Applied Investment Management (AIM) Program

AIM Class of 2015 Equity Fund Reports
Spring 2014

Date: Friday May 2th | ***Time:*** 2:00 -3:30 p.m. | ***Location: AIM Research Room (488)***

Join us in person, or considering joining us live at:
Follow the link to connect to the LIVE meeting via Blackboard web-based conferencing tool

Student Presenter	Company Name	Ticker	Price	Page No.
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James Stark	Ligand Pharmaceuticals, Inc.	LGND	$65.01	5
Connor Showalter	China Telecom	CHA	$46.16	8
Anne Wiesman	FBR & Co.	FRBC	$25.02	11
Patrick Lonzo	USANA Health Services Inc.	USNA	$79.47	14
Jaime Rehm	Seadrill Ltd.	SDRL	$34.77	17
Jeremy Poppe	Piper Jaffray Company	PJC	$44.40	20
John Schneider	Berry Plastics Group	BERY	$22.50	23

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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Tim Hortons (THI)
May 2, 2014

Vanessa Foltinger — International Consumer Discretionary

Tim Hortons Inc. (NYSE THI) develops and franchises fast casual restaurants. Founded by Tim Horton and Jim Charade in 1964, as a coffee and donut shop, the company is now Canada's largest quick-service restaurant chain. THI appeals to a broad range of consumer tastes, with a menu that includes premium coffee, hot and cold specialty drinks, specialty teas and fruit smoothies, grilled Panini and classic sandwiches, wraps, soups, fresh baked goods, prepared foods and other food products. As of December 29, 2013, THI had 4,485 system wide restaurants, including 3,588 in Canada, 859 in the United States and 38 in the Gulf Cooperation Council. Tim Hortons Inc. was founded in 1964 and is headquartered in Oakville, Canada.

Price ($): (3/30/10)	54.86	Beta:	0.78	FY: Aug	2013A	2014E	2015E
Price Target ($):	69.31	WACC	8.53%	Revenue (Mil)	3,255.50	3,394.70	3,584.80
52WK H-L ($):	50.67-61.46	L-Term Rev. Gr Rate Est:	6.7%	% Growth	4.33%	3.90%	5.60%
Market Cap (mil):	7,580.00	L-Term EPS Gr Rate Est:	6.9%	Gross Margin	34.40%	34.40%	35.20%
Float (mil):	136.14	Debt/Equity:	127.0%	Operating Margin	19.62%	19.90%	21.00%
Short Interest (%):	4.8%	ROA:	18.0%	EPS (Cal)	2.98A	3.24E	3.79E
Avg. Daily Vol (mil):	303,613	ROE:	43.6%	FCF/Share	$2.20	$2.93	$3.31
Dividend ($):	0.32			P/E (Cal)	21.18	16.93	14.47
Yield (%):	1.88%			EV/EBITDA	10.68	10.11	9.17

Recommendation

Tim Hortons operates in the fast casual segment of the quick food restaurant industry. According to market research firm NPD (National Purchase Diary), the fast casual segment now accounts for about 3% to 5% of all restaurant traffic in Canada, up from 1% five years ago. As job growth returns in the North American region, and the cycle of rising incomes and consumer spending initiate, busy citizens will have an increasing desire to eat fast and healthy. With consumer confidence standing at a five year high in the U.S and almost a four-year high in Canada, THI can obtain a 15% to 20% of customers to opt for three items instead of two. Tim Hortons has formed an economic moat in a highly competitive industry by preserving its strong brand loyalty in Canada, and through operating efficiency and environmentally friendly efforts. This strategy shields the company from the competition, driving its net margin of 13.0% well above the industry median of 9.0%, as of December 2013. THI commands 75% of the caffeinated beverages sold in Canada at quick service restaurants, more than the next 15 chains combined. The company also accounts for 42% of Quick Service Restaurant traffic in Canada. THI benefits from its vertically integrated manufacturing, warehouse and distribution capabilities. Over the past five years, the company has increased its distribution at a 25% CAGR. THI is well positioned to capitalize further on its coffee and its food business, and the company plans to enter new international markets beginning in 2015. THI has superior operating metrics and a differentiated 5-year strategic plan that will allow it to replicate its success in international markets. As a result of these efforts, an expansion of operating margins and a 3.9% revenue growth in 2014 is predicted, driven by system sales growth and franchise openings in the Middle East, Canada and the U.S. Because of these reasons, a strengthening quick food service industry and a favorable valuation, it is recommended that THI be added to the AIM International Equity Fund with a target price of $69.31, which offers a potential upside of 25.50%. Over the last four quarters THI has paid a dividend yield of 1.88%. In 2013 the Board authorized a 900m cumulative buyback allowed by additional leverage.

Investment Thesis

- **Increasing International Footprint.** The most momentum can be seen in Gulf Corporation Council (GCC) where the company plans to launch 120 more stores by 2015. According to The Economist, the GCC's share of the world economy is expected to grow at a higher than aggregate global growth with an annual average of 4.5% in real terms, compared with 3.3% globally. Across the GCC, aggregate spending on food imports is projected to more than double from US$24bn in 2008 to US$49bn by 2020. There is an increasing interest in US products as well as increasing number of tourists and military presence in the GCC. In addition, the recovering US economy is the worlds larget food market, a crucial group THI plans to stay commited. THI will expand its growing footprint in the U.S. by launching 300 new stores by 2015.

- **Advancements in Technology:** Although Tim Hortons has historically offered a prepay "Tim Card," it has no formal loyalty program. In May 2014 the company will start advertising a dual-purpose Visa card that accumulates "Tim Cash" at 1% of total spending that can be instantly redeemed in Tim Hortons restaurants. Furthermore, dual drive-throughs are in 90% of units in Canada, and expected to reach the entire system by the end of 2014. Initiatives to improve speed of service and loyalty are expected to drive sales and increase traffic by 2.5%.
- **Increasing Average Customer Expenditure.** THI has the lowest total average check of its competitors, ranging between 23%-43% by daypart. The company plans to narrow its average check gap versus competitors. Rather than pricing, this will be driven by menu board simplification that better promote food/drink combos. Today, about 60% of orders consist of just one item. The company is aiming to obtain 15% to 20% of customers to opt for three items instead of two.

Valuation

In order to reach an intrinsic value for THI, a six-year DCF model was conducted. Using a terminal growth rate of 2.50% and a WACC of 8.54% resulted in a valuation of $62.25. Sensitivity analysis on both the terminal growth rate and WACC provided for a range between $52.26 and $97.72 Additionally, relative valuation methods using both P/E and EV/EBITDA multiples were conducted. Using a comparable average P/E multiple of 25.98x and a 2014 expected EPS of $3.24, a value of $84.19 was obtained. An EV/EBIDTA peer average of 14.25x yielded a valuation of $68.55. By weighing the DCF model 50%, the P/E multiple 25%, and the EV/EBIDTA 25%, a price target of $69.31 was established, representing 25.5% upside. THI pays a quaterly dividend of 0.32 with an annual dividend yield of 1.88%.

Risks

- **Volatility in Commodity Prices.** The company purchases certain key commodities, such as coffee, wheat, edible oils and sugar. The prices of these commodities can be affected by various factors, including economic and political conditions and weather among others.
- **Increased Financial Leverage.** The aggressive repurchase program of the company could depress profit margins should the company fail to meet their growth objectives . The company needs to ensure that it commits to executing their 5-year growth strategy.
- **Sustained Economic Downturn.** Average consumer expenditure in the quick service restaurant segment is highly correlated with economic conditions. Should economic conditions weaken or growth stagnate, the number of checks that include more than two items would be adversarially impacted.

Management

Paul D. House became Chairman of the Board of Directors effective July 2, 2013, having formerly served as Executive Chairman since March 2008, and as President and Chief Executive Officer since May 2011. Marc Caira joined Tim Hortons in July of 2013 as President and Chief Executive Officer. Mr. Caira was most recently Global CEO of Nestlé Professional. He was also a member of the Executive Board of Nestlé SA, the world's largest food and beverage company, and a recognized leader in nutrition, health and wellness. Cynthia J. Devine is Chief Financial Officer and has held this position since 2003. Ms. Devine was appointed executive accountability for the Supply Chain strategy and operations.

