Applied Investment Management (AIM) Program

AIM Class of 2017 Equity Fund Reports
Fall 2016

Date**:* Friday, September 16th | ***Time: *2:15 – 3:15* p.m. | ***Location: Baird***

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

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Horizon Pharma plc (HZNP)
September 16, 2016

Tyler Sucharzewski | International Healthcare

Horizon Pharma plc (NASDAQ: HZNP) is an international specialty pharmaceutical company that markets a total of nine pharmaceutical products through its orphan, primary care, and rheumatology business units. Horizon focuses on treating arthritis, pain, and other various inflammatory problems. Though most of their products are generated through traditional R&D, Horizon recently acquired a number of products and firms which has elevated their sales. Horizon continues to see strong growth from their existing products and expects notable returns from new products about to hit the market. Horizon is headquartered in Ireland and was founded in 2011.

Price ($): (9/13/2016)	19.16
Price Target ($):	27.73
52WK H-L ($):	12.86 - 32.34
Market Cap (mil):	3,039.50
Float:	95.30%
Short Interest (%):	10.31%
Avg. Daily Vol (mil):	4.15
Dividend ($):	-
Yield (%):	-

Beta:	1.06
WACC	8.97%
M-Term Rev. Gr Rate Est:	26.7%
M-Term EPS Gr Rate Est:	81.7%
Debt/Equity:	1.30
Debt/EBITDA (ttm):	6.69
ROA:	1.88%
ROE:	4.3%
ROIC:	2.4%

FY: Dec	2016E	2017E	2018E	2019E
Revenue (MM)	985.13	1,204.42	1,526.40	1,729.29
% Growth	30.13%	22.26%	26.73%	13.29%
Gross Margin	69.45%	68.00%	67.90%	73.00%
Operating Margin	8.30%	7.16%	11.80%	12.78%
EPS (Cal)	$0.98	$0.23	$0.41	$2.19
FCF/Share	$1.67	$2.38	$2.62	$2.88
P/S (Cal)	3.1	2.6	2.0	1.8
EV/EBITDA	13.0	11.0	7.4	7.4

Recommendation

The specialty pharmaceutical business is an extremely competitive segment within the healthcare sector. The FDA often denies approval for new drugs coming to the market, causing companies to lose possibly millions on wasted R&D efforts. On the other hand, the specialty pharmaceutical business is unique in that approved products have pronounced sales potential for those companies receiving approval. Horizon Pharma's strategy focuses on growing and diversifying their specialty pharmaceutical business by not only developing new drugs, but also acquiring already marketed drugs and patents. This commercial model is driven by their work with top universities, regulatory agencies, and patient groups to create the finest products - and their continuing efforts to seek growth opportunities internationally. Currently, Horizon markets orphan diseases medication, primary care products, and rheumatology products. The company's marketed orphan medicines include Actimmune, Ravicti, Buphenyl, and, as of this week, Procysbi. Their primary care business unit markets Duexis, Vimovo, Pennsaid 2%, and Migergot. Finally, their rheumatology business unit includes Rayos and Krystexxa. The business units make up 45%, 57%, and 13% of total sales respectively, including the recently added Procysbi. Specialty pharmaceutical companies have come under heavier scrutiny for increased drug prices and limited availability. In order to combat this stigma, the firm launched their 'HorizonCares' program as part of their strategy to increase access and adoption of their products for patients. Through HorizonCares, patients may be eligible to receive financial assistance for out of pocket costs that may be required when fulfilling a prescription. In addition to this program, most of Horizon's sales growth is from sales volume increase rather than price increases. Though not currently researching a new product line, clinical trials for new uses in multiple existing products are under way. Also, Horizon has multiple growth opportunities through the acquisition of other specialty pharmaceutical companies. Due to strong growth potential, diversified medicine portfolio, as well as preparedness for any upcoming pharmaceutical legislation, it is recommend that Horizon Pharma be added to the AIM International portfolio with a price target of $27.73, which is a 45% upside.

Investment Thesis

- **Profitability and Increase in Drug Sales Volume.** Specialty pharmaceutical businesses often have trouble producing a positive bottom line due to substantial R&D costs, as well as high sales and marketing costs. Horizon, however, is now profitable as of last quarter. This mainly is attributable to the strong growth of sales volume the past eight quarters. Since Q2 2014, sales volume has grown 147%. This is unique for specialty pharmaceutical companies since many rely on raising prices to retain profitability.

- **Strengthening Orphan Care Disease Franchise.** Earlier this month, Horizon Pharma announced its acquisition of Raptor Pharmaceuticals, adding established Orphan Care product Procysbi to the portfolio. Set to close in the fourth quarter of 2016, this newly acquired product is expected to bring $125mm in sales for FY 2016, with a 30% year-over-year growth rate. With Procysbi, more than half of Horizon's medicines will now treat orphan diseases, representing 45% of first half 2016 net sales pro forma. Also, Actimmune has enter Phase III of FDA testing to expand its use to treat Friedeich's ataxia. Should these trials be successful, the company predicts revenue growing between $500mm and $1bn a year.
- **Expanding Worldwide Sales Efforts.** Part of Horizon's growth plan is to expand internationally. Ravicti will officially launch in Canada later this year and in the European Union in 2017. This is expected to contribute between $50 million and $100 million a year to total sales. Quinsair was the second drug acquired from Raptor Pharmaceuticals, and it is currently launching in the European Union and Canada, and is undergoing trials in the United States.

