Applied Investment Management (AIM) Program

AIM Class of 2018 Equity Fund Reports
Spring 2017

Date**:* Friday, April 28th | ***Time: *2:45 – 4:30* p.m. | ***Location: AIM Research Room 488***

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

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Ollie's Bargain Outlet Holdings, Inc. (OLLI)
April 28, 2017

Brooke Porath — Domestic Consumer Discretionary

Ollie's Bargain Outlet Holdings, Inc. (NASDAQ: OLLI) is a discount retail chain that offers a variety products, some of which include food, housewares, books, and bedding. They obtain brand name products (~70% inventory) by utilizing retail closeouts, excess inventory, and salvage merchandise. They also offer non-closeout and private label products (~30% inventory). Established in 1982, Ollie's was founded by Mark Butler on the idea that "everyone in America loves a bargain." Today they are known for their tag-line "Good Stuff Cheap" which has propelled their growth across the Eastern half of the United States. Ollie's operates 234 stores in 19 states and is headquartered in Harrisburg, PA.

Price ($): (2/6/15)	37.65
Price Target ($):	44.22
52WK H-L ($):	22.25-37.95
Market Cap (mil):	2,341
Float (%):	78.00%
Short Interest (%):	17.90%
Avg. Daily Vol (mil)	0.58
Dividend ($):	0.00
Yield (%):	0.00%

Beta:	0.85
WACC	8.0%
M-Term Rev. Gr Rate	18.1%
M-Term EPS Gr Rate	24.1%
Debt/Equity:	29.8%
Debt/EBITDA (ttm):	1.72
ROA:	6.0%
ROE:	9.9%
ROIC:	7.5%

FY: Dec	2015A	2016A	2017E	2018E
Revenue (Mil)	762.37	890.32	1,051.19	1,241.15
% Growth	19.50%	16.78%	18.07%	18.07%
Gross Margin	38.79%	39.53%	39.67%	39.81%
Operating Margin	10.45%	11.48%	11.29%	11.43%
EPS (Cal)	$0.67	$0.99	$1.17	$1.36
FCF/Share	$0.57	$0.97	$1.34	$1.60
P/E (Cal)	34.9	30.6	32.1	32.5
EV/EBITDA	16.7	17.3	17.5	14.7

Recommendation

As retailers struggle to compete against Amazon's dynamic online presence, they continue to lose traffic at their brick-and-mortar locations. The urgency to develop a compelling online experience has resulted in mounting inventory at store-fronts, decreasing revenue, and mass store closures. It is a story that permeates headlines as more retailers near the brink of bankruptcy. Enter Ollie's Bargain Outlet Holdings (OLLI) – the buyer of closeout inventory and the occupier of cheap rental space. Ollie's leverages long-standing relationships with hundreds of major manufacturers, wholesalers, distributors, brokers and retailers to purchase products at extremely discounted prices. This allows them to price products ~70% cheaper than department stores and 20-50% cheaper than mass market retailers. Furthermore, Ollie's capitalizes on decreasing retail traffic which allows them to negotiate highly attractive rental terms and contracts. With 131 stores in 2012 and 234 today, Ollie's store growth has achieved an impressive 15.7% CAGR that shows no signs of deceleration. As the company is concentrated on the East coast, management believes there is an opportunity for more than 950 stores as expansion pushes westward. By embracing a no-frills "semi-lovely" warehouse style, Ollie's is able to keep operating costs at a minimum. Along with plans to open new stores, their loyalty program "Ollie's Army" is a significant driver of comparable same store sales which has grown at an average of 3.5% per year since 2012. Ollie's Army has 7.3 million members as of January 2017 and contributed 65% of total sales for 2016. Ollie's identifies their target customer as "anyone between the ages of 25-70 with a wallet or a purse," which proved successful in 2016 as membership grew by 31.2%. They are known for their witty and humorous branding which has continued to resonate with their consumer base. Ollie's Bargain Outlet is a fast-growing retailer that is insulated from fierce online competition and is not wholly dependent on bull market consumer sentiment. It is recommended that Ollie's Bargain Outlet Holdings, Inc. be added to the AIM Equity Fund with a price target of $44.22, which represents a 17.45% upside. OLLI's does not pay a dividend.

Investment Thesis

- **Brick-and-Mortar that works.** Excess supply due to widespread store closings has enabled Ollie's to lock-in on low-cost rental contracts in locations that complement their business model. Their "semi-lovely" warehouses require minimal capital as they utilize moving tables or large pallets that make browsing inventory easy and accessible. The average initial store investment is

$1M and average first year sales are $3.8M, which represents a 55% first year return and 1.8-year payback. In April of 2014, Ollie's invested in a second distribution center which currently utilizes 699,840 square feet. To accommodate their goal of 950 stores, they plan to increase square footage to 962,280 by November of 2017.

- **Out of the way of Amazon.** Described as a "treasure hunt," Ollie's customer experience is fundamentally different than an online Amazon search bar. The brightly lit stores, humorous caricatures, and easily accessible inventory allows Ollie's customers to stumble upon items they may not have known they needed. Staggeringly low prices and a sense of urgency supported by their slogan "when it's gone, it's gone," has allowed Ollie's to excel in their current locations. Ollie's does not compete with Amazon the way many retailers are being forced to do. Thus, they are able to save money by not having to invest significant amounts of capital into growing an online presence.
- **Inventory closeout.** Retailers are struggling to stay afloat as consumers shift to the convenience of online shopping. Unable to sell-through inventory, retailers turn to discount stores such as Ollie's to offload products at drastically reduced prices. With mounting pressure to deliver and increased publicity, Ollie's has significant leverage during negotiations. Their 16-member procurement team is led by CEO and co-founder Mark Butler and has 112 years of combined industry experience. This has allowed them to price products 37% lower on average than Wal-Mart, debatably the most frequented bargain-hunter destination.

Valuation

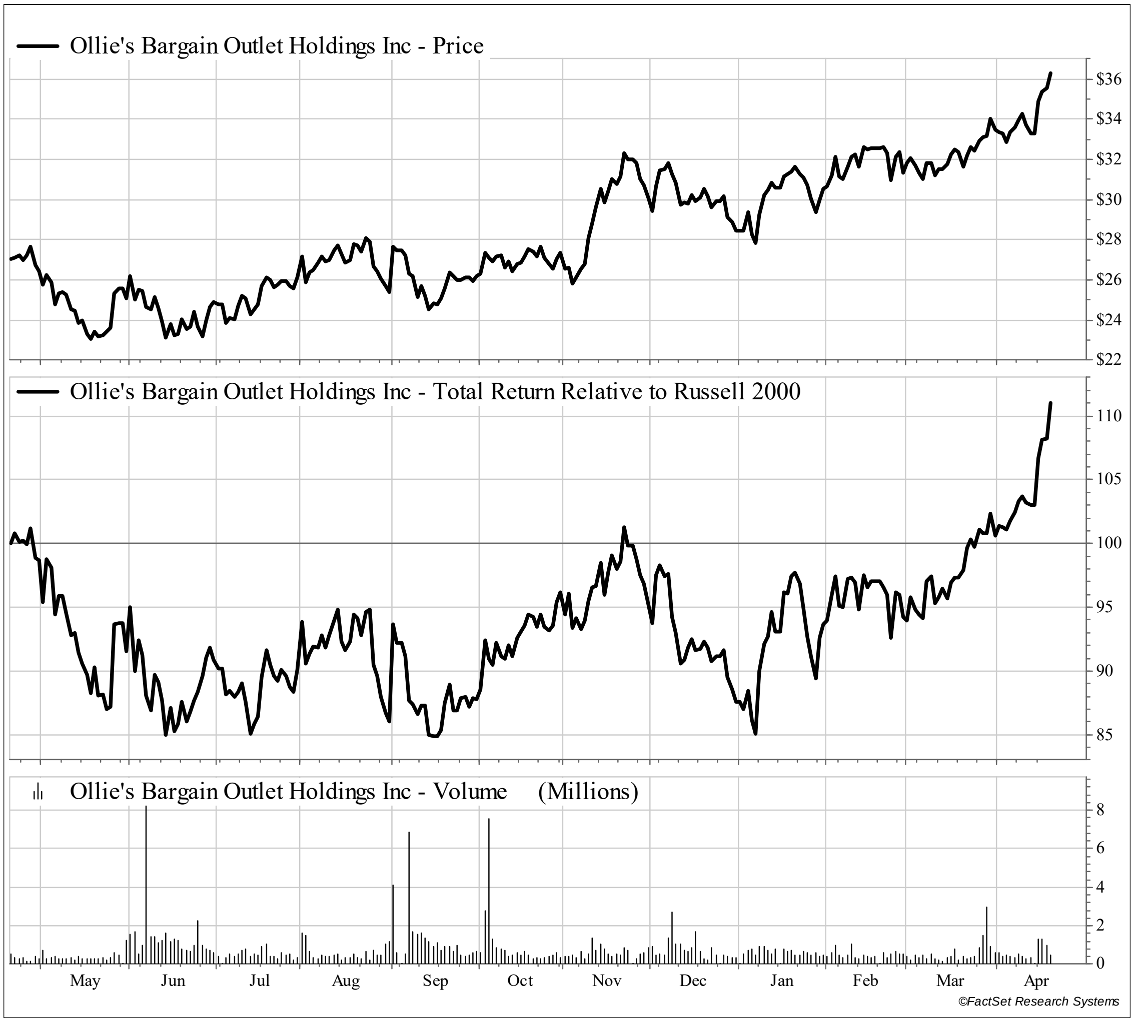
To reach an intrinsic value for OLLI, a five year DCF model was constructed. Using a terminal growth rate of 2.50% and a WACC of 8.00%, an intrinsic value of $49.13 was reached. A ± 0.5% sensitivity analysis on the terminal growth rate and WACC yielded a price range from $33.67-49.33. Additionally, a Price/Earnings multiple valuation was conducted using 2017 EPS of $1.17 and a FY1 peer comparable multiple of 27.95x, resulting in a valuation of $32.76. By weighting the DCF and P/E at 70% and 30%, a price target of $44.22 was reached, resulting in a 17.45% upside.

Risks

- **Inventory uncertainty.** Ollie's is, in part, dependent upon their ability to obtain desirable products at discounted prices. They do not have significant control over cost, availability, or functionality of brand name products. Their inability to source bargain purchases that consumers demand could adversely affect their profitability.
- **Competition on multiple fronts.** Discount retail is a highly fragmented and competitive environment. Ollie's competitors include discount, closeout, mass merchant, department, grocery, drug, convenience, hardware, variety, online and specialty stores. Their inability to remain a differentiated retailer will hinder their growth prospects.
- **Loyal Army members.** As 65% of revenue in 2016 was generated by Ollie's Army members, a significant decrease in membership could severely disrupt sales. Ollie's ability to retain loyalty members and continue competing for discount prices is essential to their success.

Management

Mark Butler has been Chief Executive Officer and President of Ollie's Bargain Outlet Holdings, Inc. since 2003 and has served as Chairman since 2005. As one of the original founders, Butler has been with Ollie's since 1982 and holds significant interest with ownership of 21.84%. John W. Swygert serves as Chief Financial Officer and Executive Vice President at Ollie's. He previously served as Chief Financial Officer at Factory 2-U Stores, Inc.



