

Applied Investment Management (AIM) Program

AIM Class of 2014 Equity Fund Reports Fall 2013

Date: Friday, September 13, 2013 / Time: 1:30 pm – 2:45 pm
Road Show Location: Robert W. Baird & Company

Student Presenter	Company Name	Ticker	Price	Page No.
Sean Brackin	8x8, Inc.	EGHT	\$9.51	2
Danny Muench	Shutterfly	SFLY	\$54.44	5
Steven Marszalek	Innospec Inc.	IOSP	\$42.99	8
Sean Morrissey	Patrick Industries, Inc.	PATK	\$28.45	11
Eoghan Bahnson	Acadia Healthcare Company	ACHC	\$38.20	14
John Hurley	Scorpio Tankers	STNG	\$10.08	17

Thank you for taking the time today and participating in the AIM ‘road show’ at R. W. Baird. 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. Today, each student will spend about 5-7 minutes presenting their formal recommendation, which is then followed by about 8-10 minutes of Q & A. Again, thank you for allowing us the opportunity to present at Baird.

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8x8, Inc. (EGHT)
September 13, 2013

Sean Brackin

Telecommunications

8x8, Inc. (NASDAQ:EGHT) is an application software company that provides voice-over-Internet protocol (VoIP), telephony, and video applications. It also provides cloud-based computing systems, Web-based conferencing, and unified communication systems. 8x8 targets the small and medium sized business market with its service called 8x8 Virtual Office. It also offers another service called 8x8 Virtual Contact Center Service, which is a call center that works through Internet broadband connections. Subscribers also possess the ability to manage business communication functions through the 8x8 Virtual Office Pro which utilizes a centralized Web-based portal on a PC, laptop, tablet, or smart phone. At the end of the fiscal year 2013 (March 31, 2013), 8x8 had approximately 32,500 business customers. The Firm was founded in 1987 and is headquartered in San Jose, California.

Price(\$): (9/6/13)	9.51	Beta:	1.03	FY:	FY 2013A	FY 2014E	FY 2015E
Price Target (\$):	11.48	WACC	10.36%	Revenue (mil)	107.61	127.71	148.00
52WK H-L (\$):	9.80-5.62	M-Term Rev. Gr Rate Est:	16.50%	Growth	20.03%	18.68%	15.89%
Market Cap (mil)	692.00	M-Term EPS Gr Rate Est:	21.40%	Operating Margin	16.55%	16.86%	17.33%
Float (mil):	72.80	Debt/Equity (bil)	0	Profit Margin	11.65%	12.17%	12.82%
Shares Outstanding (mil)	68	ROA:	9.84	EPS (Cal)	0.15	0.2	0.24
Avg. Daily Vol:	659,041	ROE:	10.91	P/E (Cal)	73.2	6.87	8.19
Dividend (\$):	0.00	Churn Rate	1.20%	P/S	6.1	0.8	0.83

Recommendation

As a developer and marketer of telecommunication services, 8x8, Inc. has effectively provided VoIP, Infrastructure-as-a-Service (IaaS), and Software-as-a-Service (SaaS) to small and medium sized businesses and has become the largest provider in this fast-growing, lowly penetrated and highly fragmented provider space. IaaS is a model that allows a company to outsource equipment that is used to support operations, and SaaS, also known as on-demand software, is a delivery model that houses software and associated data on a cloud-based network. With a constantly changing and technologically hungry home market such as the United States, it is vital for companies to stay ahead of the industry curve in the development and implementation of new products. Due to deregulation after 1996 in the telecommunication sector as well as the ingenuity of management at 8x8, they have been able to consistently remain at the forefront of this small and medium sized business industry with cloud software and communication services. They are currently the undisputed industry leader in hosted IP telephony with a market share of 7.8%. Over the past few years, they have been able to increase both revenues and their subscriber base at annualized rates of 23.1% and 16.40% respectively. The firm's service margin hit a new high of 81% in the last fiscal quarter and bumped gross margin to 71%. They have been able to implement new products that are not only PC and laptop savvy, but always capable of being used on tablets and smartphones. Their IP telephones have incorporated text and images as well as audio to enhance communication and the ability to conduct live conferences. The success of the newly launched Zerigo VDI with SoftBank has been a huge hit and one that has been heard through the industry. 8x8's services will now be available to the general public as well as a number of free demos for handling this easy to use, innovative software. With the new "Global Reach" project, 8x8 has managed to increase its global client base by nearly 500%. Given the firm's ability to maintain a strong foothold in this highly competitive market and a favorable valuation, it is recommended that 8x8, Inc. be added to the AIM Equity Portfolio with a target price of \$11.48, representing an upside of 20.72%.

Investment Thesis

- **New Product with SoftBank: Zerigo VDI.** After successfully launching this new product specifically to power SoftBank's Virtual Desktop Infrastructure (VDI) and IaaS needs, 8x8 will

be Zerigo VDI available to the public. 8x8 is positioned as the largest player in this rapidly growing, relatively untapped market and their product is revolutionary in this field. Zerigo is the first to complete SaaS and IaaS management into a user-friendly package that has built-in billing support. The software automatically sends out invoices to clients based on its ability to track real-time monthly usage. This product will begin generating revenue this quarter and will be quantifiable when the quarterly report is released after September 30th. Revenue has continued to increase quarter-by-quarter from 17% in 3Q13 to 18% in 4Q13 to 19% in 1Q14, and it is expected that the profits from this product should keep 8x8 on track to beat an already impressive record of 81% service margin.

- **Low Penetration of VoIP in the SMB Segment.** 8x8 has emerged as a market leader in the highly fragmented provider space and should continue to increase market share due to the vast opportunity that still exists in this segment. The success of Zerigo VDI's launch with SoftBank will be shown in next quarter's earnings report fueling more growth, and until the Telecommunication Act of 1996 is repealed or tweaked, the telecommunications sector in the United States market will maintain relatively low costs allowing smaller cap companies to remain in existence and even thrive.
- **Global Reach.** 8x8 is in the midst of instituting their "Global Reach" project which has them becoming a larger player on an international scale. With steady success in the United States, 8x8 is looking to branch out into other locations in the world by adding additional data centers. The first round of deployments will take place in the United Kingdom followed by exposure into the Asian and South American markets. In the FY2011, 8x8 had a total of 708 subscribers outside of the United States, making up 1.01% of the subscriber base. At the end of FY2013, 8x8's subscriber base had grown to 3,227, representative of 3.00% of the subscriber base.

