Applied Investment Management (AIM) Program

AIM Class of 2014 Equity Fund Reports
Fall 2013

Date: Friday, September 27, 2013 Time: 3:00 pm – 4:30 pm
Road Show Location: Heartland Advisors

Student Presenter	Company Name	Ticker	Price	Page No.
Joseph Hagen	Cementos Pacasmayo SAA	CPAC	$12.00	2
Stefanie Wu	Interxion Holding NV	INXN	$23.78	5
Louie Moran	Limoneira Company	LMNR	$25.49	8
Su Li	Noah Holdings Ltd.	NOAH	$16.61	11
Brendan Durkin	SodaStream International Ltd.	SODA	$65.51	14

Thank you for taking the time today and participating in the AIM 'road show' at Heartland Advisors. 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 Heartland.

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Cementos Pacasmayo SAA (CPAC)

September 27, 2013

Joseph Hagen — International Capital Goods

Cementos Pacasmayo S.A.A., a cement company, produces, distributes, and sells cement and cement-related materials in Peru. It operates in three segments: Cement, Concrete and Blocks (83%); Quicklime(5%); and Third-Party Construction Supplies(12%). The company's products include concrete blocks, cement bricks, and ready-mix concrete, which are primarily used in construction; and quicklime for use in mining operations. It also distributes and sells construction supplies manufactured by third parties, such as steel rebars, wires, and pipes that are used in construction. The company was incorporated in 1949 and is headquartered in Lima, Peru. Cementos Pacasmayo S.A.A. is a subsidiary of Inversiones Pacasmayo S.A.

Price ($) (9/17/13)	12.00	Beta:	0.68	FY: December	2013	2014E	2015E
Price Taget ($):	15.99	WACC	10.00%	Revenue (Mil)	477.95	573.54	659.57
52WK Range ($):	10.87-15.61	M-Term Rev. Gr Rate Est:	4.60%	% Growth	16.21%	20.00%	15.00%
Market Cap (Mil):	1.41B	M-Term EPS Gr Rate Est:	1.17	Gross Margin	45.42%	41.00%	41.00%
Float (mil)	12.80	Debt/Equity	41.59	Oper Margin	26.36%	30.00%	30.00%
Short Interest (%):	N/A	ROA:	6.29%	EPS (Cal)	0.52	0.84	0.97
Avg. Daily Vol (3M):	23470	ROE:	8.10%	FCF/Share	-0.09	$ (1.53)	$ (0.19)
Dividend ($):	0.29			P/E (Cal)	22.86	14.28	12.41
Yield (%):	0.025			EV/EBITDA	11.68	11.20	9.91

Recommendation

CPAC is an attractive company, posting strong 2Q results with EBITDA that was 15% higher than expectations which were driven by a strong 31% EBITDA margin, up 9.5 percentage poitns YOY. Cement volumes increased 9% in the most recent quarter, a growth trend that has been exhibited consistently for years. This buy recommendation is not only driven by strong growth in its cement division, but the potential upside in its mining projects, whose release of preliminary engineering studies will be in Q3. In Peru, there are three main players that overwhelmingly dominate the cement industry, residing in the northern, central, and southern parts of the country. Due to high distribution costs and high capital expenditures necessary for building new plants to expand business operations, the likelihood of competition in the short and medium term is low. The firm's infrastructure spending is expected to continue increasing at a faster rate than GDP. The Peruvian government has expressed its intention to accelerate infrastructure, and in June earmarked approximately US$ 780 million for infrastructure as well as the Public Works Tax Deductions Law, which encourages greater capital investments. Although the engineering conclusions from the phosphate ventures have not yet been reported, there is high potential for hidden value from these projects. Some estimate suggest these could be worth up to US$1 billion, and could start contributing to EBITDA by 2016. Even though CPAC was able to achieve further improvements on margins, there is still room for further increases with lower usage of imported clinker and higher SG&A dilution. CPAC's ready mix volumes have increased 60% from a low base, a positive indication for the demand from public infrastructure investments and large private projects. This stock offers a 33.29% upside, and they pay a modest dividend.

Investment Thesis

- **Margin Stabilization.** CPAC has had volatile margins in past quarters due to unexpected maintenance costs and higher use of imported clinker, pushing numbers and overall financial results down. The reduction of the EBITDA margin last year can be explained by the effects of a new distribution strategy started in 2011. This effort was initiated to increase sales volumes and enable loyalty within its client base.

- **Attractive Peruvian Cement Market.** The cement demand in Peru has been growing strongly due to higher public and private, at a 14% CAGR over the past 5 years, even outpacing the Peruvian economy that has exhibited strong growth (6.4% CAGR). CPAC has a 98% market share in Northern Peru, which accounts for 22% of the overall market, and competition risks in the short and medium term are low. Consumption of cement remains low at 210kg per inhabitant vs 310kg in the whole country, leaving room for higher penetration in Northern Peru.
- **Large Capacity Increase.** It is expected that there will be large capex investments over the next 5 years (averaging 195M/yr), much of which relating to CPAC's cement business. These investments will be funded with cash raised from its equity offereing as well as internal FCF generation and additional debt.