Ownership		
% of Shares Held by All Insider and 5% Owners:	5.00%	
% of Shares Held by Institutional & Mutual Fund Owners	72.00%	
	Source: Bloomberg	
Top 5 Shareholders		
Holder	Shares	Out%
FMR LLC	7,492,033	5.43%
Jarislowsky, Fraser Ltd.	6,882,878	4.99%
TD Asset Management Inc	6,827,242	4.95%
Price T Rowe Associates Inc	6,280,290	4.55%
Royal Bank of Canada	6,230,282	4.51%
	Source: Bloomberg	

Ligand Pharmaceuticals, Inc. (LGND)
May 2, 2014

James Stark Healthcare

Ligand Pharmaceuticals, Inc. (NASDAQ: LGND) is a biotechnology company, that acquires and develops royalty revenue generating assets in the United States. A portion of Ligand's business model is based on the goal of partnering with other pharmaceutical companies to commercialize and market their assets with a significant amount of the revenue coming from payments made to them by partners for royalties, milestones, and license fees. The company has established multiple alliances with the world's leading pharmaceutical companies including GlaxoSmithKline, Onyx Pharmaceuticals (a subsidiary of Amgen, Inc.), Merck, Pfizer, Baxter International, Lundebeck Inc., Eli Lilly and Co., as well as Spectrum Pharmaceuticals, Inc. Headquartered in La Jolla, California Ligand Pharmaceuticals, Inc. was founded in 1987.

					FY: December	2013A	2014E	2015E
Price ($) (4/25/14)	65.01	Beta:	1.22		Revenue (Mil)	49	63	85
Price Target ($):	84.15	WACC	11.8%		% Growth	56.05%	29.18%	35.00%
52WK Range ($):	25.6-80.42	M-Term Rev. Gr Rate Est:	30.0%		Gross Margin	88.37%	89.42%	85.00%
Market Cap:	1.43B	M-Term EPS Gr Rate Est:	45.0%		Operating Margin	32.65%	43.13%	45.00%
Float	18.33M	Debt/Equity	33.3%		EPS (Cal)	$0.55A	1.14E	1.69E
Short Interest (%):	3.3%	ROA:	10.9%		FCF/Share	0.79	2.04	2.90
Avg. Daily Vol:	198,580	ROE:	30.0%		P/E (Cal)	150.78	56.95	38.51
Dividend ($):	$ -				EV/EBITDA	57.61x	53.9x	24.33x
Yield (%):	0.00%							

Recommendation

Ligand Pharmaceuticals, Inc. is a profitable biotechnology company with a growing royalty-based business coupled with a low operating cost structure. The company has a unique business approach which they describe as a "shots on goal" model, and own a share of an unprecedented 90+ fully funded programs currently with six royalty generating products. In addition to the six royalty generating products, Ligand acquired the Capitsol drug formulation technology platform, which improves the solubility, stability, bioavailability, efficacy, and safety of certain administered APIs, as part of its acquisition of CyDex Pharmaceuticals in 2011. Annual Captisol orders have more than doubled since the technology was acquired, and is a stable and growing franchise. Captisol's material sales are expected to reach $22.4 million in 2014 up from $19.1 million in 2013. The company targets a broad spectrum of diseases including hepatitis, muscle wasting, Alzheimer's disease, dyslipdemia, diabetes, anemia, epilepsy, and osteoporosis. Because they do not develop the drugs themselves, the company has a lean and profitable business model. Ligand's partners spent over $800 million in R&D this year to advance Ligand's programs. Given the significant future EPS leverage from its high-quality revenues, high gross margins, low operating cost structure, tax advantage (2% for 7 years), and low base share count it is recommended that Ligand Pharmaceuticals, Inc. be add to the AIM Equity Fund with a price target of $84.15, which offers a potential upside of 29.44%. The firm does not pay a dividend.

Investment Thesis

- **Promacta and Kyprolis.** Promacta, in partner with GlaxoSmithKline, is used to treat low platelet counts and has projected sales next year of $435 million driven by use in patients with HCV. It is approved in 92 countries worldwide, and because of GSK's strong commitment to the franchise could exceed $1 billion by 2017. Sales of this new drug grew 38% last year. Ligand's royalty rates on Promacta range from 4.7% - 9.4%. Kyprolis, the primary driver of Amgen's acquisition of Onyx, is used for the treatment of multiple myeloma cancer. The projected revenue is $419 million for 2015. Sales of this drug grew 261% last year, and Ligand received a $1 million milestone payment as Kyprolis achieved more than $250 million in product sales in 2013.

Royalty rates range from 1.5% - 3% on this drug. Both drugs have studies being conducted for additional indications.

- **Pipeline Products.** Ligand has a significant number of catalysts over the next 12 months to drive shareholder value. Ligand's pipeline addresses a broad spectrum of diseases and unmet needs, including a greater than 40% allocation to oncology. 8% of Ligand's product portfolio is in Phase 3 trials, 20% are in Phase 2, 41% are in Phase 1, and the remaining 20% are in the preclinical phase. Additionally, five new programs could potentially launch in 2014. The first of these, Pfizer's Duavee was launched in February 2014, and is expected to add revenues in 2015. In Phase III is Merck's BACE1 Inhibitor for Alzheimer's disease. Also, Ligand's partner Spectrum Pharmaceuticals reported in April that Captisol-enabled Melphalan met its primary endpoint in their pivotal trial, and approval is expected in 2015. Management estimates that 14 new products could launch by 2017.
- **Leverage from Low Operating Expenses.** Ligand Pharmaceuticals, Inc. has minimal operating expenses, and does need to increase costs to grow revenue from the existing portfolio. The company has operating expenses of $25 million, and this will consistently stay between a range of $25-30 million dollar range going forward. Ligand only employs 21 individuals, has minimal R&D costs, and does not have a marketing department. All of the partners fund the approval process and marketing of the respective drugs.

Valuation

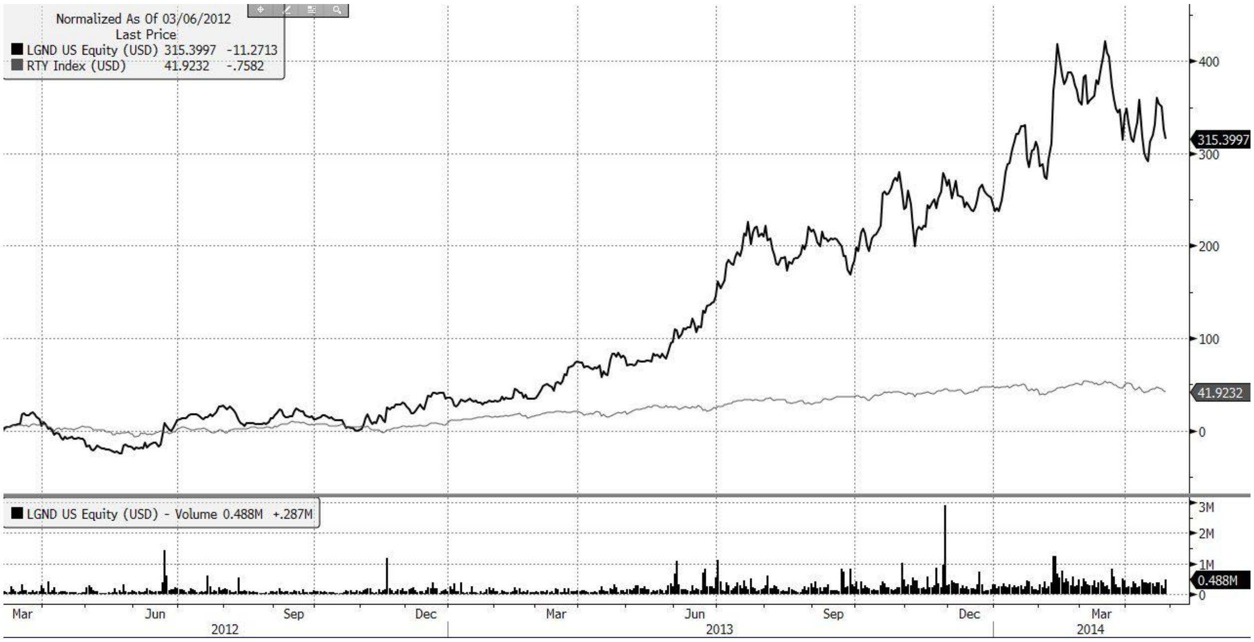
In order to reach an intrinsic value for LGND, a ten-year discounted cash flow model was conducted. Using a terminal growth rate of 3% and a WACC of 11.79% resulted in a valuation of $76.09. Sensitivity analysis provided for a range between $69.11 and $91.25. Additionally, a P/E multiple was utilized. After calculating the respective multiple the estimated P/E value was $96.25. The total valuation of the firm was calculated by a weighted average of the two projections. The intrinsic value of $76.09 was weighted by 60% and the P/E multiple of $96.25 was weighted by 40% resulting in an overall price target of $84.15 with a 29.44% upside. The firm does not pay a dividend.

Risks

- **Royalty Revenue.** Revenues based on Promacta and Kyprolis represent a substantial portion of future revenues. Any setback that may occur with respect to Promacta or Kyprolis could significantly impact the operating results and reduce the stock price.
- **Competition.** Ligand Pharmaceuticals, Inc. faces intense competition in their development activities. Comeptitors might succeed in obtaining regulatory approval for competitive products more rapidly and at a lower cost than Ligand's partners can for the partnered programs.
- **Collaborative Partners.** Ligand has strategic alliances with GSK, Amgen, Pfizer, Baxter, Spectrum, Merck, among others. If any of these partners terminate their collaborations or do not commit sufficient resources to the development, manufacture, marketing or distribution of their partnered programs, the partnered program could be abandoned with such companies.

