



Applied Investment Management (AIM) Program

AIM Class of 2018 Equity Fund Reports Spring 2017

Date: Friday, May 12th | *Time:* 11:30 – 12:00 p.m. | *Location:* AIM Research Room 488

Student Presenter	Company Name	Ticker	Sector	Page
Joe Flynn	Lazard Ltd.	LAZ	Financial Services	2
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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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Lazard (LAZ)
May 12, 2017

Joe Flynn

Financial Services

Lazard Ltd. (NYSE: LAZ) is an independent financial advisory and asset management company. The firm operates through two segments: Financial Advisory (56% of revenue) and Asset Management (45%). LAZ's Financial Advisory segment offers corporate, partnership, institutional, government, sovereign and individual clients across the globe a wide array of services regarding mergers and acquisitions (M&A) and other strategic matters, restructurings, capital structure, capital raising, and various other financial matters. The Asset Management segment offers a broad range of global investment solutions and management services in equity and fixed income strategies, alternative investments and private equity funds. The company currently operate from 42 cities in key financial centers across 27 countries throughout North America, Europe, Asia, Australia, the Middle East, and Central and South America. LAZ was founded in 1848 and is headquartered in Hamilton, Bermuda.

Price (\$):	\$ 44.50	Beta:	1.5	FYE:	2015A	2016A	2017E	2018E
Price Target (\$):	\$ 54.80	WACC:	10.90%	Revenue (mil):	2,354	2,333	2,569	2,704
52Wk H-L (\$):	\$26.21 - 47.09	M-Term Rev Gr Rate:	4.82%	Growth %:	2.3%	-0.9%	10.1%	5.2%
Market Cap (\$mil):	5,671	M-Term EPS Gr Rate:	8.98%	Net Dividend Yield	5.28%	6.04%	6.86%	7.34%
Float (%):	97.6	Financial Leverage Ratio	3.25	Pretax Margin	-0.7%	22.2%	23.5%	24.0%
Short Interest (%):	1.2	ROE (%)	30.41	EPS	\$ 7.40	\$ 2.92	\$ 3.39	\$ 3.71
30D Avg Vol (mil):	1.1	ROA (%)	8.57	P/E	6.0x	13.2x	13.1x	12.0x
Dividend Yield (%):	6.04%	ROIC (%)	16.32	BVPS	\$ 10.46	\$ 10.12	\$ 10.22	\$ 10.90

Recommendation

After finishing 2016 on a solid note, LAZ has been able to carry this momentum forward into 2017. LAZ reported 1Q17 EPS of \$0.83 ahead of consensus \$0.79. The original drivers have just begun to run their course and place LAZ in a stronger competitive position. The Financial Advisory segment's operating revenue increased 26% YoY in the first quarter, reflecting increased M&A completions and substantial restructuring growth. The restructuring business continues to capitalize on a high activity level in the US energy sector which resulted in increased revenue by 105%. The Asset Management segment also had a strong quarter increasing average AUM by 12% and operating revenue by 16%. Management's continued focus of cost discipline will help to improved margins. The 1Q awarded compensation ratio came in at 56.5%, and is at the low end of management's range of 55-59%. This ratio is expected to remain at similar levels in the near to midterm resulting in a projected 2018 operating margin of 24%. LAZ increased its quarterly dividend by 8% and also initiated share repurchases of \$106M during the quarter. M&A announcements were below expectations and uncertainties around the European elections adversely affected LAZ's stock price following earnings. Asset Management (45% of total revenue) produced strong growth and appeared to be under-appreciated. LAZ's current stock price is relatively low when compared to historical levels and their shares trade at a discount to peers. Given that AUM is at a record high, the business as a whole stands to benefit if the markets continue to perform well. The US economy is healthy, Europe is recovering, and emerging markets are improving - which are all positive signs for a rebounding global M&A market. Based on previously the stated trends, LAZ is well positioned to generate increasing organic growth moving forward. It is recommended that LAZ be added to the AIM International Equity Fund with a price target of \$54.80, representing a 23.15% upside.