Ownership

% of Shares Held by All Insider and 5% Owners:	21.97%	▲
% of Shares Held by Institutional & Mutual Fund Owners:	>89.66%	▲

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
Butler, Mark	▲	21.84
Fidelity Management & Research Co.	▼	8.80
BlackRock Fund Advisors	▲	6.61
The Vanguard Group, Inc.	▲	6.37
Wasatch Advisors, Inc.	▲	5.08

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Net Income (mil)	D/E	P/E	EV/ EBITDA
Ollie's Bargain Outlet	OLLI	2,341	60	29.8%	30.57	17.3
Big Lots	BIG	2,220	153	16.4%	14.66	6.2
Five Below	FIVE	2,701	72	0.0%	28.92	14.5
Dollar General	DG	19,997	1,251	59.4%	16.51	9.5
Dollar Tree, Inc.	DLTR	19,067	896	117.3%	19.59	10.1
Peer Averages		10,996	593	48.3%	19.92	10.1

Source: FactSet

Royal Caribbean Cruises Ltd. (RCL)

April 28, 2017

Grant Runnoe — International Consumer Discretionary

Royal Caribbean Cruises Ltd. (NYSE: RCL) operates as a global cruise vacation company. It controls three wholly-owned brands; Royal Caribbean International, focused on families and couples, 25 ships with 78,150 berths; Celebrity Cruises, focused on upscale experiences, 12 ships, 23,170 berths; Azamara Club Cruises, focused on luxury, 2 ships 1,400 berths and two partnerships: Pullmantur and SkySea Cruises. The Company owns half of the investment in a joint venture with TUI AG, which operates the brand TUI Cruises. RCL vessels offer onboard activities, services and amenities. The firm is diverse geographically, currently reaching 535 port destinations, exploring all seven continents. Revenues are allocated to the Americas (43.4%), Europe (11.2%), and Asia/Pacific Region (14.3%). In 2016, 72% of RCL's total revenue came in the form of ticket sales, leaving 28% from aboard the cruise line. RCL was founded in 1968 and is incorporated in Liberia; however, headquartered in Miami, FL.

Price ($): (4/20/2017)	97.21	Beta:	1.23	FY: Dec	2015A	2016A	2017E	2018E
Price Target ($):	119.41	WACC	9.6%	Revenue (Mil)	8,299.74	8,496.40	8,751.29	9,626.42
52WK H-L ($):	101.11-64.95	M-Term Rev. Gr Rate Est:	5.2%	% Growth	2.8%	2.4%	3.0%	10.0%
Market Cap (mil):	20,525	M-Term EPS Gr Rate Est:	7.9%	Gross Margin (%)	41.6%	44.4%	45.3%	46.5%
Float (mil):	79.5%	Debt/Equity:	102.9%	Operating Margin	18.6%	21.0%	22.1%	25.0%
Short Interest (%):	1.5%	Debt/EBITDA (ttm):	3.04x	EPS (Cal)	$3.02	$5.93	$7.44	$9.61
Avg. Daily Vol (TH) :	1,580	ROA:	5.9%	FCF/Share	$1.51	$0.10	$9.10	$3.41
Dividend ($):	$1.92	ROE:	14.9%	P/E (Cal)	16.4x	20.1x	16.1x	12.4x
Yield (%):	2.0%	ROIC:	7.3%	EV/EBITDA (Cal)	12.5x	11.1x	10.4x	8.9x

Recommendation

According to Cruise Lines International Association (CLIA), the demand for cruise lines has increased 62% from 2005-2015. Industry passengers' have steadily increased YoY for 10 years with 2017 expectations topping 25.3 million passengers. RCL pioneers the way as the industry expands, logging record bookings in 2017. The Company has set a "Double-Double" initiative to double both ROIC and EPS from 2014-2017, of which they are on track to complete. RCL has experienced annual adjusted EPS YoY growth of 39%, 42% and 26%, while the annual ROIC has grown from 3.10% to 7.3% within 2014-2017. Ticket revenue and on-board revenue has grown at 7-Yr CAGR of 25% and 27% respectfully due to increased demand, ticket prices and advancement of onboard amenities. RCL has announced nine new ships that are expected to launch into the industry, propelling RCL forward in '18 (3), '19 (2), '20 (2), '21 (1) and '22 (1). RCL is riding the wave of an expanding market, as they are the first company to dive into China, and are leaders in innovative technologies, amenities and efficiencies aboard their ships. It is recommended that Royal Caribbean Cruises Ltd. be entered into the AIM International Equity Fund at a target price of $119.41 representing a 22.84% upside. RCL currently pays a $1.92 dividend at a yield of 2.0%.

Investment Thesis

- **Cruising into New Markets.** The Asia/Pacific region accounts for 14.3% of RCL's top line. The Chinese cruise market grew 79% annually between 2012 and 2014 to 697,000 and is projected to top 2.5 million domestic cruise passengers by 2020. Management has indicated interest in expanding the SE Asia demographic calling it "China's Caribbean." *Ovation of the Seas* was introduced in 2016 as the fifth ship to touch China in the company's fleet and is first to be based in China from the outset. RCL has increased its sales force 5x and has created the first ever brand campaign to the Chinese markets, targeting the middle-class population. RCL displayed its strategic ability to enter into new markets, Germany, in a joint venture with TUI ('08). The JV possesses five vessels with a capacity of 11,300 berths and announced three new ships to be launched in '17, '18 and '19. With the addition of the new ships, they are have announced a 6% YoY growth in summer 2017 booking sales, approaching a 25% market share in Germany.

- **Loyalty of the Baby Boomers and Gaining the Millennials.** The average age of a cruise passenger is 50 years old. According to a survey from CLIA, 92% of cruise line passengers indicate that they will book another cruise. RCL has 3 loyalty rewards programs, totaling 13.7 million members. RCL is now targeting millennials, who currently make up 7% of the market, categorized as valuing experiences and technology. RCL provides an all-in-one experience not only through multiple geographic destinations in one trip, but also on-board experiences, ranging from virtual skydiving, to miniature golf, to spas. RCL is tapping into technology introducing apps, Wi-Fi, and their WOW wrist bands (allows passengers to enter rooms and pay for goods and activities). Most recently, RCL has brought their campaigns to social media by creating an Instagram challenge.
- **Economic Moat.** The big three, *Royal Caribbean Cruises Ltd.*, *Carnival PLC* and *Norwegian Cruise Line,* hold a moat in the cruise line industry, making up ~70% of the global market share. There are high barriers to entry as one would need to acquire approximately $1.3 billion in capital to build a cruise ship with the capacity of 5000+ passengers. Start-up cost alone drive would-be competition out. This moat allows RCL to obtain economics of scale and maintain increasing margins as the company enters nine new ships (39,000 projected berths by 2022), accounting for ~38% expansion to its current fleet. Three vessels are to be added in 2018 (10,931 berths) which is comparable to 2010 (9,500 berths) when stock responding favorably, increasing 19.75%.

Valuation

In order to reach an intrinsic value for RCL, a five year DCF model was constructed. Using a terminal growth rate of 2.75%, WACC of 9.64%, an intrinsic value of $109.21 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $102.78-135.82. Additionally, a P/E multiple valuation was conducted using NTM EPS of $7.44, and a comparables weighted average P/E of 17.43x, which resulted in a valuation of $129.62. By weighting the two valuation models 50/50, a price target of $119.41 was reached, which yields a 22.84% upside. RCL pays a dividend of $1.92, yielding 2.0%.

Risks

- **The 'What If' Scenario.** One of the biggest fears customers in the cruise line industry is security and being trapped with nowhere to escape. From 1980 to 2016, 16 ships have sunk. The 'what if' scenarios play a role in holding back potential customers. To date there have been no deaths on RCL vessels, and only a small fire causing slight damages to the vessel. In order to increase their customer base, RCL must make current and future customers aware of its safety history.
- **Outside the Captains Control.** Transportation to the ports is a concern for cruise line customers. An increase in airfare price has the potential to cause an adverse effect on the demand for RCL. To mitigate this risk, RCL has introduced a package deal which includes the cost of airfare. Additionally, oil sinks 8.4% of RCL's revenue and is the company's biggest expense. To mitigate any swing in prices, which could affect financials performance, RCL hedges their position.
- **Choppy Waters Ahead.** The recent turmoil in Korea has left the cruise line industry stranded. The ban initiated in March 2017 prevents China-based cruise ships from docking in South Korea ports. RCL changed itineraries for cruises leaving from Chinese ports, removing visits to South Korean cities and replacing them with visits to Japan. Another layer of uncertainty arises for RCL as the United Kingdom exits the European Union, placing an unknown factor of regulation.

Management

Richard D. Fain has partaken in shipping industry for 38 years, holding a director position within RCL since 1979, and CEO since 1988. He earned his MBA at Wharton. Adam M. Goldstein has been with RCL since 1988, and as of 2014 serves as President and Chief Operating Officer. Jim Berra joined RCL as SVP and CMO in 2015, after 7 year of holding the CMO position at Carnival. He plays in instrumental role in RCL's social media, websites and customer marketing.

Ownership

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

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
The Vanguard Group, Inc.	15,950 ▲	7.43%
Baillie Gifford & Co.	13,770 ▼	6.41%
PRIMECAP Management Co.	10,906 ▲	5.08%
BlackRock Fund Advisors	7,397 ▲	3.44%
T Rowe Price Associates, Inc.	7,054 ▲	3.28%

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Net Income (mil)	D/E	P/E	EV/ EBITDA
Royal Caribbean Cruises	RCL-US	20,881	1,283	102.92	16.43x	11.3x
Carnival	CCL-US	44,184	2,989	40.12	14.83x	11.1x
Norwegian Cruise Line	HCLH-US	11,426	633	141.01	18.11x	13.8x
TUI ADR	TUIFY-US	8,270	470	77.28	18.33x	7.2x
Disney	DIS-US	181,511	8,990	47.42	20.49x	12.2x
Peer Averages		61,348	3,271	76.46	17.43	11.09

Source: FactSet

Universal Insurance Holdings, Inc. (UVE)

April 28, 2017

Cameron Butler | Financial Services

Universal Insurance Holdings, Inc. (UVE) is the largest personal residential homeowner's insurance company in Florida holding a 9.6% market share as of 2016. UVE is a vertically integrated holding company, who solely own two licensed insurance subsidiaries, Universal Property and Casualty Insurance Company (UPCIC) and American Platinum Property and Casualty Insurance Company (APPCIC). UVE covers all aspects of the insurance realm including underwriting, policy issuance, general administration and claims processing, and settlement. UVE currently writes homeowners insurance in 14 states, primarily Florida, the Midwest, and Southern states. UVE operates through 8,600 independent agents and generates revenues primarily through the collection of premiums. The company was founded in 1990 and is headquartered in Fort Lauderdale, FL.

Price ($): (4/25/17)	23.35	Beta:	1.14	FY: Dec	2015A	2016A	2017E	2018E
Price Target ($):	28.35	WACC	10.3%	Revenue (Mil)	546.54	685.29	773.06	908.30
52Wk H-L ($):	29-17	M-Term Rev. Gr Rate	12.0%	% Growth	48%	25.39%	12.81%	17.49%
Market Cap (mil):	803.2	M-Term EPS Gr Rate	18.2%	Pretax Income	175.02	162.88	275.88	347.94
Float:	92.8%	Total Debt/Equity	4.1%	Pretax Margin	32.0%	23.8%	35.7%	38.3%
Short Interest (%):	14.1%	ROA:	9.5%	EPS (Cal)	$2.97	$2.79	$4.84	$5.91
Avg. Daily Vol (000	197	ROE:	31.4%	P/E (Cal)	7.86	8.37	4.82	3.95
Dividend ($):	0.56	Loss Ratio	43.7%	BVPS	10.59	10.59	13.01	15.75
Yield (%):	2.40%	Combined Ratio	78.9%	P/B (Cal)	2.20	2.20	1.79	1.48

Recommendation

As of 12/31/16 UVE generated $954.6mm in direct written premiums, in which $860.6mm was earned from the Florida market and $93.9mm from other states. UVE has shown tremendous top and bottom line growth YOY for the past 15 years. Likewise, UVE's total insured value in states outside of Florida increased from 16% in 2015 to 21% or $35.5b as of 12/31/16. Over the past several years UVE has continued to grow their business both within Florida and elsewhere while focusing solely on organic growth. Expansion into other states should help diversify their revenue as well as their risk while offering customers convenient online platforms as well as Fast Track claims initiatives. UVE is vertically integrated in all aspects of the underwriting business allowing them to compress the time of claim resolution to promptly pay valid claims and control handling costs. Revenue increased from $546.5mm in 2015 to $685.3mm in 2016 and is growing at a 5-year CAGR of 20.44%. Net income and EPS have continued to grow at CAGRs of 26.8% and 30.4%, respectively. UVE has recently restructured their reinsurance program mitigating their exposure to catastrophes for 2016-2017 while offering more attractive costs and protection than the 2015-2016 plan. UVE has also received authorization from the Florida Office of Insurance Regulation to add fire and commercial residential lines of business in Florida. Based on the continued expansion and diversification, strong growth figures coupled with increased customer satisfaction through state-of-the-art technology and increased performance based management compensation, it is recommended that UVE be added to the AIM Equity Fund with a price target of $28.35 representing a 21.42% upside.

