Applied Investment Management (AIM) Program

AIM Class of 2017 Equity Fund Reports
Fall 2016

Date**:* Friday, September 2nd | ***Time:** 3:00 – 4:30* p.m. | ***Location: AIM Research Room 488

Student Presenter	Sector	Company Name	Ticker	Page
Martha Wong	Consumer Discretionary	Bojangles' Inc.	BOJA	2
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These student presentations are an important element of the applied learning experience in the AIM program. The students conduct fundamental equity research and present their recommendations in written and oral format – with the goal of adding their stock to the AIM Equity Fund. Your comments and advice add considerably to their educational experience and is greatly appreciated. Each student will spend about 5-7 minutes presenting their formal recommendation, which is then followed by about 8-10 minutes of Q & A.

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Bojangles', Inc. (BOJA)
September 2, 2016

Martha Wong — Domestic Consumer Discretionary

Bojangles', Inc. (NASDAQ: BOJA) is restaurant operator and franchisor. It is an iconic brand with company-operated (295) and franchised (394) restaurants in North Carolina, South Carolina, Georgia, Virginia, Tennessee, Alabama, Maryland, Florida, Kentucky, West Virginia, Pennsylvania, the District of Columbia, and Honduras. The company is famous for its made-from-scratch biscuits, fresh, never frozen-bone-in fried chicken, unique fixin's and Legendary Iced Tea. Although menu items cater to all dayparts, Bojangles' is especially known for its all day breakfast menu. BOJA completed its IPO in May 2015. A cult-like following and an industry leading average unit volume paired with a strong management team add to the firm's value proposition. Bojangles' was founded in 1977and is headquartered in Charlotte, North Carolina.

Price ($): (8/26/16)	16.12
Price Target ($):	20.20
52WK H-L ($):	13.39-22.01
Market Cap (mil):	586
Float (mil):	9.9
Short Interest (%):	4.40%
Avg. Daily Vol (k):	131.42
Dividend ($):	N/A
Yield (%):	N/A

Beta:	1.49
WACC	8.9%
M-Term Rev. Gr Rate Est:	10.0%
M-Term EPS Gr Rate Est:	13.0%
Debt/Equity:	137.2%
Debt/EBITDA:	3.18x
ROA:	6.2%
ROE:	20.6%
ROIC:	10.2%

FY: Dec	2014A	2015A	2016E	2017E
Revenue (Mil)	430.47	488.20	569.44	639.91
% Growth	14.7%	13.4%	16.6%	12.4%
Gross Margin	19.9%	19.7%	19.8%	19.9%
Operating Margin	12.5%	11.8%	11.8%	11.9%
EPS (Cal)	$0.70	$0.71	$0.92	$1.07
FCF/Share	$1.00	$1.23	$1.29	$1.54
P/E (Cal)	N/A	22.8x	17.5x	15.1x
EV/EBITDA	N/A	10.8x	9.5x	8.4x

Recommendation

BOJA operates in the limited service segment of the restaurant industry, which consists of quick-service restaurants (QSRs) and fast-causal sub-segments. The company combines the most attractive elements of both sub-segments, offering quality food with speed, convenience, and value to allow for a wider customer base. The LSR market size is expected to reach $289B by 2018 with FY13 to FY18 CAGRs of 3.6% and 9.3% for the QSR and fast-casual sub-segments, respectively. The firm has delivered strong financial results and is still in the early stages of growth. Total revenues grew at a CAGR of 13% from FY11 to FY15, and adjusted EBITDA grew at a CAGR of 15% during the same period. Additionally, restaurant contribution, a key performance indicator, grew at a CAGR of 17.5% from FY11 to FY15 in company-operated restaurants. Although the number of system-wide restaurants has increased at a 4-year CAGR of 6.8%, the company still experienced 25 consecutive quarters of positive comparable restaurant sales and has achieved over $1.8M of system-wide average unit volume, which is among the highest in the industry. The system-wide comparable restaurant sales growth was 4.6% and 8.8% on a two- and three- year stacked basis, respectively. BOJA can expect to capitalize on multiple growth opportunities. "Bo Fanatics" visit multiple times per week and promote the already strong brand via work of mouth and social media engagement. A newly implemented customer experience measurement system provides real-time feedback to help management enhance service. Limited time offers, product and packaging enhancement, labor and service optimization, and targeted media spend are factors in the daypart growth strategy. Another potential revenue catalyst is a new product launch expected to be an extension of an existing line that will not cannibalize existing sales. The most significant drivers for this iconic brand with a cult-like following include expansion in adjacent and existing markets, accelerated population growth in key markets, and the growing breakfast daypart. For these reasons, BOJA is poised to be a strong addition to the AIM Equity Fund with a target price of $20.20, representing a 25% upside.

Investment Thesis

- **Expansion in adjacent and existing markets.** Management is targeting 7% to 8% long-term annual unit growth with expansion mainly driven by existing franchisees. A thoughtful siteselection process including evaluation of population, demographics, access to "breakfast traffic," and unit visibility is utilized. Additionally, a third-party data analytics tool and information from data services ensure a disciplined approach to new restaurant construction. Based on research performed by a third-party, potential in the current footprint is 1,400 locations with 3,500 potential locations across the United States.