Investment Thesis

- **Rebound in M&A.** LAZ's M&A segment looks strong relative to 1Q2016, increasing operating revenue by 11%; however, the 2017 M&A market has been uneven as corporations faced uncertainties around U.S. policy reform and the elections in Europe. LAZ remained active globally and had positive deal announcements in Europe. The ideal outcome of the French election served as a major sigh of relief and Europe's economic backdrop continues to improve.

The strong Q1 M&A activity in Europe is expected to continue. The company's significant exposure to the region, 34% of revenue, should be a main driver going forward. In addition, there has been positive momentum that tax reform will be enacted this year. Lowering of corporate tax rates and a proposed cash repatriation would positively impact U.S. M&A activity.

- **Asset Management Growth.** LAZ had net inflows of \$3.3B in first quarter, which was the highest quarterly level since 2Q14. As of April 24th, AUM stood at \$219.3B driven by market and foreign exchange appreciation. AUM is building from a record level and LAZ sees investor demand across platforms with significant capacity for organic growth. The rising AUM allowed management fees to increase by 3% from 2016. The global and multi-regional and quantitative strategies have found significant growth as well despite headwinds from passive investing.
- **Global Footprint.** The global scale of LAZ's Financial Advisory business allows the firm to advise on large, complex cross-border transactions. In 2016, LAZ advised on 5 of the top 10 completed global transactions, and 3 of the top 10 so far in 2017. Asset Management's product mix is geographically diverse and expects an increasing share of AUM from developing economies in Asia, Latin America, and the Middle East as their retirement systems evolve. LAZ has the most exposure by far in Europe for both segments when compared to competition.

Valuation

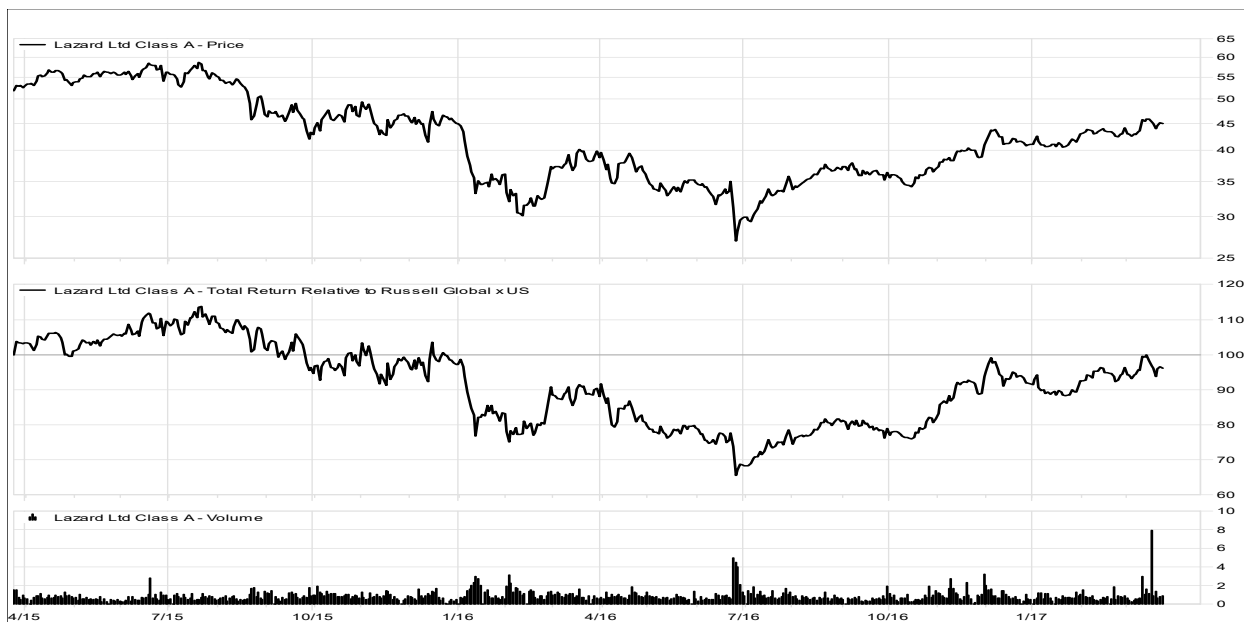
To find the intrinsic value for LAZ, a discount dividend model, blended historical and peer P/E multiple, and sum of the parts (SOTP) analysis was conducted. The DDM approach using a WACC of 10.90% and a terminal growth rate of 2.5% resulted in an intrinsic value of \$50.14. Applying the blended P/E multiple of 17.65x to LAZ's estimated 2017 EPS resulted in valuation of \$59.89. The SOTP analysis was based on the estimated 2017 sales figure, and broke the company into the Financial Advisory and Asset Management segments. The matched multiples with sales figure were \$1444.16 at 2.66x, and \$1145.93 at 3.33x respectively, yielding a share price of \$59.03. Weighting these valuations 50/25/25, the final estimated intrinsic value of LAZ is \$54.80, which provides an upside of 23.15%. LAZ also pays a \$2.69 annual dividend, yielding 5.98%.

