Applied Investment Management (AIM) Program

AIM Class of 2011 Equity Fund Reports
Fall 2010

Date: September 17, 2010, *Location:* Timpani Capital Management

Presenter	Company	Ticker	Price	Page No.
Kristin Holzhauer	Clean Harbors, Inc.	CLH	$65.26	2
Peter Stucki	Constant Contact Inc.	CTCT	$20.35	5
April Qi	51 JOBS	JOBS	$28.98	8
David Hermanny	Suntech Power Holdings Co. Ltd.	STP	$9.10	11
Tom Molosky	Avista	AVA	$20.87	14
Andrew Freedman	Xyratex Ltd.	XRTX	$13.95	17

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

Clean Harbors, Inc. (CLH)

September 17, 2010

Kristin Holzhauer Industrial Materials

Clean Harbors, Inc. (NYSE: CLH) is a leading provider of environmental, energy, and industrial services throughout North America. Founded in 1980 in Massachusetts, CLH has grown to comprise over 175 waste management and incineration facilities, commercial landfills, and wastewater treatment and explosives management facilities. CLH serves numerous private entities, government agencies, and public firms (65% of the Fortune 500 use CLH services). At year-end 2009, the U.S. and Puerto Rican markets accounted for 73.3% of revenue, Canada accounted for 26.6%, and international, 0.1% (Mexico, Bulgaria, China, Singapore, Sweden, Thailand, UK). CLH operates in two customer markets: Environmental, and Energy and Industrial. The Environmental market includes Technical Services (55% revenues), primarily hazardous material management and disposal services, and Field Services (20% revenues), providing scheduled or emergency environmental cleanup. Industrial Services (23% revenues), such as chemical cleaning and material processing, and Exploration Services (3% revenues), catering to the energy sector, comprise the Energy and Industrial market.

Price ($): (9/10/10)	$ 65.83	Beta:	0.32
Price Target ($):	$ 77.77	WACC:	8.43%
52WK H-L ($):	52-72	L-Term Rev. Gr Rate Est:	6.00%
Market Cap (mil):	1,670.0B	L-Term EPS Gr Rate Est:	15.00%
Float (mil):	23.12	Debt/Equity:	45.47%
Short Interest (%):	8.70%	ROA:	3.19%
Avg. Daily Vol (mil):	0.308	ROE:	7.04%
Dividend ($):	N/A		
Yield (%):	N/A		

FY: Dec	2009A	2010E	2011E
Revenue (Mil):	1,074.22	1,637.04	1,555.19
% Growth:	4.22%	52.39%	-5.00%
Gross Margin:	29.86%	29.96%	30.00%
Operating Margin:	7.64%	11.44%	10.80%
EPS (Cal):	1.47	3.81	3.34
FCF/Share:	1.11	5.88	6.09
P/E (Cal):	18.86	20.93	23.88
EV/EBITDA	9.8x	8.3x	8.9x

Recommendation

CLH's leading position in the North American hazardous waste industry is fortified by high switching costs, an established $2B collection and disposal network, and limited near-term peer expansion due to lengthy permit approval and site preparation process (8-10 years in duration). As a result, the company enjoys 65% and 23% of domestic hazardous waste and landfill volumes, respectively. Through selective acquisitions, CLH continues to expand its network of service centers and treatment facilities, leveraging the proximity of these facilities to become more efficient. In 2Q10 CLH performed many activities supporting the containment and clean-up efforts in the Gulf of Mexico, accounting for over 20% ($109M) of quarterly revenues. This work came from BP, the U.S. Coast Guard, and five private companies. Management expects an additional $90M in 3Q revenue from Gulf Coast work, and will conduct incremental project work over the next 2-3 years given the extent of the spill. CLH should be able to maintain solid gross and operating margins by focusing on cost and pricing, and successfully integrating Eveready (2Q09, $300M) and Sturgeon & Son (2Q10, $14.8M), industrial maintenance and production companies in Canada and California, respectively. Because of these reasons and a favorable valuation, it is recommended that CLH be added to the AIM Equity Fund with a target price of $77.77, offering a potential upside of 18.1%.

Investment Thesis

- **Price Leverage.** Despite slower CPI growth, pricing continues to show positive Y/Y improvement, and remains the industry's key area of focus. CLH is likely to leverage its dominant market shares in incinerator and landfill capacities to achieve improved pricing between 3-5% in FY11. Marking the first material gain in three years, price growth primarily in Technical Services will be driven by increased spending from the chemical and manufacturing industries (33% of total revenue), new project work with engineering companies, and further consolidation of the incinerator and landfill markets.

- **Legacy Business Improvement.** Despite being occupied by the GOM spill, execution in CLH's base business continues to impress. Although most of 2Q10 revenue growth was driven by Gulf Coast contribution, legacy operations ex-spill were up over 10% due to a significant amount of routine maintenance work as customers picked up remedial maintenance spending after a weak 2009. Landfill volumes rose 17% Y/Y and incinerator utilization increased to 91% (+3% Y/Y) across North America, and are expected to remain at these elevated levels through FY11. Ongoing strength in the chemicals market (15% of total revenue), an estimated $15M of cost reductions through efficiency initiatives, and aggressive cross-selling efforts are likely to drive gross and operating margins past 30% and 11%, respectively.
- **Integration Progress.** Progress on the Eveready integration front during 1H10 has included fleet reallocation, enhanced IT systems, and the divesture of non-core assets totaling $14.1M. Over half of the estimated $15M in cost synergies is likely to hit the bottom line in 2H10, plus an additional $5M in FY11, pending headcount reduction and implementation of CLH's back-office operations. Highlighting management's confidence is the construction of a $25M maintenance facility in Alberta as a complement to the company's new Industrial Services presence in the region. Eveready has added nearly 80 locations to the company's geographic footprint. The recent acquisition of California's Sturgeon & Son in 2Q10 will enhance CLH's growing West Coast presence and add to its fleet of specialized transportation vehicles.

Valuation

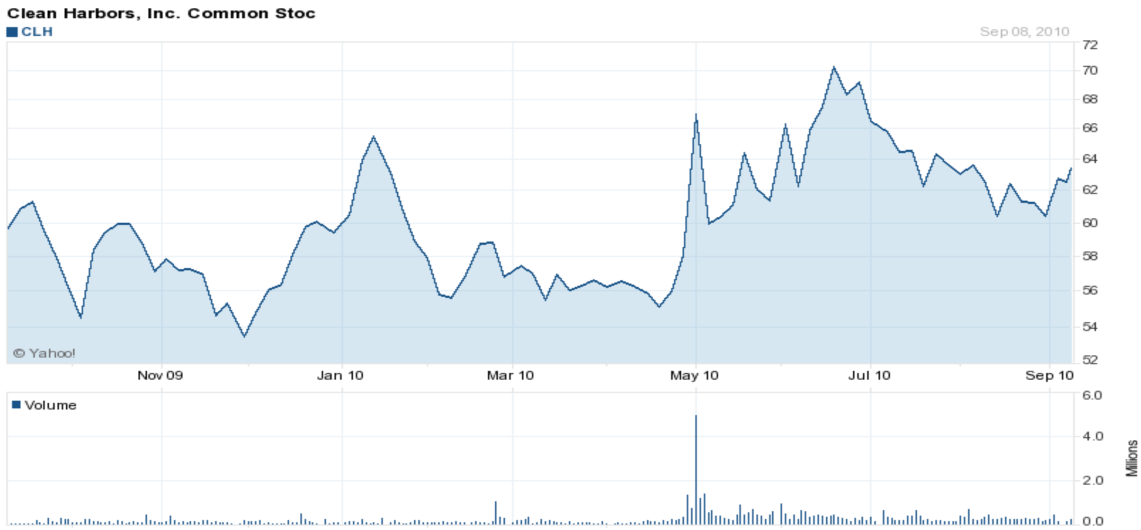
To find the intrinsic value of CLH, a five-year DCF was conducted. Sales growth rate estimates varied dramatically; as a result of Gulf work, FY10 growth is 52.39%, with FY11 at a much lower (-5.22%) due to weaker Y/Y comparisons. A conservative WACC of 8.43% was used and yielded an intrinsic value of $75.77. A P/E multiple approach was also used. With a historical P/E of 18.86, this method gives an intrinsic value of $79.77. Taking these into account equally, an established a price target of $77.77 was obtained, an 18.1% upside. The firm does not pay a dividend presently.

