Applied Investment Management (AIM) Program
AIM Investment Advisory Meeting

AIM Class of 2010 Equity Fund Reports
February 11, 2010

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For more information about AIM please contact:

David S. Krause, PhD
Director, Applied Investment Management Program
Marquette University
College of Business Administration, Department of Finance
436 Straz Hall, PO Box 1881
Milwaukee, WI 53201-1881
mailto:AIM@marquette.edu
or visit www.busadm.mu.edu/aim

Toronto-Dominion Bank
TD
Price: $58.45 ($25.86-65.29)
Fiscal Year Ends: October 31

February 11, 2010
iShares MSCI Canada Index: $24.33 ($13.64-27.64)

Sarah Clasing and Sarah Finneran
International Financial Services

Headquartered in Toronto, Canada, Toronto-Dominion Bank, along with its subsidiaries, operates as a full-service financial platform. The firm has more than 2,300 retail locations in Canada and the United States with over 18 million customers. TD operates under four key business segments: Canadian Personal & Commercial Banking (TD Canada Trust and TD Insurance), Wealth Management (TD Waterhouse and TD Asset Management), U.S. Personal & Commercial Banking (TD Bank) and Wholesale Banking (TD Securities). Additionally, TD offers online brokerage services through a 45% equity investment in TD Ameritrade. In FY 2009, TD reported C$557B in assets and net income of over C$3B.

Recommendation

With its unparalleled "eight 'til late, six days straight" customer service, TD enjoys the #2 market share in Canada and the #6 market share in North America. Despite the numerous headwinds large banking institutions faced in 2008 and 2009, TD's strong position within the sound Canadian banking system mitigated loan losses and significant revenue declines. TD's Provision for Credit Losses as a percentage of Total Loans was 0.93% compared to its U.S. peer group average of 4.96%. Relatively unscathed, TD has emerged as an enviable leader in the industry with its strong balance sheet and conservative loan book. This financial flexibility allows TD to cultivate new growth through attractive FDIC-assisted acquisition opportunities and new branch openings in the U.S. (>35 per year). While TD remains committed to its core retail focus (78% of FY09 earnings), concerns have mounted over the Company's exposure to the U.S. commercial real estate market, which represents 5% of TD's entire loan portfolio. However, an extreme bear case valuation reveals these concerns are an overreaction, making TD's discounted shares and 4% dividend yield a compelling value proposition. Therefore, it is recommended that TD be added to the IAIM Fund with a target price of $76.

Key Statistics	Feb. 4, 2010
Market Cap	$50.30B
Shares Outstanding	860.60M
Ave. Volume (3 month)	738,803
Adjusted Beta	1.12
EPS (TTM)	$3.96
2011 Estimated EPS	$5.66
Price/Earnings (TTM)	13.67
Price/Book	1.52
Dividend Yield	3.99%
WACC	6.85%
ROE	9.07%
ROC	3.90%
Net Interest Margin	2.54%
Tier 1 Capital Ratio	18.63%
PCL/Total Loans	0.93%
Analyst Coverage	14
Target Price	$76

Source: Bloomberg

Investment Thesis

- **Sound Canadian Banking Fundamentals.** Conservative lending practices and lower leverage ratios allowed the Canadian banking system to largely avoid the debilitating balance sheet crisis the U.S. faced during the height of the 2008 financial havoc. On average, Canadian banks leveraged their assets at ratios of 18:1 compared to U.S. investment banks at 40:1. Further, less involvement in securitization led Canadian banks to retain the majority of underwritten mortgages on their books, giving rise to better underwriting standards and substantially lower loan losses compared to U.S. competitors. It is estimated that only 2% of Canadian mortgage credit outstanding is non-prime, compared to approximately 10% in the U.S. credit market.
- **Exceptional Capital Position.** Currently, Canada boasts the most capitalized banking system in the world. While Canadian regulation requires its banks to maintain Tier 1 capital ratios above a

7% threshold, many of TD's foreign counterparts operate at meager capital ratios between 2% and 4%. Furthermore, on a risk-adjusted basis, TD boasts a capital ratio of 14.90% compared to its well-capitalized Canadian peers at 14.13%. This well-funded balance sheet provides TD with the financial flexibility to seize future growth opportunities.

- **FDIC-Assisted Acquisition Prospects.** More than one hundred banks (with <$25B in assets) were taken over by the FDIC in 2009. With 552 banks on the FDIC's 3Q09 Watch List, the number of assisted transactions is expected to further increase in 2010. TD's strong capital levels will allow it to participate in these distressed bank acquisitions, thus providing it with the enviable opportunity to capture U.S. market share at relatively cheap valuations.
- **Compelling Valuation.** Despite its fortress balance sheet, attractive acquisition prospects, and conservative loan portfolio, TD, with a P/B of 1.52x, is currently trading at a significant discount to other major Canadian banks (P/B of 2.08x). Historically, TD has traded at a P/B of 2.13x. This multiple depression is largely attributable to an overly bearish outlook on TD's loan exposure to U.S. commercial real estate (CRE). However, U.S. CRE constitutes a mere 5% of TD's C$554B loan book and is largely concentrated in the Northeastern and Mid-Atlantic states where Net Charge-Offs/Average Total Loans ratios have been substantially below the total U.S. average (1.20% vs. 2.72%, respectively). Consequently, TD's unwarranted discounted valuation creates an attractive entry point for long-term investors.

