applied Investment Management (AIM) Program

AIM Class of 2014 Equity Fund Reports
Spring 2013

Date: Friday, April 19th   Time: 11:30 am – 1:15 pm (working lunch)
Road Show Location: Marquette Building
140 S. Dearborn St., 17th Floor, Chicago

Student Presenter	Company Name	Ticker	Price	Page No.
Eoghan Bahnson	MAKO Surgical Corp.	MAKO	$11.45	2
Ryan Bailey	Gerdau S.A.	GGB	$7.58	5
Charlie Hoover	Team Health Holdings, Inc.	THM	$37.53	8
Brendan Durkin	IMAX Corporation	IMAX	$27.57	11
Louie Moran	B&G Foods, Inc.	BGS	$28.24	14

We appreciate the opportunity to take an AIM 'road show' to the Chicago. These student presentations are an important element of the applied learning experience in the AIM program. The students conduct fundamental equity research and present their recommendations in written and oral format – with the goal of adding their stock to the AIM Equity Fund. Your comments and advice add considerably to their educational experience and is greatly appreciated. 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 to Jennifer Sloan and her team for allowing us the opportunity to present in Chicago.

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MAKO Surgical Corp. (MAKO)
April 19, 2013

Eoghan Bahnson | Health Care

MAKO Surgical Corp. (MAKO) is a medical device company that markets a robotic surgical arm for orthopedic implants and procedures. MAKO was spun-off by Z-Kat, which is a surgical navigation device company. Using Z-Kats Computer Assisted Surgery (CAS) imaging technology, MAKO created the Robotic-Arm Interactive Orthopedic (RIO) system. The company offers MAKOplasty, a surgical solution using the RIO system for hip and knee procedures for patients with osteoarthritic disease. The robotic arm provides the orthopedic surgeon with pre- and intra-operative guidance allowing for tissue sparing bone removal and more accurate implant insertion. The firm currently derives their revenues from RIO system sales (40.1%), procedures (49.6%), and servicing of the RIO system (10.3%). MAKO was incorporated in 2004 and is headquartered in Fort Lauderdale, Florida.

Price ($): (4/10/13)	$ 11.45	Beta:	1.27	FY: Dec	2012 A	2013 E	2014 E
Price Target ($):	17.36	WACC:	12.25%	Revenue ($mil)	$103	$127	$ 156
52 WK H-L ($):	43-10	M-Term Rev Gr. Rate Est:	15.0%	% Growth	21.55%	23.8%	23.00%
Market Cap (mil):	$534M	M-Term EPS Gr. Rate Est:	12.0%	Gross Margin	67.10%	70.89%	72.00%
Float (mil):	40.4M	Debt/Equity:	0%	Operating Margin	-34.58%	-19.45%	-6.00%
Short Interest (%):	29.4%	ROA:	-22.1%	EPS (Cal)	$0-.69	-.15	-.13
Avg Daily Vol (K):	1160K	ROE:	-27.0%	FCF/Share	$-.02	$-.27	$-.03
Dividend ($):	0				-	-	-
Yield (%):	0%						

Recommendation

Being an advanced robotic surgical company and operating in a market with increasing demand, MAKO is poised to continue to grow revenues by over 20% YoY. Robotic enhanced surgery is likely to play a key role in the future of medicine and MAKO is the first company to explore this option in knee and hip surgeries. Establishing a business base of 900 trained surgeons with 156 active RIO systems has positioned them well against potential future competition. In 2009, procedure revenue represented only 22% of total sales, which increased to 50% for 2012. In their short history, over 23,000 successful MAKOplasty procedures have been performed; 10,200 were performed last year. Q4 2012 alone had a QoQ procedure growth of 20% and a 29% YoY growth rate. Out of 1,200 clinics identified by management RIO systems are only installed in 13% of them. Thus there is substantial room for growth as every RIO system sale brings with it furture procedures that are each worth about $5,000 of revenue.The entry point is attractive as the stock took a significant hit after missing earnings, which has created an opportunity to buy MAKO at a discount It is recommended that MAKO Surgical Corp. be added to the AIM domestic equity fund at a price target of $17.36 representing a 51.6% upside.

Investment Thesis

- **Aging Population and Rising Obesity Rates.** MAKO is currently marketed toward surgeons treating patients with osteoarthritic disease. These patients tend to be older as age tends to be directly correlated with deteriorating joint function. The U.S. population is aging and according the U.S. Census Bureau by 2020 over 25% of Americans will be 55 or older. An elderly population means increased demand for orthopedic procedures such as knee and hip replacements. Another indicator of arthritus other than age is weight; U.S. obesity in adults is over 35% and almost 40% for citizens over 60. Being obese or even just overweight increases the chances of osteoarthritic disease at an earlier age. Both of these factors combined means that MAKO's customer base is increasing every year creating an opportunity for procedures to possibly grow 42% in 2013.

- **The Accuracy of Robotic Surgery.** Patients and surgeons alike want the safest and most effective procedures available. Recent clinical studies have documented the superiority of MAKOplasty procedures compared to traditional hand-guided surgeries. The accuracy of implantation has been typically between 4 and 6 times higher when a trained surgeon used a robotic arm. This accuracy has led to MAKOplasty implants having a 9 times lower fail rate 24 months after surgery. Specifically on the hip procedures the MAKOplasty provides a cup placement in the restricted safe zone of 84% compared to 47% of similar surgeries done manually. Not only is it more accurate but it also provides reduced risk of spreading disease and imaging guidance, which can help eliminate unnecessary bone or tissue damage.
- **Growth in Hip Procedures.** Around 23% of orthopedic revenue comes from either knee or hip procedures and treatments. Both knee and hip procedures are expected to grow at over 3.5% annually. Out of 2,904 procedures MAKOplasty procedures only 395 were the total hip. Hip growth is expected to be the main driver of a 2013 projected 37% increase in total procedures. Currently there are 156 active RIO systems and only 97 have the hip application software.This number has been increasing yearly; in 2012, 62% had the hip application compared to 2011 when only 44% of installed RIO systems employed the software.