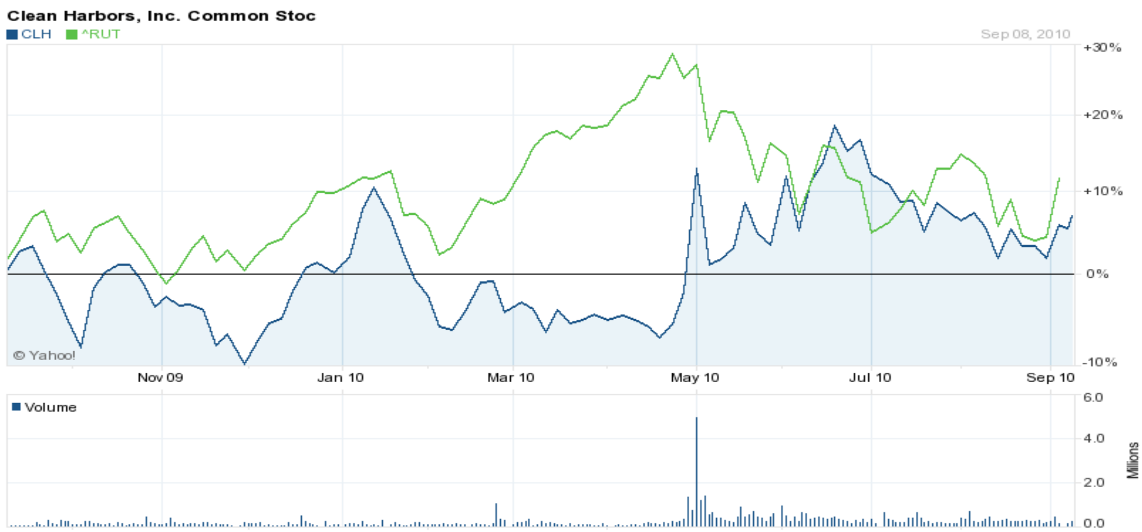
Risks

- **Environmental Liability Assumption.** Clean Harbors has completed 19 acquisitions since inception and at Y/E 2009 had accrued environmental liabilities of $181.3M. These liabilities consist of the expected expenditures necessary for maintenance of closed facilities and future costs for closure and post-closure of existing facilities. Substantially all of the $181.3M is in connection with the acquisitions of CSD and Teris, LLC 2002. Reassessed quarterly, 1H10 enjoyed a $3.9M net benefit, but the likelihood of future changes of these estimates is high, and the results will not always be favorable. CLH has a healthy $300M of cash on its balance sheet and a $120M untapped revolver to handle any adverse modifications.
- **Regulatory Changes.** The North American hazardous waste industry is highly regulated by environmental laws and is prone to litigation brought by governmental agencies and private parties. The Federal Clean Air Act Amendment alone has cost CLH $28.9M since 2002. Future regulatory changes, such as the pending American Clean Energy and Security Act of 2009, could affect operations by way of increased operating costs and higher capital expenditures.

Management

Chairman, President, and CEO Alan S. McKim founded Clean Harbors in 1980, and serves as director of most of the company's subsidiaries. Holding an MBA from Northwestern University, Mr. McKim has over 30 years experience in the environmental services business and is the largest shareholder of CLH. John R. Beals joined CLH in 2006 as Vice President, Corporate Controller, and Principal Accounting Officer. Mr. Beals has also worked for Deloitte & Touch, 3Com, and most recently, The First Years Inc., a leading developer in the juvenile industry where he served as Corporate Controller, CFO, and Senior VP of Finance for 19 years.





Ownership

% of Shares Held by All Insider and 5% Owners:	11%
% of Shares Held by Institutional & Mutual Fund Owners:	90%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Snyder Capital Management, LP	1,248,970	4.75
Times Square Capital Management	1,070,809	4.07
The TCW Group, Inc.	1,023,882	3.89
The Vanguard Group, Inc.	991,187	3.77
Bamco, Inc.	950,000	3.61

Source: Yahoo! Finance

Constant Contact, Inc. (CTCT)

September 17, 2010

Peter Stucki — Software

Constant Contact, Inc. (NASDAQ:CTCT) provides on-demand email marketing, event marketing, and survey solutions for small businesses, associations, and non-profits through on-line subscriptions. In terms of email marketing, its largest segment, CTCT supports and services customers' essential needs at any point in the process, whether through template creation and distribution assistance or through custom development of services needed from beginning to end. In 4Q09, CTCT introduced an event-managing product, which enables customers to promote, manage, and collect online payments. CTCT's client base consists of a wide range of business-to-business customers varying from law firms and accountants to recruiters and independent consultants. In obtaining new customers, CTCT uses eight different channels including: online advertising, channel partnerships, national radio advertising, limited television advertising, regional initiatives, referrals, print advertising, and general brand awareness. Each month CTCT's 390,000 plus subscribers from over 140 countries worldwide send over 1.9 billion emails. CTCT has steadily grown from 25,000 subscribers in 2004 to over 390,000 subscribers in 2010. In addition, CTCT has no specific customer concentration as their top 100 clients account for less than 1% of their revenues. CTCT was founded in 1995 and is headquartered in Waltham, MA.

Price ($) (8/27/10)	20.19	Beta:	0.835
Price Taget ($):	26.00	WACC	8.8%
52WK Range ($):	14.70 - 26.50	L-Term Rev. Gr Rate Est:	3.0%
Market Cap:	617.72M	L-Term EPS Gr Rate Est:	4.0%
Float	27.56M	Debt/Equity	0.0%
Short Interest (%):	35.8%	ROA:	-0.9%
Avg. Daily Vol:	271,845	ROE:	-1.8%
Dividend ($):	0.00		
Yield (%):	0.0%		

FY: Dec	2009A	2010E	2011E
Revenue (Mil)	129,061	176,814	235,162
% Growth	47.89%	37.00%	33.00%
Gross Margin	70.80%	70.00%	70.00%
Operating Margin	-1.37%	5.00%	5.00%
EPS (Cal)	-$0.70A	$0.30E	$0.33E
FCF/Share	-0.52	0.05	-0.08
P/E (Cal)	N/A	68.15	66.86
EV/EBITDA	75.4x	26.4x	24.2x

Recommendation

According to the U.S. Small Business Administration and the National Center of Charitable Statistics, there are over 31 million small businesses and non-profits in the U.S. Because this massive target market is attempting to reduce their marketing expenses and improve customer communication, CTCT is in an excellent position to service these needs through their email, event, social marketing, and survey products. CTCT's services are competitively priced with rates as low as $15 per month. As CTCT adds new segments to their business, the stage is set for a continuation of increased revenue per customer - which has already grown from $35.16 per month in 2Q09 to $37.01 in 2Q10. As the environment remains challenging for many small businesses and non-profits, the demand to maintain existing client relationships and expand membership is great. With renewal rates at a normative level of 97.5% over the past 2 years, CTCT's services are valued by its customers. Based on a target price of $26, offering a potential upside of 30%, it is recommended that CTCT be added to the AIM Equity Fund.

Investment Thesis

- **Cross-Selling.** Currently, the majority of CTCT's subscribers utilize their email marketing function. As growth progresses for CTCT, cross selling of their other products becomes an important driver. In terms of cross selling, a client can not only add features such as surveys or event marketing products to their daily use, but can choose other add-on products such as image hosting or email archiving for an additional $5 per month. For the most recent two-year period, revenue per client has increased by 9.8%. In addition, with CTCT adding new segments and add-ons each year, such as the event-marketing segment released in 4Q09, the options for client cross selling continues to increase.