- **Accelerated population growth in key markets.** Population growth in key markets has exceeded the U.S. national average since 2000. Georgia, North Carolina, South Carolina, Virginia, and Tennessee have seen population growth from 2000 at 2014 at 19.9% on average compared to 13.0% in the U.S. Increased population in key markets creates a wider customer base for BOJA, offering a competitive advantage against other companies in the LSR segment.
- **Growing breakfast daypart.** Breakfast was the fastest growing daypart according to NPD CREST foodservice market research for the year ended June 2015. The U.S. breakfast market is forecasted to grow at a CAGR of 3.9% from 2014 to 2019. Bojangles' offers an extensive breakfast menu all day and generated 38% of company revenues before 11 a.m. in FY15. Breakfast eating habits are also considered more habitual than other meals.

Valuation

In order to reach an intrinsic value for BOJA, a five-year DCF model was constructed. Using a terminal growth rate of 2.0% and WACC of 8.90%, an intrinsic value of $21.60 was reached. A +/- 1% sensitivity analysis of the terminal growth rate and WACC ranged from $20.67 to $25.91. Additionally, a P/E multiple valuation was conducted using 2016 EPS of $1.05 and a predicted forward multiple of 19.29x, resulting in a valuation of $18.81. By weighting the valuation models 50/50, a price target of $20.20 was reached, which yields a 25% upside. BOJA does not pay a dividend.

Risks

- **Increases in food supply costs.** Significant increases in food supply costs could lead to temporary suspension of menu offerings or increased prices, which may decease restaurant traffic.
- **Geographic concentration.** With an intense focus in the Southeastern U.S., any adverse changes in demographic, unemployment, economic, regulatory, or weather conditions in this market could have a material impact on the BOJA's financial position.
- **Decreased consumer spending.** Weakness in the economy results in decreased discretionary income for consumers to spend on goods in the industry. Unfavorable economic conditions have the potential to adversely impact BOJA's financial position.

Management

Clifton Rutledge has served as President, CEO, and Director of Bojangles' since January 2014. Prior to joining the company, he served as COO at Whataburger. He brings over 30 years of experience in restaurant industry operational positions. M. John Jordan has served as CFO since December 2014 and Treasurer since April 2015 but has been with the Company since 2006.

Source: FactSet

Ownership

% of Shares Held by All Insiders:	74.68%
% of Shares Held by Institutions:	17.29%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
Advent International Corporation	25,456,000	70.49%
Coper Rock Capital Partners	1,300,000	3.60%
Tommy Haddock	625,000	1.73%
The Vanguard Group	611,000	1.69%
Frontier Capital Management	537,000	1.49%

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales	EBITDA Margin	EV/ 2016E EBITDA	Price/2016E EPS
Bojanangles', Inc.	BOJA	586	488	14.8%	9.5x	15.3x
Denny's	DENN	782	491	17.7%	10.1x	20.1x
Popeyes Louisiana Kitchen	PLKI	1,176	259	32.5%	14.7x	26.3x
Sonic	SONC	1,337	606	26.9%	10.5x	21.2x
Wendy's	WEN	2,586	1,870	23.0%	11.8x	24.8x
Zoe's Kitchen*	ZOES	552	227	8.3%	23.6x	257.9x
Peer Averages		1,287	691	22%	14.2x	70.0x

**Excluded for relative valuation*

Source: FactSet

Oil States International (OIS)
September 2, 2016

Casey McClelland — Domestic Energy

Oil States International (NYSE: OIS) is a technology focused, specialty products manufacturer and oilfield services provider. OIS is mainly focused in supplying technology and parts to aid in offshore and onshore drilling. OIS currently operates under two major categories: Well Sites and Offshore Products. Of the two units, Offshore Products accounts for the majority of OIS' revenue by contributing up to 66% of 2015 total revenue. The company is headquartered in Houston, Texas and oversees 70% of OIS' domestic revenues. Along with the firm's domestic business, OIS has operations in most of the other major international offshore producing areas, including the North Sea, West Africa, and South America. OIS had an accommodations business until as recently as 1H14, when OIS spun off the business creating a new company, Civeo. OIS was founded in 1937 in Tulsa, Oklahoma as an oilfield supply store.

Price ($): 8/30/2016	$ 31.28
Price Target ($):	$ 39.99
52WK H-L ($):	36.73 - 21.44
Market Cap (mil):	1,645
Float (mil):	50.2
Short Interest (%):	7.7
Avg. Daily Vol (mil):	0.6
Dividend ($):	0.00
Yield (%):	0.0

Beta:	1.24
WACC	8.16%
M-Term Rev. Gr Rate Est:	23.6%
M-Term EBIT Gr Rate Est:	-7.7%
Debt/Equity:	6.8%
Debt/EBITDA (ttm):	0.86
ROA (%):	-1.40
ROE (%):	-1.77
ROIC (%):	-1.62

