Applied Investment Management (AIM) Program

AIM Class of 2011 Equity Fund Reports
Fall 2010

Date: **September 10, 2010,** ***Location:*** **AIM Research Room**
First Session: **2:00 – 3:00 pm**
Second Session: **3:30 – 4:45 pm**

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Luke Darkow	Kilroy Realty	KRC	$33.14	2
Caitlin Johnson	Chicago Bridge & Iron N.V.	CBI	$23.13	5
Christina Starkey	Cresud S.A.C.I.F. y A.	CRESY	$14.44	8
Mark Rutherford	Stepan Company	SCL	$56.20	11
Kyle Boser	Apollo Investment Corporation	AINV	$10.09	14
James Werner	Tempur-Pedic International	TPX	$27.95	17
Ben Hariri	TETRA Technologies, Inc.	TTI	$8.64	20
Mike Muratore	Buffalo Wild Wings	BWLD	$46.83	23
Jose Munoz	iRobot Corp.	IRBT	$17.50	26

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Kilroy Realty (KRC)
September 10, 2010

Luke Darkow — Financial Services

Kilroy Realty (KRC) is a real estate investment trust which owns, operates, develops, and acquires Class A suburban office and industrial real estate in key submarkets in Southern California. KRC's portfolio consists of 94 office and 41 industrial buildings, encompassing 8.8 million and 3.7 million square feet, respectively. KRC's top five markets in terms of percentage of rent revenue include San Diego (48%), Los Angeles/Ventura County (30%), Orange County (13%), and San Francisco (9%). KRC operates in two reportable segments, office properties and industrial properties representing 91% and 9% of total annualized base rental revenue respectively. Headquartered in Los Angeles California, KCR has extensive experience and significant working relationships with major Southern California corporate tenants, municipalities, and landowners, given the company's 60 year presence in the Southern California market.

Banking/Financial Services								
Price ($): (9/07/10)	33.14	Beta:	1.20		FY: Aug	2009A	2010E	2011E
Price Target ($):	44	WACC	8.8%		Revenue (Mil)	279.43	285.02	330.63
52WK H-L ($):	37-26	L-Term Rev. Gr Rate Est:	8%		% Growth	-3.43%	2.00%	16.00%
Market Cap (mil):	1734.87	L-Term EPS Gr Rate Est:	22%		FFO	107.16	106.09	127.30
Float (mil):	51.04	Financial Leverage	2x		Profit Margin	12.80%	10.86%	13.09%
Short Interest (%):	12.03%	ROA:	2.09%		EPS (Cal)	0.53	0.59	0.83
Avg. Daily Vol (mil):	0.720	ROE:	2.35%		FFO Per Share	2.05	2.03	2.43
Dividend ($):	1.40	FFO/Total Debt	11.0%		P/FFO	11.80	13.00	15.00
Yield (%):	4.22%	Credit Provisions/Loans	N/A					

Recommendation

The U.S. commercial real estate market has experienced significant stress the last several years with high vacancy rates of approximately 15% compared to a historical average ranging from 10-12%, and declining average rent rates per sq ft currently around $23 down from $26 in 2007-2009. KRC commands a distinct competitive advantage in Southern California with high demand for the company's properties. This is demonstrated by an average rent rate per sq ft of $29.00 within the company's portfolio compared to the aforementioned market average of $23 per sq ft representing a 26% pricing premium. Additionally, even with historically high vacancy rates of 14% and a challenging economic environment, KRC has been able to grow revenue at a CAGR of 3.98% from 2007 to 2009. Currently trading in the range of $30-$33 at an average forward P/FFO of 13x compared to a historical average P/FFO of approximately 16x, KRC's growth story is being undervalued. As a result of KRC's growth potential from rising occupancy rates to normalized levels of approximately 93% from 85.7% currently, and the company's ability to re-lease vacant office space at a 26% premium, it is recommended that KRC be added to the AIM Equity Fund. A target price of $44 has been applied to KRC representing a potential upside of 33%.

Investment Thesis

- **Earnings Upside from Releasing Vacant Space.** KRC currently has unusually low occupancy in both its office and industrial portfolios. KRC's office portfolio occupancy rates are as follows; San Diego (81.5%), Los Angeles/Ventura County (93.0%), Orange County (78.2%), San Francisco (89.7%). KRC's total office portfolio has an occupancy rate of 85.7%. The industrial portfolio has occupancy rates as follows; Los Angeles (100%), and Orange County (82.4%) with a total industrial occupancy rate of 83.3%. KRC's total portfolio, including office and industrial has an occupancy rate of 85.1%. Office occupancy has increased 510 bps from the bottom in 4Q09 of 80.6%. As occupancy returns to more normalized levels of approximately 93-94%

achieved in 2006 through 2008, combined with the ability of KRC to charge a 26% premium average rent rate per sq ft over the market average, rental revenue will be positively impacted.

- **Office Acquisition Activity Increasing.** KRC has recently been active in the office acquisition market with management looking to continue to capitalize on distressed assets in Southern California. During the first six months of 2010, KRC acquired five properties in Irvine, San Francisco, Orange County, and two properties in San Diego. These properties aside from the Orange County and Irvine acquisitions with 100% and 95.9% occupancy rates respectively have significant room for occupancy rate improvement. The two locations in San Diego currently have occupancy rates of 71.8% and 80.9%. Additionally, KRC's recent focus on San Francisco gives the company diversification beyond southern California as well.
- **Improving Commercial Real Estate Outlook.** Most commercial real estate markets are finding their bottoms around the country, specifically the commercial office market. The Southern California office market has shown signs of stabilization and highs in vacancy rates may be established during the year. Total vacancy in Los Angeles is 13.8% up 38 basis points sequentially, with San Diego's vacancy no longer rising but flat for the year at 18%. As vacancy rate peaks are established and begin to lower to historical levels of around 10-12% commercial real estate valuations will be positively impacted leading to multiple expansion.

Valuation

To derive an intrinsic value for KRC, a variety of valuation techniques were utilized. A discounted cash flow analysis was performed, which yielded a base case intrinsic value of $46.07 with a computed WACC of 8.81% and a terminal growth rate of 3%. A relative valuation technique was utilized as well, taking a weighted average of KRC's historical P/FFO of 16.46x and a peer average P/FFO of 10.94x. Applying the calculated P/FFO of 15.35x to a projected 2011 FFO per share of $2.43, yielded an intrinsic value of $37.34. Taking both valuation techniques into consideration a target price of $44 has been established for KRC. The firm also pays a yearly dividend of $1.40, yielding 4.22%.

Risks

- **Concern Regarding Management Compensation.** The executive compensation bonus program enacted at the beginning of the year is based on EBITDA targets, revenue targets, operating margin targets, and leasing targets. 60% of the bonus program is driven by achieving EBITDA and revenue targets which are significantly influenced by acquisitions. An executive compensation bonus program that is not bottom line focused and instead heavily influenced by acquisition activity may impair management in making prudent decisions regarding acquisitions.
- **Total Annualized Rent Revenue Concentrated Among Several Tenants.** KRC's 15 largest tenants account for 48.6% of total annualized rental revenues. Additionally, KRC's top five largest tenants account for approximately 30% of total annualized rental revenues. If one of these tenants were to not renew an existing lease, KRC's bottom line would be severely impacted.
- **Economic Outlook of Southern California.** The current economic condition in Southern California is more difficult than that of the country as a whole. Unemployment for the state is approximately 12% compared to the national average of approximately 9.6%. Although Southern California has been severely impacted by the recession, office employment growth in San Diego and Los Angeles are projected to outpace the U.S average as a whole at approximately 3% in 2011 and 4.5% in 2012 compared to 2% and 3% for the U.S as a whole.

Management

Mr. John B. Kilroy, Sr. has served as Chairman of the Board of Kilroy Realty Corporation since its incorporation in September 1996 and founded the company in 1947. Mr. Kilroy is a nationally recognized member of the real estate community, providing the Company with strategic leadership and a broad based network of relationships. Mr. John B Kilroy, Jr. has acted as CEO since the company's incorporation.

Ownership

% of Shares Held by All Insider and 5% Owners:	1%
% of Shares Held by Institutional & Mutual Fund Owners:	~90%

Source: Yahoo Finance

Top 5 Shareholders

Holder	Shares	% Out
Vanguard Group Inc.	4,976,973	9.51
Invesco LTD.	3,847,966	7.53
BlackRock Fund Advisors	2,848,463	5.44
LaSalle Investment Management Securities	2,560,084	4.89
AEW Capital Management	2,493,490	4.76

Source: Yahoo Finance

Chicago Bridge & Iron N.V. (CBI)
September 10, 2010

Caitlin Johnson International Industrial Materials

Chicago Bridge & Iron N.V. (NSYE: CBI) is a global engineering, procurement and construction (EPC) company that provides a comprehensive range of solutions to clients in the energy and natural resources industries. CBI is divided into three business sectors: CB&I Steel Plate Structures, CB&I Lummus and Lummus Technology. In 2009, CB&I Steel Plate Structures and CB&I Lummus accounted for 92% of revenues, 36% and 56%, respectively, with Lummus Technology being responsible for 8% of revenues. CBI is an innovator in and has a commanding presence in six markets: upstream oil & gas; downstream oil & gas; Liquefied Natural Gas (LNG); power; water & wastewater and metals & mining. While CBI has a strong presence in the U.S., in 2009, 72% of revenues and 95% of new orders came from outside the U.S. CBI was founded in 1889 and in 1997 went public with an initial public offering of 12.5 million shares. CB&I's corporate headquarters are located in The Hague, The Netherlands, and the company has operated in 100 countries on all seven continents.