- **Small Business Focus.** With over two-thirds of CTCT's clients having fewer than 10 employees, it is safe to say that small businesses are CTCT's core customers. In addition, a large part of their business involves competitive pricing and customer loyalty. Although CTCT's subscription can be as pricy $150 per month, 80% of their revenues come from the two lowest tiers, which are priced at an affordable and competitive $15 and $30 per month, respectively. Since these tiers are priced according to the amount of contacts in the clients' distribution list, and not per email sent out each month, small businesses are able to contact their clients and prospects more frequently regarding deals and new item releases. In addition to competitive prices, CTCT has been able to deliver 98% of their customers' emails through spam filters or controls to their targeted email inboxes since the company started. CTCT boasts strong customer satisfaction and low customer attrition rates as a result of these aspects**.**
- **Margin Enhancement.** CTCT has incurred high sales and marketing expenditures in the past in order to gain their large client base and to make their name known in the market. The firm expects to reduce marketing expenses in the future as a percentage of sales because of their success in achieving strong brand recognition and via word of mouth marketing, Therefore, operating margins will begin to show significant improvement over the next several years.

Valuation

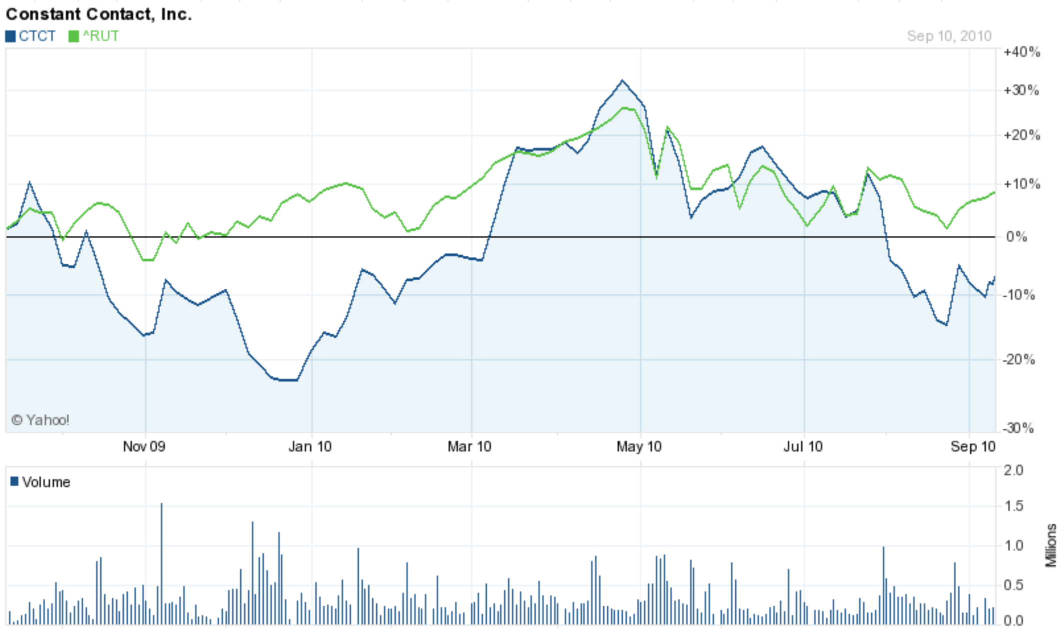
Using a ten-year DCF, a WACC of 8.8%, a terminal growth rate of 3%, produced an intrinsic value of $26. A sensitivity analysis with the terminal growth rate between 2-4% and WACC between 7.4-9.4%, resulted in a price range of $19-39 was determined. With a price target of $26, an upside potential of 30% is possible. Currently, the company does not pay a dividend.

Risks

- **Competition.** The email marketing, event marketing, and online survey business currently has low barriers to entry. CTCT is a close competitor with businesses such as Vertical Response, iContact Corp, A Weber Systems, Protus, Emma, The Rocket Science Group, and Vistaprint. CTCT is currently the leading email marketing company in its class and offers the most email templates to choose from and the lowest subscription rate compared to its direct competitors.
- **Spam Filters.** CTCT currently has a delivery success rate of 98%. This means that 98% of their customers' emails were delivered past any spam filters or controls to their target email boxes. Losing this relationship with spam filters could inherently hurt CTCT's business model and place one of their competitors as a market leader.
- **Regulation.** As Internet commerce becomes the prevalent way of communication, regulation by federal, state or foreign governments may inherently arise. This could adversely affect CTCT in that compliance costs could not be passed on to their customers as increased subscription fees. In addition federal, state and foreign government may begin to impose taxes on services provided over the Internet or via email, which could discourage these routes as a means of marketing.

Management

Gail Goodman, CTCT's Chairman, President, and CEO since 1999, has led the company to over 350,000 customers worldwide and has won numerous awards such as "Executive of the year" at the 2009 American Business Awards and the 2008 New England winner of the E&Y Entrepreneur of the Year. Harpreet Grewal serves as CTCT's EVP, CFO, and Treasurer since 2010. Although Grewal is fairly new, he has more than 20 years of broad based and financial leadership experience from companies such as PepsiCo, eGain Communications, GoldenSource Corporation, VistaPrint Limited, and TheLadders.com.



Ownership

% of Shares Held by All Insider and 5% Owners:	4%
% of Shares Held by Institutional & Mutual Fund Owners:	96%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Morgan Stanley	2,809,483	9.69%
Gail F Goodman	703,057	2.43%
Steven R Wasserman	195,264	0.67%
Eric S Groves	144,088	0.50%
Thomas C Howd	104,179	0.36%

Source: Yahoo! Finance

51JOB, Inc. (JOBS)
September 17, 2010

April Qi — International Business Services

Founded in 1998, 51Job (JOBS) is China's largest integrated human resource services provider, with market share of over 30%. Currently, the company provides services throughout China with offices in 25 major cities. JOBS receives a majority of its revenues in fees from employers for placing job advertisements in 51job Weekly, a city specific job postings periodical distributed in 19 cities and on its 51job.com website. JOBS receives fees from employers for accessing its online resume database and using its eHire products. Print advertisement and online services account for 34.2% and 40.8% of its revenue, respectively. JOBS also collects revenues from clients for performing other complementary HR services (25% of the revenues). JOBS serves as a one-stop solution for HR departments by providing campus recruiting, evaluating job candidates and existing employees, and aiding job placement. The firm also conducts business seminars, trainings, and workshops for clients. JOBS is headquartered in Shanghai, China.

Price ($): (09/14/10)	$28.70	Beta	0.89
Price Target ($)	$38	WACC	9.19%
52WK H-L ($)	$12.55-$30.30	L-Term Rev.Gr.Rate Est.	4.5%
Market Cap (mil)	792.87M	L-Term EPS.Gr.Rate Est.	4.5%
Float (mil)	7.22M	Debt/Equity	8%
Short Interest (%)	0.47%	ROA	7.80%
Avg. Daily Vol (mil)	129143	ROE	8.80%
Dividend ($)	N/A		
Yield (%)	N/A		

FY Sep	2009 A	2010 E	2011 E
Revenue (mil)	120	138	160
% Growth	-5%	15%	15%
Gross Margin	57%	56%	56%
Operating Margin	18%	22%	23%
EPS (Cal)	0.60	0.93	1.12
FCF/Share	0.56	1.17	1.35
P/E (Cal)	28.00	38.70	35.30
EV/EBITDA	23.52x	17.44x	17.64x

Recommendation

China has been one of the few bright spots in the global economy during the recent recession. With a wide range of services and nationwide exposure, JOBS has been able to capitalize on China's strong economic growth and increasing market demand for HR services. It recently posted record high Q2 revenue growth of 36% YOY and quarterly earnings growth of 161.40% YOY. Rural residents in China are still moving and seeking jobs in urban centers and traditional job seekers and employers are starting to adopt online recruiting methods. These ongoing trends have greatly helped JOBS achieve its biggest revenue growth in the online services, up 74% YOY to $20 million. As the No.1 services provider, 51Job was also able to tap into China's under-penetrated market for outsourcing and staffing services, capturing a 15% growth in its other HR services. As rapid economic growth and the hiring transition in China continues, JOBS is in position to grow its revenue continuously. Further, JOBS has managed to lower costs and improve operating margin from 14.6% to 25.9% YOY during Q2 2010, by leveraging its powerful economies of scale and the efficiency of its operating model. Recently qualified as a "high-end new technology enterprise" in December 2009, JOBS enjoys a large tax deduction from 25% to 15%. Additionally, JOBS has a strong balance sheet with no long-term debt. Because of these reasons and a favorable valuation, it is recommended that JOBS be added to the AIM International Equity Fund with a target price of $38, a potential upside of 32%.