FY: Dec	2015	2016	2017	2018
Revenue (Mil)	1,100.0	697.8	753.8	935.6
% Growth	-39.5%	-36.6%	8.0%	24.1%
EBIT	55.01	-68.80	-26.85	44.13
Adj. EBITDA Margin	17.6%	8.4%	14.1%	19.3%
Adj. EPS (Cal)	$0.85	($0.92)	($0.44)	$0.61
FCF/Share	($0.61)	($0.57)	($0.10)	$0.83
EV/S(Cal)	1.5x	2.4x	2.2x	1.8x
EV/Adj. EBITDA	8.6x	28.8x	15.8x	9.3x

Recommendation

At the beginning of 2016, the energy sector was in turmoil. Baker Hughes reported that rig count in the U.S was down to 439 oil rigs, which was 72% below the 2014 high level. Along with the rig drop, oil prices cratered and sank to the lowest prices since 2003 at $28 a barrel. Since the low of oil prices recorded in February, the energy sector has seen a solid boost to date with prices rebounding by nearly 70% approaching $50 per barrel. Along with the price increase, the overall macroeconomic and geopolitical environment has improved in the past few months. Iran is nearing their pre-sanction production output levels and an OPEC production freeze continues to be rumored as a possibility. These events have moved the needle on sentiment in the industry - as it seems there is light at the end of the tunnel. As a result, OIS should flourish as a result of the recent price resurgence. A strong balance sheet is a major key in allowing the company to take advantage of the opportunity for expansion. Oil States International has a high quality balance sheet in relation to their peers. With a history of acquisitions and smart management decisions, OIS is well positioned to grow out of the recent commodity recession. Taking all of this into consideration, it is recommended that OIS be added to the AIM Equity Fund at a price target of $40, which represents a 28% upside. OIS does not currently pay a dividend.

Investment Thesis

- **Diversified Technology Portfolio.** Although**,** two-thirds of OIS' revenues are derived from their Offshore Products division, they also operate in well site services through their completion and drilling segments. Before the commodity collapse of 2014, OIS' business segments were divided more equally as the Well Site unit accounted for almost half of the firm's total revenues. This area has increasingly become more critical for the company as recent production in some of the more profitable shale plays in the U.S. has begun to recover with oil prices near $50 a barrel. Utilization for the last quarter for the company's onshore rigs was only at 9%; however, this was also the first quarter since 1H14 that saw OIS report a sequential increase in utilization. This provides visibility into a further recovery in OIS' onshore offerings and will provide them with a growing source of revenue to lean on as its offshore business catches its breath. Offshore Products continues to struggle as OIS' backlog was down sequentially in Q2; however, this was expected as offshore and deep-water are capital intensive projects and with the industry cutting up to a trillion dollars in capital budgeting for the year it was reasonable to assume there would be a struggle in this segment. With a diversified business model, OIS can rely on Well Site services to help support the firm until oil prices are again at a profitable level for the Offshore unit, which industry analysts believe will be 2H17-2018. OIS' differentiated offering allows them to achieve success and positions them for further future growth in their offshore services operations.

- **Financial Flexibility.** The theme in the oil and gas industry has been one of survival since the beginning of the commodity freefall. Debt ridden, highly levered companies that found success when oil was trading at 2014 highs of around $100 a barrel have fallen by the wayside. According to a report from Haynes and Boo, a firm that specializes in bankruptcies, there have been up to 90 companies in the oil and gas industry that have filed for bankruptcy since January 2015. As such, it is critical in the current environment that firms have the financial flexibility to survive and the ability to grow at the first sign of price normalization. OIS boasts a bullet-proof balance sheet and on a twelve month trailing average, the oilfield services industry has a LT Debt/Equity of 56% compared to OIS' of 6.81%. This has allowed OIS to operate with substantial financial flexibility providing the ability to expand whether through organic capital spending or acquisitions.
- **Takeout Opportunity.** Along with the flexibility afforded to OIS by their balance sheet, it also makes OIS a potential target for an acquisition. With minimal debt, OIS would be an attractive target for fully integrated energy companies or another larger oil services company. According to a recent article by Bloomberg, deals for energy companies are making their way back into the market place. Over $11 billion in transactions were completed in July which was the highest monthly total so far this year. As prices have risen about $45 per barrel, it seems that firms are more willing to spend capital as stabilization in the market looks promsing. With that in mind, OIS could be in a position to be taken out at a premium to the company's current stock price.