Valuation

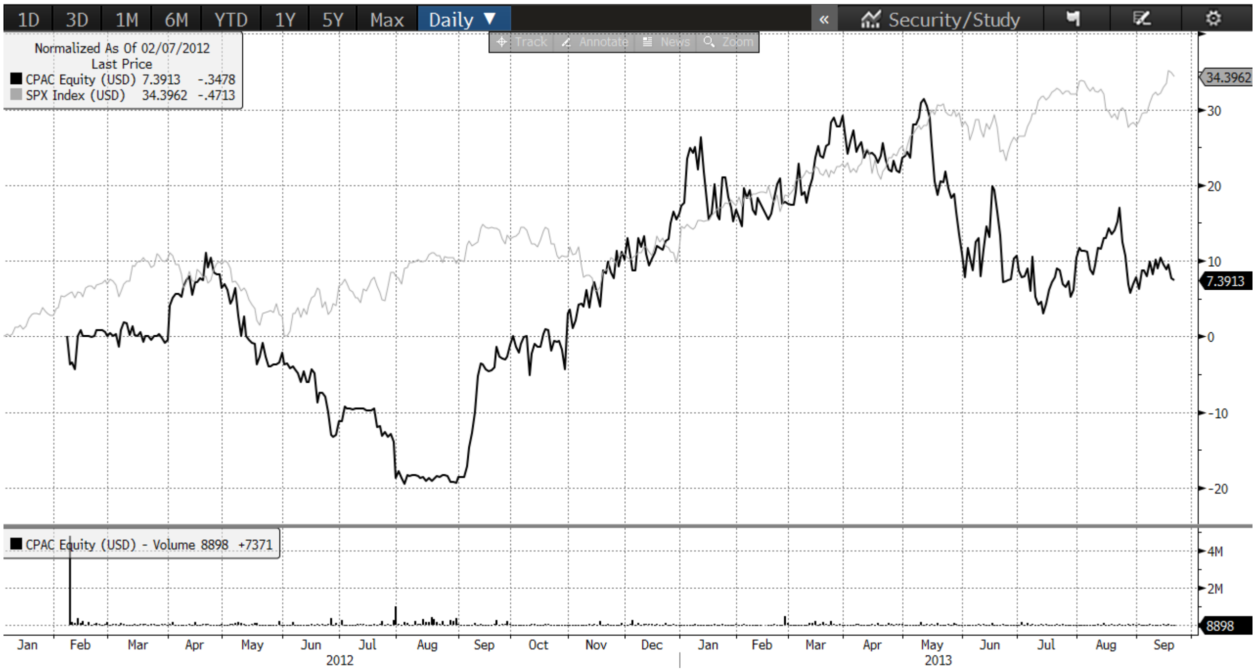
To find the intrinsic value of CPAC, a DCF and EV/EBITDA multiple appraoch was used. With the DCF, a WACC of 10.00% and a beta of .68 was used with a terminal growth rate of 3%, which yielded an intrinsic value of $15.99. The DCF amd EV/EBITDA were weighted 90% and 10%, respectively. The 33.29% upside is based off a higher EBITDA, lower country risk for Peru, and higher valuation in mining projects.

Risks

- **Weak Peruvian Economy.** All of CPAC's operations are conducted in Peru and depend on economic and political development in the country. In the past, Peru has experienced recessions, high inflation, and specifically strikes and protests relating to the metallic mining activities. This and/or any government regulatory policies could adversely affect the company.
- **Increased Competition.** The entrance of a new player in the market could result not only in lower volumes, but this could also lower profitability if the new player decreased prices to capture demand. If either of CPAC's two Peruvian cement competitors expanded distribution and/or built a plant in Northern Peru it would decrease margins. Some international companies in the industry have speculated on entering the central Peruvian market, which would further saturate the market.
- **Decreased Operating Margin.** CPAC's operating margin could be impacted by non-expected maintenances, as well as higher costs of energy (which is roughly 30% of its total costs). CPAC does not engage in hedging transactions or long-term energy agreements with its coal suppliers. The price of coal is largely driven by the price of oil, and any increase would be detrimental. Peru has experienced electricity rationing in the past, during these occurances production schedules are adversely affected.

Management

Humberto Nadal joined our company as manager of corporate development in 2007, and was Director in 2008 and CEO in 2011. Before that, he was manager of corporate development in Compañía Minera Ares S.A.C. He is an economist from the Universidad del Pacífico and obtained an MBA from Georgetown University. Carlos Julio Pomarino has been vice president of the cement business since 2011. Before that, from 1998 to 2011, he was CEO at Dino and Assistant CEO at Cementos Pacasmayo. VP of Administration and Finance, Manuel Ferreyros, has been deputy director and administration and finance manager since 2008. Before entering the group, Manuel was CEO of the insurance company La Positiva. 55 years of experience in the marketplace, along with an experienced team of professionals, values and corporate culture, give them the confidence to continue leading the cement and construction materials sector in northern Peru.



Ownership

% of Shares Held by All Insider and 5% Owners:	N/A
% of Shares Held by Institutional & Mutual Fund Owners:	N/A

Source: Yahoo Finance

Top 5 Shareholders

Holder	Shares	% Out
Bank of Nova Scotia	1,550,000	1.33
Allianz Asset Management AG	1,096,974	0.94
Ameriprise Financial	771,354	0.66
Artisan Partners Limited Partnership	734,740	0.63
PineBridge Investments, LLC	459,161	0.39

Source: Yahoo Finance

Interxion Holding NV (INXN)
September 27, 2013

Stefanie Wu *International Technology*

Interxion Holding NV (NYSE: INXN), operates as a provider of carrier-neutral co-location data center services in Europe. Located in metropolitan areas such as London, Frankfurt, Paris, Amsterdam and Madrid, the company's data centers facilitate processing, storage, sharing and distribution of data, applications and media among carriers and customers. Its carrier-neutral services includes space, power, cooling, networking, storage and IT infrastructure. In addition, INXN also offers network monitoring, remote monitoring of customer equipment, systems management, engineering support, cross connecting data backup and storage. Headquartered in Netherlands, INXN is currently supporting 1,300 customers through 34 data centers in 11 countries. In 2011, the company was publically listed on the NYSE for a price of $13/share.

