## Applied Investment Management (AIM) Program

## AIM Class of 2017 Equity Fund Reports
## Spring 2016

***Date**:* Friday, April 22nd | ***Time:*** *2:00 – 4:30* p.m. | ***Location: AIM Research Room 488***

| Student Presenter | Company Name | Ticker | Sector | Page |
|---|---|---|---|---|
| Alex McBride | GW Pharmaceuticals Plc | GWPH | International Healthcare | 2 |
| Jake Kaufmann | Weatherford International plc | WFT | International Energy | 5 |
| Austin Righeimer | Lululemon Athletica Inc. | LULU | International Consumer Discretionary | 8 |
| Kristiyan Trukov | Tri Pointe Group, Inc. | TPH | Industrials | 11 |
| Wenqin (Wendy) Liu | Itau Unibanco Holding S.A. ADR Pfd | ITUB | International Financial Services | 14 |
| Ketty Alvarado | Fomento Economico Mexicano ADR, FEMSA | FMX | International Consumer Staples | 17 |
| Nathaniel Penn | Bryn Mawr Bank Corporation | BMTC | Financials | 20 |
| Chengbin (Henry) Lu | Mercer International | MERC | International Materials | 23 |
| Yiqiu (Ethan) Zhu | Infosys Limited ADR | INFY | International Technology | 26 |

These student presentations are an important element of the applied learning experience in the AIM program. The students conduct fundamental equity research and present their recommendations in written and oral format – with the goal of adding their stock to the AIM Equity Fund. Your comments and advice add considerably to their educational experience and is greatly appreciated. Each student will spend about 5-7 minutes presenting their formal recommendation, which is then followed by about 8-10 minutes of Q & A.

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**GW Pharmaceuticals Plc (GWPH)**
April 22, 2016

Alex McBride International Healthcare

*GW Pharmaceuticals Plc, (NYSE: GWPH) is a biopharmaceutical company that focuses on developing and commercializing therapeutics from a cannabinoid product platform to treat a wide range of diseases. GWPH operates within three business segments: Commercial, Sativex Research and Development and Pipeline Research and Development. The Commercial segment endorses Sativex, GWPH's only revenue-generating product that treats spasticity due to Multiple Sclerosis, through strategic partnerships with large pharmaceutical firms to help expand its production and reach. The Sativex Research and Development segment strives to advance the usefulness of the treatment based on new developments in user's reactions. The Pipeline Research and Development segment emphasizes the creation and commercialization of medications other than Sativex to treat different diseases. Epidiolex®, one of the major products in the Pipeline segment, is used to treat Dravet Syndrome, a severe form of epilepsy found in infants, and is currently in Phase 3 trials en route to approval. GWPH was founded in 1998 and is headquartered in Salisbury, the United Kingdom.*

| | | | | | | FY: Dec | 2015 | 2016E | 2017E | 2018E |
|---|---|---|---|---|---|---|---|---|---|---|
| Price ($): (4/18/16) | 83.74 | | Beta: | 1.16 | | Revenue (Mil) | 42.76 | 20.43 | 58.53 | 345.10 |
| Price Target ($): | 112.37 | | WACC | 10.3% | | % Growth | -14.32% | -52.00% | 186.00% | 490.00% |
| 52WK H-L ($): | 36-134 | | M-Term Rev. Gr Rate Est: | 143.0% | | Gross Margin | 83.14% | 85.63% | 88.20% | 90.85% |
| Market Cap (mil): | 1,880.00 | | M-Term EPS Gr Rate Est: | 8.0% | | Operating Margin | -220.10% | -327.49% | -139.23% | -2.64% |
| Float (mil): | 20.3 | | Debt/Equity: | 4.1% | | EPS (Cal) | ($3.25) | ($5.41) | ($6.33) | ($0.88) |
| Short Interest (%): | 11.32% | | Debt/EBITDA (ttm): | - | | FCF/Share | ($4.82) | ($4.26) | ($2.22) | $0.55 |
| Avg. Daily Vol (mil) | 0.72 | | ROA: | -18.3% | | P/E (Cal) | - | - | - | - |
| Dividend ($): | 0.00 | | ROE: | -21.9% | | EV/EBITDA | - | - | - | 24.1x |
| Yield (%): | 0.00% | | ROIC: | -21.3% | | | | | | |

**Recommendation**

GWPH has the potential to turn a profit and globalize its product despite the historically negative outlook on cannabis-based products. The global market, more specifically the United States, is becoming less defensive regarding the idea of treating diseases and pain with regulated cannabis-based products. However, if accepted, Epidiolex® would be the first prescription drug in the United States to be derived directly from cannabis. There are now 23 states in the United States alone that allow the sale of medicinal marijuana. Already in a relatively untapped market, GWPH took a step further and directed their research to treating Dravet Syndrome, a disease with no known treatments. They are phases ahead of Insys in their treatment of Dravet Syndrome and Lennox-Gestaut Syndrome, which could lead to 7 years of exclusivity in the market upon FDA approval. The market for Epidiolex® is expected to produce consistent revenues of $1.1 billion. GWPH anticipates that 39% of revenues will come from off-label use while 17% and 7% are from Lennox-Gestaut and Dravet respectively. The numerous uses of the drug lessen the potential impact of a downturn in the rare 1:16,000 cases of the syndromes. Epidiolex® also drives away a lot of the competition because it is conjured from Cannabidiol, a non-psychoactive ingredient in cannabis. This makes Epidiolex® an attractive alternative for physicians due to the reduction of side effects. In regards to short-term appeal, there is no mistaking that the process of commercializing a drug is a long, drawn out process. However, when GWPH applies for a New Drug Application with the FDA, they are expected to receive a pediatric Priority Review Voucher. If granted, the road to approval becomes even shorter and GWPH can begin earning revenues sooner than expected. Pending the approval of Epidiolex®, earnings are expected to grow at a rate of 33.3% annually. This is more than double the growth of the expected earnings for the Healthcare industry. Despite their recent stock price spike, it is recommended that GWPH be added to the AIM Fund with a price target of $112.91, representing a 34.19% upside.

## Investment Thesis

- **Positive Phase 3 Results in Epidiolex® Trial.** GWPH reported positive top-line data from their Phase 3 trial in March. The results showed a 39% reduction in seizures of epileptic patients compared to the 13% reduction in the control arm. Management discussed a pre-NDA meeting with the FDA, which is the next key move to ensure distribution to the United States. If approved, it would become the only FDA-approved treatment for Dravet Syndrome, thus creating a large market share for the company.
- **Timing Edge in Cannabinoid Product Development.** Compared to competitors Insys and Zynerba, GWPH is far ahead in developing cannabis-based products to treat a multitude of diseases. Both Insys and Zynerba are in the process of creating a cannabis-based drug, however, they are only in stage one trials. GWPH's Epidiolex® has the lead in a race to an untapped market that can change the face of disease and pain treatment globally.
- **Fast Track and Orphan Drug Status.** In its treatment of Dravet Syndrome, Epidiolex® has orphan and fast-track status with the FDA. This plays into their ability to file for a meeting with the FDA with only a single pivotal trial. The rarity of the disease decreases the regulatory risk and provides a shorter path to market. If the product is able to reach the market sooner than expected, it provides a major upside to the company's future growth.

## Valuation

In order to reach an intrinsic value for GWPH, a ten year DCF model was constructed. Using a terminal growth rate of 1.5%, a WACC of 10.20%, and weighting the returns of worst performance, average performance and best performance 10%, 30% and 60% respectively, an intrinsic value of $112.37 was found. A sensitivity analysis using the WACC and the terminal growth rate was performed for worst, average and best performance and ranged from $0.61-$0.00, $139.90-$82.30 and $188.64-$108.40 respectively. The company does not pay a dividend.

## Risks

- **Failure to Show Significant Results in New Phase III Trials.** In the second quarter of 2016, GWPH expects results from two more Epidiolex® trials for the treatment of Lennox-Gastaut Syndrome. Their results from the second trial in treatment of Dravet Syndrome are due in the second half 2016 as well. If the results from any of these trials are negative or worse than expected, FDA approval may prove to be less imminent. Without the approval of Epidiolex®, the company loses any prospect of future growth.
- **Significant Regulatory Restrictions.** The controversy of using cannabis-based products can have a negative effect on company sales. Medical marijuana use is not legal in most of the United States and none of the United Kingdom. Their only revenue-generating product is currently only legal in 24 countries. Regulatory restrictions can limit patient access and cast a negative light over the company as a whole, thus preventing them from researching and developing new drugs for other diseases.
- **Hesitance of Physicians to Prescribe Off-Label.** Off-label prescriptions are expected to account for 39% of revenues once Epidiolex® is approved. Due to the controversial nature of the proposed product, physicians might be less inclined to prescribe the medication to patients with symptoms that do not fit the exact description of Dravet Syndrome or other diseases. There also might be regulations in place to prevent overly prescribing off-label use of the drug because it is the first of its kind.

## Management

Dr. Geoffrey Guy is the founder and Chairman of GWPH. Before his tenure at GWPH, Dr. Guy acted as Chairman and CEO of Ethical Holdings Plc. Justin Gover has served as the CEO of GWPH since 1999. Prior to joining the company, Mr. Gover was Head of Corporate Affairs at Ethical Holdings Plc. Adam George has served as CFO since 2012 and held a number of senior finance roles in public and private companies before joining GWPH.


**Ownership**

| | |
|---|---|
| % of Shares Held by All Insider Owners: | 6.90% |
| % of Shares Held by Institutional & Mutual Fund Owners: | 48.60% |

Source: FactSet

**Top 5 Shareholders**

| Holder | Shares | % Out |
|---|---|---|
| Capital Research & Management Co. (Global Investors) | 2,610,674 | 11.93 |
| Fidelity Management & Research Co. | 2,164,234 | 9.89 |
| M&G Investment Management Ltd. | 1,171,600 | 5.35 |
| Mellon Capital Management Corp. | 1,165,618 | 5.33 |
| Janus Capital Management LLC | 902,573 | 4.12 |

Source: FactSet

**Peer Analysis**

| Name | Ticker | Market Cap (mil) | Net Income (mil) | D/E | P/E | EV/ EBITDA |
|---|---|---|---|---|---|---|
| GW Pharmaceuticals Plc | GWPH | 1,790 | -90 | 4.3 | - | - |
| Biogen Inc. | BIIB | 61,814 | 3547* | 69.6 | 17.5 | 14.8 |
| INSYS Therapeutics | INSY | 865 | 58 | 0 | 18.6 | 8.1 |
| Zogenix | ZGNX | 121 | -42 | 12.2 | - | - |
| Zynerba Pharmaceuticals | ZYNE | 47 | -13 | 0 | - | - |
| Peer Averages | | 15,712 | 1 | 20.5 | 18.05 | 11.4 |

**Removed For Relative Valuation Analysis*

Source: Bloomberg

**Weatherford International plc (WFT)**
April 22, 2016

Jake Kaufmann International Energy

*Weatherford International (NYSE: WFT) is a multinational oilfield services company that operates in nearly every oil and natural gas producing region of the world. It provides services and equipment to the oil and natural gas exploration and production (E&P) industry. WFT operates in the following segments: Core Segment, including formation and well construction (55% of 2015 revenue) and Completion & Production (37%), and a peripheral segment that includes Land Drilling Rigs (8%). The company offers a variety of services throughout the E&P process that range from integrated drilling, tubular running, wireless services, laboratory services, service logging, and completion and additionally offer a variety of products that such as lift systems, stimulation and chemicals, and pipelines. The company was founded in 1941 and is currently headquartered in Geneva, Switzerland.*

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Price ($): 4/19/2016 | 8.02 | Beta: | 2.29 | FY: Dec | 2014 | 2015 | 2016E | 2017E |
| Price Target ($): | 10.07 | WACC | 12.4% | Revenue (Mil) | 14,911.00 | 9,433.00 | 7,546.40 | 9,092.30 |
| 52WK H-L ($): | $4.95 - 14.90 | M-Term Rev. Gr Rate Est: | 7.2% | % Growth | -2.31% | -36.74% | -20.00% | 20.49% |
| Market Cap (mil): | 5,679 | M-Term EPS Gr Rate Est: | 16.6% | Gross Margin | 23.14% | 14.97% | 15.13% | 20.36% |
| Float (mil): | 768.87 | Debt/Equity: | 1.71 | Operating Margin | 7.67% | -4.26% | -1.22% | 4.55% |
| Short Interest (%): | 5.40 | Debt/EBITDA (ttm): | 9.35 | EPS | ($0.75) | ($2.55) | ($0.75) | ($0.13) |
| Avg. Daily Vol (mil): | 18,952 | ROA: | -3.7% | FCF/Share | ($0.63) | $0.03 | $2.59 | $0.50 |
| Dividend ($): | - | ROE: | -10.6% | EBITDA (Mil) | $2,514.00 | $798.00 | $879.47 | $1,290.05 |
| Yield (%): | - | ROIC: | -11.0% | EV/Sales | 0.8x | 1.2x | 1.2x | 1.0x |

**Recommendation**

Weatherford International completed its IPO in 2014 and is one of the top five oilfield service companies in the world. They maintain operations in 175 countries and face fierce competition globally. To combat this competition, WFT offers specialized goods and services in formation evaluation, drill reliability, reservoir completion and stimulation, and optimization. WFT continually seeks to innovate the services and products they offer in order to stay ahead of their competition. With the oil price paradigm shifting to a much lower level, WFT has recognized the need to leverage technology in order to continue offering superior service at a competitive price level. In the current environment, many E&P companies are foregoing abandonment of unprofitable wells in favor of continued production that offers cash flows instead. One of the best examples of how technology has shaped their services is in their evaluation of the option to abandon a well. WFT offers analytics to determine when rigs should be abandoned or if it is possible to undergo a late-stage intervention to stimulate production. In multiple cases, Weatherford has been able to conduct late-stage intervention, as opposed to abandonment, that ultimately increased production by more than 300%. With services like well capping, stimulation, abandonment, and completion, WFT is well-positioned to generate a steady revenue stream even through a low oil price environment. Once E&P activities pick up, WFT has capacity to immediately increase operational capacity by over 25%. On top of that, WFT is aiming to create a leaner business model that can react quickly to changes in global oil prices. Although recent years have shown dismal bottom line figures, WFT has continuously grown its top-line for the past 15 years, excluding 2015, at an 8% CAGR. Although they have had issues in recent years generating positive cash flow, the recent restructuring and more focused business model will allow WFT to generate free cash flows in the coming years. They have taken a large amount of impairment charges in the past few years and are moving away from those cost-laden business segments. In 2015, they generated free cash flows for the first time in 5 years, ex unusual cash flows i.e. impairment and restructuring charges. With those factors in mind, it is recommended that WFT be added to the AIM International Equity Fund with a price target of $10.07, which represents at 25.54% upside. Weatherford does not pay a dividend.