Price ($): (09/07/10)	23.13	Beta:	1.40
Price Target ($):	30	WACC	15.05%
52WK H-L ($):	14.20 - 25.88	L-Term Rev. Gr Rate Est:	2.5%
Market Cap (mil):	$ 2,288	L-Term EPS Gr Rate Est:	3.0%
Float (mil):	97.3	Debt/Equity:	6.5%
Short Interest (%):	2.7%	ROA:	6.2%
Avg. Daily Vol (mil):	1.04	ROE:	21.5%
Dividend ($):	0.04		
Yield (%):	0.69%		

FY: Dec	2009A	2010E	2011E
Revenue (Mil)	$ 5,240	$ 4,875	$ 5,363
% Growth	-23.40%	7.00%	10.00%
Gross Margin	11.47%	10.50%	10.50%
Operating Margin	6.90%	5.50%	5.50%
EPS (Cal)	$1.75	$1.82	$2.00
FCF/Share	2.0	2.3	2.5
P/E (Cal)	12.7	16.5	15.0
EV/EBITDA	5.14	6.02	5.48

Recommendation

In the second half of 2010, there has been a surge in the general contractor industry as July and August saw an increased level of construction job gains, 5,200 and 19,000, respectively, compared to June's decline of 3,500 jobs. CBI has benefitted from this trend on a global level as markets like China, the Middle East and Russia continue to demand infrastructure. From 2008 to 2018, emerging markets are expected to spend over $21.7 trillion on infrastructure construction, of which CBI will be able to capture a large percentage. With CBI's broad international reach, it has a higher success of receiving contracts from such markets as it can provide lower costs. As CBI already has a presence in these and other emerging markets, it has an advantage over competitors that have yet to solidify their presence. Due to CBI's unique modular construction, it has a cost and efficiency advantage as it can offer the same services in a less expensive and timelier manner. Further, with nearly $326 million in cash and a sound debt-to-capital ratio of approximately 6.5%, CBI boasts a strong, flexible balance sheet which should allow it to successfully fund future strategic and growth opportunities. Therefore, due to the aforementioned factors and the accompanying valuation, it is recommended that CBI be added to the AIM International Equity Fund with a price target of $30, offering an upside potential of approximately 30%, with a 0.69% dividend.

Investment Thesis

- **Backlog of $7.2 billion.** In December 2009, CBI had an order backlog of $7.2 billion, up 26% from the 2008 backlog of $4.3 billion. This is the highest backlog level the company has ever recorded, of which 36% ($2.6 billion) of revenue is expected to be recognized in 2010. Of the $7.2 billion of backlog, $6.1 billion was from new orders in 2009 alone, an increase of 26% from 2008. CB&I Lummus accounted for 59% of the new orders, CB&I Steel Plate Structures 36% and Lummus Technology 5%. Together CB&I Lummus and CB&I Steel Plate Structures account for over 74% of net income.
- **Modular fabrication & construction.** CBI has been a pioneer in modular fabrication and construction of its products which has allowed it to maintain high product standards. The

majority of CBI's fabrication and assembly is performed in CBI facilities which ensure that all of the work performed is to CBI's high safety and quality standards and under controlled working conditions. Subsequently, CBI's modular construction reduces delays due to adverse weather conditions and also shortens project schedules as it permits concurrent processes. Modular construction results in higher operational efficiency for CBI and also serves as a cost reducer as it cuts back on expenses.

- **Encompassing international footprint.** One of the factors that makes CBI so successful is its broad, global reach. In 2009 alone, CBI executed projects in over 60 different countries. With facilities in over 13 countries throughout North America, Europe, Asia and the Middle East, CBI has access to essentially every market and various natural resources. With 95% of new awards from last year and 75% of CBI's current backlog outside the U.S., CBI has increased its international presence and will continue to expand its international sales. Over its life, CBI has operated in over 100 countries on all seven continents.

Valuation

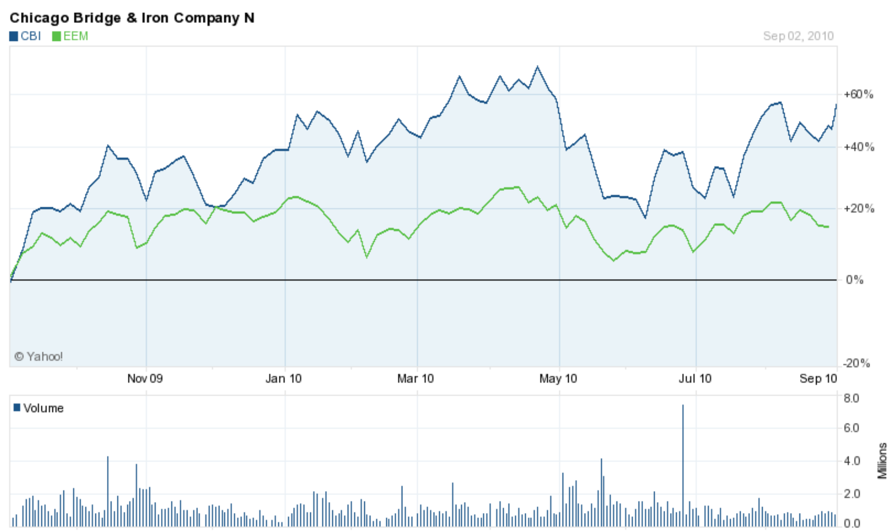
CBI is currently trading at 13.2x TTM EPS of $1.75. As CBI is currently trading at a lower multiple than its peers, a 15x P/E multiple, an industry and historic average for CBI, was applied to the 2011 EPS estimate of $1.82, which generated a price target of $30.07. Based on a five-year DCF analysis with a computed WACC of 14.15% and a perpetuity growth rate of growth rate of 2.5%, an intrinsic value of $30.27 was obtained for CBI. A sensitivity analysis which adjusts both the WACC (12.50 - 13.50%) and the terminal growth rate (2 - 3%), yields a price range of $28.72-$32.91. Considering the obtained intrinsic values, a target price of $30 was chosen, resulting in an upside potential of 30%. CBI pays a modest dividend which currently yields 0.69%.

Risks

- **Exposure to fixed-price contracts.** In the EPC industry, projects are either performed as a fixed-priced contract or on a project-base. CBI executes a significant amount of its business on a fixed-price basis, leaving CBI at risk of overrunning costs. Currently 50% of CBI's backlog consists of fixed-price contracts that could prove to cut into CBI profits if these projects end up costing more than previously anticipated. With weather and political factors being legitimate threats in the areas that CBI operates, CBI does have a material chance of overrunning costs if work gets stalled due to one of these factors. Fixed-price contracts also carry the risk of over-bidding as a result of heightened competition which could hamper margins and once again increase the risk of cost overruns.
- **Global financial crisis.** With the persistence of the global financial crisis, CBI could face challenges due to decreased capital expenditures from its customers in the global energy market. The majority of CBI's revenues come from major construction projects, which could be put in jeopardy if the global economy does not show signs of recovery in the near future. Additionally, CBI could see lower demand in the CB&I Steel Plate Structures and CB&I Lummus sectors if there is a reduced level of activity in the hydrocarbon industry. A decrease in hydrocarbon activity would substantially reduce the amount of major projects for the industry, diminishing revenues and earnings and under-utilizing assets in the process.

Management

Philip K. Asherman is the President and CEO of CBI, a position he has held since February 2006. Prior to joining CBI, Mr. Asherman held several senior management positions including president of Flour Daniel's mining and minerals group. Ronald A. Ballschmiede is Executive Vice President and CFO of CBI. Mr. Ballschmiede has 30 years of Big 4 accounting firm experience with global manufacturing and construction firms. Both Mr. Asherman and Mr. Ballschmiede have extensive experience in engineering and construction firms, knowledge that has added success to CBI.



