Applied Investment Management (AIM) Program

AIM Fund Investment Advisory Board Meeting
Raynor Library Conference Center (Lower Level)

Wednesday, April 22, 2009

Session 1 Equity Presentations: 4:00 pm – 5:45 pm
(Equity Write-ups below)

Session 2 Equity Presentations: 6:00 pm – 8:00 pm

AIM Equity Fund Presentations

Student Presenter	Company Name	Ticker	Price	Page No.
Amy Klemme	PetMed Express Inc.	PETS	$15.55	2
Michael Klenn	iRobot Corporation	IRBT	$8.38	5
Robert Mitchell	Hittite Microwave Corporation	HITI	$32.80	8
Michael Rice	Tower Group Companies	TWGP	$25.12	11
Sarah Clasing	Novartis AG (ADS)	NVS	$37.30	14
Sarah Finneran	Canadian Natural Resources	CNQ	$45.91	17
Tiffany Roberts	Rollins, Inc.	ROL	$17.59	20
Daniel Knight	Penn Virginia Corporation	PVA	$12.87	23
Josue Lopez	L.B. Foster Company	FSTR	$27.56	26
Anne Mongoven	Owens & Minor, Inc	OMI	$36.08	29

PetMed Express Inc.
PETS
Price: $15.55 ($10.90-19.03)
Fiscal Year Ends: March 31

April 15, 2009
Russell 2000 Index: 461.13 (342.59-764.38)

Amy Klemme
Consumer Services Sector

Founded in 1996, PetMed Express Inc. is America's leading online pet pharmacy that specializes in prescription and non-prescription pet medications (30% and 69% of revenues, respectively), and other health and nutritional products for dogs, cats, and horses. The company markets its products through television, online, and direct mail. PETS provides customers with attractive alternative methods of obtaining pet medications by delivering their product direct to the consumer and capitalizing on their ability to compete on convenience, price, and speed of delivery. PETS' brand recognition has increased through advertising and the promotion of the 1-800-PetMeds trade name. PetMed Express Inc. is headquartered in Pompano Beach, Florida and engages in the sale and distribution of pet pharmaceuticals in all fifty states.

Recommendation

PETS is America's largest online pet pharmacy, and they have no major direct on-line competitors. PETS' strong brand recognition and competitive pricing and advertising strategies will add to the sustainability of its top line growth (16% YoY in 2008) and bottom line growth (39% YoY in 2008) in the foreseeable future. With consumers increasingly looking for more cost effective and convenient ways to obtain pet medications, PETS is well positioned to effectively combat the current macroeconomic headwinds. PETS' strong price advantage; consistently charging 15-20% below veterinarians and their brick-and-mortar competitors, will continue to help the company's profitability and growth. PETS' strong revenue growth (averaging 19% YoY) over the past four years is driven by management's ability to maintain operating expenses and obtain new customers at lower costs (down 5% from FYE2007). Considering the company's strong revenue growth, fundamentals, and strong management, a target price of $22.00 was established. It is recommended that PETS is added to the AIM Equity Portfolio, providing a potential upside of 41%.

Key Statistics	Apr.15, 2009
Market Cap	$368.71M
Shares Outstanding	23.334M
Avg. Volume (3 month)	576,580
Adjusted Beta	.65
EPS (TTM)	$.94
2009 Estimated EPS	$.97
P/E (TTM)	16.54
PEG Ratio	1.05
WACC	7.99%
Debt/Assets	0%
ROE	33.13%
ROA	29.73%
Gross Margin	39.41%
Operating Margin	14.86%
Net Margin	10.63%
Dividend Yield	N/A
Analyst Coverage	10
Target Price	$22.00

Source: Bloomberg

Investment Thesis

- **Attractive Growth and Expansion Opportunities.** PetMed Express differentiates itself by competing on convenience and cost savings, allowing them to gain market share. Online pet pharmacies have been increasing their market share, from 7 to 11% in the past two years due to their ability to offer cost savings of 15 to 20%. Despite broader macroeconomic issues, management is confident that they will be able to continue to sustain reduction in operating expenses as well as the acquisition cost of each new costumer due to declining advertising costs.
- **Efficient Low-Cost Operating Structure**. PETS is able to provide its customers with a 15 to 20% discount on products due to management's ability to reduce operating expenses and control overhead. The company's online structure allows PETS to have much lower fixed costs than

brick-and-mortar competitors, such as PetSmart. Especially at a time when consumers are facing reduced discretionary income, price advantages are essential in obtaining and maintaining PETS' customers.

- **"1-800-PetMeds" Brand.** Management's selection of the 1-800-PetMeds trade name has allowed PETS to grow its market share. PETS' brand recognition is viable due to its $100 million investment in advertising over the past five years.
- **Strong Balance Sheet.** As of Q3 2009, PETS had over $27.2 million in cash and no debt**.** Considering the nature of the business, this gives PETS a strong competitive advantage in difficult economic times**.**

Valuation

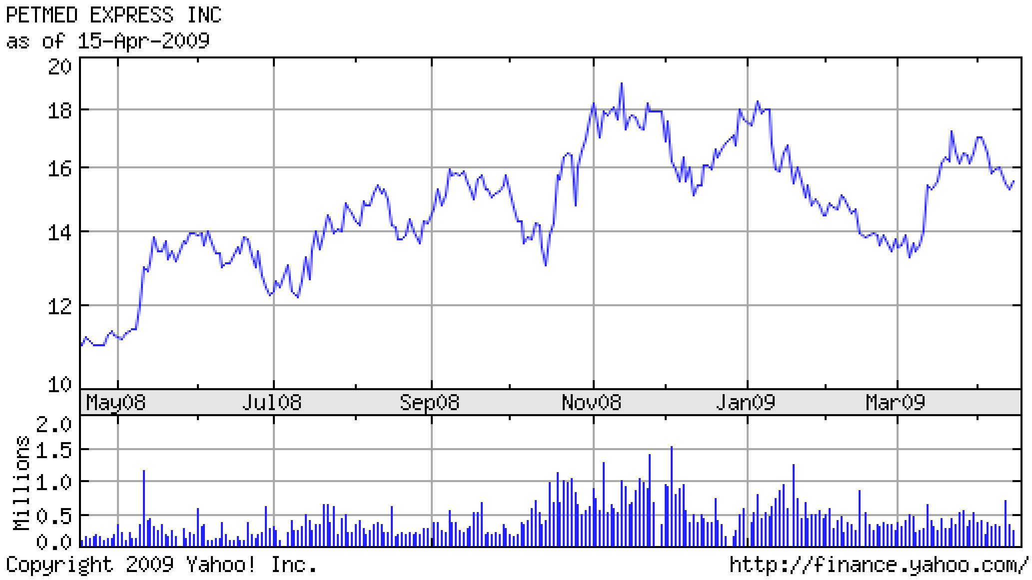
PETS is currently trading at 16.54x TTM EPS of $.94 and its three year historical range is 13.78-35.54x. An average of 19.38x was applied to expected 2009 EPS of $0.97 and yields a value of $18.80. Based on a 10 year DCF analysis with a computed WACC of 7.99% and a terminal growth rate of 3%, an intrinsic value of $23.70 was obtained for PETS. A sensitivity analysis adjusting for assumptions in long-term growth rate (2-4%) and the WACC (7.00-9.00%) generates a price range of $17.48-$38.00. Coupling the P/E and DCF approaches, a target price of $22 was established, providing a potential upside of 41.48%.