Valuation

In order to reach an intrinsic value for 8x8, Inc., a seven year discounted cash flows model was conducted. A current WACC of 10.36% was developed and a 164bps premium was added to come up with a discount rate of 12% along with a perpetuity growth rate of 5%, the industry average for this part of the telecommunications sector. This generated an intrinsic value of \$11.38. Additionally, a P/E comparable was used and resulted in a multiple of 101.00x yielding a price of \$13.13. A P/Rev multiples method was also used and resulted in a multiple of 5.71x yielding a price of \$10.02. Weighting the valuation methods 50/25/25 respectively, an intrinsic of \$11.48 was yielded representing an upside of 20.72%. 8x8, Inc. does not pay a dividend.

Risks

- **Change in Government Regulation.** While the lack of government regulation is used as a driver in the investment thesis above, if the government decides to once again more heavily regulate the telecommunications industry, costs could begin to rise making it much more difficult for the smaller companies that do not have access or market share in big businesses.
- **Strong Competition from Incumbent Telephone Services.** Verizon, AT&T, CenturyLink, and Time Warner Cable are all making plays in this industry by acquiring smaller companies. This could lead customers to flock in their direction for the convenience of having a broader range of services.
- **Potential for Caps on Broadband.** There is the potential that broadband caps may be put in place causing companies to look for more cost-effective on-site solutions. This is a relatively unlikely scenario, but if it were to happen, the effects could be a huge roadblock for the company.

Management

Bryan R. Martin is the Chairman and CEO and has been since December of 2003. He served a short stint as the company's President as well. Kim Niederman is the current President of 8x8 and served as the

President and CEO for Persona Software, Inc. from 1999 to January of 2003. Daniel Weirich has been the since July of 2006 and also served a brief stint as the company’s President as well. Despite volatility at the role of President, both Martin and Weirich have continued successful careers with 8x8, Inc. and are both relatively young guys with expansion and innovation at the forefront of their business model.



Ownership

% of Shares Held by All Insider and 5% Owners:	5%
% of Shares Held by Institutional & Mutual Fund Owners:	46%
% of Float Held by Institutional & Mutual Fund Owners:	48%
Number of Institutions Holding Shares:	117

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Outstanding
BlackRock Fund Advisors	3,170,214	4.36
Archon Capital Management	3,016,422	4.15
Vanguard Group, Inc (The)	2,700,135	3.71
BlackRock Institutional Trust Company, N.A.	2,044,897	2.81
Russell (Frank) Company, Inc.	1,291,136	1.77

Shutterfly (SFLY)
September 13, 2013

Danny Muench

Domestic Consumer Discretionary

Shutterfly (NASDAQ: SFLY) is the leading manufacturer and digital retailer of high quality personalized photography-related products and services offered through a portfolio of lifestyle brands. The four brands are Shutterfly, Tiny Prints, Wedding Paper Divas, and Treat. Shutterfly has been in operation since the firm's inception in 1999; however Tiny Prints and Wedding Paper Divas were acquired in 2011 and Treat was recently launched in early 2012. They offer a range of personalized photo-based products and services for consumers to upload, edit, enhance, organize, find, share, create, print, and preserve their memories. They also sell photo-books, greeting and stationary cards, personalized calendars, and other photo based merchandise. The firm is headquartered in Redwood City, California.

Price (\$) (9/5/2013):	\$ 54.44	Beta:	1.46	FY May	2012A	2013E	2014E
Price Target (\$):	\$ 69.78	WACC:	10.60%	Revenue (\$Mil)	\$ 640.62	\$ 781.00	\$ 898.15
52WK H-L (\$):	25.18-59.93	Mid-Term Rev Gr Rate Est	12%	% Growth	35.36%	21.91%	15.00%
Market Cap (mil):	\$ 2,099.40	Mid-Term EPS Gr. Rate	22%	Gross Margin (%):	53.97%	54.00%	54.00%
Float (mil):	39	Debt/Equity:	13.2%	Operating Margin (%):	6.35%	2.61%	3.50%
Short Interest (%):	13.36%	2012 ROE:	2.70%	EPS	\$ 0.59	\$ 0.37	\$ 0.47
Avg. Vol (3 month):	571,444	2012 ROA:	2.06%	EPS % Growth	64%	-38%	28%
Dividend		2012 EV/Adjusted EBITDA	15.69	FCF/Share	0.53	0.57	0.24
Yield (%)	0.00%						

Recommendation

With an increased product portfolio and continued expansion of revenue, SFLY offers an excellent opportunity for strong future growth. SFLY has grown 160% since 2009 through their innovation and expansion. They have significant growth organically and through M&A, including 13% through M&A and 22% organically in 2012. Mobile, which includes their new ecommerce apps, and enterprise, their commercial business with Fortune 1000 companies, has begun to impact revenue as well. Management believes these two lines of business can make a noticeable impact in the future, as mobile begins to tap the markets of Android and tablets, and enterprise improves. Customers are also leaning towards higher end products as demonstrated through increased average order value (AOV). AOV, \$34.96, grew 10% YoY and also reached the highest amount ever for a non Q4 quarter. AOV is expected to increase with the additional tablet and mobile apps. Cloud integration is also a plus for SFLY as they bring software sophistication into the market place and make it easier for customers to purchase products. Their main strategy is to introduce auto product creation into the world of photo related products, through the intelligence and technology acquired through This Life and Photocino. Expansion opportunities are not just domestic though, as they have plans to go overseas. With little to no competitors outside of the U.S., they have expansion capabilities and it is speculated they will go there within the next year. Outside of their growth through their portfolio of products, they are expanding the amount they in-source as well. They have over 50% outsourced related to Tiny Prints, and they have purchased the grounds to increase their manufacturing capabilities and bring more in house, which will increase their margins. They did \$600M out of 200K sq. ft. and are growing it to 650K sq. ft. which entails massive expansion.