Price($):(9/27/2013)	$23.78	**Beta V.SPXADR**	0.59		FY 2013	FY2014	FY2015
Price Target	$30.10	**WACC(%)**	8.47%	**Revenue (mil)**	$54.34	$66.14	$73.64
52 week H-L($)	$19.61-$27.98	**M-term Rev Gr Rate Est**	17.0%	**% Growth**	18.7%	20.7%	17.6%
Market Cap(mil)	1632.9M	**M-term EPS Gr Rate Est**	18.2%	**Gross Margin(%)**	59.2%	58.3%	56.3%
Float (Mil)	46.5	**Debt/Equity**	76.7%	**Operating Margin (%)**	43.3%	42.4%	40.3%
Short Interest(%)	0.98	**ROA(%)**	4.05%	**EPS**	$ 0.79	$ 0.95	$ 1.04
Avg Daily Volume	400,064	**ROE(%)**	8.96%	**FCF/Shares**	$ 0.99	$ 1.19	$ 1.38
Dividend ($)	0	**ROIC (%)**	7.33	**P/E**	30.00	31.75	29.04
Yield(%)	0						

Recommendation

In the past decade, there has been a continuous migration of digital data from server storage to the cloud; and from enterprise data centers to outsourced data center services. With revenue growing at a CAGR of 21% and an average EBITDA margin of 35% for the past five years, it appears that INXN is well positioned to continue its growth in the co-location industry. Founded in 2008, the company has 5 years of operating experience in providing value-added co-location service to its customers. As a leading service provider in Europe, INXN is now serving customers across a wide range of market segments with a historical retention rate over 60%. Major customers of INXN include Canon, IBM, AT&T, Hewlett-Packard, and British Telecom. The Europe co-location center service market is fairly under-penetrated. According to 2Q'13 management discussion, only 15% of European companies are utilizing outsource data centers. Looking forward, with the unique service INXN provides to its customer, the firm is likely to obtain new customers as it seeks to gain market share. Currently, the company is trading at a PE multiple of 43.3x, which is considerably lower than its closest competitors-Equity, which trades at 64.1x. Due to the outsized revenue growth, strong profitability and its unique business model, INXN is recommended to be added to the AIM International Equity Fund with a target price of $30.10, representing a near 30% upside.

Investment Thesis

- **Recovering European Market**: According to European Commission, Europe's economy is showing signs of recovery for the first time since 2011, mainly driven by DE and FR. In the Q2'13, the 17 countries that shared the Euro currency collectively showed a 0.3% economic growth over the previous quarter. Helped by the European Central Bank's low interest rates, INXN was able to refinance their debt at a lower interest rate and strength its balance sheet. With INXN's footprint accessing about 75% of the GDP in Europe, INXN is well positioned for the increasing demand for cloud platforms.
- **Organic Growth Opportunities in New Segment:** INXN has a strong presence in Europe with good organic growth prospects. Instead of growing through M&A, the company relies purely on

its differentiated carrier-neutral business model that creates a community of interest, which allows customers to connect to a broad range of telecom carriers, internet service providers and other customers. Different from wholesale, carrier-neutral allows customers to choose from different carriers with the freedom to add or change providers with no need to physically move their infrastructures. Looking forward, INXN will mainly focus on high growth segments such as financial services and digital media that are actively involved in co-location services.

- **Growing Industry and Relatively Low Competition:** According to *TechNavio's analysts forecast* published in Research and Market's data center, the Global Data Center Co-location Service market will be growing at a CAGR of 13% over the next several years driven by the need to reduce the overall data center capital and operation costs. The barriers to entry in this industry are larger, such as high switching costs with significant capital and time required to deploy a data center. There have been no new entrants in Europe in the last 10 years.

Valuation

To find the intrinsic value of INXN, a five year DCF was conducted with a terminal rate of 4%. The revenue growth rate was gradually ramped down due to technology advancement and possible consolidation in the industry. Using a WACC of 8.47%, the DCF method generates an intrinsic value of $ 31.48 per share. Multiple valuation method using EV/EBITDA generated a price target of $29.18. Weighting EV/EBITDA 60%, DCF 40%, a price target of $30.10 was established, representing a 27% upside. The firm does not pay a dividend.

Risks

- **Highly Leveraged Capital Structure:** In the past, INXN has made significant investments in PP&E in order to expand its footprint and total equipped space as to grow their business. With over $304M debt outstanding in the Q2'13, INXN will likely generate a negative FCF and unable to meet their debt obligations.
- **Accelerated Competition:** The growth of European data center market has encouraged new and large US companies to consider entering the market, placing pressure on pricing and the ability to attract incremental demand.
- **Foreign Risk:** INXN is a pure European based company with over 62% revenue from the Big Four (DE, FR, UK, NL), and 38% from the rest of EU. Both currency risk and regulation change governing Internet-related services may adversely affect the business.

Management

President, CEO, Vice-Chairman and Executive Director**:** David Ruberg. Prior to joining INXN in 2007, David served as CEO and Chairman of Intermedia Communications, and its majority-owned subsidiary, Digex. After obtained a Master degree from the University of Michigan, he has over 30 years of experience in the Telecom sector, his valuable insights especially in IT and communication sector will continue to help INXN to improve their business.