Valuation

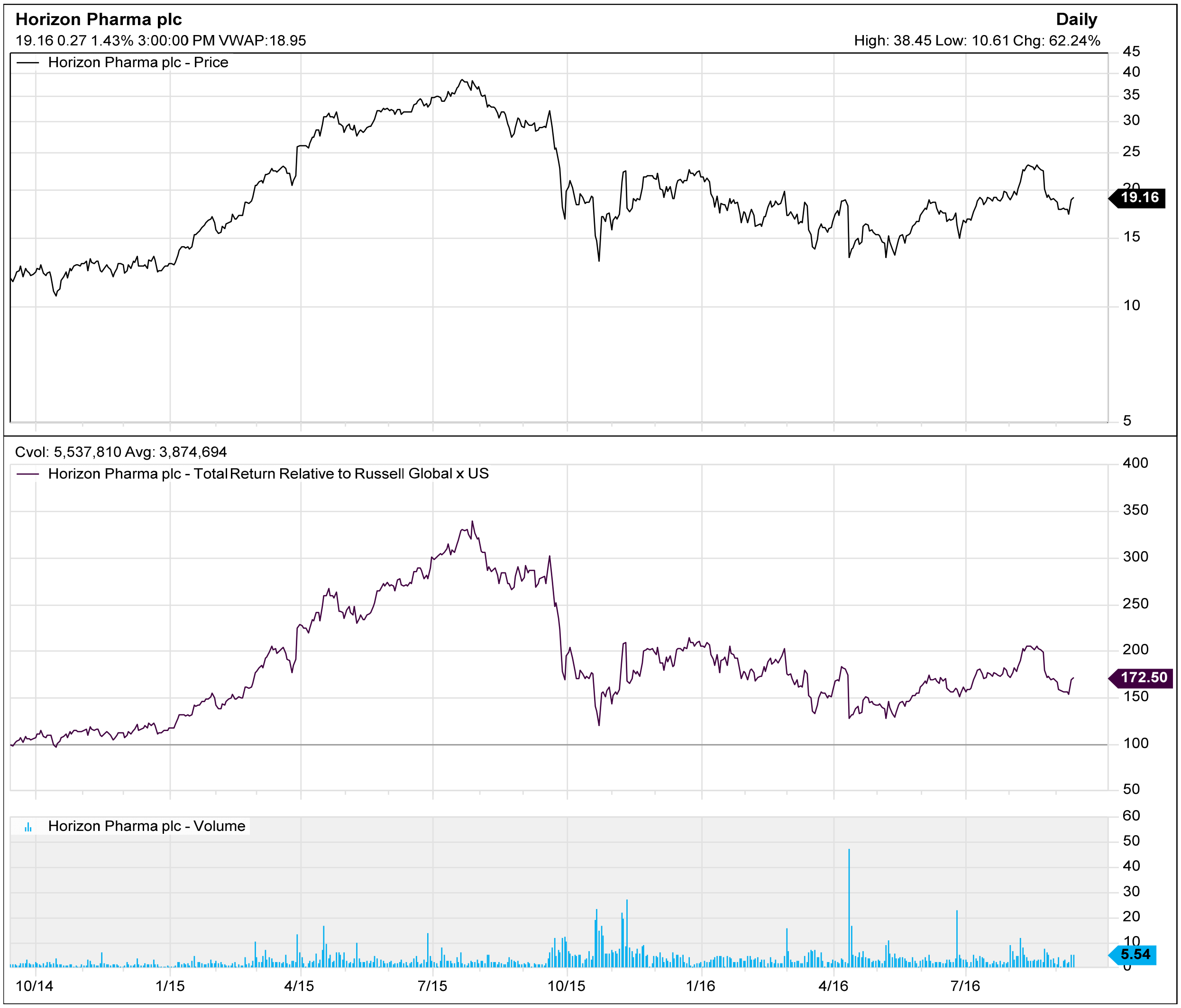
To reach an intrinsic value for HZNP, a five year DCF model was constructed. Using a terminal growth rate of 3.5% and a WACC of 8.97%, an intrinsic value of $29.24 was reached. A ± 1% sensitivity analysis on the WACC and a ± 0.5% on the terminal growth rate ranged between $23.12 and $42.28. Additionally, a Price to Sales multiple valuation was conducted using 2016 expected sales of $985.13mm and peer comparable multiple of 4.07x, resulting in a valuation of $24.92. By weighting the DCF valuation 65% and the Price to Sales 35%, an intrinsic value of $25.18 was reached. The company does not pay a dividend.

Risks

- **Competition from Generics.** Though there are potentially great returns in the near future for Horizon, it is common for many of their branded products to be undercut by generics entering the market. While there is little they could do about generics entering the market to compete with current products, Horizon continues to innovate and release new products to stay competitive.
- **Possible FDA Denial and Waiting Period.** Every product and product expansion must be approved by the FDA before entering the market. This approval process involves complex and lengthy clinical trials that take time. Horizon is able to circumvent this by diversifying their portfolio through acquisition of products already approved.
- **Uncertain Government Policies** During the ongoing election cycle multiple candidates have talked about setting controls on drug prices and other regulations. While Horizon has started a number of initiatives to help curb increasing prices, there is still the possibility of future policy hurting Horizon's cash flow.

Management

Tim Walbert is the current President and CEO. Mr. Walbert has 25 years of experience in the Pharmaceutical industry, including positions at IDM Pharma, Abbott/AbbVie, and Searle. Jeff Sherman, M.D., is the Chief Medical Officer with over 35 years of experience, also coming from IDM Pharma, Searle, and Bristol-Myers.