## Investment Thesis

- **Strategic Refocusing of Business Model.** At the beginning of 2014, Weatherford began a fundamental restructuring of its business model. Their goal was to create a leaner, less capital intensive business model that is able to quickly react to changes in the price of oil and market demand. They have already fully divested their most capital intensive segments that includes chemical engineering, pipeline and specialty services, and Proserv (their deep water well component), while having partially divested their Land Drilling Rig segment. They intend to have the remaining portion of this segment divested by the end of 2016. As a result of these divestitures, WFT has cut nearly 20,000 jobs, leading to nearly $600 million of permanent cost cuts. For FY 2015, it is important to note that funds from the divestitures were used to pay down debt as opposed to being a factor in the positive cash flow for the year.
- **Deleveraging Effort.** A component of Weatherford's restructuring effort is to deleverage the company. Currently, **t**heir D/E ratio currently sits at a lofty 173.4%, mainly as a result of the dilutive effect of negative cash flows from 2011-2014. Over that same period, long-term debt has actually decreased from $6,530M to $5,879M. They intend to have long-term debt below $4B by the end of 2017 by retiring bonds that matures in the next 2 years. If WFT does not have sufficient cash from operations, they have a $2.25B revolving line of credit they can draw on to pay down the debt. Any future funds from their remaining divestitures and future retained earnings will be used to reduce their total debt load.
- **Diverse Global Presence.** WFT operates in almost every country in the world. While 30% of their revenue is derived in the US, the remaining revenue is well-diversified throughout the Americas, the Middle East-North Africa region, Europe/Russia, and Asia/Pacific region. This diversification allows WFT to mitigate geographical and political risks that are prevalent in most oil-producing regions.

## Valuation

To reach an intrinsic value for Weatherford, a five year DCF model was constructed. Using a terminal growth rate of 2% and a WACC of 12.39%, an intrinsic value of $12.82 was reached. A ± 1% sensitivity analysis on the terminal growth rate and WACC yielded a price range of $11.84-$14.05. Additionally, a EV/EBITDA multiple valuation was conducted using 2016 EBITDA of $779MM and peer comparable multiple of 13.32x, resulting in a valuation of $6.10. Finally, an EV/Sales multiple valuation was conducted using 2016 sales of $7546.4MM and multiple of 2.09x, resulting in a valuation of $11.28. By weighting the three valuation models equally, a price target of $10.07 was reached, resulting in a 25.54% upside. Weatherford does not pay a dividend.

## Risks

- **Continued Headwinds in Energy Prices.** Even with the recent rally in commodity prices, WFT will still face significant headwinds. They are reliant on capital expenditures by E&P companies and if oil prices see another drop, those companies will more than likely cut costs further, ultimately reducing Weatherford's top and bottom lines.
- **Failure to Fully Divest the Land Drilling Rig Segment.** Although Weatherford has divested it's most risky and capital intensive land drilling operations in Russia and Venezuela, the failure to divest the remaining rigs would ultimately leave the firm less agile than they would like.
- **Short-Term Contract Risk.** They majority of Weatherford's business is conducted under short-term contracts. They operate in a very competitive industry and are subject to customers leaving for another company with more attractive prices.

## Management

Dr. Bernard Duroc-Danner serves as President and CEO of Weatherford and sits as Chairman of the Board. Dr. Duroc-Danner has been with the company for over 28 years. Krishna Shivram currently serves as CFO. Previously, she served as Treasurer and Vice President at Schlumberger.


**Ownership**

| | |
|---|---|
| % of Shares Held by All Insider and 5% Owners: | 1.30% |
| % of Shares Held by Institutional & Mutual Fund Owners: | 84.40% |

Source: FactSet

**Top 5 Shareholders**

| Holder | Shares | | % Out |
|---|---|---|---|
| Capital World Investors | 95,432,392 | ▲ | 3.40 |
| Clearbridge Invewstments, LLC | 84,301,397 | ▼ | 2.90 |
| Dodge & Cox | 74,325,677 | ▼ | 1.80 |
| Invesco Advisers, Inc. | 70,365,055 | ▲ | 1.70 |
| The Vanguard Group, Inc. | 55,536,544 | ▲ | 1.50 |

Source: ThompsonOne

| Name | Ticker | Market Cap | Debt/Equity | Sales (mil) | EBITDA | EV/EBITDA |
|---|---|---|---|---|---|---|
| Weatherford International | WFT | 6,693.3 | 173.4% | 9,433.0 | 798.0 | 17.23x |
| National Oilwell Varco | NOV | 10,437.2 | 24.0% | 14,738.0 | 2,657.0 | 4.65x |
| Nabors Industries | NBR | 2,754.1 | 85.5% | 3,864.4 | 1,079.1 | 5.70x |
| Baker Hughes | BHI | 19,179.1 | 24.8% | 15,742.0 | 1,518.0 | 13.82x |
| Frank's | FI | 2,538.2 | 0.6% | 974.6 | 285.5 | 7.65x |
| Schlumberger | SLB | 106,033.0 | 53.3% | 35,475.0 | 9,798.0 | 11.46x |
| Peer Averages | | 24,605.82 | 60.26 | 13,371.17 | 2,689.28 | 10.08x |

Source: FactSet

**Lululemon Athletica Inc. (LULU)**
April 22, 2016

Austin Righeimer — International Consumer Discretionary

*Lululemon Athletica Inc. (NYSE: LULU) is an athletic apparel retail company with a focus on tops, bottoms, and accessories for yoga and other "sweaty pursuits." The company operates through both corporate owned stores and a direct-to-consumer segment. Since 2009, they have also operated Ivivva, a youth brand of active sportswear. The flagship store in New York City includes 11,500 square feet of community space for shoppers to spend time relaxing and learning about nearby yoga classes. Founded in Vancouver, Canada in 1998 by Dennis J. Wilson, Lululemon currently derives 73.2% of revenue from the United States and 20.2% from Canada. Australia, Europe and Asia combine for the remaining 6.6%. LULU began trading publically in 2007 and is still headquartered in Vancouver.*

| | |
|---|---|
| Price ($): (4/18/16) | 65.48 |
| Price Target ($): | 76.63 |
| 52WK H-L ($): | 43.14-69.73 |
| Market Cap (mil): | 8,897 |
| Float (mil): | 104.1 |
| Short Interest (%): | 18.70% |
| Avg. Daily Vol (mil): | 3.05 |
| Dividend ($): | 0.00 |
| Yield (%): | 0.00% |

| | |
|---|---|
| Beta: | 0.80 |
| WACC | 7.3% |
| M-Term Rev. Gr Rate Est: | 12.0% |
| M-Term EPS Gr Rate Est: | 18.0% |
| Debt/Equity: | N/A |
| Debt/EBITDA (ttm): | N/A |
| ROA: | 20.4% |
| ROE: | 25.1% |
| ROIC: | 25.1% |

| FY: Feb | 2014 | 2015 | 2016E | 2017E |
|---|---|---|---|---|
| Revenue (Mil) | 1,797.20 | 2,060.50 | 2,300.00 | 2,650.00 |
| % Growth | 12.95% | 14.65% | 11.62% | 15.22% |
| Gross Margin | 50.87% | 48.39% | 50.10% | 51.00% |
| Operating Margin | 20.57% | 17.33% | 19.35% | 22.00% |
| EPS (Cal) | $1.66 | $1.89 | $2.22 | $2.90 |
| FCF/Share | $1.35 | $1.10 | $1.55 | $2.22 |
| P/E (Cal) | 39.9x | 32.84x | 33.82x | 25.9x |
| EV/EBITDA | 20.41x | 20.04x | 17.15x | 13.32x |

## Recommendation

As millennials grow older, one major movement that seems evident is that of "athleisure," a trend where athletic clothes meant for the gym are also worn outside the gym due to their versatility and comfort. The New York Times estimated the 2015 athleisure market at about $97 billion, significantly cutting into the sales of jeans. Lululemon is one of the major players in this industry and although their market value is much smaller than that of competitors like Nike, Under Armor and Adidas, this can be explained by the yoga and comfort-wear focus of LULU, and the decision to not sell team sports equipment. Top-line growth has been impressive for LULU, increasing at a 5-year CAGR of 15.54%. This growth accounts for the e-commerce increase, which grew 25% in FY15 and 30% in Q4 of FY15, as well as the same-store sales revenue increase of 10% in FY2015. LULU also continues to expand, with 62 stores opened in FY2015 and 44 openings planned for FY2016. E-commerce accounted for 19.5% of sales in FY2015 and the continuous growth of online sales is necessary as companies battle brands like Amazon to satisfy the impatience and inactivity of shoppers today. Management firmly believes that revenue will reach $4 billion by 2020, doubling FY2015 revenue. EPS has grown 20% YoY since FY2011. Since mid-April of 2014, the stock price has increased over 25% which is likely due to a mix of steady revenue growth, strong financial health, and efficient supply chain and IT designs implemented by management. Due to their growing top-line and established place in the athleisure fad, it is recommended that Lululemon Athletica be added to the AIM International Fund with a target price of $76.63, representing a 17.03% upside. LULU does not pay a dividend.

## Investment Thesis

- **Increase in men's sales.** A Harvard study shows that while women still account for about 70% of yoga participants, the number of men who take part has risen from 4 million in 2012 to 10 million in 2016. Since yoga apparel and accessories are the bread and butter of LULU business, this will more likely increase men's sales. However, this is not the only thing, given an expanding athleisure product mix for men including jogging shorts, casual jackets and even comfort focused polos. This can take credit for the constant quarterly men's revenue increases (past 10 quarters) of 20%. Management expects these sales to reach $1 billion by 2020 (25% of total revenue).

- **New, creative management with exciting goals.** CEO Laurent Potdevin has expressed his content with a new management structure implemented this past year. In the effort to continually innovate products, Potdevin appointed Lee Holman to the new position of Creative Director. Also, Potdevin raves about Miguel Almeida, the Executive Vice President of the digital segment. He will play a key role in the continuous forecasted e-commerce growth and simplistic but enjoyable online shopping experience which will be achieved through a new website as well as new CRM and customer analytics. The company also plans to cut costs by not sacrificing quality, but by creating a more efficient supply chain which includes but is not limited to more ocean freight, FOB cost improvements, and reduction in cancellations. This will ultimately have a nice effect on the bottom line.
- **International sales growth in Asia and Europe.** Including e-commerce and store expansion in these regions, Potdevin expects international revenues to account for 20-25% of total sales. He believes it will be accretive to earnings by the end of 2017. The growth of yoga practioners in China, which correlates to the country's growing middle class, can really help Asian sales take off. LULU expects their first store in Hong Kong alone to generate $8 million in 2016. Twelve of the forty-four stores to be opened in FY2016 will be in Eurpope and Asia.