Valuation

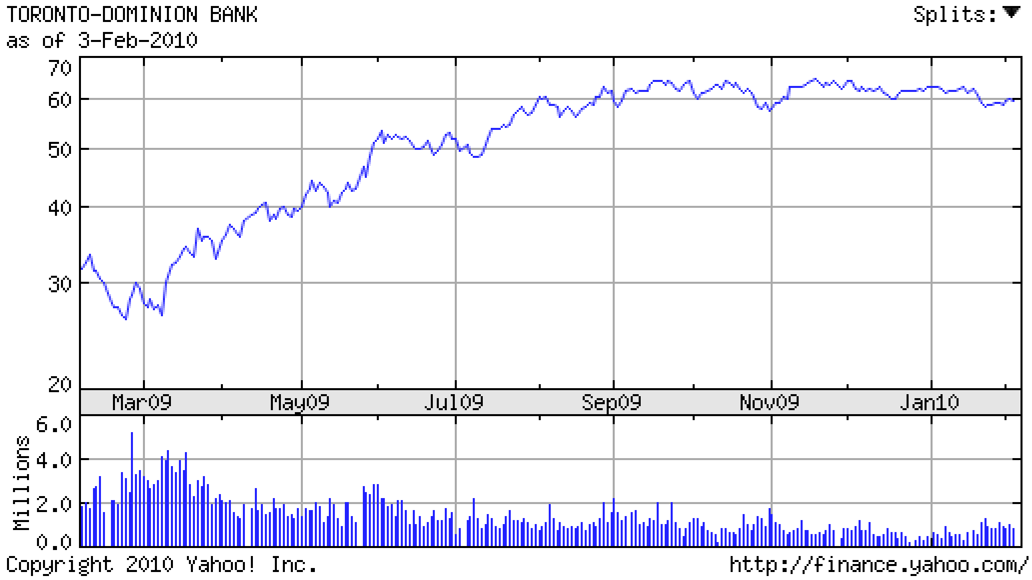
Applying a 1.9x multiple to our 2010 estimated Book Value per share of $40.82 yields an intrinsic value of $77.55 per share. An extreme bear case accounting for 100% loan losses on TD's entire U.S. CRE portfolio in 2010 yields a BV/share of $31.02. Assuming we apply the same P/B multiple (1.9x), this bear case yields a $58.93 stock price, a mere $0.03 less than today's market price. Additionally, applying a 15x multiple to our 2010 estimated EPS of $4.84 per share yields an intrinsic value of $72.67. Weighting our base case P/B valuation 75% and our P/E analysis 25%, a target price of $76 is obtained, representing a 29% upside to TD's current market price of $58.96. TD pays a 4% dividend.

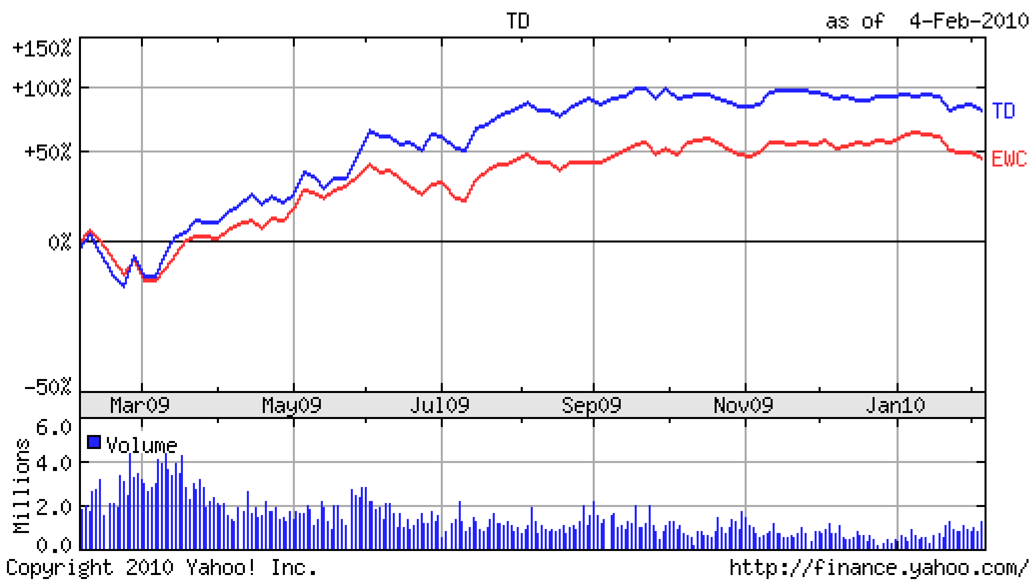
Risks

- **U.S CRE Exposure.** Commercial real estate in the U.S. ($13.7B) represents approximately 5% of TD's total loan portfolio. Should these loans default, the related losses could adversely impact TD's earnings and capital position. However, as previously noted, TD's U.S. CRE exposure is strategically concentrated in geographic regions with much lower delinquency rates.
- **Financial Crisis Responsibility Fee.** President Obama recently announced his intention to recoup up to $117B of projected TARP costs through the implementation of the Financial Crisis Responsibility Fee. While TD did not receive any TARP funding, the U.S. government could still subject TD's U.S. subsidiary to this additional tax. It is estimated that if the initiative passes, TD would be forced to pay out taxes of approximately $75MM in 2010.
- **Financial Regulation and Reform.** The international financial community is likely on the brink of significant reform and increased regulation. Recent proposals include tighter underwriting standards, increased minimum capital requirements, and the separation of commercial and investment banking. The approval and enforcement of the aforementioned or other financial reforms could significantly impact TD's operations and profitability.