Ownership	
%Shares held by Insidre:	2.18%
%Shares held by Insititutional&Mutual Fund Owners:	92.53%
	Source: Bloomberg

Top 5 Shareholders		
Holder	Shares	%Out
Baker Capital Group	20,657,892	30.80%
ING GROUP NV	2,870,186	4.18%
EMINENCE CAPITAL LLC	2,231,236	3.25%
THRONBURG INVESTMENT MGMT ING	2,038,658	2.97%
HOPLITE CAPITAL MANAGEMENT	1,981,342	2.89%
		Source: Bloomberg

Limoneira Company
September 27, 2013

Louie Moran — Consumer Staples

Limoneira Company (NYSE: LMNR) engages in agribusiness and real estate development in the United States. The company operates in three segments: Agribusiness (93.51%), Rental Operations (6.11%), and Real Estate Development (.38%). The Agribusiness segment grows, processes, packages, and sells lemons directly to food service, wholesale, and retail customers. It grows avocados, oranges, and various specialty citrus and other crops sold through its sales and marketing partners. This segment also markets its other specialty crops independently. It has approximately 5656 acres of farmland in Ventura and Tulare Counties, California. The Rental Operations segment engages in residential and commercial building rental activities, land, and organic recycling operations. This segment owns and maintains approximately 200 residential housing units located in Ventura and Tulare Counties, various commercial office buildings and a multi-use facility. LMNR leases approximately 610 acres of land to third party agricultural tenants. The Real Estate Development segment develops land parcels, multi-family housing, and single-family homes. This segment has approximately 2,000 units in various stages of planning and development. LMNR, founded in 1898, is headquartered in Santa Paula, California.

Price (9/19/2013)	$25.49	Beta	1.04	FY	2012 (A)	2013 (E)	2014 (E)
Price Target	$29.90	WACC	9.76%	Revenue (mil)	$65.83	$88.00	$101.20
52 WK H-L	$25.69 - $17.19	M-Term Rev Gr Rate Est:	12.00%	% Growth	25.39%	33.68%	15.00%
Market Cap (mil)	$332.20	M-Term EPS Gr Rate Est:	13.73%	Gross Margin	22.89%	22.50%	23.00%
Float (mil)	10.0	Debt/Equity	52.49%	Operating Margin	6.91%	9.00%	13.00%
Short Interest (%)	2.23%	ROA	3.50%	EPS (Cal)	$0.26	$0.58	$0.63
Avg. Daily Vol (K)	39.36	ROE	8.20%	FCF/Share	-$0.35	$0.13	$0.23
Dividends (Yr)	$0.15			P/E (Cal)	86.42	43.95	40.17
Yield (%)	0.59%			EV/EBITDA	51.55	45.00	45.00

Recommendation

One of the largest producers and suppliers of lemons to the US market, Limoneira Company has a diverse offering of citrus fruits and specialty crops that are shipped around the US and Asia Pacific region. Located in Southern California and Arizona, LMNR has the ability to plant and harvest the majority of their plants year around, partially offsetting the inherent risk within agribusiness of inhospitable weather conditions. With most of the farms and ranches located in Ventura and Tulare County, California, the company has been able to lease out property and begin various real estate ventures, while moving some of its production into some more centralized California locations. This process has led to the creation of two additional business segments, Rental Operations and Real Estate Development, to go along with their existing Agribusiness segment. Their Real Estate segment, though still in the investing stage, has made progress on eight projects in Ventura and Santa Barbara counties with approval for home, office, school, and park construction on the majority of them. With their anticipated organic growth in their Agribusiness sector, the large upside potential offered by their Real Estate segment, and the expansion of their rental business, it is recommended that LMNR be added to the AIM Domestic Equity Portfolio at a target price of $29.90 (+17.3%). The firm also pays a dividend.

Investment Thesis

- **Favorable Conditions Leading to Organic Growth –** With adverse weather conditions in Mexico, Chile, and Argentina over the past year, the firm's increasing lemon volume will continue to find an undersupplied market, leading to higher prices. LMNR's avocado production will likely drop 25% YoY due to undersized fruits, but will likely garner higher prices in the market due to depressed volume, similar to 3rd quarter results. Specialty crops, though they have had a down year, may see a gradual uptick as LMNR farms expand eastward into central California.

- **Acquisition of Assoociated Citrus Packers -** The company's acquisition of Associated Citrus Packers (ACP) in Arizona this year will allow the company to increase lemon volume by expanding year-round harvesting capabilities. In the 3rd quarter alone, ACP produced and packaged lemons contributed to 48% of lemons sold by LMNR. Yuma, Arizona's weather seasonality is complimentary to that of Southern California, allowing for a smoothing effect on volumes and revenues. And while LMNR has been procuring, packaging and selling ACP's lemons, this acquisition makes it a wholly owned subsidiary of LMNR.
- **Real Estate Segment** – With LMNR moving its agribusiness land holding's towards the relatively inexpensive lands of central California, their ability to develop their more attractive, near-coastal properties will become easier. With eight projects in development and zoning approval to build homes, businesses, schools, and parks in five of the projects, it seems like the investment period is over. Management has stayed relatively quiet on this front, but outside observers expect that discussions with contractors should wrap up in the upcoming months on projects known as East Area 1 and 2. This should precede an unprecedented top line event for the company in FY14 or FY15.