**Valuation**

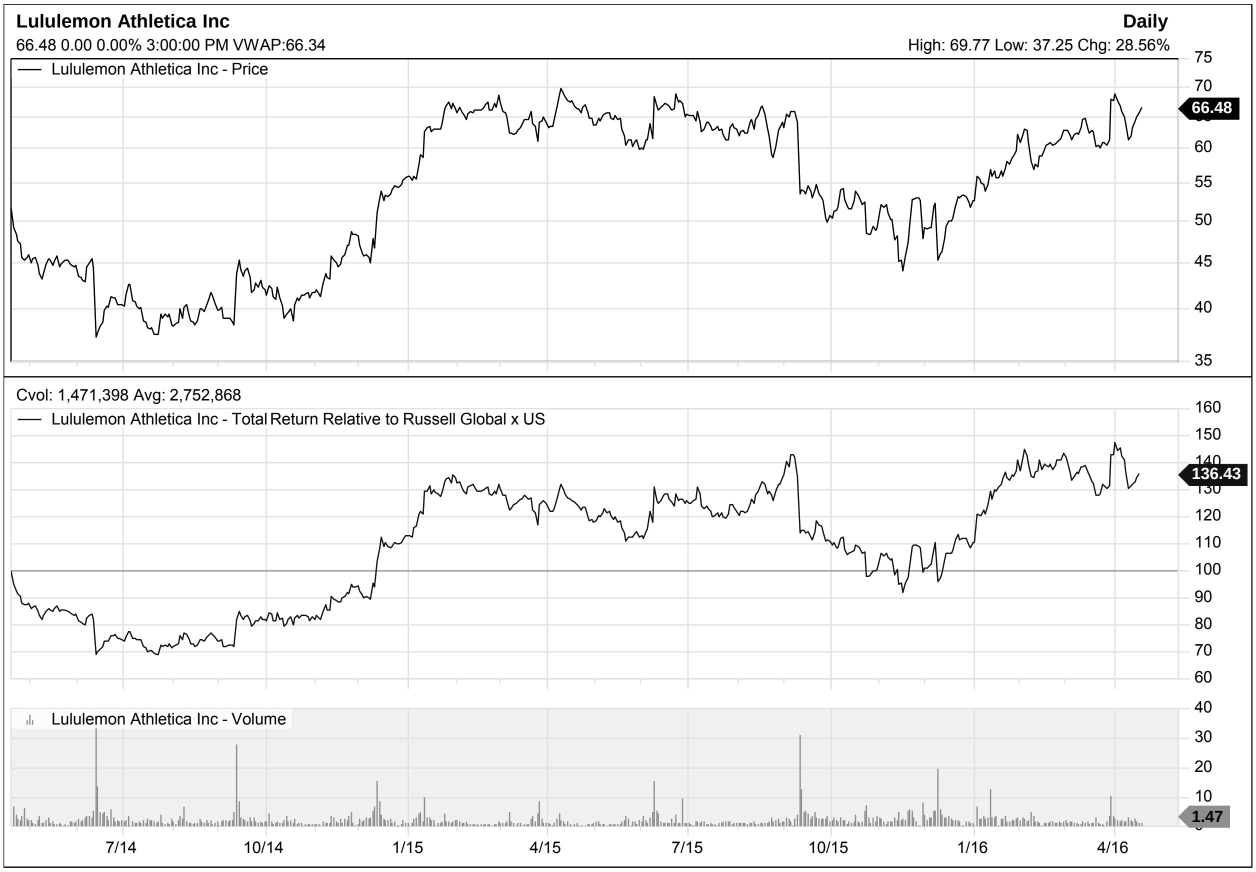
In order to find an intrinsic value for LULU, a five year DCF model was constructed. Using a WACC of 7.30% and a terminal growth rate of 2.85%, an intrinsic value of $77.57 was reached. A sensitivity analysis expressed a range from $68.62 - $89.30. As well as the DCF, an EV/EBITDA multiple valuation was calculated using a 2016 EBITDA estimate of $505.8 million and a peer comparable multiple of 19.0x. This resulted in a valuation of $73.74. Weighing the DCF and EV/EBITDA 75/25% respectively, the price target was found to be $76.63, resulting in a 17.03% upside.

**Risks**

- **Economic downturn.** Lululemon products are sold at a premium, with the average pair of women's yoga pants nearing $100. With recent upward trends in consumer spending the past few years, this has not been a problem for LULU, as customers have been willing to pay for the quality and brand. In the case of an economic downturn, shoppers are more likely to find their athleisure clothing at lower cost competitors like Walmart or Gap.
- **Fluctuation in raw material prices.** With products consisting of cotton and other natural fibers, as well as synthetic fibers which include petroleum based products, not hedging these prices with suppliers can adversely affect the cost of goods sold and cash flows.
- **Terms of leasing retail space.** Lululemon leases a majority of their stores. Most contracts are between five and ten years initially with the option to extend only in five year increments. This can affect the company in two ways: the inability to secure appropriate real estate can impact the ability to grow, significantly reducing the growth estimate discussed previously. On the other hand, if a store location becomes unsuccessful, the lease obligations will prevent shutting the store down and will result in a yearly loss there until the lease is up.

**Management**

Laurent Potdevin is the CEO of Lululemon. He has held that position since 2014. Previously, he spent time as the President of TOMS Shoes LLC and President/CEO of Burton Snowboard North America. CIO Allan Smith has the longest tenure of anyone in management, with 4 years at Lululemon. Other notable names are Stuart C. Haselden, CFO, Lee Holman, EVP and Creative Director, and Miguel Almeida, EVP of the digital segment.




**Ownership**

| | |
|---|---|
| % of Shares Held by All Insider Owners: | 24.17% |
| % of Shares Held by Institutional & Mutual Fund Owners: | 91.40% |

Source: FactSet

**Top 5 Shareholders**

| Holder | Shares | | % Out |
|---|---|---|---|
| Fidelity Management & Research Co. | 19,544,965 | ▲ | 15.33 |
| Capital Research & Management Co. (Global Investors) | 13,851,700 | ▲ | 10.87 |
| Manning & Napier Advisors LLC | 8,177,979 | ▲ | 6.41 |
| The Vanguard Group, Inc. | 6,833,485 | ▼ | 5.36 |
| Lone Pine Capital LLC | 6,446,607 | ▲ | 5.06 |

Source: FactSet

**Peer Analysis**

| Name | Ticker | Market Cap (mil) | Sales (mil) | EBITDA | Dividend Yield | EV/ EBITDA |
|---|---|---|---|---|---|---|
| Lululemon Athletica Inc | lulu | 8,476 | 2,061 | 430.501 | 0.00 | 19.11 |
| adidas AG | 403197 | 22,721 | 16,915 | 1751.0 | 1.78 | 10.45 |
| NIKE, Inc. Class B | NKE | 79,316 | 32,052 | 4671.0 | 1.06 | 18.31 |
| Gap, Inc. | GPS | 9,501 | 15,797 | 2148.0 | 3.72 | 4.88 |
| bebe stores, inc. | BEBE | 48 | 416 | -14.3 | 0.00 | N/A |
| Finish Line, Inc. Class A | FINL | 890 | 1,889 | N/A | 1.53 | N/A |
| Peer Averages | | 27,896 | 16,295 | 2138.9 | 1.64 | 11.2 |

**Tri Pointe Group, Inc. (TPH)**
April 22, 2016

Kristiyan Trukov | Domestic Industrials

*Tri Pointe Group, Inc. (NYSE: TPH) is one of the top ten largest homebuilders in the United States. The company designs, constructs, and sells innovative single-family homes and condominiums primarily in the western part of the United States. It operates in six segments: TRI Pointe Homes in California and Colorado (32.2% of 2015 revenue), Pardee Homes in California and Nevada (27.9%), Winchester Homes in Maryland and Virginia (12.9%), Trendmaker homes in Texas (11.6%), Quadrant Homes in Washington (7.9%), and Maracay Homes in Arizona (7.7%). In July 2014, TPH merged with Weyerhaeuser Real Estate Company, a $2.8B merger, which positioned TPH with 31,000 lots in key growth markets throughout the United States. The company was originally founded in 2009, just as the downturn in the national homebuilding industry was coming to an end. It began trading publicly in 2013 and is currently headquartered in Irvine, CA.*

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Price ($): | 12.46 | Beta: | 1.33 | FY: Dec | 2015A | 2016E | 2017E | 2018E |
| Price Target ($): | 16.68 | WACC | 7.78% | Revenue (Mil) | 2,401.2 | 2,521.3 | 2,773.4 | 3,161.7 |
| 52WK H-L ($): | 16.15 - 8.83 | M-Term Rev. Gr Rate Est: | 9.0% | % Growth | 40.95 | 5.00 | 10.00 | 14.00 |
| Market Cap (mil): | 2,017 | M-Term EPS Gr Rate Est: | 11.2% | Gross Margin | 23.08 | 21.50 | 22.00 | 22.50 |
| Float (mil): | 145.8 | Debt/Equity: | 0.58 | EBITDA Margin | 13.71 | 12.00 | 12.80 | 13.50 |
| Short Interest (%): | 9.6 | Debt/EBITDA (ttm): | 3.56 | EPS (Cal) | 1.27 | 1.18 | 1.36 | 1.64 |
| Avg. Daily Vol (mil): | 1.3 | ROA (%): | 6.79 | FCF/Share | -0.03 | 0.64 | 0.70 | 0.80 |
| Dividend ($): | 0.00 | ROE (%): | 13.18 | P/E (Cal) | 10.01 | 10.53 | 9.18 | 7.61 |
| Yield (%): | 0.0 | ROIC (%): | 7.54 | EV/EBITDA | 9.22 | 9.88 | 8.42 | 7.00 |

## Recommendation

The housing industry has continued to recover since the unprecedented Financial Crisis of 2007-08. According to the National Association of Realtors, home sales have increased to 5,470,000 in 2016 from the 3,450,000 in 2010. Interest rates are more favorable (3.75% - 30-year mortgage rate), which makes buying a home an attractive option for consumers. TPH is well positioned in high growth areas to effectively capture the surge of home buying that will continue to exist. The management team has worked together for over 25 years, and almost every upper level employee has over 20 years of experience in the homebuilding industry. In July 2014, TPH closed its Reverse Morris Trust transaction with Weyerhaeuser Company. Merging with the real estate portion of Weyerhaeuser (WRECO) positioned them as one of the top ten homebuilding company in the US owning over 31,000 lots in key growth markets. The majority of these lots are in California, which is where management has the most relationships and experience. Following the merger, TPH's income rose 560% in 2014 and 41% in 2015. To further differentiate themselves from their competition, TPH launched its "LivingSmart" platform. Some of the green aspects of these houses include: light/heat saving sensors, E-windows, sealed combustion furnaces and water-based wood finish to improve air quality, solar and electric vehicle charging systems, and WaterSense faucets to reduce water waste. These built-in features likely will attract customers, as more individuals are becoming earth-friendly and aware of the long-tern consequences. Management reiterated their goal of delivering between 5100-5400 homes in 2018, compared to the 4057 in 2015. Given recent weakness of the stock, the company announced a $100M share buyback authorization to show its confidence in the execution of their future plans. Due to the continuous increase in the housing market, effective execution of the WRECO merger, and increased demand for house building from Millennials, it is recommended that TRI Pointe Group, Inc. be added to the AIM Equity Fund with a price target of $16.68, which represents a 33.88% upside. TPH does not a pay dividend.

## Investment Thesis

- **Positive housing indexes outlook.** The National Association of Home Builders, along with Wells Fargo, have released their monthly Housing Market Index (HMI). This index uses current sales of single-family homes, sales expectations for the next six months, and traffic of prospective buyers into consideration. The latest HMI scored a 58, which is nine points above the 30-year average (49). TPH likely will benefit from the increase of sales nationwide. Additionally, the S&P Case-Shiller Home Price Index (HPI) for January was $182,560, which is an eight year high. The HPI measures residential house prices in 20 metropolitan regions in the United States. TPH has been increasing their lots and land development, which positions them well as housing sales and prices are increasing.

- **Focused on high growth core markets.** TPH is carefully positioned within some of the highest job and population growth markets. The company operates in Colorado (1.89% increase in population in 2015), District of Columbia (1.88%), Nevada (1.85%), Texas (1.82%), Washington (1.52%), and Arizona (1.48%). All of those states rank among the top 10 fastest-growing states by population. Additionally, job growth in California for 2015 was 2.9% (1.9% US). Being among the fastest growing states by population and jobs, it is a critical market for the housing industry. TPH has 17,527 lots (63% of total lots) in California, which positions them well to capture the increase in housing demand.
- **It is becoming cheaper to buy and Millennials prefer to build.** Majority of the millennial generation is in their late 20s and 30s, which is the average age for buying a first or second home. Within this generation it is becoming more popular to buy customized items, because they are becoming more practical and affordable. This will increase the demand to build houses versus buying existing ones. Further, TPH is positioned in high population and employment growth markets where rent has been increasing every quarter since 2010. According to Zillow, rent costs 30.1% of average household income whereas mortgage amounted to only 21.4%. As millennials rent less and customize more, TPH will be able to increase their house orders in the future.