Ownership

% of Shares Held by All Insider and 5% Owners:	0.96%
% of Shares Held by Institutional & Mutual Fund Owners:	76.66%

Source: MSN Money

Top 5 Shareholders

Holder	Shares	% Out
Wells Fargo & Company	4,550,683	4.69
SouthernSun Asset Management Co Inc	4,002,635	4.12
Frontier Capital Management Co Inc	3,881,816	4.00
Lord Abbett & Co	3,742,975	3.86
Optimum Investment Advisors	3,392,833	3.50

Source: Yahoo! Finance

Cresud S.A.C.I.F. y A. (CRESY)

September 10, 2010

Christina Starkey — International Consumer Goods

Cresud S.A.C.I.F. y A. (NASDAQ: CRESY) is the leading Argentinean agricultural company engaged in the production of basic agricultural commodities (corn, soybean, wheat, sunflower, beef cattle, and milk). The company also has a growing presence in other Latin American countries through their investment in BrasilAgro (23.2% equity interest), and similar investments in the region. CRESY is involved in a range of activities, with crop product sales making up 16.6% of revenues and agricultural production representing 12.1% of revenue. 70.1% of CRESY's agricultural revenue is attributable to contracts with large multinational food producers, 20.1% comes from local meat processors and supermarkets, and 9.8% comes from business with grain brokers. They also focus on the acquisition and development of properties having attractive prospects for agricultural, residential, and commercial purposes (19.5% of total revenues), as well as leasing these properties (51.7% of total revenues). Headquartered in Buenos Aires, Argentina, Cresud was incorporated in 1936 as a subsidiary of Credit Foncier, formed as an independent entity in 1960, and became listed on the NASDAQ exchange in 1997.

Price ($): (9/7/10)	14.44	Beta:	1.40
Price Target ($):	18.50	WACC	18.00%
52WK H-L ($):	15.9-10.7	L-Term Rev. Gr Rate Est:	3.50%
Market Cap (mil$):	713.00	L-Term EPS Gr Rate Est:	3.50%
Float (mil):	50.2	Debt/Equity:	32.10%
Short Interest (%):	0.02%	ROA:	7.13%
Avg. Daily Vol (thou):	61.32	ROE:	9.76%
Dividend ($):	0.40		
Yield (%):	2.82%		

FY: Aug	2009	2010E	2011E
Revenue (Mil)	361.68	418.38	487.76
% Growth	N/A	16.00%	12.00%
Gross Margin	40.36%	41.49%	41.50%
Operating Margin	15.09%	28.00%	28.00%
EPS (Cal)	$0.75A	$0.95E	$1.21E
FCF/Share	$0.27	$0.95	$0.98
P/E (Cal)	9.17x	15.50x	17.12x
EV/EBITDA	8.39x	7.51x	6.94x

Recommendation

CRESY has established itself as the Argentinean market leader in crop sales and agricultural production with market shares of 12.3% and 9.4%, respectively. In FY2009, CRESY acquired 55% of Inversiones y Representaciones S.A. (IRSA), one of Argentina's largest real estate companies. IRSA is engaged in a range of diversified real estate activities including the development of residential and commercial properties. IRSA has been growing its portfolio of leasable land while maintaining a 91% occupancy rate. Also, CRESY has been and will continue to leverage its strong balance sheet to capitalize on the growing opportunities in South America. Given the firm's profitability as well as the ever increasing trends in population and eating trends, it is recommended that CRESY be added to the International AIM Equity Fund with a target price of $18.50, which offers a potential upside of 28%. The firm also pays a 2.82% annual dividend.

Investment Thesis

- **International Growth Opportunities.** Although most of CRESY's properties are located in different areas of Argentina, the company has begun expanding in other Latin American countries. Through its investment in BrasilAgro, as well as similar operations in Paraguay and Bolivia, CRESY has been able to reach out to new distribution markets as well as land ownership opportunities. In 2008, CRESY founded a company in Paraguay called Cresca S.A. in which CRESY holds 50% equity ownership interest. Also, by acting through various companies in Bolivia, CRESY was able to purchase land for soybean, corn, and wheat crops. Considering the LTM GDP rates for Argentina (6.8%), Brazil (8.9%), Paraguay (5.3%), and Bolivia (4.0%), these market opportunities should increase CRESY's revenues.
- **Diversified Revenue Stream.** Through its international ventures, CRESY has been able to tap into new agricultural real estate properties, as well as new products. The highest percentage of agricultural revenue from any one commodity is only 12% (beef cattle), so this diversification helps protect CRESY against weather patterns or natural disasters that would disrupt individual

types of crops. Through its BrasilAgro investment alone, CRESY was able to increase its product exposure to include sugarcane, timber, rice, and cocoa. From 2008 to 2009, Argentina suffered one of the most severe droughts in recent history, and the harvests of wheat, corn, and soybeans fell significantly. However, with CRESY's extensive product coverage, and its recent expansion into real estate, the company avoided disaster, and increased earnings, as well as the likelihood of future growth potential.

- **Production and Land Development Expansion.** CRESY's strong liquidity has given it the ability to not only withstand the financial crisis of the past few years, but actually expand its operations. The company has $112 million of cash on its balance sheet, and generated $34 million in free cash flow in FY 2009, even after the investment in IRSA was made. Also, CRESY has a Debt/Equity of 32%, which is nearly half that of its major competitors and this gives the company the ability to fund future expansion. Not only have CRESY's revenues strengthened, the overall profitability of the company has increased, reflected in their operating margin of about 28%.

Valuation

CRESY is currently trading around 15.5x TTM EPS of $0.95. Applying a conservative 15x multiple to the estimated 2011 EPS of $1.21 produces a relative valuation of $18.15. Based on a 5 year DCF analysis with a computed WACC of 18.00% (including country risk premium of 9%) and a terminal growth rate of 3.5%, an intrinsic value of $18.64 was obtained for CRESY. A sensitivity analysis that adjusts both the long-term growth rate from 2.5 to 4.5% and the WACC from 16 to 20% generates a feasible price range of $15.76-22.99. Therefore, a target price was set at $18.50. With the stock currently trading around $14.16, the $18.50 price target would yield a nearly 28% return on top of the 2.8% dividend yield.

Risks

- **Crop Seasonality and Weather Patterns.** One of the biggest risks to any agriculturally-centered company is severe weather and how crops can be negatively affected. CRESY appears to be diversified well enough across their land and investment portfolio, as well as with the time of year crops are harvested, to evenly spread out revenues.
- **South American Political Atmosphere.** Relative to other countries in South America like Venezuela or Ecuador, Argentina has a very stable political system and society. Argentina is also not near these countries, so the likelihood of any issues crossing over the border is very slight.
- **Currency Exposure.** As CRESY continues to grow in different areas of Latin America, currency fluctuations could negatively affect the return on the company's various investments. It must be considered that not much of its land portfolio is located outside of Argentina (only 6%), so this risk does not seem very likely to affect the company at large.

Management

The current CEO and chairman of CRESY is Alejandro G. Elsztain, and he has been with the company for over 16 years. Mr. Elsztain's educational background is in agricultural engineering and he has been given various comprehensive experiences within the company by managing different areas, including BrasilAgro, IRSA, Alto Palermo, and the Cresud Farm Products segment. The CFO of CRESY is Gabriel Blasi and he has been in that role for 6 years. Prior to CRESY, Mr. Blasi worked at Citibank, Banco Río, and Carrefour Group.

Ownership

% of Shares Held by All Insider and 5% Owners:	22%
% of Shares Held by Institutional & Mutual Fund Owners:	78%

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
D. E. Shaw & Company	4,363,511	8.70
Tradewinds Global	2,231,915	4.45
Mondrian Investment Partners, Ltd.	2,082,341	4.15
Franklin Resources Incorporated	2,082,341	4.15
Deutsche Bank AG	1,843,187	3.68

Source: Bloomberg

Stepan Corporation (SCL)
September 10, 2010

Mark Rutherford | Industrial Materials

Stepan Corporation (NYSE: SCL) is a leading supplier of surfactants and polymers, which are key ingredients in many consumer and industrial chemicals. Surfactants act as foaming agents and emulsifiers in detergents, shampoos, lotions, toothpastes and cosmetics while polymers are needed to manufacture coatings, adhesives and elastomers (rubbers). SCL operates three business segments: Surfactants, Polymers and Specialty Products. Surfactants and polymers account for 75% and 22% of SCL's revenue, respectively. Geographically, SCL is well diversified with sales in the United States (63%), France (16%), the United Kingdom (7%) and other regions (14%). SCL was founded in 1932 and is now headquartered in Northfield, IL with manufacturing facilities spread across North America (8), South America (2), Europe (4) and Asia (3).