Investment Thesis

- **Under-penetrated market spurs sustainable growth.** While newspaper job listings in the U.S. have largely migrated to online posting sites, this transition in China is just beginning. Employers who used to rely on job fairs and personal referrals are now starting to adopt the Internet as a new platform for hiring. Thus, China's market for online recruiting services remains under-penetrated. According to *China National Congress*, China has just formed its market allocation mechanism for human resources earlier this month. As the world's largest internet market with

800 million users, China's penetration rate will increase substantially (28%-55%) over the next 3 years. The trend of acceptance and adoption of online recruiting services should continue to drive JOBS' future revenue growth. With over 6 million college graduates entering the workforce every year and rising employment turnover rate (above 20% for some industries), the demand for JOBS services looks favorable.

- **Brand recognition.** JOBS has established itself as the industry leader and a household name in China. Most college graduates seeking employment have heard of or used 51Job.com. It is highly regarded by experienced professionals who look to switch jobs. Its lower pricing strategy and wide exposure continue to serve as a catalyst for obtaining new clients. Every customer receives customized services and offers cost saving of up to 20% compared to its competitors. JOBS differentiates itself by providing immediate and reliable customer service through reachable local service representatives and diligently cultivating business relationships to ensure customer loyalty. A special focus on entry-level recruiting, internship search, and senior executive search have also provided JOBS competitive advantages by reaching larger demographics.
- **Margin expansion.** JOBS' revenue has grown at a much faster pace than its operating expenses, which have remained relatively stable – and they currently incur no R&D expenses. Well established in China's major cities, JOBS will incur low capital spending and will be able to control its marketing expenses as it continues to grow its client base. Through leveraging economies of scale, including its mass print operation and customer service bases throughout China, the expectation of margin expansion is realistic.

Valuation

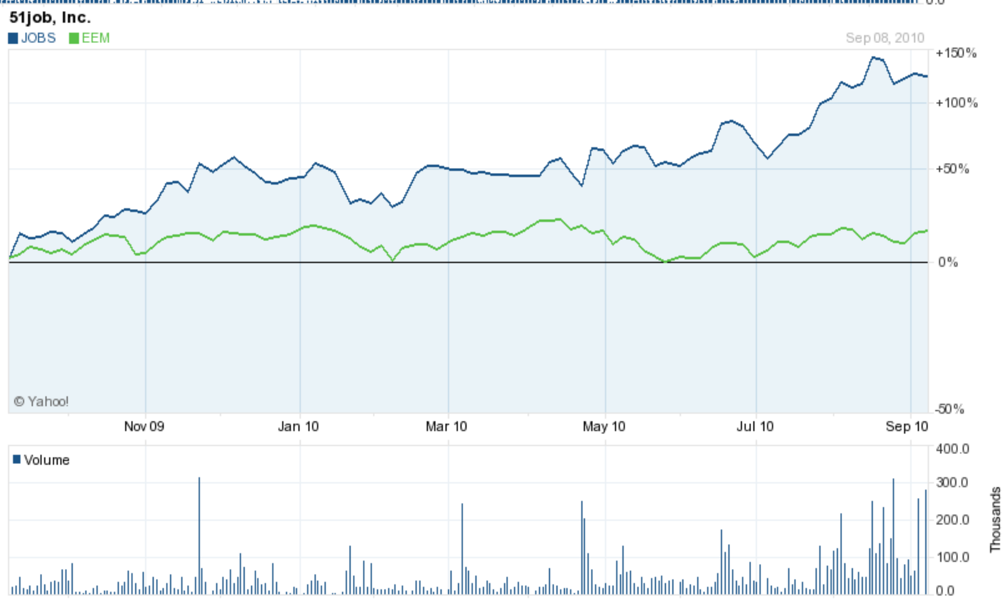
To derive the intrinsic value of JOBS, several valuation methods were utilized. A five-year DCF model was conducted, with a short term growth rate of 15% and long term growth rate of 4.5%. A computed WACC of 9.19% was used and yielded an intrinsic value of $39.45. JOBS is currently trading at TTM EPS $0.99 at trailing P/E of 28.7x, which is largely below the industry average of 77. Applying a 38.7x multiple on estimated 2010 EPS of $0.93 and 35.3x on estimated 2011 EPS of $1.12 yields an intrinsic value of $37.76.Taking these valuation methods into account, a conservative price target of $38 was established, offering an upside of more than 30%.

Risks

- **Potential slowdown of China's economy.** JOBS businesses are dependent on the overall market demand for hiring. Its revenue would likely be adversely affected by a decline in market demand resulting from the global economy crisis and potential slower growth of China. During Q1 2009 China's GDP growth rate slowed to a historically low 6.1%, which has hampered JOBS revenue growth in 2009. Although the RMB 4 trillion stimulus package announced at the end of 2008 has gradually spurred growth back to 8% in 2009, the economic environment remains uncertain.
- **Fierce competition.** JOBS' two major competitors, ChinaHR.com, owned by Monster.com and Zhaopin.com, owned by an Australian firm SEEK, have previously engaged in drastic marketing spending and price slashing to gain market share temporarily. Any abnormal market behaviors of its competitors without regulation would likely to put JOBS at a disadvantageous position.

Management

Mr. Rick Yan is the CEO and the President of the Company. Mr. Yan was widely acknowledged as an expert in consumer products and technology sectors. Prior to joining 51Job, Mr. Yan worked at Hewlett-Packard in Hong Kong and later served as a Director and Head of China Practice of Bain & Company. Ms. Kathleen Chien is the COO and CFO. She joined the company in 1999 and served as CFO from 2004 to March 2009. Ms. Chien has had various experiences in the management consulting and financial services industries.



Ownership

% of Shares Held by All Insider and 5% Owners:	26%
% of Shares Held by Institutional & Mutual Fund Owners:	17%

Source: Yahoo! Finance

Top 5 Shareholders

		Major Holder		
<u>Holder</u>			<u>Shares</u>	<u>% Out</u>
Wells Fargo & Company			1,154,014	4.18%
FMR LLC			617,084	2.23%
Munder Capital Management			332,359	1.20%
Runane Cunniff & Goldfarb Inc			282,604	1.02%
Wellington Management Company, LLP			276,560	1.00%

Source: Yahoo! Finance

Suntech Power Holdings Co. Ltd. (NYSE: STP)
September 17, 2010

David Hermanny International Energy

Suntech Power Holdings Co. Ltd (STP) is an alternative energy company whose principal activity is to design, develop, manufacture, and market various photovoltaic (solar panels), or PV, cells and modules. STP's products provide environmentally friendly and reliable electric power for residential, commercial, industrial, and public utility markets worldwide. Revenue broken down by geographic region in 2009 was as follows: Germany (41%), rest of Europe (33%), Asia (12%), North America (10%), and rest of world (4%). Its products are sold through distributors and system integrators, as well as end users such as project developers with a particular expertise in a specific geographic or applications market. The company produces the vast majority of its products in China, which gives the company access to skilled, low-cost labor. STP is headquartered in Wuxi, China.

