Applied Investment Management (AIM) Program

AIM Class of 2012 Equity Fund Reports
Spring 2011

Date: April 20, 2011 **Time: 10 a.m.**
Location: AIM Research Room (DS488)

Student Presenter	Company Name	Ticker	Price	Page No.
Rupali Varma *Senior Mentor:* *Aaron Socker and* *Andrew Freedman*	Earthlink	ELNK	$8.14	2
Caitlin McMahon *Senior Mentor:* *James Werner*	Summer Infant	SUMR	$8.68	5
Patrick Keeley *Senior Mentor:* *Ben Hariri*	World Fuel Services	INT	$37.82	8

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Earthlink Inc. (ELNK)
April 20, 2011

Rupali Varma — Telecommunication

Earthlink Inc. (NASDAQ: ELNK) is a leading internet service provider of Internet Protocol (IP) services and value-added services to individual and business customers located primarily in the United States. The consumer services segment (74% of revenue) provides nationwide broadband and narrowband Internet access and services, such as search and advertising to individual customers. The business services segment (26%) provides data, voice, mobile, and video services over a fiber optic network hosting to businesses, enterprise organizations, and communication carriers. The recent acquisitions of ITC^DeltaCom, One Communications, and Saturn Telecommunication Services will transform their business from primarily an ISP to a leading IP infrastructure and managed service provider. As of 2010, ELNK serviced approximately 1.6 million customers across 14 states. The company was founded in 1999 and is headquartered in Atlanta, Georgia, employing over 3,000 employees.

Price ($) (04/17/11)	8.14	Beta:	0.87
Price Target ($):	11.86	WACC	8.01%
52WK Range ($):	7.73-9.35	M-Term Rev. Gr Rate Est:	3.0%
Market Cap:	869.54M	M-Term EPS Gr Rate Est:	3.0%
Float	99.83M	Debt/Equity	63.76%
Short Interest (%):	9.10%	ROA:	8.94%
Avg. Daily Vol:	1.906M	ROE:	10.92%
Dividend ($):	0.20		
Yield (%):	2.50%		

FY: Dec	2010A	2011E	2012E
Total Revenue (Mil)	622.21	915.51	864.11
Revenue ex-DCOM	622.21	515.51	458.11
% Total Rev Growth	-14.03%	47.14%	-5.61%
% Organic Rev Growth	-14.03%	-17.15%	-11.14%
Gross Margin	62.29%	56.00%	55.50%
Operating Margin	29.86%	17.15%	16.27%
EPS (Cal)	$0.75A	$0.50E	$0.41E
FCF/Share	1.20	-0.34	-0.15
P/E ex-cash (Cal)	4.0	6.0	7.4
EV/EBITDA	4.3x	3.9x	4.2x

Recommendation

EarthLink's recent acquisitions of DeltaCom ($524M), One Comm ($370M) and STS Telecom provide the platform for ELNK's growth going forward as the company aims to expand their IP network. The acquisition of STS Telecom gives ELNK the opportunity to move from primarily a leading internet service provider to offering a wide portfolio of services by launching the VoIP product nationwide. Management expects to generate approximately $15 to $18M of revenues from STS Telecom and $400M from DeltaCom. Additionally, ELNK has also improved the average revenue per user per month over the past several years increasing from $76.60 in FY2007 to $82.95 in FY2010 primarily due to premium customer packages. Going forward ELNK expects to significantly increase their customer base through the growth of their IP network by expanding into 14 more states through recent acquisitions (27 states total). Despite the decline of revenues and free cash flow in the short term, the acquisitions and shift to business enterprises will enhance revenue growth after FY2012. ELNK will temporarily have high capital expenditures, but in the long-term this will decline and generate positive free cash flow. Additionally, internet penetration in the U.S. is expected to grow at a 5-yr. CAGR of 3% which will help fuel ELNK's top line growth as synergies from recent acquisitions materialize. Due to ELNK's long-term foundational platforms through their recent acquisitions, expansion of their IP network, and a continuous focus on high quality service, it is recommended that ELNK be added to the AIM Equity Fund with a price target of $11.86, an upside potential of 46%. ELNK pays a 2.5% dividend.