**Valuation**

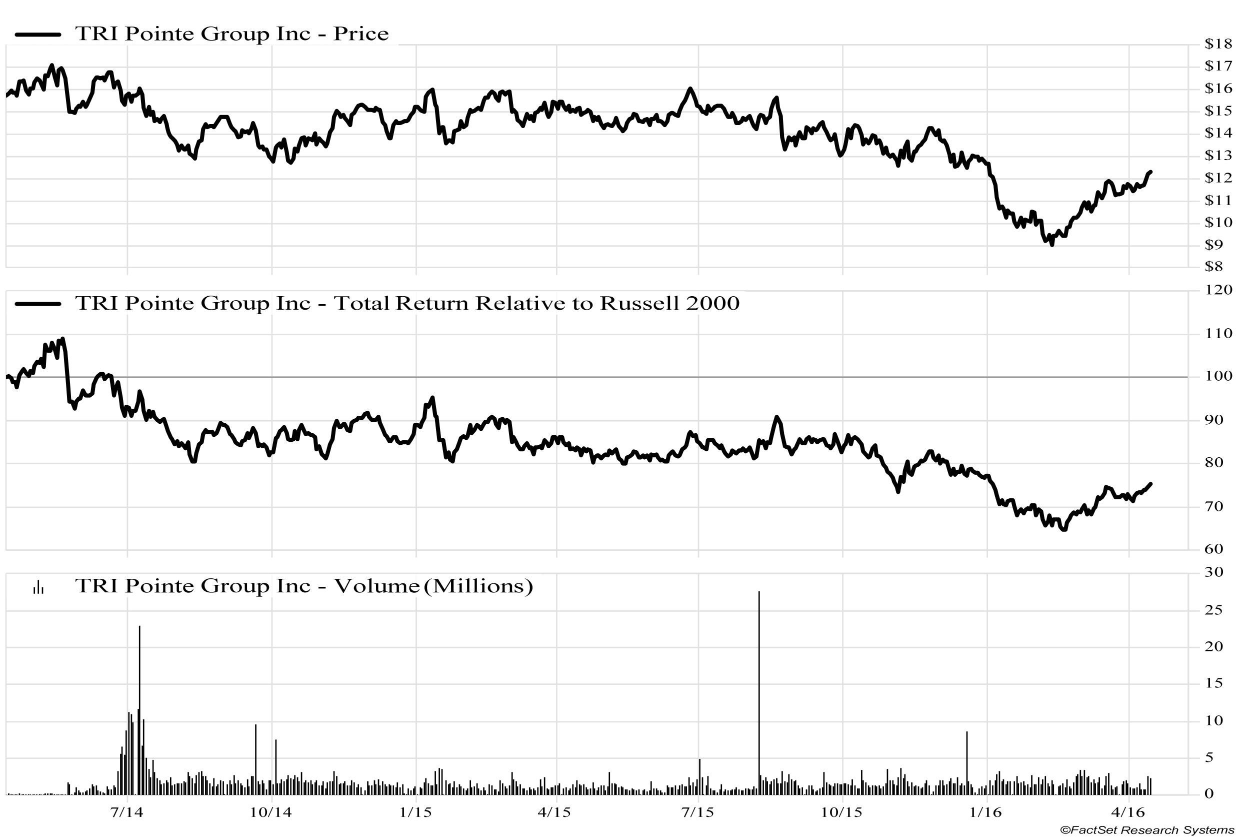
To reach an intrinsic value for TPH, a five-year DCF model was constructed. Using a WACC of 7.78% and a terminal growth rate of 1.5%, an intrinsic value of $16.88 was reached. A ± 1% sensitivity analysis on the terminal growth and WACC ranged from $13.63-23.39. Addionally, a sensitivity analysis of the free cash flow (± $100M) and WACC (± 1%) resulted in a range from $14.55-20.06. Finally, a P/E multiple valuation was constructed using an estimated 2016 EPS of 1.18 and a comparable average P/E of 13.71x which resulted in a valuation of $16.23. By weighing the two valuation models 70/30, a price target of $16.68 was reached, resulting in a 33.88% upside. TPH does not pay a dividend, and it does not plan to pay a dividend in the foreseeable future.

**Risks**

- **Demand for homes.** The demand for homes is greatly dependent on the general economic conditions which lies outside of TPH’s control. Some examples that greatly influence demand include: short and long term interest rates, financing costs, inflation, and real estate tax.
- **Oil prices decline.** The decline in oil prices over the past 18 months has affected TPH’s Colorado and Houston markets. Energy is an important employment sector in both of those markets, and the demand for houses will continue to decrease as long as oil prices are down.
- **Shortage of skilled labor.** The increase of homebuilding has caused a shortage of labor. As demand increases and more homes are being built, TPH might incur higher labor costs. Management recognizes this as a risk, but is confident that their experience and relationships with contractors and subcontractors will keep TPH’s costs from rising.

**Management**

Doug Bauer has served as the CEO of TPH since co-founding the company in 2009. Thomas Mitchell serves as the President and COO and also co-founded the company in 2009. Michael Grubbs serves as CFO and Treasurer. All three leaders have over 20 years of experience in the homebuilding industry, and held executive positions at William Lyon Homes prior to founding TPH. Barry Sternlicht serves as the Chairman of the Board of Directors, and also is the founder and CEO of Starwood Capital Group.




**Peer Analysis**

| Name | Ticker | Market Cap (mil) | Sales (mil) | EBITDA | Dividend Yield | EV/ EBITDA | P/E |
|---|---|---|---|---|---|---|---|
| TRI Pointe Group Inc | TPH | 1,982 | 2,401 | 329.244 | 0.00 | 9.22 | 9.67 |
| William Lyon Homes Class A | WLH | 441 | 1,107 | 83.7 | 0.00 | 20.72 | 10.69 |
| D.R. Horton, Inc. | DHI | 11,685 | 10,938 | 1174.1 | 0.91 | 11.48 | 15.34 |
| Lennar Corporation Class A | LEN | 10,147 | 9,834 | 1189.4 | 0.31 | 15.49 | 13.55 |
| PulteGroup, Inc. | PHM | 6,332 | 5,901 | 755.3 | 1.85 | 10.62 | 13.44 |
| Toll Brothers, Inc. | TOL | 5,052 | 4,246 | 642.3 | 0.00 | 15.48 | 15.53 |
| Peer Averages | | 7,151 | 6,945 | 800.6 | 0.77 | 14.6 | 13.71 |

**Removed For Relative Valuation Analysis*

Source: FactSet

**Ownership**

| | |
|---|---|
| % of Shares Held by All Insider Owners: | 9.94% |
| % of Shares Held by Institutional & Mutual Fund Owners: | >90% |

Source: FactSet

**Top 5 Shareholders**

| Holder | Shares | % Out |
|---|---|---|
| BlackRock Fund Advisors | 16,649,364 ▲ | 10.28 |
| The Vanguard Group, Inc. | 10,004,046 ▲ | 6.18 |
| Deutsche Asset & Wealth Management Investment GmbH | 8,633,490 ▼ | 5.33 |
| Hotchkis & Wiley Capital Management LLC | 8,393,572 ▼ | 5.18 |
| Carlson Capital LP | 7,051,392 ▼ | 4.36 |

Source: FactSet

**Itau Unibanco Holding S.A. Sponsored ADR Pfd (ITUB)**
April 22, 2016

Wenqin (Wendy) Liu International Financial Services

*Itau Unibanco Holding S.A. Sponsored ADR Pfd (NYSE:ITUB) operates as a provider of a broad range of banking services to a diverse client base that includes individuals and corporate clients. ITUB recognizes revenue through four business segments: Commercial Bank-Retail (68% of total revenues), Wholesale Bank (25%), Consumer Credit-Retail, and Corporation (7%). 90% revenues are generated in Brazil. The Consumer Credit-Retail segment offers financial products and services to non-accountholders. ITUB was founded on September 9, 1943, and is headquartered in Sao Paolo, Brazil.*

| | |
|---|---|
| Price ($): (4/18/16) | 9.29 |
| Price Target ($): | 11.52 |
| 52Wk H-L ($): | 12-5.48 |
| Market Cap (mil): | 53,707 |
| Float (mil): | 2874.0 |
| Short Interest (%): | 1.70% |
| Avg. Daily Vol (mil): | 19.85 |
| Dividend ($): | 0.40 |
| Yield (%): | 0.55% |

| | |
|---|---|
| Beta: | 1.06 |
| WACC: | 10.1% |
| M-Term Rev. Gr Rate Est: | 5.4% |
| M-Term EPS Gr Rate Est: | 7.7% |
| Financial Leverage | 5.3 |
| ROA: | 2.38% |
| ROE: | 26.7% |
| Tier 1 Capital Ratio | 17.8% |
| Credit Provisions/Loans | 3.9% |

| FY: Dec | 2014A | 2015A | 2016E | 2017E |
|---|---|---|---|---|
| Revenue (Mil) | 51,135.44 | 44,250.75 | 45,357.02 | 49,044.54 |
| % Growth | 21.01% | -13.46% | 2.50% | 8.13% |
| Net Interest Margin | 4.80% | 6.40% | 6.61% | 7.26% |
| Dividend Per Share($) | 0.31 | 0.40 | 0.47 | 0.55 |
| EPS (Cal) | $1.51 | $1.28 | $1.34 | $1.49 |
| P/E (Cal) | 6.1 | 7.3 | 6.9 | 6.2 |
| BVPS | 6.2 | 4.8 | 6.2 | 6.8 |
| P/B | 1.5 | 1.9 | 1.5 | 1.4 |

## Recommendation

As the largest private bank in Brazil and in Latin America, Itau Unibanco has a strong market position in the last decade. Brazil's struggling economy and sharp currency depreciation weighed substantially on ITUB's stock during 2015, and ITUB is now seen as an attractive long-term investment opportunity. ITUB has grown revenue at a 10-year CAGR of 13.27% and has been exposed to technology-based areas of the financial market. ITUB has grown net income at a 10-year CAGR of 14.49%, and at a 7-year average of 7.89%. Additionally, the company has grown EPS at a 7-year CAGR of 8% and an average of 9.1%. EPS is expected to continue to grow at an average rate of 7.74% the next three to five years. ITUB has a strong Tier 1 Capital Ratio of 17.8%, indicating that they are extremely well-capitalized, along with an R$11bn in excess reserves, which ensures ITUB's strength and the capital availability to support its business growth. Moreover, ITUB has opened its new data center to improve their online services and expand its online client base, which has contributed to a 4.4% increase in its debit and credit sales, compared to the previous year. Additionally, acquisitions through 2015, and most recently in 2016, have allowed ITUB to pursue more growth opportunities in the current business environment. With favorable long term business growth opportunities, solid digital channels development, and increased acquisition activities, it is recommended that ITUB be added to the AIM International Equity Fund with a target price of $11.52, representing an upside of 24.54%. ITUB also pays a dividend of $0.40, which is a dividend yield of 0.50%.

## Investment Thesis

- **Technology and Electronic Distribution Channels.** ITUB has had Internet banking since 1998 and has reached the milestone of 1.1 million clients of the Digital Branches in 2015. 67% of its bank transaction came through its digital channels, which represented 8.9 billion transactions, a 23% increase compared to 2014. This increase was mainly due to its intensive use of technology and digital channels. In March 2015, ITUB has opened a new data center, Noteworhty, which is one of the largest and most modern data centers in the world, and will likely increase 25 fold the processing and storage capacity of its operations. It not only provides a 43% reduction in the use of energy, as compared to its current consumption, but also will support ITUB's growth up to 2050. Additionally, ITUB partnered with MasterCard Brasil Solucoes de Pagmento Ltda. in establishing an alliance for a 20-year term of the payment solutions market in Brazil. In doing this, ITUB is better able to serve the needs of affluent customers and more efficiently handle transactions for its retail customer base. Moreover, through online platforms, ITUB has expanded its customer relationship model by allowing the relationship managers to offer personalized customer services. ITUB's intensive use of technology and electronic distribution channels have contributed to an increase of 4.4% in sales of debit and credit services in 2015 and is expected to ensure its high performance, availability of operations, and the company's growth in the long run.

- **Mergers, Acquisitions and Expansions** The merger of Itau Chile with Corpbanca, alliance with MasterCard, acquisition of ConectCar shares, and a control acquisition of Recovery in year 2015 have allowed ITUB to pursue more growth opportunities. The merger of Itau Chile with Corpbanca will consolidate the ITUB's strategy to expand its presence in Latin America, placing the bank in an outstanding position in Chile and Colombia, as well as diversifying its operations in the region. Additionally, the acquisition of the subsidiary of ConectCar shares, not only has consolidated and expanded ITUB's credit business, but has also allowed ITUB to further expand into more client bases and business opportunities. Compared to 2014, ITUB reached 4028.1 million debit and credit card transactions, which accounts for 62.5% of total transactions arising from acquiring business, and a 7.8% increase captured in credit cards and a 5.9% increase in debit cards compared to 2014.
- **Repurchase of Shares.** In 2015, ITUB acquired 115.4 million preferred shares, in the total amount of R$3.3billion (at the average price of R$28.80 per share). Additionally, in January 2016, 8.0 million preferred shares were repurchased. In February 2016, the Board of Directors decided to renew the buyback program, authoring the acquisition of up to 10 million common shares and 50.0 million preferred shares, valid from February, 2016 to August, 2017. In doing this, ITUB assures their stockholders an increased stake in the institution's earnings per share and these repurchases are also significant in optimizing the bank's use of capital.