Price ($) (9/10/10):	8.97	Beta:	2.18
Price Target ($):	$11.20	WACC	11.71%
52WK H-L ($):	7.53-18.87	LT Rev. Gr Rate Est:	10.0%
Market Cap (mil):	$1.61B	LT EPS Gr Rate Est:	9.5%
Float (mil):	126.3	Debt/Equity:	109.6%
Short Interest (%):	10.2%	ROA:	2.8%
Avg. Daily Vol (mil):	3.2	ROE:	7.5%
Dividend ($):	0.00		
Yield (%):	0.0%		

FY: Aug	2009A	2010E	2011E
Revenue ($Mil)	1,693.26	2,668.57	2,639.50
% Growth	-11.97%	57.60%	-1.09%
Gross Margin	20.00%	18.73%	17.40%
Operating Margin	10.27%	9.74%	8.72%
EPS ($Cal)	$0.53	$0.60	$0.78
FCF/Share	$1.30	-$1.62	$0.62
P/E (Cal)	17.07	14.84	11.55
EV/EBITDA	13.57	7.05	7.46

Recommendation

STP is a uniquely positioned company in an industry that is expected to see significant long-term growth due to the improving economics of production and cost, as well as clean energy initiatives. STP's superior product efficiency vs. its Chinese peers, and production cost advantage vs. European firms, provide it with a distinct competitive advantage in winning incremental business as the market for solar panels grows over time. Year-to-date, company specific concerns regarding price declines from German subsidy cuts and uncertainty on vertical integration plans have caused the stock to underperform. However, STP's superior technology, further cost improvement from vertical integration, and new project initiatives through the Global Solar Fund will all drive product adoption, margin expansion, and market penetration going forward. Furthermore, the stock is currently trading at 11.6x 2011E EPS, compared to 11x–14x range among STP's competitors, despite the fact that STP has historically traded at an industry premium. Based on a blended P/E and P/S valuation approach using multiples in line with historical averages of 14x EPS and 0.70x P/S, it is recommended that STP be added to the International AIM Equity fund with a target price of $11/share, representing about 18% upside to the current price of $9.02/share.

Investment Thesis

- **Superior Technology:** STP's superior product quality as measured by sunlight-to-energy conversion efficiency, allow the company to benefit from a 10% pricing premium versus its domestic peers, while their low-cost Chinese manufacturing capabilities ($/watt cost: $1.35 vs. 1.93 European average) allow it to sell modules at lower price points than European firms with comparably efficient modules. Furthermore, STP plans to gradually shift 25% of its production to its new Pluto technology, which boasts sunlight-to-energy conversion rates of up to 19% compared to 16-17% for conventional modules. The superior efficiency of Pluto modules garners a 15% price premium vs. conventional modules, which should allow STP to maintain or increase their pricing premium and partially counteract the impact of impending ASP declines from German subsidy cuts.
- **Vertical Integration:** STP's processing costs are $0.20/watt higher than fully-integrated firms in China, such as Yingli and Trina with average total processing costs of $1.10/watt vs. $1.35/watt

for STP. Management stated in August, without indicating specific timing, that in the near-term they intend to cut-out their extra processing cost by in-sourcing wafer production organically or via an acquisition. If STP successfully executes and brings down operating costs to a level on par with other Chinese players, then combines the cost savings with the pricing premium due their best-in-class technology, they will benefit from an expanded margin structure and be remarkably well positioned to gain market share.

- **Global Solar Fund:** STP owns an 85% interest in the $400m Global Solar Fund (GSF), which invests in private companies that own and develop solar projects. The company's strategy is to use the GSF to develop a steady stream of projects through which it can distribute its products and grow revenues. Revenue growth should materialize so long as profitable investment opportunities are available. STP so far has collected $28.1m from GSF projects, with an additional $100m in receivables slated for receipt in Q3.

Valuation

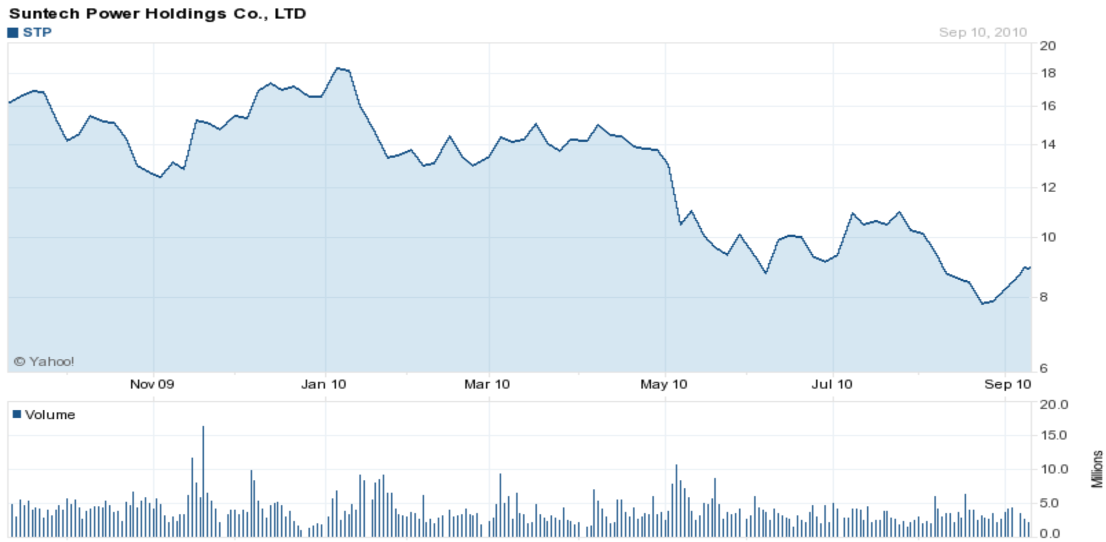
A target price of $11 was determined using a blended P/E and P/S multiples approach. Applying a 14x EPS multiple (11-15x competitor range) to 2011E earnings of $0.78/share ($0.81/ consensus mean) yields an intrinsic value of $10.80/share. STP's shares have historically traded at a premium earnings multiple due to their competitive advantages previously described. On a P/S basis, the stock is currently trading at 0.63x compared to a 5-yr average of 0.71x, and applying a 0.70x P/S multiple to 2011E sales/share yields an intrinsic value of $10.03/share. Applying respective weightings of 75% and 25% to 2011E P/E and P/S valuations yields an ~$11.00/share 2011E target price, implying an 18% upside to a current price of $9.02/share. Though not included in determining the target price, a spot-check DCF valuation with a computed WACC of 11.71% (8.63% country risk premium) and 3% terminal growth rate yields an intrinsic value of $12.50/share after subtracting out net debt/share of $1.48.

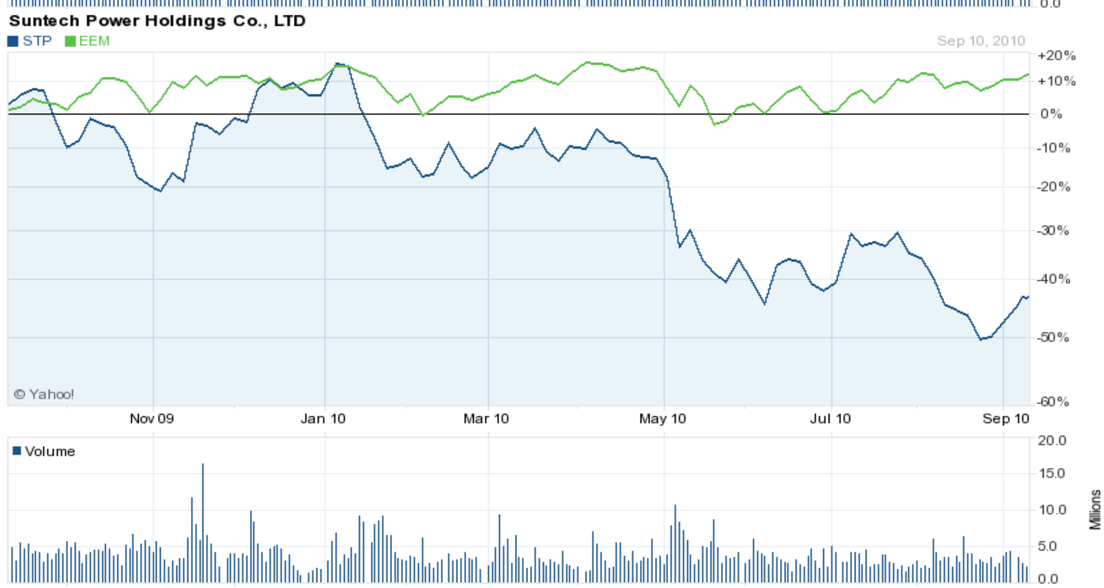
Risks

- **Reliance on Government Subsidies:** If governments reduce subsidies and economic incentives for solar energy use and solar panel production, demand for STP's products could have a significant negative impact on sales and revenue growth. German solar subsidy cuts in 2011, for example, will pressure module prices in Germany to $1.50/watt from $1.80/watt today. With Germany accounting for 40% of sales, this is the reason for flat 2011E revenues (-1.1% yoy) and compressing gross margins (18.7% to 17.4%).
- **Risks to Vertical Integration:** STP has does not have experience in integrating new manufacturing processes, and as a result, poor execution in the integration of new wafer manufacturing procedures could delay the time it takes them to achieve target cost reductions.
- **Foreign Exchange Risk: S**ales priced in euros account for 75% of total sales, while manufacture costs are denominated primarily in renminbi, as well as a small portion in USD. As such, a weaker euro or stronger renminbi would negatively impact revenue and thus overall profitability since the company lacks a natural hedge that would exist if it manufactured more of its products in Europe. A negative exchange rate impact could come about from further deterioration in EU member countries' fiscal health or Chinese government allowance of renminbi appreciation.