Risks

- **Uncertainty of Global Financial Markets.** As a financial services company, LAZ's businesses are materially affected by conditions in the global financial markets and economic conditions throughout the world. If the economic picture deteriorates, equity markets decline significantly, or a shock to the markets occurs, M&A could be negatively impacted, leading to a reversal in the current cycle. A decline in the broader markets where the Asset Management segment has exposure could negatively impact AUM, leading to lower management and incentive fees.
- **Currency Fluctuation.** LAZ is exposed to fluctuations in foreign currencies and increased volatility could lead to negative effects on earnings being translated into US Dollars. In 2016, LAZ received 36% of revenue in other currencies predominantly in euros, British Pounds, and Australian Dollars. AUM with foreign currency exposure represents approximately 70% of LAZ AUM.

Management

Kenneth Jacobs is the Chairman of the Board and CEO of LAZ. He has served as a Managing Director since 1991 and had been a Deputy Chairman from 2002 until 2009. Mr. Jacobs is very experienced. He initially joined in 1988 and is a member of the Board of Trustees of the University of Chicago and the Brookings Institution. The CFO is Mr. Matthieu Bucaille. Mr. Bucaille joined in 1989 from the First Boston Corporation in New York.



Ownership

% of Shares Held by All Insiders:	2.37%
% of Shares Held by Institutional & Mutual Fund Owners:	72.11%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
The Vanguard Group, Inc.	9,819,000 ▲	7.57
Ariel Investments LLC	6,483,000 ▼	5.00
WCM Investment Management	6,161,000 ▲	4.75
T. Rowe Price Associates, Inc.	4,189,000 ▼	3.23
JPMorgan Investment Management, Inc.	3,862,000 ▲	2.98

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Net Income (mil)	Div. Yld. %	P/B	P/E	ROIC
Lazard	LAZ	5,781.10	428.40	6.04	4.75	12.88	19.00
JPMorgan Chase & Co.	JPM	310,622.00	25,214.00	2.18	1.35	13.47	4.30
Morgan Stanley	GS	79,725.60	6,791.00	1.66	1.15	12.79	3.10
Goldman Sachs	MS	88,519.70	8,518.00	1.09	1.17	11.99	3.00
Greenhill	GHL	743.20	55.70	6.50	2.66	14.51	16.80
Shroders	SDR	11,344.90	661.40	3.10	2.99	17.63	16.50
Peer Averages		98,191.08	6,944.75	2.91	1.86	14.08	8.74

Grupo Supervielle SA (SUPV)