Management

Ed Clark, current CEO and President, joined TD after its acquisition of Canada Trust Financial Services in 2000. Boasting over 20 years of industry experience, including senior roles in the federal government, Mr. Clark brings substantial regulatory expertise to the Company. He is supported by Colleen Johnston, CFO, and Mark Chauvin, Chief Risk Officer. TD is a leader in customer service and convenience, rated #1 in the industry by J.D. Power and Synovate.





Ownership

% of Shares Held by Insiders:	1.00%
% of Shares Held by Institutional & Mutual Fund Owners:	59.89%

Source: MSN Money

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
RBC Asset Management, Inc.	57,116,836	6.60%
Pyramis Global Advisors, LLC	25,347,740	2.90%
Harris Investments Management, Inc.	25,134,672	2.90%
Bank of Nova Scotia	24,829,760	2.90%
Jarislowsky Fraser, Ltd.	21,390,628	2.50%

Source: MSN Money

SkillSoft PLC
SKIL
Price: $9.58 ($4.84-10.99)
Fiscal Year Ends: January 31

February 5, 2010 Daniel Widjaja
iShares MSCI EAFE Index: $53.71 (31.56 - 58.00) International Software

SkillSoft PLC (SKIL) is the largest public company that solely focuses on e-learning, operating with a Software as a Service (SaaS) model in the software industry. In a SaaS model, SKIL sells contracts to its customers for the license to use its products as a service on-demand. Its customers include global enterprises, government, educational institutions, and small to medium-sized businesses. SkillSoft offers various content to cater to its institutional clients, such as business (non-IT), information technology, desktop, compliance, and consumer/small to medium sized businesses. Skillsoft also adds value to its content through its technology platforms. Offerings include Skillport Learning Management System, Search and Learn search technology, and SkillSoft Dialogue virtual classroom. SKIL mainly derives its revenue from the United States (74.3% in 2009), followed by United Kingdom (13.6%), Australia / New Zealand (4.3%), Canada (3.9%), Europe excluding UK (2.1%), and others (1.9%). The company is currently headquartered in Ireland.

Recommendation

SkillSoft PLC has won various awards in recognizing its excellent products and services. The company was ranked first in customer loyalty for the third consecutive year by TNS, the world largest custom research company. The customer loyalty score is based on customers' intent to repurchase and willingness to act as a reference. In the beginning of 2010, SKIL was also awarded the provider of Best IT and Soft Skill Content by 1755 nominations on ELearning! Magazine. This marks the fifth consecutive year that SKIL has won for IT Content and second for Soft Skill (or business skills). SkillSoft's customer base comprised of 55% of Fortune 500 companies and 24% of Global 2000. Profitability has been on a favorable trend, with EBITDA/Sales ratio at 22%, 23%, and 32% in the past three years. Management estimated that there was 20% of operating margin in the first $230 of revenue, and 51% on every incremental revenue dollar in 2008. The stock is also attractively valued from a multiples' standpoint. P/E and P/B of peer group are 20.34 and 4.27, respectively. SkillSoft has a P/E of 12.9 and P/B of 3.91. On a historical basis, its five-year historical P/E and P/B are 28.6 and 5.15, respectively. Due to its strong brand equity, relatively large existing customer base, and attractive valuation, it is recommended that SkillSoft be added to the international portfolio at a price target of $15.24, a return of 56.8%.

Key Statistics	Feb. 2, 2010
Market Cap	$927.05M
Shares Outstanding	94.887M
Ave. Volume (3 month)	240,379
Adjusted Beta	0.769
EPS (2008)	$0.47
2009 Estimated EPS	$0.68
P/E (Past 4 quarters)	13.5
P/E (5 year average)	28.6
WACC	8.52%
Debt/Assets	21.5%
ROE	24.4%
ROA	14.4%
Dividend Yield	0.00%
Gross Margin	87.5%
Operating Margin	24.8%
Analyst Coverage	7
Target Price	$15.24

Source: Bloomberg

Investment Thesis

- **Strong Growth Opportunity.** Market intelligence firm IDC stated that the market size for corporate e-learning content has the potential to grow from $12.5B in 2010 to $16.5B by 2013 (CAGR of 11.1%). On the infrastructure segment (Skillport product), IDC forecasted a CAGR of 7.6% during the same period. All in all, the data represents a $20.0B market opportunity for SkillSoft.

- **Cheaper Alternative.** Gartner, a market research firm, found that organizations that choose e-learning over off-site classroom can save $1,500 - $2,000 per week for each employee trained. This is definitely favorable in the current conditions, as companies are slashing training budgets. Gartner further points out that if an organization can shift three days of learning events from face-to-face to online sessions, it could save $750 to $1,000 in travel expenses per employee. E-learning also reduces the opportunity costs of employees' absence from the office, thus increasing productivity.
- **Favorable Macro Trend.** As baby boomers retire in the coming 10-15 years, replacement workers will come from the Internet/online age. Corporate clients have stated that new hires fresh from college are more accepting in online training than their superiors. Culturally, the senior employees are not comfortable with the idea of online education, which leads to the suppression of the industry's growth potential.
- **High Switching Cost.** The products that the company markets and sells to its large customer base have a relatively high switching cost, as corporate clients would have gotten used to the user-interface that SkillSoft provides on its technological offerings. In addition, the company is reporting strong renewal rates (106% in 2006, 102% in 2007, and 97% in 2008). Particularly in 2008, the rate is considered strong given the recessionary environment then.