Investment Thesis

- **Steady Organic Growth.** UVE has maintained positive YOY revenue growth for over 15 years. Through their experienced management and strong independent agent network, combined with their drive to expand and diversify outside of Florida, they should continue their organic growth trends. In 2016, direct written premiums in Florida increased by $42.9 million or 5.3%. UVE plans to continue growing profitably through their 4,400 independent agents in Florida in which 1,300 have been working with UVE for over a decade. Their experienced management team has previously navigated prior active hurricane seasons in ’04, ’05 and ’16. UVE was able to reduce costs during these years mitigating the hurricane impact, and significantly beat Q1 ’17 earnings estimates which is a testament to their future success regardless of catastrophic events.

- **Increased Diversification and Decreased Risk.** Further expansion outside of Florida will diversify revenue and decrease exposure which should continue seamlessly through their network of 8,600 independent agents. Direct written premiums in states outside of Florida increased by $28.3 million, or 43% over the past year. As of 2016 UVE is now licensed to issue policies in NY, NJ, IA and WV. 2016 policies outside of Florida reached a total insured value of $35.5b.
- **Customer Convenience.** Fast Track technology coupled with Universal Direct looks very promising. Universal Direct is an online platform launched in April of 2016 which allows home owners to purchase insurance online. The service quickly expanded to 14 states in which 1,320 policies were written and $1.4mm in gross premiums were realized. New Fast Track technology has shortened claims handling and processing times as well as reducing the associated claims costs and generating positive feedback from both policyholders and independent agents. The amount of Fast Track claims closed within 7 days doubled from 4,255 in 2015 to 9,586 in 2016.

Valuation

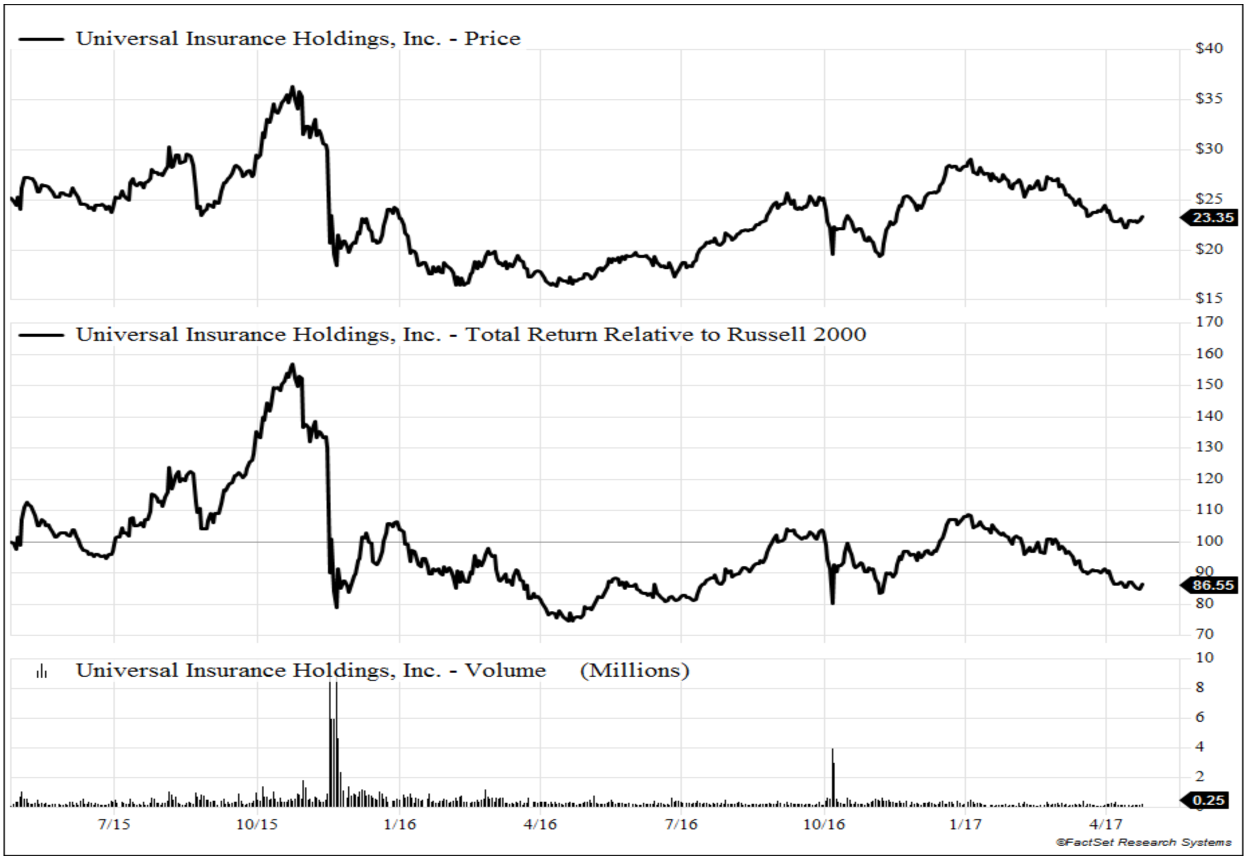
To find the intrinsic value of UVE, a dividend discount model (DDM) was used, as well as a price to earnings (P/E) and price to book (P/B) multiple. The DDM approach using a WACC of 10.3% and a terminal rate of 3.0% resulted in an intrinsic value of $28.99. The P/E and P/B multiples were derived by taking the average P/E and P/B multiples of UVE’s peer and industry as well as UVE’s FY16 LTM P/E and P/B multiples. This resulted in a predicted P/E and P/B multiple of 13.15 and 1.77 respectively. These predicted multiples were multiplied by UVE’s corresponding Dec ’16 EPS ($2.79) and BVPS ($10.59) to reach intrinsic values of $36.68 and $18.75, respectively. By weighting these multiples 50/50 an intrinsic value of $27.72 was reached. Weighing the two approaches 50/50, a final intrinsic value of $28.35 was calculated, representing 21.42% upside. UVE pays an annual dividend of $0.56 yielding 2.40%.

Risks

- **Weather Related Risk.** Given that UVE is primarily concentrated in the Southern Florida counties of Broward, Palm Beach and Miami-Dade, (89% of total insured value) they are particularly exposed to catastrophic weather related events. For example, FY16 net income decreased $7.1mm (-6.64%) primarily attributable to $51mm in gross losses resulting from Hurricane Hermine and Matthew. However, strong revenue growth and cost cutting efforts mitigated the effect on NI.
- **Counter Party Risk.** Market conditions determine the availability and cost of reinsurance, there is no guarantee that debtors will be able to pay their obligation in a market downturn. UPCIC and APPCIC have a net retention of $35mm per catastrophe event up to $2.47b as well as $808mm in coverage by third-party insurers. Further geographic diversification should help to decrease reinsurance costs in the future as their risk profile changes.
- **Underwriting Risk.** UVE’s financial success is dependent on the ability to accurately price the risks they underwrite. Underpricing risks would negatively affect their profit margins while overpricing risks could reduce the number of policies they write.

Management

Sean P. Downes has been the Chairman of the Board of Directors and the CEO since 2013 and has more than 25 years of experience in the insurance industry. He previously served as the COO of UVE from 2005-2013. Stephen J. Donaghy became the COO of the Company in 2016 and has had a variety of roles within the company including CMO, CAO, CIO, as well as EVP since 2006. In June 2016 UVE announced a $20mm share repurchase program through December 2017, so far they have repurchased 98,929 at an aggregate cost of $2.1mm. As of 4/17/2017 a proxy statement was released, noting that the CEO’s compensation will be more aligned with stock performance. In 2016, total compensation for Mr. Downes was $16.3mm compared to $25mm in 2015, a 34.7% decrease.



Ownership

% of Shares Held by All Insider and 5% Owners:	7.20%	▲
% of Shares Held by Institutional & Mutual Fund Owners:	75.18%	▲

Source: FactSet

Top 5 Shareholders

Holder	Shares (000)		% Out
The Vanguard Group, Inc.	3,955	▲	11.24
BlackRock Fund Advisors	3,514	▲	9.99
Dimensional Fund Advisors	1,622	▲	4.61
LSV Asset Management	1,556	▲	4.42
Schroder Investment Management	1,457	▲	4.14

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Net Income (mil)	Div. Yld. %	P/E	P/B	ROE
Universal Insurance Holdings	UVE	803.20	13.66	2.40	10.18	2.68	29.93
United Insurance Holdings Corp.	UIHC	326.80	-10.52	1.60	58.23*	1.36	2.37
Heritage Insurance Holdings, Inc.	HRTG	343.80	-2.86	2.10	13.75	1.26	9.48
EMC Insurance Group Inc.	EMCI	590.30	21.29	2.60	13.64	1.15	8.57
Federated National Holding Company	FNHC	223.60	-12.10	1.50	12.38	1.16	-0.09
Peer Averages		371.13	-1.05	1.95	13.26	1.23	5.08

LTM as of 12/30/2016 **Removed For Relative Valuation Analysis* Source: Factset

Tactile Systems Technology, Inc. (TCMD)
April 28, 2017

Tim Donovan — Domestic Health Care

Tactile Systems Technology, Inc. (TCMD) is a medical technology company, which develops and provides innovative in-home medical devices for the treatment of chronic vascular disease. The company focuses on advancing the standard of in-home health care to improve outpatient results and quality of life while providing a cost-effective alternative to invasive treatment. It generates all of its revenues in the United States through the sales of their Flexitouch System (87% of 2016 revenue) along with their ACTitouch and Entré Systems (13%). TCMD employs 335 people, 173 of whom a part of their growing sales force. The company was founded on January 30, 1995 and is headquartered in Minneapolis, Minnesota.