Valuation

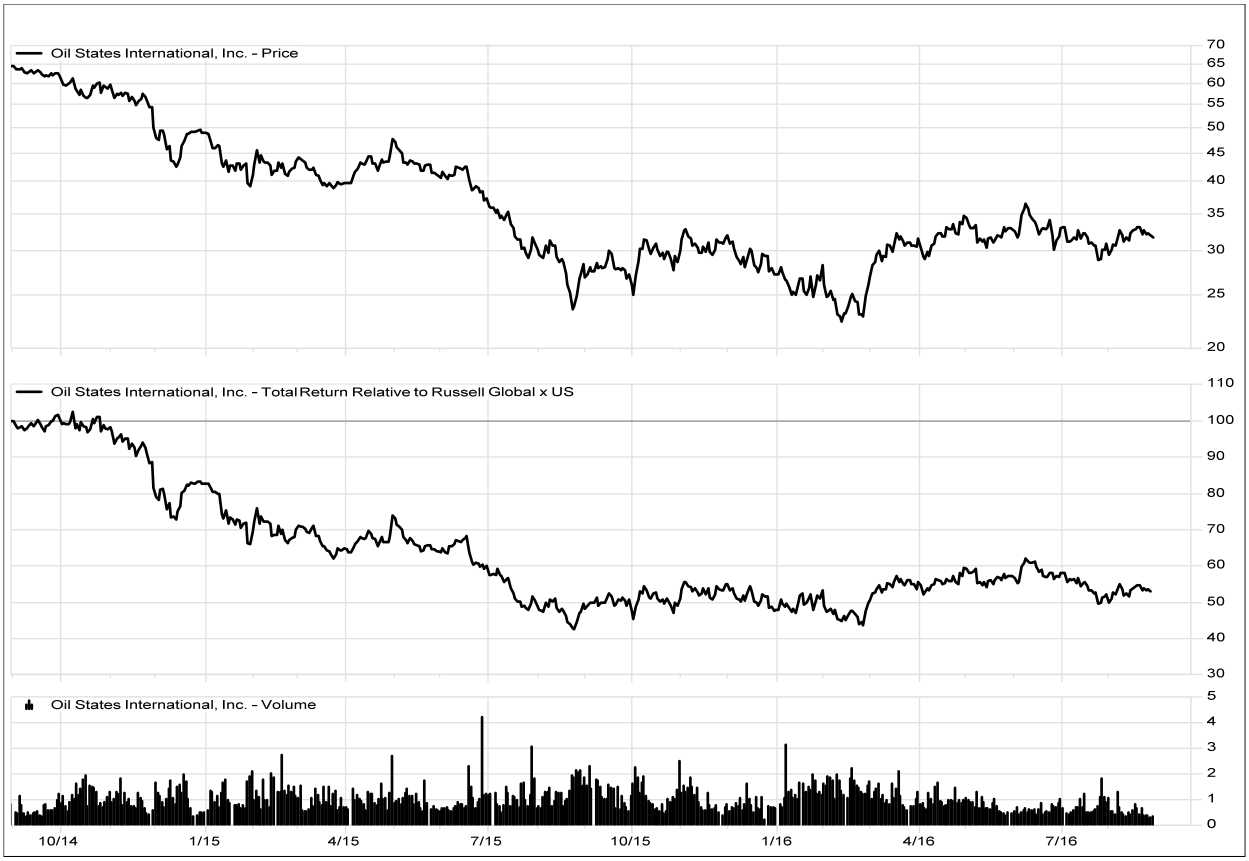
In order to reach an intrinsic value for OIS, a five year DCF model was constructed. Using a terminal growth rate of 2.3%, WACC of 8.16%, an intrinsic value of $37.87 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $30.91-$47.72. Additionally, a EV/EBITDA multiple valuation was conducted using historical 2017 EBITDA of $106.3mm, a comparables average EV/EBITDA of 18.9x which resulted in a valuation of $39.02. Finally, a sum of the parts analysis was conducted using the 2018 EBITDAs of OIS' two business segments, Well Site Services and Offshore Products. Using an EV/EBITDA multiple of 9x for Well Site Services and an EV/EBITDA multiple of 11x for Offshore Products, a valuation of $43.09 was reached. By weighting the three valuation models evenly, a price target of $40 was reached, which yields a 27.8% upside.

Risks

- **Volatile Commodity Prices.** OIS is dependent on production from E&P companies, therefore volatile pricing and a further cratering of oil and gas prices would adversely affect the company. A prolonged commodity recession would keep utilization of OIS' services at non-profitable rates.
- **Government Regulation.** Offshore drilling is a hot button issue due to its substantial environmental implications. This makes further regulations on offshore and deep-water drilling a critical headwind for OIS to monitor.
- **Foreign Exposure.** OIS does have a portion of the business located in foreign countries so is therefore exposed to currency exchange fluctuations and differing regulations on the company's services.

Management

Cindy Taylor is the President and CEO of Oil States since 2007, before which she worked at the company beginning in 2000 when she came in as the CFO. Lloyd Hajdik is the current CFO of OIS and has been with the company since 2013. Scott Moses is the president of Offshore products and was recently promoted into the positon in 2015 after serving as the Senior Vice President since 2013. Christopher Cragg is the Senior Vice President of Operations and joined the company in 2001 where he has held multiple roles since joining.



Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA	Debt/ EBITDA	EV/Sales	EV/ EBITDA
Oil States International, Inc.	OIS	1,606.01	1,099.98	194.00	0.86	2.05	17.65
National Oilwell Varco, Inc.	NOV	12,786.59	14,738.00	2,381.00	2.91	1.45	12.80
FMC Technologies, Inc.	FTI	6,373.96	6,482.40	952.70	1.72	1.13	8.11
Schlumberger NV	SLB	112,145.56	35,475.00	9,820.00	2.33	4.04	15.44
Baker Hughes Incorporated	BHI	21,395.05	15,742.00	1,815.00	12.23	1.51	78.43
Dril-Quip, Inc.	DRQ	2,123.51	844.31	274.31	N/A	2.39	7.85
Peer Averages		38,175.29	18,109.35	3,742.18	4.80	2.10	24.53