Management

Since 2007, John Higgins has been the President, CEO, and Director of Ligand Pharmaceuticals. Matthew Foeher serves as the Executive Vice President and Chief Operating Officer. Mr. Foehr has held this position since 2011, and has more than 19 years of experience in managing global research and development programs, most recently at GlaxoSmithKline. Charles Berkman is the Vice President, General Counsel, and Secretary and has held these positions since April 2007. Nishan de Silva is the CFO and Vice President, and recently joined the company in February 2014.



Source: Bloomberg

Ownership

% of Shares Held by All Insider & 5% Owners:	1.00%
% of Shares Held by Institutional & Mutual Fund Owners:	77.00%

Top 5 Shareholders

Holder	Shares	%Out
FMR, LLC	1,664,786	8.04%
Blackrock Fund Advisors	1,318,179	6.36%
RS Investment Management Co., LLC	1,315,098	6.35%
Knot (David M.)	1,292,566	6.24%
Blair (William) & Company, LLC	1,195,983	5.77%

Source: Yahoo! Finance

China Telecom ADR (CHA)
May 2, 2014

Connor Showalter — International Utilities

China Telecom Corporation Limited (NYSE: CHA) is a full services communications operator and the world's largest wired telephone provider. The also provide a mobile telecommunications network (CDMA) and offer a broadband internet platform. CHA wired operations have 156 million (M), broadband customers amounting to 100 M, and mobile telephone subscribers totaling 186 M. CHA owns the world's largest 3G CDMA network and infrastructure. China Telecom has 306,545 full time employees. The firm receives revenues from wireline voice (12%), Broadband internet (30.9%), mobile voice (18.1%), other data management services (14.4%), and value-added services account for the majority of other income. China Telecom is headquartered in Beijing, China and was founded in 2002 and reorganized in 2008.

Price ($): (4/24/14)	46.16	Beta:	1.003	FY: Aug	2013A	2014E	2015E
Price Target ($):	57.16	WACC	12.6%	Revenue (Mil)	52,310	56,314	60,819
52WK H-L ($):	55.19-40.25	L-Term Rev. Gr Rate Est:	8.0%	% Growth	16.60%	7.70%	8.00%
Market Cap (mil):	37578.10B	L-Term EPS Gr Rate Est:	8.0%	Gross Margin	100.00%	100.00%	100.00%
Float (mil):	138.77M	Debt/Equity:	32.0%	Operating Margin	8.54%	10.32%	10.00%
Short Interest (%):	5.5%	ROA:	3.5%	EPS (Cal)	3.53A	4.82E	4.15E
Avg. Daily Vol (thous):	63,146	ROE:	6.3%	FCF/Share	4.02	5.08	6.00
Dividend ($):	$ 0.99			P/E (Cal)	$ 13.08	$ 9.58	11.12
Yield (%):	2.20%			EV/EBITDA	3.48	4.21	4.7

Recommendation

China Telecom benefited from the restructuring of the Chinese telecommunications market in 2008. The firm serves the 21 southern Chinese provinces. After the reorganization in 2008, the Chinese state-owned telecommunication company only had 56M subscribers but has since grown by 232% to 186 M mobile subscribers, more than China Unicom's (CHU) 90%, and China Mobile (CHL) 47% growth in the same period. In 2013, the company's revenues increased by 13.6% due mainly to increased mobile revenues and broadband services. Mobile (47%) and broadband revenues (33%) accounted from 70% of operating revenues. In 2014, the full deployment and launch of its 4G network along with the rapid growth in internet-usage will culminate to create a new market opportunities. During 2014, the company has planned a massive increase in capital expenditure to further employ its LTE network. CHA is targeting a wide range of users that represent the broad range of Chinese income levels; and they have high-to-mid level plans that include 4G LTE and mid-to-low level plans that include lower priced 3G plans. CHA also continues to develop its broadband networks to offer highly efficient and fast internet opportunities across all broadband platforms. The company pays a dividend of 2.15%. I recommend buying CHA, I believe the share price will rise substantially within a year as the number of 3G/4G users increase and income rises.

Investment Thesis

- **Mobile Data Penetration.** CHA has 103 (57% of total customers) million 3G/4G users as compared to 123 M for CHU (40%) and 192 M (28%) for CHL. The 3G/4G EBITDA margin is much higher than for fixed line and calling plans, the margins contribute significantly to CHA's bottom line. There are a total of 1.2 billion plans between the 3 companies and only 418 M plans are 3G/4G related. That means that the majority of 882 M customers will most likely convert to higher cost/higher margin plans within the next few years. Data usage has increased YoY at an average rate of 142%, representing most of an 8% increase in EBITDA margin. The Chinese mobile market and more specifically the mobile data usage market is still untapped. The Chinese market has 1,227,360,000 smartphones active; there are 89.2 phones per 100 citizens, the Chinese market has the capacity to populate higher margin data centric plans.

- **Data Infrastructure.** It is believed that CHA's aggressive adoption of Long Term Evolution (LTE) 4G will negate China Mobile's early mover advantage. The aggressive rollout strategy employed by CHA coupled with its fully developed 3G infrastructure will translate directly to higher subscriber growth. CHA's management is targeting 36 M LTE smartphone sales and 64 M 3G smartphones sales in 2014, compared to CHL's 100 M LTE smartphone sales. CHA has launched its TD-LTE network in 100 cities as of March, 2013. When the FDD-LTE contracts are awarded this year to CHA then their LTE network will quickly surpass the market leader in CHL. Most smartphone manufactures do not support the TD-LTE, but the world standard FDD-LTE giving CHA an inherent marketing and manufacturing advantage.
- **WIFI and Broadband.** China Telecom has the largest single Wi-Fi wireless broadband network in China. As part of the CEO's long term strategy, China Telecom has a rollout of an estimated 1,000,000 access points in 30,000 buildings and facilities in over 250 major Chinese cities including Beijing, Shanghai, Guangzhou, Shenzhen, Nanning, Hangzhou, Chengdu, Dalian, Kunming, Wuhan, Chongqing and Xi'an. The China Telecom Wi-Fi services are operated under ChinaNet brand.

Valuation

To find the intrinsic value of CHA a 10 year DCF model was used. CHA has a WACC of 12.58%, which included an added premium of 200 basis for doing business in China and a terminal growth rate of 2.0%. It yielded an intrinsic value of $60.39; an upside return potential of nearly 30%. An EV/Sales and EV/EBITDA relative valuation method was also used returning intrinsic values of 55.12 and 52.15, respectively. The DCF, EV/Sales, and EV/EBITDA were weighted 50%, 30%, and 20%, respectively and returned a target price of $57.16. The blended target price has a return prospectus of 23.84%.

Risks

- **Government Control.** The government control of the three major telecommunications companies presents a conflict of interest for the government. The Chinese government does not have any incentive to provide CHA with any benefit over the CHL and CHU. The only mediating factor is the extreme growth in the southern provinces in which CHA control the majority of the telecommunications infrastructure.
- **Increasing Capital Expenditures.** CHA and the other major Chinese telecoms are entering the LTE Capex cycle. Deploying LTE throughout their network coverage area is highly expensive. In December of 2013 CHA successfully launched their TD-LTE (Time Division) network and are working to expand capabilities. Management hopes to have the network fully employed by the end of 2015; they are ahead of schedule in deployment.
- **Network Regulation.** The Chinese government is forcing all Chinese telecoms to use TD-LTE as opposed to FDD-LTE, which the majority of the world uses. Deploying TD-LTE is much more capital intensive ($16.14 billion) then FDD-LTE because China's 3G network (WCDMA) is incompatible with the TD-LTE standard. China Telecom is slowly rolling out TD-LTE at this time, and hoping to be awarded a FDD-LTE standard. Once the FDD-LTE contracts are awarded, CHA will deploy 2 4G networks leading to potential CapEx inefficiencies.

Management

China Telecom is led by Mr. Wang Xiaochu, the CEO and Chairman of the Board. Mr. Wang graduated from the Beijing Institute of Posts and Telecommunications in 1989 and HK Polytechnic University in 2005 with a degree in Business Administration. They both have over 30 years of management experience in various telecommunications businesses. The COO and President, Mr. Yang Jie is a professional level senior engineer. In 2013, management which well supported the Company's strategic transformation to the Three New Roles a Leader of Intelligent Pipeline, a Provider of Integrated Platforms, and a Participant of Content and Application Development."