Price ($): (4/26/17)	19.20
Price Target ($):	25.06
52WK H-L ($):	10-22.9
Market Cap (mil):	322
Float (%):	52%
Short Interest (%):	8.50%
Avg. Daily Vol (mil):	0.10
Dividend ($):	0.00
Yield (%):	N/A

Beta:	0.89
WACC	9.0%
M-Term Rev. Gr Rate Est:	17.5%
M-Term EPS Gr Rate Est:	20.0%
Debt/Equity:	0.0%
Days of Sales Outstanding	62.93
ROA:	5.2%
ROE:	6.6%
ROIC:	6.6%

FY: Dec	2015	2016	2017E	2018E
Revenue (Mil)	68.85	84.54	101.89	120.71
% Growth	44.22%	22.80%	20.52%	18.47%
Gross Margin	75.73%	73.77%	73.88%	74.10%
Operating Margin	5.01%	5.05%	4.85%	4.92%
EPS (Cal)	($0.03)	$0.15	$0.13	$0.17
EV/Sales	-	3.2x	3.7x	4.2x
P/E (Cal)	-	109.4x	136.7x	116.2x
EV/EBITDA	-	46.39x	49.07X	51.52x

Recommendation

Tactile Systems Technology seeks to fill the need for a cost-effective, in-home treatment alternative to invasive surgery for Lymphedema and other venous insufficiencies. Lymphedema is a disease that causes swelling in the arms or legs caused by blockage of lymph fluid due to damage of the lymphatic system. The majority of cases in the U.S. are a result from procedures that either damage or remove parts of the lymphatic system. TCMD has three FDA approved products for the treatment of lymphedema and venous insufficiencies in patients through the use of pneumatic compression pumps (PCPs). Their main product, Flexitouch, uses a unique programmable pump that inflates to simulate the movement of lymph fluid through the blighted region towards areas of the body with a healthy lymphatic systems. With a 17% YoY increase in patients diagnosed with Lymphedema between 2014 and 2015 the addressable market for Flexitouch is approaching $4 billion. In 2016 TCMD generated revenues of $84.54MM, 22.80% YoY growth in comparison to 2015. After the IPO in August of 2016 netted $41.2MM, management announced that the funds raised would be used to further the growth of the sales and reimbursement division, which currently makes up 82.1% of employees working for the company. An increase in workforce and a growing acceptance for the in-home treatment option has resulted in 2017 sales estimates of 20,000 units to be delivered throughout the year yielding revenues of over $100MM (20.2% YoY growth). With an increase in the number of new patients with Lymphedema as well as a double-digit sales force growth, projected top line growth for TCMD is expected to be above 20% for the next 3 years. With a growing sales force moving into 2017 and a growing demand for in home treatment it is recommended that Tactile Systems Technology, Inc. be added to the AIM Small Cap portfolio at a target price of $24.09 representing a 25.48% upside. They do not currently pay a dividend.

Investment Thesis

- **Increase in population susceptible to Lymphedema.** With an aging population in the United States 21.4% of the population falls between the ages of 40 and 54 years old while only 15.8% fall within the ages of 55 to 69. As more of this 21.4% moves into their 50s and 60s there will be a possible 13MM reported cases Lymphedema throughout the United States, offering a market of $5.5 billion nationwide.

- **Untapped market potential.** Last year 820,000 patients with Lymphedema sought medical treatment. This number increased 17% YoY and represents a portion of a $4 billion addressable market. Of these 820,000 only 5% are believed to be using PCPs. With TCMD's marketing and sales strategy they are positioning themselves as a leader in this growing market segment. Even with a 20%+ growth in revenue, a growing market will allow them to obtain new market share into the future.
- **Unique business model.** Unlike many of the competitors in the medical device industry, TCMD utilizes a direct sales approach to reduce revenue dilution from intermediaries. With 125 full-time sales representatives, their in-house approach gives a margin advantage over competitors. The other unique aspect of their business is the reimbursement division, which is made up of 35 full time employees tasked to build and maintain direct relationships with over 600 payers in Tactile's network. This allows a bypass of third party durable medical equipment (DMEs) providers. These two business models, while replicable, are a system that would take competition entering the market years to recreate.

Valuation

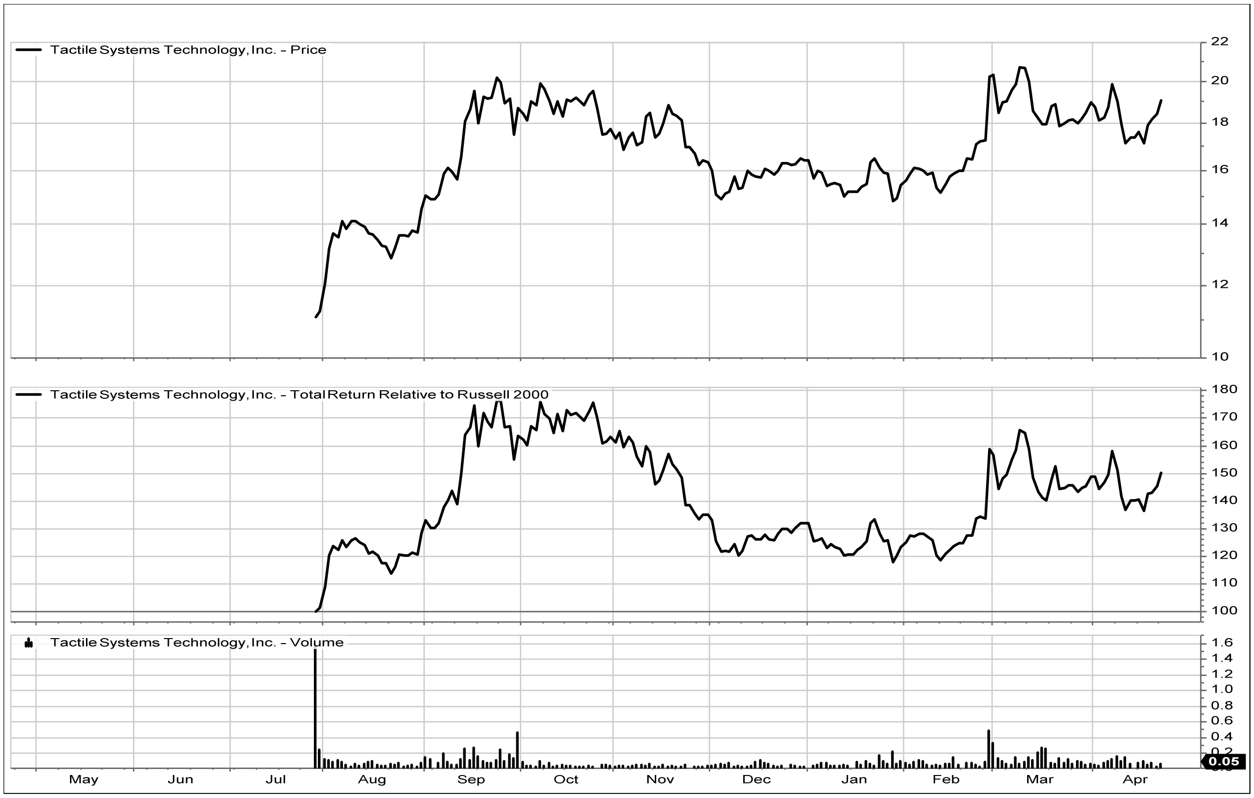
In order to reach an intrinsic value for TCMD a relative valuation model and DCF model were constructed. A group of 15 market comparables were used to form a peer average multiple for EV/EBITDA and EV/Sales. By doing so an EV/EBITDA multiple of 54.01x, and an EV/Sales multiple of 6.00x were calculated. Weighting EV/EBITDA 50%, and EV/Sales 50% an intrinsic value of $23.58 was reached. With a terminal growth rate of 2.0% and a WACC of 9.0%, a value of $25.62 was reached. By weighting the DCF 25% and the relative valuation 75% an intrinsic value of $24.09 representing a 25.48% upside.

Risks

- **Expiration of Flexitouch patent.** Flexitouch has four U.S. patents that will expire during 2017. The patents set to expire cover the wrapping pattern, fabric, and air pressure sequence. This will expose TCMD to potential competition in their market space. An increase in competitors attempting to replicate the technology in Flexitouch will reduce the likelihood of maintaining revenues from their flagship product.
- **Expiration of Medicare accreditation.** While TCMD currently has Medicare accreditation the license is set to expire in May of 2017. At that time it will be up to Medicare to extend their accreditation for another 3-year period or remove TCMD from their list of accredited suppliers. A failure to renew the licenses for the company would reduce the number of customers who would have access to the products that TCMD supplies. On top of losing Medicare customers, losing the accreditation may cause problems in obtaining new payer relationships in the future.
- **Heavy reliance on one product line.** 87% of 2016 revenues were generated from the sales of the Flexitouch system. While the company is currently expanding their ACTitouch and Entré lines, for the foreseeable future the majority of revenues will be dependent on the ability of Flexitouch to maintain market share and FDA approval.

Management

Gerald R. Mattys has served as the Chief Executive Officer and Director of Tactile Systems Technology since 2005 following a 3-year tenure at Medisyn Technologies where he served the same role. Robert J. Folkes has been with the company in a variety of roles since 2004 and has served as the Chief Operating Officer since February 2015. As Folkes transitioned out of his role as Chief Financial Officer in April 2016 his position was filled by Lynn Larson Blake, MBA, CPA, who has now been with the company for one year. Management has expressed their ongoing focus to be the growth of their reimbursement and sales divisions.



Source: FactSet

Ownership

% of Shares Held by All Insider and 5% Owners:	47.92%
% of Shares Held by Institutional & Mutual Fund Owners:	21.54%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
Galen Collaborative Capital	4,806,000	28.43
Radius Ventures LLC	2,001,000	11.84
AWM Investment Co., Inc.	550,000	3.25
Waddell & Reed Investment Management Co.	536,000	3.17
Driehaus Capital Management LLC	323,000	1.91

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Net Income (mil)	EV/EBITDA	EV/Sales	DSO
Tactile Systems Technology	TCMD	312	2.9	53.30	3.2	62.9
Inogen	INGN	1,628	20.5	44.14	7.46	48.8
NxStage Medical	NXTM	1,833	-4.8	58.10	4.88	28.6
Entellus Medical	ENTL	309	-29	--	3.95	58.4
ABIOMED	ABMD	5,444	38	59.79	12.59	38.3
Peer Averages		2,303	6	54.01	7.2	43.5

**Removed For Relative Valuation Analysis*

Source: FactSet

Suncor Energy Inc. (SU)

April 28, 2017

Armando Avila | International Energy

Suncor Energy Inc. (NYSE:SU) is an integrated oil company. Suncor is Canada's largest energy company and operates through three segments: Oil Sands (27% of revenue), Exploration & Production (E&P) (8%) and Refining & Marketing (65%). Suncor's Oil Sands segment refers to the operations in the Athabasca oil sands in Alberta, Canada. The company recovers and upgrades bitumen (a heavy, viscous form of crude oil) from mining and In Situ operations. The E&P segment consists of offshore operations in Eastern Canada, the North Sea and onshore operations in Western Canada, Libya and Syria. Through its Refining and Marketing segment the company processes oil sands into high-quality synthetic crude oil (SCO). The company distributes and markets its refined oil throughout Canada and Colorado under the Petro-Canada name. Suncor Energy was founded in 1979 and is headquartered in Calgary, Canada.