Investment Thesis

- **Leading IP Infrastructure and Managed Services Provider.** Positioned through recent acquisitions, ELNK looks to combine their existing business services segment with the acquired communications business to offer its customers bundled service packages. ELNK is focused on transitioning their business from primarily an ISP, which relies heavily on leases with third party service providers, to an independent leading IP infrastructure and managed service provider. Recently acquired One Comm gives ELNK access to more than 100K business customers as it builds out their IP-based infrastructure service capabilities. Management forecasts $400M in revenue from the DeltaCom acquisition. Additionally, ELNK expects STS Telecom to contribute approximately $15 to $18 million to revenues yearly by launching a nationwide VoIP platform.

- **Aggressive IP Network Expansion.** ELNK's IP network, prior to the acquisitions, was focused in the Southeast U.S. crossing 14 states and over 16,000 route miles. After the acquisitions of One Comm and DeltaCom, ELNK's network now spans over 28,000 route miles across 27 states. With these acquisitions, ELNK will have access to a fiber-based transport layer with about 300 locations in the Southeast, one of the fastest growing regions of the country, and a fiber-based transport layer with 650 locations in the Northeast, one of the densest data and communications regions in the U.S. As a result of this widespread network, ELNK should significantly increase their customer base and YOY revenues through acquisition synergies starting in late 2012 by leveraging their existing IP network in the Southeast and Northeast, allowing ELNK tap into new regional markets.
- **Highly Tenured Customer Base.** During FY2007 ELNK's total subscriber churn was 5.7%, and only 42% of their premium customers had five or more years of tenure. As of FY2010, total churn fell to an all-time low of 2.7% (50% YOY improvement) and 84% of their premium customers have been customers for over five years. During Q4 2010, net subscriber losses improved from 132,000 in Q4 2009 to 79,000 in Q4 2010. ELNK focuses on retaining its customers for the long-term, which helps decrease operating costs associated with acquiring new customers.

Valuation

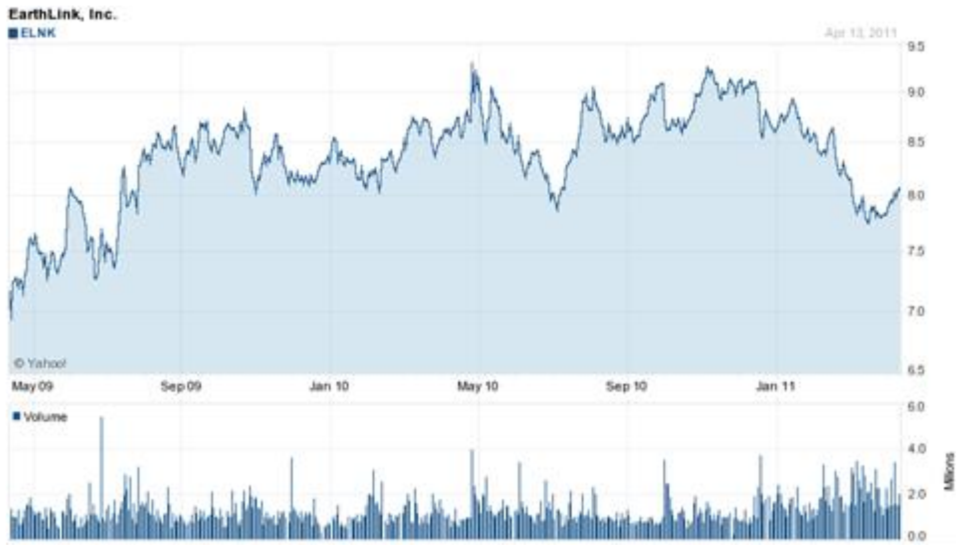
Using a 10-year DCF with a computed WACC of 8.01% and terminal growth rate of 3%, an intrinsic value of $12.26 was obtained for ELNK. Using a sensitivity analysis that adjusts for both the long term growth rate (2.00%-4.00%) and WACC (7%-9%) generates a price range of $9.07-$20.12. Additionally, a conservative EV/EBITDA multiple of 4x and 6x (7x peer average) was used to calculate a price range of $12.06-$14.07. ELNK is currently trading at 4x ex-cash TTM EPS of $0.75, which is a substantial discount to its peer average of 15x ex-cash. Applying a 10x cash adjusted multiple to 2012 EPS estimates of $0.41 and adding back approximately $5.00 in cash per share results in a fair value of $9.10. Applying an equal weighting to all three valuation methods provides a target price of $11.86. With the stock currently trading at $8.14, the $11.86 price target would yield a 46% return.