Ownership

% of Shares Held by All Insider and 5% Owners:	3.55% ▲
% of Shares Held by Institutional & Mutual Fund Owners:	90.79% ▲

Source: ThompsonOne

Top 5 Shareholders

Holder	Shares		% Out
Fidelity Management & Research Company	23,707,190	▲	14.73%
Deerfield Management Company LP	13,740,261	–	8.54%
The Vanguard Group, Inc.	10,569,177	▲	6.57%
BlackRock Institutional Trust Company, N.A.	10,351,340	▲	6.43%
Broadfin Capital, L.L.C.	6,863,848	▲	4.27%

Peer Analysis

Name	Ticker	Market Cap (mil)	D/E	Sales (mil)	P/S	EBITDA Margin
Horizon Pharmaceuticals	HZNP-US	3,039.50	1.30	985.1	3.32	30.10%
Pfizer	PFE-US	210,175.00	0.70	52,286.0	4.07	38.10%
Abbott Laboratories	ABT-US	60,887.20	0.43	20,556.0	2.98	32.30%
Taro Pharmaceutical	TARO-US	5,386.00	0.00	969.3	5.51	56.50%
Alkermes	ALKS-US	7,235.30	0.28	667.7	10.82	-27.00%
Peer Averages		57,344.60	0.54	15,092.83	5.34	26.00%

Source: Factset

Forestar Group (FOR)
September 16, 2016

Nathaniel Penn — Domestic Financial

Forestar Group (NYSE: FOR) is a diversified real estate holding company. Including its equity venture interests, Forestar owns 58 residential and mixed-use properties comprising 7,000 acres of land in 11 states and 15 geographical markets. Additionally, the company owns 590,000 net acres of oil and gas mineral interests, as well as 89,000 acres of timber and undeveloped land, one hotel, seven multifamily properties, water yielding interests, and two multifamily sites. Revenues are derived from sale of real estate assets (96.6%), royalty fees on mineral resource assets (2.8%), and interests in groundwater and timber resources (0.6%). Forestar Group was founded in December 2007 and is headquartered in Austin, Texas.

Price ($):	12.50
Price Target ($):	14.93
52Wk H-L ($):	7.95-14.87
Market Cap ($mil):	388.4
Float (%):	94.9
Short Interest (%):	21.8
Avg. Daily Vol (mil):	22.8
Dividend ($):	0
Yield (%):	0

Beta	1.47
WACC	9.41%
M-Term Rev Gr Rate	4.2%
LT Debt/Total Capital	18%
Debt/EBITDA	1.7x
EBITDA/Interest	4.9x
EV/Sales	2.8x

FY: Dec	2014A	2015A	2016E	2017E
Revenue (Mil)	306.7	262.4	183.3	196.1
Growth %	-7.3	-14.5	-30.2	7.0
EBITDA	79.7	55.8	111.6	50.3
EBITDA Margin	26.0	21.3	60.9	25.7
Adj. EPS	0.97	0.04	0.45	0.42
FCF/Share	-1.50	-2.24	0.62	0.65
EV/EBITDA	8.8x	12.9x	4.8x	10.7x

Recommendation

Forestar Group has traditionally commanded a solid premium valuation to its peers, based on its long history of portfolio growth, strong cash flow performance, and high asset quality. It is believed that there is more net asset value within this portfolio than the market is crediting them with. The majority of holdings are situated in Texas markets (~77%) with excellent access to infrastructure and education. Despite several strong fundamental changes underway, FOR maintains an attractive valuation in a competitive market. There have been material amounts of recent insider buying with a director, Richard Squire, purchasing 5,000 shares in March 2016, signaling positive management sentiment. Despite its currently attractive valuation, investors should be aware of intrinsic risks tied to cyclical real estate exposure within their portfolio, as well as the impact of commodity-related fluctuations. Taking this into consideration, a solid new management team with plans to improve operational efficiency, delever the balance sheet, and increase visibility into its operating segments should be viewed as having a net positive effect. It is recommended that Forestar Group Inc. be added to the AIM Equity Fund with a price target of $14.93, representing 30% upside.

Investment Thesis

- **Strategic Business Transition.** Upon release of the first quarter 2016 financials, management highlighted the transition of its oil and gas exploration and production businesses to a royalty fee-based model. In addition, the firm's Bakken shale assets were disposed. The resulting change will impact the top line of the business materially, but expand the operating margin of the segment from the historical mid-30% percent range to its last reported figure of 68%. Visibility into revenue timing should also improve. The business line will still be influenced by the willingness to drill, although the strong majority of leasehold oil and gas producers have maintained their interests with Forestar despite the recent historical low in the US rig count.
- **Opportunistic Exit for Multifamily.** Management has outlined a plan to continue the strategic exit of its multifamily residence portfolio. This comes at a point where the markets the company operates within have seen high valuations and rent prices relative to previous points within the

current cycle. As previously noted, FOR generated significant cash and booked sizable gains from the sales of its Eleven multifamily community and its Dillon multifamily site.

- **Self Help.** In addition to shaping its portfolio, Forestar continues to perpetuate its transition story through its management change, increased operational efficiencies, and recent efforts to improve the balance sheet. FOR announced it had identified $6M in annual cost reductions, lowering their targeted SG&A to $33M. Balance sheet and capital allocation positions seem very important to management at this time, with large cash generation going directly toward paying off debt. Additionally, FOR has reduced its net debt position to $6.7M from $230M at the beginning of the year.