				FY: Dec	2009A	2010E	2011E
Price ($):	56.20	Beta	1.13	Revenue ($mil)	1,276	1,404	1,474
Price Target ($):	72.50	WACC	10.1%	% Growth	-20.2%	10.0%	5.0%
52 Wk H-L ($):	79-46	L-Term Rev. Gr Rate Est:	3.0%	Gross Margin	18.3%	17.5%	17.5%
Market Cap (mil):	564.8	L-Term EPS Gr Rate Est:	3.0%	Operating Margin	8.2%	8.0%	7.7%
Float (mil):	7.85	Debt/Equity	49.4%	EPS (Cal)	5.84	6.04	6.25
Short Interest:	10.8%	ROA	10.0%	FCF/Sh	0.60	6.18	6.48
Avg. Daily Vol (mil)	0.05	ROE	24.3%	P/E (Cal)	9.6x	9.3x	9.0x
Dividend	0.96			EV/EBITDA	4.1x	3.9x	3.9x
Yield	1.7%						

Recommendation

SCL produces chemicals used in staple products providing steady operating cash flow even in a sideways economy. It is estimated that the global market for surfactants is $15B giving SCL approximately 7% market share. Future growth in the surfactant market is likely to be driven by emerging markets and changes in detergents from powder to liquid form. In 1994, the split between powder and liquid detergents was 50:50; however today liquids now account for 85% of detergent use and is expected to increase to over 90% within a few years. Tactically, SCL is well-positioned to utilize its strong balance sheet to make strategic acquisitions and support any organic growth. Financially the company has performed well over the past five years with a top-line revenue CAGR of 6.4%, while net income grew increased from $10 to $63 million over the same period (43% CAGR). Net margins increased substantially in 2008 and 2009 due to falling soft commodity and natural gas prices. Gross margins increased from 10.6% in 2008 to 18.3% in 2009 and management has sustained these margins in the first half of 2010. In addition to improved margins and a growing global footprint, SCL pays a 1.7% dividend, which they have increase every year for the past ten years. It is recommended that SCL be added to the AIM Domestic Equity Fund with a price target of $72.50, providing 29% upside in addition to a 1.7% dividend yield.

Investment Thesis

- **Growth through Acquisition.** In Q2'10, SCL completed three strategic acquisitions for a combined cost of $31.6M. Management acquired an additional surfactant manufacturing facility in Singapore and a polymer facility in Poland. The third transaction increased SCL's ownership in a Philippines JV from 50% to 89%. Collectively, these acquisitions give SCL exposure to faster growing regions outside of the United States. SCL has historically maintained a debt-to-capital ratio of 40%, which this has fallen to 32% post-recession. Management has indicated that it will be actively seeking acquisition opportunities and has room on its balance sheet to take advantage of low interest rates.

- **Diversified End Markets.** SCL supplies products to nine major markets: laundry and cleaning, personal care, agricultural products, food and health specialties, oil field, foam specialties, industrial lubricants, polyurethanes and coatings and adhesives. This diversified product mix is weighted towards staple products that should allow SCL to generate significant cash flow even with a stagnant economy.
- **Ability to Raise Dividend.** During 2010, SCL is expected to generate $6.18 of free cash flow per share. In addition to their strong free cash flow, there is $11.72 of cash per share which should allow management to increase the dividend or repurchase shares. Insiders own 26.9% of the outstanding shares, therefore the interests of management and shareholders are well aligned and should be supportive of a dividend increase.

Valuation

SCL is trading at 9.3x 2010 EPS estimates of $6.04. Applying a historical P/E average of 11.0x to a 2011 EPS estimate of $6.25 yields an $68.75 price target. Competitors have achieved comparable sales growth as SCL, but they have smaller margins and still trade at a premium. The average P/E for SCL's closest peers is 13.3x. Over the past five years SCL has traded at 6.2x TTM EV/EBITDA and it is currently trading at 4.1x. Applying a 5.5x EV/EBITDA multiple to 2011 EBITDA estimates of $157M generates a price of $74.19 per share. Based on a five-year DCF analysis with a computed WACC of 10.1% and a terminal growth rate of 3%, an intrinsic value of $74.56 was obtained. A sensitivity analysis that adjusts both the long-term growth rate (2-4%) and the WACC (9-11%) generates a price range of $72.68-78.88. After considering relative multiples and the DCF analysis a target price of $72.50 was established offering upside of 29%.

Risks

- **Commodity Price Fluctuation.** Petrochemicals, as well as agricultural commodities, are used to produce surfactants and polymers and any adverse increase in these prices could negatively impact earnings going forward. Natural gas and electricity also represent a large proportion of SCL's operating costs so any increase in either of these elements would cause margins to compress going forward.
- **Management Turnover.** Chairman of the Board, Quinn Stepan, 72, is the firm's largest individual shareholder (11.8%). If Mr. Stepan decides to step away from the company completely or sell a large block of shares, this could adversely impact the stock price. This risk is somewhat mitigated by the fact that Quinn Stepan, Jr., who has been the CEO since 2006, is 49 years old and has the ability to work for several years.
- **Legal and Environmental Matters.** As of Q2 2010, SCL has a possible range of environmental and legal losses from $7.2 to $31.1 million. Management estimates this will cost the company $16.3 million. If government agencies increase environmental regulation this could increase SCL's capital expenses as they could be forced to spend more to dispose any chemical byproducts.

Management

Quinn Stepan Jr. has been with the company since 1999 and was promoted from Chief Operating Officer to President and CEO in 2006. Mr. Stepan owns 6.5% of the company making him well aligned with the long-term interests of shareholders. Collectively, the company's directors and officers own 26.9% of the outstanding shares. The management team has a long history with SCL and, on average, the executive directors have spent nearly 20 years with SCL. The chairman and CEO are the only two insiders on the board of directors.

Ownership

% of Shares Held by All Insider and 5% Owners:	26.9%
% of Shares Held by Institutional & Mutual Fund Owners:	63.8%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
F. Quinn Stepan	1,188,448	11.8
F. Quinn Stepan, Jr.	656,373	6.5
Royce & Associates, LLC	602,573	6.0
BlackRock Institutional Trust Company N.A.	566,982	5.6
Vanguard Group, Inc.	503,628	5.0

Source: Yahoo! Finance

Apollo Investment Corporation (AINV)
September 10, 2010

Kyle Boser Financial Services Sector

Apollo Investment Corporation (AINV) was founded in 2004 and is headquartered in New York, NY. AINV is considered a leader in its space and is currently the largest business development company (BDC), competitors include; ARCC, FSC, GAIN, GLAD, MAIN, TCAP and PSEC. As a BDC, the firm invests in senior-secured, junior subordinated and mezzanine loans, and some equity of middle-market companies' (firms with revenues of $50M to $2B). As a BDC/RIC (regulated investment company) AINV is exempt from federal income tax as long as it pays out at least 90% of its income and short-term capital gains to shareholders. They are externally managed by Apollo Investment Management, an affiliate of Apollo Management, a well-known private equity investor. Their $2.85B loan portfolio consists of 67 companies with 30% in senior-secured loans, 59% subordinated debt, and 11% in equity investments.

Price ($): (9/7/10)	10.09	Beta:	1.66
Price Target ($):	11	WACC	13.63%
52WK H-L ($):	8.66-13.69	L-Term Rev. Gr Rate Est:	6%
Market Cap (mil):	1,960.0	L-Term EPS Gr Rate Est:	7%
Float (mil):	194.09	Financial Leverage	1.75x
Short Interest (%):	4.0%	ROA:	3.29%
Avg. Daily Vol (mil):	1,784	ROE:	16.6%
Dividend ($):	1.12	Tier 1 Capital Ratio	NA
Yield (%):	11.1%	Credit Provisions/Loans	NA

FY: March	2010A	2011E	2012E
Revenue ($Mil)	340.40	335.40	399.00
% Growth	-9.80%	-1.47%	18.96%
Net Interest Margi	11.04%	11.00%	11.00%
Pretax Margin	58.96%	53.55%	56.42%
NII ($TTM)	1.26A	0.93	1.15
P/E (Cal)	9.23	10.71	8.66
BV/Share	$10.07	$9.80	$9.44
P/B	1.01	1.02	1.06

Recommendation

AINV provides a unique opportunity for investors to obtain exposure to the private equity market, while allowing them to remain relatively liquid. This is a differentiating factor from the typical high-net worth individuals who invest in venture capital and private equity. AINV has an experienced external management team affiliated with a much larger and more prestigious firm, Apollo Management. The management team's credibility enables them to drive higher deal flow and exert more influence over its business partners giving AINV a competitive advantage over its peers. This can be seen by the firm's latest credit extension at LIBOR+300 bps, a very favorable rate, well below their peer average of LIBOR +388 bps. The quality of their management team also has allowed AINV to invest in companies on the upper end of the middle market ($50-$2B revenue). Their average portfolio company EBITDA is $250M versus competitors who invest primarily in companies with less than $50M in EBITDA. The firm's ability to invest in larger companies than many of its peers provides more options in times of distress allowing for more stability in the portfolio during economic downturns. AINV provides an attractive opportunity to enter private equity at the bottom of a slow growing economy, earn a solid dividend yield (11%) and receive capital appreciation as the economy begins to pick up steam. The M&A and Private Equity markets are already showing positive signs, posting their best August in years, and if these trends continue they will bring increased deal flow, stronger demand for middle market loans and more attractive investing opportunities for the firm. It is recommended AINV be added to the AIM Equity Portfolio with a target price of $11, offering a capital appreciation upside of 10%.

Investment Thesis

- **Strong Sustainable Dividend.** AINV's dividend has remained steady at $0.28 per share over the last four quarters, representing an annual yield of 11.10%. During FY2010 the dividend was covered by 112% of Net Investment Income (NII), it has averaged 115% since it went public in 2004, which allows for sufficient coverage in downside scenarios. With a steadying economy AINV should be able to minimize non-accruing assets, grow its NII, and maintain a healthy level of cash which will put it in a great position to maintain a strong dividend going forward.