Source: Bloomberg

Ownership

% of Shares Held by All Insider and 5% Owners:	0%
% of Shares Held by Institutional & Mutual Fund Owners:	71.47%

Source: Yahoo!, Bloomberg

Top 5 Shareholders

Fund/Institution	Shares		% Shares
Bessemer Investment Management LLC	2442523		0.3
Templeton Global Advisors Limited	1363465		0.17
Templeton Growth Fund	735230		0.09
Old Westbury Large Cap Core Fund	359025		0.04
Dimensional Fund Advisors, Inc.	267113		0.03

Source: Morningstar

FBR & Co. (FBRC)

May 2, 2014

Anne Wiesman — Financial Services

FBR & Co. (NASDAQ: FBRC) functions as a full service investment bank primarily serving middle market firms. FBRC operates in two primary business segments: capital markets and principle investing. The capital markets business segment, which accounts for approximately 96% of total revenues, includes investment banking (76%) and institutional brokerage and research (20%). FBRC focuses its capital market business in specific industry sectors including: consumer, diversified industrials, energy and natural resources, financial institutions, healthcare, insurance, real estate, and technology, media and telecommunications (TMT). Over 70% of the companies included in the S&P 500 operate in one of these industries. The remaining 4% of FBRC's revenues come from the principle investing segment. This segment invests primarily in non-registered investment funds managed by third parties, merchant banks and other equity investments, and corporate debt investments. FBRC is headquartered in Arlington, VA.

Price ($): (4/28/14)	$ 25.02
Price Target ($):	$ 33.15
52WK H-L ($):	33.50-19.90
Market Cap (mil):	266.10
Float (mil):	8.7
Short Interest (%):	1.75%
Avg. 3 Month Vol:	44,687
Dividend ($):	N/A
Yield (%):	N/A

Beta:	0.94
WACC	9.56%
L-Term Rev. Gr Rate Est:	9%
L-Term EPS Gr Rate Est:	10%
Financial Leverage	1.4%
ROA:	25.0%
ROE:	35.0%

FY: Aug	2013A	2014E	2015E
Revenue (Mil)	259.82	196.30	224.00
% Growth	71.50%	-24.45%	14.11%
Net Interest Margin	1.30%	1.75%	2.00%
Pretax Margin	22.0%	18.00%	21.00%
EPS (Cal)	$ 7.17	$ 1.57	$ 2.54
P/E (Cal)	3.49	15.93	9.85
BVPS	$27.30	29.26	31.80
P/B	0.93	0.97	1.02

Recommendation

After reporting higher than expected earnings for the first quarter of 2014 FBRC has positioned itself well for future growth. FBRC has expanded significantly as a result of recovering economic conditions in the United States over the past year, with 2013 revenue growth at nearly 72% YoY. As a transaction-based business, improved economic conditions drive revenue growth for FBRC's capital markets segment. As the equity markets continue to improve, driving consumers back to the equity markets, trading volume continues to improve, resulting in improved performance. This increase bodes well for FBRC as they stand to see revenue growth from $15-$20 million on an annual basis as a result. Additionally, since 2008 FBRC has focused on reducing core fixed expenses by 60%, limiting their risk when the markets are down. Furthermore, FBRC is currently trading at .93x book value despite having no long-term debt on its balance sheet while the industry is trading near 1.15x. Due to improved economic conditions driving growth for FBRC's core business, combined with a favorable valuation, it is recommended that FBRC be added to the AIM Equity Fund with a price target of $33.15, a potential upside of 32.51%.

Investment Thesis

- **Improved macro and regulatory environment.** As the economy continues to recover from the recent financial crisis, this provides many opportunities for growth for transaction-based businesses such as FBRC. With interest rates remaining artificially low in the near future this encourages borrowing. IPO numbers were up in 2013 approximately 153% YoY for small to mid cap companies, resulting in a 1.8% increase YoY in the total number of US listed companies. While total market growth may seem small, 2012 ended with the fewest number of US companies listed (4916) since 1991. The number of mergers and acquisitions has also increased in recent months up 11% YoY in 2013. IPOs and M&A provide FBRC with short-term (2-3 years) growth potential. The JOBS Act provides additional opportunities for a FBRC as it makes it both easier and more cost-effective for a company to go public. FBRC's primary market for IPOs is middle market companies, who will directly benefit from this change.

- **Increase market share potential.** FBRC's institutional brokerage firm is seeing growth from two areas. First, increased trading volume will drive revenue for FBRC as people continue to return to the equity markets, causing positive earnings growth in the brokerage segment for the first time since before the financial crisis. Additionally, FBRC added 29 new investment professionals from Lazard Capital Markets to the institutional brokerage area in late 2013. FBRC has seen increased institutional brokerage revenues grow on a YoY basis by nearly 10% as a result of the addition of the Lazard professionals. The growth in headcount has allowed FBRC to increase industry coverage particularly in healthcare and TMT and will increase the number of companies covered by roughly 500 to include approximately 80% of the S&P 500. On March 27th, 2014 FBRC entered into an agreement with Lazard Capital Markets to acquire its securities lending business and, pending regulatory approvals, this deal is expected to be completed in the third quarter of 2014 and is expected to deliver attractive returns. The growth of the institutional brokerage team is expected to increase revenues from this segment by $15-$20 million annually, a conservative increase of 28% over 2013 institutional brokerage revenue numbers.
- **Business model.** FBRC focuses primarily on the capital markets segment of its business. Management believes in truly understanding the industries and companies they work with and, for this reason, choose to have investment professionals specialize in a specific market segment, giving them an advantage over other firms when competing for business in these segments. Also, since 2008 management has expended significant effort reducing fixed costs by 60%, primarily from reductions in headcount. Additionally, FBRC has no long-term debt and has repurchased 7.4 million shares since 2010, with the authority to repurchase 1.4 million additional shares.

Valuation

To find the intrinsic value of FRBC a five year discounted cash flow model was used as well as a price to book multiple model. Using a terminal growth rate of 2.6% and a WACC of 9.56% resulted in a valuation of $37.95 per share. A sensitivity analysis on both the terminal growth rate (2%-3.2%) and WACC (7.56%-11.56%) resulted in a range between $25.89 and $64.54. Additionally, a P/B multiple was conducted using four of FBRC's closest competitors (50%) and the industry average (50%). Using an average multiple of 1.04x and the BVPS of $27.30, an intrinsic value of $28.36 was reached. Weighting the DCF model 50% and the P/B multiple 50%, a price target of $33.15 was established. FBRC does not currently pay a dividend.

Risks

- **Industry dependency.** FBRC relies on a set group of industries to generate a large portion of its revenues. Within the group of industries FBRC operates they generate the majority of their revenues from real estate, diversified industrials, energy and natural resources, and financial institutions for both their investment banking and institutional brokerage and research business segments. Any economic down turn affecting these industries would significantly affect the ability of FBRC to generate revenues and profits.
- **Highly competitive markets.** The investment banking and institutional brokerage industry is a highly completive industry. FBRC has to compete against much larger firms, often with more resources available to them and widely recognized band names. This presents two potential challenges for FBRC - the difficulty in gaining market share and the difficulty obtaining and retaining top talent. The second issue is of exceptional importance in a service-based business.

Management

Richard J. Hendrix is the current president, CEO, and chairman of the board for FBRC. He has held the position of President and CEO since June of 2009 and became the chairman of the board in June of 2012. Before joining FBRC Mr. Hendrix was the Managing Director of PNC Capital Markets' Investment Banking group with a focus on M&A.

Source: Bloomberg

Ownership

% of Shares Held by All Insider and 5% Owners:	11.66%
% of Shares Held by Institutional & Mutual Fund Owners:	58.40%

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
NWQ Investment Management Co.	942,676	9.00
Blackrock	838,737	8.01
Wellington Management Co LLP	761,144	7.27
Boston Partners	623,926	5.95
Billings Eric F	569,926	5.44

Source: Bloomberg

USANA Health Services Inc. (USNA)

May 2, 2014

Patrick Lonzo Consumer Discretionary

USANA Health Sciences, Inc. (NYSE: USNA) develops and manufactures science-based nutritional and personal care products. The company's products are sold directly to independent distributors and preferred customers through a multi-level network marketing model. Ongoing operations exist in many international markets, including countries in the Americas, Europe, Asia, and Australia. USANA's Nutritionals Essentials line includes vitamin and mineral supplements that improve total body nutrition for various age groups, while the company's Sensé-Beautiful Science line includes products that support healthy skin and hair. Since 2010, USANA Health Sciences has also retained full ownership of BabyCare Ltd., a subsidiary that develops products for prenatal, infant, and young child age groups in China. USANA was founded in 1992 and is headquartered in Salt Lake City, Utah.