Valuation

In order to reach an intrinsic value for MAKO, a ten year discounted cash flow model was conducted. Using a terminal growth rate of 3% and a WACC of 12.3% resulted in a valuation of $17.57 was obtained with a range of $15.48- $20.88. Additionally, a EV/Sales comparison and valuation of the company's reserves were analyzed. Using a blended average of the industry, historical average and historical regression an EV/Sales multiple of 6.4x and a 2013 expected Sales of $127.17M, a value of $17.14 was obtained. By weighing the DCF model 50% and the EV/Sales multiple 50% a price target of $17.36 was established. The firm does not pay a dividend

Risks

- **Reliance on a Single Product.** Cureently, the RIO system can only perform two types of procedures. Their profitability is inevitably linked to the growth and continued success of these operations. On top of that, all potential developments of MAKO are possible other uses for the RIO creating a continued reliance on system sales. These potential other procedures are also in early development stages so there is no guarantee it can be used on other joints.
- **Possible Introduction of New Competetion.** Currently MAKO's only competition is traditional orthopedic instruments and implants, which gives them product diversification. Some companies have begun to develop robotic arms for similar knee and hip procedures but the bigger risk is from established medical device companies. If the large firms such as Intuitive Surgical decide to enter the market their significant reach and relationships with hospitals could steal large amounts of market share.
- **Supplier Risk.** MAKO relies heavily on third parties for supplies in their RIO system. Most of the parts, minus the software, is outsourced leaving them vulnerable to problems with suppliers. They use single suppliers for many of the parts and don't have long term contracts with any of them. If these suppliers were to fall on hard financial times or stop providing parts to MAKO it could have an adverse effect on costs and inventory.

Management

Dr. Maurice Ferre is the founding President and CEO and current Chairman of the Board of Directors. He started out when he founded Visualization Technology, an image-guided surgery company that was later acquired by GE Healthcare. Ferre served as Vice President of GE Navigation until 2004 before joining Z-Kat, which spun-off Mako Surgical. Christopher R. Marrus began with Mako in 2012 and is the Senior Vice President of Sales. He also spent 6 years with robotic surgery giant Intuitive Surgical.

Ownership

% of Shares Held by All Insiders and 5% Owners:	12%
% of Shares Held by Institutional & Mutual Fund Owners	65%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Frontier Capital Management Corp	3,815,746	8.08%
BlackRock	2,477,658	5.25%
FMR LLC	2,388,221	4.95%
Skvline Venture	2,245,249	4.76%
Vanguard Group INC	1,935,899	
		4.10%

Source: Bloomberg

Gerdau S.A. (GGB)
April 19, 2013

Ryan Bailey | International Materials

Gerdau S.A. (NYSE: GGB), the largest flat steel producer in Latin America, has a strong and expanding presence around the globe. The company's main business line includes crude steel products, such as billets, blooms and slabs. GGB also works on customer specific and specialty products, which have stronger gross margins. Gerdau separates its revenue into four geographic segments: Brazil (36%), Latin America (13%), North America (32%) and Other/Specialty (19%). Gerdau has a maximum capacity of 25 million metric tons (mt) of steel per year across its worldwide operations, but they have recently added an iron ore mining facility that will extract 4.5M mt in surplus of needs in 2013. Gerdau S.A. is a subsidiary of Metalúrgica Gerdau S.A which was founded in 1901. The company is headquartered in Porto Alegre, Brazil. It is traded on the NYSE as an ADR with a share-to-receipt ratio of 1:1.

Price ($): April 10 2013	$7.58	Beta:	1.33	FY: Dec	2012A	2013E	2014E
Price Target ($):	$10.12	WACC:	13.26%	Revenue ($mil)	$19,519.59	$20,381.68	$22,079.74
52 WK H-L ($):	7.23-10.82	M-Term Revenue Gr. Rate Est:	4.00%	% Growth	-8%	4%	8%
Market Cap (bil):	12.92	M-Term EPS Gr. Rate Est:	8.00%	Gross Margin	12%	13%	15%
Float (mil):	1,010	Debt/Equity Ratio	84%	Operating Margin	6%	8%	9%
Short Interest (%):	N/A	ROA:	3%	EPS (Cal)	$0.43	$0.52	$0.71
Avg 10 Day Vol (K):	4,732	ROE:	5%	FCF/Share	-$0.01	$0.74	$0.94
Dividend ($):	$0.08			P/E (Cal)	17.61	14.58	10.68
Yield (%):	1.10%			EV/EBITDA	9.68	7.41	5.69

Recommendation

With an economy that is expected to grow in real terms by 3.5% this year and 4% in 2014, Brazil remains a leading area of global expansion. With major macro events scheduled to take place - such as the 2014 World Cup and 2016 Olympics - construction should boom over the next few years as stadiums are built, housing standards are improved, and the multiplier and spillover effects improve the nation's quality of living. GGB has found itself in a favorable position to take advantage of improving domestic demand as well as pent-up construction demand in North America. As North American economies improve and corporations utilize the large cash balances they hold, CapEx budgets will increase which, in turn, will lead to greater demand for construction and steel. Improvements in business spending should lead to improved prices and quantity demand for steel and Gerdau's top line will directly benefit from this. Additionally, GGB has taken advantage of recent low interest rates and battered valuations of steel producers to grow their business through strategic acquisitions of recycling, iron ore mining and production facilities with the goal of becoming an integrated and cost-efficient supplier. This includes a conscious decision to grow their relative low margins and increase their presence in North America. Given the major infrastructure projects taking place in Brazil and non-residential construction estimates in North America, it is recommended that Gerdau S.A. be added to the AIM International Portfolio with a price target of $10.12 representing an upside of 34% and paying a dividend yield of 1.10%.