Investment Thesis

- Increased revenues due to new products:** SFLY has recently gone into the markets of mobile and enterprise and they will be entering the tablet and cloud space soon. The enterprise portion has grown from \$500K in 2008 to \$27M in 2012, with a compound annual growth rate of 170%; it has less of a seasonal risk and can lead to positive results in Q1-Q3. Mobile has grown to 5% of revenue through Q2 and was launched at the end of 2012. SFLY has also purchased technology able to create software sophistication into the photo space for cloud and mobile.

- **Active through M&A:** SFLY has generated strong cash flows generating 65M in 2012 and 121M so far in 2013. They are projecting operating margins of 3% and gross margins of 54% in 2013, but are expecting to increase it as acquisitions pan out. They purchase companies in order to gain synergies such as; increased customer accounts without the price of marketing (Kodak), and tech companies that provide outside R&D and allow them to take new products to market sooner (Penguin Digital). This has already been proven as Penguin Digital has allowed them to enter mobile sooner than they hoped, and it will also help in the future as they are now closer to a cloud based product due to the acquisition of This Life, which will in turn gain revenue and increase the value of the company.
- **Increased operating efficiency:** SFLY's manufacturing has primarily been outsourced, but they are bringing higher volume products in house. They have purchased two new facilities in SC and MN that will allow for their increased production and shipping efficiency. They are also building a new co-location in order to save costs. They will save 40-45% per kilowatt in energy. In-source Manufacturing and their new co-location are estimated to save \$35M of operating expenses from 2015-2017, helping them become more than a top line company.

Valuation

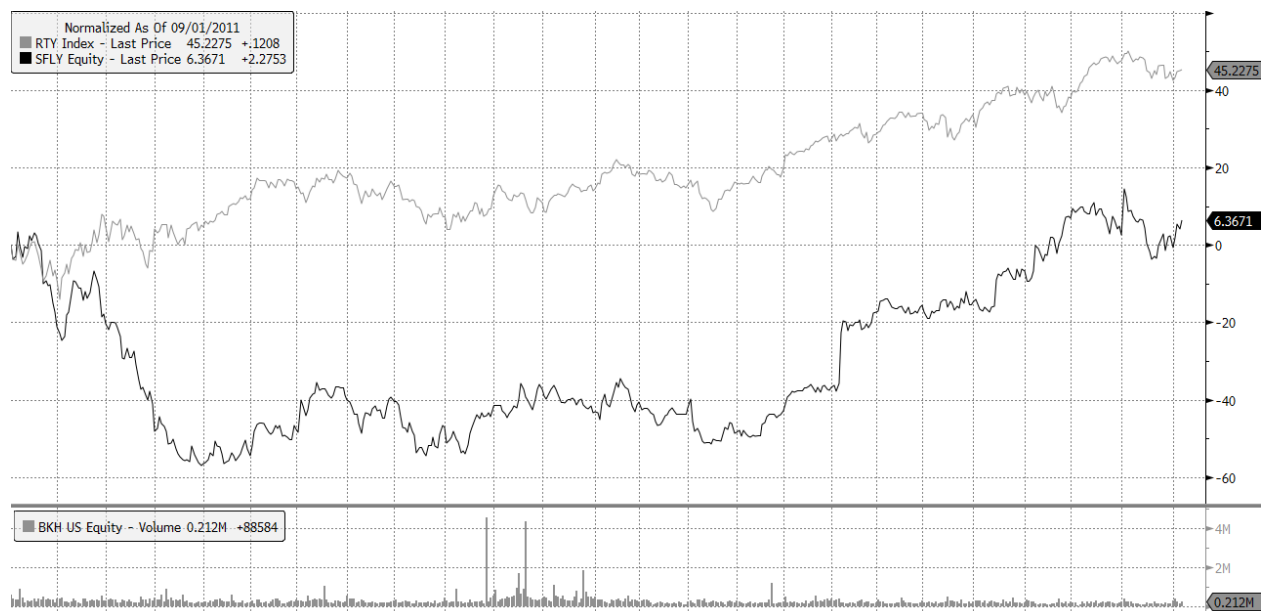
In order to reach an intrinsic value for SFLY, a ten year discounted cash flow model was conducted. Using a terminal growth rate of 2.5% and a WACC of 10.6% resulted in a valuation of \$73.35. Additionally, a EV/EBITDA comparison and valuation of the company was analyzed. Using a forward looking EV/EBITDA multiple of 15.0X and a 2014 EBITDA of \$147.60M, a value of \$59.05 was obtained. By weighing the DCF model 75% and the EV/EBITDA multiple 25%, a price target of \$69.78 was established. The firm does not pay a dividend.

Risks

- **Increase in competition:** The online photo business is already very competitive, and many competitors offer similar photo printing services. Competition could increase from new business and other social network sites which would adversely affect SFLY's objectives. Competition could result in increased pricing pressures, reduced margins, or a loss of market share, any of which could substantially harm the business and results of operations. Inability to respond to customer developments and increase the customer base would be detrimental to their valuation.
- **Seasonality:** The SFLY business model is highly seasonal with a large proportion of revenue generated during the fourth quarter holiday season. They incur significant additional expenses in the period leading up to the fourth quarter holiday season, if they are unable to accurately forecast and respond to consumer demand can lead to suffering financial results. System or machinery break down can be very costly during the holiday season.

Management

Jeff Housenhold is the CEO; he has been with the company for 9 years and was formerly the Vice President of Business Development and Internet Marketing at Ebay. At Ebay he also held positions as VP and GM of its business to consumer group and VP of M&A. Brian Regan has been the CFO since August of 2012. He joins from Wize Commerce/Nextag where he was the CFO of the global digital marketing and online commerce leader, prior to that he was CFO at Ticketmaster.



Ownership

% of Shares Held by All Insider and 5% Owners:	2%
% of Shares Held by Institutional & Mutual Fund Owners:	90%

Source: Yahoo! Finance

Top 5 Shareholders

<u>Holder</u>	<u>Shares</u>	<u>% Out</u>
Columbia Wanger Asset Management, L.P.	2,560,550	6.78
AllianceBernstein, L.P.	2,085,054	5.52
Vanguard Group, Inc. (The)	1,930,086	5.11
Soros Fund Management LLC	1,610,086	4.27
Daruma Capital Management LLC	1,610,000	4.09

Source: Yahoo! Finance

Innospec Inc. (IOSP)
September 13, 2013

Steven Marszalek

Domestic Materials

Innospec Inc. (NASDAQ: IOSP) is a manufacturer of fuel additives, performance chemicals, and octane additives. The additives are used by oil refineries, fuel companies, and power stations to reduce emissions, boost engine performance, and increase efficiency. IOSP's performance chemicals segment produces chemicals that are used in a variety of industries such as skin care, hair care, fragrance, plastics, and detergents. In 2012, fuel additives, performance chemicals, and octane additives accounted for 68%, 23%, and 9% of revenue respectively. The company has manufacturing plants in the United States, United Kingdom, France, and Germany with additional regional offices in Africa and Asia. Innospec was founded in 1938 and is headquartered in Littleton, Colorado.