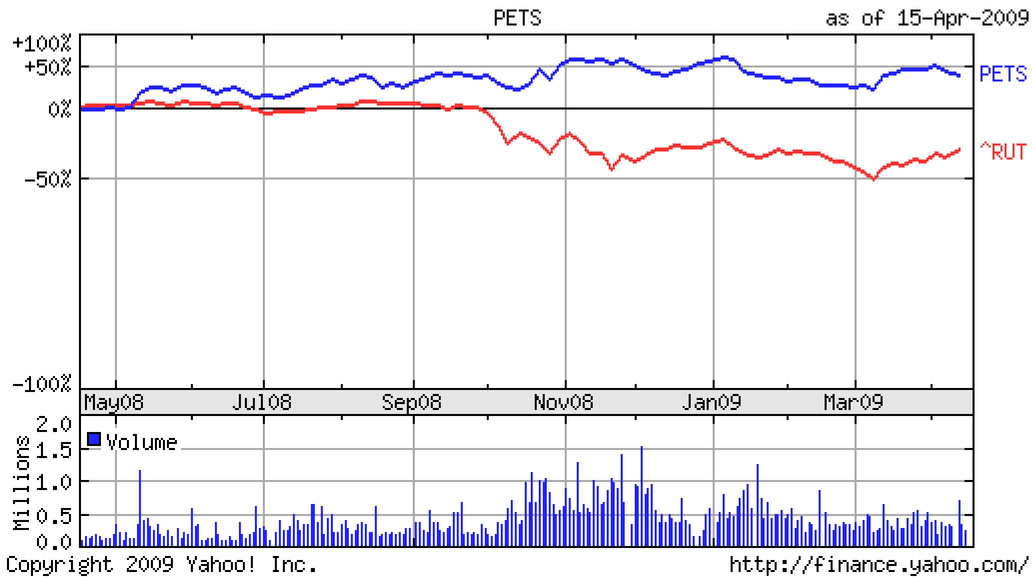
Risks

- **Seasonality.** Seasonal demand for heartworm, flea, and tick medications can negatively affect PETS sales. Additionally, management has noted many quarterly changes in advertising costs that affect specific quarters due to changing contract prices and agreements. This fluctuation in advertising, however, should be minimized in the future due to management's recent success at obtaining long-term contracts.
- **Sale Concentration.** Approximately 50% of PETS business operations occur in seven states. If PETS' license to operate a pharmacy was suspended or revoked in one of these states, a decline in sales would occur which would adversely, and materially, affect PetMed Express' financial condition
- **Legal Liability.** PETS' engagement in the sale and delivery of prescription pet medications requires them to adhere to both state and federal regulations. PETS could face increasing regulatory scrutiny should the FDA or other enforcement agencies begin to regulate pet medications.
- **Single Distribution Center.** PETS operates through a single distribution center in South Florida, making the company susceptible to possible hurricanes and other inclement weather conditions that could interrupt ordinary business activities.

Management

Menderes Akdag has been CEO of PetMed Express since 2001 and President since 2005. He has played an integral role in the growth and expansion of the company. His knowledge and experience at another online retailer, Lens Express, has helped the company increase sales from only $10M in 2001 to over $200M currently. Bruce Rosenbloom, CFO, has been with PETS since 2002 and has strong cost-reduction experience as he was an auditor for Deloitte & Touche.





Ownership

% of Shares Held by Insiders:	3%
% of Shares Held by Institutional & Mutual Fund Owners:	95%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
FMR LLC	2,670,200	11.44%
Fidelity Low-Priced Stock Fund	2,447,040	10.49%
Barclays Global Investors UK Holdings Ltd	1,666,537	7.14%
Friess Associates Inc	1,246,200	5.34%
Lord Abbett & CO.	1,130,587	4.84%

Source: Bloomberg

iRobot Corporation
IRBT
Price: $8.38 ($7.00 - $17.80)
Fiscal Year Ends: December 31

Date: April 16, 2009 | Michael Klenn
Russell 2000 Index: 473.88 (342.59 – 764.38) | Consumer Goods Sector

iRobot Corporation produces and sells various home cleaning robots, government and industrial robots and related accessories. iRobot derives revenue from product sales and research and development programs. The sale of home cleaning robots, as well as the PackBot tactical military robots, account for 91.4% of revenue. The home cleaning robots consist of the vacuum Roomba, the floor washing Scooba, the shop sweeping Dirt Dog, the pool cleaning Verro, and the gutter cleaning Looj. The PackBot tactical robots perform search, recon, and bomb-disposal missions while keeping troops out of harm's way. The research and development revenue comes from the execution of contracts awarded by the U.S. federal government, other governments, and a small number of other partners. This accounts for the remaining 8.6% of revenue. iRobot was founded in 1990 by roboticists Colin Angle and Helen Greiner, along with their professor Dr. Rodney Brooks. The corporate headquarters are located in Bedford, Massachusetts with three domestic offices and five international offices.

Recommendation

Currently, robotic vacuums own 4% of the market share, but many analysts think this can grow to as high as 8% in the near future. While this may be what the company is best known for, iRobot continues to provide consumers with new ways to clean the house. Recently, the company applied for a patent on a lawn-mowing robot showing the innovation to continue producing new robots. iRobot is also a key partner of the U.S. Armed Forces as it is the main supplier of small unmanned ground vehicles (SUGV). Despite signs of a lack of consumer spending, iRobot found ways to increase overall sales by 23% in 2008. iRobot also continued supplying the government with SUGV's as they received a $7.8 million order in February of this year. These positive signs show indications of a turnaround in the share price. Therefore, I am recommending the addition of IRBT to the AIM Equity Fund with a target price of $10.50, which offers a potential upside of 25.30%.

Key Statistics	Apr. 14, 2009
Market Cap	$208.37M
Shares Outstanding	24.811M
Average Volume	103,594
Beta	1.00
EPS (TTM)	$0.03
F2009 Estimated EPS	$0.05
P/Book (TTM)	1.80
P/Sales (TTM)	0.70
WACC	11.43%
Asset Turnover	1.80
Debt/Equity	0.037
Gross Margin	30.40%
Operating Margin	0.07%
Target Price	$10.50

Source: Bloomberg

Investment Thesis

- **Government Contracts.** With the government's most recent order, $80 million of the $286 million Indefinite Delivery/Indefinite Quantity xBot contract has been fulfilled. Defense Secretary Gates has brought a complete overhaul to military spending with his new budget. He has halted plans for new fighter jets and destroyers in favor of low-tech weapons such as unmanned drones. The new focus on SUGV's to fight the battle in Afghanistan should bring new contracts to the company. The gross margin on the government and industrial is 39%.
- **Strong International and Domestic Growth.** International home robot revenue doubled from just over $10 million in Q4 07 to over $23 million in Q4 08. International sales now represent 38% of total home robot revenue. This provides a whole new market for iRobot to expand into and will allow them to continue to grow. iRobot's strong growth has also been ranked #4 on

Forbes Fast Tech newcomers list. They project EPS growth of 18% over the next three to five years.