- **Increased Middle Market Loan Demand and M&A Activity.** The middle market demand for loans has significantly increased, according to Standard and Poor's new-issue middle market loan volume for 1H10 at $5.7B versus $0 the year before. These loans typically yield around 15% and AINV's current strong cash position should allow them to capitalize on attractive new investments. Additionally, as the economy recovers and markets continue to climb from their recent low levels, M&A activity is expected to increased as many companies have bolstered their balance sheets while others are trading at very attractive levels. The market is already starting to show positive signs with private equity deals in August totaling $20.7B (+100% yr-yr), while M&A deals reached $275B the largest August since 1999.
- **Experienced Management Team.** AINV is led by John Hannan and James Zelter who combine for over 50 years of private equity experience. Their external management structure and its affiliation with Apollo Management, differentiates them from their BDC peers. Apollo Management is considered a leader in the private equity industry and pulls more weight than AINV alone. The firm's relationship with Apollo Management comes with many benefits including; industry expertise, increased deal flow, influence with larger middle market companies and stronger influence with creditors. Recently, AINV was able to extend $1.2B of its industry leading $1.6B existing credit line at a favorable Libor +300 bps .

Valuation

AINV is currently trading at 10x NTM NII of $1.03, a discount to their peer median of 10.5x. Using a P/NII multiple of 10.5x NTM NII estimate, an intrinsic value of $11 was obtained. Similarly, using a dividend discount model with a 10% cost of equity and an estimated NTM dividend of $1.11 an $11 intrinsic value was calculated. A sensitivity analysis was performed based on the potential for AINV's credit exposure to improve or weaken in turn affecting the NII and dividend. In these scenarios a dividend range of $0.92-1.15 was calculated, representing a price range of $9.2-11.5. Based on the dividend discount and P/NII approach, an intrinsic value of $11 was calculated, representing upside potential of 20%, which includes an expected 10% dividend yield.

Risks

- **Ability to Raise Equity.** Because AINV is dependent on the equity markets with the distribution requirements of a BDC/RIC, they cannot be levered more than 1:1 (currently 0.54:1). AINV is currently trading above book value (1.01x) which provides management with access to equity markets; however, if this measure falls below book value management would need shareholder approval before accessing the equity markets, making it harder to support growth in attractive new investment opportunities.
- **Asset Quality and Liquidity Concerns.** Providing loans to private middle-market firms has significant financial risk. Similarly, by providing loans to private companies or lightly traded companies there is a high level of liquidity risk. AINV has limited these risks by striking investment deals with larger middle market firms to provide more financial options in times of distress. The average EBITDA of their investment companies is $250M, significantly higher than their peers who tend to invest in companies with under $50M in EBITDA.
- **Credit Market Stability.** During the current economic turmoil the credit markets have been very volatile, the MOVE volatility index rose from 55 in June 2007 to a peak of 233 in October 2008 (96 currently). This could negatively affect the portfolio companies' cost of raising funds.

Management

James Zelter joined AINV in 2006 and is currently the CEO. Prior to joining AINV he had several roles at Citigroup including, CIO of Alternative Investments and he was head of Global High Yield division. John Hannan, Founder and Chairman of AINV, was also the CEO from 2006-2008. Before he founded Apollo he served as a MD at Drexel Burnham Lambert as second in charge of the M&A group.

Ownership

% of Shares Held by All Insider and 5% Owners:	1%
% of Shares Held by Institutional & Mutual Fund Owners:	58%

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
THORNBURG INVESTMENT MANAGEMENT INC.	10,231,859	5.26
VANGUARD GROUP, INC.	8,161,205	4.20
THORNBURG INVESTMENT INCOME BUILDER FUND	7,904,600	4.06
BlackRock Fund Advisors	6,520,189	3.35
Ameriprise Financial, Inc	6,413,812	3.30

Source: Bloomberg

Tempur-Pedic International (TPX)
September 10, 2010

James Werner Consumer Goods

Tempur-Pedic International (NYSE: TPX) is the leading manufacturer, marketer, and distributer of premium mattresses and pillows. TPX sells its products to approximately 80 different countries under the TEMPUR and Tempur-Pedic brands. TPX has two reportable operating segments: Domestic and International. TPX has three main products: mattresses, pillows and other products. Mattresses represent 66.2% of net sales and TPX recognizes this as their leading product category for now and the future. Pillows represent 12.9% of net sales and the other product segment constitutes 20.9%. TPX sells its products through four distinct channels: retail, direct, healthcare, and third party. The retail channel represents 84.5% of net sales. The direct channel sells through call center operators and the internet, representing 6.0% of net sales. The healthcare channel sells to hospitals, nursing homes and medical/healthcare professionals, representing 4.3% of net sales. The third party sales channel (5.2% of sales) is used to serve markets that are currently outside the range of wholly owned subsidiaries. The company was founded in 1989 with corporate headquarter located in Lexington, KY.

Price ($): (9/07/10)	27.95	Beta:	1.50
Price Target ($):	35.00	WACC	14.32%
52WK H-L ($):	36.36-13.83	L-Term Rev. Gr Rate Est	8%
Market Cap (mil):	1,969.89	L-Term EPS Gr Rate Est	6%
Float (mil):	45.24	Debt/Equity:	20.0%
Short Interest (%):	7.8%	ROA:	8.0%
Avg Daily Vol (mil)	1.5	ROE:	16.5%
Dividend ($):	0.00		
Yield (%):	0.0%		

FY: Aug	2009A	2010E	2011E
Revenue ($Mil)	1,033.86	1,151.25	1,290.82
% Growth	-4.00%	11.00%	11.00%
Gross Margin	47.65%	48.5%	49.50%
Operating Margin	17.4%	19.0%	19.50%
EPS ($Cal)	1.61A	2.00E	2.15E
FCF/Share	$1.33	$1.48	$1.56
P/E (Cal)	17.11	17	16
EV/EBITDA	9.8x	10.1	11.2

Recommendation

Tempur-Pedic International (TPX) is a worldwide leader in specialty sleep products. Their market position has focused on advanced sleep surfaces that improve the quality of life for people around the world. In an independent survey, 92% of their customers recommended Tempur-Pedic products to others. TPX in Q2 posted net sales of $263M, which represented a YoY gain of 44%. The company also posted an EPS of $0.44 in comparison to market expectations of EPS at $0.38-$0.40. The sales improvement can be attributed to the new Cloud Series mattress, which has been released in stages to deter cannibalization of their existing product lines. In April 2010, TPX purchased Tempur Canada, their third party distributor. While foreign sales constituted 37% of net sales, Canada (33M population) was the largest bedding market operated by a third party distributor before the recent purchase agreement. TPX's management has provided conservative guidance the past year due to unfavorable economic conditions and consumer discretionary spending tightening. TPX has exceeded EPS and top line growth expectations for the past three quarters. With its increasing top and bottom line growth, strong brand recognition and continued expansion internationally and domestically, it is recommended that TPX be added to the AIM Equity Fund with a target price of $35.00, offering an upside of 21.5%. The firm does not pay a dividend.

Investment Thesis

- **Market Position.** TPX has less than a 1% market share in the mattress and pillow industry. This constitutes an opportunity to significantly increase market share and grow revenues. Through its new Cloud Series line, TPX has estimated to have two slots per door by year end for this series line – currently TPX has, on average, four total slots per door. This should result in an average increase of 40% in retail stores. Since retail stores account for 84.5% of sales this should increase sales by 28% for the year. TPX has minimal competition in the viscoelastic mattress due to the innerspring mattress that dominates the domestic and international marketplace.

- **Corporate Outlook.** TPX management has been adamant in increasing its gross margin to 50% and its operating margin to 20% by 2012, which were the firm's pre-recessionary (2006-2007) levels. TPX posted a Q3 gross margin of 48.5% - an improvement from last year's 46.5%. An operating margin of 19% was posted for Q3 compared to 17.4% for last year. The corporate outlook has remained extremely conservative throughout the past three quarters – and earnings releases have exceeded the corporate and street estimates for revenue and EPS growth. The 2010 EPS estimate was recently raised to a $1.85 - $2.00 level. The $1.85 figure is likely if sales mimic the depressed Q3 and Q4 2009 figures, while the $2.00 level signifies a more realistic estimate for 2010. With the company currently trading at 17.11x P/E ratio, the stock is selling at an attractive level. TPX has undergone two stock repurchases by upper management in the past two years and the board has initiated another $100M stock repurchase plan.
- **Aging Population.** . A U.K. journal anticipates that 80% of people deal with some sort of back pain at one point in their life and a study published in the American Journal of Epidemiology reports that, on average, women sleep 6.3 hours a day and men sleep 5.6 hours a day. Spine/back relief as well as a "good night's sleep" is desired by society. The company has products in 6,400 out of 10,000 U.S. retail stores. Within this market, TPX plans to increase penetration to 7,000-8,000 in the next 2-3yrs (potential 20% increase in new store sales). Outside of the U.S. approximately 4,900 retail stores carry TPX products. The company plans to increase penetration to 7,000 stores in the future; however, no timeline has been set.