Valuation

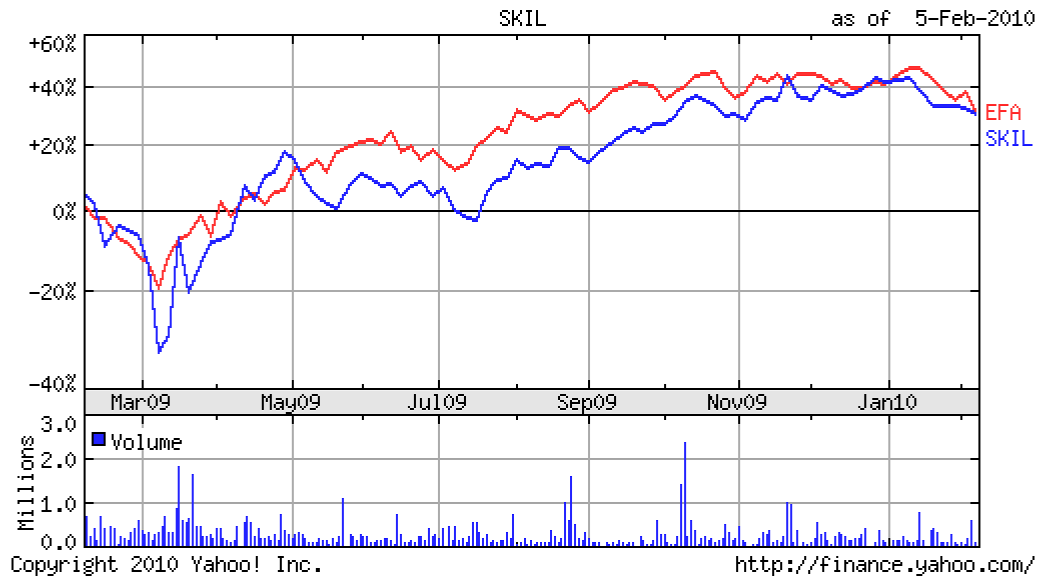
Based on a 5-year DCF analysis with a computed WACC of 8.52% and terminal growth rate of 3.0%, an intrinsic value of $15.24 was obtained. The stock is currently trading at 12.9x earnings. A sensitivity analysis was also created to test various assumptions. Using a range of WACC (7.52-10.02%) and terminal growth values (2.5-4.5%), the analysis yielded intrinsic values between $11.13 and $27.09. The company does not pay dividends. With the stock currently trading at $9.58, the $15.24 price target represents a 59.1% upside.

Risks

- **Low Spending on IT.** Nearly 88% of enterprises reported that they are reducing IT budget in 2009. Despite an improved business environment in 2010, Chief Information Officers (CIOs) surveys are bleak on IT spending (-0.3% in US and -1.3% in Europe). However, the picture has been on a favorable trend as just in Q209, CIOs surveyed in US and Europe are targeting a budget decline of 2.1% (-1.3% in US and -.3.4% in Europe).
- **Weak New Business Generation.** Management commented that although SkillSoft's sales force excels in cross-selling, up-selling, and generation of renewal rates, they are relatively weak in getting new accounts. SkillSoft is addressing this weakness as management started a separate field sales force that is dedicated to new business generation.

Management

Charles Moran, age 54, has held position as President and Chief Executive Officer since the merger with Smartforce and SkillSoft Corporation in September 2002. He was appointed Chairman of Board of Directors in November 2006. Similarly, Thomas McDonald, age 59, served as the company's Chief Financial Officer and Executive Vice President from the merger of the two companies. Moran and McDonald are both founders of SkillSoft Corporation before the merger.



Ownership

% of Shares Held by Insiders and 5% Owners:	12.0%
% of Shares Held by Institutional & Mutual Fund Owners:	91.0%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Westfield Capital Management Company	6,055,167	6.12%
Capital World Investors	5,850,000	5.92%
BAMCO INC.	4,174,400	4.22%
Times Square Capital Management	4,103,750	4.15%
Price (T.Rowe) Associates Inc.	3,997,150	4.04%

Source: Yahoo! Finance

Epoch Holding Corporation
EPHC
Price: $9.44 ($4.06-11.21)
Fiscal Year Ends: June 30

February 4, 2010 Brian Paolo
Russell 2000 Index: 610.66 (342.59-649.15) Financial Services Sector

Epoch Holding Corporation (EPHC) is headquartered in New York, NY and was founded in 2004. EPHC conducts operations through its wholly owned subsidiary, Epoch Investment Partners, Inc. EIP provides investment advisory and investment management services for retirement plans, mutual funds, endowments, foundations and high net worth individuals. In July 2009, a subsidiary of New York Life Investments (NYL), branded as the MainStay Group of Funds, adopted EPHC's existing family of mutual funds (MS Epoch U.S. Equity Fund, MS Epoch Global Choice Fund, MS Epoch Global Equity Yield Fund, and MS Epoch International Small Cap Fund). Epoch is the sole sub-advisor while NYL is responsible for administration and distribution of the funds. As of 1/31/10, the firm had $11.4 billion in AUM (approximately 51% sub-advised, 46% for institutional client accounts, and 3% for high net worth clients).

Recommendation

On January 25, EPHC paid a special cash dividend of $0.30, following it up with payment of its normal quarterly dividend of $0.05 on January 27 (up from $0.03 the previous quarter). EPHC has exhibited strong investment performance in all of its products in recent years, outperforming appropriate respective benchmarks and producing higher risk-adjusted returns. As a result, EPHC has been able to grow AUM substantially, with AUM up 16% in Q4 2009 and 24% in Q3 2009. EPHC has achieved an AUM CAGR of 56.2% since 2004. Net inflows were impressive – growing in excess of $800M in Q3 09. With clients increasing their exposure to small cap and international products, EPHC should continue to see steady inflows into their funds in the near future. With a price target of $13.23 (which is more conservative than sell side researchers that have targets between $16.00-$18.95) and a current stock price of $9.44, it is recommended that Epoch Holding Corporation be added to the AIM Equity Portfolio for a 40% return. The stock provides a regular dividend yield of 1.50%.