- **Award Winning Quality.** In 2004, the iRobot Roomba received the "Best of Innovations Design and Engineering" Award in the Home Appliance category from the International Consumer Electronic Showcase. In 2005, the floor washing Scooba won the same award from a pool of more than 1,000 entries from 164 companies. The Roomba also received an Excellence in Design award in 2005.
- **Patents.** As of the end of the year, iRobot held 52 U.S. Patents and more than 130 pending U.S. patent applications. These patents will not expire until 2019. Internationally, they hold 15 foreign patents, additional design registrations and more than 60 pending applications. The company does not have a history of being charged with patent infringement. Instead, it tends to prosecute those they believe are copying their patents.

Valuation

To find the intrinsic value of IRBT, a ten-year DCF was conducted. A short-term growth rate of 15% was used as the company expects to continue growth at a similar pace. After the first five-years, the growth rate was slowed to 7.5% and a terminal rate of 3% was used. Also, a WACC of 11.43% was found on Bloomberg. Using a sensitivity analysis, IRBT possesses a potential upside of $16.83 and a potential downside of only $6.55. I have established a price target of $10.50 to hold consistent with the average of the values in the sensitivity analysis.

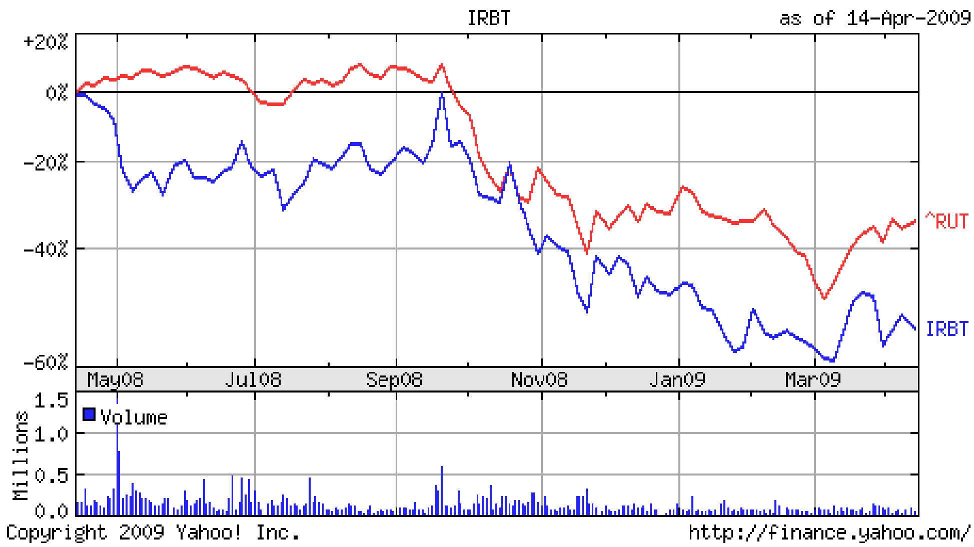
		WACC				
	$10.18	9.43%	10.43%	11.43%	12.43%	13.43%
Sales Growth	10.00%	$11.21	$9.56	$8.31	$7.34	$6.55
	12.50%	$12.45	$10.60	$9.21	$8.12	$7.24
	15.00%	$13.79	$11.73	$10.18	$8.96	$7.99
	17.50%	$15.25	$12.96	$11.23	$9.88	$8.80
	20.00%	$16.83	$14.29	$12.37	$10.87	$9.67

Risks

- **Struggling Economy.** With the events of the past year including the burst of the housing bubble and the financial crisis, the global economy is suffering. IRBT has been able to grow sales at 17.4% and increase average price by 1.4%. While being the cheapest of the robotic house cleaners, many consumers may decide that now just is not the time for a new vacuum.
- **Competition.** The success and popularity of the Roomba and the other products has given rise to new competitors. Electrolux and Sharper have come out with products similar to the Roomba but have not been able to achieve its quality and price. On the military side, IRBT recently lost out on a Navy contract to Teledyne and Webb Research. Competitors for the cleaning products include Samsung and LG.

Management

Within the last month, iRobot announced that Jeff Beck will take over as president and general manager of the Home Robots division. Beck comes with more than 20 years of high-tech leadership. Founder Colin Angle is still with the company as Chairman of the Board and CEO. Angle's longevity with the company shows that it will not stray away from the values on which it was founded. Also leading the management team is Vice Admiral Joseph Dyer, who is a U.S. Navy retiree. iRobot is looking for his military experience to play a key role in landing government contracts.



Ownership

% of Shares Held by All Insider and 5% Owners:	30%
% of Shares Held by Institutional & Mutual Fund Owners:	45%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
OPPENHEIMER FUNDS, INC.	2,571,257	10.32
MORGAN STANLEY	1,251,191	5.02
BlackRock Advisors, LLC	1,159,140	4.65
PRICE (T. ROWE) ASSOCIATES LLC	783,678	3.15
MFC Global Investment Management (U.S.), LLC	688,957	2.77

Source: Yahoo! Finance

Hittite Microwave Corporation
HITT
Price: $32.80 ($23.26-43.79)
Fiscal Year Ends: December 31

April 14, 2009 — Rob Mitchell
RUSSELL 2000 INDEX: 456.09 (271.30-1,328) — Hardware Sector

Hittite Microwave Corporation is a manufacturing company that designs and develops high performance integrated circuits, modules and subsystems. Their products are primarily used for radio frequency, microwave, and millimeterwave applications that require technically demanding radio frequencies. Their diverse product portfolio includes more than 740 standard products as well as custom products, spanning twenty functional families. These products are used by more than 2,700 customers for a variety of applications and end markets. Almost 75% of their revenue comes from Cellular Infrastructure, Microwave & Millimeterwave Communications, Broadband and Military. Their other customers are in the Automotive, Fiber Optics, Space and Test & Measurement markets. They sell their products directly to original equipment manufacturers through their own sales force and a distribution network in North America. In 2008 59% of revenues came from international customers. The company was founded in 1985 and is headquartered in Chelmsford, Massachusetts. They issued their initial public offering in 2005 and currently have 332 full-time employees.

Key Statistics	14-Apr-09
Market Cap	$990M
Shares Outstanding	30,180K
Ave. Volume (3 month)	244,000
Adjusted Beta	0.895
EPS (TTM)	$1.74
2009 Estimated EPS	$1.40
P/E (TTM)	16.93
Est. PEG Ratio	1.65
WACC	9.37%
Debt/Assets	0
ROE	23.76%
ROA	22.00%
Gross Margin	71.44%
Operating Margin	44.34%
Analyst Coverage	8
Dividend Yield	0.00%
Target Price	$39.00

Recommendation

HITT is a well established designer and manufacturer of integrated circuits for processing radio frequencies. Since going public, sales have increased at a 31% CAGR over the last four years. In a tough environment during 2008, they managed to increase revenues by 15%, growing to $180 million. HITT is poised to capitalize on substantial growth in global demand for applications requiring technically demanding radio frequency. Cash flow generation from operating activities has increased significantly and recently grew by 12.5%; reaching $59.96 million in 2008. These cash flows have kept the company in good financial shape during the current credit crunch and provide them with the financial flexibility to grow their business. With HITT's strong balance sheet, profitable margins, a high ROE of 23.76%, and opportunity for substantial long term growth, it is recommended that HITT be added to the AIM Equity Portfolio with a target price of $39 yielding a 18% return.