Valuation

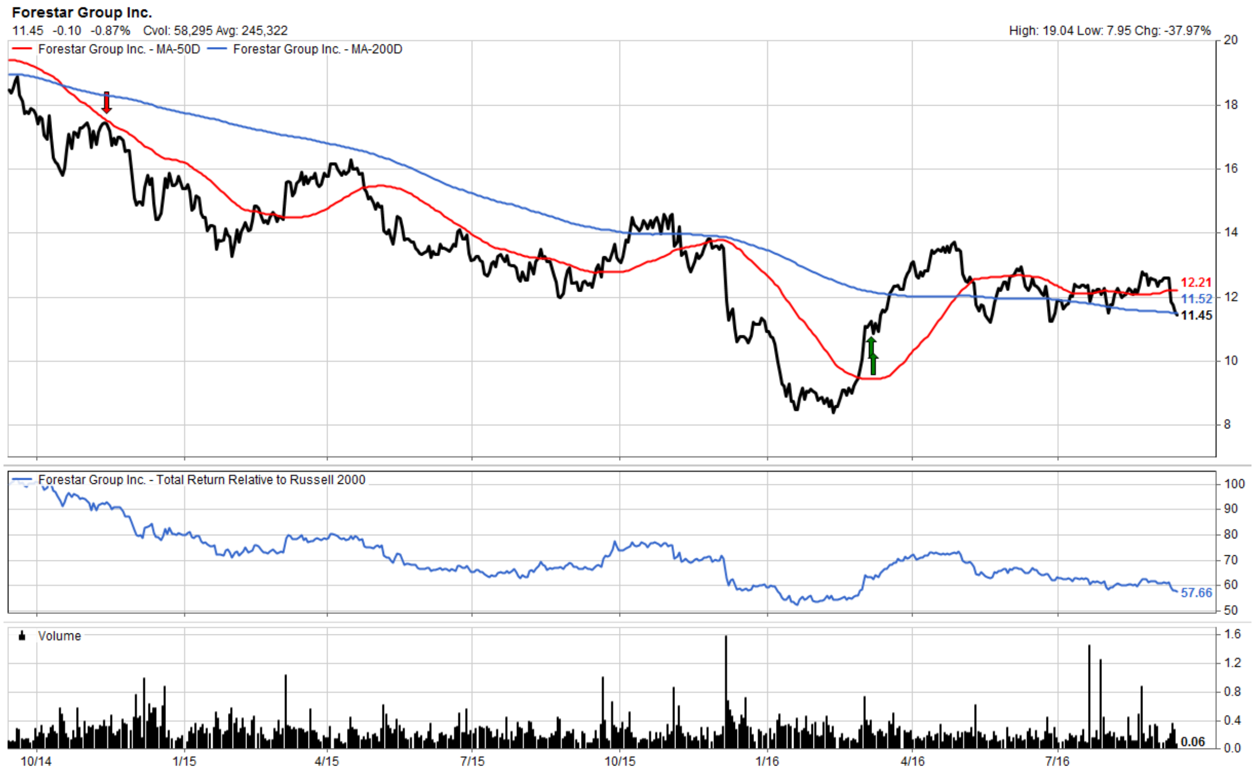
In order to compute an intrinsic value for FOR, an average of the valuations obtained from a sum of the parts (SOTP) analysis and net asset value (NAV) model were utilized. The SOTP analysis was based on the estimated 2017 EBITDA figure and broke the company into the real estate, mineral resources, and other resources segments. The matched multiples with EBITDA figures were $46.4M at 14.0x, 4.6M at 12.0x, and 0.0M at 17.0x respectively, yielding a share price of $16.47. The NAV model yielded $13.38 under a conservative estimate. A sensitivity analysis yielded a range of $9 to $19. By weighting the two valuation models 50/50, a price target of $14.93 was reached, which yields a 30% upside. FOR does not currently pay a dividend.

Risks

- **Industry Cyclicality.** With nearly all of its exposure to the real estate market, Forestar operates in a highly cyclical industry. A healthy housing market should correlate directly with a healthy NAV valuation. Continued improvement in existing home sales (nearing 5.5M) and the Case-Shiller nominal home price index (increasing at a 4%/yr CAGR since 2009), coupled with a further decline in median mortgage costs as a percentage of median income (Nearing 15%) should lead to additional development and sales.
- **Commodity Exposure.** Through its mineral interests and real estate portfolio, Forestar has both direct and indirect exposure to commodity prices. Commodities that could have a meaningful impact on performance include crude oil, natural gas, and timber.

Management

Forestar is currently led by CEO and Director Phil Weber, who is 55 years old and has company tenure of approximately six years. His base salary is $360K, total $1.9M, and he currently holds 48K shares. Forestar's CFO and Treasurer is Charles Jehl. He is 48 years old and has been with the company for less than one year. Jehl was formerly the CFO and COO of Guaranty Insurance Services, Inc. His base salary is $275K, total $1.2M. Jehl is not a major shareholder.



Source: Factset

Ownership

% of Shares Held by All Insider and 5% Owners:	5.05%
% of Shares Held by Institutional & Mutual Fund Owners:	108.8%

Source: Factset

Top 5 Shareholders

Holder	Shares	% Out
NWQ Investment Management Co.	5,125,000	15.2
Cove Street Capital LLC	3,537,000	10.5
BlackRock Fund Advisors	3,202,000	9.5
T. Rowe Price Associates, Inc.	2,727,000	8.1
Carlson Capital LP	2,657,000	7.9

Source: Factset

Peer Analysis

Name	Ticker	Market Cap (mil)	Net Income (mil)	GPM %	P/B	Net Debt/ EBITDA
Forestar Group	FOR	424	-61.6	35.8	0.8	0.1
Panhandle Oil and Gas	PHX	266	9.3	3.2	2.5	-
Potlatch Corporation	PCH	1,464	31.7	18.3	11.3	5.2
Cousins Properties Inc.	CUZ	2,258	45.7	24.6	1.4	3.5
Approach Resources	AREX	129	-174.1	-26.6	0.3	10.4
Peer Averages		1029	-21.9	4.9	3.9	4.8

Source: Factset

Proto Labs, Inc. (PRLB)
September 16, 2016

Michael Robinson Domestic Industrials

Proto Labs. (NYSE:PRLB) is a low-volume online and technology-enabled manufacturer of custom parts for prototyping and short run production. They utilize computer numerical control (CNC) machining, injection molding, and rapid three-dimensional printing to create custom parts for their customers. Proto Labs targets services to product developers who use 3D computer aided design to develop products in medical, aerospace, computer, consumer products, industrial machinery, and other markets worldwide. They also engage in R&D for the accelerated manufacturing process. Proto Labs was founded in 1999 and headquartered in Maple Plain, Minnesota.