Price (\$): (9/6/13)	42.99	Beta:	1.27	FY: Dec. 31	2012A	2013E	2014E
Price Target (\$):	49.05	WACC	12.10%	Revenue (Mil)	776.40	801.04	837.00
52 WK H-L (\$):	45.18-26.36	M-Term Rev. Gr Rate Est.	5.00%	% Growth	0.26%	3.17%	4.49%
Market Cap (mil):	1017.70	M-Term EPS Gr Rate Est.	6.10%	Gross Margin	30.45%	33.02%	33.80%
Float (mil):	22.90	Debt/Equity	0.36	Operating Margin	12.84%	12.61%	13.26%
Short Interest (%):	1.12%	ROA:	10.58%	EPS (Cal)	3.36	3.32	3.49
Avg. Daily Vol (mil):	0.083	ROE:	17.17%	FCF/Share	2.22	3.72	4.08
Yield (%):	0.00%			P/E	17.05	13.54	13.05
				EV/EBITDA	7.26	8.51	7.80

Recommendation

As IOSP winds down its high-margin octane additives division due to customer conversions to unleaded gasoline, the firm is concentrating on growing its fuel specialties, oilfield specialties, and personal care businesses. Before the financial crisis, the company enjoyed gross margins of over 34%; however, due to sluggish demand, poor product mix, and a lack of pricing power, Innospec's gross margins slumped to 28% in 2010. As demand and pricing power have increased, IOSP has improved their margins despite winding down its octane additives business. With its consistent cash flows and strong balance sheet, IOSP has the ability to take advantage of both internal and external growth opportunities, as witnessed in its recent acquisitions and forays into the Brazilian and Russian markets. In the past, Innospec has used its acquisitions to improve technologies and adapt its product mix to service its refinery customers, which facilitates its competitive stance against bigger players in the market and improves customer retention. This can be seen in their European and American revenues, which grew 9% and 10% respectively in 2012 despite mixed economic performance in those regions. With current and looming fuel additive legislation aimed at curbing pollution, IOSP is in position to grow its fuel specialties business at a 5% CAGR. Because of solid historical and forecasted operating results, and growth initiatives, it is recommended that IOSP be added to the AIM Equity Fund with a target price of \$49.05, which offers a potential upside of 14%.

Investment Thesis

- Government Mandated Fuel Additives.** In 2013, the EPA released its Renewable Fuels Standard (RFS) program, which increased renewable fuel content in gasoline and diesel fuels. Experts are expecting the European Union to mimic these efforts in the next year or two, which As fuel refineries are required to use additives to promote cleaner burning of transportation liquid, the global market for fuel specialty additives expected to grow at a 6.3% CAGR over the next seven years. Management and analysts expect Innospec's fuel specialty business to grow at a 5% CAGR in that time frame. Because IOSP has a wide technological base across multiple fuel types, their diesel and biofuel products should make up for any potential loss in gasoline additive sales.

- **Synergies From Recent and Future Acquisitions.** In late 2012, the company purchased Strata Chemicals, which provided \$18 million in annual revenue as well as patented technologies in the lost circulation materials aspect of the company's nascent Oilfield Specialties segment. Last week, the company acquired Chemsil Silicones and Chemtec Chemical, which combine for annual sales of \$40 million. Chemsil's technologies will diversify the company's technology base, allowing the company to meet any specific needs of refinery and industrial customers. The Chemsil acquisition gives the company new access to the West Coast market. While Innospec is focused on organic growth across all segments, they expect to make acquisitions as deemed necessary in the future because of their strong balance sheet.
- **Growing Personal Care Business.** With its recent acquisitions of Chemsil Silicones and Chemtec Chemical, Innospec will be able to add new technologies to its personal care technological base. Over the next five years, the personal care industry is expected to grow by roughly 6% per year, which bodes well for IOSP as a provider of chemicals used in personal care products such as skin cream, deodorant, and hair conditioner. As consumer demand for contaminant-free and natural cosmetic ingredients continues to increase, the personal care segment is expected to grow by 4.5% each year for the next three years as a result.

Valuation

In order to reach an intrinsic value for IOSP, a ten year discounted cash flow model was conducted. Using a terminal growth rate of 2% and a WACC of 12.1% in the DCF model resulted in a valuation of \$51.00. Sensitivity analysis conducted on both the revenue growth rate and WACC provided for a range between \$40.83 and \$58.89. Using a blend of industry average, regression, and historical EV/EBITDA, an EV/EBITDA multiple of 8.5x was used to calculate an intrinsic value of \$47.10. By weighing the DCF and EV/EBITDA models 50% each, a price target of \$49.05 was obtained—which provides an upside of 14%. IOSP does not pay a regular dividend, although they did pay a special one-time dividend of \$2 per share in December 2012.

Risks

- **Global Economic Slowdown.** During and after the recession, the company lost pricing power across the globe. Because the company's revenues are diversified across four continents, the company is susceptible to economic conditions everywhere. While the octane additives division is winding down, the conflict in Syria could lead to expedited loss of business in the Middle East.
- **Oil-Based Raw Material Costs.** The market for oil is volatile, especially in the current geopolitical and economic environment. In the years 2010 and 2011, margins were depressed due to sharp increases in oil costs, which compounded the company's challenges in light of the previously mentioned demand slack. Any future sharp increase in oil could result in a similar depression of margins. The company uses limited commodity swaps to hedge against these costs.
- **Elimination of Octane Additives.** The company is expected to eliminate its octane additives division by 2015, due to leaded gasoline's elimination from the market. While the company is the sole supplier of TEL to Iraq, Yemen, and Algeria, the company is providing services in these countries to promote and ease their transition to cleaner sources of fuel. As the company's most profitable segment on a margin basis, the company will need to find new ways to grow margins while expanding other segments to cover the potential loss in earnings.