Investment Thesis

- **Kicking off Growth.** The 2014 Soccer World Cup will see an inflow of millions of people to view the event. In order to cater to the transportation, industrial and infrastructural needs to support the World Cup, the Brazilian government is spending R$26.5B (US$13.4B), which includes a high-speed rail system, new roads, maintenance and repairs to 12 stadiums. As a result, 8 million mt of steel are expected to be required for the World Cup and 2016 Olympics infrastructure needs. Already priced into Gerdau's valuation are contracts that it has with the Brazilian government to provide steel for eight of the stadiums; however, with the successful completion of these contracts, it is likely that the Brazilian government will continue business with GGB on infrastructure projects for the 2016 Olympics. Gerdau will also provide necessary steel for roads, airports and wind power plant construction in Brazil over the coming months.

- **Construction is Key.** As uncertainty over government spending decreases in the US, corporations are being pressured by shareholders to deploy their cash through dividends or CapEx projects. As a result, steel demand and prices should improve and the firm's North American segment will benefit. Q1 2013 has shown slower than expected growth in non-residential construction – the likely result of uncertainty about the debt ceiling and mandatory fiscal reductions – but Q2 2013 will see an improvement in QoQ EBITDA of roughly 20% through improved sales. The latest projections from the American Institute of Architects, forecast non-residential growth to be 5% in 2013 and 7.2% in 2014. Gerdau's North American acquisitions and facilities will allow it take advantage of this potential construction growth over the next two years.
- **Management's "Iron" Will.** In 2012, to the frustration of some investors, Gerdau expanded its mining operations to achieve vertical integration and now operates 4 iron ore extraction facilities. Expansion is beginning to show results in 2013, as Gerdau has become self-sufficient and will use its own iron ore in its steel production. Gross margins are expected to improve from 12% (2012) to 13% and to reach 14.5% in 2014 as Gerdau no longer needs to source iron ore for its steel production. This year it is expected that GGB will be extracting roughly 4.5 Mtpy in surplus of needs, a figure that should grow to roughly 11 Mtpy in surplus by 2017. The sale of the additional iron ore will have higher margins than steel production and this should improve Gerdau's overall margins in the coming years. Management's decision to go against the short-term desires of some investors shows their foresight and ability to focus on the company's long-term value.

Valuation

A seven year DCF was used to value GGB's common stock with a terminal growth rate of 3% and a WACC of 13.26% which includes a 2.5% country premium given Brazil's considerable inflation rate and the multinational nature of the firm. This resulted in a valuation of $10.20 per share. Sensitivity analysis of the WACC and terminal growth rate yielded an intrinsic value range of $8.06 - $15.72. Additionally a P/E comparable approach was used and resulted in a multiple of 17.5x resulting in an estimated price of $9.11. Weighing these valuations at 75:25 respectively, an intrinsic value of $10.12 was found which represents a 34% upside. GGB also has a 1.10% dividend yield.

Risks

- **Business Integration.** Given the numerous acquisitions that Gerdau has undertaken post-2008, there is a strong possibility of a delay in cost savings that are expected to occur through integration. With management focused on growing the business through M&A, there is concern that integrating operations have not been efficient. However, eventual integration of Gerdau's facilities will see improvements in its margins, in particular through increased iron ore mining.
- **Leverage.** With a debt/equity ratio of 84%, Gerdau owns 8% of the debt out in the Steel and Iron industry. Significant amounts of cash will likely be used to pay down debt in the short run, limiting potential CapEx, and dividend payments to shareholders.
- **Steel Prices.** Although Gerdau's stock price has a low correlation with steel or iron, an increase in the demand and price of steel plays an important part in determining the company's top line. If for some reason, the price of steel stays stagnant, it may take longer for the investment theses to play out.

Management

Mr. André Johannpeter is the CEO of Gerdau S.A. and has worked at Gerdau since 1980. He has held the positions of President and CEO since January 2007. Mr. Johannpeter studied General Business Administration at the University of Toronto, and Advanced Management at the Wharton School, University of Pennsylvania. The company's newly appointed CFO (December 31, 2012) is Mr. André Pires de Oliveira Dias who also serves as the Investor Relations Officer and a member of the Executive Board. Previously he worked for 20 years in Brazilian capital markets and abroad.