Price ($): (4/25/17)	31.10
Price Target ($):	39.43
52WK H-L ($):	25.31-33.79
Market Cap (mil):	51,903.9
Float (mil):	1,668.0
Short Interest (%):	1.7%
Avg. Daily Vol (k):	3,693
Dividend ($):	0.88
Yield (%):	3.1%

Beta:	1.55
WACC:	10.9%
M-Term Rev. Gr Rate Est:	12.0%
M-Term EBITDA Gr Rate Est:	22.0%
Debt/Equity:	39.1%
Debt/EBITDA (ttm):	2.15x
ROA:	0.52%
ROE:	0.104%
ROIC:	0.8%

FY: Dec	2015A	2016A	2017E	2018E
Revenue (mil)	22,830.00	20,233.00	22,256.18	24,926.92
% Growth	-36.75%	-11.38%	10.00%	12.00%
Gross Margin	36.43%	34.82%	37.05%	40.73%
Operating Margin	7.11%	1.03%	3.02%	7.62%
EBITDAX Margin	26.34%	28.66%	29.97%	34.21%
FCF/Share	$0.10	($0.40)	$0.70	$1.01
EPS	($1.08)	$0.20	$0.49	$1.23
EV/EBITDAX	11.05	11.03	12.7	10.0

Recommendation

Global oil companies are still adapting to the prolonged oil price drop that began in late 2014. The Organization of the Petroleum Exporting Countries (OPEC), which is comprised of major oil producers, agreed to production cuts in late 2016 in an effort to increase oil prices. Despite those efforts, production cuts have had insignificant effect on prices. As a result, companies are seeking short-cycle, low-cost projects due to decreased profitability and constrained cash. Despite what its counterparts are doing, Suncor is investing in long term projects and making strategic acquisitions for the future due to its financial strength. In 2016, Suncor reported total production volumes of 622.8 mboe/d (thousand barrels of oil equivalent), up from 577.8 mboe/d in 2015 from its Oil Sands and Exploration and Production segments. This output surge is attributed to the increased interest in the Syncrude project, a venture with two other companies located in the Athabasca oil sands, and production from offshore oilfields in the North Sea. For 2017, Suncor's target production is between 680,000 to 720,000 boe/d. Additionally, Oil Sands operating costs per barrel decreased from CA$27.85/bbl to CA$26.50bbl, the company's lowest cost since 2007. Cost decreases are attributed to the company's commitment to cost reduction initiatives due to the low price of oil. In its E&P segment, the company decreased its operating cost and increased its production, this was achieved despite a decline in benchmark crude prices. In an effort to focus on its core businesses, Suncor divested from its lubricants business in 2016, which will allow the company to focus on improving its other segments. In its Refining and Marketing segment, the company continued its strong performance with a throughput at 428,600 bbls/d, with a refinery utilization of 93% in 2016. Due to its persistence through low commodity prices, growth investments, and operational efficiency it is recommended that SU be added to the AIM International Equity Fund with a price target of $39.43 representing a 27% upside. SU pays a quarterly dividend of $.22 – a yield of 3.1%.

Investment Thesis

- **Strong Balance Sheet.** Suncor has CA$3 billion of cash on its balance sheet, giving it sufficient capital to finance the growth projects being undertaken. Suncor's cash account makes up 27.32% of the company's current assets, well above the industry's average for Canadian energy companies of 16.1% in 2015. At a time when other oil companies are struggling with debt, Suncor has proven to be prepared to withstand low commodity prices if overproduction persists into the future. Cash available to Suncor allows the company to undertake long-term projects, which major competitors are not able to do. Additionally, total debt in the company's balance sheet makes up 28.09% of total capital (Total Debt to Total Capital), which is 10% lower than Canada's energy industry average of 38.8%. The company's ability to maintain low debt levels and high cash makes it a lower-risk oil company with growth potential.

- **Syncrude and Fort Hills investments.** The Athabasca oil sands is one of the world's largest petroleum resource basins and Suncor is the leader in developing the basin. Suncor holds a 50.8% interest in Fort Hills mining project, which is recognized has one of the best undeveloped oil sands mining assets in the Athabasca region. The project is scheduled to produce first oil by end of Q4 2017 and is expected to produce for the next 50 years. Fort Hills production is anticipated to be 194,000 bbls/d, with Suncor's interest being 98,552 bbls/d. The additional production represents a 20% increase from 504,900 bbls/d production in 2016 in Oil Sands. Additionally, Suncor increased its interest in the Syncrude mining project to 53.54% from 12% through acquisitions of Canadian Oil Sands and Murphy Oils. Syncrude is expected to produce 188,000 bbls/d for Suncor when it is at full capacity in 2017. These strategic partnerships will provide long-term profitability for the company and ensure they remain a relevant competitor in oil sands.
- **Integrated Business Model.** Suncor's integrated business model allows the company to meet customer requirements more effectively and efficiently due to the company's business operations. Also, the company's integrated operations provide stable operating cash flows and minimize the impacts of the volatility of oil prices since their downstream operations minimize upstream operations losses. Oil prices have not drastically improved despite OPEC's oil production cuts, so Suncor's ability to limit the impact of low oil prices gives it an advantage over competitors worldwide that are not fully integrated.

Valuation

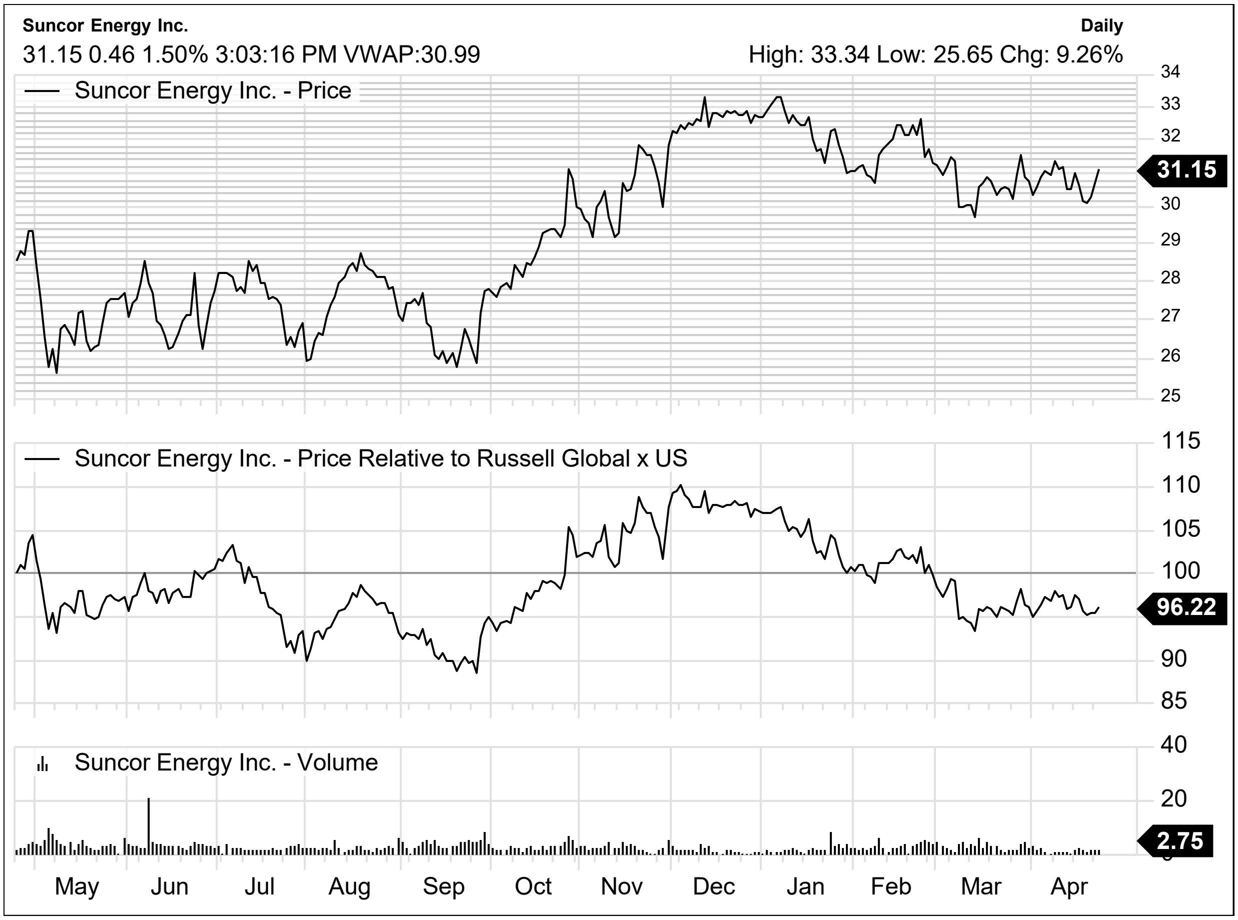
To reach an intrinsic value for SU, a net asset value (NAV) and comparable multiple approach models were employed. The NAV was constructed by adding total proved and probable reserves value per share to reach an intrinsic value of $44.65. An EV/EBITDAX multiple valuation was used with peer average of 13.07x and Suncor's EBITDAX of CA$7,683. The EV/EBITDAX approach arrived at an intrinsic value of $37.97. Additionally, an EV/1P (total proved reserves) multiple valuation was used with peer average of 18.92x and Suncor's proved reserves of 4,408 mmboe. The EV/1P multiple valuation arrived at an intrinsic value of $30.45. Weighting the NAV, EV/EBITDAX, and EV/1P 50/25/25%, respectively, an intrinsic value of $39.43 was reached, representing a 27% upside. Suncor pays a $.22 quarterly dividend.

Risks

- **Commodity Price Volatility**. OPEC's six month production cuts agreement expires in June with almost no effect on prices and uncertainty on whether prroduction will remain limited. Failure by OPEC, and other oil producing nations, to extend cuts can prolong low oil prices and ultimately halt long term projects Suncor has undertaken.
- **Government Policies**. Changes in governmental policies can increase the difficulty of abtaining necessary permits. Failure to receive permits could impact Suncor's current projects such as Syncrude and Fort Hills. Public sentiment has shifted towards lowering emmisions and the Canadian government, and governments around the world, have enacted emmision reduction poicies and envrionmental policies.

Management

Mr. Steven W. Williams has been the President, CEO and a Director of Suncor since 2012. Mr. Williams joined Suncor in 2002 as the EVP, Corporate Development and the CFO.



Source: Factset

Ownership

% of Shares Held by All Insider and 5% Owners:	18.92%
% of Shares Held by Institutional & Mutual Fund Owners:	68.88%

Source: FactSet

Top 5 Shareholders

Holder	Shares		% Out
Capital Research & Management Co.	92,076	▲	5.53
Wellington Management Co. LLP	59,514	▲	3.58
Fidelity Management and Research Co.	58,467	▲	3.51
TD Asset Management, Inc.	52,899	▼	3.18
Invesco Advisers, Inc.	51,072	▲	3.07

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (CA$ mil)	Sales (CA$ mil)	EBITDAX (CA$)	EV/EBITDAX	EV/1P
Suncor Energy	SU	67,845	26,807	7,683.0	11.05x	19.3x
Husky Energy	HSE	15,484	12,958	2,392.0	8.67x	16.94x
Imperial Oil	IMO	33,980	23,399	1,932.0	20.09x	28.09x
Canadian Natural Resources	CNQ	48,810	10,523	3,721.0	17.32x	10.8x
Cenovus Energy	CVE	11,540	12,134	1,188.0	11.94x	4.42x
Total SA	TOT	169,172	169,796	28,666.7	7.34x	116.6x*
Peer Averages		55,797	45,762	7,579.9	13.07x	18.92x

**Removed for Relative Valuation Analysis*

Source: FactSet

Ormat Technologies (ORA)
April 28, 2017

Lauryn Trautmann — Domestic Utilities

Ormat Technologies (NYSE: ORA) is a U.S. based renewable energy provider that owns and operates several geothermal power plants. It is also engaged in recovered energy generation (REG), which is a technology that consists of capturing and compressing exhaust to later be used to power turbines. Additionally, Ormat manages an Electricity segment (66% of revenues) that engineers and builds geothermal power plants. They also manage a Product segment (34%) that manufactures and sells equipment for power generation units. Both segments combined have resulted in 73 domestic patents and the company's portfolio is spread across the U.S., Africa, Guatemala, and Indonesia. The company was formed in 1965 and is headquartered in Reno, Nevada.