Investment Thesis

- **Expansion of Industries Requiring Integrated Circuits.** There is a growing global demand for mobile information devices and high multimedia applications. These demands have led to the innovation of a variety of different electronic products that rely on electromagnetic waves for high speed data transmission. The manufacturers of these products require complex integrated circuits that can help signal processing, so they rely on those that have expertise in designing and manufacturing these IC's. HITT's products allow manufacturers to make equipment that operates more efficiently and effectively utilize the frequency spectrum. Increased demand for their products has caused them to experience a 30.75% compound annual growth rate in sales over the last 4 years and will continue to drive their revenue growth.

- **Operating Cash Flows.** HITT generates substantial cash flow from operations that has grown over the last five years. It grew 38.7% in 2007 and by 12.5% in 2008 to $59.96M. Their cash generation from operating activities allows them to hold significant cash on their books ($180.9M as of year end 2008). Due to their sufficient cash flows, they have not had to take on any long term debt to finance their growth. Instead, they have used this cash to buy back 1.7 million shares in an effort to offset dilution form equity grants since its release of its IPO. With strong cash flows and a healthy balance sheet the company is a good position to implement a new stock repurchase program in the future.
- **Fabless Business Model.** HITT uses a fables business model in order to focus their efforts on their expertise in the designing of custom integrated circuits. Their expertise gives them a competitive advantage over their competitors, so outsourcing the capital intensive semi-conductor fabrication allows them to maintain high gross margins around 72%.
- **Product Portfolio.** HITT has expanded their product portfolio significantly over the last couple of years introducing 98 new products in 2007 and over 100 in 2008, with plans to continue to diversify their portfolio in the future. This diversification limits their exposure to a decrease in demand in a particular end market. The new products also have longer product life cycles of around 7 years and will be a driver of future growth revenues. To expand their research and development they acquired substantially all of Q-Dot Inc.'s assets in August of 2005. Also, In October 2007, they entered in an agreement for $7.1 million with Northrop Grumman Space Technology to market some of their products, license related technology and assume the associated customer relationships.

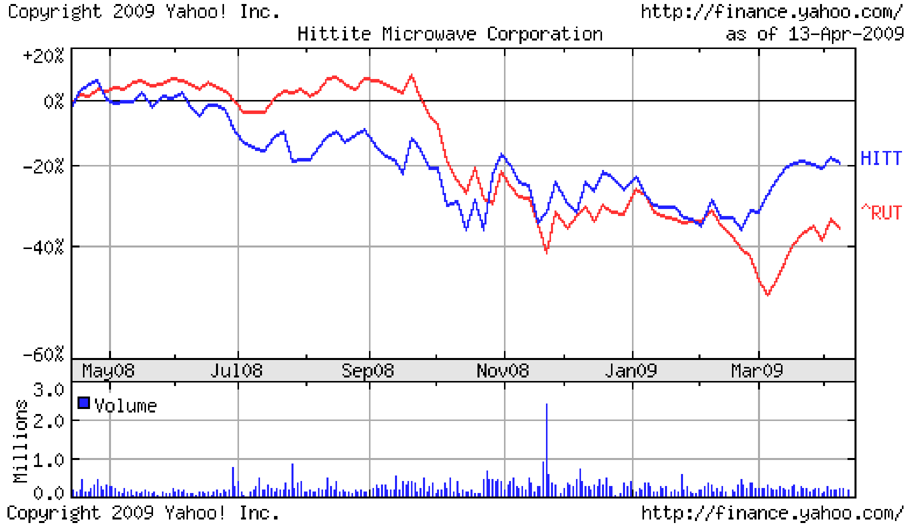
Valuation

HITT is currently trading at 18.9x TTM EPS of $1.74. Taking their historical P/E average of 25x a 2009 EPS estimate of $1.40 yields a $35 price target. Based on a 10 year DCF analysis with a WACC of 10% and a terminal growth rate of 3.5%, an intrinsic value of $41.10 was obtained. A sensitivity analysis that adjusts both the long-term growth rate (2-4%) and the WACC (9.5%-11%) generates a price range of $32.21 - $47.17. This DCF assumes 0% growth in 2009, 15% in 2010, 20% from 2011-2014 and 15% in 2015-2018. The price target was set at $39 that would yield a 18% return for the stock currently trading around $33.

Risks

- **Credit Availability.** As the credit crunch continues, it is becoming more difficult for some of their customers to obtain the necessary financing needed to operate. As a result, they may see a decrease in sales in 2009 and have lowered their expectations for earnings per share compared to a year ago. If the economic conditions continue to get worse in the future, it will inhibit the company to grow their business.
- **Reliance on Top Customers.** Even though they have a very diverse customer base, HITT relies on its top ten customers for 40% of their revenues. Boeing has been one of their top customers and in 2005 made up 16% of their total revenues. HITT's reliance on their top customers could hinder future revenue growth if any of them encounter problems.
- **Insider Ownership.** Insiders hold 32% of the outstanding common stock including the founder and chairman Dr. Yalcin Ayasli's 29.9% ownership. This presents possible problems in the future as he maintains the power to control the board of directors. He has been decreasing his stake in the company by gradually selling a minority of his shares that he maintained through the original IPO.
- **Competitive Industry.** Although the integrated circuit industry is diverse, it is constantly changing due to new technologies. The failure of HITT to keep up with innovative engineering would cause them to lose competitive advantages. They must continue to spend on research and development to provide advanced quality products to their customers.

Management
Stephen Daly is the President, CEO, and Chairman of HITT. He has significant experience in the industry and has been working with the company over 13 years. He became the president in 2004 and has tripled the revenues of $61M to $180M since taking control. He is a shareholder in the company currently owning 51,000 shares.



Ownership

% of Shares Held by Insiders and 5% Owners:	32%
% of Shares Held by Institutional & Mutual Fund Owners:	72%

Source: Yahoo! Finance

Top 5 Shareholders

Source: Yahoo! Finance

Holder Name	Shares Held	Percentage of Share Outstanding
Yalcin Ayasli	8,968,734	29.9%
Capital Research Global Investors	1,590,000	5.30%
Massachusetts Financial Services	1,399,012	4.66%
Franklin Resources	1,242,270	4.14%
Barclays Global Investors	1,216,945	4.05%

Tower Group Companies
TWGP
Price: $25.12 ($15.76-31.05)
Fiscal Year Ends: December 31

April 22, 2009 Mike Rice
Russell 2000 Index: $473.88 (342.59-764.38) Financial Services Sector

Tower Group offers property and casualty insurance products and reinsurance services through its operating subsidiaries. Currently TWGP operates through six subsidiaries; Tower Insurance Company of New York, Tower National Insurance Company, Preserver Insurance Company, Mountain Valley Indemnity Company, North East Insurance Company and Tower Risk Management Corporation. This list is rapidly expanding as TWGP acquires firms to develop into a national insurance provider. TWGP's insurance companies are licensed to write both commercial and personal products in all 50 states. TWGP's commercial line of products includes property, inland marine, general liability, workers compensation, commercial auto, and umbrella products. The main commercial industries in which they are present are retail and wholesale stores, grocery stores, restaurants, artisan contractors and residential and commercial buildings. The personal line includes homeowners, dwelling fire, three-and four-family dwelling policies and umbrella products. The company was founded in 1990 with ten employees. TWGP is currently headquartered in New York City and employs over 700.