Valuation

To find the intrinsic value of TPX, a five-year DCF model was constructed. Sales growth rates were varied year-to-year to account for possible economic changes and industry changes through each of the three product segments. A terminal growth rate of 3% was used. A conservative WACC of 13.77% was used which yielded an intrinsic value of $34.4. Applying a 17x P/E to a 2011 EPS forecast of $2.15 resulted in an intrinsic value of $36.55. Taking both valuations into consideration, a $35.00 price target was been established – offering a return in excess of 30%. The board of directors has suspended dividend payouts since Q3 2008 and their in no indicate that dividends will be paid in the near term.

Risks

- **Competition.** With TPX having a favorable market position as the viscoelastic mattress leader, it still must compete with larger and more experienced companies such as Sealy, Simmons and Serta. It is acknowledged that these competitors have better distribution channels and brand name recognition in the overall mattress marketplace than Tempur-Pedic. Recently, these companies have begun to enter the viscoelastic mattress marketplace and if they are successful in breaking into the market, this will adversely impact TPX's revenues and/or margins.
- **Consumer Discretion.** TPX realizes that consumer discretionary spending is tight. With TPX mattress priced anywhere from $1,200 - $8,000 per unit, it is possible that the high price points could turn away many consumers in this current economy. With the company also trying to expand margins on these prices, TPX mattresses could be overpriced relative to consumers' budgets during this time period of slow economic growth.

Management

Mr. Mark Sarvary is the Chief Executive Officer and President of Tempur-Pedic International since June 2008. Before Tempur-Pedic he worked at CVC Capital Partners a global private equity firm in 2008. From 1999-2002 he served as CEO of J Crew Group Inc. Tempur-Pedic International's Chief Financial Officer, Executive Vice President and Secretary is Mr. Dale Williams. He has been with the company since 2003. Tempur-Pedic International is considered low risk in corporate governance in comparison to their peers.

Splits: none

Splits: none

Ownership

% of Shares Held by All Insider and 5% Owners:	2%
% of Shares Held by Institutional & Mutual Fund Owners:	102%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Wellington Management Company, LLP	4,030,104	5.78
Vanguard Group, Inc. (The)	3,803,136,	5.45
Vinik Asset Management, L.P.	3,609,400	5.17
Kayne Anderson Rudnick Investment Management LLC	2,787,849	4.00
Invesco Ltd.	2,163,328	3.10

Source: Yahoo! Finance

TETRA Technologies, Inc. (TTI)
September 10, 2010

Ben Hariri Domestic Energy

TETRA Technologies (NYSE: TTI) is a well-diversified oil and gas services company that operates in several niche markets. TTI provides products and services to most of the major international exploration and production companies, independent oil and gas companies, and various smaller oil and gas producers. The products and services they offer are specific to well completion, production enhancement, wellhead compression, and abandonment and decommissioning. TTI has three operating divisions made up of five reporting segments: Fluids, Offshore Services, Maritech, Production Testing, and Compressco. In H1 2010, these segments accounted for 32%, 25%, 22%, 11%, and 9% of revenue, respectively. TTI has operations in the U.S., Canada, and Mexico, as well as in certain regions of South America, Europe, Asia, and Africa. TTI was founded in 1981 and is headquartered in The Woodlands, Texas.

Price ($): (9/7/10)	8.64	Beta:	2.07	FY: Dec	2009A	2010E	2011E
Price Target ($):	12	WACC	15.17%	Revenue ($Mil)	878.9	932.5	1,030.0
52WK H-L ($):	15-8	L-Term Rev. Gr Rate Est:	7%	% Growth	-12.90%	6.00%	10.00%
Market Cap (mil):	673.7	L-Term EPS Gr Rate Est:	14%	Gross Margin	24.34%	21.46%	24.70%
Float (mil):	74.12	Debt/Equity:	51.3%	Operating Margin	12.86%	11.26%	14.50%
Short Interest (%):	2.7%	ROA:	4.9%	EPS ($Cal)	0.91A	0.75E	1.11E
Avg. Daily Vol (mil):	1.047	ROE:	12.0%	FCF/Share	$1.32	$1.35	$1.50
Dividend ($):	0.00			EV/EBITDA	3.7x	3.5x	3.1x
Yield (%):	0.0%						

Recommendation

TTI is the largest, vertically integrated producer, marketer, and seller of calcium chloride, a completion fluid, with an overall plant production capacity of more than 1.5 million tons per year. They are a global leader in the various markets of completion fluids, rig and well abandonment and decommission, diving, production enhancement via compression, and production testing. Major competitors include Global Industries, Cal Dive, Schlumberger, and Halliburton. Major customers include Anadarko, Halliburton, Chesapeake, ConocoPhillips, Petrobras, Apache, and Chevron. The BP Macondo oil spill in the Gulf of Mexico in April, along with the continuing effects from the global economic downturn, has led to a significant reduction of drilling activity in the Gulf of Mexico region. While this is having a negative effect on the demand for completion fluids in the deepwater Gulf of Mexico market, TTI still managed to increase their Q2 Fluids pretax earnings from continuing operations YoY from $1.2 million in 2009 to $10.2 million in 2010, due to a backlog of projects and continuing improvement of its onshore businesses. TTI was also able to increase their EPS YoY from $0.12 in Q2 2009 to $0.18 in Q2 2010. In addition, TTI's gross profit has grown at a 5-year CAGR of 13.4%. TTI has been able to differentiate themselves by offering a multitude of products and services, establishing themselves as a leader in several niche markets, and continuing to strengthen their balance sheet. Therefore, it is recommended that TTI be added to the AIM Equity Portfolio at a target price of $12, an upside return potential of 39%.

Investment Thesis

- **Greater Regulation in the Gulf of Mexico.** Greater regulation stemming from the Macondo oil spill and further fueled by the recent Vermilion Bay explosion should lead to stricter timelines regarding the plugging and abandonment of wells and decommissioning of rigs in the GOM. Because TTI is the leading single source provider of well abandonment services in North America, this may benefit TTI's Offshore Services segment, specifically their Well Abandonment & Decommissioning Services business. There currently are about 7,000 offshore structures in the world, about half of which are located in the GOM. 91.4% of these structures in the GOM are considered economically marginal, idle, or greater than 40 years of age.

- **Strengthening Balance Sheet.** TTI has been able to decrease their long-term debt from $399.2 million as of June 30, 2009 to $304.2 million as of June 30, 2010, a YoY decrease of 23.8%. TTI has also increased the cash on their balance sheet from $22.6 million to $89.2 million, a staggering YoY increase of 295%. Furthermore, TTI has $300 million of completely untapped liquidity available to them from a revolving line of credit. Moving forward, this should allow TTI to follow through with more aggressive growth opportunities, by way of organic growth and strategic acquisitions. This strengthening balance sheet could conversely make TTI an attractive takeover target.
- **Onshore Activities Will Help Mitigate Effect of Moratorium.** The deepwater drilling moratorium in the GOM is expected to have a negative effect on revenue from the Fluids Division and overall consolidated earnings. Despite this, management expects TTI's Arkansas calcium chloride plant, which commenced initial production in Q4 2009, to begin contributing positively to earnings in H2 2010 and continue to be a key part of their Fluids strategy. Additionally, TTI continues to seek market share in its Compressco segment with its GasJack compression units in a significantly untapped market both domestically and internationally. Because wellhead compression is primarily used for gas production, activity rates do not fluctuate with rig count. Compressco currently maintains a fleet of 3,600 GasJack units, and it is estimated that there are 197,500 wells in the U.S. alone that produce within the target range.

Valuation

Based on a 5 year DCF analysis with a computed WACC of 15.17% and a terminal growth rate of 3%, an intrinsic value of $11.21 was obtained for TTI. A sensitivity analysis that adjusts both the long-term growth rate (2-4%) and the WACC (8.53-15.04%) generates a price range of $8.53-15.04. An EV/EBITDA multiple approach was also used with a multiple of 5.0x, yielding an intrinsic value of $14.48. Taking these into account, a price target of $12 was established. With the stock currently trading around $9, the $12 price target would yield a 39% return.

Risks

- **Deepwater Drilling Moratorium in the Gulf of Mexico.** TTI, like all companies who have deepwater offshore operations in the GOM, is subject to the repercussions of the current drilling moratorium. Certain of TTI's offshore operations in the GOM will be halted or postponed. This will negatively affect earnings in H2 2010. Additionally, the moratorium directly impacts TTI's Fluids Division due to a decreased demand for completion fluid in the GOM. The deepwater GOM projected Fluids revenue accounts for 10% of TTI's projected 2010 consolidated revenue guidance. Although there have been talks to lift the moratorium early, the recent Vermilion Bay explosion that took place on September 2nd may postpone these efforts.
- **Operations Involve Significant Operating Risks.** Due to the nature of the industry and of TTI's businesses, TTI is subject to certain operating hazards. These risks include, but are not limited to, explosions, fires, blowouts, structure collapse, mechanical problems, and environmental accidents. Oil spills, gas leaks, gas ruptures, leakage of CFBs or toxic substances may occur. In addition, the heavy equipment TTI owns and operates carry significant risks for operators.