Price ($): (2/19/17)	$59.09
Price Target ($):	$68.35
52WK H-L ($):	41.12 - 59.63
Market Cap (mil):	2,926
Float (mil):	35.9
Short Interest (%):	1.70%
Avg. Daily Vol (mil	178,687.9
Dividend ($):	0.51
Yield (%):	0.80%

Beta:	1.19
WACC	6.9%
M-Term Rev. Gr Rate Est:	4.8%
M-Term EPS Gr Rate Est:	31.5%
Debt/Equity:	87.1%
Debt/EBITDA (ttm):	2.41
ROA:	4.0%
ROE:	9.1%
ROIC:	7.3%

FY: Dec	2016A	2017E	2018E	2019E
Revenue (mil)	663	691	719	755
% Growth	12%	4%	5%	5%
Gross Margin	41%	41%	42%	42%
Operating Margin	30%	30%	32%	32%
EPS (Cal)	1.97	2.33	2.44	2.64
FCF/Share	$1.66	($2.50)	$0.13	$0.96
P/E (Cal)	34.7	29.4	28.0	25.9
EV/EBITDA	10.98	11.4	12.0	12.6

Recommendation

Over the last couple of years, investors have watched geothermal technology develop globally and capacity currently rests at 13.8 gigawatts. Industry estimates indicate that there is an opportunity to expand that amount by 10x before reaching the full potential of global installed capacity. The geothermal energy that Ormat provides is a safe and renewable solution to provide heating and cooling with zero emissions of nitrogen oxide and substantially lower emissions of carbon dioxide. Additionally, geothermal power plants have no need to purchase coal, natural gas, or oil for fuel to generate electricity, thus eliminating the fuel price risk exposure that several companies incur. Ormat Technology is a leader in the geothermal electricity market positioned as the second largest producer with a 15% market share - they remain well positioned as the only company in both the electricity and product segments of the industry. A multi-year plan to expand geographical research, offer new technologies and expand their customer base has already begun to produce results. In 2016, eight domestic and three international prospects in Indonesia, Guadeloupe and Honduras were added, supporting long term organic growth. Investors can expect ORA to continue gathering prospects and positioning themselves in new regions because of increasing incentives and harsh requirements for utility companies to reduce emissions and provide all customers with renewable energy. Ormat is presently constructing new power plants and expanding existing plants with estimates that the plans will provide 250 MW of additional generating capacity. In anticipation of improving product backlog, paying back debt and upcoming expansions, acquisitions, and positive regulation changes, it is recommended that Ormat Technologies be added to the AIM Equity Fund with a target price of $71.05 representing the positive impact of a 17% upside. The current dividend yield is 0.80%.

Investment Thesis

- **Energy Storage.** ORA announced the closing of an acquisition in January 2017 with Viridity Energy Inc. (VEI). This combination unlocks new opportunities in the energy storage market. ORA's plans include creating a new market presence in energy storage by expanding VEI's existing ES platform of 850MW to their globally based customers. Currently, the energy storage market holds 15% of installed energy capacity in the U.S. and projections suggest that by 2021, 50% of energy capacity will be implemented. Worldwide in 2015, battery energy storage increased by $2B and has demonstrated a well-timed growing opportunity for Ormat.

- **Supportive Legislation.** Geothermal growth has been sparked by an increasing interest in renewable energy and a worldwide concern about climate change. Domestically, 37 states and the District of Columbia enacted renewable portfolio standard goals, or laws. These regulations require or provide incentives for utilities companies to sell energy from renewable sources. Globally, many locations such as Europe, Latin America, Mexico, etc. have implemented similar programs and the geothermal industry is expected to grow from 13.8 to 23 GW by 2021. Ormat is expected to be at the front end of this push for renewable energy.
- **Baseload Generation.** Power plants operated by Ormat provide all or a portion of baseload capacity where they are located; meaning they can supply power 24 hours a day without interruption. This is a competitive advantage compared to the limited capacity of other renewable options such as wind power, solar power and precipitation based hydro-power that can only generate electricity during ideal natural conditions. With this advantage, Ormat's Electricity segment is expected to increase revenues by approximately $24 to $34 million in 2017, while the Product segment is expected to increase as well by about $4 million partially due to the increased need of 24-hour service

Valuation

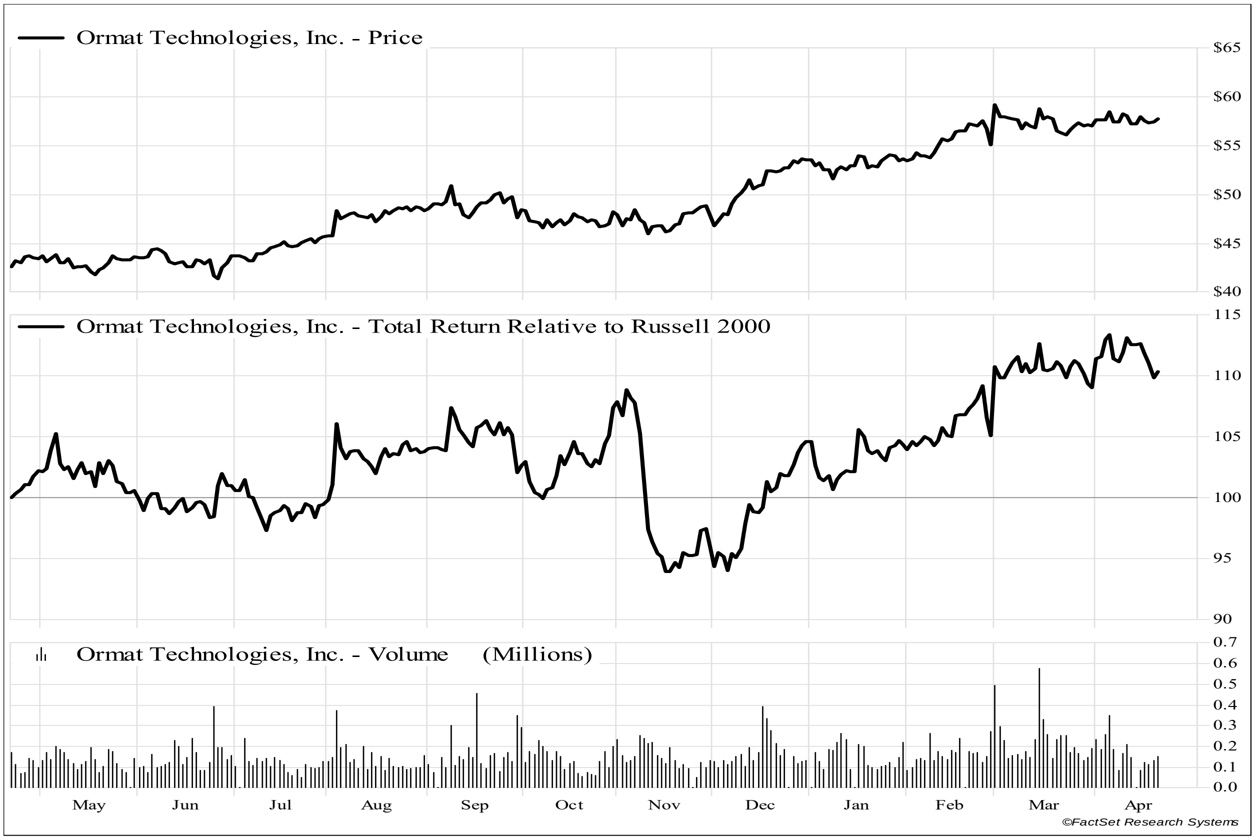
In order to reach an intrinsic value for ORA, a five year DCF model was constructed. Using a terminal growth rate of 2%, WACC of 6.85%, an intrinsic value of $74.62 was reached. A ± 1% sensitivity analysis on the terminal growth rate and WACC ranged from $63.75-92.52. An EV/EBITDA multiple valuation was conducted using 2016 EBITDA of $318.55M and peer average of 12.7x, resulting in a valuation of $68.88. Additionally, a dividend discount model yielded a price target of $65.41. By weighting the three valuation models 50/30/20, a price target of $71.05 was reached, resulting in a 17% upside. ORA pays a $0.51 annual dividend.

Risks

- **Geological Uncertainties.** Some power plants are located in active geothermal areas, which allows for favorable volatile heating and cooling abilities but are also subject to volcanic activity. Although very rare, this type of natural disaster could be extremely destructive to property and equipment. Other factors including instability of sands and clay, fluctuating ground temperatures, and cooling due to broken injection wells are all additional unpredictable natural changes that can create unexpected maintenance and repairs.
- **Outside Controlled Transmission Facilities.** To deliver power from geothermal power plants to customers, Ormat relies on transmission facilities owned and operated outside the company. If transmission is disrupted, Ormat will be unable to sell power and will be forced to increase costs, forego revenue or both. New projects may also be confined by a limited number of reliable transmission companies located near potential geothermal sites.
- **Obtaining Financing.** Foreign and domestic laws, regulations, credit markets and economic conditions have the potential to create struggles to obtain financing. To expand operations, Ormat often uses leveraged financing structures with non-recourse or limited recourse debt obligations. Company growth depends on future financing and without this the company may have to issue additional debt or finance using recourse to implement new product, plant, or acquisition plans.

Management

Isaac Angel has served as Ormat's President and CEO since April 2014. Mr. Angel has gained top management experience with his previous position as President and CEO of Lipman Electronic Engineering Ltd. Ormat's Chief Financial Officer Doron Bachar began his role in April 2013 and is experienced globally as a certified public accountant in Israel.



Source: FactSet

Ownership

% of Shares Held by All Insider & Owners:	27.82%
% of Shares Held by Institutional & Mutual Fund Owners:	62.51%

Source: FactSet

Top 5 Shareholders

Holder	Shares		% Out
Migdal Makefet Pension & Provident Funds Ltd.	5,237,000	▼	10.54%
The Vanguard Group, Inc.	3,046,000	▲	6.13%
Blackrock Fund Advisors	2,176,000	▲	4.38%
Clal Gemel Ltd.	2,006,000	—	4.04%
Migdal Insurance Co. Ltd.	1,575,000	▼	3.17%

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	Debt/Equity	Div. Yld.	EV/ EBITDA
Ormat Technologies	ORA	2,926	663	87.1%	0.8%	11.0
Calpine	CPN	3,639	6,583	373%	0.0%	16.8
NRG Energy Inc.	NRG	5,396	13,117	942.0%	0.7%	7.8
Covanta Holding Corp.	CVA	1,961	1,699	561.8%	6.7%	13.5
US Geothermal*	HTM	77,963	31,482	103.3%	0.0%	12.4
Peer Averages		2,749	5,350	626%	2%	12.7

**Averages calculated without U.S. Geothermal*

Source: FactSet

ACI Worldwide, Inc. (ACIW)
April 28, 2017
Alex Czachor — Domestic Technology

ACI Worldwide, Inc. (NASDAQ: ACIW) engages in the development, marketing and installation of software products and services in relation with the electronic mode of payments. ACIW operates within one business segment and markets their payment technologies under the Universal Payments (UP) brand name. Within the payments ecosystem, ACIW offers a wide array of solutions for the following platforms: retail payments, transaction banking, ecommerce payments, payment risk management, and bill payment. ACIW's ability to generate revenue can be broken into four categories: Hosting (41% of 2016 revenues), Licensing (27%), Maintenance (23%), and Services (9%). Its products and services are primarily used by financial institutions, retailers, and e-payment processors with revenues generated in over 80 countries including regions such as North and South America (64.1%), Europe (20.3%), Asia (9.8%), as well as Africa and the Middle East (5.9%). ACI Worldwide began trading publicly in 1995 and is headquartered in Naples, Florida.