Key Statistics	Feb. 3, 2010
Market Cap	$209.31M
Shares Outstanding	22.17M
Ave. Volume (3 month)	44,379.4
P/B	3.98
Dividend Yield	1.50%
P/E (TTM)	27.68
WACC	9.00%
EV/Sales	5.02
Operating Margin	18.05%
Profit Margin	22.22%
ROE	15.32%
ROA	6.83%
AUM	$11.4B
Analyst Coverage	1
Target Price	$13.23

Source: Bloomberg

Investment Thesis

- **Strong Investment Performance.** EPHC's various investment strategies have been outperforming their benchmarks by substantial margins and at lower relative risk levels. The firm has a sound investment philosophy, focusing on companies' future expected cash flows to determine the underlying value of the firms in which it invests. Due to consistent, strong performance, the firm has and should continue to grow AUM and, as a result, should see operating margins improve. For Q3 2009, operating revenues increased by 35% from the same three month period in 2008, while operating expenses increased by 3%. Operating margin for the quarter ended September 30, 2009 was 31%. In a hypothetical forecast, if one were to assume that EPHC could grow AUM by 10% by June 30, 2010 to $12.54B, and if EPHC only earned 0.35%

on all AUM (which is the lowest fee EPHC earns under its sub-advisor agreement with NYL for its management of the MainStay Epoch Global Equity Yield Fund), and assuming operating expenses grow at 8.26% (to an even $30M), operating margin would be 31.65%.

- **Trends in Demand.** Studies of historical asset class performance have shown that of all equity classes, small cap stocks have their highest relative returns in post-recessionary periods. Studies also show that emerging market and foreign stock markets exhibit stronger performance in post-recessionary periods than markets of developed countries. With EPHC specializing in both strategies, clients' demand for such products will allow EPHC to bring in more AUM.

- **Partnership with New York Life.** The recent partnership arrangement with New York Life will help EPHC bring in more AUM in the upcoming years, raising revenue for the firm. It is possible that down the road, Epoch could buy back the funds from New York Life. Full autonomy over their mutual funds would mean a higher percentage of fee income (rather than having to split half of the fees with New York Life as they do under their current sub-advisor agreement).

Valuation

Based on a 5 year DCF analysis with a WACC of 9.00% and a terminal growth rate of 3%, an intrinsic value of $13.23 was obtained for EPHC. A sensitivity analysis that adjusts both the long-term growth rate (2-4%) and the WACC (8-10%) generates a price range of $10.86-$20.81. A P/B relative valuation would suggest EPHC is currently slightly overvalued; using the 5 year average P/B value of all asset managers in the Russell 2000 (3.65) times EPHC's current book value per share of 2.36 would yield a $8.61 stock price. Thomson estimates of a forward P/E of $19.64 times $0.62 EPS for 2011 would yield a $12.17 stock price. The firm's dividend yield is 1.50%.

Risks

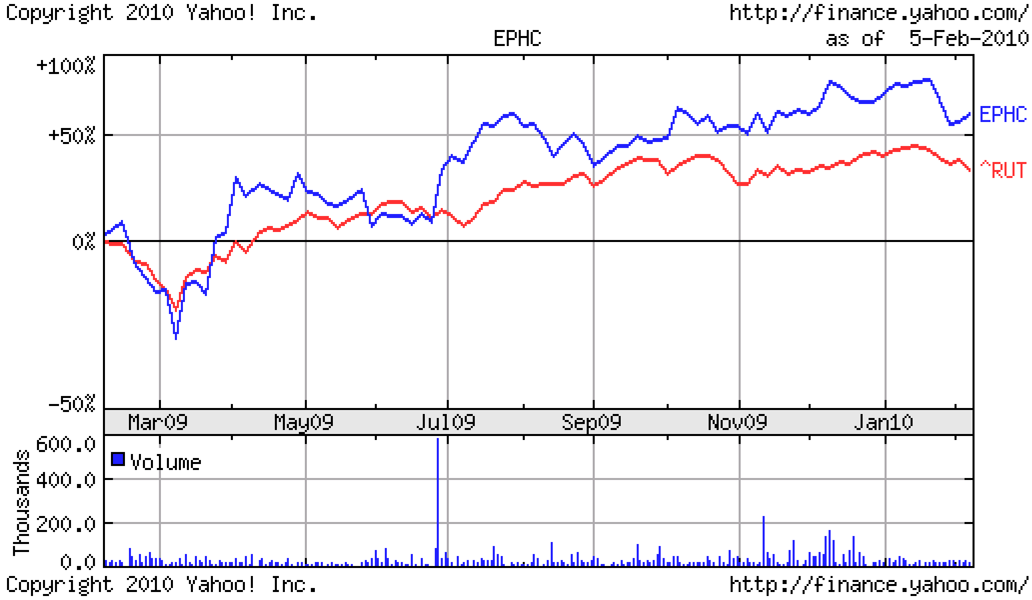
- **Revenue Concentration.** Two clients each accounted for approximately 13% of revenues for FY 2009. A loss of either one of these clients could negatively impact operating margins.

- **Fluctuations in Foreign Currency Exchange Rates.** Though most portfolios are based in USD, certain client portfolios are invested in securities denominated in foreign currencies. Foreign currency fluctuations can adversely impact investment performance for a client's portfolio and may affect levels of AUM.