Recommendation

As a result of management's execution of growth and profitability strategies, TWGP is rapidly expanding into a national insurance company through both acquisitions and organic growth. Since the inception of these strategies in late 2006, TWGP's premiums earned have grown 40% and are expected to continuing growing rapidly due to expansion. TWGP's net combined ratio continues to strengthen over the past three years at 82.4%, 83.8% and 87.6%, respectively. These numbers illustrate the underwriting discipline that the management team has instilled and will continue to emphasize as new markets emerge. TWGP's strong investment portfolio has produced average returns of $31.4M over the past three years. These returns have taken extra pressure off the company's underwriting profits during these tough economic times. Therefore, because of TWGP's acquisitions and organic growth prospects, underwriting success, strong investment portfolio and veteran management team, I am recommending the addition of TWGP to the AIM Equity Portfolio with a target price of $32.25, yielding a gain of about 30%.

Key Statistics	April 15, 2009
Market Cap	$968.32M
Shares Outstanding	41.312M
Ave. Volume (3 month)	436,276
Adjusted Beta	.96
EPS (TTM)	$2.87
2009 Estimated EPS	$3.22
P/E (TTM)	8.53
PEG Ratio	.34
WACC	7.56%
Debt/Assets	6.59%
ROE	17.83%
ROA	3.98%
Operating Margin	23.75%
Dividend Yield	.82%
Dividend (FY 2008)	$0.20
Analyst Coverage	5
Target Price	$32.25

Source: Bloomberg, Yahoo! Finance

Investment Thesis

- **Recent Acquisitions** TWGP completed the acquisitions of Castlepoint Holdings (CPLH) and Hermitage Insurance Group in February 2009. Both firms strengthen current lines and develop new lines of business which will be crucial during the expansion into a national insurance company. Prior to the acquisition of CPLH, TWGP held a 6.7% investment ownership and completed the acquisition by issuing 16.8M shares, worth $533M, to CPLH shareholders. Hermitage was acquired from a subsidiary of Brookfield Asset Management for $130M.

- **Growth and Profitability Strategies** Designed to expand the company through organic growth as well as acquisitions while still ensuring profitability, these strategies have already proven successful with the acquisition of Preserver in 2007. Acquired to gain more agents and visibility in the Northeast and strengthen the current product line, this acquisition caused revenue to grow 38%. The company will continue to look for acquisitions at a reasonable price because of market conditions. To achieve organic growth through these strategies TWGP will add more product lines, territories and industries through their many distributors.
- **Strong Financial Performance** TWGP has consistently produced stronger financial results than its peers. TWGP has maintained its ROE around 20% over the past 5 years. In 2008, TWGP outperformed (20.7%) its own ROE expectations (18-20%) and also significantly outperformed its peers combined ratio (104% vs. 84.2%). Furthermore, with the acquisition of CPLH, TWGP was able to strengthen its financial position by increasing its assets to almost $1B and nearly doubling its equity account to $744M. This increased financial strength provides TWGP the means to acquire companies that are attractively priced due to current market conditions.
- **Investment Portfolio** The rating of TWGP's investment portfolio prior to the acquisition of CPLH was AA-, however it has risen to AA. Despite the tough economic environment in 2008, TWGP invested approximately $336M in fixed income securities to further strengthen their portfolio. In 2008, TWGP was able to return $34.6M in investment income, down from $36.7M in 2007 but still allowing the company to avoid extra pressure on underwriting profits.

Valuation

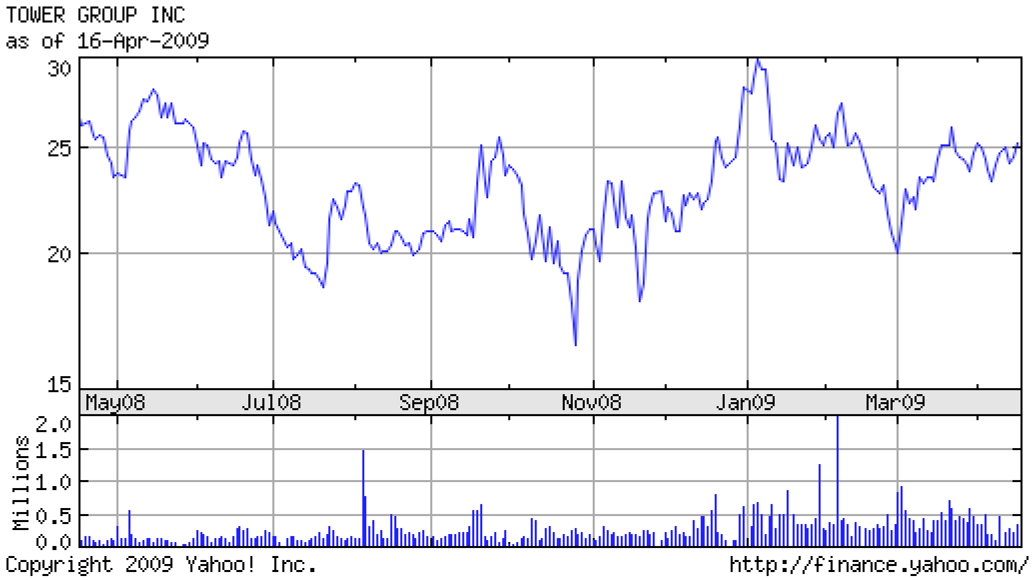
Based on a 5 year DCF analysis with a computed WACC of 7.56% and a terminal growth rate of 3%, an intrinsic value of $33.74 was obtained for TWGP. A sensitivity analysis that adjusts both the long-term growth rate (2-3.5%) and the WACC (7.5-9.5%) generates a price range of $29.56-34.88. After taking into account the extreme growth due to recent acquisitions, I set my price target at $32.25. With the stock currently trading around $25, the $32.25 price target would result in a return of about 30%.