Risks

- **Failure in Integrating the Acquisitions into their Existing Business.** The ability of ELNK to achieve the benefits from the recent acquisition of DeltaCom, STS Telecom, and One Comm will greatly depend on their integration of these acquisitions into the current operation of their business. Failure to fully achieve expected synergies through smooth integration could result in operating difficulties, losses in revenues and current or potential customers. This could greatly impair profitability and prevent the firm from becoming a dominant player in the industry.
- **Increasingly Intense Competition.** ELNK ($869.54M) holds a small market share in the industry. The company faces competition with established online services companies, national communications companies and local exchange carriers, cable companies, and wireless companies. ABVT ($1.70B) is substantially larger than ELNK and has the advantage of greater brand name recognition and large existing customer base. In order to compete with such provider, this puts pressure on the company to reduce prices that could impair profitability.

Management

CEO Rolla P. Huff joined the company in June 2007. He has a 20-year record of achievement in the industry. Prior to joining ELNK, Mr. Huff held numerous executive positions including president, central United States for competitor, AT&T Wireless. During his tenure with AT&T Wireless, Mr. Huff was involved in many successful deals such as the merger and integration of McCaw Cellular, the sale of AT&T's interest in LIN Broadcasting, and the successful bid in PCS licenses.



Ownership

% of Shares Held by All Insider and 5% Owners:	1%
% of Shares Held by Institutional & Mutual Fund Owners:	99%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Renaissance Technologies, LLC	7,434,183	6.86
Vanguard Group, Inc. (THE)	5,281,701	4.87
Sterling Capital Management Company	5,188,211	4.79
Artisan Partners Limited Partnership	4,703,540	4.34
Dimensional Fund Advisors LP	4,458,511	4.11

Source: Yahoo! Finance

Summer Infant Incorporated
April 20, 2011

Caitlin McMahon — Consumer Goods

Summer Infant, Inc. (NASDAQ: SUMR) designs, markets and distributes branded infant health, safety and wellness products to retailers in North America and the United Kingdom. In fiscal year 2010, the North American market constituted 90% of SUMR's revenue and the United Kingdom accounted for the remaining 10%. SUMR manages a diverse spectrum of mid to upper-tier juvenile products, which are classified under six distinct business segments: video & audio monitors, medical devices, portable gear, gates, nursery and bath. During 2010, monitors generated over 30% of revenue, nursery items contributed 17%, and the remaining four segments each earned approximately 10%. Summer Infant was founded in 2001 and became a publicly traded company in March of 2007. The company is headquartered in Woonsocket, Rhode Island, with an additional corporate office located in the U.K.

					FY: Dec	2010A	2011E	2012E
Price ($): (4/18/11)	8.68	Beta:	0.90					
Price Target ($):	11.03	WACC	9.00%		Revenue (Mil)	194.49	233.38	277.72
52WK H-L ($):	6.22-8.91	M-Term Rev. Gr Rate Est:	15.50%		% Growth	26.72%	20.00%	19.00%
Market Cap (mil):	134.80	M-Term EPS Gr Rate Est:	20.00%		Gross Margin	35.73%	36.00%	36.00%
Float (mil):	11.64	Debt/Equity:	69.0%		Operating Margin	5.34%	7.00%	6.99%
Short Interest (%):	6.25%	ROA:	4.57%		EPS (Cal)	.46A	.68E	.80E
Avg. Daily Vol (mil):	0.11	ROE:	9.06%		FCF/Share	($1.07)	$0.31	$0.37
Dividend ($):	0.00				P/E (Cal)	18.86	12.76	10.85
Yield (%):	0.00%				EV/EBITDA	11.85x	8.51x	7.15x