Price ($) (9/14/16):	$54.48
Price Target ($):	$87.03
52WK H-L ($):	51-82
Market Cap (Mil):	1,408
Float (%):	92.2%
Short Interest (%):	20.23%
Avg. Daily Vol:	351,660
Dividend ($):	$0.00
Dividend Yield (%):	0.00%

Beta:	1.09
WACC:	7.07%
M-Term Rev. Gr Rate Est:	25.00%
L-Term Rev. Gr Rate Est:	2.00%
Debt/Equity:	0.00%
Debt/EBITDA (ttm):	0.00
ROA:	12.93%
ROE:	14.05%
ROIC:	14.05%

FY: Dec.	2014	2015	2016E	2017E
Revenue (Mil):	$209.60	$264.10	$330.13	$420.91
% Growth:	28.51%	26.00%	25.00%	27.50%
Gross Margin:	61.03%	58.19%	56.74%	56.20%
Operating Margin:	28.88%	25.42%	24.25%	25.15%
Net Margin:	19.87%	17.61%	16.73%	17.35%
EPS (Cal):	1.60	1.78	2.09	2.76
FCF/Share (Cal):	$0.53	$0.54	$0.62	$1.06
P/E (Cal):	41.98	35.70	28.86	31.48

Recommendation

The next industrial revolution, which includes the use of innovative technology, has begun in the manufacturing sector. Soon the hundred-year-old mass production model will come to a halt and more machines and robots will be able to manufacture products faster and at a cheaper price through 3D printing and other technologies. The current 3D market space is highly fragmented and extremely competitive with relatively high barriers to entry due to the large capital outlays of the machines and a significant learning curve for use. PRLB is creating a name for itself among the 3D printing manufacturers with its rapid growth and aggressive strategies. PRLB has three main business segments, injection molding (59.6% of total revenue), CNC machining (26.3%), and their newest, fast growing 3D printing segment (12.3%). The printing segment is currently growing at the astronomical pace of 82.1% year-over-year and shows no signs of slowing down. Besides this up-and-coming market disrupting practice, PRLB also has strong customer growth plans and are looking to expand more into new markets and gain new customers through increased marketing and selling activities. Lastly, they have made two major acquisitions in the past two years, being FineLine and Alphaform, both 3D printing companies. These acquisitions are adding significantly to their top line growth and have helped expand their 3D segment more rapidly than ever before. Therefore, it is recommended that PRLB Inc. be added to the AIM Equity Fund with a price target of $87.03, which represents a 59.74% upside. PRLB does not pay a dividend.

Investment Thesis

- **3D Printing.** Three-dimensional printing is the next boom in industrial manufacturing. According to Wohlers Report, 3D printing is expected to grow from $3.07 B in revenue in 2013 to $12.8 B by 2018 - and exceed $21 B by 2020. 3D printing eliminates most of the expensive skilled labor conventionally required to quote and manufacture parts. It allows for quick prototyping of custom parts, initial supplies of parts on new production lines, on-demand replacement parts, or end of life production support. Currently, 3D printing is an underserved market due to the natural inefficiencies involved with quoting, setting-up machines, and the non-recurring processes to create new parts. Proto taps into this market by creating an online process with speed, ease-of-use, and reliability for their customers. All the customer has to do is upload their 3D-CAD design and Proto Lab's website analyzes the submission, determines their ability to make it, and gives them a quoted price. PRLB began their 3D printing business in Q2'14 through the acquisition of FineLine. PRLB's revenue from their 3D printing revenue has grown 67% now from Q2'15 compared to Q2'16 and the segment has grown from 8.1% of their total revenue to 12.3% of their total revenue. As 3D printing gains popularity, this segment will add additional top line growth.

- **Customer Growth Strategy.** PRLB is looking to expand their customer base through the addition of new users and gaining more orders from their existing customers. Historically, 70% of their current customers also have a need for 3D printing. As more customers discover that they can use PRLB for all of their manufacturing needs, this customer base will grow. Excluding their newly acquired customers from Alphaform, PRLB reported 20,240 customers served for Q1 and Q2 of 2016. This is an 18% customer increase over the first half of 2015. PRLB' largest market, the United States, is growing R&D practices at an average of 4% over the past sixty years, according to the American Association for the Advancement of Science. This continued growth shows a market space that can continue to be tapped by PRLB for many years.
- **Acquisitions.** Although PRLB has plenty of room for natural growth, they are also using acquisitions to set themselves up for more future success. In April of 2014, they acquired FineLine Prototyping, a North Carolina based custom prototype and plastic products manufacturer. The company reported revenues of $9.7 M in 2013 and PRLB is enthusiastic about adding this extra revenue to their top line. On October 9, 2015, PRLB completed the acquisition of Alphaform. The purchase of this German-based company will considerably enhance their 3D printing capabilities within Europe and help add revenue to their international markets, which is 27% of their total sales. Lastly, General Electric has recently purchased SLM Solutions Group and Arcam AB for $1.4 B, paying 36.7% and 53.23% premiums respectively. Both of these companies are 3D printing companies. As large companies are investing in new technologies this represents a significant opportunity for smaller 3D printing companies.