- **Maintaining Strong Performance.** Poor investment performance could impair EPHC's revenue and growth because existing clients might withdraw funds from EPHC in favor of better performing products, which would result in lower investment advisory fees. Third-party financial intermediaries, advisers or consultants may rate EPHC products poorly, which may result in client withdrawals and reduced asset flows from these third parties or their clients.

Management

William Priest, CFA, CPA (Duke and Wharton) is co-founder, co-CIO, CEO, and a PM at Epoch. Along with Phil Clark, David Pearl and Tim Taussig (Epoch co-founders), Priest was a Co-Managing Partner and PM at Steinberg Priest & Sloane Capital Management, LLC for three years. Prior to joining Steinberg Priest, he was a Member of the Global Executive Committee of Credit Suisse Asset Management (CSAM), Chairman and CEO of Credit Suisse Asset Management Americas and CEO and PM of its predecessor firm BEA Associates, which he co-founded in 1972. During his 30 year tenure at BEA and CSAM, he developed the firm into a well-recognized investment manager with over $100B in AUM.



Ownership

% of Shares Held by Insiders:	41%
% of Shares Held by Institutional & Mutual Fund Owners:	47%

Source: Yahoo!

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Keeley Asset Management Corp.	2,655,920	11.98%
William Priest (CEO)	2,052,365	9.25%
General American Investors Co.	1,666,667	7.52%
Jeffrey Berenson (Member, Board of Directors)	1,661,963	7.49%
Keeley Small Cap Value Fund, Inc.	1,094,000	4.93%

Genoptix, Inc.
GXDX
Price: $31.05 (24.15-38.13)
Fiscal Year Ends: December 31

February 3, 2010 — Anne Mongoven and Mike Signore
Russell 2000 Index: $610.66 (342.57-649.15) — Healthcare Sector

Genoptix, Inc. is a specialized laboratory service provider focused on delivering personalized and comprehensive diagnostic services to community-based hematologists and oncologists (hem/oncs). GXDX's trained hematopathologists (hempaths) assess patient "cases" or blood samples to make decisions regarding treatment of malignancies of the blood and bone marrow and other forms of cancer. Approximately 60% of patient cases are bone marrow ($3M+ per case) and 40% are blood-based (~$100-$3M per case). Superior value-added services (COMPASS^{SM} and CHART$^{®}$) differentiates GXDX from its competitors and allow hempaths to determine appropriate action for hem/oncs. Incorporated in Delaware in January 1999, GXDX has a sales force covering 27 states and is headquartered in Carlsbad, CA.

Recommendation

The 2009 Deloitte Technology Fast 500 Report rated GXDX the 15th fastest growing technology firm in North America. The CDC notes that the aging American population has a longer life expectancy, and in turn, there exists an increased likelihood for people to receive cancer-related testing services. GXDX's commitment to personalized, differentiated service separates them from simple, individualized testing labs. Its major tools, COMPASS and CHART, allow hempaths to integrate testing results to provide a more comprehensive, detailed assessment of each patient's case, in turn providing physicians a better platform to base treatment decisions. An impressive growth trajectory, GXDX forecasts ~$235M revenue for 2010, up ~30% from prior year estimates. Revenues were up 58% from 3Q08 to 3Q09 and the number of cases increased 45% y/y for 3Q09. Efforts to broaden geographic coverage are ongoing as GXDX continues to add to its sales force, closing FY09 with 85 reps, with long term plans to grow to 120 within 2-3 years (expecting an average of $2.5M in annual revenue per rep). Based on a fundamental analysis, we are recommending GXDX for addition to the AIM Equity fund with a target price of $40.00, upside of 30% from its current market price. The firm does not pay a dividend.

Key Statistics	February 3, 2010
Market Cap	$532.97M
Shares Outstanding	17.165M
Ave. Volume (3 month)	197,933
Adjusted Beta	0.62
2008 EPS	$1.78
2009 Estimated EPS	$1.94
P/E (TTM)	19.41
PEG Ratio	0.73
WACC	7.98%
Price/Sales	3.09
ROE	28.14%
ROA	25.88%
Gross Margin	60.46%
Operating Margin	34.37%
Analyst Coverage	11
Target Price	$40.00

Source: Bloomberg

Investment Thesis

- **Favorable Trends.** The over 50+ age group is quickly becoming the majority of the U.S. population. Research shows cancer incidence rates more than double for this age category (280.8 to 551.5 per 100,000). Combining the incidence rate with improving survival rates and increasing life expectancy should result in the industry achieving above average growth in cancer testing (5% vs. GDP average of 3%). There exist ample opportunities for GXDX to grow from its ~7% market share.
- **Sector Valuation.** The diagnostics space returned approximately 30% on revenue in 2009 with GXDX underperforming (10%), even though the firm grew revenue over 50% and reported a

nearly 26% operating margin, one of the highest in the industry. Street analysts did not like the valuation this time last year; however, GXDX currently trades at 6.0x 2010 EV/EBITDA and 16.7 2010 P/E, a discount to virtually all of its peers (BRLI 8.0x EV/EBITDA and LH 7.3 EV/EBITDA). On a cash-adjusted basis, GXDX trades significantly lower than 16x 2010 P/E as well. Given the non-discretionary component of this sector, the recent turmoil in the markets, and GXDX's current valuation, it is an appropriate name from a portfolio standpoint.

- **Acquisition Target.** With no debt on its balance sheet and roughly $140M in cash ($8.30 per share), GXDX is an attractive acquisition target, especially given the niche markets it operates in. With a differentiated service offering and a highly efficient business model, GXDX has the potential to be accretive for a firm in a very short time period. GXDX's high margins are also appealing to bigger players with much lower current margins (LH operating margin of 20.8% and DGX operating margin 18.5%).