Management

Patrick S. Williams is the President, CEO, and Director of the company and has held this position since 2009. He had been previously been President of the company's Fuel Specialties since 2005. He has a PhD in Chemistry from Leicester University. Ian Cleminson is the Executive Vice President and Chief Financial Officer. He has had this position since 2006. Prior to that, he was the Financial Controller of the Performance Chemicals and Fuel Specialties divisions.



Ownership

% of Shares Held by All Insider and 5% Owners:	3%
% of Shares Held by Institutional & Mutual Fund Owners:	93%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Royce & Associates, LLC	2,064,391	8.77
Wellington Management Company, LLP	1,604,501	6.81
Huber Capital Management, LLC	1,003,471	4.26
Vanguard Group, Inc.	955,000	4.05
Kennedy Capital Management, Inc.	953,918	4.05

Source: Yahoo! Finance

Patrick Industries, Inc. (PATK)

September 13, 2013

Sean Morrissey

Domestic Industrials

Patrick Industries, Inc. (NYSE:PATK) is involved in the manufacturing and distribution of building products and materials for the recreational vehicle(RV), manufactured housing(MH), and industrial markets in the United States. The company operates in two segments: Primary Manufactured Products (72% of 2012 revenue) and Distribution (23%). Manufactured Products develops vinyl and paper panels, cabinet doors as well as interior passage doors, countertops, sinks, and other fixtures. The distribution segment supplies various building and finishing products, ranging from electrical to pre-finished wall and ceiling panels. The company operates in 11 states utilizing 14 manufacturing facilities and 13 distribution centers. It was founded in 1959 and is headquartered in Elkhart, Indiana.

Price (\$ (9/9/13):	\$ 28.45	Beta:	1.50	FY: February	2012A	2013E	2014E
Price Target (\$):	\$ 35.15	WACC	13.50%	Revenue (\$Mil)	437.37	623.30	732.30
52WK H-L (\$):	10.78-27.89	M-Term Rev. Gr Rate Est.	18.0%	% Growth	42.1%	42.5%	17.5%
Market Cap (mil):	291.00	M-Term EPS Gr Rate Est.	14.0%	Gross Margin	15.03%	15.43%	16.00%
Short Interest:	2.89%	Debt/Equity:	64.8%	Operating Margin	6.13%	7.81%	8.50%
Avg. Vol (90 day)	56,155.0	ROA:	16.9%	EPS (\$Cal)	\$2.59	\$2.70	\$3.44
Dividend:	NA	ROE:	38.5%	FCF/Share	1.24	1.40	1.76
Div. Yield:	NA			P/E (Cal)	11.00	13.02	10.22
				EVEBITDA	6.74	5.58	4.47

Recommendation

Patrick Industries, Inc. is positioned to continue to benefit as the end markets it serves continue to strengthen. An illustration of this improvement can be seen in PATK's primary market, the RV industry (74% of 1H13 sales), which has experienced increased production and demand as shipments grew by 14% in Q2FY13 versus the prior year. Based on these growth rates and expectations, the RVIA projects RV shipments to increase by 8% by the end of 2013 compared to 2012 levels. PATK is in the heart of this growth as it is headquartered in Elkhart, IN where 83% of RV's in the U.S. are built. The MH market (15% of 1H13 sales) has also experienced growth recently as shipments for Q2FY13 have increased 9% YoY. This increase is promising but MH levels remain well below historic, pre-recessionary levels, potentially suggesting that the market has bottomed-out and is poised for further growth. PATK's most recent quarterly results display how this improvement in the company's end markets translates to financial growth as revenue increased by 38% in Q2FY13 versus the previous year. A little less than half of this growth is a result of four acquisitions during 2012, but what is impressive is that 52% of the growth is organic, representing a substantial 7% gain in market share. Continued improvement in the broader economy and consumer confidence will lead to more opportunities for PATK to capture market share. For these reasons, it is recommend that Patrick Industries be added to the AIM Equity Fund with a price target of \$35.15, which has a potential upside of 24%.

Investment Thesis

- **Improving Housing Market.** The impact of the housing market is two-fold on the performance of PATK and the RV industry as a whole. One of the implications of an improving housing market is the wealth-effect which increases consumer confidence. As home prices rise, homeowners are more likely to purchase durable goods because of the wealth effect. The S&P/Case-Shiller Index shows that housing prices for June were up 12.1% YoY and the most recent Conference Board Consumer Confidence Index shows a slight increase from 81.0 in July to 81.5 in August. PATK is also impacted by the housing market through its industrial market exposure as management estimates that 60% of industrial revenue is linked to the residential housing market. Recent performance has been strong as new housing starts increased by 17% in Q2FY13 versus the previous year.

- **Effective and Strategic Acquisitions.** The recession crippled the RV and MH industries, but has resulted in opportunities for surviving firms to capture market share. PATK has adopted this strategy as is exhibited in its recent 2012 acquisitions of Décor Mfg, LLC (March 2012), Gustafson Lighting (July 2012), Creative Wood Designs, Inc (Sept 2012), and Middlebury Hardwoods (October 2012). Q2FY13 revenues generated from each of these companies, excluding Middlebury, cover their respective acquisition costs. They have also accounted for 48% of PATK's growth in Q2 YOY. The immediate success of these companies speaks to the competence of management in seeking out segment oriented companies that do not overextend. It is promising that management is eager to continue its acquisition activity with its recent record of success.
- **Favorable Demographics.** According to a 2011 RVIA ownership study, the median age of RV owners was 49 which is a reassuring sign for the RV industry as the percentage of baby boomers continues to grow. By 2015, all baby boomers will be over the age of 50. The population between the ages of 60-64 will grow by 26% since 2010 and the population 65-74 will grow by 51%. These statistics suggest an increased customer base for the RV industry which would directly benefit PATK.