Valuation

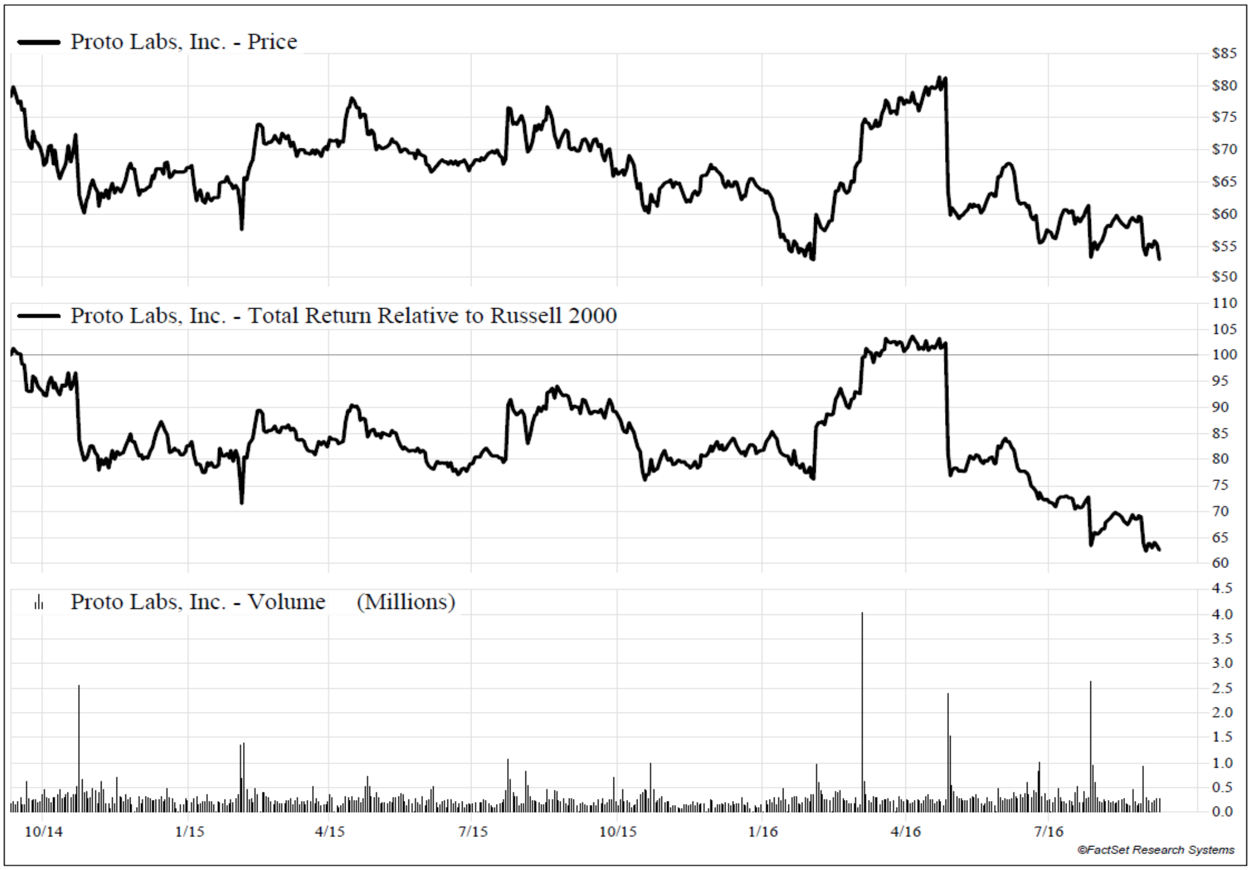
To reach an intrinsic value for PRLB, a five year DCF model was constructed. Using a terminal growth rate of 2.0% and a WACC of 7.07%, an intrinsic value of $86.97 was reached. A ± 0.5% sensitivity analysis on the terminal growth rate and WACC ranged from $61.36-146.07. Additionally, a price-to-sales multiple valuation was conducted, resulting in a valuation of $87.26. By weighting the two valuations 80/20, a price target of $87.03 was reached, resulting in a 59.74% upside.

Risks

- **Ballooning Expenses.** PRLB' gross margin has dropped 2.3% from Q2 to FY2015. Their operating margin has fallen 3.3% over the same time period, as operating expenses grew 35.6% from 2014 to 2015. Gross margin is higher due to the growth of their 3D Printing segment and its inherent lower gross margin. Operating expenses are currently high due to the expansion of the company with R&D and acquisitions. These expenses can possibly stagnate earnings in the future if PRLB cannot grow sales fast enough.
- **Significant Competition.** The 3D printing market is very fragmented and competitive. There is a very wide variety of custom parts to manufacture and many methods to do this. Other alternative manufacturers that use stereolithography, selective laser sintering, and direct metal laser sintering. Future competition will arise as new technology becomes available and more companies arise.
- **Strong Dollar Woes.** PRLB does business in the United States, Europe, and Japan. The company did not undertake any hedging transactions to cover foreign currency exposure. Their business abroad is hurt by the strong US dollar and increased price of exports. They are currently growing more quickly internationally than domestically, creating a larger currency exchange risk.

Management

Victoria Holt has served as the President and CEO of PRLB since February 2014. Before that, she served as the President and CEO of Spartech Corporation, a plastic manufacturing company. Ms. Holt left Spartech after the company was taken private in 2013. John Way, CPA, is the current CFO at PRLB and has been since December 2014. Before PRLB, he has worked as CFO at three other companies after becoming a senior manager at PWC.



Peer Comparables

Name	Ticker	Market Cap (Mil)	Debt/Equity (%)	EBITDA	EV/EBITDA (ttm)
Proto Labs	PRLB	1,408	0.00%	79.29	17.96x
Materialise ADR	MTLS	356	29.00%	-0.24	N/A
ARC Group Worldwide	ARCW	56	130.70%	12.52	8.23x
Deswell Industries	DSWL	29	0.00%	-2227	N/A
3D Systems	DDD	1,784	1.30%	-12.25	N/A
	Peer Averages	556	40.25%	-429.54	13.10x

Source: FactSet

Ownership

% of Shares Held by All Insiders and Owners	7.79%
% of Shares Held by Institutional & Mutual Fund Owners	>90%

Source: FactSet

Top 5 Shareholders

Holder	Shares (Thou)		% Out
Brown Capital Management	2,759	▲	10.44
BlackRock Instititutional Trust Company	2,115	▲	8.01
Lukis	1,882	▼	7.12
The Vanguard Group	1,864	▲	7.06
Riverbridge Partners	1,752	▼	6.63

Source: ThomsonOne

Golub Capital BDC (GBDC)

September 16, 2016

Brendan Hopkins | Financial Services

Golub Capital, BDC. (NASDAQ: GBDC) is a closed-end, externally managed, non-diversified business development company (BDC) that provides debt and equity capital to middle-market companies. Golub Capital BDC's investment portfolio of $1,517MM contains 185 different investments primarily in one-stop loans (76% of investment portfolio), first lien senior secured loan investments (11%) and equities (4%) across a broad range of sectors. The company is closely tied to Golub Capital LLC, a leading lender to middle-market companies with $18B AUM, and accesses their loan origination channels. The firm has over 300 employees and has 2.5% insider ownership position. Golub Capital BDC went public in 2010 and the company is headquartered in Chicago, IL.