Ownership	
% Shares Held by All Insider and 5% Owners:	0.01
% Shares Held by Institutional & Mutual Fund Owners:	4.59
Source: Yahoo! Finance	

Top 5 Shareholders

Holder	Shares	% Out
Metalurgica Gerdau SA	439,398,667	76.60
BNDES Participacoes SA	37,859,415	6.60
Gerdau SA	1,720,883	0.30
Grantham Mayo Van Otterloo & Co	3,502,965	0.61
Delaware Management Company	2,764,900	0.48

Team Health Holdings, Inc. (TMH)
April 19, 2013

Charlie Hoover   Healthcare

Team Health Holdings, Inc. (NYSE: TMH) is the leading U.S. provider of outsourcing services for healthcare professionals. In particular, these professionals include physicians, physician assistants, and nurse practitioners that are sent to hospitals across the country. The firm's headquarter is in Knoxville, Tennessee, and the company was founded in 1979. While the company's largest division handles services ranging from doctor recruitment to billing, payroll, and claims management, TMH also provides services for anesthesiology, inpatient care (hospitalist), and pediatric programs. Currently, the company maintains contracts with over 800 civilian and military hospitals, clinics, and physician groups located in 47 states. TMH essentially recruits and contracts these healthcare professionals who then provide their professional services in third-party healthcare facilities.

					FY: December	2012A	2013E	2014E
Price ($) (4/08/13)	37.53	Beta:	1.23		Revenue (Mil)	2,069	2,361	2,645
Price Target ($):	49.81	WACC	10.3%		% Growth	18.55%	14.13%	12.00%
52WK Range ($):	19.90-37.91	M-Term Rev. Gr Rate Est:	14.1%		Gross Margin	18.64%	18.98%	22.00%
Market Cap:	2.55B	M-Term EPS Gr Rate Est:	39.4%		Operating Margin	6.06%	7.40%	10.20%
Float	57.8M	Debt/Equity	26.6%		EPS (Cal)	$0.94A	$1.39E	$2.21E
Short Interest (%):	1.2%	ROA:	5.3%		FCF/Share	0.60	1.46	3.73
Avg. Daily Vol:	716,816 K	ROE:	54.3%		P/E (Cal)	39.85	26.95	17.00
Dividend ($):	$ -				EV/EBITDA	14.27x	12.08	10.43
Yield (%):	0.00%							

Recommendation

Team Health Holdings is one of the largest suppliers of outsourced healthcare professional staffing and administrative services in the U.S in terms of revenues, number of clients, and patient visits. The firm's ability to spread corporate infrastructure costs over a broad national revenue base has yielded significant cost efficiencies that are not available to most competition (MEDNAX, EmCare Holdings, Emergency Medical Services Corp). Furthermore, relationships with clients and physicians provide an exceptional retention rate in the company's contracts at 93% and 98%, respectively, which are among the highest in the industry. Through 2011-2012, TMH issued four secondary offerings totaling about 35M new shares. Since the firm was controlled by The Blackstone Group (the largest shareholder), TMH received no cash infusion; however, the offerings did expand the quality and breadth of the company's institutional shareholder base and enhanced daily trading volume - increasing the overall liquidity of the stock. In 4Q 2012, revenue growth was 18% - which represented the ninth consecutive quarter of revenue growth over 10%. Additionally, the company's EBITDA increased 23% in 2012, and their EBITDA margin increased 9.9% - which was largely due to strong revenue growth. Driven by their 2012 acquisitions, this revenue growth illustrates the company's success in exposing vulnerable regions that are in need of efficient services to locate the best healthcare professions. TMH management has also recognized that hospitals consistently have growing needs in their emergency departments (ED's) and have sought continued growth in this area - ED's have represented a consistent 72% of revenues over the past three years. Because of these reasons and a favorable valuation, it is recommended that TMH be added to the AIM Fund with a target price of $49.81, offering a potential upside of 33%. The firm does not pay a dividend.

Investment Thesis

- **Recent Acquisitions.** The company had eight acquisitions in 2012, which was responsible for the largest contribution to revenue growth (11% of the 18.6% total growth rate). Expanding presence in AZ is vital for future growt and two of the eight acquisitions were located in the Grand Canyon state, providing care to 200,000 patients per year, on average, and in 2012, contributing $50.2M of revenue growth, and net cash proceeds of $167.2M. TMH's acquisitions reflect success in positioning the firm as offering solutions for high-quality physician groups to provide enhanced servicing to existing customers in the rapidly changing healthcare environment. Management is confident that the market for acquisitions will continue, and they can continue to expand.

- **Growing Emergency Management.** Emergency departments (ED) are a significant source of hospital inpatient admissions with a majority of admissions for key medical services starting in the ED. For year ended December 31, 2012, the company's clinicians provided services to over 10M patients within the ED. Furthermore, net revenues from ED contracts have increased by 51% from 2008 through 2012 (a nearly 12% CAGR). ED services have represented a consistent 72% of TMH revenues for the past three years.
- **Efficient Proprietary Information Systems and Procedures.** TMH has developed and maintained proprietary integrated, advanced systems allowing the firm to monitor and improve hospital performance, raising patient satisfaction. These systems link billing, collections, recruiting, scheduling, and payroll functions. The systems enhance the company's ability to collect patient payments and reimbursements in an orderly and timely fashion and has increased their billing and collections productivity. These upgrades are estimated to increase revenues marginally by about 1%, and decrease expenses over the long term by about 7% per year.