**Valuation**

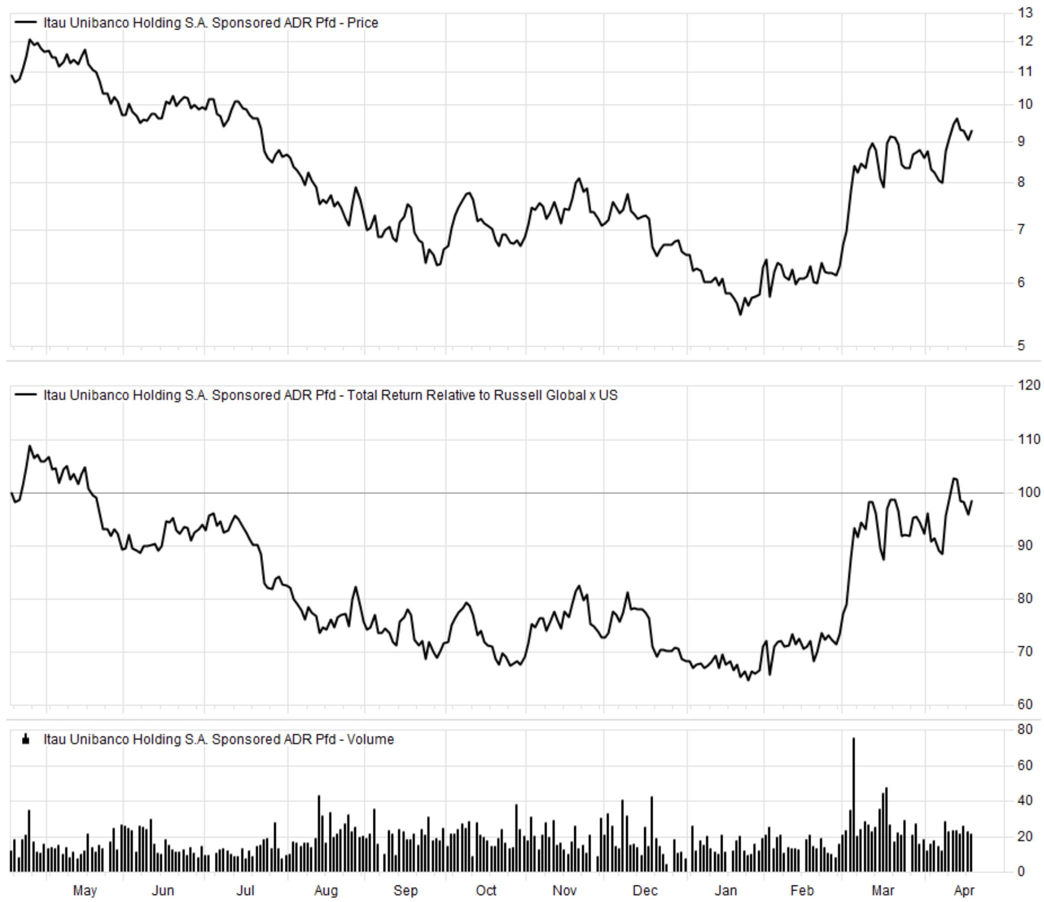
In order to reach to the intrinsic value of ITUB, an excess equity model, a P/B multiple, and a P/E multiple were used. The excess equity method used a perpetual growth rate of 3.6%, a cost of equity of 9.88%, and reached an intrinsic value of $11.91. A sensitivity analysis on the terminal growth rate and cost of equity ranged from $13.50-10.68. In addition, a P/B multiple was constructed. The 5-year average historic price-to-book for ITUB is 2.07x, while its peers' weighted 5-year historic average was 1.35x which led to a weighted P/B multiple of 1.76x. Using a BVPS of $6.2, the P/B multiple yielded an intrinsic value of $10.91. In a similar manner, a P/E multiple of 8.54x was constructed generating an intrinsic value of $11.44. Weighting the three valuations 50/30/20 respectively, an intrinsic value of $11.52 was established.

**Risks**

- **Macroeconomic and Political Risks.** ITUB's operations are dependent on the performance of Brazilian economy and any significantly political changes may lead to changes in economic conditions; further, it may adversely affect the company. The impeachment process of the President is a significant political risk and may affect ITUB's business.
- **Competition Risk Factor.** Increased competition in the Brazilian banking industry may limit ITUB's ability to retain and increase its current client base and to expand its operations, which further could reduce ITUB's profit margins. Thus, the high competitive environment in the Brazilian banking may adversely affect ITUB's business.
- **Currency Fluctuations.** ITUB faces risks associated with the instability of foreign exchange rate due to the floating exchange rate system in Brazil.

**Management**

Mr. Roberto Egydio Setubal serves as CEO and Vice Chairman of the Board of Directors and Member of the Executive Board of ITUB since March 2003. He has been Member of the Capital and Risk Management Committee and Member of the Strategy Committee and Personal Committee.




**Ownership**

| | |
|---|---|
| % of Shares Held by All Insider and 5% Owners: | 0.30% |
| % of Shares Held by Institutional & Mutual Fund Owners: | 24.20% |

Source: ThompsonOne

**Top 5 Shareholders**

| Holder | Shares | % Out |
|---|---|---|
| Harding Loevner LP | 58,850,000 | 1.90 |
| The Vanguard Group, Inc. | 38,718,000 | 1.30 |
| Schroder Investment Managemetn Ltd. | 31,527,000 | 1.00 |
| Templeton Asset Management Ltd. | 30,874,000 | 1.00 |
| Global Thematic Partners, LLC | 26,279,000 | 0.90 |

Source: Factset

**Peer Analysis**

| Name | Ticker | Market Cap (mil) | Net Income (mil) | P/E | P/B | D/E |
|---|---|---|---|---|---|---|
| Itau Unibanco Holding | ITUB | 53,707 | 7,701 | 7.03 | 2.01 | 5.4 |
| Bradesco Pfd NI | BBDC4 | 44,033 | 5,146 | 7.87 | 1.86 | 5.1 |
| BBVA (Spain) | BBVA | 41,932 | 2,694 | 15.62 | 0.81 | 4.4 |
| UBS Group | UBSG | 61,282 | 6,442 | 9.28 | 1.08 | 4.0 |
| Banco Santander | SAN | 66,093 | 6,616 | 10.04 | 0.69 | 5.0 |
| Peer Averages | | 53,335 | 5,225 | 10.7 | 1.1 | 4.6 |

*Removed For Relative Valuation Analysis

Source: Factset

**Fomento Economico Mexicano ADR, FEMSA (FMX)**

April 22, 2016

Ketty Alvarado International Consumer Staples

*Fomento Economico Mexicano ADR (NYSE: FMX), also known as FEMSA, is a multinational retail company based in Mexico that engages in the production and distribution of non-alcoholic beverages and beer. The principal activities of the company are grouped under the following sub-holding companies: Coca-Cola FEMSA (46% of revenue), FEMSA Comercio Retail Division (41%), which operates over 14,000 small-format stores under the OXXO name, and FEMSA Comercio Fuel Divisions (13%) which operates service stations. FEMSA has operations in over 70 countries, with revenues coming from Mexico (53%), Central America (22%), South America (21%), and the Philippines (4%). FMX was founded in 1890 and is headquartered in Monterrey, Mexico.*

| | |
|---|---|
| Price ($): (04/14/16) | 91.30 |
| Price Target ($): | 117.10 |
| 52WK H-L ($): | $102.72-77.74 |
| Market Cap (mil): | 21,046 |
| Float (mil): | 19,427 |
| Short Interest (%): | 0.00% |
| Avg. Daily Vol (k): | 502.1 |
| Dividend ($): | 0.72 |
| Yield (%): | 1.50% |

| | |
|---|---|
| Beta: | 1.01 |
| WACC: | 9.10% |
| M-Term Rev. Gr Rate Est: | 10.5% |
| M-Term EPS Gr Rate Est: | 26.2% |
| Debt/Equity: | 50.6% |
| Debt/EBITDA (ttm) | 1.9x |
| ROA: | 4.6% |
| ROE: | 10.7% |
| ROIC: | 6.8% |

| FY: June | 2015A | 2016E | 2017E | 2018E |
|---|---|---|---|---|
| Revenue (mil) | 19,542.9 | 20,520.0 | 22,366.8 | 25,050.8 |
| % Growth | -0.93% | 5.00% | 9.00% | 12.00% |
| Gross Margin | 39.36% | 38.74% | 39.46% | 39.87% |
| Operating Margin | 10.86% | 10.71% | 11.73% | 12.52% |
| EPS (Cal) | $3.10 | $4.80 | $5.31 | $5.68 |
| FCF/Share | $5.90 | $6.56 | $6.77 | $8.48 |
| P/E (Cal) | 29.5 | 19.0 | 17.2 | 16.1 |
| EV/EBITDA | 11.6 | 11.2 | 9.8 | 8.4 |

## Recommendation

The combination of a positive outlook for the Mexican economy, growth in non-alcoholic beverages and strategic growth initiatives are likely to offer expanding opportunities for FEMSA going forward. Currently, the Mexican economy is recovering nicely, growing at a 2.5% rate both in Q4 2015 as well as for the year as a whole. Looking forward, it is expected that the Mexican economy will continue advancing by 3% annually. Likewise, consumer spending in Mexico is recovering, which is supported by FMX's strong Q4 2015 same store sales (SSS) growth of 8.6% YoY at OXXO, driven by a 2.4% increase in volume and a 6.2% increase in prices. The company also realized an inorganic benefit from the addition of OXXO gas stations. FEMSA Comercio's medium-term goal is for a return to mid-single digit SSS growth. Moreover, the global market for non-alcoholic ready-to-drink beverages is expected to exceed $1 trillion by 2020, and the global carbonated soft drinks market is expected to reach $875 billion by 2016. FMX's diverse product portfolio, ranging from carbonated drinks to health drinks, will help capitalize on this growth in demand. Finally, FEMSA's strategic growth initiatives will continue to enhance the business and its operations. The company plans to invest US$1.3 billion in capital expenditures across its business units in 2016 ($680 MM at Coca-Cola FEMSA; $460 MM at FEMSA Comercio Retail; $20 MM at FEMSA Comercio Fuel; $120 MM at Logistics Services). Management believes these investments will allow the company to understand the differing consumer dynamics in adjacent countries and channels, which will continue to drive long-term value. Because of these strategic initiatives and positive economic tailwinds, it is recommended that FMX be added to the AIM International Equity Fund with a price target of $117.10, which represents a 28.26% upside.

## Investment Thesis

- **Sales growth and new investments.** After a recovery in the consumer sector in Mexico stemming from a decrease in the unemployment rate to 4.15% and higher real wages, FEMSA's consolidated total revenues, on a currency-adjusted basis, increased 13.3% and income from operations grew 10.8% for the past year, reflecting the addition of OXXO gas stations by FEMSA Comercio's Fuel Division, and the integration of Grupo Socofar into FEMSA Comercio's Retail Division. On an organic basis, total revenues increased 7.2% and income from operations grew

8.4%. For 2016, management expects that this growth trend will persist, driven mainly by its OXXO gas business and from the inorganic contribution of Grupo Socofar.

- **Margin opportunities.** After a strong year for EBIT margins in Mexico, profit margins are expected to increase by 15-20 basis points per year due to improvement in distribution and greater efficiency. With other Mexican rivals like Arca Continental and Organizacion Cultiba cutting investment and experiencing diminishing volumes, FEMSA should be able to keep its margin gains ahead of its retail peers. Another source of margin improvement is the acceleration of the rollout of FMX's initiatives for drugstores and gas stations. At the end of 2015, a total of 307 gas stations were acquired that collectively generated $18.5 billion in revenues and operating margins of 1.1% for the year. Managers predict the OXXO gas brand will continue grow by 4% going forward, which will be an important source of growth for the company.
- **Dominant market position.** FEMSA has a dominant market position in its core markets. For example, Coca-Cola FEMSA is the second largest Coca-Cola bottler in the world and serves 346 million consumers, accounting for around 10% of global sales. Likewise, OXXO is the market leader for retail chains with a total of 14,061 stores in operation in Mexico and Colombia at year-end 2015. Also, with the new acquisitions in drugstores, FMX now operates more than 1,900 drugstores and beauty stores, which represents an important driver of their capital allocation and international exposure. FEMSA's strong market position and wide presence helps it in maintaining its power to attract new customers and easily venture into new businesses.

**Valuation**

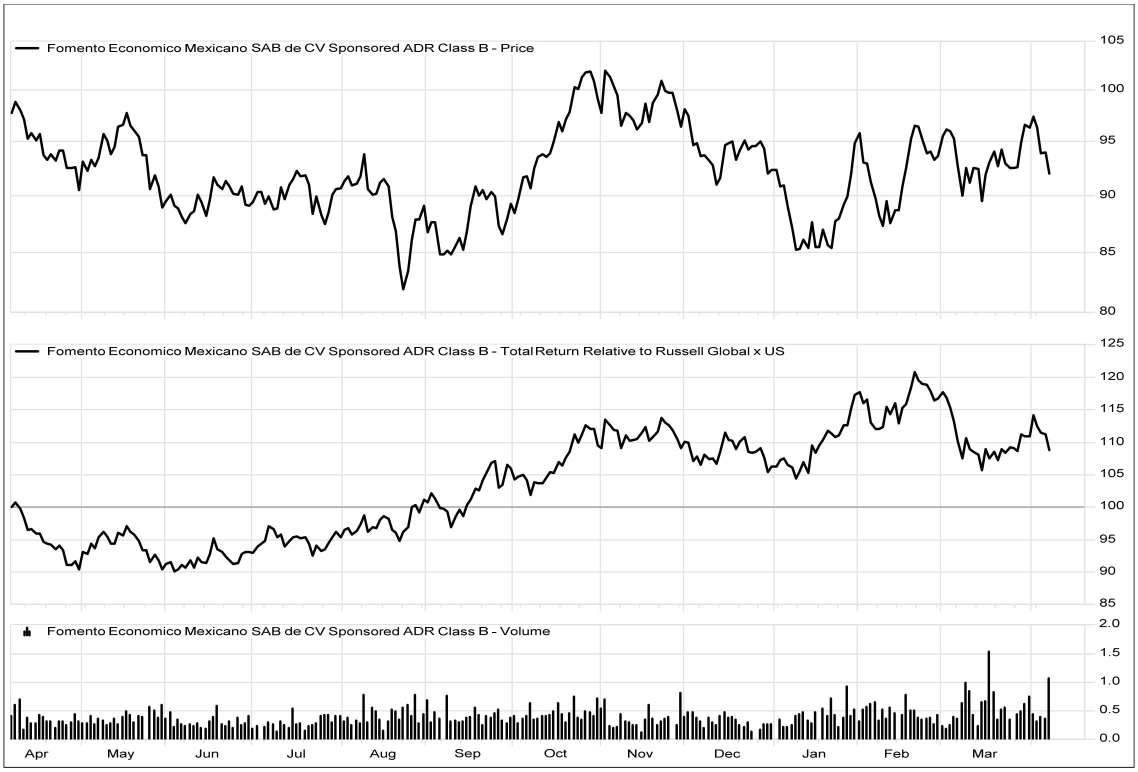
In order to reach an intrinsic value for FMX, a five-year discounted cash flow model was constructed. Using a WACC of 9.10% and a terminal growth rate of 2.00% resulted in a target price of $116.62. A ± 1% sensitivity analysis on the WACC and the terminal growth rate yielded a range from $90.42- $184.82 per share. In addition to the DCF, an EV/EBITDA model was employed. Using a 10.21x multiple and FMX's 2016E EBITDA of $2.87 billion returned a target price of $103.34 per share. Finally, a P/E model was utilized using a peer average P/E multiple of 27.36x and FMX's 2016E EPS of $4.80, which produced a target price of $131.34 per share. Weighting the DCF, EV/EBITDA, and P/E valuation models 33% each yielded a final target price of $117.10, which is an upside of 28.26% over FMX's current price. The company paid a $0.72 annual dividend in 2015, yielding 1.50%.