Valuation

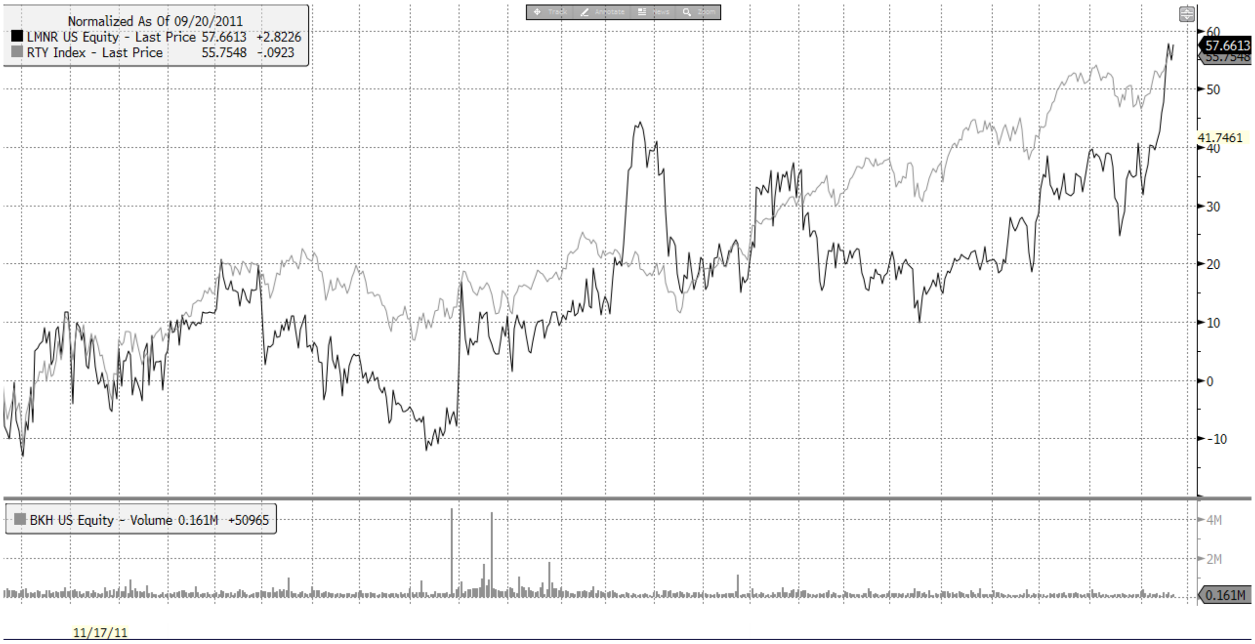
To arrive at my target price of $29.90 for LMNR, both a three year historical EV / EBITDA and EV / Sales methods were utilized. Due to a 1:10 stock split performed in 2010, 5 year historical averages are horribly skewed. Similarly, comparative analysis using industry competitors is unreliable due to some real estate upside already priced into LMNR. Using a 45.0x EV / EBITDA multiple, a relatively conservative estimate derived from the 3 year average, which resulted in a $30.71 price target (Sensitivity: EV / EBITDA ±10x, EBITDA ± 2M = range $11.40 - $46.21). Similarly, a 5x EV / Sales multiple was used which resulted in a $29.09 price target (Sensitivity: EV / Sales ± 1x, Sales ± 6M = range $20.67 - $38.41). Applying equal weights to both methods, a price target of $29.90 was determined, offering a 17.3% upside.

Risks

- **Adverse Weather Conditions –** As noted before, any agribusiness will be susceptible to adverse weather, like droughts, natural disasters, limited sunshine, or a plethora of other events. With most of LMNR's farms located in the American South West, a localized weather event could be very detrimental to financial results.
- **Agribusiness volatility –** This volatility can come from a plethora of scenarios varying from consumer tastes and sentiment, to crop diseases and crop death. Due to LMNR's heavy reliance upon lemons, a major setback in lemon volume due to a number of factors could have a cascading effect over the rest of the business, and potential short term implications across segments.
- **Fed tapering –** With the Federal Reserve's current QE policy remaining in place, the real estate market remains attractive for buyers. If economic indicators improve to a point where the Fed deems tapering should be implemented, market participants could over react, freezing liquidity and causing potential home buyers to shy away from the market

Management

Alan Teague is Chairman of the Board at LMNR, and is currently president of California Orchard Co. He was formerly employed by the Teague-McKevett Company and McKevett Corporation since 1961 holding various postions. CEO Harold Edwards also serves as president and director and has been the CEO of the company since 2003, formerly serving as president of Puritan Medical Products and management positions at Fisher Scientfic International, Inc. CFO Joseph Rumley, CPA also serves as corporate secretary and treasurer and has done so since 2010. Before his time at LMNR he was an audit partner at Grant Thorton, LLP and McGladrey & Pullen, LLP.



Ownership	
% of Shares Held by All Insiders and 5% Owners:	23%
% of Shares Held by Institutional & Mutual Fund Owners:	23%

Source: Yahoo Finance

Top 5 Share Holders

Holder	Shares	% Out
Calavo Growers, Inc	1,728,570	12.99%
Pinkerton, Allan M	629,852	4.73%
Blackrock	407,797	3.06%
Vanguard Group Inc	236,563	1.78%
Wellington Management Co. LLP	213,425	1.60%

Source: Bloomberg

Noah Holdings Ltd. (NOAH)

September 27, 2013

Su Li | International Financials

Noah Holdings Ltd. (NYSE: NOAH) is a leading wealth management service provider focusing on distributing wealth management products to the high net worth population in China. The firm's wealth management products include fixed income products (68%), private equity funds (28%), mutual funds, private securities investment funds, and investment-linked insurance products (4%). The company has 57 branch offices with more than 450 relationship managers and over 30,000 clients that mainly distribute into 3 geographic areas: Bohai Rim, Yangtze River Delta, and Pearl River Delta. The company was originated in Cayman Islands in 2005 with subsidiaries and affiliated entities in Shanghai, China.