Recommendation

When compared to other facets of the consumer goods sector, the $12 billion global juvenile products industry is relatively stable. Due to inelastic baseline demand, the industry has limited exposure to cyclicality and economic downturns. The United States' financial crisis can serve as a testament to the nondiscretionary nature of juvenile products; during the recent downturn, over 80% of parents with children under the age of three reported unchanged spending habits on infant-related products. Summer Infant specifically targets this resilient newborn to 3-year-old infant market, and is currently one of the only pure play companies within its sector. As a result of SUMR's strategic niche focus, the company's sales have recorded a CAGR of nearly 46%, versus the industry average of 11%. This aspect of SUMR's business model gives it a clear competitive advantage over its peers, such as Mattel and Dorel Industries, who generate just 34% and 45% of revenue from infant products, respectively. Furthermore, given the fragmented nature of the juvenile products industry, SUMR is in a unique position to become a consolidator of small businesses. Most recently, SUMR acquired BornFree Holdings Ltd., creating a gateway for the company to expand into the high-margin baby feeding market. Because of these reasons and a favorable valuation, it is recommended that SUMR be added to the AIM Equity Fund with a target price of $11.03, representing a potential upside of 27.07%.

Investment Thesis

- **Organic Growth.** In fiscal year 2010, Summer Infant organically increased its top line by 26.7%, which is double the industry average of 13.6%. SUMR's impressive short and long-term growth can be largely attributed to its ability to introduce approximately 30 new, niche-focused products every year. Accordingly, much of 2010's growth came from increased product innovation and market acceptance, which subsequently increased valuable shelf space at major retailers. During 2010 management also established an organizational structure with six product-specific business segments, which will further the company's future product penetration and development. SUMR's portfolio currently addresses just 30% of the products offered within the industry; long-term product line expansion opportunities, coupled with management's plan to develop just under 50 products in 2011, afford the company YOY organic growth possibilities in excess of 10%.
- **Acquisition Opportunities.** The fragmented nature of the juvenile products industry creates many accretive acquisition opportunities for SUMR. There are approximately 400 infant product

companies in the U.S., the majority of which generate annual sales of less than $10 million and are privately held. SUMR plans to capitalize on these small, niche market companies in order to incrementally increase both market share and shareholder value. In March of 2011, SUMR acquired BornFree Holdings, Inc., the world's leading BPA-free baby feeding brand. This acquisition allows SUMR to tap into the global $1billion baby feeding market, which realizes operating margins of roughly 22%. Additionally, the BornFree transaction is expected to solidify SUMR's existing share of the upper-tier prenatal consumer market. Acquisition opportunities, and their respective synergies, provide SUMR with a solid platform for material future growth.

- **Macroeconomic Trends.** Both short and long-term macroeconomic trends will facilitate Summer Infant's success. In the long-term, there are upwards of 4 million children born in the U.S. each year, which creates consistent baseline demand for SUMR's products. According to the U.S. Department of Health and Human Services, while decreased financial stability was a propellant for the 7% drop in births between 2007 and 2010, this decline is forecasted to end as financial strains ease in 2011. Thus, the company will likely experience the benefits of heightened demand for its products in the medium-term. In the short-term, SUMR's top line will be strengthened by increasing consumer confidence; spending in stores, restaurants, and online increased 10.3% between January and March of 2011, climbing from a daily average of $58 to $64 per person.

Valuation

A ten-year DCF with a terminal growth rate of 3.00% was utilized to value Summer Infant. A 100 bps risk premium was added to the discount rate and a WACC of 9.00% was established. Applied sales growth rates starting at 20% in 2011, with decreasing rates in subsequent years, bottomed out at 10.50% in 2020. A sensitivity analysis was conducted in order to mitigate the effect of changes in COGS, WACC and growth rates, it produced intrinsic values that fluctuated from $7.11 to $15.52. Taking into consideration the factors stated above, the DCF model yielded a target price of $10.94. A conservative 8x EV/EBITA multiple was obtained using historical and industry averages, this metric yielded a target price of $11.30. A final price target of $11.03 was derived by weighting the DCF analysis (75%) and EV/EBITA multiple approach (25%), representing an upside of 27.07%. The firm does not pay a dividend.