Valuation

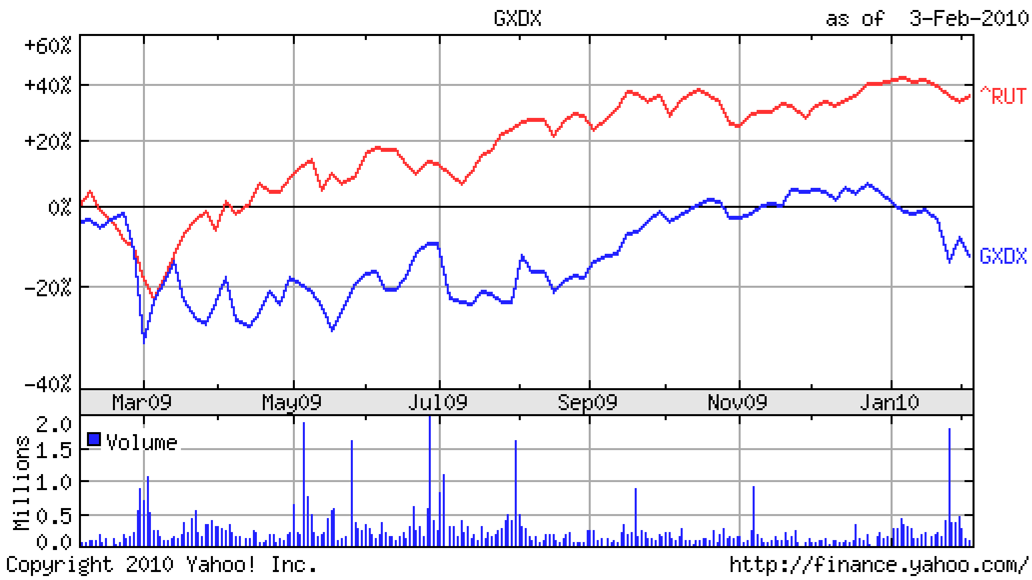
Based on a 10 year DCF analysis with a WACC of 7.98% and a terminal growth rate of 3%, an intrinsic value of $38.09 was obtained. The DCF assumes a 56.7% growth rate in 2009 based on management guidance from Q309 earnings call and 50% street estimate for 2010. A sensitivity analysis that adjusts both the long-term growth rate (2-4%) and the WACC (6.98-8.98%) generates a price range of $31.68-52.59. A P/E multiple approach, using a comparative P/E of 20x and a $1.94 2010 EPS estimate, yields a price of $38.80. With the stock currently trading at $31.05, the $40 price target would yield a 28.82% return.

Risks

- **Local Coverage Determination (LCD).** Palmetto, the Medicare Administrative Contractor for GXDX, has proposed a potential payment change that could adversely affect bottom line figures beginning May 2010. GXDX averages 25 flow makers per day (for flow cytometry work) and the LCD change could result in coverage for only 21 flow makers, forcing the firm to eat those costs or resubmit for edits on appeal under this rule, potentially stalling cash flows. 38% of GXDX Medicare reimbursement relates to flow cytometry, overall, affecting approximately 14% of revenue.
- **Private Pay Moving In-Network.** Roughly 50% GXDX revenue is derived from out-of-network patients, paying higher rates for GXDX services. As the firm grows at impressive levels, it is likely the larger out-of-contract insurers will move in-network, thus providing more services at a lower payment level. This could negatively impact margins and profitability going forward.
- **Competition.** Service and price pressures exist, along with consolidation, the overarching theme in the healthcare industry. A small player in a big market, GXDX competes against industry giants Genzyme Corp. (GENZ) and Laboratory Corp. (LH).

Management

Tina S. Nova, Ph.D. has served as President, CEO and member of the Board of Directors since March 2000. Dr. Nova has been involved in co-founding three life science companies, two of which went public, and one of which was acquired. She holds Board positions at Arena Pharmaceuticals, Inc. and Cypress Bioscience, Inc, both publicly held firms. Senior Vice President and Chief Financial Officer Douglas Schuling has been with the firm since April 1999. The executive management team has as average of more than 20 years of healthcare industry, financial or operational experience.



Ownership

% of Shares Held by Insiders:	6%
% of Shares Held by Institutional & Mutual Fund Owners:	>90%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Barclays Global Investors UK Holdings Ltd	1,229,973	7.17%
FMR LLC	1,021,536	5.95%
Next Century Growth Investors LLC	973,235	5.67%
Eagle Asset Management, Inc	881,928	5.14%
Oppenheimer Funds, Inc	867,686	5.05%

Source: Yahoo! Finance

Allete Inc.
ALE
Price: $30.78 ($23.35-35.29)
Fiscal Year Ends: December 31st

February 11th, 2010 — Michael O'Carroll
Russell 2000 Index: $589.35 ($342.59-649.15) — Utility Sector

Allete, Inc. provides energy services to customers in the upper Midwest and owns various real estate holdings in Florida, Minnesota, and North Dakota. The firm operates in two segments: regulated operations and investments. The regulated operations include utility providers Minnesota Power, and Superior Water, Light and Power Company, and a minority investment in American Transmission Company LLC. American Transmission Company is a Wisconsin-based utility that owns and maintains electric transmission assets in Wisconsin, Michigan, Minnesota, and Illinois. The investments segment is comprised primarily of BNI Coal which has coal mining operations in North Dakota, and Allete Properties, a real estate business with holdings in Florida and Minnesota. Allete is headquartered in Duluth, Minnesota and was founded in 1908.