Price 9/20/13 ($):	$ 16.61	Beta:	1.65	FY: Dec. 31	2012 A	2013 E	2014E
Price Target ($):	$ 18.64	Cost of Equity:	16.1%	Operating Income (M):	$ 31.34	$ 50.50	$ 57.00
52 WK L-H ($):	$4.25-$18.68	M-Term Rev. Gr Rate Est:	16.7%	% Growth:	10.3%	61.1%	12.9%
Market Cap (M):	874.8	M-Term EPS Gr Rate Est:	25%	Net Profit Margin (%)	23.7%	34.6%	33.2%
Float (M)	13.97	Debt/Equity	0%	EPS:	$ 0.41	$ 0.88	$ 1.04
Avg. 10 Day Vol.	620,900	RoE	13.7%	BVPS:	$ 3.19	$ 3.36	$ 4.12
Dividend ($):	$0.12	RoA	11.9%	P/B:	5.1x	4.76x	3.88x
Dividend Yield	0.88%			P/E:	39.2x	18.12x	15.38x

Recommendation

Asia is now home to more than 3 million of high-net-worth (HNW) individuals with at least $1 million in investible assets. By 2015, HNW individuals in China will contribute over 50% of the growth in the Asia-Pacific region, excluding Japan. The strength and stability of China's GDP growth rate at about 7.5% has helped to retain the confidence of the firm's clients. On June 2013, the well-reported "cash crunch" among Chinese banks raised immediate fears of bank defaults with the subsequent increases in interest rates. After the crunch showed signs of easing, people started to withdraw from the regular equity products offered by banks. In turn, wealth management products have the ability to provide an essential role in either raising capital requirements for banks or offering an alternative investment tool to alleviate the fears caused by "cash crunch". Other favorable events impacting the firm include the launch of Free Trade Zone (FTZ) in Shanghai in September, which builds a platform for Chinese companies to penetrate European and North American markets. Noah Holdings raised 2013 net income guidance by 50% to $50-55M from $33-37M and announced that they anticipate robust YoY growth of nearly 100%. Also, the upside operating income driven by their partnership with the Gopher asset management business has started to bear fruits since the cash crunch eases. Gopher has established the largest private fund of funds with predictions of a 15-25% growth rate, which is favorable to Noah as the partnership deepens. For the following reasons and along with a favorable valuation, it is recommended that NOAH be added to the AIM International Equity Fund with a target price of $18.64, which offers a potential upside of about 12%. NOAH offers a 0.88% dividend.

Investment Thesis

- **Market Environment Remains Stable.** On the regulatory front, China's banking regulator has emphasized the needs to enhance wealth management product transparency and investor protection. On the market side, the rapidly growing middle class population in China is constantly boosting their demands for wealth management products. Currently, about 20% of the wealth management products are distributed in China's first-tier cities along with 30% in second-tier cities. These two geographic areas are the main focuses of Noah's business. The firm is a first mover in wealth management business and a leader of the industry and will continue to benefit from the market's growth.
- **A New Growth Pipeline.** The joint venture with Gopher Asset Management has further diversified Noah's portfolio by adding real estate funds and asset securitized products to their market for institutional investors. The Gopher pipeline offers a high growth potential of over 20% increase in revenues YoY for the next year. The outperformance of real estate funds was mainly

driven by the cash crunch as a result of the housing price rising. This result has built upon the real estate bubble in China, which offers a major “advantage” for Gopher to capture market upstream.

- **The Organic Growth Business Model.** Compared to the majority of the Chinese companies, which are over-leveraged, Noah is seeking to grow long-term without a substantial increase in debt. With earning growth of 25% for Q2 2013 compared to the previous year, Noah seeks to grow organically by offering personalized family wealth management products to their clients.

Valuation

In order to reach the intrinsic value of NOAH, a five year DCF model was conducted, as well as an EV/EBIT multiple and a dividend discount model. A cost of equity of 16.1% with 1.5% country premium was used in the DCF model by assuming the reinvestment for NOAH is for human capital and regulatory capital. For the EV/EBIT model, the peers average EV/EBIT of 18.3x was applied to yield an intrinsic value of $16.85. The two-stage DDM projected 15% annual dividend growth among FY 2013-2018, which yields an intrinsic value of $18.33. Weighting the different models by 20%, 40% and 40%, respectively, a target price of $18.64 was established, which offers a potential upside of about 12%. Noah offers a 0.88% dividend.

Risks

- **Regulation Uncertainties.** Although the banking regulators highlighted the importance of investment transparency regarding OTC market, as well as wealth management market, the uncertainties exist until the policy finalizes. Moreover, a significant portion of real estate-related business is subject to the risks inherent in the construction of real estate, which obtains a possibility of real estate bubble collapses with policy changes.
- **Raising Competition.** The cash crunch reminds Chinese banks that the access to raise capital becomes much more difficult. It is urgent to launch various products for customers to meet their needs. More importantly, the wealth management firms and brokerage firms diversify the portfolio to compete against peers is another risk for Noah to consider.
- **Sensitive to Market Sentiment.** The company has not issued a large portion of ADS to be traded in public. The products that company offers are sensitive to global economic conditions. Any economic updates could materially affect Noah’s business.