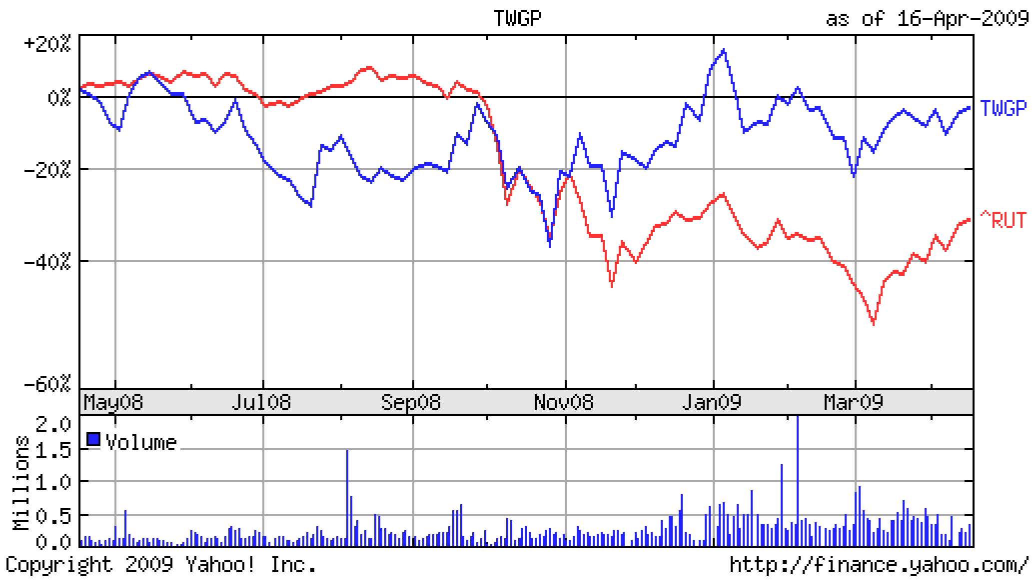
Risks

- **Failure to Integrate New Acquisitions Successfully** TWGP's management will have to eliminate synergies to ensure that they are operating at a cheap and efficient level. The management team has proven itself in the area after experiencing a 23% growth in net income following the acquisition and integration of Preserver in 2007. In the future, failure to make beneficial acquisitions and management's ability to integrate them into TWGP's current environment could negatively affect the entire company.
- **Competition** As the company expands into a national company, TWGP will have to compete with many larger insurance companies that have been competing on a national level, particularly in the Southeast, for many years. The management will be tested to create a successful plan to gain market share in all parts of the country while still holding onto their Northeastern stronghold.
- **Catastrophic Events / Higher Claims Frequency** TWGP's new national presence will expose them to the possibility of new catastrophic trends and events, especially in the Southeast. This will force them to continue to follow their business plan and continue to successfully underwrite products. At the same time, since much of their business is focused in the Northeast they are extremely vulnerable to catastrophic events in that region. However, this vulnerability will decrease as the company expands.

Management

Michael Lee is the CEO, Chairman, President and Founder of both TWGP and CPLH. All five members of the Senior Management Team average over 20 years of insurance industry experience. This Team has developed and executed the company's business' growth and profitability plans as well as the core business plan which has allowed the company to continually expand since TWGP's inception in 1990.





Ownership

% of Shares Held by Insiders:	13%
% of Shares Held by Institutional & Mutual Fund Owners:	57%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Michael H. Lee	3,188,680	7.94%
NWQ Investment Management	1,724,545	7.40%
Barclays Global Investors UK Holdings	1,394,357	5.98%
Wells Fargo & Company	1,312,015	5.63%
Columbia Wanger Asset Management	1,185,000	5.08%

Source: Yahoo! Finance

Novartis AG (ADS)
NVS
Price: $37.30 ($33.34-61.30)
Fiscal Year Ends: December 31

April 17, 2009 | Sarah Clasing
iShares MSCI EAFE Index: $41.11 (31.56-78.77) | International Healthcare Sector

Founded in 1996, Novartis AG is a leader in the global pharmaceutical industry, providing innovative medical solutions in over 140 nations worldwide. NVS operates in four divisions. The Pharmaceuticals division (64% of net revenue) offers more than 50 key brand-name patented pharmaceuticals, while the Sandoz division (18% of net revenue) focuses on the production and sale of off-patent generic pharmaceuticals. The Consumer Health division (14% of net revenue) operates under three segments: over-the-counter (OTC) medicines, animal health medicines, and eye-care products, while the Vaccines and Diagnostics division (4% of net revenue) manufactures human vaccines and blood testing instruments. Headquartered in Basel, Switzerland, Novartis operates primarily in Europe and the United States (43% and 31% of net revenue, respectively), but also operates in other areas of the Americas, China, and additional emerging markets. 1 ADR represents 1 ordinary share of NVS.

Recommendation

NVS is the only global pharmaceutical company that is a leader in both branded pharmaceuticals and generic pharmaceuticals (#3 and #2 market share, respectively). Considering the current regulatory headwinds facing branded pharmaceuticals and the expectation that the global generic drug market will grow at a 10% CAGR through 2013, NVS, with its diversified operations and Sandoz division, is poised to outperform its competitors and capitalize on generic growth in coming years. In addition, NVS posted solid 2008 results with 9% y/y sales growth and 25% y/y net income growth. The company also posted an impressive 4Q08 with net profit rising 62% y/y. Furthermore, in 2008, NVS' strong cash flow allowed the company to further its diversification efforts with the 25% acquisition of Alcon (ACL) and to pay a 4.6% dividend. Therefore, due to a growing demand for pharmaceuticals worldwide, a universal trend towards generics, Novartis' robust pipeline, and their diversified operations, it is recommended that NVS be added to the International AIM Equity Portfolio with a target price of $50.

Key Statistics	Apr. 16, 2009
Market Cap	$84.48B
Shares Outstanding	2.26B
Ave. Volume (3 month)	2,345,230
Adjusted Beta	.77
EPS (TTM)	$3.60
2009 Estimated EPS	$3.39
P/E (TTM)	10.39
PEG Ratio	1.47
WACC	8.63%
Total Debt/Equity	14.64%
ROE	16.47%
ROA	10.66%
Gross Margin	72.41%
Operating Margin	22.45%
Dividend Yield	4.64%
Analyst Coverage	7
Target Price	$50.00

Source: Bloomberg

Investment Thesis

- **Growing Demand.** Growth in world population, the dramatic aging of the baby boomers generation, a trend towards a more sedentary lifestyle, and the mandate for access to better healthcare in emerging markets are all driving growth in demand for NVS' products. NVS, with 43% of net revenue from Europe and 31% of net revenue from the U.S., is poised to take advantage of the world's aging population. The population of Europe is aging faster than that of any other continent and the percentage of people over age 65 in the U.S. is expected to reach 13% in 2030 from 8% in 2006 (U.S. Institute of Aging).
- **Trend Towards Generics**. As overall healthcare costs continue to grow as a percentage of GDP in many countries, there is an increased effort to cut healthcare costs – including a universal push

towards the use of generic pharmaceuticals. Additionally, IMS Health estimates that $24B in combined annual sales in the pharmaceutical industry face patent expiration in 2009. Novartis, as the number two company in worldwide generic sales, is primed to profit from the growing generic market, which is expected to grow at a 10% CAGR through 2013.

- **Robust Pipeline.** NVS currently has 152 potential new products in various stages of clinical development. This represents a 40% increase in the size of the portfolio from 2005 and a 60% improvement in the transition of compounds from proof-of-concept to confirmatory clinical trials. In the past month, the FDA has approved branded medicines Coartem (malaria treatment), Ixiaro (a vaccine for Japanese Encephalitis), and Afinitor (treatment for advanced kidney cancer) in addition to the generic drug filgrastim, NVS' third biosimilar medicine.
- **Diversified Operations.** Novartis is the only global pharmaceutical company with leading positions in each of its four divisions. Adding to NVS' diversification was the company's acquisition of a 25% share of Alcon in July 2008. NVS also sought to expand its operations in biopharmaceuticals, acquiring an additional 51.7% stake of Swiss-based Speedel Holding AG in July 2008 and acquiring 100% of the privately held U.S. biopharmaceutical Protez Pharmaceuticals in June 2008.