				FY: Dec	2013A	2014E	2015E
Price ($): (4/25/14)	79.47	Beta:	1.15				
Price Target ($):	94.80	WACC	9.8%	Revenue (mil)	718.18	800.00	873.50
52WK H-L ($):	54-92	M-Term Rev. Gr Rate Est:	11.3%	% Growth	10.70%	11.50%	9.19%
Market Cap (mil):	1,105.67	M-Term EPS Gr Rate Est:	10.1%	Gross Margin	82.26%	82.25%	82.00%
Float (mil):	6.85	Debt/Equity:	0.0%	Operating Margin	16.25%	16.00%	16.26%
Short Interest (%):	42.8%	ROA:	24.9%	EPS (Cal)	$5.56	$6.04	$6.98
Avg. Daily Volume:	153,200	ROE:	35.4%	FCF/Share	$5.29	$5.32	$5.88
Dividend ($):	0.00			P/E (Cal)	14.0x	13.2	11.4
Yield (%):	0.0%			EV/EBITDA	7.4x	6.9	6.2

Recommendation

In 2007, USANA faced a fair share of controversy. Concerns that the company had to address included rumors that USANA had breached a $40 million loan agreement with the Bank of America, the discovery that several of USANA's executives had lied about their qualifications, and NASDAQ's threats to delist the company due to its failure to find an independent auditor to review its Form 10-Q. However, since its troubles in 2007, USANA has been able to restructure its image and consistently improve financial performance from year to year. The company has realized a 5-year CAGR of 10.8%, compared to an industry average of 3.6%. Since 2007, the average YOY revenue growth rate has been 9.4%, operating income growth has been 11.2%, and net income growth has been 12.6%. This progression is likely to continue, largely because of the success and growth potential of USANA's BabyCare acquisition, as well as the company's persistency in seeking out profitable new markets to enter. Besides the acquisition of BabyCare, all of USANA's growth has been achieved organically. The strength of the company's financials can be supported by the fact that all of their expansion over the years has occurred without issuing any debt. The combination of USANA's steadiness with its desire and proven ability to expand makes USNA an attractive stock. Because of these reasons and an encouraging valuation, it is recommended that USNA be added to the AIM Equity Fund with a target price of $94.80, which offers a potential upside of 19.29%.

Investment Thesis

- **Market Penetration in Greater China.** In USANA's 2013 annual report, markets in China, Hong Kong, and Taiwan are identified as the most significant and imminent opportunities for expansion. This growth is anticipated to occur principally in China through USANA's subsidiary, BabyCare. In 2013, the company achieved net sales growth of nearly 15% in the Greater China region. USANA should be able to maintain similarly high growth rates into the foreseeable future as the company continues to establish a greater presence and garner more brand recognition in the region. A new $40 million, state-of-the-art manufacturing and production facility has been announced for construction in Beijing and is expected to be operational by mid- to late-2015. Renovations of existing branch locations in the region are also planned for 2014 and 2015.

- **Entrance into New Markets.** USANA commenced operations in Thailand, France, and Belgium, in 2012 and in Columbia in 2013. The company claims to have already registered certain products with governments and regulatory agencies in other countries in anticipation of future international expansion efforts. Over the years, USANA has proven its ability to successfully choose markets and establish a presence. This is evidenced by the fact that over 75% of net sales occurred outside of the U.S. in 2013, with strong performances in Mexico, Canada, the Philippines, and the Greater China region contributing greatly to the company's overall 10.70% revenue growth.
- **Brand Awareness Initiative.** To help facilitate growth, USANA has several strategies to promote global awareness of its brand. The company has already targeted and succeeded in attaining professional sports sponsorships, including the U.S. Ski Team and the Women's Tennis Association. The company plans to target well-known individual athletes in the future to build brand credibility and awareness. The markets in the Americas and Europe are the primary target for this initiative, which is essential because net sales growth in these markets has gradually been decreasing over the past three years.

Valuation

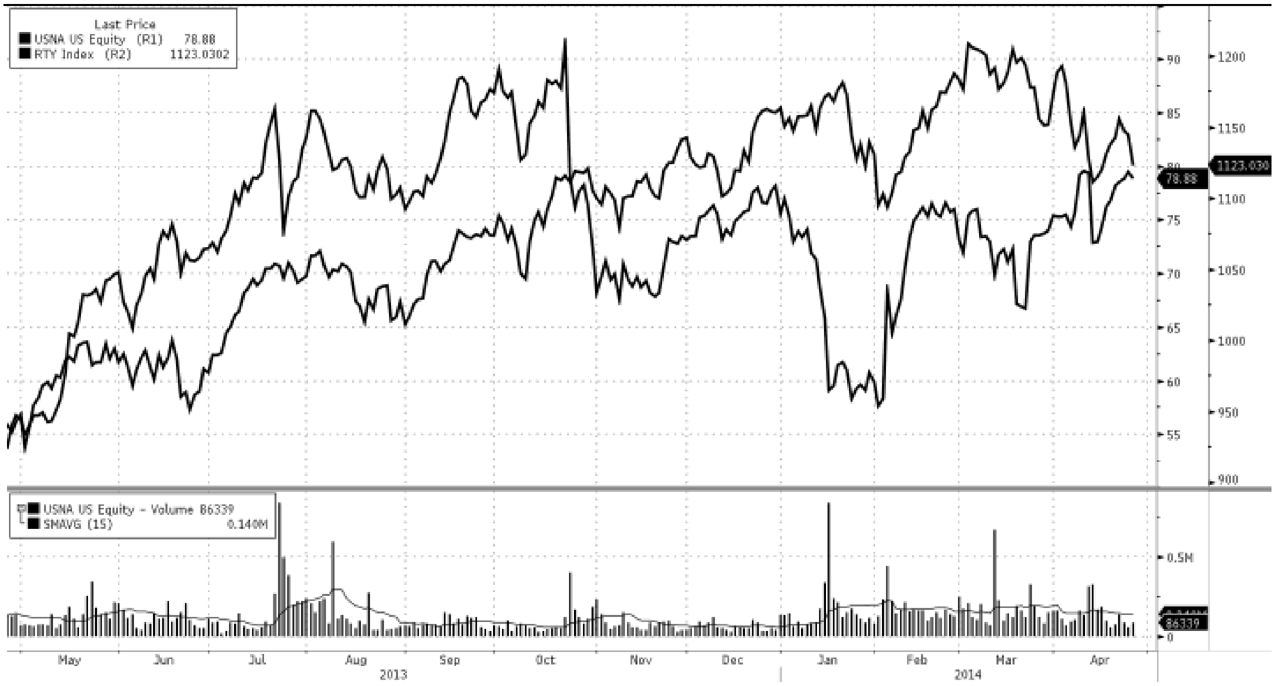
In order to reach an intrinsic value for USNA, a five year discounted cash flow model was constructed. Using a terminal growth rate of 2.8% and a WACC of 9.79% resulted in a valuation of $97.13. Sensitivity analysis on both the terminal growth rate and the WACC resulted in a range between $88.43 and $99.95. The average of the data in the sensitivity analysis table was $94.01. Additionally, P/E multiples were used as another valuation approach. Using an industry average of 15.56x and an expected 2014 EPS of $5.84, a value of $90.93 was established. By weighting the result of the five-year discounted value model 50%, the result of the sensitivity analysis 25%, and the result of the P/E multiple calculation 25%, a price target of $94.80 was obtained. USNA does not pay a dividend.

Risks

- **Foreign Currency and Political Risk.** Sales outside of the U.S. accounted for 78.1% of USANA's net sales for the 2013 fiscal year. With its attempt at continuous growth through international expansion, USANA will expose itself to greater risks in both politically and financially unstable markets. In its 2013 10-k, the company acknowledges that if exchange rates fluctuate dramatically, it may become uneconomical to establish a presence or continue activities in certain countries. Unfavorable changes in currency exchange rates reduced net sales in 4Q 2013 by $2.9 million.
- **Intense Competition.** USANA faces strong competition from larger, wealthier, and more established competitors. Such companies include Procter and Gamble, Herbalife, and Avon Products, each of which have well over 3 times USANA's market capitalization. It will be challenging for USANA to continue penetrating the market while competing against well-recognized competitors with more resources and product variety to offer.
- **Decline in the Greater China Market.** Approximately 37.9% of USANA's net sales occurred in the Greater China market last year, making it the company's most significant geographic region. With BabyCare's acquisition and growth, China overtook Hong Kong as the leading market in the region. Since the acquisition in 2010, net sales in the Hong Kong market have decreased by roughly 8% per year. Without the continued success and expansion of USANA's BabyCare subsidiary, the company's financial performance will be considerably weaker.

Management

Myron W. Wentz is the founder, former Chief Executive Officer, and current Chairman of USANA. He holds a Ph.D. in microbiology and immunology from the University of Utah. Dr. Wentz's son, David A. Wentz, has been USANA's CEO since 2002. Paul A. Jones, CMA, has been the Chief Financial Officer since 2012. Deborah Woo was promoted to President of Asia and Greater China in May 2011.