Risks

- **Retail Concentration.** A number of large retail companies account for the majority of Summer Infant's sales. The company's seven main retailers comprised over 75% of sales in fiscal year 2010, with Toys R Us and Babies R Us accounting for approximately 51%. Any decrease in these two retailers' willingness to purchase and provide shelf space for SUMR's products could significantly hinder the company's financial condition. Likewise, the company's top line will be stressed if there is any sizeable decrease in reception from retailers such as Target or Wal-Mart.
- **Consumer Preferences.** Summer Infant's business depends largely upon the appeal of its products to consumers. SUMR's ability to identify and capitalize on emerging trends is a pivotal aspect of the company's success. Additionally, SUMR competes primarily with companies much larger than itself, who enjoy broader resources and brand recognition. If SUMR fails to keep pace with these peers, the company's market share and financial health could be materially harmed.

Management

Jason Macari is the CEO, President and founder of Summer Infant. Macari has over 20 years of experience in the juvenile safety and wellness industry. Coupled with his MBA, Macari's B.S. in Mechanical Engineering has propelled the company's successful product development and safety history. Joseph Driscoll has been the CFO of Summer Infant since 2006. He is a licensed Certified Public Accountant, with over 20 years of experience as a financial officer.

Ownership

% of Shares Held by All Insider and 5% Owners:	31%
% of Shares Held by Institutional & Mutual Fund Owners:	59%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Jason P. Macari	3,433,270	22.11
Wynnefield Capital Management	1,472,973	9.49
Pine Rive Capital Management	1,347,986	8.85
Buckingham Capital	1,230,863	7.93
Portolan Capital Management	799,833	5.15

Source: Bloomberg Terminal

World Fuel Services (INT)
April 20, 2011

Patrick Keeley — Domestic Energy

World Fuel Services (NYSE: INT) is a global fuel logistics company engaged in the marketing, sale, and distribution of aviation, land, and marine fuel products. INT provides fuel and related services to government organizations, military fleets, commercial airlines, cruise lines, cargo fleets, tankers, and petroleum distributors. Their services include price risk management, credit services, logistics, and fuel management. For Fiscal Year 2010, INT's three operating segments of marine, aviation, and land accounted for 54%, 37%, and 9% of revenue, respectively. INT operates in over 6,000 locations, such as airports, seaports, and tanker fueling stations, in over 200 countries. World Fuel Services was founded in 1984 and is headquartered in Miami, Florida.

Price ($): 4/14/11	37.82	Beta:	0.99	FY: Dec	2010 A	2011 E	2012 E
Price Target ($):	46	WACC:	10.18%	Revenue ($mil)	$ 19,131	$ 25,722	$ 28,934
52 WK H-L ($):	42-23	Mid Term Rev Gr. Rate Est:	13%	% Growth	69.4%	34.5%	12.5%
Market Cap (mil):	2,570	Mid Term EPS Gr. Rate Est:	5%	Gross Margin	2.31%	2.10%	2.00%
Float (mil):	67.17	Debt/Equity:	3.70%	Operating Margin	0.95%	0.89%	0.91%
Short Interest (%)	11.2	Financial Leverage:	2.28	EPS (Cal)	2.31	2.56	2.90
Avg Daily Vol (K	371.5	ROA:	6.82%	FCF/Share	-0.53	1.75	2.34
Dividend ($):	0.15	ROE:	15.79%	P/E (Cal)	16.04	15.38	13.83
Yield (%):	0.4%			EV/EBITDA	9.83	9.95	8.93

Recommendation

INT is a global leader in the marketing and distribution of fuel and related services to marine, aviation, and land transportation providers. They have increased their global positioning in 2010, adding or planning to open over 2,000 service locations worldwide and their profits have grown at a 23.6% 5-year CAGR. In 2010, INT posted record revenues at $19.1 billion, over $1 billion more than the next highest year. Additionally, the company has seen EPS increase 17% year-over-year to $2.31, an all-time high. INT has surged out of the recession of 2008-2009 with increased sales volume and is seeking to grow its presence in the fuel services industry. INT has continued its trend of acquiring companies to expand its market share, especially in the smaller segments of aviation and land services. Therefore, it is recommended that INT be added to the AIM Equity fund with a price target of $46, offering over a 25% upside. The firm has maintained its $.15/share dividend, offering a .4% yield.