Valuation

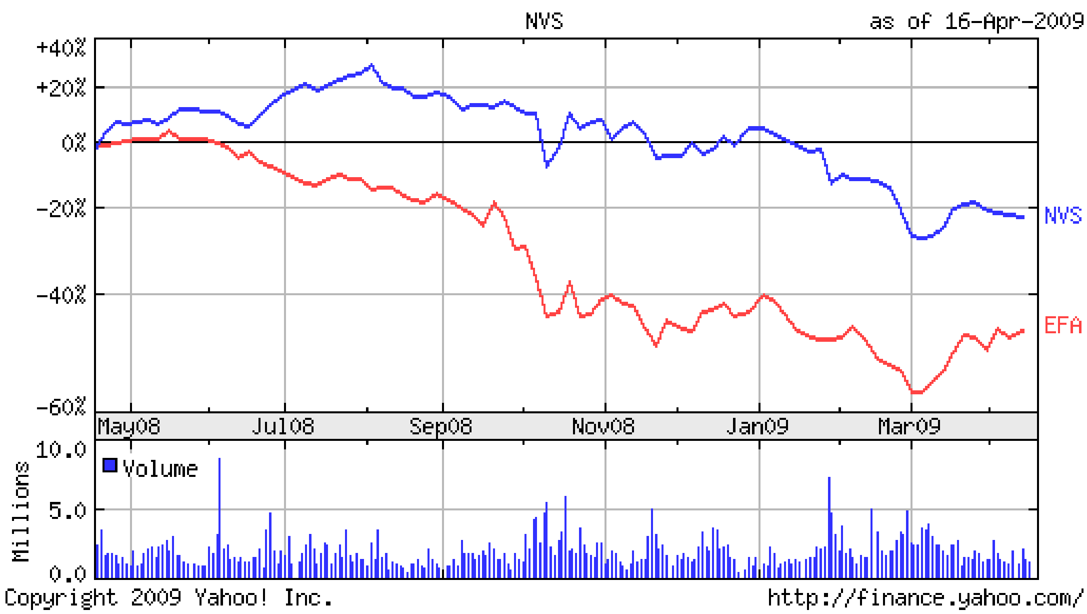
NVS is currently trading at a 10.39x TTM EPS of $3.60. A conservative historical P/E average of 16x my 2009 EPS estimate of $3.39 yields a $54.24 price target. Based on a 5 year DCF analysis with a computed WACC of 8.63% and a terminal growth rate of 3%, an intrinsic value of $49.91 was obtained for NVS. A sensitivity analysis that adjusts both the long-term growth rate (2-4%) and the WACC (7.63-9.63%) generates a price range of $43.02-$59.72. Weighting the two methodologies, a target price of $50 was obtained, providing a potential upside of 34.05%. NVS pays a 4.64% dividend.

Risks

- **Patent Expirations.** NVS is dependent upon patent protection. The introduction of a generic equivalent of a branded drug usually results in a rapid reduction of net revenues for the branded drug. With no major patent expirations until 2011, and with Sandoz's generic drugs capable of picking up some lost revenues from drugs that go off-patent, NVS is positioned better than its competitors.
- **Downward Pressure on Pricing.** The global effort to lower healthcare costs is putting downward pressure on the pricing of branded pharmaceuticals. As government-controlled health organizations, managed care organizations, and insurance companies continue to reduce the overall cost of healthcare, NVS' Pharmaceutical division could suffer a reduction in revenue and compressed margins.
- **Increasing Regulatory Scrutiny.** As regulation for pharmaceutical companies becomes stricter, NVS faces higher development costs, an increased risk that one of its existing patents will be withdrawn, and a longer time to market for its medical solutions. In 2008, the FDA approved only 24 new drug applications in comparison to approval levels of about 30 drugs per year prior to Merck's Vioxx recall in 2004.
- **Prolonged Economic Downturn.** NVS' Consumer Health division may be negatively impacted by a decrease in discretionary income and consumer spending worldwide. Also, constrained credit markets could have a negative impact on NVS' cost of financing, especially in regards to the second step of the Alcon acquisition in 2010-2011.

Management

Dr. Daniel Vasella has served as the CEO since the creation of Novartis in 1996 and as Chairman of the Board of Directors since 1999. Under Mr. Vasella's leadership, Novartis has been named one of the world's most ethical companies, one of *Fortune's* most admired companies, and one of *Barron's* most respected companies. Joseph Jimenez has served as CEO of the Pharmaceutical division since October 2007. He previously served as the Consumer Health division's CEO.



Ownership

% of Shares Held by Insiders:	8%
% of Shares Held by Institutional & Mutual Fund Owners:	10%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Shares Outstanding
DODGE & COX INC	69,383,950	3.06%
PRIMECAP MANAGEMENT COMPANY	36,833,983	1.63%
FMR LLC	13,946,896	0.62%
Clearbridge Advisors, LLC	9,850,616	0.43%
MORGAN STANLEY	6,509,969	0.29%

Source: Bloomberg

Canadian Natural Resources
CNQ
Price: $45.91 (26.43-109.32)
Fiscal Year Ends: December 31

April 16, 2009 — Sarah Finneran
iShares MSCI Canada Index: $18.53 (13.64-36.22) — International Energy Sector

Canadian Natural Resources is an independent exploration and production company with operations in Western Canada, the North Sea, and offshore West Africa (87%, 8%, and 5% of 2008 production respectively). Natural gas and crude oil account for 99.5% of CNQ's revenue stream. CNQ produces approximately 565 million barrels of oil equivalent per day, split 56% crude oil and 44% natural gas. Midstream operations comprise the remaining 0.5% as CNQ partially owns and operates three crude oil pipeline systems in an effort to control transportation costs. In addition, CNQ has 100% ownership and operatorship of the Horizon Oil Sands Project which employs surface oil sands mining, bitumen extraction, and bitumen upgrading to produce synthetic crude oil. CNQ is headquartered in Calgary, Canada with 3700 employees spanning the corporation.

Recommendation

CNQ's highly diversified asset portfolio and low-cost production initiatives position the company for growth in light of the continued economic uncertainty. Management projects CNQ's near-term potential for 3%-5% CAGR in the natural gas segment and 5%-7% CAGR in North American oil. In addition, the Horizon Project will not see the production decline associated with conventional oil/gas operations and will require minimum maintenance capital going forward. Corporate guidance projects 2009 CapEx to be $3.19B which is 133% lower than 2008. Further, an increase in demand for synthetic material is expected as 70% of industry-wide refinery upgrades to process raw crude oil are being delayed due to the overall drop in crude oil prices. This allows CNQ to capture synthetic oil opportunities while other players in the industry are forced to cut back. In addition, CNQ increased its dividend by 5% for the ninth consecutive year. With such promising growth opportunities and significant reduction in CapEx moving forward, it is recommended that CNQ be added to the International AIM Equity Portfolio at a target price of $52.