Ownership			
% of Shares Held by All Insider and 5% Owners			53%
% of Shares Held by Institutional & Mutual Fund Owners			62%
	Source: Yahoo! Finance		

Top 5 Shareholders			
Holder	Shares		% Out
Myron W. Wentz	6,574,167		47.25
FMR LLC	2,250,128		16.67
Renaissance Technologies Corp.	581,200		4.18
Blackrock	509,161		3.66
Vanguard Group Inc.	497,228		3.57
	Source: Bloomberg		

Seadrill Ltd (SDRL)
May 2, 2014

Jaime Rehm | International Energy

Seadrill Ltd (NYSE: SDRL is a leading drilling contractor providing offshore drilling services worldwide to the oil and gas exploration and production industry since it was incorporated in 2005. The company offers a young fleet of 69 units, compromised of drillships, jack-up rigs, semi-submersible rigs and tender rigs which are able to operate in shallow, mid, deep and ultra-deep waters. SDRL has a global presence; they have units in the regions of the Gulf of Mexico, Brazil, the North Atlantic, West Africa, the Middle East and Asia Pacific. The company's five largest customers are Petrobras (16%), Total (14%), Statoil (14%), Exxon Mobile (12%) and BP (9%). SDRL employs 7,900 people and is headquartered in Hamilton, Bermuda.

Price ($): (4/25/14)	$34.77	Beta:	1.15	FY: Dec. 31	2013A	2014E	2015E
Price Target ($):	$41.15	WACC:	8.70%	Revenue (Mil)	$5,282	$6,603	$7,791
52 WK H-L ($):	$48.09-$32.40	M-Term Rev. Gr Rate Est:	12.50%	% Growth	17.95%	25.00%	18.00%
Market Cap (mil):	$16,307.1	M-Term EPS Gr Rate Est:	11.13%	Gross Margin	57.71%	57.00%	56.57%
Float (mil):	353.30	Debt/Equity	182.1%	Operating Margin	38.56%	38.00%	37.57%
Short Interest (%):	6.97%	ROA:	11.55%	EPS (Cal)	$ 2.98	$ 3.57	$ 4.15
Avg. Daily Vol (mil):	5.33	ROE:	40.77%	FCF/Share	$ 1.97	$ 1.97	$ (1.16)
Dividend ($):	$3.72			P/E (Cal)	9.73	8.37	8.76x
Yield (%):	11.27%			EV/EBIDTA	11.98x	8.69x	7.61

Recommendation

As an offshore drilling contractor, SDRL has 23 drillships and semi-submersibles, 11 drillships and semi-submersibles under construction, 23 jack-up rigs, 9 jack-up rigs under construction and 3 jack-up rigs. Despite being in the process of constructing 20 new units, the company has still been able to sustain its growth and keep revenue growth rates high. SDRL has seen revenue growth rates increase from 3.74% in 2011 to 17.95% in 2013. Through the creation of SDRL's subsidiary – North Atlantic Drilling Limited (NADL) – in which SDRL has a 70% interest, the company has vast exposure to the premium harsh environment market. NADL went public on the NYSE at the end of January this year, and has seen consistent revenue growth rates of 8.41%from 2011 to 2012 and 12.19% from 2012 to 2013. This market has high and sustainable barriers to entry, but can turn out to be very lucrative. SDRL has a fleet of 4 to 5 years old compared to peers fleet of 22 to 23 years on average. This gives them technological competitive advantage through being able to offer customers new and up-to-date technology. Of modern fleet, the company not only has the youngest, but also the second most ultra-deep water units, behind only Transocean. This enables them to be contracted for the most difficult work in the most expensive areas of harsh ultra-deep water drilling. SDRL has consistently has high economic utilization rates, a 93% average over the last three years, and has contracts fulfilled to continue this the next few years. With its global operational footprint, modern fleet with exposure to premium segments, significant contracted backlog that provides dividend visibility, and dividend group priority, it is recommended that SDRL be added to the AIM International Equity fund with a target price of $41.15, offering an up-side of 18.35%. The company also pays a dividend of $3.72, representing a dividend yield of 11.27%.

Investment Thesis

- **Most Modern Fleet of all Offshore Drillers.** SDRL has the most modern fleet of all major offshore drillers. Average floater age of Seadrill units is 5 years, and average jack-up age of Seadrill units is 4 years. Comparatively, their competitor's age of floaters range from 14 to 34 years and their competitor's age of jack-ups range from 13 to 31 years. The industry currently has an older fleet, averaging 25 to 30 years. Most units are retired between 30 to 40 years and the industry has been increasingly retiring more units each year.

- **Highest Number of Ultra Deep-water Units.** Seadrill has 32 units, which is the most in the industry – this compares to their peers whom have 14 and 26 units. The industry has increasingly discovered more resources of ultra deep-water, compared to shelf and deep-water resources, every year since 1995. This past year over half of all discovered resources were found in ultra deep-water. This trend is expected to continue, and to increase even more. Having the largest capacity to service this need should continue to help them fulfill their economic contract capacity.
- **Consistently High Economic Utilization Rates.** The past three years on average have had an economic utilization of their ultra deep-water units of 93%, comparing to its peers average level of 92%. This has allowed them to generate enough cash flow from operation to expand their fleet. These high rates of utilization are forecasted to continue, as they already have 96% of their floaters contracted for this year.

Valuation

To find the intrinsic value of SDRL, a five year discounted cash flow model was conducted. Using a terminal growth rate of 2.5% and a WACC of 8.7% resulted in a valuation of $38.02. Sensitivity analysis on both the terminal growth rate and WACC provided for a range between $32.91 and $53.21. Secondly, an EV/EBIDTA multiple evaluation was conducted. Using a blended EV/EBITDA multiple of 9.60x, a price target of $40.87 was generated. By weighing the DCF model 50% and the EV/EBIDTA multiple 50% a price target of $41.15 was achieved. SDRL paid dividends of $3.72 in 2013, an 11.27% yield.

Risks

- **Over-Supply of Offshore Drilling Units.** The industry has seen an increase in the demand of drilling units, causing drilling service companies to increase their fleet size and continue to construct new units. Previously, this has resulted in an over-supply of units causing utilization rates of the units to decrease and consequently causing a decrease in day-rates to decrease until the market absorbs these new units. Lower utilization rates and day-rates could adversely affect SDRL revenues and profitability.
- **Inability to Secure Contracts.** SDRL has 20 new drilling units and has 18 yet to be contracted. Failure to secure contracts for these units prior to their delivery will result in these units sitting idle and consequently costing the company without generating revenues to match and exceed these costs.
- **Subject to Credit Risks of Key Customers.** SDRL is subject to losses resulting from their customers defaulting on payments. Some of their customers are highly leveraged and subject to their own operating and regulatory risks. Any nonpayment or poor performance by these customers will adversely affect the company's cash flows and overall operations.

Management

Per Wulff was appointed CEO and President of Seadrill in July 2013. Mr. Wulff began his career at Seadrill in February 2009 and served as COO and Executive Vice President prior to this appointment. He has 30 years of experience in the drilling industry. Rune Magnus Lundaetræ was appointed CFO and Senior Vice President in February 2012. Prior to this, Mr. Lundaetræ was Finance Director for Seadrill Americas and Commercial Director for Seadrill Europe, now known as North Atlantic Drilling (NADL). Additionally, he was named CFO for Scorpion Offshore when Seadrill acquired the company in July 2010. Prior to his work at Seadrill he was an auditor for KPMG and PWC in Norway. Mr. Lundaetræ received his MSc in Management from the London School of Economics in 2001 and his MSc in Accounting and Auditing from the Norwegian School of Business Administration in 2004. He registered as a CPA in Norway in 2005.

Ownership

% of Shares Held by All Insider & 5% Owners:	0.14%
% of Shares Held by Institutional & Mutual Fund Owners:	64.39%

Top 5 Shareholders

Holder	Shares	%Out
Hemen Holding Ltd	115,097,583	24.53%
Morgan Stanley Wealth Management	23,950,762	5.10%
Barrow Hanley Mewhinney & Straus	19,136,438	4.08%
Capital Group Companies Inc.	12,147,862	2.59%
Blackrock	6,567,689	1.40%

Piper Jaffray Company (PJC)
May 2, 2014

Jeremy Poppe — Domestic Financial Services

Piper Jaffray Companies (PJC) is an investment bank and asset management firm, serving the needs of corporations, private equity groups, non-profit entities, public entities, and institutional investors in the U.S. and internationally. PJC's revenues consist of M&A advisory, (14%) equity capital markets, (19%) equity sales and trading, (17%) debt capital markets,(14%) debt capital trading,(15%) asset management, (15%) and proprietary investments (6%). The asset management segment includes traditional asset management business and seed investments in registered funds and private funds that PJC manages. Their traditional asset management business offers specialized investment management solutions for institutions, private clients and investment advisors. PJC manages value-oriented domestic and international equity securities and energy infrastructure assets through both open-end and closed-end funds.