Valuation

A five year discounted cash flow model was conducted to reach PATK's intrinsic value. Using a terminal growth rate of 2.5% and a WACC of 13.5% resulted in a valuation of \$34.54. Varying the WACC and terminal growth rate in a sensitivity analysis yielded a range of values from \$26 to \$49. An EV/EBITDA multiple was also performed in this analysis. An industry average EV/EBITDA multiple of comparable firms yielded a multiple of 8.5x while a regression analysis showed PATK's historical average to be 10.12x trending toward 6.5x. The regression was weighted 70% while the historical average and industry averages were each weighted 15% to reach a EV/EBITDA multiple of 7.36x. By weighting the DCF model 50% and the EV/EBITDA multiple 50%, a price target of \$35.15 was established offering a potential upside of 24%. PATK does not pay a dividend.

Risks

- **Impact of QE3 Tapering.** The upcoming FOMC meeting may bring the announcement of the beginning of the tapering of the Fed's bond buying program which has the potential to move financial markets significantly. This was seen in May when interest rates rose in response to the Chairman's comments on tapering. The tapering announcement clearly has the potential to disrupt consumer sentiment.
- **Inventory Levels.** Long-term supply contracts are not common with PATK's customers and therefore inventory levels must be based on estimations of the need for PATK's products in the near term. If conditions change that unexpectedly alter the market's needs or requirements, margins may potentially be negatively affected as inventory levels could be inefficiently maintained.
- **Limited Customer Pool.** The number of RV firms in the market has been depleted compared to pre-recessionary levels, leaving a narrower market of customers for PATK to service. For example, two RV manufacturers accounted for 54% of total sales in 2012. Decreased business with either of these firms would certainly inhibit PATK's performance.

Management

Todd M. Cleveland is the CEO and President of Patrick Industries, having assumed the position in 2009 after the former CEO, Paul E Hassler stepped down. Mr. Hassler is currently the Chairman of the company. Mr. Cleveland was formerly employed by Adorn, which has since been acquired by PATK, for 17 years holding various positions including CEO. He has nearly 20 years experience in PATK's served end markets.



Source: Yahoo! Finance

Top 5 Shareholders		
Holder	Shares	% Out
Gendell, Jeffrey L.	3,809,430	36.05%
Dimensional Fund Advisors LP	444,182	4.20%
Wells Fargo & Company	372,941	3.53%
Kennedy Capital Management, Inc.	320,546	3.03%
RK Capital Management, LLC	318,498	3.01%

Source: Yahoo! Finance

Acadia Healthcare Company (ACHC)
September 13 2013

Eoghan Bahnson

Domestic Healthcare

Acadia Healthcare Company (ACHC) operates inpatient psychiatric facilities, residential treatment centers, and substance abuse facilities in the United States. Its acute inpatient facilities provide evaluation and 24 hour care for patients with severe psychiatric diagnoses. Residential treatment centers offer individualized treatment to patients with moderate to high level acuity. ACHC also treats emotionally disturbed adolescents, including those with psychiatric disorders, through therapeutic group homes. It currently has a network of 46 behavioral healthcare facilities spanning across 21 states, operating 3700 beds. They currently derive their payments from Medicaid (49%), commercial (25%), Medicare (21%), and other (5%). ACHC was incorporated in 2005 and is headquartered in Nashville, Tennessee.

Price (\$): (9/6/13)	\$ 38.20	Beta:	0.7	FY: Dec	2012 A	2013 E	2014 E
Price Target (\$):	44.45	WACC:	7.7%	Revenue (\$mil)	\$ 407	\$ 745	\$ 894
52 WK H-L (\$):	18-40	M-Term Rev Gr. Rate Est:	16.0%	% Growth	88.2%	82.84%	20.00%
Market Cap (mil):	\$1.9B	M-Term EPS Gr. Rate Est:	16.5%	Gross Margin	15.79%	18.12%	18.5%
Float (mil):	35.6M	Debt/Equity:	96%	Operating Margin	8.06%	11.68%	12.00%
Short Interest (%):	13.9%	ROA:	2.9%	EPS (Cal)	0.56	0.93	1.28
Avg Daily Vol (K):	308K	ROE:	7.7%	FCF/Share	\$0.12	\$0.30	\$0.75
Dividend (\$):	0				-	-	-
Yield (%):	0%						

Recommendation

ACHC has been expanding at a rapid pace over the 12 months obtaining an attractive position in the psychiatric care industry. In February 2011, a new management team took over, and promptly acquired two behavioral healthcare facilities before going public. As a result, revenue has increased by over \$470 million during the past 18 months, while nearly tripling bed capacity. Expansion has also taken place internally with same store revenue growth of 11%, adding 310 beds to existing facilities. Acquisitions have been effective because management is able to efficiently integrate new facilities into the company's profile. Typically ACHC buys facilities running at an EBITDA of about 15% and within 36 months has them operating at margins in the mid 20% range. A favorable legislative environment has also been beneficial as health insurers are not allowed discriminate between physical and mental illness. By increasing their size and reach ACHC has created scale and obtained a significant moat in an industry that is top heavy with initial investment and legal certifications. It is recommended that Acadia Healthcare Company. be added to the AIM domestic equity fund at a price target of \$44.45 representing an 18.6% upside. The firm does not pay a dividend.

Investment Thesis

- **Bed Expansion Strategy.** In the most recent earnings call, ACHC's management expressed its drive to continue to increase the number of beds in existing facilities. While acquisitions may account for a significant portion of revenue growth, organic growth can't be ignored. In the first half of 2013 212 beds were added, 147 of which came in Q2. Management has planned to increase total bed capacity by 5% annually, not including possible M&A's. Same-facility revenues rose 11.2% providing a proven framework for growing organically as well as through facility purchases.
- **Expanding Patient Base.** Successful expansion requires unwavering or increasing demand, which doesn't seem to be a problem for Acadia. Spending on both Substance Abuse and Youth Mental Health treatments are over \$10B annually and increasing at a CAGR of over 2%. According to *Adult Behavioral Healthcare* 26% of American adults have a diagnosable mental

disorder. This combined with a higher percentage of Americans covered by the Affordable Care Act should lead to increased demand, justifying expansion.