April 7, 2017

Adam Hamilton
Services

International Financial

Grupo Supervielle SA (NYSE: SUPV) is a Latin American private financial group with a focus on providing banking and financial services to individuals and SMEs (small and medium size enterprises). SUPV is currently the 13th largest financial institution and the 10th largest private bank in Argentina with \$3 billion in assets, \$1.5 billion being loans, over 2 million clients. The group currently controls 4.8% of the Argentine private financial market. Revenues are broken down into the following segments: Banking (79.56%), Insurance (2.74%), Investment Services (2.97%), and Specialty Finance and Services (14.73%). The company was founded on October 8, 1979, is headquartered in Buenos Aires, Argentina, and has 4976 employees.

Price (\$): (3/31/17)	17.06	Beta:	0.76	FY: Dec	2015A	2016A	2017E	2018E
Price Target (\$):	24.28	COE	12.6%	Income (Mil)	689	693	717	749
52Wk H-L (\$):	10-17	M-Term Rev. Gr Rate Est:	4.0%	% Growth	24.55%	0.62%	3.50%	4.50%
Market Cap (mil):	1,256	M-Term EPS Gr Rate Est:	30.7%	Net Interest Margin	19.10%	20.40%	19.70%	18.60%
Float (mil):	-	Financial Leverage	16.54x	Pretax Margin	14.58%	17.74%	19.23%	22.09%
Short Interest (%):	0.89%	ROA:	0.8%	EPS (Cal)	\$2.37	\$1.37	\$1.87	\$2.34
Avg Daily Vol (mil):	0.19	ROE:	12.8%	P/E (Cal)	-	9.6	9.1	7.3
Dividend (\$):	0.00	Tier 1 Capital Ratio	12.2%	BVPS	7.6	9.2	9.3	9.0
Yield (%):	0.00%	Loan Loss Reserves/Loans	2.6%	P/B	-	2.2	2.6	1.9

Recommendation

After being in a financial crisis for more than 14 years, recently elected Argentinean President, Mauricio Macri, has issued economic and policy reforms and is expecting an economic recovery. GDP is expected to grow at 3% YOY, due to investments in infrastructure and agriculture, eliminating currency controls, and cutting the export tax. Since March, Moody's has changed their economic outlook of Argentina from stable to positive. SUPV expects to benefit from these macro-economic reforms tremendously. Its business model and position in the Argentinean banking industry has helped the company produce tremendous growth. As of the first quarter in FY17 SUPV increased net income by 118.6% YOY compared to the 27% average net income growth posted by Argentinean private banks. This is contributed to its banking segment, which has distinct, key fragments. First, the Consumer Finance fragment continues to grow due to an exclusive partnership with Walmart through 2020 to provide consumer loans, credit cards, and insurance products at each of Walmart Argentina's 109 supermarkets. Second, the Retiree fragment provides constant revenues and helps sustain NIMs. SUPV's agreement with National Social Security Administration (ANSES) allows the bank to act as a paying agent of 13.2% of all monthly social security payments to citizens – ranking first among Argentine private banks. SUPV has dedicated 78 senior service centers, which allows access to potential customers of financial services – the senior citizens, who account for 32% of revenues and 25% of its deposit base. Lastly, SMEs, which account for 28% of its loan portfolio, stand to benefit from the growing economy of Argentina with the sector becoming one of the main drivers of credit demand growth. As the economy performs better, more corporate loans will be available to SMEs. Since the last class took over the AIM portfolio the international financial sector has added 145 basis points of alpha. This is a nice chance to create turnover in a sector that has done really well. The financial group provides significant upside and we need to jump at this opportunity. It is recommended that SUPV be added to the AIM International Equity Fund with a price target of \$20.49 representing an upside of 20.12%. SUPV currently does not pay a dividend.