**Removed For Relative Valuation Analysis*

Source: FactSet

Ownership

% of Shares Held by All Insider Owners:	2.14%
% of Shares Held by Institutional & Mutual Fund Owners:	>90%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
Fidelity Management & Research Co.	7,473,230 ▲	14.56
BlackRock Fund Advisors	4,315,433 ▲	8.41
The Vanguard Group, Inc.	3,905,015 ▲	7.61
AllianceBernstein LP	3,702,668 ▲	7.21
Dimensional Fund Advisors LP	3,458,140 ▲	6.74

Source: FactSet

Ambarella, Inc. (AMBA)
September 2, 2016

Andy Reed | Domestic Technology

Ambarella, Inc. (NASDAQ: AMBA) is a leading provider of semiconductor processing equipment that allows for the capture, display, and transmission of high quality videos and still-images. It operates in two end-markets: Camera (97% of FY 2016 revenue) and Infrastructure (3%). The company's geographic revenue mix is as follows: Hong Kong (90%), APAC (1%), United States (3%), Mexico and Canada (3%), and Europe (3%). AMBA's end markets include producers of wearable cameras, automotive aftermarket cameras, professional and consumer IP security systems, unmanned aerial vehicles, and broadcast television. Powered by its integrated proprietary algorithms, Ambarella's System-on-a-Chip design integrates HD video processing, image processing, and other related functions onto a single chip, enabling for the compression of high quality video feeds with an emphasis on minimal power consumption. The company was founded in 2004 by Les Kohn in Santa Clara, California.

Price ($): 9/2/2016	$ 71.29
Price Target ($):	$ 90.53
52WK H-L ($):	99-33
Market Cap (mil):	0
Float (mil):	31.4
Short Interest (%):	22.1
Avg. Daily Vol (mil):	1.1
Dividend ($):	0.00
Yield (%):	0.0

Beta:	1.15
WACC	8.36%
M-Term Rev. Gr Rate Est:	7.9%
M-Term EPS Gr Rate Est:	8.0%
Debt/Equity:	0.0
Debt/EBITDA (ttm):	0.00
ROA (%):	16.22
ROE (%):	18.52
ROIC (%):	18.52

FY: Jan	2016	2017E	2018E	2019E
Revenue (Mil)	316.4	317.2	340.6	396.9
% Growth	44.9%	0.3%	7.4%	16.5%
Gross Margin	65.1%	65.2%	65.3%	65.9%
Operating Margin	38.9%	39.6%	37.6%	39.1%
EPS (Cal)	$ 3.31	$ 3.37	$ 3.38	$ 4.17
FCF/Share	$3.38	$3.84	$3.85	$4.62
P/E	26.3x	25.8x	25.7x	20.9x
EV/EBITDA	20.6x	20.1x	19.6x	16.3x

Recommendation

AMBA has established itself as a market pioneer in the field of high-resolution, low-power requirement video and still-image chip processing. While many competitors have focused on the display side of graphics, AMBA has proven itself invaluable to customers over the past decade with a strong foothold in the capture side of HD video. The semiconductor industry has been largely commoditized, but as power management and quality picture have moved to the top of consumers' and enterprises' "wish lists", AMBA's solutions have proven highly differentiated and useful for ODMs and their partner OEMs. With high quality video files requiring massive amounts of digital data to be represented on the cloud, AMBA is well positioned to continue to gain share in its camera and infrastructure markets. Its processing options in wearables, drones, automotive, and security are all equipped with the ability to compress HD video files and share across networks that may be riddled by poor bandwidth connectivity. According to management commentary at a recent Stifel conference, compression rates at AMBA are ~40% better than its closest competitors, indicating a greater ability for wireless sharing among devices. AMBA outsources its manufacturing operations, maintaining minimal capital intensity, and providing the company with financial and creative flexibility. AMBA has grown revenues over the past five years at a 27% CAGR, and despite heavy spending in research and development, AMBA generated 39% adjusted EBITDA margins in FY2016, outpacing the industry average of ~ 20%. AMBA offers a strong opportunity for exposure to several growing consumer and enterprise markets, and it is recommended that AMBA be added to the AIM Equity Fund with a price target of $90.53, a 27% discount to the stock's current price.

Investment Thesis

- **Rebound in Wearables:** Strong growth signals seen in channel read-throughs at Best Buy and GoPro indicate the tide is quickly turning in consumer wearables. On its Q2 earnings call, Best Buy noted that wearable sport cameras helped drive a surprising positive comp outperformance at its brick-and-mortar stores. In addition, GoPro stated on its second quarter earnings call that sell-through rates have been improving sequentially, and new wearables incorporating AMBA's technology will be on the shelves for the 2016 holiday season. This will likely strengthen

AMBA's 2H17, and should provide stability in one of its larger markets. In addition to momentum in the consumer wearable market, the company has indicated that it has design wins in point-of-view police cameras with Taser International, the market leader in police wearables. Analysts estimate that the total addressable market for police wearables will be $1bn in 2017.