- **Future Acquisitions from an Aggressive Management Team.** Management is relatively new to Acadia but are experienced in the industry and have succeeded before. In 2002 the majority of management was together at Psychiatric Solutions. Starting with a base of five facilities they expanded to 94 facilities before eventually being bought out after 10 years by UHS in 2010 for \$3.1 billion. ACHC is currently on the same trajectory and all indications from management suggest continued expansion through the rest of 2013 and beyond. The most recent guidance suggested that they believe \$800 million in revenue by the end of 2013 and \$1 billion by 2014 is a possibility. The confidence and commitment to expanding its facilities base makes their growth more sustainable.

Valuation

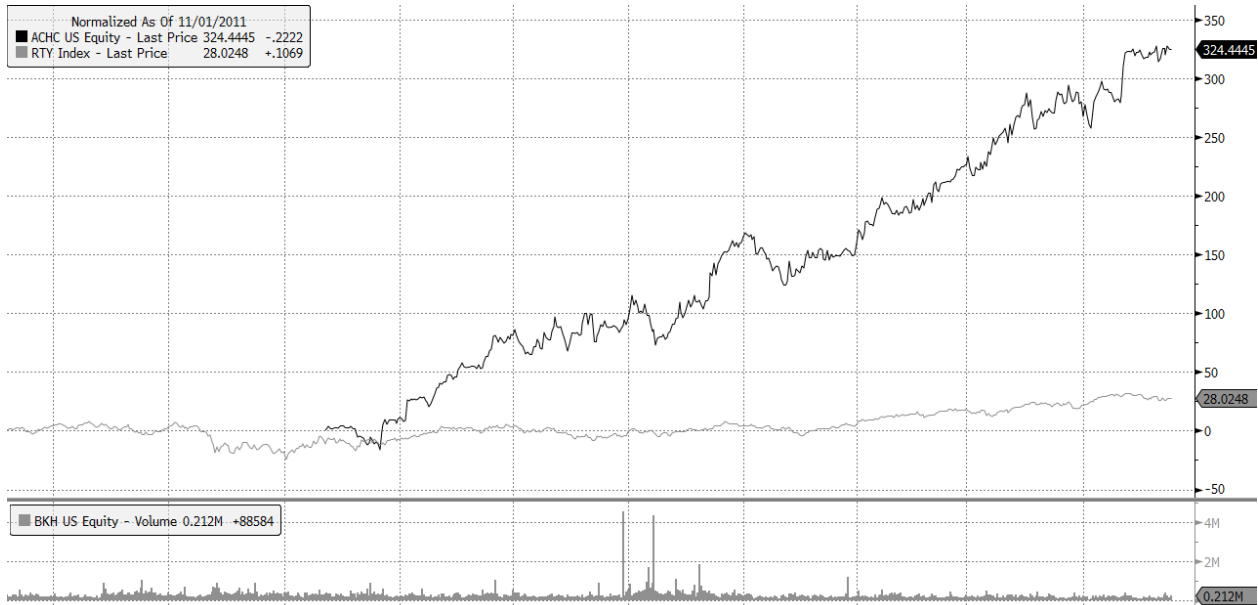
In order to reach an intrinsic value for ACHC, a five year discounted cash flow model was conducted. Using a terminal growth rate of 1.5% and a WACC of 7.7% resulted in a valuation of \$46.82 with a range of \$44- \$54. Additionally, a PE multiple comparison and valuation of the company's was analyzed. Using a blended average of the industry, historical average and historical regression a PE multiple of 31.9x and a 2014 expected EPS of \$1.28, a value of \$40.89 was obtained. By weighing the DCF model 60% and the PE multiple 40% a price target of \$44.45 was established. The firm does not pay a dividend.

Risks

- **Acquisition as a Growth Strategy.** ACHC's massive growth over the past two years is the result of heavy M&A activity. Any inability to find new acquisitions or successfully integrate purchases could inhibit growth.
- **Debt Levels.** ACHC has taken on a significant amount of debt over the past two years due to multiple purchases. Although debt levels are mostly in line with other health facilities, any trouble raising additional capital would be problematic. Both their acquisition strategy and internal growth initiatives have some reliance on access to capital.
- **Medicaid and Medicare.** Over 70% of ACHC's payments come from Medicaid and Medicare. Historically, government reimbursement of inpatient behavioral health facilities has been stable. An unforeseen change in policy could be detrimental to ACHC's ability to collect payments. Short term this seems to be a relatively low risk as nothing from Washington DC has suggested a change in policy regarding mental health status within insurance.

Management

Joey A. Jacobs joined Acadia in February 2011 and is the CEO and Chairman of the Board of Directors. Previously, Mr. Jacobs worked for 12 years as the president of Psychiatric Solutions and worked for 21 years with competitor HCA. David Duckworth also joined Acadia in 2011 and serves as the companies CFO. He previously worked as a manager with Ernst & Young and served as the audit manager to Psychiatric Solutions. Brent Turner currently fills the role of Acadia's president and has been in that position since joining Joey Jacobs from Psychiatric Solutions.



Ownership

% of Shares Held by All Insiders and 5% Owners:	30%
% of Shares Held by Institutional & Mutual Fund Owners	73%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
AllianceBernstein, L.P.	3,558,280	7.04%
T. Rowe Price Associates	3,239,950	6.41%
JP Morgan Chase & Company	2,966,341	5.87%
Vanguard Group	1,916,732	3.79%
Wellington Management Company	1,617,430	3.20%

Source: Bloomberg

Scorpio Tankers (STNG)

September 13, 2013

John Hurley

International Energy

Scorpio Tankers Inc. (NYSE: STNG) owns and/or operates a fleet of modern product and Liquefied Petroleum Gas tankers. They are downstream in the petroleum supply chain, delivering products like gasoline, heating oil, fuel oil, vegetable oil, liquefied petroleum gas, and other refined petroleum products to end users. Their customers include major oil companies, government entities, and traders. Scorpio currently owns 18 vessels and charters in 29 vessels consisting of Long Range 1, Long Range 2, Handymax, Medium Range, and post-Panamax tankers. The company was founded in 2009, is based in Monaco, Monaco, and has a secondary office in New York City.