**Risks**

- **Volatile raw material prices.** FEMSA is exposed to price fluctuations on its major inputs such as aluminum, juice concentrates, sugar, and fuel. The prices of some of these commodities have fluctuated significantly in the last few months. For example, sugar prices increased by 32% during February and March before falling again in April. These fluctuations of raw material prices inhibit the company's pricing strategy, which in turn may affect margins.
- **Foreign exchange risks.** FMX reports in Mexican Pesos, and its wide geographic reach means that it transacts in many different currencies. Several of these currencies, such as the Brazilian Real and the Argentinian Peso have been quite volatile recently, which may continue. To minimize its risk from currency fluctuations, the company employs hedging contracts.
- **Political and economic risk.** Many of FMX's core markets like Mexico, Argentina, Brazil, and Venezuela have experienced significant political and economic issues over the years. While the overall environment has stabilized more recently, there is still the risk that unpredictable government leaders will be elected, or that the economic situation will worsen.

**Management**

Mr. Jose Antonio Fernandez is the Executive Chairman of FEMSA and has been with the company since 1987. He was appointed CEO of FEMSA in 1995 and Chairman of the Board in 2001, and served in both positions until 2014. Since then Mr. Carlos Salazar has been the CEO of FEMSA following his tenures as CEO of Coca-Cola FEMSA and FEMSA Cerveza. Mr. Salazar joined FEMSA in 1973 and holds a BA in economics and an MBA from Tecnológico de Monterrey.




Source: FactSet

**Ownership**

| | |
|---|---|
| % of Shares Held by All Insider and 5% Owners: | 50.30% |
| % of Shares Held by Institutional & Mutual Fund Owners: | 35.40% |

Source: FactSet

**Top 5 Shareholders**

| Holder | Shares | % Out |
|---|---|---|
| Cascade Investment LLC | 27,887 | 12.90 |
| Aberdeen Emerging Markets Fund | 19,634 | 9.10 |
| Vontobel Asset Management, Inc. | 10,574 | 4.90 |
| Morgan Stanley Investement Management, Inc. | 3,927 | 1.80 |
| DimensionaL Fund Advisors LP | 3,527 | 1.60 |

Source: FactSet

**Peer Comparables**

| Name | Ticker | Market Cap (mil) | Sales (mil) | EBITDA Margin | EV/ EBITDA | P/E NTM |
|---|---|---|---|---|---|---|
| FEMSA ADR | FMX | 21,046 | 19,543 | 14.2% | 9.7x | 25.9x |
| Andina Pfd-A | ANDINA.A | 2,832 | 2,867 | 15.9% | 8.3x | 19.5x |
| Arca Continetal | AC | 11,060 | 4,655 | 21.3% | 14.3x | 22.4x |
| Cott Corporation | COT | 1,757 | 2,944 | 12.0% | 9.5x | 37.6x |
| Organizacion Cultiba | CULTIBAB | 980 | 2,456 | 9.4% | 6.8x | 27.5x |
| Dr Pepper Snapple Group, Inc. | DPS | 17,131 | 6,282 | 24.9% | 12.2x | 29.8x |
| Peer Averages | | 6,752 | 3,841 | 16.7% | 10.2x | 27.4x |

Source: FactSet

**Bryn Mawr Bank Corporation (BMTC)**
April 22, 2016

Nathaniel Penn — Domestic Financial

*Bryn Mawr Bank Corporation (NASDAQ: BMTC) is a well-established regional bank holding company that operates as a traditional bank and as a trust and wealth management provider. Founded in 1889, BMTC has strived to both maintain and create wealth for its clientele throughout its existence. Revenue is derived from service fees on the approximately $8 billion it manages and/or administers for high-net-worth individuals and interest income on the nearly $3 billion in its loan portfolio. In addition, Bryn Mawr boasts one of the highest asset quality levels in its peer group across the United States, with a net charge-off ratio traditionally hovering in the low double-digit basis point figure. The company's loan portfolio is composed of: Consumer Loans (1.0%), Commercial & Industrial Loans (23.7%), Commercial Mortgages (43.5%), Construction Loans (4.1%), Residential Mortgages (18.3%), Home Equity Lines & Loans (9.4%), and Leases (2.3%). Core deposits consist of interest bearing and savings deposits, with a strong base of approximately $2.25 billion. Bryn Mawr Trust has been in existence for over 120 years and currently operates 26 branches in the greater Philadelphia region. The company was taken public on the NASDAQ Exchange in 1986 and is headquartered in Bryn Mawr, Pennsylvania.*

| | |
|---|---|
| Price ($): (4/19/15) | 25.79 |
| Price Target ($): | 31.63 |
| 52Wk H-L ($): | 23-32 |
| Market Cap ($mil): | 434.1 |
| Float (%): | 94% |
| Short Interest (%): | 3.03% |
| Avg. Daily Vol (mil): | 80.3 |
| Dividend ($): | 0.78 |
| Yield (%): | 3.10% |

| | |
|---|---|
| Beta: | 0.55 |
| WACC | 5.0% |
| M-Term Rev. Gr Rate Est: | 5.0% |
| M-Term EPS Gr Rate Est: | 2.5% |
| Financial Leverage | 9.2x |
| ROA: | 1.1% |
| ROE: | 10.1% |
| Tier 1 Capital Ratio | 10.7% |
| TCE/Tangible Assets | 6.4% |

| FY: Dec | 2014A | 2015A | 2016E | 2017E |
|---|---|---|---|---|
| Net Income ($mil) | 27.84 | 16.75 | 38.81 | 40.42 |
| % Growth | 13.92% | -39.83% | 131.64% | 4.20% |
| Net Interest Margin | 3.81% | 3.64% | 3.95% | 3.99% |
| Pretax Margin | 32.65% | 15.76% | 33.34% | 34.23% |
| EPS (Cal) | $2.01 | $0.92 | $2.27 | $2.36 |
| P/E (Cal) | 12.8 | 28.1 | 11.4 | 10.9 |
| TBVPS | 13.4 | 13.8 | 16.1 | 18.4 |
| P/TBV | 1.9 | 1.9 | 1.6 | 1.4 |

**Recommendation**

Bryn Mawr has traditionally commanded a solid premium valuation to its peers, based on its long history of growth and profitability, solid wealth management performance, and high asset quality. The company operates through Bryn Mawr Trust Company. BMTC earned a respectable net interest margin (NIM) of 3.65% for 2015, compared to the industry average of 3.63%. With regard to expenses, the company produced an adjusted efficiency ratio of 63.6%, in line with its peers. Despite strong fundamentals, BMTC maintains an attractive valuation in a highly consolidative Philadelphia market. With the relatively low priced acquisition of Continental Bank (purchased for approximately book value), BMTC increased their aggregate earnings assets to about $3 billion. There have been material amounts of recent insider buying, with CFO Harrington purchasing 1,000 shares in February and Director Murdoch buying 5,000 shares in January. This may be indicative of positive management sentiment. Despite its currently attractive valuation, investors should be aware of intrinsic risks tied to real estate exposure within their loan portfolio, as well as recent management turnover. It is recommended that Bryn Mawr Bank Company be added to the AIM Equity Fund with a price target of $31.63, representing 23% upside.

**Investment Thesis**

- **Completion of Transition Period.** 2015 was a period of increased uncertainty and transition for Bryn Mawr and its recently acquired subsidiaries. The company began the fiscal year under direction of a new CEO and CFO by closing on the recently acquired Continental branches. This increased the earning assets of BMTC Trust by approximately 30%, however, the company did incur a few unforeseen charges related to the acquisition as well termination of an underfunded pension plan. The DB plan had been frozen since 2008 and BMTC's decision to terminate the plan resulted in a $17.4 million charge in the fourth quarter of 2015. These factors led to a decline in annual core earnings and were likely responsible for removing the premium valuation from BMTC shares.

- **Profit Growth to Resume.** With acquisition growth and subsequent restructuring charges taken in 2015, the bank is now in a position to improve profitability. Through very modest NIM expansion, low single digit loan growth, and a lower and more normalized efficiency ratio, BMTC should be able to grow EPS in 2016 and 2017.
- **Active Pennsylvania M&A Market.** A very active Pennsylvania market (SUSQ, NPBC, FXCB, etc.) should lead to further dislocation opportunities. Consolidation has been a major trend and is expected to continue. The scale added by the acquisition of Continental should give BMTC a more strategic advantage in making acquisitions or presenting BMTC as an attractive acquisition candidate.

**Valuation**

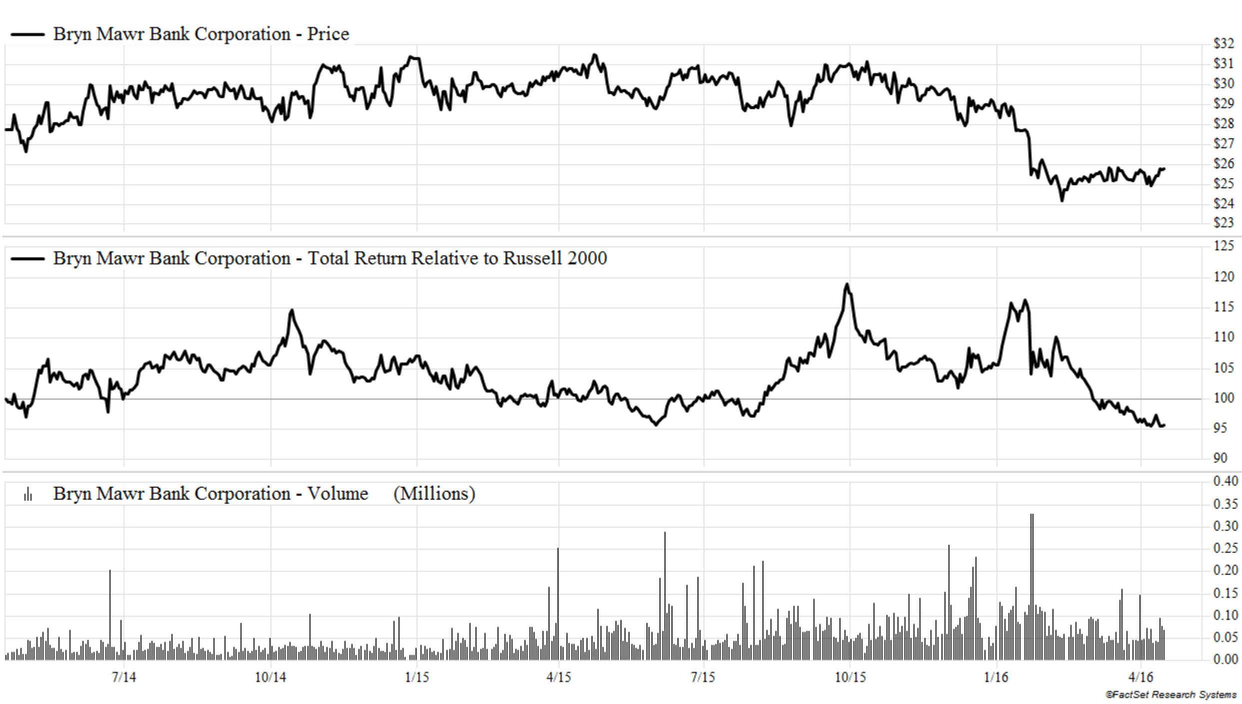
In order to calculate an intrinsic value for BMTC, we utilized an average of valuations from a Discounted Dividend Model (DDM), a peer Price-to-Earnings (P/E) model, and a Price-to-Tangible-Book (P/TBV). Assuming a dividend growth rate of 2.5% and required return of 4.97%, we calculated and intrinsic value of $32.37. A sensitivity analysis on the terminal growth rate and WACC ranged from $22.84 to $40.17. Additionally, a P/E multiple valuation was conducted using 2016 estimated EPS of $2.27, a comparables average P/E of 11x, and BMTC's 5-year historical average P/E of 18x, which resulted in a valuation of $32.92. Finally, a P/TBV multiple valuation was calculated. Using the similar blended comparables and historical average of 1.8x and 2016 estimated P/TBV of 1.7x, the multiple resulted in a valuation of $28.11. By weighting the three valuation models 60/20/20, a price target of $31.63 was reached, which yields +23% upside. BMTC pays an annual dividend of $0.78 per share, for a current yield of 3.1%.