Management

STP's CEO and Chairman of the Board, Dr. Zhengrong Shi, founded STP in 2001 after serving as research and executive director of Pacific Solar. Before that, Dr. Shi led the thin-film solar research group at the University of New South Wales. Amy Yi Zhang, CFO, has served in her current capacity with the company since 2005. Zhang was previously CFO of Deloitte China and CFO/controller of Atos Origin Chino. Company CTO, Dr. Stuart Wenham, has been with the company since 2005 as well. Prior to joining STP as CTO, Dr. Wenham held senior roles at Pacific Solar and the School for Photovoltaic Engineering (University of New South Wales). Dr. Wenham won the Australia Prize for Energy Science and Technology in 1999.





Ownership

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

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% O/S
Janus Capital Management, LLC	5,229,875	2.90
Schroder Investment Management Group	4,405,800	2.45
Capital International, Inc.	3,808,900	2.11
Norges Bank Investment Management	2,940,197	1.63
Hamon Investment Group Pte. Ltd.	2,595,511	1.44

Source: Yahoo! Finance

Avista (AVA)
September 17, 2010

Tom Molosky Utilities

Avista Corporation (NYSE: AVA) is an energy company focused mainly on regulated electrical generation, transmission, and distribution, as well as natural gas distribution. AVA operates mainly in Idaho, Oregon, and Washington. AVA is made up of three business segments: Avista Utilities, Advantage IQ, and Other. Avista Utilities (92.4% of revenues) is the electricity supplier to 355,000 customers and the natural gas provider to 314,000 customers. The other significant division for AVA is Advantage IQ (5% of revenues), which specializes in energy expense and management solutions for its customers. AVA's regulated energy activities accounted for 97.4% of operating income in fiscal year 2009, while Advantage IQ accounted for 5.8% of operating income – the other business operations accounted for -3.2% of operating income. Founded in 1889, AVA is headquartered in Spokane, Washington.

Price ($): (9/13/10)	20.87	Beta:	0.775	FY: Aug	2009A	2010E	2011E
Price Target ($):	24.50	WACC	5.78%	Revenue (Mil)	1,520.00	1,572.48	1,635.38
52WK H-L ($):	22-18	L-Term Rev. Gr Rate Est:	4.00%	% Growth	4.00%	3.45%	4.00%
Market Cap (mil):	1,154.76	L-Term EPS Gr Rate Est:	4.00%	Gross Margin	18.33%	18.58%	15.82%
Float (mil):	54.71	Debt/Equity:	54.29%	Operating Margin	13.27%	13.16%	13.35%
Short Interest (%):	5.00%	ROA:	3.66%	EPS (Cal)	1.58	1.60	1.78
Avg. Daily Vol (T):	327,348	ROE:	7.98%	FCF/Share	$0.78	$0.35	$0.44
Dividend ($):	1.00			P/E (Cal)	13.80	14.00	14.50
Yield (%):	4.79%			EV/EBITDA	8.15x	7.58x	6.93x

Recommendation

AVA has been proactive in the current economic environment by continuing to invest in its infrastructure; spending $630M over the last three years. Along with investments in infrastructure, Avista has been focusing on improving shareholder value through strategic acquisitions, seeking rate increases, and exploring the use of new technology. Strategic acquisitions have been made by Advantage IQ which acquired Ecos Consulting for $8.9M and Cadence Network for $37M, which added $34M in assets and $30M in revenue over the past two years. AVA recently resolved two rate cases favorably; one case in Washington will increase revenue by $12.6M and the other rate case in Idaho will increase revenues by $23M. AVA has been active in the research of new technology and was most recently named as a partner in the government's study of smart circuits, which included $20M in stimulus funds for AVA. Avista's low price to book ratio of 1.06, as compared to the peer average of 1.71, also helps strengthen the case that AVA is relatively undervalued. When examined on a P/E ratio basis, AVA's P/E of 13.3 indicates that it is a bargain compared to the industry's average of 14.5. Because of favorable valuation metrics, realizable strategic acquisitions, increased revenues afforded by favorable rate case decisions, and an attractive dividend yield of 4.79%, it is recommended that AVA be added to the AIM Equity Fund with a target price of $26 - a 25% upside.

Investment Thesis

- **Reliable value growth.** AVA has steadily increased its net income over the past three years from $38.48M in 2007 to $87.07M in 2009, a 126% increase. This trend has been made possible by their commitment to increasing profitability. AVA has been able to cut operating expenses from 90.07% of gross income in 2007 to 86.73% in 2009. AVA has also maintained or increased the dividend for 24 straight quarters; including a 19% increase during 2010, which pushed the dividend payout rate to 62.5%. This payout, along with the proven track record of continuous dividend increases, highlights their commitment to maximizing shareholder value. AVA has also been able to grow revenues using rate cases. A 5.7% rate increase in Idaho increased revenues by $12.5M, and a 2.8% rate increase in Washington increased revenues by $12.1M.

- **Capital Expenditures.** AVA has been consistently updating and maintaining their property, plant and equipment (PPE). AVA has spent over $630M on PPE in the past three years and plans to spend an additional $210M per year for the next three years (13.8% of revenues). This is favorable to the peer group PPE spending average of 10.8% of revenues. The total PPE spending will go towards increasing the firm's distribution lines throughout the state of Idaho, Oregon, and Washington. Through continued spending on PPE, AVA has the ability to grow its rate base by 5 to 7% annually by gaining new customers from municipalities that can no longer maintain their utilities capacity under current infrastructure.
- **Advantage IQ.** Advantage IQ has seen a large increase in demand for its services. They have added 129 customers from 2007-2009, a 32% rise. This increase in customers has been accretive to AVA's revenue base. Advantage IQ's operating revenues increased year over year from $59M to $77M, a 30.5% increase – which is mainly attributive to the acquisition of Ecos and Cadence for a combined $45.9M. Management has also announced their intention to sell or IPO Advantage IQ within the next three years, and while no official financial measurement has been released, management believes that it will be highly accretive.

Valuation

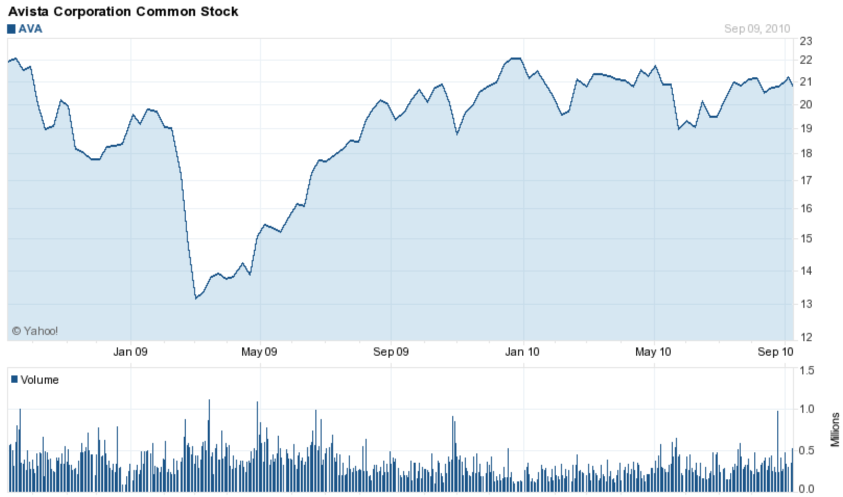
To find the intrinsic value of AVA, a five-year DCF was conducted. Sales growth rates were kept nearly steady and in line with management's estimates for 2010 and 2011 of 4%, and stable sales thereafter of 2.75%. Using a conservative WACC of 5.78% and a terminal growth rate of 3.00%, resulted in an intrinsic value of $27.67. Implementing a sensitivity analysis accounting for variations in the WACC (4.78-6.78%) and long-term growth rate (1.75-3.75%) resulted in a price range of $23 to $30. Using a P/E multiples approach of 14X earnings, a $25 target was obtained. These valuation approaches, combined with an attractive dividend yield of 4.79%, resulted in a price target of $24.50.