- **Emerging Demand for Security:** During the Q12017 earnings announcement, CEO Feng-Ming Wang outlined AMBA's expanding presence in home and enterprise security. Its customer concentration in security includes market leaders, such as AT&T, Google, and ADT. CMO by Adobe estimates that by 2019, $490 billion in worldwide revenue is expected from "connected homes", and the leading providers of home security cameras will demand AMBA's technology for quality and interoperability.
- **Mainstreaming UAVs:** According to IDC Research Group, FY2016 global drone shipments are expected to be 390,000 units and this number will expand to 3 million units by 2019. AMBA's technology is vital to drone manufacturers for 4K (ultra-HD) video filming at high speeds, still image capturing, and battery life preservation. Qualcomm's rival 4K solution uses more than 3x the wattage, and provides lower quality imagery. With price pressure occurring among drone manufacturers, AMBA is set to compete at the high, middle, and low end of drone production.
- **Acceptance of Autonomous Vehicles:** In 2015, AMBA acquired VisLabs, an Italian developer of computer vision and intelligent control systems for autonomous vehicle transport, for $30 million in cash. With the addition of VisLabs, AMBA's suite of autonomous services includes chipsets for 360-degree surround view, e-mirrors, lane departure warning, and drive recording. The company recently announced its first design win with Peugeot in one of their Chinese models, providing all of the aforementioned services for the company, and expects more design wins to follow. Currently a small portion of revenue, management expects the segment to grow rapidly in the next two to three years. With many estimates placing market adoption of autonomous vehicles in the back half of 2020, or early 2021, AMBA stands to see robust growth, as its products provide the highest level of safety and compliance for OEMs.

Valuation

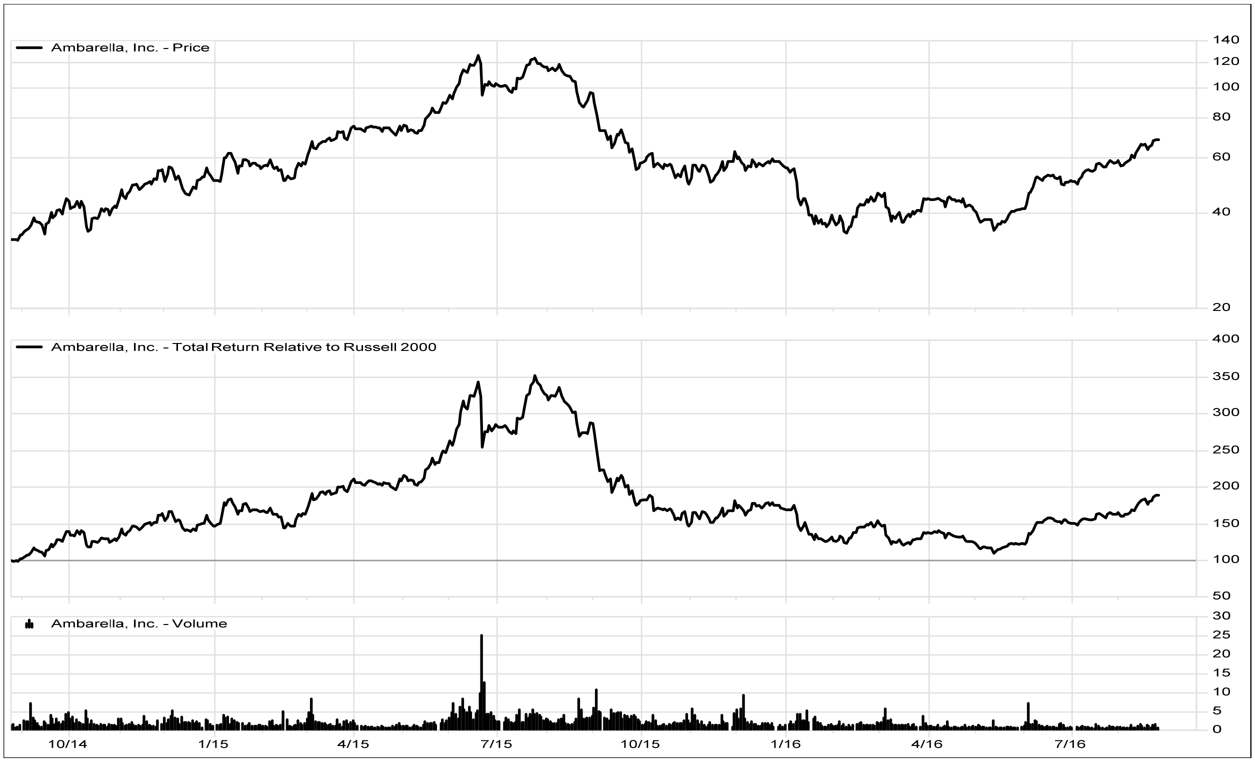
In order to reach an intrinsic value for AMBA, a five year DCF was constructed. Using a terminal growth rate of 2.50% and a WACC of 8.36%, a price target of $85.87 was established. Furthermore, a ±1% and ±0.5% sensitivity analysis on the WACC and terminal growth rate, respectively, was conducted. This ranged from $74.15-102.38. Secondly, based on public comps and a recent takeout in the power management space, a blended 2018E EV/EBITDA multiple of 27x was used on AMBA's 2018E EBITDA. This yielded a share price of $97.53. Weighting the DCF and projected multiple 60-40, a price target of $90.53 was reached, representing a 27% upside to current market value. The firm does not pay a dividend.