Valuation

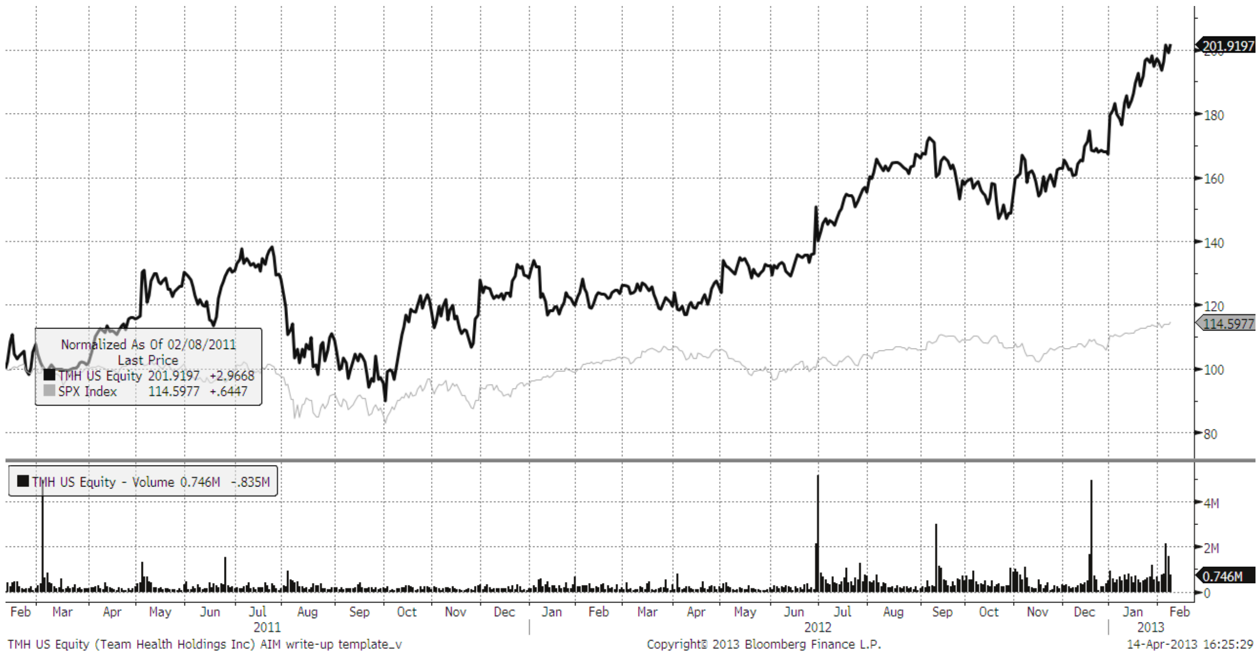
In order to reach an intrinsic value for TMH, a ten year discounted cash flow model was conducted. Using a terminal growth rate of 3% and a WACC of 10.3% resulted in a valuation of $48.10. Sensitivity analysis provided for a range between $41.83 and $59.14. Additionally, relative valuations using P/E and EV/EBITDA ratios were utilized. After calculating respective multiples, estimated P/E and EV/EBITDA values were $55.39 and $47.66, respectively. The total valuation of the firm was calculated by a weighted average of three projections. First, the intrinsic value, $48.10 was weighted by 50%. Second, the EV/EBITDA valuation of $47.66 was weighted by 25%. Finally, TMH's P/E multiple valuation of $55.39 was weighted by 25% - resulting in an overall price target of $49.81 – a 30%+ upside.

Risks

- **Dependent on Economy.** The firm's performance is highly cyclical and strongly correlated with economic conditions. While conditions have recently improved, there is continued uncertainty of economic recovery. Economic downturns negatively effect demand of TMH services. Should the economy regress to its poor state, the government may reduce the funding of Medicare, Medicaid, and other healthcare programs, and TMH may subsequently experience decreased revenues.
- **U.S. and State Health Reform Legislative or Implementation Initiatives.** President Obama signed PPACA into law in March, 2010. Part of this law includes a reduction of payments made to hospitals, should the hospital contain excessive readmission rates or hospital acquired conditions. Furthermore, beginning January 1, 2015, PPACA also requires the establishment of a physician value-based payment system. This system adjusts payments to high performing physicians through the use of a "value-modifier." Such reforms may negatively impact demand.
- **Government Payment Regulations.** Laws and regulations that regulate medical service payments made by government regulated healthcare programs could negatively effect future revenues. The firm's affiliated provider groups derive a significant portion of net revenues from payments made by these programs. Any change in policy that results in limiting reimbursement practices could reduce direct payments received by affiliated provider groups, which would significantly effect hospitals' operations, and consequently effect TMH operations as well.

Management

Gregory Roth is the President and CEO of TMH. He joined the firm as the COO Novemeber 2004. David Jones joined in 1994, was named CFO in 1996, and was promoted to Executive VP and CFO in 2010. Executive Chairman, Dr. Lynn Massingale, co-founded the company in 1979. He served as the CEO until 2008 when he assumed his current position.



Ownership			
% of Shares Held by All Insider and 5% Owners:			1%
% of Shares Held by Institutional & Mutual Fund Owners:			84%
			Source: Yahoo! Finance
Top 5 Shareholders			
Holder	Shares		% Out
Blackstone Group L.P.	9,588,991		14.10%
FMR LLC	6,768,040		9.05%
Lord Abbett & Co	4,642,908		6.83%
Wellington Management Company, LLP	3,630,691		5.34%
Wells Fargo & Company	3,388,309		4.98%
			Source: Yahoo! Finance

IMAX Corporation (IMAX)
April 19, 2013

Brendan Durkin — International Consumer Discretionary

IMAX Corporation (NYSE:IMAX) is a designer, manufacturer, and marketer of premium digital theater systems in both 2D and 3D. IMAX is in the entertainment technology industry and specializes in large-format motion picture presentations. The company operates in seven segments: IMAX Systems, Theater System Maintenance, Joint Revenue Sharing Arrangements, Film Production and IMAX Digital Re-Mastering (DMR), Film Distribution, Film Post-Production, and Other. The largest segment is IMAX systems, accounting for 29% of revenues in 2012. IMAX has theaters in 53 countries and continues to expand on its 731 theater systems in place at year end in 2012. The company was founded in 1967 and is headquartered in Mississauga, Ontario, with other offices in Los Angeles and New York.