Management

Ms. Jingbo Wang is the Chairman and CEO of the company since inception. She has over 10 years of experience in asset and wealth management services industry. Ms. Theresa Teng recently was appointed as the CFO and she served as CFO of PPS, one of the leading Internet TV players in China before joining Noah.

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
Greenwoods Asset Management	2,814,826	5.13
Artisan Partners Holdings LP	1,000,579	1.82
FMR LLC	477,300	0.87
Ashmore Group PLC	425,400	0.77
Renaissance Technologies Corp	181,300	0.33

Source: Bloomberg

SodaStream International Ltd. (SODA)

September 27, 2013

Brendan Durkin International Consumer Discretionary

SodaStream International Ltd. (NASDAQ:SODA) is a developer, manufacturer, and retailer of home beverage carbonation systems that turn water into carbonated soft drinks and sparkling water. SODA offers a wide range of soda makers and exchangeable carbon dioxide cylinders and refills, reusable carbonation bottles and various flavors to add to the water. The company sells environmentally friendly and cost effective products promoting health and wellness. SODA operates in four segments: The Americas (39% of revenue); Western Europe (45%); the Asia-Pacific (9%); and Central and Eastern Europe, the Middle East, and Africa (7%). The company sells products through 60,000 retail stores in 45 countries. SodaStream International was originated in 1903 in the UK and in 2010 listed on the NASDAQ after a series of acquisitions starting in the 80's. The company is headquartered in Airport City, Israel.

				FY: December	2012A	2013E	2014E
Price ($) (9/24/13)	65.51	Beta:	0.6				
Price Taget ($):	80.64	WACC	9.5%	Revenue (Mil)	436	589	736
52WK Range ($):	33.15-77.80	M-Term Rev. Gr Rate Est:	9.0%	% Growth	51.00%	35.00%	25.00%
Market Cap:	1.41B	M-Term EPS Gr Rate Est:	8%	Gross Margin	54.05%	54.00%	55.00%
Float	19.60M	Debt/Equity	0.0%	Operating Margin	10.44%	11.00%	12.00%
Short Interest	8.2M	ROA:	12.60%	EPS (Cal)	$2.16A	$2.53E	$3.29E
Avg. Daily Vol:	1,225,230	ROE:	18.20%	FCF/Share	-0.39	-1.40	0.28
Dividend ($):	N/A	PEG (5 yr expected)	0.97	P/E (Cal)	30.38	25.89	19.89
Yield (%):	N/A						

Recommendation

SodaStream International, the world leader in home carbonation, has seen major growth recently, showing 47% CAGR in revenue and 71% CAGR in adjusted net income over the past four years. In the last twelve months SODA has sold the equivalent of 4.5 billion cans of SodaStream. They profit from the sale of soda machines and the consumables and products that go into the making of the drink. SODA is an intriguing company because of its disruptive business model that appeals to some of the major trends in consumer spending, such as convenience, personalization, healthier alternatives, and sustainability. The growth opportunities in front of SODA could make the product line explode as they are revolutionizing the beverage industry and giving potential partners an easy entry into the at home soda market. SODA also caters to environmental concerns with the goal of reducing the company's carbon footprint. In the last market analysis, SODA has an estimated 0.2% of the US soda consumption market, and 2% of the European sparkling water market, which are both huge upside business opportunities. SODA is also creating new partnerships and facilities to increase marketing and distribution channels to lower costs and make their product more available and convenient. On top of the new facilities, SODA is releasing a new soda machine product in the coming weeks. As the company matures through its growth phase, the "razor and blade" type business model they use will continue to bring back business through existing customers refilling CO_2 cylinders and via additional flavor purchases. As soda machine purchases decrease and margins start to increase, SODA plans to operate at a 56% gross margin, up from its current 54%. Product mix drives profitability for them – the past year showed 41% of total sales from soda makers and 59% from consumables. As the consumables products are bought more often, margins increase with the decreased costs to the company. In developed markets SodaStream has penetrated, Switzerland for example, 82% of profits came from consumables, while in the US, still in the early stages of market penetration, only 54% came from the sale of consumables. As soda maker sales increase, the installed base increases, which leads to increased sales of consumables and higher margins. With these strong growth prospects and the razor and blade business model, it is recommended that SodaStream International be added to the AIM international equity fund with a target price of $80.64, yielding a 18.76% upside. The company does not pay a dividend.

Investment Thesis

- **Razor and Blade Type Business.** The business model is working as planned according to retention rates and CO2 refills and syrup purchases. As the soda maker sales increase and household penetration increases, the sale of consumables will grow, creating continued business and expanding margins. Gross margin is driven by product and geographical mix as well as the volume growth that accompanies expansion.
- **Strategic Partnerships and Growth in United States.** Since 2008, SodaStream has seen 13% CAGR in the US, reaching $143 mil in revenue in 2012. With distribution strategies including Costco, Target, Best Buy, Staples, and Wal-Mart the products are experiencing continued brand recognition; Amazon is now selling SodaStream products through its website as well. Strong partnerships increase brand recognition as well as product diversity. These partnerships also broaden distribution channels helping the products gain further acceptance and popularity. In-store presence is a major driver for popularity and purchases, as well as TV advertising, which SODA is increasing. SodaStream products are also being introduced in new Samsung refrigerators to offer the option of regular water or sparkling water. The production of machines with the option of soda and other flavors is underway as well.
- **Innovation and Environmental Position.** SodaStream's commitment to innovation looks to capture current and potential customers. Their efforts are aimed at convenience and brand marketing. SodaStream products avoid pollution of bottled beverage production. On average, one SodaStream bottle replaces over 10,000 conventional ones. Since 2009, SODA has saved the world from over 1 billion plastic bottles to improve the quality of life for everyone.