Recommendation

Allete Inc. (ALE) is a well diversified utility that is expected to add shareholder value through increased capital expenditures ($1.3B expected from 2009 to 2013). ALE's filing for a retail rate request in Minnesota could add $81M annually to revenues and the firm newly purchased a transmission line to increase the capacity of wind energy it can provide to Minnesota consumers. An important source of revenue generation for the firm is its industrial customers which are engaged in the taconite, paper, pulp, wood products and pipeline industries. This segment should grow in 2010 as the economy expands. Approximately 60% of the ore consumed by integrated steel facilities in the United States originate from six taconite customers of Minnesota Power, which represented 64% of the total industrial sales in 2008. While there was decreased demand by industrials for electric energy throughout 2009 as a result of the recession, management recently stated in December that they expect load growth by industrial customers to increase by 445MW (27% of peak load) in 2010. Given the firm's strong hold on industrial consumers and a diversified consumer base located in Minnesota, Illinois, Michigan, and Wisconsin, ALE is expected to continue its dividend policy which has seen increased dividends since 2004 at a CAGR of 6.5%. Given the firm's diversified operations in commodities, real estate, and regulated utilities, it is recommended that Allete be added to the AIM Portfolio at a target price of $36.

Key Statistics	Feb. 11, 2010
Market Cap	$1.09B
Shares Outstanding	34.89M
Ave. Volume (3 month)	180.75k
Adjusted Beta	.65
EPS (TTM)	$2.11
2010 Estimated EPS	$2.16
P/E (TTM)	13.79
P/B	1.21
P/CF	6.21
PEG Ratio	2.08
Dividend Yield	5.62%
WACC	6.34%
Debt/Total Capital	41.37%
Debt/Equity	70.56%
ROE	7.72%
ROA	3.21%
Gross Margin	64.46%
Operating Margin	14.21%
Analyst Coverage	4
Target Price	$36.22

Source: Bloomberg

Investment Thesis

- **Transmission Expansion and Capital Expenditures.** Allete's earnings and cash flow growth should come from Minnesota Power until its real estate holdings generate earnings again. Minnesota Power's rate base growth will likely approach 10% over the next five years, mostly from environmental and renewable energy capital expenditures. ALE should expect to integrate biomass, hydroelectric, and wind energy into their portfolio to meet Minnesota's renewable portfolio standards.

- **Real Estate Portfolio.** Allete has three real estate developments in Florida worth $72.7M that are located in Palm Coast. The three assets provide the firm with 9,228 residential units and 10,345,000 square feet of non-residential property that can be sold. Pending land sales through 2010 are $5.6M and the nine month trailing real estate sales for September 2009 were 19 acres. Prior to the financial crisis ALE's land holdings were selling at a multiple of 3.3x BV. If a conservative multiple of 1.65x is used to properly evaluate the current market value of the real estate holdings this adds $3.44 to each common share.
- **Rebound in Industrial Demand.** Three industrial firms that require ALE electric energy are in the stages of adding necessary capacity to their businesses. Polymet Mining, Keewatin Taconite, and Steel Dynamics have begun to ramp up their mining procedures which should add 145MW of demand to the business. Management at Allete expects that non-ferrous mining, paper, pipeline, and steel related industries will add 300MW to demand**.**

Valuation

A 5-year DCF analysis using a calculated WACC of 6.34% and a terminal growth rate of 3.0% produced an intrinsic value of $36.22 for ALE. A sensitivity analysis adjusting the WACC (5.84%-6.84%) and terminal growth rate (2.5%-3.5%), produced a price range of $29.79-$41.67. On a relative basis, a15x multiple was applied to my 2010 EPS estimate of $2.22 which generated a $33.30 price target. Considering both valuation methods, a target price of $36 is appropriate, representing a 15% upside based on a market price of $31.30. ALE currently has a dividend of $1.72 (5.62% yield) which represents a payout ratio of 83%. Expectations on annual dividend increases can be around $.04-.06 per year going forward.

Risks

- **Periodic Equity Issuance.** Allete plans on funding all of its capital expenditure requirements through periodic issues of equity. Management stated that they would issue up to 5M shares as needed. If management engages in too much equity issuance it could dilute shareholder value. The purpose of the equity issuance program is to maintain credit quality and to comply with a regulatory capital structure to engage in new government supported capital expenditure programs.
- **Real Estate Markdowns.** Real estate is recorded at the lower of cost or fair value on Allete's books; with current expectations for real estate losses in 2009 of $5M. As of January economists expect housing values to fall another 12% in 2010 which could cause a decrease in earnings with a future write-down.
- **Purchased Power Agreements.** Allete's power supply consists of 30.90% in purchased power agreements. Under contract Allete has to pay a pro-rata share of the costs associated to produce the power purchased, therefore the firm is subject to volatile energy costs. Any volatile swing in energy prices for the firms ALE engages with in purchased power contracts could negatively impact earnings.

Management

Donald J. Shippar has been a Director since 2004 and has been Chairman of Allete since January 2006. Mr. Shippar was named President and Chief Executive Officer of Allete in 2004. Since joining the Company in 1976, Mr. Shippar has served as Vice President of Transmission and Distribution, Senior Vice President for Customer Service and Delivery, Chief Operating Officer of Minnesota Power, and President of Minnesota Power.

Ownership

% of Shares Held by Insiders:	1%
% of Shares Held by Institutional & Mutual Fund Owners:	55%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Barclays Global Investors UK	2,003,973	5.74%
Wells Fargo & Company	1,266,612	3.63%
Vanguard Group	1,256,795	3.60%
Morgan Stanley	972,218	2.79%
Security Investors	889,954	2.55%

Source: Bloomberg