Management

Stuart M. Brightman has served as President, CEO, and Director since May 2009. He served as Executive Vice President and COO from April 2005 through May 2009. Mr. Brightman also serves as a director of Compressco Partners GP Inc., one of TTI's subsidiaries. From April 2002 to April 2004, Mr. Brightman served as President of the Dresser Flow Control division of Dresser, Inc., a producer of equipment and provider of technology and related services to the oil and gas industry. Mr. Brightman served in other capacities of Dresser, Inc. prior to this from 1993 to 2002.

Ownership

% of Shares Held by All Insider and 5% Owners:	2%
% of Shares Held by Institutional & Mutual Fund Owners:	95%

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
Fidelity Management & Research	11,350,698	14.91
T. Rowe Price Associates	5,798,004	7.62
Columbia Wagner Asset Management	4,440,100	5.83
Vanguard Group Inc.	4,299,643	5.65
Ameriprise Financial Inc.	4,185,903	5.45

Source: Bloomberg

Buffalo Wild Wings (BWLD)

September 10, 2010

Michael Muratore | Consumer Services

Buffalo Wild Wings, Inc. (BWLD) engages in the ownership, operation, and franchise of sports bar and grill restaurants in the United States. The company provides quick-casual and casual dining services, in addition to serving bottled beers, wines, and liquor. Buffalo Wild Wings is a unique concept for a national restaurant that caters to Americans' love of sports, chicken wings, and beer. As of July 31, 2010 BWLD owned and operated 234 restaurants and franchised an additional 440 Buffalo Wild Wings Grill & Bar restaurants in 44 states. BWLD's revenue mix consists of restaurant sales (90.7%) and franchise royalties (9.3%). The company was founded in 1982 and is headquartered in Minneapolis, Minnesota.

					FY:Dec	2009A	2010E	2011E
Price ($): (9/07/10)	46.83	Beta:	.937		Revenue (Mil)	539	683	876
Price Target ($):	59	WACC	10%		% Growth	27%	26%	26%
52WK H-L ($):	34-53	L-Term Rev. Gr Rate Est:	26%		Gross Margin	72.6%	73.0%	73.0%
Market Cap (mil):	840.43	L-Term EPS Gr Rate Est:	37%		Operating Margin	7.61%	8.00%	8.00%
Float (mil):	17.82	Debt/Equity:	N/A		EPS (Cal)	1.69A	2.06E	2.61E
Short Interest (%):	12.40	ROA:	11.1%		FCF/Share	.176	-.228	.321
Avg. Daily Vol (mil):	4.31	ROE:	16.1%		P/E (Cal)	24.1	22.0	17.3
Dividend ($):	0.00				EV/EBITDA	8.5x	6.31	4.9
Yield (%):	0.0							

Recommendation

With the overall economy headed for an extended period of slow growth and with consumers still cautious about their budgets – good food and recreation are two areas where consumers are likely to continue spending. BWLD has transformed from a small Columbus, OH sports bar into a national chain. Today, BWLD is continuing to expand, with goals of annual revenue growth in excess of 20% and annual unit growth of 14% in the next 3 to 5 years. Annual revenue growth has averaged 26.9% since 2005, and same store sales growth has averaged 6.6% annually since 2006. BWLD's expansion plans of their nationally recognized brand should continue to foster this growth. Furthermore, the unique concept of BWLD gives it an economic moat in the restaurant industry, an industry that is expected to continue improving with overall revenues forecasted to rise 2.5% in 2010. Buffalo Wild Wings has had strong operating and profit margins relative to its peers at an average of 7.61% and 5.47%, respectively, over the past 5 years. Management's effectiveness can be seen in the ROA of 11.09% and ROE of 16.08%, both of which are better than most of their peers. Ruby Tuesday's, Brinker (Chili's) and DineEquity (Applebee's) had ROA and ROE numbers of 4.47% and 9.50%, 5.91% and 15.08%, and 5.83% and 1.09%, respectively. Because of these reasons and a favorable valuation, it is recommended that BWLD be added to the AIM Equity Fund with a target price of $59.00, which offers a potential upside of 25%.

Investment Thesis

- **Growth and Expansion.** BWLD's growth strategy involves opening both company-owned and franchised restaurants in new and existing markets - with an emphasis on expanding their reach in the East Coast and West Coast regions. With nearly 700 restaurants, management believes they have established the necessary infrastructure to support over 1,000 restaurants. BWLD hopes to continue unit growth of 13% to 15% annually for the next 3 to 5 years, which is their current annual rate of unit growth as of Q2 2010. Additionally, BWLD recently announced a Canadian expansion plan, which includes up to 50 new restaurants over the next 5 years. The first two locations will open in Ontario next spring. The goal is to eventually have approximately 40% of all restaurants be company owned with the other 60% franchised. BWLD's same store sales growth and revenue growth rates have been 6.6% and 26.9%, respectively, over the past 5 years. Mid-single digit increases in same store sales, and revenue growth above 20% are reasonable expectations for BWLD in the next few years.

- **Economic Moat.** Buffalo Wild Wings offers a unique dining experience that caters to both adult sports fans and families in 44 states. BWLD is well known for their traditional and boneless chicken wings along with their 14 specialty sauces. With 680 restaurants, BWLD has a greater national presence than Hooters, which has 455 restaurants. A big part of the appeal to BWLD is the lively atmosphere. During the past month, BWLD estimates that 100,000 fantasy football players had their draft parties at a BWLD restaurant. The company has traditionally focused on a specific segment of the restaurant market and aggressively used national advertising campaigns to become a household name. This football season, BWLD will increase advertising spending by 11% and will have more in-game TV ads nationwide than ever before. Because of the size of BWLD, there is a significant barrier to entry if another restaurant would want to compete in the chicken wing sports bar world. BWLD has cemented itself into American society as one of the best places to watch a sporting event and eat wings, through its quality menu offerings and an enjoyable atmosphere for all customers.
- **Favorable Industry Dynamics.** The National Restaurant Industry has reported that U.S. restaurant sales are expected to rise 2.5% to a record high of $580 billion in 2010. While consumers continue to be careful with their spending, BWLD has a variety of promotions such as 45 Cent Wing Night, and $3 Late Night Appetizers that are designed to meet consumers' needs. Additionally, 78% of U.S. adults agree that going out to a restaurant with family or friends gives them an opportunity to socialize and is a better way to make use of their leisure time than cooking and cleaning up.

Valuation

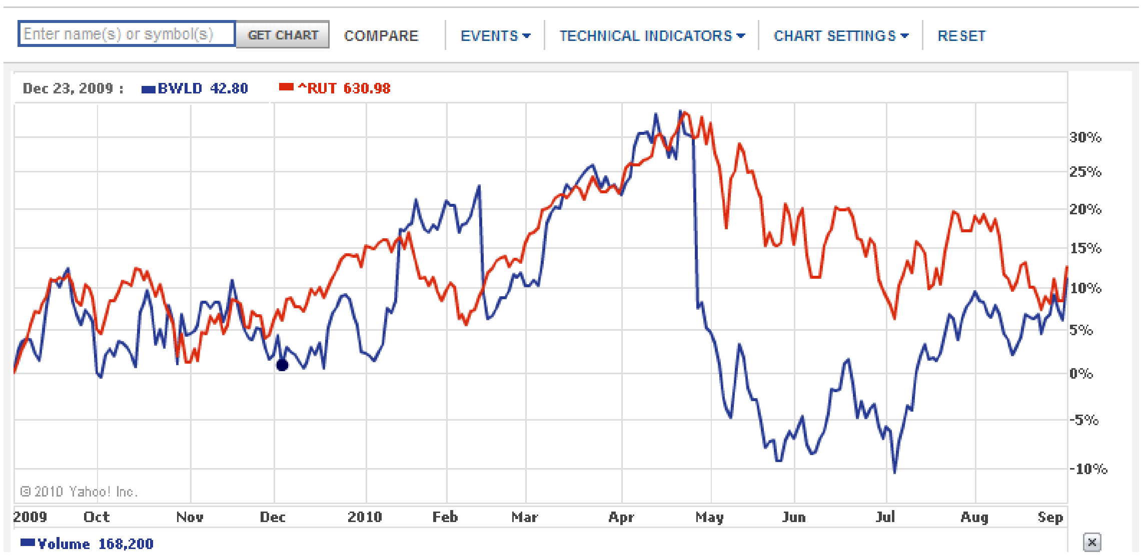
To find the intrinsic value of BWLD, a DCF model and a historical P/E multiples analysis were conducted and given equal weight. Revenue growth rates were projected using historical growth rates of about 25% annually, which takes into consideration their announced expansion initiatives. BWLD is trading at a historical P/E multiple of 24.5x. The sensitivity analysis accounted for variations in the WACC, which was calculated to be 10%, and the terminal growth rate of 3.15%. With a 50% weight given to both the DCF and P/E multiples analysis, an intrinsic value of $58.93 was obtained and a price target of $59.00 was established. The firm presently does not pay a dividend.