Price ($): April 25th, 2014	44.40		Beta:	1.38		FY: Dec. 31	2013A	2014E	2015E
Price Target ($)	54.79		WACC:	10.34%		Net Interest Income	525,195.00	552,437.00	576,813.00
52 WK H-L ($)	47.23-29.48		M-Term Revenue Gr. Rate Est:	4.42%		% Growth	7.41%	5.19%	4.41%
Market Cap (mil):	722.16		M-Term EPS Gr. Rate Est:	3.93%		NIM	N/A	N/A	N/A
Float (mil):	16.26		EBITDA/Interest Expense	4.1x		Pretax Margin	14.40%	14.08%	14.11%
Short Interest (%)	2.96%		ROA:	2.40%		EPS	$3.22	$3.55	$3.65
Avg Vol (K)	106,301		ROE:	5.70%		BVPS	54.2x	52.3x	50.4x
Dividend ($):	N/A		LT Debt/ Total Assets	5.40%		P/B	0.8x	0.8x	0.9x
Yield (%)	N/A					P/E	14.3x	12.7x	12.1x

Recommendation

PJC is a middle market investment bank headquartered in Minneapolis, Minnesota. To gain a competitive edge in M&A advisory, equity capital markets, and equity sales and trading the firm focuses on particular business sectors. These fields are business services, clean technology and renewables, consumer, healthcare, industrials, technology, media and telecommunications. Healthcare, media and telecommunications are structurally changing creating opportunities for M&A. In 2013, Piper Jaffray was able to capitalize on these trends and caused investment banking revenues to grow by 13.2%. The debt capital markets and trading is specialized in nonprofits, state and local government, healthcare, education, senior living and hospitality. In 2013, consistent with their growth strategy, Piper acquired Seattle-Northwest Securities, and Edgeview Partners. As for the asset management division, total assets under management were $11.2 billion on December 31st 2013, 59% invested in equities and 41% in MLPs. As of the same date, 93% were invested in domestic investment strategies and 7% in international investments. Of the assets under management, 83% were managed on behalf of institutional clients. Although Piper Jaffray faces fierce competition, the firm has performed incredibly well averaging 12.3% revenue growth since 2009. During the financial crisis, Piper Jaffray outperformed their peers. From the beginning of 2008 to the end of 2009, PJC's stock price was up 18.9% compared to the overall financial sector which declined 48.4%. With potential for increased volume in M&A, recent acquisitions, and possibly of increasing market share for debt issuance it is recommended that PJC be added to the AIM domestic equity fund with a target price of $54.79 from $44.40, which offers 23.40% upside.

Investment Thesis

- **Increased M&A in Key Sectors.** In 2013, deal volume in healthcare was $18.6 billion up from $1.9 billion in 2012. A major driver behind this was the Affordable Care Act, (ACA) which has created a need to innovate to control costs and manage patient populations while improving quality of care. After the Supreme Court ruling that upheld the Act, the trend has been accelerating. Another segment that could increase deal volume for PJC is media, specifically broadcasting where consolidation has been a growing trend. Due to the fact Piper only focuses on seven segments, the firm will outperform their more diversified peers.

- **New Acquisition of Northwest Region Investment Bank** Seattle-Northwest is a Seattle based investment bank and broker dealer focused on public finance. Seattle-Northwest ranked number one in public finance for the number of transactions in the Pacific Northwest in 2012. This strengthens Piper Jaffray's developed business in municipal transactions and marks progress in executing the firm's growth strategy.
- **Increased Market Share in Middle Market Municipal Debt Underwriting** Piper generates 14% of its business from debt capital markets. Despite volatility in 2013, Piper was still able to perform and controlled 3.3% of the municipal underwriting market share. As Piper continues to grow, the firm can offer more access to specialized products and capabilities to clients. Evidence to the advantages of size in municipal underwriting is that the top 10 firms account for 71.9% of debt issued. Piper Jaffray is in the unique position of being small enough to have the flexibility to serve smaller clients while still having the advantages of being a well-known investment bank with an excellent reputation. Therefore, PJC will take market share organically in municipal underwriting from their smaller middle market competitors that do not have the capabilities or national reputation PJC has.

Valuation

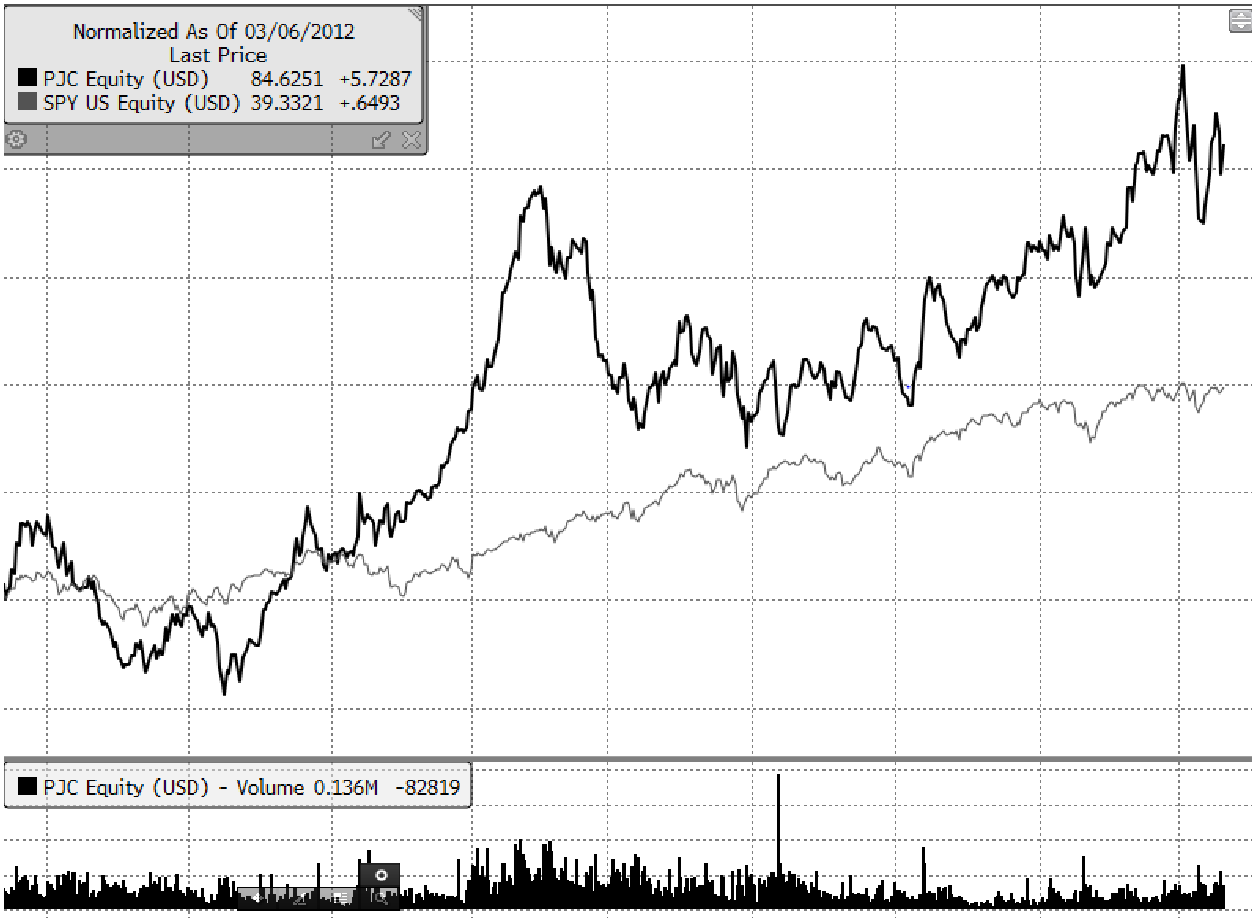
To find the intrinsic value of PJC a discounted cash flow model was used. The growth rate for the investment banking division averaged 5.0% in the first five years. A WACC of 10.5% and a perpetuity growth rate of 2.5% were used. The price per share resulted in $57.96. A sensitivity analysis was completed on the terminal growth rate, producing a price range from $53.94 to $69.40. A comparable valuation was done by taking an average of PJC's peers EV/Revenue multiple. The selected comparable companies averaged a 4.6x multiple which put Piper Jaffray at a value $51.61 a share. After taking an equally weighted average of the two valuations, the value of the firm resulted in $54.79 per share.

Risks

- **Larger Firms Taking Market Share** Larger investment houses have a larger capacity to provide financing to clients. To counteract size, Piper Jaffray focuses on specific industries enabling them to compete with these larger investment banks.
- **Macroeconomic Risk & Uncertainty** Debt issuance and M&A correlate with economic growth. Piper Jaffray could face significant loss in value relative to other industries or other investment banks that have counter cyclical divisions such as large restructuring practices.