Investment Thesis

- **Strong Balance Sheet Supports Long-Term Growth Plan.** INT has over $800 million in liquidity and nearly $300 million in cash and equivalents which it can use to fund future investments and acquisitions. Furthermore, INT's current ratio of 1.52 is above most industry competitors. The company has a disciplined approach to the evaluation of possible acquisition targets, which has resulted in significant increased value to shareholders. Three recently completed acquisitions (at an average multiple just above 3.0x cost) are forecasted to increase INT's earnings by over $.22 per share over the next year. Previous acquisitions have increased earnings near or above management's predictions since 2008 and the company should continue to add value to shareholders through effective acquisitions.
- **Diversification of Revenue Sources.** The Marine segment historically has dominated INT's revenue stream, but management is currently working to balance out the three segments. The

Land and Aviation segment's revenue has been a focus of the firm's efforts and is increasing in proportion to total company revenue. In fact, for Fiscal Year 2010 the Land segment contributed the most to gross profit, at $48.4 million. Hence, with these efforts to improve segment balance, the company's strength in revenues is bolstered against most risks related to the decline in a particular segment, which should improve the company's margins.

- **Market Niche in Supply Chain.** INT has a unique position in the fuel sale and distribution industry. INT is able to reduce its cost basis while maintaining aggressive pricing and leading sales volume by transferring product from refineries to terminal users and commercial retailers through efficient supply chain management**.** In serving airports, seaports, and tanker service stations they have developed a reliable and cost efficient supply chain to further improve margins with future growth and increased efficiency.

Valuation

To find the intrinsic value of INT, a five year DCF analysis was conducted. A 10.18% WACC was used along with a 3.5% terminal growth rate to determine an intrinsic value of $45. A sensitivity analysis was conducted which took into account variations in the WACC and terminal growth. Additionally, an EV/EBITDA multiple valuation was performed for the company. A multiple based on industry and competitor averages of 12.0x was used to calculate an intrinsic value of $47. After weighing the valuations equally, a price target of $46 was established, offering an upside of over 25%.

Risks

- **Collection of Accounts Receivable.** INT extends unsecured credit to many of their customers. Collections depend on their customers' capability to repay; however, the risks of collections are basically out of INT's control. While their credit policy has helped them acquire and maintain business, INT exposes itself to significant credit risk. Due to the volatility in the credit and financial markets over the past few years, their customer's ability to raise capital to meet liquidity needs has been strained recently. In cases of a deteriorating global economy or marine, aviation, and land transport industry decline, political instability and military action as well as other unforeseeable events in their market area could affect collections.
- **Volatility in the Market Price of Fuel.** Factors outside the control of the company, such as supply and demand of fuel, political regulation, price and availability in alternative fuels could add to the volatility of market prices on fuel. If the price of oil continues to rise, customers may not be able to purchase as much fuel from INT because of credit limits or be required to reduce the fuel used in their operations. Conversely, if the fuel prices drop, then their inventory would have to be marked down or sold at a reduced price.

Management

Paul H. Stebbins has served as CEO and chairman of the board since 2002. Stebbins has been with the company since 1995, previously holding positions of president of the marine segment (1995-2000) and president and COO from 2000-2002. President and COO Michael Kasbar joined in 1995 as director and CEO of the marine segment. He has been COO and President since 2002. Kasbar and Stebbins co-founded Trans-Tec Services, which was bought out by World Fuel Services in 1995.

Ownership

% of Shares Held by All Insider and 5% Owners:	3%
% of Shares Held by Institutional & Mutual Fund Owners:	95%

Top 5 Shareholders

Holder	Shares	% Out
Ameriprise Financial Inc.	3,693,013	5.31
Vanguard Corp.	3,464,776	4.98
Allianz Global Investors of America	3,423,905	4.92
BlackRock Fund Advisors	3,163,602	4.55
Argyll Research	3,100,000	4.45

Source: Yahoo! Finance