Price ($) (4/14/13)	27.57	Beta:	1.35
Price Taget ($):	32.31	WACC	12.8%
52WK Range ($):	18.29-27.69	M-Term Rev. Gr Rate Est:	15.0%
Market Cap:	1.81B	M-Term EPS Gr Rate Est:	19.0%
Float	56.09M	Debt/Equity	0.0%
Short Interest	14.2M	ROA:	8.71%
Avg. Daily Vol:	810,290	ROE:	18.66%
Dividend ($):	N/A		
Yield (%):	N/A		

FY: December	2012A	2013E	2014E
Revenue (Mil)	284	327	392
% Growth	20.18%	15.00%	20.00%
Gross Margin	53.72%	57.00%	60.00%
Operating Margin	20.59%	25.54%	29.00%
EPS (Cal)	$0.62A	$0.99E	$1.32E
FCF/Share	1.02	1.19	1.55
P/E (Cal)	44.47	27.85	20.90

Recommendation

IMAX has developed into a household brand name synanomous with high quality entertainment. While developing top of the line entertainment equipment to sell and lease, they also derive profit from box office sales in IMAX theaters that use either a gross margin technique or a joint venture agreement. Under gross profit, IMAX leases the system to a venue for an upfront gross margin of 50%, collecting payments over a stated contract term and rate. Under JV agreements, IMAX partners with another company, putting up the entire cost of setting up the theater and then receiving around 20% of the box office sales in that theater. They also generates revenue from digitally remastering films or allowing films to be shot with IMAX cameras that are released in its theaters, receiving 10-15% of the box office sales for each film. Box office profits for the company are at an all time high as IMAX can program screens in different countries to play films in certain theaters that will optimize box office profits from that region. IMAX continues to develop new technology, as they are presently working on a new laser projection system that licenses Kodak Company's laser-projection patents to IMAX. The expectation is that this technology will enhance the viewing quality of 3D movies on larger screens providing more capability than current IMAX projection systems. While IMAX is targeting emerging markets for growth, they also are focusing on growth within the U.S. They recently agreed to build the third largest IMAX theater in the world in Hollywood's prestigious TCL Chinese Theater. Q4 numbers beat all expectations and grew margins and EPS significantly from the previous year. The company has posted a 3 year average EPS growth rate of 89.25% and a 3 year average revenue growth rate of 18.5% - and increased gross margin from 47.9% to 53.7%. With strong growth prospects and prices relevant to the nuber of screens worldwide, it is recommended that IMAX be added to the AIM international equity fund with a target price of $32.31, yielding a 15% upside. The company does not pay a dividend.

Investment Thesis

- **Growth in Emerging Markets.** At year end 2012, there were 731 IMAX theaters worldwide in 53 different countries. 104 of these theaters are in China which offers potential for significant market share and future profit growth.The company signed contracts to open 8 additional theaters in India and a few more in Brazil as well. Worldwide, IMAX signed contracts for 38 new theaters during Q4 2012 and maintains a target for 1700 theaters worldwide, which is evaluated regularly and continues to grow as IMAX maintains strong revenues and success.

- **Brand Recognition and Box Office Profits.** Consumers recognize the name IMAX and understand which types of movies are enhanced by the DMR and 3D movies IMAX offers. Film producers also recognize the additional enahancements using IMAX equipment can bring to a film, creating an increase in demand for film equipment each year. Box office profits for IMAX have been at an all time high with more big name producers using IMAX equipment in films and releasing these titles in IMAX theaters. There is a solid line up of new releases using IMAX equipment, such as The Hunger Games 2 and Iron Man 3. IMAX box office profit was up 50% YoY, while the conventional theater was up an average of about 6%
- **Increasing Margins Over Time with Expansion.** While IMAX is expanding the number of theaters globally, producing the DMR films and leasing the equipment for production of films to play in these theaters is a fixed cost. They do not cover the cost of making the movie or marketing it, only building the infastructure of the theaters and putting up the capital to convert films using DMR technology, which also has decreasing costs and time requirements. More theaters equates to more profit at a cost which is relatively stable. The development of digital production from film production has decreased the cost of a film print from around $20,000 for 2D and $40,000 for 3D today, much lower in the future to around $200 for a digital file, which will allow IMAX to sell more copies and allow theaters to release more titles at a lower cost.

Valuation

To find the intrinsic value for IMAX, a ten year discounted cash flow model was conducted blended with a P/E multiple comparables valuation, weighted evenly. Using a terminal growth rate of 3% and a WACC of 12.8%, the resulting DCF valuation yielded an intrinsic value of $30.79. Using the an industry average P/E multiple excluding large outliers, a 34.1x multiple was found. Using the 34.12x multiple and the 2013 estimated EPS of $0.99 for IMAX, an intrinsic value of $33.82 was found. Blending each method resulted in an intrsinc value of $32.31 – a potential 15% upside.