Risks

- **Highly Concentrated Operations:** In fiscal 2016, AMBA's five largest ODM and OEM customers accounted for 56% of revenue. In addition, 67% of 2016 sales were generated through a single logistics provider. The lack of diversity among large customers could make AMBA vulnerable to swings in end user demand.
- **Design Win Cycle:** Gaining customer and market adoption can take a long time. Adoption requires the company to effectively build out a functioning prototype, spend time with customer management teams and design staffs, which can take up to 18 months.

Management

Feng-Ming Wang, PhD is the current Chairman, President, and CEO of AMBA. Dr. Wang and Les Kohn, current Chief Technology Officer, co-founded the company in 2004. Both have extensive experience in Silicon Valley. The current CFO is Greg Laplante. In 2015, AMBA was recipient of the Global Semiconductor Alliance's "Most Respected Public Semiconductor Company" and "Best Financially Managed Semiconductor Company" awards.



Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA	P/E	EV/Sales	EV/ EBITDA
Ambarella, Inc.	AMBA	2,253	303	124	39.15	6.38	17.76
NVIDIA Corporation	NVDA	32,919	5,439	1,380	40.00	5.43	21.41
CoreLogic, Inc.	CLGX	3,573	1,747	412	27.16	2.92	12.40
QUALCOMM Incorporated	QCOM	92,309	22,826	7,580	18.35	3.81	11.47
Exar Corporation	EXAR	450	136	10	-	2.70	37.00
Broadcom Ltd	AVGO	69,627	8,887	2,656	222.84	9.63	32.23
Peer Averages		39,776	7,807	2,408	28.50	4.90	22.90

Source: FactSet

Ownership

% of Shares Held by All Insider Owners:	4.39%
% of Shares Held by Institutional & Mutual Fund Owners:	55.80%

Source: FactSet

Top 5 Shareholders

Holder	Shares		% Out
The Vanguard Group, Inc.	1,874,980	▼	5.71
BlackRock Fund Advisors	1,063,702	▼	3.24
Coatue Management LLC	1,035,158	▲	3.15
Blue Ridge Capital LLC (New York)	998,000	▲	3.04
Van Berkom & Associates, Inc.	710,147	▲	2.16

Source: FactSet

Ardmore Shipping Company (ASC-US)
September 2, 2016

Patrick Cashner International Industrials

Ardmore Shipping Corp. (NYSE: ASC) provides seaborne transportation of petroleum products and chemicals worldwide to oil majors, national oil companies, oil and chemical traders, and chemical companies. It uses a modern and fuel-efficient fleet of medium range (MR) product and chemical tankers. The current fleet consists of 22 active vessels and six more to be received by October 2016. The company was founded by Anthony Gurnee in 2010 and brought public on May 14, 2013. It is headquartered in Hamilton, Bermuda.

Price ($): (8/30/16)	7.07
Price Target ($):	11.10
52WK H-L ($):	15.03-6.46
Market Cap (mil):	236
Float (mil):	27.8
Short Interest (%):	6.52%
Avg. Daily Vol:	570,356
Dividend ($):	0.61
Yield (%):	6.20%

Beta:	1.56
WACC	4.7%
M-Term Rev. Gr Rate Est:	46.0%
M-Term EPS Gr Rate Est:	27.3%
Debt/Equity:	119.4%
Debt/EBITDA (ttm):	5.88
ROA:	4.7%
ROE:	9.5%
ROIC:	5.1%

FY: Dec	2015	2016E	2017E	2018E
Revenue (Mil)	157.9	165.0	222.7	245.0
% Growth	134.50%	4.50%	35.00%	10.00%
Gross Margin	34.87%	41.00%	42.77%	43.56%
Operating Margin	28.06%	29.41%	31.19%	31.97%
EPS (Cal)	$0.95	$0.98	$1.59	$1.86
FCF/Share	($5.88)	($2.50)	$0.79	$0.36
P/E (Cal)	7.4	7.2	4.4	3.8
EV/EBITDA	7.5	7.7	5.5	4.9

Recommendation

ASC operates in the medium range (MR) tanker segment and the company controls 28 of the 1,745 global MR tankers, representing roughly 1.5% of the total market share. The company recently purchased six new tankers with the average age of 2.4 years in June for $172.5 million. The acquisition increases ASC's total tonnage by roughly 32%. The ships were purchased with proceeds from a public offering of common shares and a new credit facility with an existing lender. $64.1 million of the $172.5 million acquisition price was financed by the net proceeds from a recent equity offering of an additional 7.5 million shares. The company has a D/E ratio of 119.4, which is higher than its peers' average of 97.8. Ardmore's EBITDA/Sales margin of 44.9% is in line with its competitor's average of 46.8%. ASC is on the cusp of a major earning acceleration. Since 2000, the seaborne volume of oil products has grown at a CAGR of 4%, which was driven by refinery expansion and increased output. Estimates from McKinsey Consulting and Ernst & Young have oil refinery capacity growing 1.5%-4% annually until 2020, which is well above the current 1.2% annual growth. As demand continues to expand in this capital-intensive industry, daily charter rates also are expected to rise. Leveraging upon a fixed operating base of medium range tankers, a 6.5% increase in daily charter rates, produces a significant EPS increase on a small equity capital base. Management has indicated in its 2Q earnings call that a $1,000 daily increase in charter rates would lead to an estimated $0.30 EPS gain and $0.18/share in dividends, implying substantial earnings leverage. Recently, the board approved the expansion of the company's share repurchase plan to $25 million. Given this, it is recommended that Ardmore Shipping Company be added to the AIM International Fund with a price target of $11.10, representing an upside of 57%.