Price (\$) (9/09/13)	10.08	Beta:	1.7	FY: December	2012A	2013E	2014E
Price Target (\$):	13.67	WACC	13.1%	Revenue (Mil)	115	228	410
52WK Range (\$):	5.19-10.51	M-Term Rev. Gr Rate Est:	9.8%	% Growth	40.52%	97.61%	80.00%
Market Cap:	1.84B	M-Term EPS Gr Rate Est:	13.0%	Gross Margin	22.98%	27.63%	30.00%
Float	179.8M	Debt/Equity	50.8%	Operating Margin	-5.87%	7.89%	13.00%
Short Interest (%):	2.1%	ROA:	-0.8%	EPS (Cal)	-\$0.64A	\$0.02E	\$0.14E
Avg. Daily Vol:	1.052M	ROE:	-0.9%	FCF/Share	-2.22	-2.51	-4.67
Dividend (\$):	\$ 0.14			P/E (Cal)	\$ (15.73)	\$ 630.67	73.18
Yield (%):	1.50%			EV/EBITDA	52.79	28.95	9.09

Recommendation

Scorpio is a high growth story that is in a solid position to gain market share within the shipping industry. Over the past two years Scorpio has experienced revenue growth of 111.6% and 40.5%, respectively. Through Q1 and Q2 of 2013 they have achieved revenues of \$96.45 million, only \$19 million shy of their 2012 revenues. With the acquisition of one new build ship in 2013, 41 in 2014, and 18 in 2015, Scorpio is positioned to see their revenues continue to increase dramatically and start to generate positive earnings by 2014. They are introducing nine very large gas carriers (VLGC) in the next two years and all of their new builds are “Eco-Ships” which should help expand margins by saving fuel, decreasing operating costs, and increasing their operating margin by around 18% in 2014. This will allow them to comply with new and upcoming regulations in the shipping industry as well. While Scorpio has high growth potential, they also bring significant risks. In order to fund these vessels, STNG has taken on a significant amount of debt recently and issued more common stock in late July. Scorpio is reliant on the supply and demand of the products they ship, and while the supply side seems efficient, a downturn in the global economy could decrease demand and severely hurt their business. Scorpio raised their dividend on July 29, so they seem to be comfortable with the levels of cash and debt on their balance sheet. Due to a favorable valuation and encouraging growth prospects, it is recommended that STNG be added to the AIM International Equity fund with a target price of \$13.67. This would provide a potential upside of 36% - along with a dividend yield of 1.5%.

Investment Thesis

- Fleet Growth.** In Scorpio’s latest earnings call, management stated that their new orders are going according to schedule and that they are pleased with the quality of ships they have received to date. Scorpio currently owns 18 vessels and charters in 29 from other shipping companies. With 60 more ships coming into play by the end of 2015, Scorpio is set to experience a five year CAGR of 40.6% in their revenues through 2016. They are acquiring multiple types of vessels with different ranges and carrying capabilities to create efficiency and save costs. As Scorpio’s fleet grows over the next two years, their margins and EPS should follow.
- Eco Ships and Regulation.** There are new regulations in the global shipping industry that are requiring vessels to burn higher cost fuel and cap their sulfur emissions. The International Maritime Organization mandated that ships’ global sulphur emissions cap be reduced from 4.5%

to 3.5% at the beginning of 2012. By 2020 the cap may be reduced to .50% with certain regions restricting it even further. By the end of 2015 79% of Scorpio's fleet will be newer eco friendly ships, which is good considering that today 9% of the global fleet is over 20 years old and 17% is over 15 years old. In Q1'13 these eco ships were proven to have lowered fuel consumption by 7-9 tons a day. As the United States' energy exportation business grows and other nations continue to develop and move towards more refined energy sources, product tankers like Scorpio should see increased demand for their vessels.

- **Ownership.** In May 2013, shipping heavyweight Tor Olav Troim told guests at a conference that both he and his boss, billionaire Chairman of Golar John Fredriksen, bought shares of Scorpio for their personal accounts. BHR Capital, a proven hedge fund out of New York, started a position in Scorpio in late 2012 and according to their 13F filings increased their position to 4 million shares as of June 2013. While this driver doesn't relate directly to Scorpio as a company, these professionals have more experience in shipping and investing than most. To see intelligent investors take positions in Scorpio is definitely a positive for their overall outlook.

Valuation

In order to reach an intrinsic value for STNG, a ten year discounted cash flow model was conducted. A WACC of 13.09% was combined with a terminal growth rate of 3% to reach a valuation of \$9.91. An EV/Sales comparables analysis was also performed to get a relative share price. Multiplying the 6.28x EV/Sales competitor average by Scorpio's expected 2014 sales provided an enterprise value of around \$2.58 billion. This led to an intrinsic value of \$17.42. By weighing the DCF model 50% and the EV/Sales valuation 50%, a target price of \$13.67 was reached. Scorpio also paid a dividend of \$.14 yielding 1.5%.

Risks

- **Debt and Security Issuance.** Scorpio has been issuing debt and common stock to pay for their new build vessels. This makes owning their stock much more risky and has depressed their share price with each new issuance. If rates drop significantly within the product tanker industry or the shipbuilders in East Asia are unable to produce these new build ships, Scorpio could find themselves in financial distress.
- **Supply, Demand, and the Global Economy.-** If the global economy sinks back into a recession Scorpio could be in serious trouble. The petroleum products that they ship are more expensive than standard crude oil and other cheap energy sources, so if the global economy takes a turn for the worse there could be a negative demand shock for refined petroleum products. Currently countries like the United States have the supply to export these fuels, but a negative demand shock would leave Scorpio with over 100 vessels and much less use for them.

Management

Emanuele Lauro is the founder of Scorpio Tankers and serves as the Chairman and Chief Executive Officer. Mr. Lauro joined Scorpio Group in 2003 and grew the company from three ships to where it is today. He has been the Chairman and CEO since Scorpio went public in May 2010 and has continued to grow the company. Robert Bugbee is the President of Scorpio and has been since the company went public. He has over 25 years of experience in the shipping industry. Mr. Lauro and Mr. Bugbee have been together for four years now and seem to have the track record and experience to grow Scorpio successfully.



Ownership

% of Shares Held by All Insider and 5% Owners:	9%
% of Shares Held by Institutional & Mutual Fund Owners:	62%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Wellington Management Company, LLP	14,519,527	7.74
Kensico Capital Management Corp	10,975,000	5.85
Claren Road Asset Management, LLC	9,383,011	5.00
Monarch Alternative Capital, LP	7,176,518	3.82
Lasry, Marc	5,409,051	2.88

Source: Bloomberg