				FY: Dec	2015A	2016E	2017E	2018E
Price ($): (9/14/16)	18.39	Beta:	0.49	Net Investment Income	119,968	128,606	141,531	147,758
Price Target ($):	22.28	WACC	4.4%	% Growth	9.53%	7.20%	10.05%	4.40%
52Wk H-L ($):	19.76 - 14.80	M-Term Rev. Gr Rate Est:	5.5%	Div. Per Share ($)	1.28	1.28	1.30304	1.31
Market Cap (mil):	1,012	M-Term EPS Gr Rate Est:	5.2%	P/NAV ($)	1.16	1.40	1.40	1.40
Float (mil):	53.5	LT Debt/Total Equity	100.3	EPS (Cal)	$1.44	$2.34	$2.57	$2.69
Short Interest (%):	1.90%	ROA:	4.6%	P/E (Cal)	11.1	9.5	8.7	8.3
Avg. 3 Month Vol:	140,952	ROE:	9.2%	BVPS	15.81	16.07	16.39	16.63
Dividend ($):	1.28			P/B	1.01	1.39	1.36	1.34
Yield (%):	6.90%							

Recommendation

Utilizing an investment strategy of focusing on first lien senior secured loan investments in reliable U.S. middle market companies that are backed by proven private equity sponsors, GBDC has provided steady and increasing returns through investment income since their inception. Over the past 16 quarters, GBDC has been able to consistently increase NAV and are currently positioned at a P/NAV of 1.20X. Since going public in 2010, GBDC has increased their NAV 10% and even though the company is currently being traded at a premium, they are not near their peak P/NAV as they have historically traded at a substantial premium to this metric. Through their focus on reliability, GBDC has proven that they are capable of weathering the storms of volatility in both debt and equity markets. They have expanded on existing and developed new relationships and have positioned themselves for an opportunity to extend their reach and label themselves as a top middle market lender to established companies. The companies portfolio containing more than 185 investments is well diversified, with healthcare/education and conglomerate services making up their heaviest weighted sectors. Their ability to be profitable is represented by their 5 yr avg ROA, 4.8%, and ROE, 8.9%, which far exceeds their peer 5 yr average of 1.9% and 3.7% respectfully. As a result of GBDC's reliability, consistent yet improving track record, their opportunity to enhance market share, and their existing relationships with businesses, private equity sponsors, and Golub Capital Partners, it is recommended that GBDC be added to the AIM Fund with a price target of $23.02, representing a 25% upside. The firm pays a dividend that currently yields 6.9%

Investment Thesis

- **Stability Through Turbulent Times.** Over the duration of the past few quarters, the financial markets have been volatile with significant swings in both debt and equity markets. GBDC's investment approach regarding first lien senior secured loan investments in steady companies backed by reliable private equity sponsors is a safe bet during these tense times, as proven by their portfolios credit performance. This portfolio containing resilient companies within recession-resistant industries will position GBDC well the next time reliability is worth a premium, which occurs when there is a lack of knowledge of what the future holds. Currently the unpredictable future of both domestic and global markets, stimulus policies and the geopolitical environment will encourage investors to search for safe investments.

- **Regulation Provides Opportunity.** With the increased regulation of the financial services sector, GBDC has access to opportunities to improve their market position. The current regulatory environment has encouraged banks to reduce leverage lending and will pressure them to do so for several years to come. This has and will continue to provide non-bank lenders the opportunity to gain market share in this space, specifically within smaller sized transactions as this regulation will encourage banks to focus on only large transactions. GDBC will continue to take advantage of this opportunity in the middle-market lending environment by increasing their origination of new loans within one-stop loan investments and senior secured loan investments. Recently, GBDC has grown their platform to become one of the largest middle market lending firms and is capable of providing finance solutions to large sponsors.
- **Scale and Relationships.** Golub Capital is not willing to take on a substantial amount of risk in order to grow earnings, but rather they prioritize income stability and NAV strength. By utilizing an effective dividend policy, they are able to ensure a lower cost of capital so they can maintain their investment strategy and avoid stretching for a large yield or taking on additional risks to meet capital requirements. Through focusing on investments in reliable and stable companies, GBDC's portfolio of investments has realized a strong credit performance and has been able to generate repeat business with sponsored clients and existing borrowers. Through Q2'16, over 90% of GBDC's investment origination activity was through sponsors that have been involved in previous deals, so it is safe to say that Golub does not plan to stray away from utilizing trustworthy private equity sponsors that provide reliable debt investments. Beyond these outside relationships, GBDC also utilizes their access to Golub Capital Partners LLC by investing in their transactions and using their significant market scale and reach.