Price ($): (4/25/17)	21.61
Price Target ($):	26.78
52WK H-L ($):	22.95-15.11
Market Cap (mil):	2,522
Float:	97.8%
Short Interest (%):	7.4%
Avg. Daily Vol (000)	519,508.2
Dividend ($):	0.00
Yield (%):	0.00%

Beta:	1.20
WACC	6.4%
M-Term Rev. Gr Rate Est:	7.0%
M-Term EPS Gr Rate Est:	4.5%
Debt/Equity:	99.9%
Debt/EBITDA (ttm):	4.24x
ROA:	6.7%
ROE:	18.4%
ROIC:	8.9%

FY: Dec	2015A	2016A	2017E	2018E
Revenue (Mil)	1,046.00	1,005.70	1,045.93	1,092.99
% Growth	1.16%	-3.85%	4.00%	4.50%
Gross Margin	56.23%	57.15%	56.93%	57.67%
Operating Margin	34.46%	39.44%	39.80%	40.31%
EPS (Cal)	$0.80	$0.41	$0.44	$0.46
FCF/Share	$1.55	$0.84	$1.17	$0.88
P/E	26.80x	44.30x	50.20x	35.10x
EV/EBITDA	13.00x	11.80x	12.50x	11.30x

Recommendation

The electronic payment sub-industry has continued to show strong growth through 2016 as traditional check and cash transactions become more obsolete. In an industry that is continuing to grow, ACIW is well positioned to benefit. According to industry analysts, electronic payment volume is forecasted to grow from $481 billion in 2016 to $625 billion in the US in 2020 representing a 6.7% annual growth rate. Through ACIW's UP products the company generates its revenues from both on premise contracts including licensing, maintenance and services (59% of 2016 revenue) and cloud-based subscription (SaaS) contracts (41%). Unlike on premise licensing contracts, which recognize revenues up-front, Software as a Service (SaaS) contracts recognize revenues over the time they are earned. Due to the nature of ACIW's process of generating revenue through contracts, it is important to look at deferred revenue trends to better understand the company's growth prospects. For FY16, ACIW experienced strong growth in deferred revenues (18.5% YoY), which can be attributed to multiple new deals and strong bookings growth of 16% YoY. As ACIW continues its expansion into SaaS (forecasted at 60% of revenues in 2018) ACIW will benefit through more stable revenue growth as well as create a more transparent outlook on future revenue streams. In addition, ACIW continues to show strong improvements in organic revenue growth which grew at a stable rate of 3% and 4% in 2015 and 2016, respectively. Looking forward management believes 2017 revenues will grow organically between 3% and 5%, and will continue to accelerate into higher single digits (between 7% and 9% through 2021). In the past three years, ACIW has also participated in inorganic growth with two acquisitions in 2014 and 2015 as well as a divesture in 2016. With strong historical and forecasted FCF ACIW has the capability to engage in future M&A activity, but with management's focus primarily on growing organically it is not likely in the near future. Due to strong growth estimates within the electronic payment industry, ACIW's commitment to transition into SaaS contracts, and management's strong organic revenue growth guidance, it is recommended that ACI Worldwide be added to the AIM equity fund with a price target of $26.78, representing a 23.92% upside.

Investment Thesis

- **New Deals Drive Bookings Growth.** ACIW has benefited from an increase in demand within all of their UP solution segments. In Q4 2016 the company delivered new bookings growth of 6% and total bookings for 2016 increased at 16%. This growth YoY was primarily driven by a 19% increase in SaaS bookings, which included three new UP retail payment deals announced in Q4 as well as a renewal with a current customer for $80 million over 5 years (ACIW's largest deal in UP). Moving forward, ACIW's UP brand is well positioned within an advancing sub-industry to continue its bookings growth. According to industry analysts the world packaged software sub-industry is forecasted to grow at a 9.17% CAGR through 2018.
- **Cloud Based Delivery Growth (SaaS).** ACIW is currently in the process of shifting from on premise software (installed and runs on premise hardware) to cloud solutions to deploy their software. Management expects within the coming years that approximately half of revenues will be generated through cloud delivery. Currently on premise and cloud account for 60% and 40%, respectively. This transition to cloud based delivery will be beneficial for ACIW as it has a faster implementation process and will result in more stable and higher margins as well as a more predictable revenue stream moving forward. Over the next five years, cloud based transactions are expected to grow at significantly high rates. More specifically, ACIW's retail customers cloud transactions are forecasted to grow at a CAGR of 27% in ecommerce and 17% for in-store retailers through 2021.
- **Mobile Banking Growing in Demand.** As technology continues to advance consumers are demanding more capabilities and functionality within their mobile devices. A recent survey conducted by Javelin Strategy & Research found that in the US about 50% of adults use their mobile devices for mobile banking. This number is expected to grow to 81% in 2020. Through ACIW's UP Transaction Banking product segment, which offers software solutions for digital banking, ACIW is well positioned to reap the benefits of this growing consumer trend.

Valuation

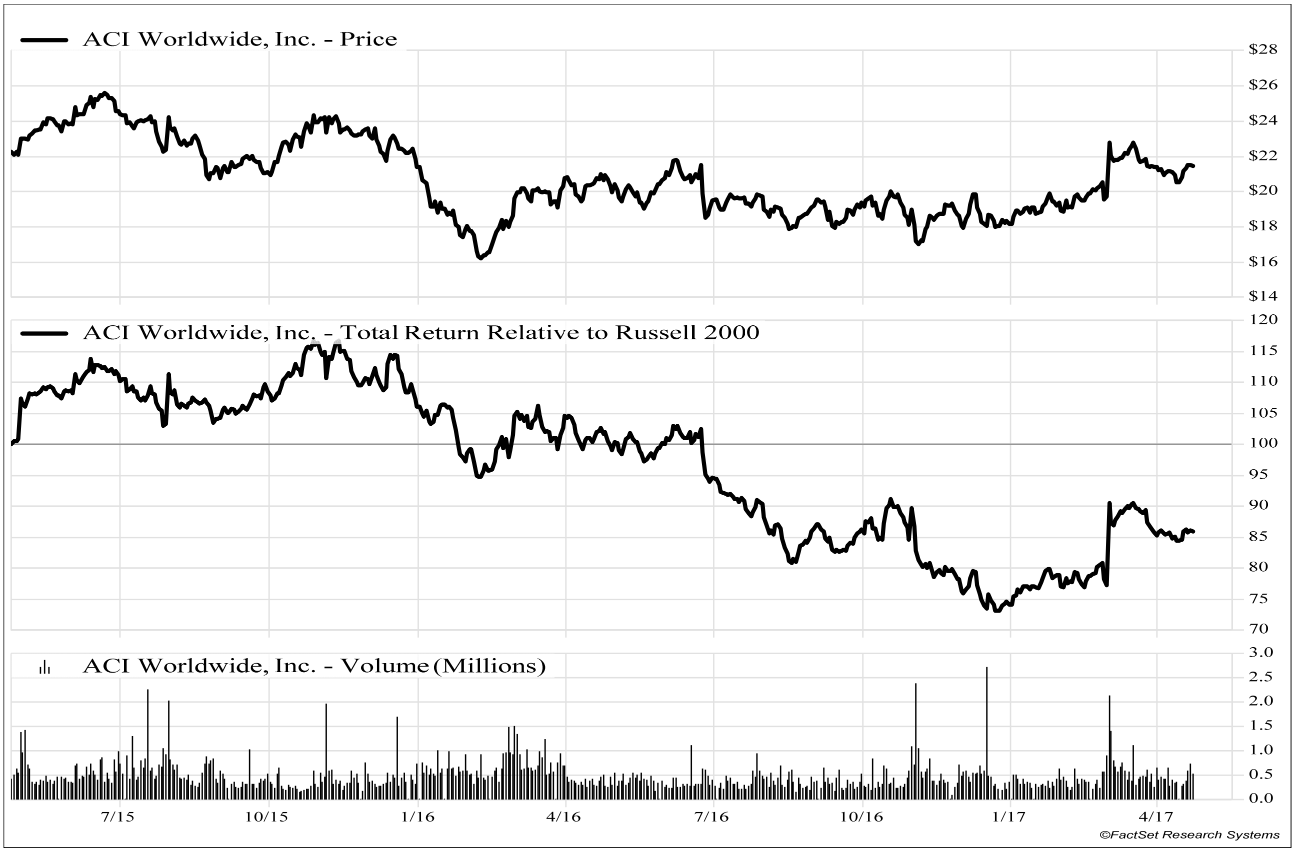
To reach an intrinsic value for ACIW, a ten year DCF model was constructed. Using a 2.5% terminal growth rate and a 6.38% WACC, an intrinsic value of $22.63 was reached. A sensitivity analysis on the terminal growth rate (2.3% to 2.7%) and a discount rate (5.98% to 6.78%) ranged from $21.57 and $27.47. Additionally, an EV/EBITDA multiple valuation was conducted using FY1 EBITDA of $245.6m and a peer comparable multiple of 12.06x, to value ACIW at $30.92. By weighting the two valuation models 50/50, a price target of $26.78 was reached, resulting in a 23.92% upside.

Risks

- **Fluctuating Quarterly Results.** Due to the nature of ACIW's business and their cyclical customer trends, ACIW may face significant fluctuations in quarterly results. Historically, ACIW has seen strongest revenues and operating results in Q3 and Q4 and experienced lower revenues and even negative operating results in Q1 and Q2. This volatility has led to lower consensus estimates for the beginning of the year.
- **Consolidation within the Banking Industry.** Over the past ten years the number of banks in the U.S. has been decreasing, which can be primarily attributed to consistent M&A activity within the industry. This trend may adversely affect ACIW's business and potentially impact the number of customers they serve.

Management

Philip Heasley has served as CEO and President of ACIW since March of 2005. Mr. Heasley joined ACIW from Paypower, LLC and has more than 30 years of experience within the payment systems industry. Scott Behrens joined ACIW in 2007 and is currently the Senior Executive Vice President and CFO. Mr. Behrens has worked in multiple executive roles with companies during his time with SITEL Corp. and Deloitte.



Source: Bloomberg

Ownership

% of Shares Held by All Insider and 5% Owners:	2.25% ▲
% of Shares Held by Institutional & Mutual Fund Owners:	>90% ▲

Source: FactSet

Top 5 Shareholders

Holder	Shares (000)	% Out
Waddell & Reed Investment Management Co.	14,482 ▼	12.35
Brown Capital Management LLC	13,769 ▲	11.74
BlackRock Fund Advisors	10,639 ▲	9.07
The Vanguard Group, Inc.	9,189 ▲	7.83
Vulcan Value Partners LLC	9,155 ▲	7.81

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Net Income (mil)	EBITDA FY1 (mil)	EV/ EBITDA FY1	ROE
ACI Worldwide	ACIW	2,501.8	129.5	245.6	12.52x	18.4%
VeriFone Systems	PAY	1,942.1	49.4	288.2	9.10x	-6.1%
Total System Services	TSS	9,813.2	318.1	1,152.3	10.56x	16.1%
Worldpay Group	WPG	7,714.5	177.4	653.1	14.09x	17.5%
Jack Henry & Associates, Inc.	JKHY	7,423.8	259.2	504.4	14.50x	27.5%
Peer Averages		6,723.4	176.3	649.5	12.06x	8.9%

Source: FactSet

Jazz Pharmaceuticals Plc (JAZZ)
April 28, 2017

Jacob Schwister — International Healthcare

Jazz Pharmaceuticals Plc (NASDAQ: JAZZ) is a pure-play international biopharmaceutical company that focuses on identifying, developing, and commercializing pharmaceutical products. Their portfolio includes narcolepsy, oncology, pain, and psychiatry products. Their main product, Xyrem, is the only FDA approved drug that treats both excessive daytime sleepiness (EDS) and cataplexy in narcolepsy patients. They have a strong portfolio of product candidates ranging from early-stage drug developments to new drug applications (NDA) waiting for FDA approval in order to be sold and marketed. JAZZ completed an acquisition of Celator Pharmaceuticals in 2016 and acquired rights to develop and commercialize Vyxeos, which was recently submitted as an NDA. JAZZ was founded in 2003 in Dublin, Ireland.