Risks

- **Poor Box Office Performance.** One of the major risks IMAX faces is poor box office performance for the select titles it decides to release in its theaters. Poor performance in the box office leads to less joint venture profit and smaller margins relating to that source of income for the company.
- **Quick Changing Industry.** With technology improving at such a rapid pace, there could be another company that emerges with new technology and standards that creates less demand for the IMAX brand. 3D films are a quickly growing market as demand is increasing over the years for select titles.
- **Governmental Regulation in Emerging Markets.** Specifically in China, the government has limited the amount of Hollywood films released in the country. Although China specifically named IMAX films in its regulations as an exception in showing Hollywood films, they also decreased the amount of films allowed in the country following U.S. films taking box office profits from the Chinese films. IMAX works against this by producing films with increasing popularitiy in certain regions to release there.\

Management

Richard Gelfond has served as CEO since 2009 and has been a member of the Board since 1994. He is the only board member who also serves as a key executive within the company. Joseph Sparacio serves as the CFO and EVP, joining the company in 2007. Sparacio, a CPA, has 20 years of experience in the cinema entertainment industry. Greg Foster joined IMAX in early 2001 and now serves as the Chairman and President of Filmed Entertainment. He previously held various senior management posts at MGM/UA.

Source: Yahoo! Finance

Ownership	
% of Shares Held by All Insider and 5% Owners	15%
% of Shares Held by Institutional & Mutual Fund Owners	68%

Source: Yahoo! Finance

Top 5 Shareholders		
Holder	Shares	% outstanding
Douglas Kevin	9,111,143	13.67%
Frontier Capital Management	3,689,398	5.46%
Oppenheimer Funds Incorporated	3,209,386	4.81%
China Asset Management Company	3,178,800	4.77%
Tremblant Capital Group	2,915,896	4.37%

Source: Bloomberg

B&G Foods, Inc.
April 19, 2013

Louie Moran | Consumer Staples

B&G Foods, Inc. (NYSE: BGS) and its subsidiaries engage in the manufacture, sale, and distribution of a diverse portfolio of shelf stable and high quality branded foods and household products in the United States, Canada, and Puerto Rico. The BGS portfolio consist of a vast assortment of brands, including (but not limited to) Ortega ($134.83 M), Las Palmas ($36.42 M), Maple Grove farms of Vermont ($76.20 M), Ac'cent ($19.65 M), Cream of Wheat ($63.29 M), B&G ($28.87 M) and Underwood ($20.51). B&G Foods, Inc. distributes its products through a network of independent brokers and distributors to supermarkets, mass merchants, warehouse clubs, wholesalers, food service distributors and direct accounts, specialty food distributors, military commissaries, and non-food outlets. B&G Foods, Inc. was founded in 1996, is headquartered in Parsippany, New Jersey, and currently has 999 employees.

Price (4/15/2013)	$28.24	Beta	1.1	FY: Dec	2012 (A)	2013 (E)	2014 (E)
Price Target	$34.57	WACC	9.84%	Revenue (mil)	$633.81	$709.87	$780.85
52 WK H-L	$33.14 - $20.99	M-Term Rev Gr Rate Est:	8.00%	% Growth	16.54%	12.00%	10.00%
Market Cap (mil)	$1,540.30	M-Term EPS Gr Rate Est:	10.62%	Gross Margin	35.24%	35.00%	35.00%
Float (mil)	51.4	Debt/Equity	177.00%	Operating Margin	23.51%	23.50%	23.50%
Short Interest (%)	6.72%	ROA	5.10%	EPS (Cal)	$1.20	$1.58	$1.41
Avg. Daily Vol (K)	324.56	ROE	19.86%	FCF/Share	$1.83	$1.73	$1.52
Dividends (Yr)	$1.10			P/E (Cal)	20.44	17.83	20.08
Yield (%)	3.84%			EV/EBITDA	12.24	13.17	13.30

Recommendation

With an extremely diverse and recognizable portfolio of product offerings, B&G Foods offers consumers high quality products at competitive prices. In the 2012, B&G set company records for adjusted EBITDA growth (28.9%) and diluted EPS growth (24%), despite Hurricane Sandy's impact on their major customer base. Recent acquisitions of Culver Brands (Nov. 2011, $81 M), and New York Style/ Old London (Oct. 2012, $8.4 M) have shown to generate significant revenue, while maintaining, and even improving, margins. The company has adjusted its capital structure by reducing and refinancing debt to be better positioned for future acquisitions, which are likely to occur within the year. Previous success of finding and integrating acqusitions into the business model has been a key characteristic of BGS growth. BGS has been increasing both gross (35.24%) and operating margins (23.51%), a result of BGS's shift towards higher margin products and improved pricing models, all while reducing operating costs at the production level. For these reasons it is recommended that BGS be added to AIM Domestic Equity Fund at a target price of $34.57, offering a 22.41% upside. The current dividend of $1.10 produces a yield of nearly 4%.

Investment Thesis

- **Highly diversified – and growing – product base**: BGS has successfully diversified itself in order to offer a wide assortment of products. BGS's recent acquisition, Culver Brand's, has 30 products in over five brands that will be brought to market this year alone. BGS plans for an expanded offering in their successful Crock Pot seasoning line, which could raise these sales to nearly 1% of revenue. 2012 acquisitions of New York Style and Old London offer BGS added exposure in the snack foods aisle, something they have lacked since selling their bagel chip segment nearly 10 years ago. Additionally, this diverse product offering allows BGS to participate in the current market trends of the food sale and production industry, namely a move to natural and organic foods along with increasing demand for private label items. This coupled with BGS redesigned capital structure, better positioning BGS in its search for another acquisition, shows BGS has strong growth opportunities in the future.