Valuation

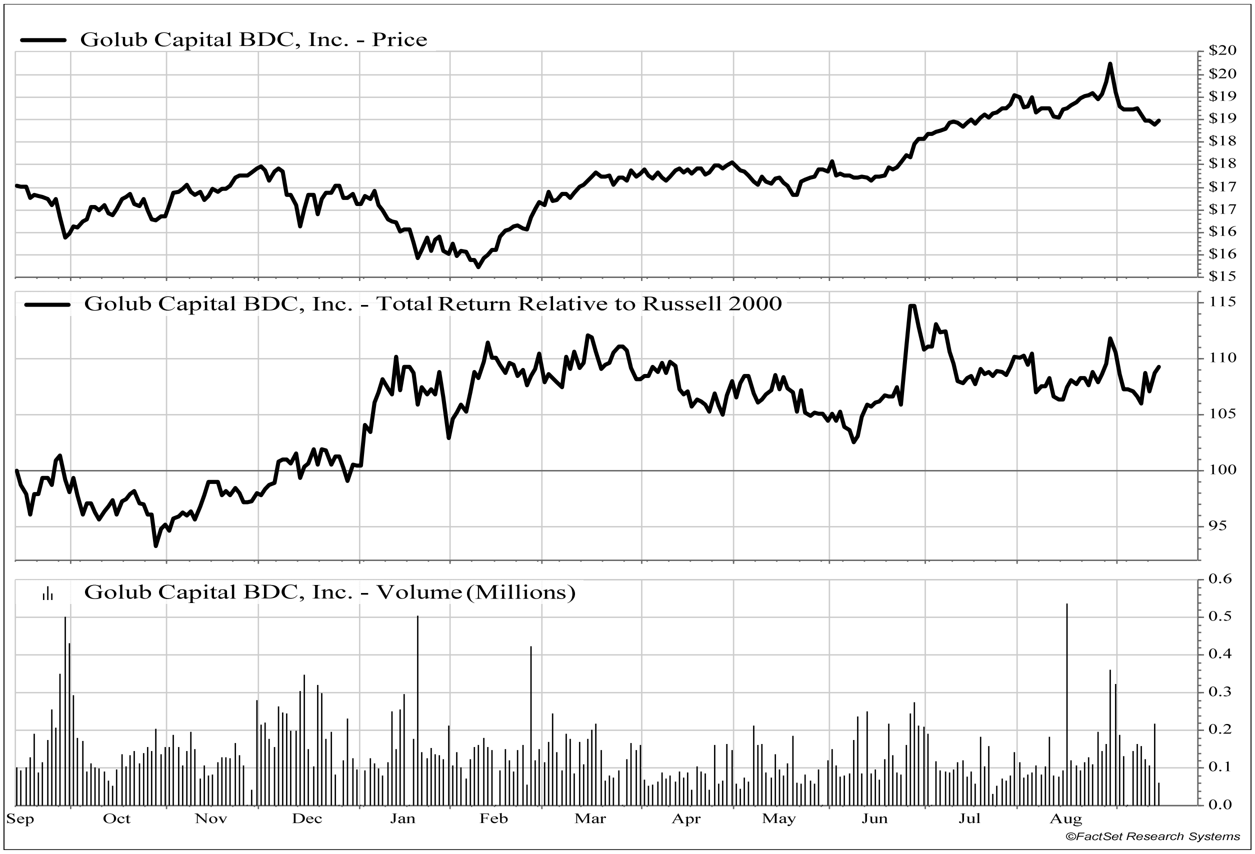
Utilizing a blended historical and peer price-to-earnings (P/E) average, a historical peer price-to-book value (P/BV) and a dividend discount model (DDM) resulted in an intrinsic value of $23.02. For the DDM, a cost of equity of 5.34% and a terminal growth rate of 1.1% yielded a value of $28.44. A sensitivity analysis of the cost of equity and terminal growth rate produced a range of $25.90 – 31.52. Following this method, a current and historic blend of the company's four peers was used and P/BV multiple of 1.17X was achieved leading to a valuation of $17.73. Finally, a current and historic blend of the company's four peers was again used and a P/E multiple of 15.09X was achieved leading to a valuation of $22.89. Weighing the P/E multiple, DDM, and P/BV all equally, a price target of $23.02 was established representing a 25.17% upside. GBDC also paid a $1.28 dividend in 2015, yielding 6.9%

Risks

- **Inevitable Hike in Interest Rates.** The majority of GBDC's debt investments and borrowings have floating interest rates, so an increase in these rates may have an adverse effect on investment income as their debt expenses will increase. If GBDC is not able to increase their distribution rate, the stock value may decrease as it will be expected that these additional earnings from their anticipated interest income of debt investments will result in larger payments to shareholders.
- **Sensitivity to Economic Activity.** Historically when global capital markets experience a period of instability or extreme volatility, debt and equity markets are materially affected. Currently, there is unease in the direction and instability of the global economy. If extreme market disruptions occur, GBDC can be directly affected through a lack of liquidity, significant write-offs and an increase in the default risk of their holdings.

Management

David Golub is CEO of GBDC, President of Golub Capital and serves on the investment committee of GC Advisors LLC. Prior to joining Golub Capital in 2003, he was a managing director of Centre Partners and has been the first Board Chairman and Director of the Michael J. Fox Foundation for Parkinson's Research. In addition, he has served on several other boards of both public and private companies. The CEO of Golub Capital, Lawrence Golub, serves as the Board Chairman.



Ownership

% of Shares Held by All Insider and 5% Owners:	2.50%	▲
% of Shares Held by Institutional & Mutual Fund Owners:	42.67%	▲

Source: FactSet

Top 5 Shareholders

Holder	Shares		% Out
The Bank of New York Mellon Corp.	3,320,000	▲	6.06
ClearBridge Investments LLC	1,633,000	▼	2.98
Schorder Investment Management North America, Inc.	1,444,000	▲	2.64
T. Rowe Price Associates, Inc.	1,213,000	▲	2.21
Wells Fargo Advisors LLC	1,033,000	▲	1.89

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Div. Yld. %	P/B	ROA	ROE
Golub Capital BDC	GBDC	1,102	6.90	1.01	4.59	9.17
	HTGC	992	9.40	1.23	3.15	6.02
	TCAP	762	9.40	1.25	4.73	9.21
	NMFC	1,516	10.00	1	2.11	4.02
	FSC	837	12.50	0.69	0.59	1.09
Peer Averages		1026.7	10.3	1.0	2.6	5.1

**Removed For Relative Valuation Analysis*

Source: Factset