Investment Thesis

- **Loan Portfolio Growth.** SUPV will continue to grow its loan portfolio, its primary driver, by strong performance in corporate loans and consumer finance. The loan portfolio will continue to grow because as the economy strengthens, the demand for loans will increase. The Central Bank of Argentina (BCRA) has also deregulated the terms regarding branch bank openings, which allows SUPV to convert 65 of its 78 senior service centers into full fledge banking services branches. This means that with a very small investment in a partial sales force increase, SUPV can tap into a pool of customers whom they formerly did not have access and use these existing branches to increase the loan per branch ratio. Management has demonstrated this in first quarter of FY17. SUPV reports loans were up 62.5%, coming in above management's guidance range of 47% to 57% and significantly above the market.
- **Digital Innovation.** Supervielle was the first Argentinean bank to provide digital banking initiatives. During the first quarter of FY17, SUPV launched the first SME-dedicated "Check Depositing and Discounting App," introducing a new cash management system to improve efficiencies for SMEs. SUPV has also introduced "IFactus," the first portal providing electronic platform which allows for check scanning and electronic delivery to the bank for immediate deposit. This app includes "one click" payment and "one click" loan functionalities with anytime, anywhere features. They are also able to achieve cost efficiencies through low-cost social network advertising. The group is clearly taking the Argentinean banking industry by a storm as they look to continue to provide solutions to become the premiere bank in Argentina.
- **Presence.** SUPV is a household name, being the oldest private franchise in the country. Due to the infrastructure of 78 senior citizen service center, which has a customer base of 1.1 million retirees, this allows SUPV to be the largest player among this network, which accounts for 25% of the company's deposit base and 15% of SUPV's bottom line. Also its presence is concentrated throughout Argentina's major cities where GDP per-capita is above \$12,000. Management continues its 2017 initiative of dedicating \$7.8M to open five new branches where economic expansion in is highest in Argentina, targeting more middle and high income clients. This brand recognition makes growth and cash flows more sustainable and predictable. These drivers is what is not represented in the market and why it is extremely undervalued.