Investment Thesis

- **Supply of MR tankers is decreasing.** The medium range (MR) tanker segment carries specific refined petroleum products. These tankers are mostly built in Southeast Asia, such as Taiwan, Korea, and China. To meet the 4% demand growth mentioned above, the global fleet size needs to increase by 11 medium range tankers each month. By the end of 2017, it is projected that after scrappage, there will only be 1-2 ships added to the global fleet size each month. The decrease in fleet growth per year is attributable to increased regulation in the MR tanker building industry and the reducing profitability. The excess demand will result in an upward pressure on price, thus significantly increasing revenues.

- **Trading near 52-week low.** At the end of 2015, companies within the shipping industry had high share prices (ASC was trading at $12.72). This was due to the significant increase in the production of oil throughout 2015. Half way through 2016, oil production is down roughly 5% from this time last year because inventory levels are at an all-time high. As a result, the chartering rate throughout 2016 has been low and is reflected in the current share price of $7.07. This is an opportune time to enter the industry with Ardmore Shipping trading near the company's 52-week low, especially with the growth potential in the next few years.
- **Low average age of tankers compared to the industry.** A significant portion of the total global fleet is towards the end of its useful life. 25% of the MR1 fleet and 6% of the MR2 fleet is greater than 20 years of age. MR 2 tankers are slightly larger than the MR1 tankers. The newer ships are more efficient and generally need fewer repairs during dry docks. Ardmore's fleet has an average age of 4 years, compared to its competitors who are closer to 5.5 years.

Valuation

A 3-year DCF was used with a perpetuity growth rate of 2.5% and a WACC of 4.74%. The DCF arrived at a price target of $12.85 and a sensitivy analysis on perpetuity growth rate was conducted showing that a .5% move in either direction will result in a price target range of $9.20-13.93. In addition to the DCF, a EV/Sales valuation was conducted, which arrived at a price target of $7.04. The DCF was weighted at 70% (and the EV/Sales 30%) because the DCF better reflected the future macroeconomic trends that will allow the company to succeed in the future. Accounting for both valuation models, the price target of $11.10 was reached, representing a 55.46% upside. Ardmore has a dividend yield of 6.2%.

Risks

- **Flood of new capital to build tankers.** Currently most of the shipyards are located in South Korea and Japan. These shipyards are financially strapped and are unable to expand to meet customers' demands. If these shipyards find a way to get access to large amounts of capital, they will be able to expand operations increasing the supply of tankers.
- **Low charter rates.** For the current year, the average charter rate is $16,645 per day (down roughly 9% from last year). It is expected that third quarter will be even lower than the $16,645 per day. Ardmore Shipping's breakeven is $13,900 per day. Further decrease in the charter rate will put significant financial pressure on ASC.
- **Complex laws and regulations, including environmental laws.** Companies within the shipping industry must comply with international conventions and treaties, national, state, and local laws. Any break in compliance could result in severe sanctions. All new regulations must be implemented and obeyed. New regulations have the potential to cause a change of organization, the addition of more compliance employees, and increased fees, all resulting in reduced net income.

Management

The President and founder is Anthony Gurnee. He has 15 years of experience in the shipping industry, both in company senior management and in financial transaction execution and credit risk management in a full range of market conditions. He also holds the CFA designation and is a graduate of the US Naval Academy. The CFO is Paul Tivnan, 36 years old, and he has been with the company since inception.

Source: Factset

Ownership

% of Shares Held by All Insider	17.03%
% of Shares Held by Institutional & Mutual Fund Owners:	62.90%

Source: Factset

Top 5 Shareholders

Holder	Shares	% Out
Donald Smith & Co., Inc.	2,922	8.73
Fidelity Management & Research Co.	2,022	6.04
Royce & Associates	1,441	4.30
FIAM LLC	1,295	3.87
BlackRock Fund Advisor	1,190	3.55

Source: Factset

Peer Analysis

Name	Ticker	Market Cap (mil)	Net Income (mil)	D/E	EBITDA Margin	EV/ Sales
Ardmore Shipping Company	ASC	239	32	119.39	44.9	3.0
Scorpio Tankers	STNG	836	218	36.3	52.7	3.6
Pyxis Tankers	PXS	46	4	122.9	36.7	2.5
Teekay Tankers	TNK	413	176	147.7	52.3	2.5
Overseas Shipholding Group	OSG	2,390	284	84.2	45.5	3.2
Peer Averages		921	170	97.8	46.8	2.9

Source: Factset