Valuation

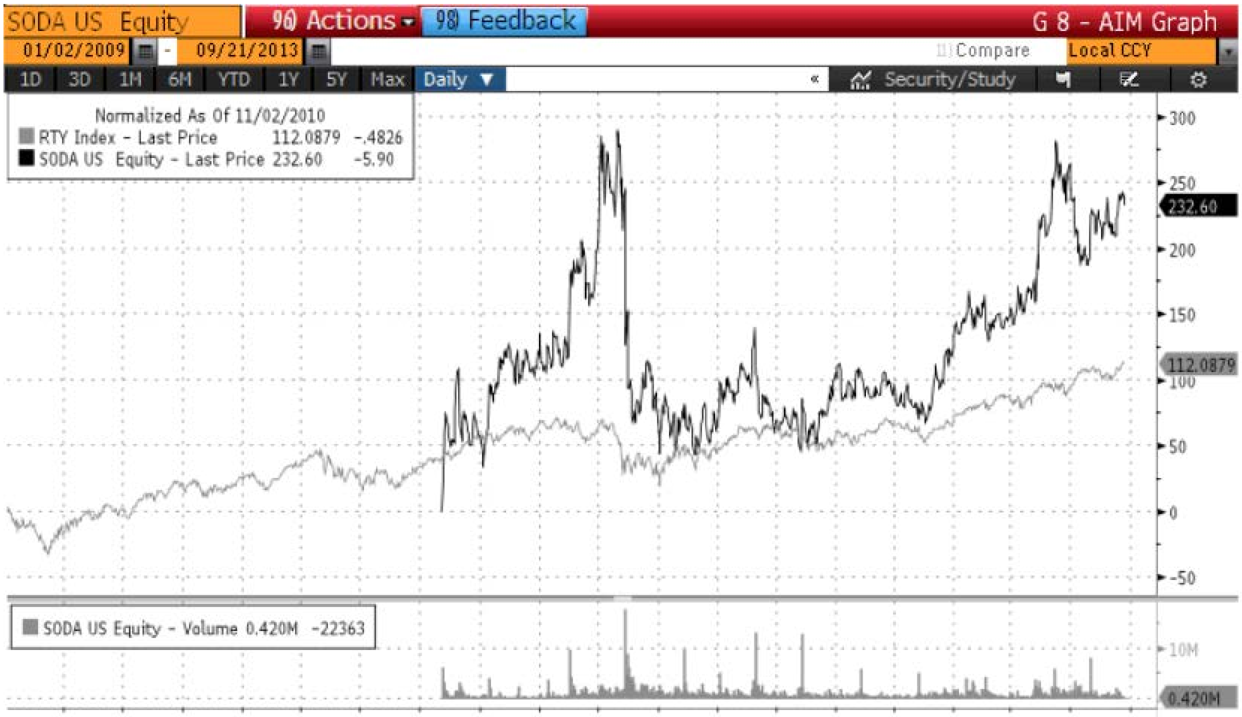
To find the intrinsic value for SODA, a ten year discounted cash flow model was conducted blended with a P/E multiple comparables valuation, and an EV/EBITDA comparables valuation, weighting them 50/25/25 respectively. Using a terminal growth rate of 2.5% and a WACC of 9.5%, the resulting DCF valuation yielded an intrinsic value of $83.12. Using the an industry average P/E multiple excluding large outliers, a 23.28x multiple was found. The industry average EV/EBITDA used was 16x. Using the 2014 estimated EPS of $3.45 and EBITDA of $92.72 Mil, an intrinsic value of $80.64 was derived – a potential 18.76% upside. The firm does not pay a dividend.

Risks

- **Poor Brand Recognition and Market Penetration.** The expansion efforts and partnership opportunities did not pan out as expected. Updating facilities and creating a larger distribution network would be a sunk cost if demand does not increase after the efforts to fulfill it.
- **Brand Loyalty to Competitors.** SodaStream has a wide range of competitors. Although their business model is unique and proven, people are still skeptical and loyal to the Pepsi and Coca-Cola brands in the US.
- **Possible Conflict in Neighboring Syria.** As tensions remain high between Syria and other nations, any force taken could hurt SodaStream's sales and perhaps its facilities located in Israel.

Management

Daniel Birnbaum is the CEO and has held this title since 2007 after he served as the Gerneral Manager of Nike Isreal from 2003-2006. Birnbaum was also a founding member of Nuvisio Corporation, a technology startup, where he served as CEO from 1999-2002. Birnbaum has an M.B.A. from Harvard University. Daniel Erdreich has served as the CFO since 2007. Erdreich has been with the company since 1996 serving as Controller and Finance Manager for some of SodaStream's affiliated entities.



Source: Bloomberg

Ownership	
% of Shares Held by All Insider and 5% Owners	15%
% of Shares Held by Institutional & Mutual Fund Owners	83%

Source: Yahoo! Finance

Top 5 Shareholders		
Holder	Shares	% outstanding
Canadian Capital Management, LLC	1,105,581	5.34
Janus Capital Management, LLC	972,068	4.69
Lord Abbet & Co.	920,778	4.44
Cupps Capital Management, LLC	699,216	3.38
Tremblant Capital Group	598,863	2.89

Source: Yahoo! Finance