- **Rejuvenation of mature products**: Mature products sales dipped in volume the last period; however, these products made up less than a 1% of revenue growth. To increase sales, BGS will offer expanded offerings in their Cream of Wheat, Las Palmas, and other mature brands (Tier 1). A recommitment to these brands, shown through a commitment of 80% of the marketing budget, as well as new offerings comprising 60% of all new products being offered, suggest a rebound in this segments sales and growth figures. If this was to occur, revenue growth rates from existing products should return to about 4.5%.

Valuation

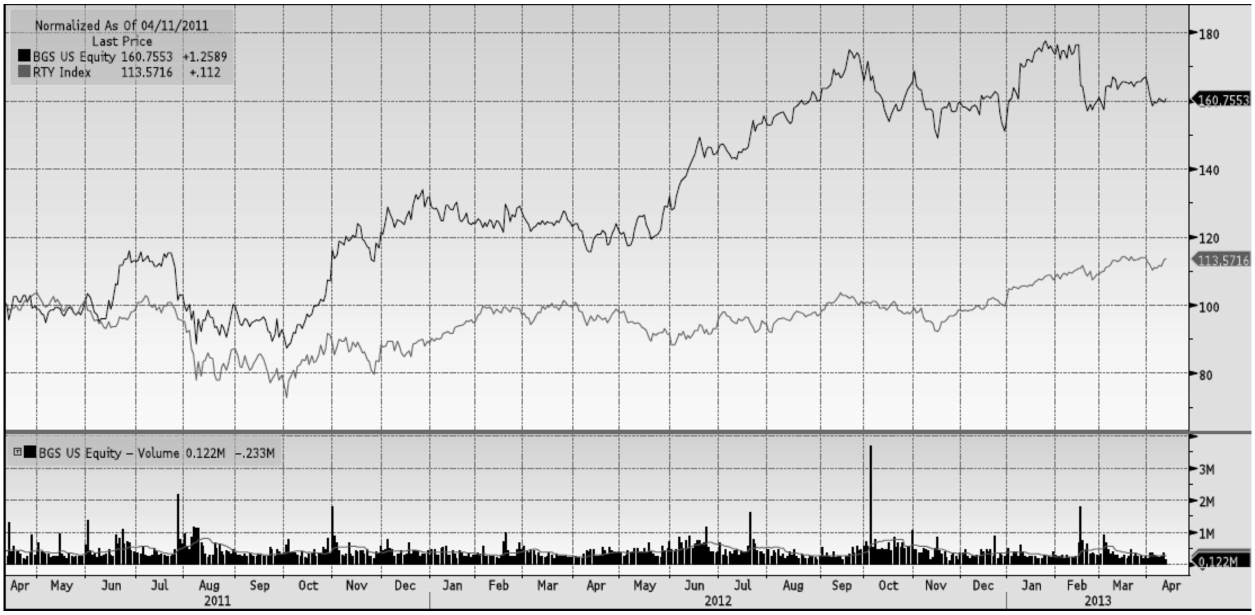
A 10 year discounted cash flow model was used to value BGS. The DCF used a WACC of 9.84% and a terminal growth rate of 3.00%. This resulted in an intrinsic value of $35.14, giving BGS a 24.43% upside. A sensitivity analysis of the DCF using cash flow, WACC, and perpetuity growth rate resulted in target range of $32.39-$38.89. A EV/EBITDA analysis was also performed, using a 9.58X industry average, yielding an intrinsic value of $34.00. representing a 20.31% upside. Weighting both of the methods equally, we arrive at an overall intrinsic value of $34.57 resulting in a 22.33% upside. BGS currently pays a quarterly dividend of $0.29.

Risks

- **Highly competitive industry:** Many different brands and products compete on a national and local level for shelf space and sales. B&G's ability to extend new product offerings as well as rejuvenate mature/existing product offerings is crucial for continued success. B&G must remain competitive with other players in these arenas, as well as minimizing fixed costs to stay competitive regarding price. Additionally, rising commodity costs might not be able to be passed along to the firm's customers.
- **Substantial Debt on the balance sheet:** To fund recent acquisitions, the company has taken out debt, some with restrictive covenants, to finance these purchases. There was 641.1 million of LT debt on the books at the end of fiscal year 2012. The restrictive covenants, if violated, could result in the suspension of dividends, incurrence of additional debt, and specified sales of assets limiting the companies financial mobility.
- **Acquisition environment:** Acquisitions have been a large source of growth for BGS recently. In the future, B&G may find difficulty in identifying and acquiring brands that have a suitable product or product mix to complement B&G's current offerings. Additionally, the integration of these acquisitions, if not done appropriately, could result in below anticipated results.

Management

David Wenner has been the President/CEO of BGS since 2004. He joined the company in 1989, serving as Assistant to the President before becoming Vice President in 1991. Prior to assuming these roles, Mr. Wenner served worked for Johnson & Johnson for 13 years. Robert Cantwell, CPA, has served as CFO since 2004, and has been B&G's Executive Vice President of Finance since 1991. Prior to this, Mr. Cantwell worked for Deloitte & Touche, LLP.



Ownership	
% of Shares Held by All Insiders and 5% Owners:	2%
% of Shares Held by Institutional & Mutual Fund Owners:	30%

Source: Yahoo! Finance

Top 5 Share Holders		
Holder	Shares	% Out
Vanguard	3,118,031	5.90%
Ameriprise Financial, Inc.	2,733,339	5.17%
BlackRock Fund Advisors	2,309,558	4.37%
Westfield Capital Management Company	1,611,979	3.05%
Invesco Ltd.	1,546,785	2.93%

Source: Yahoo Finance