Management

Andrew Duff is the CEO and Chairman of the Board at Piper Jaffray. He became Chairman and Chief Executive Officer of PJC following the completion of the spin-off from U.S. Bankcorp on December 31, 2003. Mr. Duff joined the Piper Jaffray institutional fixed income sales department in 1980. Debbra Schoneman has been the Chief Financial Officer since May 2008. Ms. Schoneman previously served as treasurer for two years before becoming CFO. Chad Abraham is Co-Head of the Global Investment Banking and Capital Markets of Piper Jaffray Companies since 2010. Mr. Abraham joined Piper Jaffray in 1991. Mr. Frank Fairman is Head of Public Finance Services Business since July 2005. Prior to that, Mr. Fairman served as head of the firm's public finance investment banking group from 1991 to 2005.



Source: Bloomberg

Ownership

Source: Thompson One, Bloomberg

% of Shares Held by All Insider and 5% Owners:	38.43%
% of Shares Held by Institutional Investors:	77.33%

Top 5 Shareholders

Source: Thompson One

BlackRock Institutional Trust Company	9.62%	1,529,274
T. Rowe Price Associates, Inc.	7.19%	1,144,249
The Vanguard Group, Inc.	5.9%	938,262
Dimensional Fund Advisors	5.15%	819,859
Pzena Investment Management	4.73%	752,901

Berry Plastics Group (BERY)
May 2, 2014

John M. Schneider | Domestic Materials

Berry Plastics Group (NYSE: BERY) is a leading provider of plastic products and containers. The company produces drink cups, lids, trash bags, flexible packaging, overcaps, tapes, tubes, bottles, agricultural film, closures, disposable cutlery, and drop cloths. The company sells its products and solutions to consumer-oriented end-markets, such as food and beverage, healthcare, and personal care. Berry operates in four divisions: Rigid Open Top, Rigid Closed Top, Engineered Materials, and Flexible Packaging, which make up 30%, 24%, 30%, and 16% of revenues, respectively. The company markets its products worldwide. Berry Plastics is headquartered in Evansville, IN.

Price ($): (4/25/14)	22.50		Beta:	1.12		FY: Sep	2013A	2014E	2015E
Price Target ($):	29.96		WACC	7.71%		Revenue (Mil)	$4,647	$4,967	$5,357
52WK H-L ($):	26.50-17.74		L-Term Rev. Gr Rate Est:	2.0%		% Growth	-2.50%	6.89%	7.86%
Market Cap (mil):	2,694.80		L-Term EPS Gr Rate Est:	2.0%		Gross Margin	17.47%	17.72%	18.87%
Float (mil):	12.00		Debt/Total Assets:	75.02%		Operating Margin	8.61%	9.00%	9.13%
Short Interest (%):	1.08%		Debt/EBITDA (ttm):	5.33x		EPS (Cal)	$0.50	$1.23	$1.51
Avg. Daily Vol (mil):	0.40		ROE:	N/A		FCF/Share	$3.57	$3.21	$2.80
Dividend ($):	N/A		ROA:	4.21%		P/E (Cal)	24.5x	18.6x	15.5x
Yield (%):	N/A		ROIC:	5.73%		EV/EBITDA	9.2x	8.8x	5.9x

Recommendation

Berry Plastics Group is a well-managed and diverse company that is excelling in a steady growth environment. BERY is positioned exceptionally well across a broad variety of end-markets. Sales by end-market are made up of food and beverage (47%), industrial (24%), personal care (10%), healthcare (7%), household (5%), retail (4%), and other. Berry's ability to provide unique technology and product innovation creates high growth out of these markets which already have realized a CAGR of 2.3% since 1980. Berry has built long-lasting relationships with an extremely diverse mix of multi-national customers such as Starbucks, McDonald's, P&G, Ace Hardware, and many more. The company sells to over 13,000 different customers with no customer making up more than 3% of total sales. Berry's rigid open top segment is in good position to generate additional revenue growth with new products such as the "Versalite" container, which is a more efficient and environmentally friendly upgrade from traditional open top containers. Also, EBITDA growth and high operating margins create an attractive combination of value to be used for deleveraging and M&A activity. For these reasons, it is recommended that BERY be added to the AIM Equity Fund with a target price of $29.96 which offers a potential upside of 33.14%. The company does not pay a dividend.

Investment Thesis

- **Rigid open top driving top line growth.** Overall, net sales for Berry have a CAGR of 24% driven by the company's ability to control a #1 or #2 market position in over 76% of ttm sales. The rigid open top segment is expected to increase revenues with the primary driver behind this being the "Versalite" product line, which is projected to do $400 million in revenue in Q2 of 2014. The company's "Versalite" technology is extremely valuable in that it can accommodate both hot and cold materials and it is 100% recyclable. The product typically sells for $0.10-$0.11/cup with EBITDA of $0.02-$0.03/cup. Also, Berry is currently product testing with six customers that would produce an extra 3 billion units of annual demand. Berry expects to produce 600 million units of "Versalite" in Q2 of 2014.
- **Top tier margins.** Berry has excellent EBITDA in a competitive and low margin industry. Adjusted EBITDA margin for 2013 was 17.0% compared to an average of 13.6% across its top competitors. Berry achieves these margins by focusing on profitable niches where the customer is

typically a leader in its industry. Berry also has strong EBITDA less capex margins, which take into account the capital expenditure requirements for different packaging companies. 2013 adjusted EBITDA less capex was 11.9% compared to an industry average of 10.08% which demonstrates that BERY is able to maintain strong margins despite the intense capital requirements of the industry.

- **Deleveraging and M&A.** Management intends to apply its strong FCF towards reducing Berry's leverage and maintaining their track record of making quality acquisitions. Using its high FCF's, Berry has decreased its leverage from 7.3x EBITDA in December 2010, to 5.3x at the end of 2013. Debt to EBITDA is currently 4.7x and the company plans to continue this reduction into the future with an end goal of 2.0x. This deleveraging provides great interest coverage. Furthermore, Berry plans to achieve synergies through M&A in addition to their organic growth. The company recently announced an acquisition of Rexam's Healthcare Container and Closure Business. Berry has acquired 37 value adding companies over the past 25 years.

Valuation

In order to reach an intrinsic value for BERY, a ten year DCF model was constructed. Using a terminal growth rate of 2.5%, WACC of 7.71%, and a long-term revenue growth rate of 2%, the DCF model resulted in an intrinsic value of $31.74. A sensitivity analysis, using a range for terminal growth of 1.5%-3.5% and WACC ranging between 5.15%-9.15%, generated an intrinsic value range of $19.41-$37.03. Additionally, P/E and EV/EBITDA multiples were run. The P/E multiple used a three year average P/E weighed at 20%, and a three year comparable average weighted at 80% which yielded a value of $27.01. Finally the EV/EBITDA multiple was calculated, again using three year averages for the company, weighted at 50%, and the comparables, weighted at 50%. This approach yielded a value of $29.33. The DCF model was weighed at 50% and the P/E and EV/EBITDA were each weighted at 25% which provided a price target of $29.96 and a potential upside of 33.14%.

Risks

- **Volatility of raw materials prices.** Berry purchases approximately 2.5 billion pounds of resin each year which is its primary raw material (50% of total COGS). Although Berry has a contractual pass-through of resin prices of 75%, earnings may still be negatively affected by resin cost inflation especially due to the volatile nature of the material's pricing.
- **Private equity overhang.** Due to Berry's IPO in 2012, Apollo Management Holdings, LP, still controls 21.21% of shares outstanding. This amount has decreased from roughly 60%, however, the company still faces a risk from Apollo liquidating the rest of its position.
- **International Operations.** Berry is exposed to international trade, import/export, and economic sanction laws imposed by the U.S. Government. Changes in these laws and regulations may adversely harm the business.

Management

Dr. Jonathan (Jon) Rich has served as Chairman of the Board and Chief Executive Officer of Berry since October 2010. Prior to becoming CEO, Dr. Rich served as President and CEO of Momentive Performance Materials, Inc. from 2007 to October 2010. Mark Miles became the Chief Financial Officer in January of 2014. He has been with Berry since 2005 and previously served as Executive Vice President, Controller, and Treasurer. Aside from Dr. Rich, top management at Berry has an average tenure of 17 years.

Price Chart

Ownership

% of Shares Held by All Insider and 5% Owners:	0.93%
% of Shares Held by Institutional & Mutual Fund Owners:	89.10%

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
Apollo Management Holdings, L.P.	24,730,860	21.21%
BAMCO, Inc.	4,943,840	4.24%
T. Rowe Price Group, Inc.	4,733,960	4.06%
Vanguard Group, Inc.	4,465,780	3.83%
TIAA-CREF Investment Management, LLC	4,115,980	3.53%

Source: Bloomberg