Risks

- **Change in Overall Consumer Preferences.** The menu at BWLD is fairly one-dimensional. While they do offer items other than wings, such as chicken sandwiches, burgers, and salads, their wings are what make them unique. The company would be severely harmed if consumer preferences toward chicken wings changed or prices rose substantially.
- **Franchising Risk.** Any time a company uses a significant amount of franchises to grow their business, there are risks involved. Instead of wholly owned operations that are directly managed by the company BWLD currently depends heavily on their franchisees to deliver the overall quality customers have come to expect from the national chain. Management must be cautious when evaluating potential franchisees, in order to make sure the company does not fall into the control of franchisees that would be incapable of living up to BWLD's standards.

Management

Ms. Sally Smith is the President and CEO of Buffalo Wild Wings, and she has held that position since 1996. Prior to this, Ms. Smith served as CFO of BWLD for two years. Before joining BWLD she had 14 years experience as a CFO, and had an integral role in the franchise expansion of the Miracle Ear Hearing Aid brand, made by Dalhberg Inc. She is a CPA and serves on the board of the National Restaurant Association.



Ownership

% of Shares Held by All Insider and 5% Owners:	24%
% of Shares Held by Institutional & Mutual Fund Owners:	76%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
FMR LLC	1,287,733	7.08
Franklin Resources, Inc	1,057,930	5.82
Lord Abbett & Co	1,039,470	5.71
Invesco Ltd.	827, 813	4.55
Vanguard	784,283	4.31

Source: Yahoo! Finance

IROBOT CORPORATION (IRBT)
September 10, 2010

Jose Manuel Munoz — Consumer Goods

iRobot Corporation (IRBT) designs and builds various robots for home, commercial and government use. The Company's Home Robot Division (55% of revenue) includes the Roomba floor vacuuming robots, Scooba floor washing robot and Looj gutter cleaning robot which perform basic domestic chores. The Government and Industrial segment (45% of revenue) includes the PackBot and small unmanned ground vehicle (SUGV) tactical ground military robots that perform battlefield reconnaissance and bomb disposal. IRBT's Negotiator ground robot performs multi-purpose tasks for local police and first responders. Additionally, iRobot's Seaglider unmanned underwater robot performs oceanic missions. The Company sells its robots through a variety of distribution channels, including chain stores and other national retailers, and its online store, and to the United States military and other government agencies worldwide. iRobot Corporation was incorporated in 1990 and is headquartered in Bedford, MA.

					FY: Dec	2009A	2010E	2011E
Price ($): (8/30/10)	17.5	Beta:	0.93		Revenue (Mil)	298.62	394.17	473.01
Price Target ($):	23	WACC	10.50%		% Growth	32.00%	20.00%	15.00%
52WK H-L ($):	11.14-22.05	L-Term Rev.	10%		Gross Margin	30.50%	35.00%	36.00%
Market Cap (mil):	443.28	L-Term EPS	3%		Operating Margin	1.80%	6.00%	7.00%
Float (mil):	21.54	Debt/Equity	2.52%		EPS (Cal)	.13A	.59E	.82E
Short Interest (%):	17.30%	ROA:	10.15%		FCF/Share	$1.28	$0.36	$0.52
Avg. Daily Vol (mil):	0.12	ROE:	14.2%		P/E (Cal)	134	33.65	21.34
Dividend ($):	0				EV/EBITDA	29x	11.2	8
Yield (%):	0.0%							

Recommendation

The total global service robotic market is expected to be worth $21B per year by 2014, as more individuals and businesses look to robots to complete everyday tasks. The personal domestic robotics market is the largest segment and is expected to reach nearly $2B a year by 2014 - increasing at a 52% CAGR. iRobot is well positioned to benefit from this with its 75% market share in the global home robots market and a strong brand. iRobot has been able to achieve substantial growth overseas with an 80% YoY international revenue growth. Further growth is expected to come from Asia, Middle East and Africa, which altogether represent a $1.8B annual addressable market. The Asia Pacific region has a $700M yearly addressable market and in Latin America, where the company will just start to operate in 2010, there is an estimated $300M yearly addressable market. The U.S. Government's demand for the company's products has increased substantially due to a continuous improvement in the firm's robots' quality and efficiency; increasing mission success, the reduction of friendly casualties by 57% and an increasing enemy kill rate of 50%. These factors translated into an increase of G&I revenues of 65% YoY. iRobot's EPS and EBITDA have grown at a 6 year CAGR of 60% and 40%, respectively. IRBT finished 2009 with $71M in cash and $41M in OCF compared to $40M cash and $19M OCF in 2008. Because of the growing markets, strong brand and a favorable valuation, it is recommended that IRBT be added to the AIM Equity Fund with a target price of $23, which offers a potential upside of 31.14%.

Investment Thesis

- **Strong focus on margin increase.** iRobot effectively leverages technological developments and its overhead and R&D expenses across all business segments. The company has been able to take advantage of expenses covered by the government through funded projects to advance its technology across all product lines. The level of funded R&D by the U.S. government totaled $31M in 2009, which represented 70% of IRBS's total R&D budget. This strategy allows iRobot to avoid the need to start each new robot project from scratch, thereby developing robots in a cost-effective manner and minimizing the time to market. In the past, the company had a "grow at all costs strategy" which helped it to capture 75% of the targeted market share and obtain a strong brand recognition. Presently, the company is making its distribution network more efficient by eliminating low performing partners. These measures should help increase gross and operating margins by 200 to 400 bps, respectively.

- **Building a moat using applications.** IRBT has developed an upgrade called Aware 2 to be integrated into the existing robot fleet and into all newly sold robots. Aware 2 is a Linux based software that allows third party developers to write applications for these platforms making the company's products more useful and valuable for the end consumer, and in turn increasing their demand. There are already 50 organizations doing research and development on IRBT platforms and there were over 100 attendees from 60 different organizations that attended the company's recent developer's conference. iRobot is also developing software and applications for its products which ultimately will translate in future revenue and margin expansion.
- **Product Life Cycle Revenue (PLR) growth**. The life cycle of funds spent on a robot sold to the military depends 40% on the initial acquisition of the robot and 60% on PLR (upgrades, training, servers and support of the robot in the field and in action). PLR is likely to become a key revenue driver for IRBT – and with 3500 robots sold to the military thus far, PLR revenue has grown more than 20% YoY in 2009 and is projected to increase 30% YoY in 2010.

Valuation

The intrinsic value of IRBT was obtained by completing a five-year DCF model. A sensitivity analysis was also conducted with variations in the long term growth rate (2 - 4.5%) and in different WACCs (9.5 - 12%), providing a price range between $17 and $31 per share. A conservative WACC of 10.51% and a 3% long term growth were used which yielded an intrinsic value of $22.53. A Price/Sales multiple approach was also used and with a conservative 1.5x sales ratio the result was an estimated value of $23.29. Taking these into account, a price target of $23 was established – a potential upside of over 30%. The company presently does not pay a dividend.

Risks

- **Reliance on government and military.** In 2009**,** 37% of IRBT's revenue was derived from the U.S government and 40% of the contract revenue was derived from the U.S. Army's FCS/BCTM program. Any reduction in the amount of business the firm does with the U.S. government or the military would negatively impact operating results. Even though this represents a substantial part of the company's operations, the DOD 2011 procurement budget and specifically the Joint IED Defeat Organization's budget (a major funding source for robot development), was increased by $3.5 billion in 2011, to a level of nearly $34 billion
- **Protection of Intellectual Property.** IRBT currently holds 71 U.S. patents, 34 foreign patents and 308 pending. In 2007, IRBT filed a lawsuit against Robotic FX, Inc. alleging willful infringement of two patents owned by the company, resulting in litigation expenses of $2.3M. Future patent infringement cases could result in additional unexpected expenses.

Management

Christopher Angle is the CEO and Co-founder of iRobot. Angle is an industry pioneer with more than two decades of experience. He has been named CEO of the Year by the Mass Technology Leadership Council, one of Fortune Small Business Magazine's Best Bosses and New England Entrepreneur of the Year by Ernst and Young. He holds a bachelor's degree in electrical engineering and a master's degree in computer science, both from MIT. John Leahy is CFO of iRobot. He has more than 25 years of extensive financial experience at multi-national companies in technology and consumer industries. Prior to joining iRobot, he served for eight years as executive vice president and chief financial officer at Keane Inc., a $950 million IT business consulting and outsourcing services company.

Ownership

% of Shares Held by All Insider and 5% Owners:	16%
% of Shares Held by Institutional & Mutual Fund Owners:	84%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Oppenheimer Funds, Inc.	2,500,600	9.85
Morgan Stanley	1,233870	4.86
Price (T. Rowe) Associates Inc.	1,040990	4.10
Vanguard Group, Inc.	825,102	3.25
Capital Guardian Trust Company	645,653	2.54

Source: Yahoo! Finance