**Risks**

- **Asset Quality Deterioration.** Asset quality deteriorated modestly during fiscal year 2015 due to the acquisition of Continental Bank. Nonperforming assets decreased on both an absolute and relative basis during the year due in part to a 29 basis point increase in the net charge-off ratio (to approximately 0.33%). Strong asset quality has been a staple of Bryn Mawr's pedigree and should return to its normal levels around 0.10% over the course of 2016.
- **Commercial Real Estate Exposure.** BMTC further differentiates itself from its peers through attributing nearly half of its loan portfolio to commercial real estate and construction lending. This is not traditional in a small, regional bank network. One contact at the Federal Reserve noted that rent prices have risen to levels unseen since 2007, indicating demand for space outpacing supply. The current period of increased construction could slow rapidly due to a multitude of factors. One of the most important factors would be a slowing of economic activity. Loan originations could decrease along with an increase in the default rate of such obligations.

**Management**

Bryn Mawr is currently led by CEO and President Francis Leto, who is 56 years old and has held this position since January 2015. His base salary is $425K, total $1.1M, and he currently holds 30K shares. Bryn Mawr's CFO is Michael Harrington. He is 52 years old and has been with BMTC since October of 2015. He was formerly the CFO of Susquehanna Bancshares. His base salary is $71K, total $317K. Harrington is not a major shareholder.




Source: Factset

**Ownership**

| | |
|---|---|
| % of Shares Held by All Insider and 5% Owners: | 5.60% ▲ |
| % of Shares Held by Institutional & Mutual Fund Owners: | 64.70% ▲ |

Source: Factset

**Top 5 Shareholders**

| Holder | Shares | % Out |
|---|---|---|
| Champlain Investment Partners LLC | 1,099,000 ▼ | 6.50 |
| BlackRock Fund Advisors | 1,007,000 ▲ | 6.00 |
| Basswood Capital Management LLC | 842,000 ▲ | 5.00 |
| Investment Counselors of Maryland LLC | 652,000 ▲ | 3.90 |
| Dimensional Fund Advisors, L.P. | 583,000 ▲ | 3.50 |

Source: Factset

**Peer Analysis**

| Name | Ticker | Market Cap (mil) | Net Income (mil) | Div. Yld. % | P/B | D/E |
|---|---|---|---|---|---|---|
| Bryn Mawr Bank Corp. | BMTC | 434 | 17 | 3.10 | 1.2 | 1.0 |
| Boston Private Financial | BPFH | 1,011 | 55 | 1.60 | 1.5 | 1.0 |
| Univest Corporation of PA | UVSP | 387 | 27 | 4.40 | 1.3 | 0.3 |
| Lake Sunapee Bank Group | LSBG | 118 | 9 | 3.80 | 1 | 1.3 |
| Arrow Financial Corporation | AROW | 351 | 25 | 3.70 | 1.6 | 0.6 |
| Peer Averages | | 467 | 29 | 3.38 | 1.4 | 0.8 |

Source: Factset

**Mercer International (MERC)**
April 22, 2016

Chengbin (Henry) Lu International Material

*Mercer International (NASDAQ: MERC) is the second-largest global producer of northern bleached softwood Kraft pulp (NBSK) in the world. With 66% of their pulp capacity associated with two mills in Rosenthal and Stendal, Germany, and the remaining 34% capacity with a mill in Celgar, British Columbia, Canada, Mercer has an annual capacity of 1.54 million tonnes. At all three mills Mercer produces high-quality NBSK pulp and sells to different paper manufacturers, such as tissue, printing and writing paper, and paper packaging. Additionally, these mills are located close to excellent fiber sources and key global end-use markets. The company derives 91.5% of its revenue from selling pulp and 8.5% from selling its by-products of renewable electricity and chemicals in 2015. Mercer International was founded on July 1, 1968 and is headquartered in Vancouver, Canada.*

| | |
|---|---|
| Price ($): (4/15/16) | 9.63 |
| Price Target ($): | 13.96 |
| 52WK H-L ($): | 5.95-15.26 |
| Market Cap (mil): | 622 |
| Float (mil): | 42.67 |
| Short Interest (%): | 0.30% |
| Avg. Daily Vol (mil): | 0.22 |
| Dividend ($): | 0.23 |
| Yield (%): | 4.59% |

| | |
|---|---|
| Beta: | 1.52 |
| WACC | 8.1% |
| M-Term Rev. Gr R | 1.0% |
| M-Term EPS Gr R | -1.1% |
| Debt/Equity: | 168.8% |
| Debt/EBITDA (ttn | 2.90 |
| ROA: | 6.0% |
| ROE: | 18.4% |
| ROIC: | 7.0% |

| FY: Dec | 2015 | 2016E | 2017E | 2018E |
|---|---|---|---|---|
| Revenue (M | 1,033.17 | 1,049.93 | 1,071.43 | 1,072.65 |
| % Growth | -12.08% | 1.62% | 2.05% | 0.11% |
| Gross Margi | 20.51% | 17.80% | 17.70% | 16.14% |
| Operating M | 16.03% | 13.46% | 13.37% | 11.72% |
| EPS (Cal) | $1.17 | $0.97 | $1.00 | $0.81 |
| FCF/Share | $1.74 | $1.53 | $1.67 | $1.48 |
| P/E (Cal) | 7.75x | 9.95x | 9.64x | 11.89x |
| EV/EBITDA | 4.96 | 6.57 | 6.47 | 7.04 |

**Recommendation**

Within the intensively competitive global pulp market, MERC's revenue has been growing at a 10-year CAGR of 4.93%, up from $638.3MM to $1033.2MM and it remains one of the major global NBSK pulp producers. Besides manufacturing NBSK pulp, MERC generates significant amounts of electricity during the pulp production process and sells this surplus to regional utilities. This by-product is considered as renewable energy and the cost of generating it is immaterial. Even though the pulp market is highly competitive and pricing power for MERC is limited, its pretax margin has been growing at a 5-year CAGR of 11.15% and they achieved 10.16% in 2015 comparing to their competitors' average of 3.0%. With a relative stable pulp market since 2013, the company has continued to generate a significant amount of free cash flow with a FCF yield of 19.22% compared to its peer group average of 4.52%. With gradually stabilizing pulp price, a profitable energy by-product and lower debt level, it is recommended that MERC be added to the AIM International Equity Fund with a target price of $13.89, representing an upside of 39.03%. The company paid a $0.23 dividend in 2015 and announced an increase in the first quarter 2016 dividend of $0.115 per share – generating a yield of nearly 5%. Additionally, a potential one-time paycheck from NAFTA of C$250MM for the discriminatory treatment from BC Hydro and the BC Utilities Commission.

**Investment Thesis**

- **Emerging market NBSK pulp demand**: From 2006 to 2015, the demand for chemical softwood pulp in emerging market experienced significant growth (about 12% annually), which accounted for 52% of the total demand in 2015. China alone for approximately 30% of global bleached softwood market pulp demand in 2015, compared to only 13% in 2006. Meanwhile, the distribution for the end users of NBSK pulp has shifted significantly as well. While demand for printing and writing end use has decreased more than 50%, demand for tissue and paper packaging has experienced a robust growth with a 10-year CAGR of 10%. For MERC, more than 50% of the end users are tissue and packaging producers and approximately 30% of them are

Chinese customer. With rising income levels and urbanization in the developing countries like China, demand for personal hygiene products such as tissue will likely continue to increase. Management expects to see that the global tissue market will grow 3-4% per year in the future. From a long-term perspective, with more demand coming from emerging market and relatively stable global supply, the pulp prices are likely to increase.

- **Profitable renewable energy sector**: In 2015, 56% of energy produced by MERC was used to run their mills, with the surplus 44% being exported and sold to regional utilities. From 2010 to 2015, Mercer's electricity sales volume increased at an overall CAGR of 11.96%. Meanwhile, with the stable and premium sales price and minimal incremental costs, this sector was quite profitable for MERC - accounted for 8.5% of total revenue - energy and chemical sales represented more than 50% of EBITDA in 2015.
- **All time low leverage level and continuing cost saving**: MERC's debt level dropped 35% from $995.4 MM in 2013 to $646.3 MM in 2015. During the same period, net debt to EBITDA ratio dropped from 7.26x to 2.29x and the interest coverage ratio rose from 0.55 to 3.07. Looking forward, the company will continue to deleverage and pay less interest expense in the future. Furthermore, the manufacturing cost will continue to decrease as increasing supply for fiber, which is the raw material for producing pulp.

**Valuation**

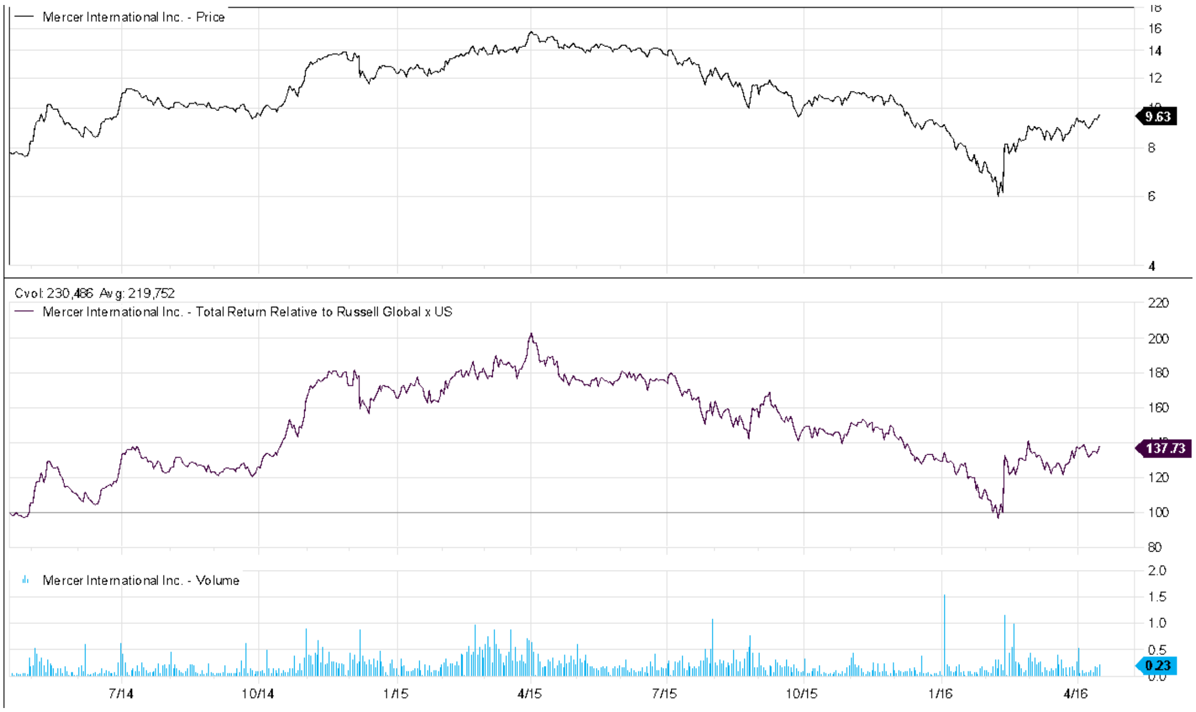
In order to reach an intrinsic value of MERC, a five year DCF model was projected. Using a terminal growth rate 2.0% and a WACC of 8.10%, an intrinsic value of $14.29 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $11.03 to $20.52. Additionally, an EV/EBITDA relative multiple was conducted using 2016 EBITDA of $212.07MM and peer comparable average multiple of 6.57x, resulting an intrinsic value of $12.97. By weighting two valuation models 70/30, a price target of $13.89 was reached, resulting in an upside of 39.03%.

**Risks**

- **Incoming softwood capacity additions**. Starting from 2018, more capacity will be added to softwood globally, which will cause notable increase in supply of softwood Kraft. Even though Mercer mentioned their expected global demand for NBSK will increase 3-4% per year, large amount of additional supply could impact the price of it.
- **Weaker-than-expected NBSK pulp price and demand**. MERC's revenue is very sensitive to the pulp price in the global market. According to Mr. David Gandossi, CEO of MERC, every $10 change of NBSK pulp price will lead to a $12 MM change in EBITDA. If the growth for demand did not keep the pace with the incoming pulp supply, the price will decrease.
- **Foreign exchange rate fluctuation.** In 2015, U.S dollar was 16% and 14% stronger against the euro and Canadian dollar compared to 2014, which led to an approximately 14% reduction in operating cost in 2015 respectively. Looking forward, possibility for U.S. dollar getting weaker is increasing.

**Management**

Jimmy S.H. Lee serves as Executive Chairman of the Boards since July 2015. Mr. Lee serves as Director since May 1985 and served as President and CEO from 1992 to 2015. David M. Gandossi serves as President, CEO and Director since July 2015. He served as Executive Vice President, CFO and Secretary from 2013 to 2015. From 2007 to 2013, Mr. Gandossi served as the chair of the British Columbia Pulp and Paper Task Force. He also co-chairs the British Columbia Bio-economy Transformation Council.