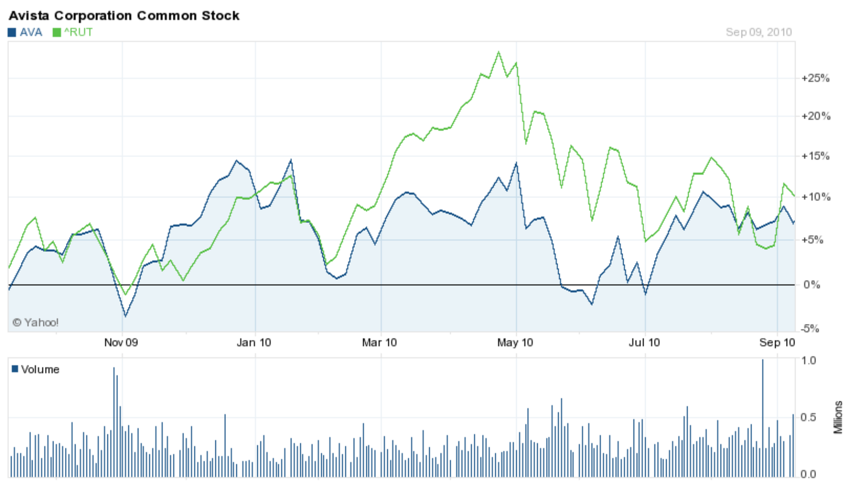
Risks

- **Weather.** A significant portion of AVA's revenues are dependent on weather factors. With such dependence on variable factors, AVA is susceptible to fairly significant changes in revenues. From 2008 to 2009 revenues dropped 10% because of detrimental hydro conditions. This can make some of their revenues impossible to predict. Retail natural gas also decreased in 2009, with revenues falling by $6.1M because of warmer weather.
- **Stagnant Economic Conditions.** AVA is located in an area of the country with higher than average unemployment and foreclosure rates. From 2008 to 2009 the national average decline in employment was 3%; while areas of service for AVA experienced up to a 4.6% contraction in employment. Overall unemployment peaked at a 10% average nationally, while some areas of service have seen 11.7% unemployment. Finally, the foreclosure rate was up to 3.1% in one service area which was significantly high than the national average of 2.2%. With such economic conditions comes the decision by many to decrease consumption. If such economic conditions continue to influence customer's behavior in this way, it could negatively impact AVA's revenues.
- **Unfavorable Rate Case Decisions.** There is always the chance that AVA will not achieve the success needed in a rate case hearing to justify the spending on capital expenditures. If this were to happen, AVA revenues could sustain substantial damage. Services provided to that rate case area would become even less profitable and AVA may need to wait up to 12 months before filing a new rate case and/or have a hearing.

Management

Scott L. Morris has been the CEO of Avista Corporation since 2008. He also serves as Chairman of the board of directors and President. He has been working for Avista in numerous positions since 1981. He holds a Masters from Gonzaga.





Ownership

% of Shares Held by All Insider and 5% Owners:	0.57%
% of Shares Held by Institutional & Mutual Fund Owners:	71.7%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Vanguard Group Inc.	2,851,843	5.15
Blackrock Fund Advisors	2,500,726	4.52
LSV Asset Management	1,948,687	3.52
Allianz Global Investors of America L.P.	1,835,900	3.32
River Road Asset Management, LLC	1,708,580	3.09

Source: Yahoo! Finance

Xyratex Ltd. (XRTX)
September 17, 2010

Andrew Freedman — Domestic Hardware

Xyratex Ltd. (XRTX) is a provider of modular enterprise-class data storage solutions and storage process technology. It designs, develops and manufactures technology that provides its customers with a variety of products to support data storage and data communication networks. Xyratex operates in two business segments: Networked Storage Solutions (75% of revenue) and Storage Infrastructure (25%). Its subsidiaries include Xyratex Technology Limited, Xyratex Holdings Inc., Xyratex International Inc. and Xyratex (Malaysia) Sdn Bhd. As of the most recent quarter, Xyratex Ltd. has placed orders with four of the world's top Midrange Enterprise Storage providers. Major customers include Dell, IBM, NetApp, Seagate and Western Digital. XRTX began as part of IBM in 1966 as a manufacturing and development operation until 2004, at which time Xyratex separated from IBM in a management buy-out. Xyratex is incorporated under the laws of Bermuda with principal executive offices located in the UK.

				FY: Aug	2009A	2010E	2011E
Price ($): (9/14/10)	$13.85	Beta:	2.01	Revenue ($Mil)	867.89	1,490.24	1,378.01
Price Target ($):	22.81	WACC	13.45%	% Growth	-17.32%	71.71%	-7.53%
52WK H-L ($):	6.09-20.45	L-Term Rev. Gr Rate Est:	4%	Gross Margin	14.54%	20.72%	20.28%
Market Cap (mil):	335.3	L-Term EPS Gr Rate Est:	3%	Operating Margin	-0.15%	10.72%	9.53%
Float (mil):	29.43	Debt/Equity:	0.0%	Pro-Forma EPS ($Cal)	-0.19	4.92	3.94
Short Interest (%):	2.8%	ROA:	25.8%	FCF/Share	$ 1.00	$ 2.54	$ 1.23
Avg. Daily Vol (tho):	701.45	ROE:	25.8%	P/E (Cal)	NEG	3.66	5.84
Dividend ($):	0.00						

Recommendation

Xyratex Ltd. is the leading original equipment manufacturer (OEM) of networked storage devices and storage infrastructure with sales representing 25% of the total storage market. Through its unique and deep understanding of the storage market, Xyratex has established a consistent track record of growth with a ten-year revenue and net income CAGR of 27% and 84%, respectively. 2Q10 revenue was $455M, up 134% y/y and up 42.9% sequentially as Xyratex continues to realize broad based customer strength in both of its operating segments. Further, with 50% of operating expenses in British pounds, XRTX will continue to benefit from any further decline in the British pound versus the USD. Outside the company, the hard disk drive industry is experiencing slowing areal density growth which should result in longer testing periods for hard disk drives and higher component counts. Both of these implications benefit XRTXs Storage Infrastructure channel. Major customers include the top providers of Midrange Enterprise Storage including Dell, IBM, NetApp, Seagate and Western Digital. In 2Q10, Xyratex formally announced that it has won Hitachi as a customer for XRTXs "back-end" database testing, demonstrating stronger demand for XRTXs services. Working capital through the 2H10 is expected to be flat in order to grow the firm's cash position to an estimated $130M, up 150% y/y. This falls in line with management's intentions to improve liquidity and provide the necessary capital for future expansion. Due to a broad based increase in demand and deep value, it is recommended that Xyratex Ltd. be added to the AIM Equity fund with a target price of $22.81, yielding a potential return of 63%.

Investment Thesis

- **Growth in Data Generation and Storage.** IDC research estimates the pace of data generation to grow at a CAGR of 50% over the next four years. This growth is driven by digital archiving, regulatory demands, business continuity and US stimulus actions including the rollout of electronic health records for all Americans by 2014. As of 2Q10, Xyratex is shipping storage capacity of 3,397 petabytes (PB) representing growth of 59% y/y and 15.2% of worldwide external storage. Digital content demand and storage systems capacity is expected to increase to 907,000 PB and 54,480, respectively by 2013, up from 196,000 PB and 11,491 PB, respectively in 4Q09. XRTXs customers continue to install incremental production capacity to match end user demand and late substrate supply, strongly benefiting the SI channel which is on pace to grow 121% y/y.