Price ($): (4/25/17)	154.90
Price Target ($):	194.95
52WK H-L ($):	160-95
Market Cap (mil):	9,254
Float (mil):	59.95
Short Interest (%):	2.30%
Avg. Daily Vol (mil):	0.55
Dividend ($):	0.00
Yield (%):	0.00%

Beta:	1.28
WACC	9.3%
M-Term Rev. Gr Rate Est:	12.9%
M-Term EPS Gr Rate Est:	8.0%
Debt/Equity:	108.1%
Debt/EBITDA (ttm):	2.17
ROA:	9.7%
ROE:	22.8%
ROIC:	12.0%

FY: Dec	2015	2016	2017E	2018E
Revenue (Mil)	1,324.80	1,487.97	1,670.25	1,899.24
% Growth	12.95%	12.32%	12.25%	13.71%
Gross Margin - Adj.	92.57%	93.23%	93.84%	94.48%
Operating Margin - Adj.	58.44%	56.18%	56.22%	56.64%
EPS - Adj.	$9.45	$10.14	$11.03	$12.69
EPS	$5.23	$6.41	$7.43	$8.96
P/S	6.69x	4.53x	5.54x	5.01x
EV/EBIT	13.6x	10.97x	11.01x	8.94x

Recommendation

In the competitive and rapidly changing international pharmaceutical industry, JAZZ has grown at a 5-year sales CAGR of 40.4%. JAZZ's focus on boosting existing product revenues and rigorously testing, developing, and acquiring new products in the pipeline sets the company up well for the future. Xyrem, Jazz's flagship drug, accounts for 75% of the company's revenues. JAZZ has relied on Xyrem's revenue growth since it was approved in 2002. The company has built a strong product pipeline of drugs to diversify their portfolio and rely less on Xyrem moving forward. JZP-110 and Vyxeos are two pipeline drugs with the potential to become key revenue drivers if approved. Both drugs are entering promising markets and could see sales eventually reaching $500M+. Other drugs including Erwinaze and Defitelio had 2016 revenues of $201M and $109M respectively. These drugs remain competitive and provide diversity for JAZZ. The company uses a specialized sales force of 150 trained and experienced representatives to promote Xyrem and 28 representatives to promote the hematology and oncology field drugs. These employees continue to have a large impact on the commercialization of the drug development process. The company is exposed to a variety of critical conditions but has continued to focus on the sleep space, in which they are experts. With the recent acquisition of Celator Pharmaceuticals in 2016, JAZZ is becoming a larger player in the pharmaceutical field through their product growth along with M&A. Despite generic Xyrem drug competition looming in 2023, JAZZ has setup its product portfolio well and has promising potential to cover any revenue decreases attributed to generics. Due to a robust product pipeline, an increased focus on product diversification, and the strong presence of Xyrem in the narcolepsy market, it is recommended that Jazz Pharmaceuticals Plc be added to the AIM International Equity Fund with a target price of $194.95, representing 25.85% upside. JAZZ does not pay dividends.

Investment Thesis

- **Robust Product Pipeline.** In the sleep therapeutic area, JAZZ has a number of current clinical trials taking place. JAZZ is in phase 3 clinical trials of JZP-110, which is a treatment for excessive sleepiness in patients with obstructive sleep apnea (OSA). If JZP-110 is approved by the FDA, it will begin gaining market share in a market with revenues well over $1B. JZP-110 is also in a phase 2 clinical trial of Parkinson's disease patients experiencing excessive sleepiness.

JAZZ is in the clinical trial process of two low-sodium versions of Xyrem. These drugs are protected by patents until 2033 and would provide JAZZ with a competitive edge over a generic high sodium version. JAZZ has been working alongside the FDA in a phase 3 clinical trial of Xyrem in children and adolescents between the ages of seven and 17. Information about Xyrem use in children and adolescents is very limited. It is estimated that more than 50% of narcolepsy patients experience symptoms before the age of 18.

- **Product Diversification Potential.** In the hematology and oncology therapeutic areas, the acquisition of Celator Pharmaceuticals provided development and commercialization rights to Vyxeos. The NDA for Vyxeos was submitted in early April 2017. It has a high chance of being passed in the second half of 2017 due to the drug being considered an "FDA Breakthrough Therapy", which speeds up the process because it is intended to treat a serious or life-threatening disease. Vyxeos is a treatment for high-risk acute myeloid leukemia (AML). In the US, it is estimated that there will be about 21,000 new cases of AML in 2017. The passing of Vyxeos would provide a substantial product diversification benefit for JAZZ in the upcoming years. If successfully integrated, Vyxeos could capture up to $500M of the market in about 10 years.
- **Xyrem Outlook.** Xyrem accounts for 75% of JAZZ's revenue. The drug has seen revenue growth of 22.6% from $779M in 2014 to $955M in 2015. Recently, revenues grew 16% in 2016 to $1.11B. Xyrem is the only FDA drug approved to treat both cataplexy and excessive daytime sleepiness (EDS) in narcolepsy patients. Cataplexy is the sudden loss of muscle strength. Narcolepsy is estimated to affect as many as 200,000 Americans, but only about 50,000 are diagnosed. It is reported that 100% of patients have EDS, and it is estimated that 70% of patients (35,000) experience cataplexy symptoms. Xyrem patients totaled 12,900 at the end of 2016. The company believes that there are significantly more narcolepsy patients with cataplexy and/or EDS who might benefit from Xyrem. JAZZ is continuing to market and implement strategies to reach narcolepsy prescribers and provide education and support services for patients and physicians.

Valuation

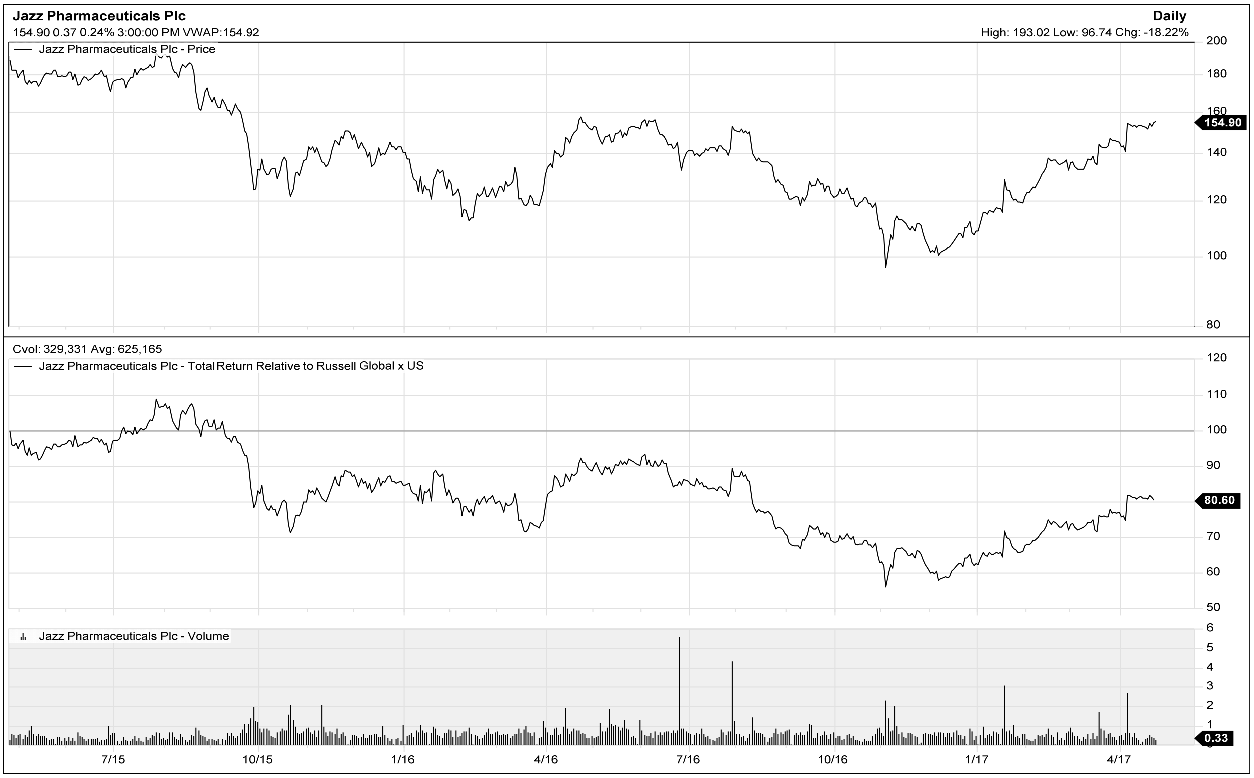
In order to reach an intrinsic value for JAZZ, a six-year DCF model was constructed. Using a terminal growth rate of 1.5%, a WACC of 9.34%, an intrinsic value of $190.74 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $168.29-219.37. Additionally, a P/E multiple valuation was conducted using forecasted 2017 adjusted EPS of $11.03 and peer group NTM P/E average of 18.57x, which resulted in a valuation of $204.77. By weighting the two valuation models 70/30, a price target of $194.95 was reached, which yields a 25.85% upside. JAZZ does not pay dividends.

Risks

- **Generic Xyrem Timeline and Competition.** Seven companies have sent JAZZ a notice that they filed an Abbreviated New Drug Application (ANDA), which is a bid to market a generic form of Xyrem. Despite JAZZ's patents for the Xyrem drug, the first case was settled in early April with Hikma Pharmaceuticals. Hikma will be able to market a generic form of Xyrem starting January 1, 2023. This could have a big impact on JAZZ's top and bottom-line starting in 2023. There is also a risk that the generic form can be marketed even earlier depending on the performance.
- **Pipeline Products Not Passing FDA Approval.** Any failure or delay in product approval could have a negative impact on anticipated revenues. If a product does not get approved, the company will see significant losses in terms of R&D expenses.
- **U.S Healthcare Reform.** At some point, healthcare reform is likely under the Trump Administration. Depending on the reform timing and changes, JAZZ and the pharmaceutical industry could experience significant business model effects.

Management

Bruce C. Cozadd currently serves as the Chairman and CEO. He co-founded Jazz Pharmaceuticals, Inc. in 2003 and previously served as EVP and COO at ALZA Corporation. Matthew P. Young serves as the CFO and EVP and previously held positions as a managing director.



Source: FactSet

Ownership

% of Shares Held by All Insider and 5% Owners:	35.68%
% of Shares Held by Institutional & Mutual Fund Owners:	89.14%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
Putnam Investment Management LLC	7,668,086 ▲	12.84
Fidelity Management & Research Co.	7,389,585 ▼	12.37
The Vanguard Group, Inc.	4,371,250 ▲	7.32
BlackRock Fund Advisors	2,217,300 ▲	3.71
Renaissance Technologies LLC	1,560,300 ▲	2.61

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Net Income (mil)	D/E	P/E (NTM)	EV/ EBITDA
Jazz Pharmaceuticals	JAZZ-US	9,254	397	1.08	13.16	14.66
Eli Lilly	LLY-US	89,592	2,738	0.74	19.32	17.50
Hikma Pharmaceuticals	HIK-GB	5,863	155	0.36	12.87	14.54
Pfizer	PFE-US	201,045	7,198	0.71	17.42	11.26
Ipsen ADR	IPSEY-US	9,069	249	0.25	24.65	26.75
	Peer Averages	76,392	2,585	0.51	18.57	17.51

Source: Factset