Source: FactSet

**Ownership**

| | |
|---|---|
| % of Shares Held by All Insider and 5% Owners: | 34.00% |
| % of Shares Held by Institutional & Mutual Fund Owners: | 61.37% |

Source: FactSet

**Top 5 Shareholders**

| Holder | Shares | | % Out |
|---|---|---|---|
| KELLOGG PETER R | 18,952,000 | ▲ | 29.30 |
| Gates Capital Management, Inc. | 12,169,000 | ▼ | 18.80 |
| Dimensional Fund Advisors, L.P. | 3,276,000 | ▲ | 5.10 |
| Knighthead Capital Management LLC | 3,002,000 | ▼ | 4.60 |
| LEE JIMMY S H | 2,155,000 | ▲ | 3.30 |

Source: FactSet

**Peer Analysis**

| Name | Ticker | Market Cap (mil) | Net Income (mil) | D/E | P/E | EV/ EBITDA |
|---|---|---|---|---|---|---|
| Mercer International | MERC | 622 | 75.50 | 1.68 | 8.23 | 4.96 |
| International Paper | IP | 1,765 | 50.10 | 2.4 | 19 | 6.86 |
| Canfor Pulp Products | CFX | 750 | 83.30 | 0.104 | 7.11 | 3.72 |
| Fibria Celulose ADR | FBR | 4,930 | 102.40 | 0.983 | 47.98 | 4.87 |
| Resolute Forest Products | RFP | 547 | -257.00 | 0.306 | - | 5.41 |
| Peer Averages | | 1,998 | -5.30 | 0.9 | 24.70 | 5.22 |

Source: FactSet

**Infosys Limited ADR (INFY)**
April 22, 2016

Yiqiu Zhu International Technology

*Infosys (NYSE: INFY) is a global leader in consulting, technology, outsourcing, and next-generation service. The company, along with all its subsidiaries, provides Business IT service (comprising application development and maintenance, infrastructure management, and engineer service); consulting and system integration service; products, business platform and solutions to accelerate intellectual property-led innovation; and emerging technology (including cloud computing, enterprise mobility, big data and analytics). The company's primary geographic markets are North America (61.5%), Europe (24.1%), India (2.4%) and Rest of the World (12.0%). Infosys serves clients in financial services and insurance; manufacturing; energy & utilities, communications and services; retail, consumer packaged goods and logistics; and life sciences and healthcare. The company was founded on July 2, 1981 and is headquartered in Bangalore, India.*

| | | | | FY: March | 2016 | 2017E | 2018E | 2019E |
|---|---|---|---|---|---|---|---|---|
| Price ($): (4/19/16) | 19.46 | Beta: | 1.11 | Revenue (Mil) | 9,501.00 | 10,688.63 | 11,864.37 | 13,050.81 |
| Price Target ($): | 25.49 | Cost of Equity | 9.3% | % Growth | 9.36% | 12.50% | 11.00% | 10.00% |
| 52WK H-L ($): | 15.3-20.5 | M-Term Rev. Gr Rate Est: | 11.1% | Gross Margin | 37.29% | 38.00% | 38.00% | 38.00% |
| Market Cap (mil): | 40,419 | M-Term EPS Gr Rate Est: | 13.0% | Operating Margin | 25.02% | 34.11% | 34.31% | 34.26% |
| Float (mil): | 84.01% | Debt/Equity: | 0.0% | EPS (Cal) | $0.99 | $1.11 | $1.26 | $1.43 |
| Short Interest (%): | 2.27% | Debt/EBITDA (ttm): | 0.00 | FCF/Share | $1.05 | $1.56 | $1.73 | $1.89 |
| Avg. Daily Vol (mil): | 4.89 | ROA: | 18.7% | P/E (Cal) | 20.2x | 18.0x | 15.5x | 13.8x |
| Dividend ($): | 0.45 | ROE: | 23.6% | EV/EBITDA | 11.7x | 10.0x | 8.5x | 7.5x |
| Yield (%): | 2.31% | ROIC: | 23.9% | | | | | |

**Recommendation**

As India's second largest IT services firm, INFY has extensive experience and strong expertise in the industry. The company has continuously invested in building intellectual property and new technology to help its clients improve their digital agenda. Also, with the company's Global Delivery Model, INFY is able to break projects into different components and execute these project elements in its 100 development centers worldwide. This gives INFY 24-hour execution capabilities across multiple time zones. With its innovative technology and efficient delivery model, INFY is able to build deep relationships with its clients. In terms of historical performance, INFY performed well during fiscal years 2011-2015. The company had a CAGR of 9.6%, 7.7%, and 7.7% in revenue, net profit, and EPS. In FY 2016, INFY has kept its upward momentum with a YoY growth of 9.1% in revenue, 5.2% in operating profit, and 1.9% in net profit. On the other hand, INFY is more profitable when compared to its competitors in the industry. INFY has an EBITDA margin of 27.6% in FY 2015, which is stronger than its competitors in the industry (ranging from 11.8% to 25.9%). Given the company's strong historical performance and high growth potential in the future, it is recommended that INFY, Ltd. be added to the AIM portfolio with a price target of $25.49, representing a 30.99% upside to current market value. INFY, Ltd. most recently paid a dividend of $.45, a yield of 2.31%.

**Investment Thesis**

- **An increasing demand for high quality technology outsourcing services.** According to CompTIA's 2016 outlook of Global IT industry, the IT sector is believed to be in a position to grow as much as 7% in 2017, which will likely lead to a higher demand for highly skilled technology professionals. However, most companies are reluctant to expand their internal IT departments and increase costs. As a result, they increase the spending on high quality technology outsourcing services. According to Research and Market's Global IT Outsourcing Market Report 2015-2019, the global IT outsourcing market will be growing at a CAGR of 5.84% over the period 2014-2019. And since INFY is a major outsourcing provider, the company is believed to perform better than the market.

- **Large deal wins and deal win rates remain strong.** INFY has secured 6 large deals in Q4FY16 that has a Total Contract Value (TCV) of US$757 mn taking the TCV of large deals for FY16 to US$2.8 bn compare to US$1.9 bn in FY15, which is a 47.37% increase YoY. In addition, the company also mentioned two large deals with TCV of US$470 mn expected in Q1 2017. In terms of client base growth, INFY has 9 more US$75 mn+ clients YoY, 10 more US$ 200 mn+ clients YoY, and 3 more US$ 300 mn+ clients YoY. With multiple large deals secured in Q4FY2016 and decent growth in large clients YoY, it is reasonable to believe that INFY' performance will remain strong in long term.

  **New CEO and new business strategies lead to strong annual performance and increasing large clients.** Since joining INFY in 2014, Dr. Vishal Sikka focused on improving operational efficiency, creating great learning environment for its employees, and implement a new strategy of using automation and artificial intelligence to fundamentally drive down clients' costs. As a result, INFY had a 9.1% YoY growth in revenue, and is expected to deliver a revenue CAGR of 11.5% to 13% for FY16-18. Moreover, INFY had a 12.88% YoY growth in clients with a contract value of US$50mn-300mn.

**Valuation**

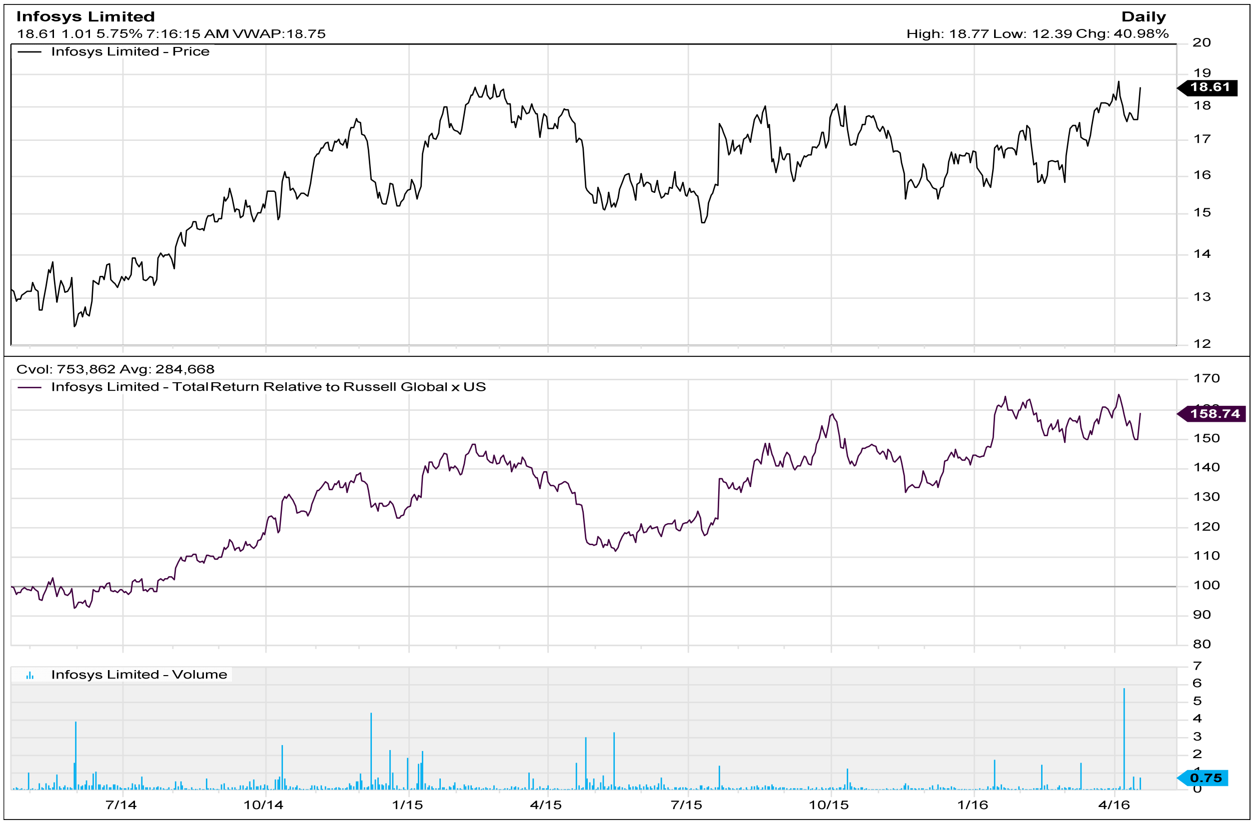
In order to reach an intrinsic value for INFY, a five year DCF model was constructed. Using a terminal growth rate of 2% and a cost of equity of 9.30%, an intrinsic value of $27.37 was reached. A sensitivity analysis on the terminal growth rate and cost of equity ranged from $23.11-$35.00. In addition, a P/E relative valuation was conducted using NTM EPS of $1.11, a relative average P/E of 18.98x. The P/E relative valuation resulted in a value of $25.93. Finally, an EV/EBITDA relative valuation was calculated. Using a relative average EV/EBITDA of 12.73x, and NTM EBITDA of $3946.39M, the EV/EBITDA relative valuation resulted in a value of $19.65. By weighting the three valuation models 60/20/20, a price target of $25.49 was reached, which yields a 30.99% upside.

**Risks**

- **An economic slowdown or other factors could affect the economic health of US and Europe market will negatively influence INFY' revenue.** According to INFY' FY 2015 report, in the fiscal years ended March 31, 2015, 2014 and 2013, 85.6%, 85.1% and 85.3% of INFY' revenues were derived from projects in North America and Europe. Therefore, an economic downturn or other negative factors of the US and Europe market will hurt INFY' revenue.
- **Currency fluctuation may have negative impact on INFY' operation.** The majority of INFY' revenue will continue to be generated in foreign currencies, including the U.S. dollar, the United Kingdom Pound Sterling, the Euro and the Australian dollar, and a significant portion of INFY' expenses will continue to be denominated in Indian rupees. Therefore, the results of INFY' operations are adversely affected as the Indian rupee appreciates against the U.S. dollar and other foreign currencies.
- **Restrictions on work VISAs.** Vast majority of INFY' employees are Indian nationals. Most of INFY' projects require a portion of the work to be completed at the client's location. The company's ability of sending IT professionals to engage in work-related activity in the United States, Europe and in other countries depends on the ability to obtain the necessary visas and work permits. Restrictions and regulation changes on work visas will negatively affect INFY' ability to provide onsite service, which could has an adverse effect on INFY' revenue.

**Management**

Mr. Narayana Murthy founded INFY along with other six co-founders in 1981. Mr. Murthy served as CEO, Chairman, and Chief Mentor until 2011 and the Chief Emeritus from 2011-2014. In 2014, Dr. Vishal Sikka joined INFY as CEO. M.D. Ranganath, who has worked in INFY for 15 years, is the CFO.




## Ownership

| | | |
|---|---|---|
| % of Shares Held by All Insider and 5% Owners: | 0.00% | |
| % of Shares Held by Institutional & Mutual Fund Owners: | 19.85% | |

Source: FactSet

## Top 5 Shareholders

| Holder | Shares | % Out |
|---|---|---|
| Comgest SA | 37,417,000 | 1.60 |
| Colonial First State Asset Management (Australia) Ltd. | 21,959,000 | 1.00 |
| Fisher Asset Management LLC | 21,906,000 | 1.00 |
| Vontobel Asset Management, Inc. | 19,157,000 | 0.80 |
| Nordea Investment Management Ab (Denmark) | 16,416,000 | 0.70 |

Source: FactSet

## Peer Analysis

| Name | Ticker | Market Cap (mil) | Net Margin | P/B | P/E | EV/ EBITDA |
|---|---|---|---|---|---|---|
| Infosys Limited Sponsored ADR | INFY | 40,419 | 27.60% | 5.21 | 16.42 | 14.13 |
| Tata Consultancy Services Limited | 532540-IN | 74,644 | 25.90% | 8.08 | 22.65 | 17.21 |
| Cognizant Tech A | CTSH | 36,590 | 20.50% | 3.94 | 22.67 | 12.95 |
| Wipro Limited | 507685-IN | 21,686 | 21.60% | 3.12 | 15.42 | 11.58 |
| Cap Gemini SA | CAP-FR | 15,620 | 11.80% | 2.08 | 12.27 | 11.22 |
| Amdocs Limited | DOX | 8,826 | 19.50% | 2.58 | 21.90 | 10.70 |
| Peer Averages | | 31,473 | 19.86% | 3.96 | 18.98 | 12.73 |

*Removed For Relative Valuation Analysis

Source: FactSet