- **Hard Disk Drive (HDD) Market Growth and Increased CapEx.** According to TrendFocus, digital content and HDD demand is expected to growth at a CAGR of 54% and 12%, respectively through 2014. The steady demand for hard drives is fueled by the high growth of digital content and enabled by continual technological improvements in areal density. 2Q10 marked a 97.8% sequential increase in capital spending across Xyratex's customer base with the company capturing approximately $58 to $70 million of CapEx spending by Seagate and Western Digital so far this year. Substantial capital spending is expected to continue through the 1H11.
- **Hitachi Contract Win.** During 2Q10 Xyratex completed a competitive technical benchmark by Hitachi Global Storage Technology (HGST), in which XRTX was awarded HGST's back-end test business. Xyratex expects approximately $10M of revenue from HGST in the 2H10; however management believes that "over time the relationship can grow to be quite meaningful". Over the next three years, it is expected that this relationship can grow to 50% of each Seagate and Western Digital, adding 5-10% to overall SI revenue growth. This new business is characterized by 30% gross margins which is twice that of current margin levels.

Valuation

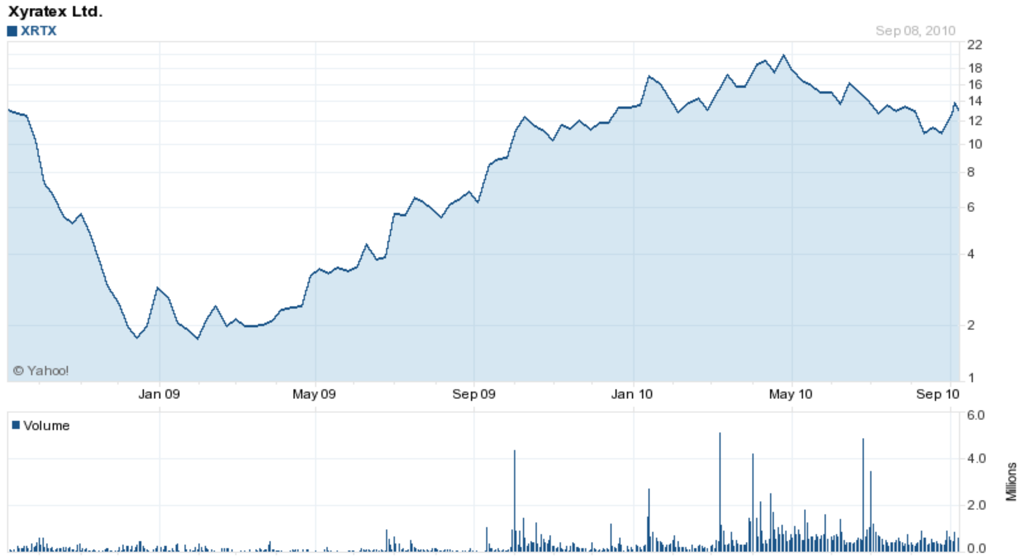
Based on a 5-year DCF analysis with a computed WACC of 13.45% and a terminal growth rate of 3%, an intrinsic value of $27.16 was obtained for XRTX. A sensitivity analysis that adjusts the long-term growth rate (1-5%) and WACC (11-16%) generated a price range of $21.83-$40.79. Additionally, a historical EV/EBITDA multiple of 2x and 4x were used to calculate a price range of $18.41-$21.86. XRTX is currently trading at 5x TTM EPS of $2.62 which is a substantial discount to the industry average of 18.00x and with pro-forma 2011 EPS estimates of $3.94 suggests a fair value of $19.39. Applying an equal weighting to all three valuation methods provides a target price of $22.81. With the stock currently trading around $14.00, the $22.81 price target would yield a 63% return.

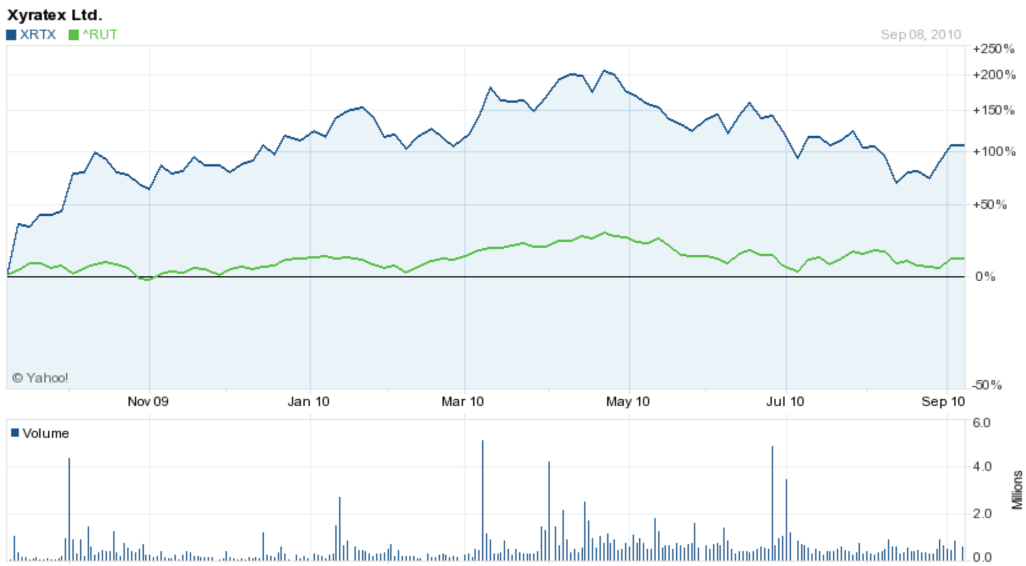
Risks

- **Single Source Suppliers.** Some of the components that are integrated into XRTXs products are highly specialized and may only be available from a single source or a limited number of semi-conductor suppliers. Xyratex Ltd. currently depends solely on Flextronics International Ltd for the provision of electronic printed circuit board assemblies. This reliance reduces management's control over the manufacturing process and exposes the firm to risk associated with quality assurance, increased production costs and reduced product supply.
- **Cyclical Nature of Market.** Customer demand is cyclical in the technology industry in general, and the disk drive production equipment market in particular. The largest contributor to this variability of demand is that the decision to invest in new or upgraded production facilities is strategic and involves a significant commitment of XRTXs customer's financial resources.
- **Reliance on Major Customers.** In 2009, NetApp, Dell, IBM, Seagate Technology, Western Digital and Data Domain accounted for 87% of total revenues with sales to NetApp and Dell accounting for 48% and 15%, respectively. Any loss of, or significant decline in expected sales will be detrimental to XRTXs ability to grow revenue.

Management

Steve Barber is the CEO of XRTX and a member of the Board of Directors. Mr. Barber has served as CEO of Xyratex Ltd and its predecessor companies since February 2003, having previously served as President from March 2002 and as Director of business Development from October 2000. Prior to assuming these positions, Mr. Barber led the development of the companies warranty and repair business from a small U.K based company to a global business with operations in Europe, the United States and Southeast Asia. Richard Pearce is the CFO and is also a member of the Board of Directors. Mr. Pearce has served as CFO of Xyratex Ltd. since September 2003 and previously served as Treasurer and as Group Tax Manager following the management buy-out from IBM in 1994.





Ownership

% of Shares Held by All Insider and 5% Owners:	2.78%
% of Shares Held by Institutional & Mutual Fund Owners:	81.84%

Source: Reuters

Top 5 Shareholders as of June 30, 20010

Holder	Shares	% Out
Fidelity Management & Research	2,950,890	9.75
T. Rowe Price Associates, Inc.	1,939,500	6.41
Lee Munder Capital Group LLC	1,324,155	4.38
Royce & Associates, LLC	1,271,437	4.20
BlackRock Institutional Trust Company	1,103,215	3.65

Source: Reuters