Valuation

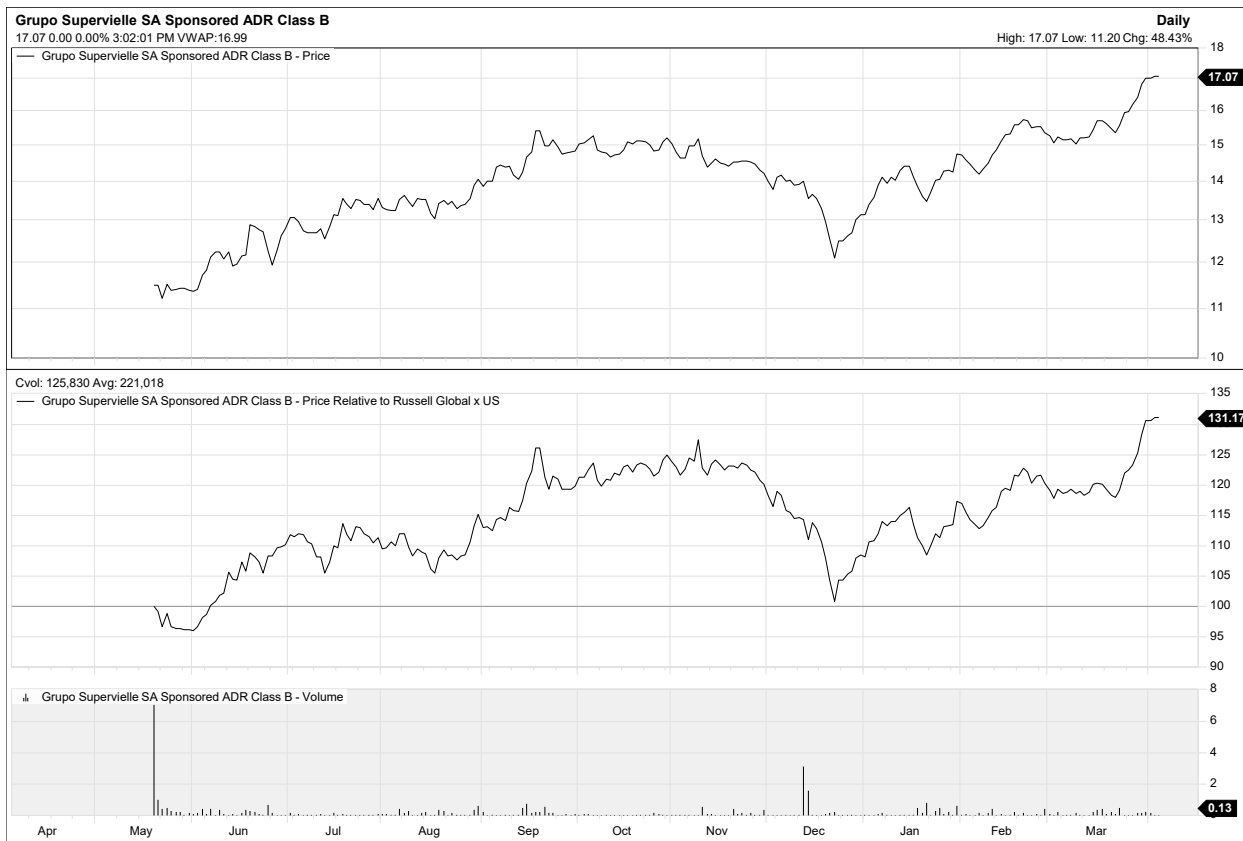
To find the intrinsic value of SUPV a price to tangible book multiple was used. The 4-quarter weighted average historic price to book for SUPV was 1.99x and the 4-year average historic price to book for SUPV was 0.76x. SUPV's peer average P/B multiple was higher at 2.60x. A target price to book valuation was created alternatively using a Gordon Growth Model, using a COE of 12.64%, 2017 ROE of 28%, and LT growth of 3%. This resulted in a price to book value of 2.61x. A sensitivity analysis was run altering LT growth \pm 1% and 2017 ROE \pm 3%, yielding a price range of 14.88-31.30. Weighting historical, peer, and Gordon growth valuations 10/30/60, the final estimated intrinsic value of SUPV is \$20.49, which provides an upside of 20.12%.

Risks

- **Economic Uncertainty.** SUPV's financial performance depends on the health of the overall Argentinean economy. If Argentina's GDP does not reach the projected 3% and inflation does not stabilize, banking penetration could fall short of expectations causing an increase in stock price volatility. However, with the economy showing positive outlook, this should not come into play.
- **Losing Partnerships.** Any loss of one of SUPV's partnerships with Walmart or ANSES, would negatively impact the Consumer Finance and Retiree Fragments.

Management

Julio Patricio Supervielle is the CEO and chairman of the boards of Grupo Supervielle and has served in this role since 2008.



Ownership

% of Shares Held by All Insider and 5% Owners:	22.00% ▲
% of Shares Held by Institutional & Mutual Fund Owners:	>90% ▬

Source: Factset

Top 5 Shareholders

Holder	Shares	% Out
Third Point LLC	2,740 ▼	5.78
PointState Capital LP	2,719 ▼	5.74
Soros Fund Management LLC	2,002 ▲	4.22
Gilder, Gagnon, Howe & Co. LLC	1,666 ▼	3.51
Kora Management LP	1,294 ▼	2.73

Peer Analysis

Name	Ticker	Market Cap (mil)	Net Income (mil)	Div. Yld. %	P/B	D/E
Grupo Financiero Galicia SA	GGAL	4,979	403	-	3.83	260.9
Bank of N.T. Butterfield & Son	NTB	1,677	116	4.00	2.39	19.8
BBVA Banco Frances SA	BFR	3,319	244	-	1.98	335.6
Banco Latinoamericano de Comercio Exterior, SA	BLX	1,006	87	5.23	3.17	80.8
Peer Averages		2,745	213	4.62	2.8	174.3