Key Statistics	April 16, 2009
Market Cap	$24.84B
Shares Outstanding	541.15M
Ave. Volume (3 month)	4,466,120
Adjusted Beta	1.40
EPS (TTM)	$10.44
2009 Estimated EPS	$4.16
P/E	5.34
PEG Ratio	2.19
Dividend Yield	0.82%
WACC	11.73%
Debt/Assets	30.52%
ROE	31.46%
ROA	12.66%
Gross Margin	50.06%
Operating Margin	48.65%
Analyst Coverage	26
Target Price	$52.00

Source: Bloomberg

Investment Thesis

- **Horizon Oil Sands Project.** CNQ management anticipates significant value creation from this major asset with incremental production gains over the phased development. The Horizon Project produced its first barrels of high quality synthetic crude oil (SCO) in February of 2009. CNQ expects production to ramp up to 110,000 bbl/d by the end of 2009 with production estimated to reach 250,000 bbl/d by 2012. Horizon maintains proven reserves of 6-8 billion barrels allowing the project to produce for decades without facing any decline. The Project has the capability to generate cash flows of C$2B before 1H2015. Further, SCO sells at a premium of $3 to the WTI.
- **Low-Cost Producer.** CNQ is one of the lowest cost producers in the industry, which allows a great deal of flexibility in regards to capital allocation. In 2008, COGS was 50% of sales compared to the industry average at 84%. CNQ's natural gas and heavy oil production expenses

have been consistently below its peer group average. Between 2006 and 2008, CNQ natural gas production expense averaged $0.92 ($/mcf) with its peer group reaching $1.25. CNQ's heavy oil 3-year average was $13.96 ($/bbl) in comparison to the peer group average of almost $15. Low-cost production has resulted in a 48.65% operating margin for CNQ compared to 31.24% for its peer group in 2008. In addition, CNQ management indicates the ability to reduce costs in the Horizon Project by 20%-30% through increased labor productivity.
- **Product Diversification.** CNQ strives for balance among its product offerings, geographic location, and project time horizons. With a robust and well-diversified asset portfolio including 22% light medium crude oil/NGL, 6% Pelican Lake crude oil, 16% primary heavy crude oil, 12% thermal heavy crude oil, and 44% natural gas, CNQ is not overleveraged in one commodity. In addition, CNQ will gain further diversification by expanding into high quality SCO through the Horizon Project.

Valuation

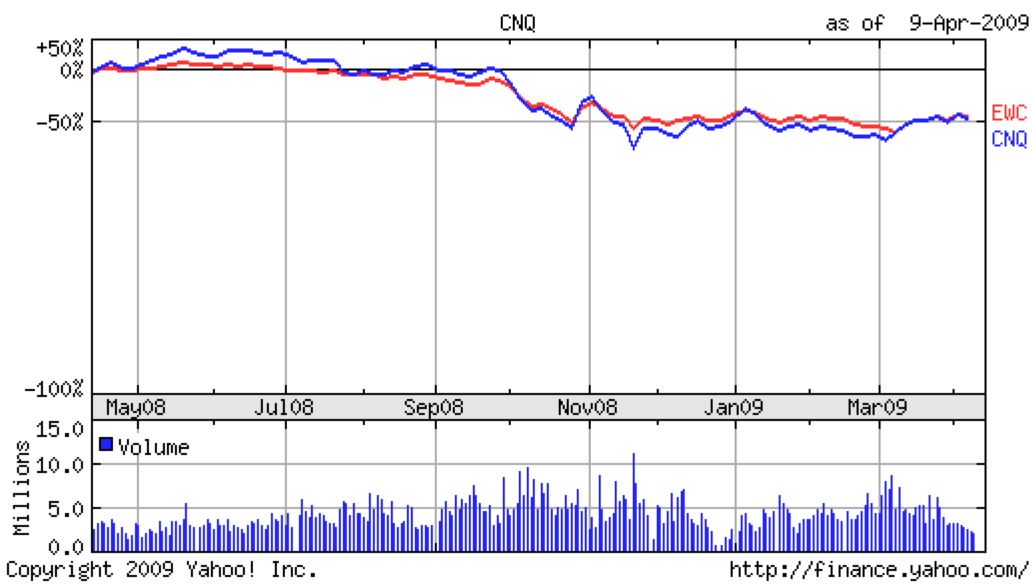
A 10-year DCF analysis using a calculated WACC of 11.73% and a terminal growth rate of 3% determined an intrinsic value of $51.90 for CNQ. A sensitivity analysis adjusted sales growth for Years 1-3 (-5% to15%) and terminal growth rate (1.5% to 3.5%) which produced a price range of $23.83-$64.21. On a relative basis, a P/E multiple of 12.70x 2009 EPS estimate of $4.16 yields a $52.83 price target. While the company currently has a P/E ratio of 5.34x, the additional revenue provided by the Horizon Oil Sands Project will allow the company to revert to historical averages and to trade with industry P/E estimates. Considering both valuation methods, a target price of $52 is appropriate, representing a 13% upside.

Risks

- **Commodity Prices.** CNQ's profitability is dictated by commodity prices. With energy prices set in the global marketplace, CNQ is merely a price taker. Although the company did engage in an aggressive amount of hedging to protect itself against depressed commodity prices in 2H2008, the same locked-in prices cannot be sustained in the coming years.
- **New Royalty Framework.** The New Royalty Framework (NRF) effective January 1, 2009 will have a serious impact on CNQ's bottom line. Royalties are now on a sliding scale for oil sands ranging from 1%-9% on a gross revenue basis pre pay-out and 25%-40% post pay-out. CNQ has already seen the effects of this new framework as royalties increased from 9% to 15% in the Espior Fields when CNQ recovered its initial capital investment.
- **Increased Regulation.** Under Alberta government regulation, facilities that emit more than 100 kilotonnes of carbon dioxide face a carbon tax of $10/tonne. Currently, CNQ has two facilities which fall under the regulation. Carbon tax is expected to increase to $30/tonne by 2012.There is a definite growth trend in government regulation which will negatively impact CNQ's growth opportunities.
- **Capital Structure.** While CNQ's debt-to-capitalization ratio of 45% is well within management guidance, the company's debt levels have risen as a direct result of Horizon expenditures. The company, however, has plans to pay down the bank loan that is maturing in October 2009. Going forward, the company plans to use internally generated cash flows as a primary source of funding as well as $2.08B available under credit facilities.

Management

CNQ does not have a Chief Executive Officer; rather, the company is led by a corporate management committee headed by Chairman Allan Markin, vice chairmen Murray Edwards and John Langille, and president and COO Steve Laut. Mr. Laut joined the corporation in 1991 as Senior Exploitation Engineer, advancing to VP of Operation in 1996. He has been instrumental in steering the company toward significant growth prospects.



Ownership

% of Shares Held by Insiders:	4.00%
% of Shares Held by Institutional & Mutual Fund Owners:	71.43%

Source: MSN Money

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Fidelity Management and Research	33,600,128	6.2%
Davis Selected Advisers, L.P.	23,980,204	4.4%
Wellington Management Company LLP	20,632,166	3.8%
Capital World Investors	19,272,700	3.6%
Barclays Global Investors Canada Limited	13,197,744	2.4%

Source: MSN Money

Rollins, Inc.
ROL
Price: $17.59 ($9.37-22.50)
Fiscal Year Ends: December 31

April 16, 2009 | Tiffany Roberts
Russell 2000 Index: 473.88 (342.59-764.38) | Business Services

Rollins, Inc. is a leading pest and termite control provider that services both residential and commercial customers through its domestic and international wholly owned subsidiaries. ROL has three different customer segments within its pest and termite control business: Commercial Pest Control (40% FY08 revenue), Residential Pest Control (40%) and the Termite business (20%). Orkin, ROL's main subsidiary, provides pest control to both homes and businesses such as hotels, food service establishments, food manufacturers, retailers, and transportation companies. ROL was founded in 1948 and is headquartered in Atlanta, Georgia. The company offers their services to over 2 million customers in the United States, Canada, Mexico, Central America, the Caribbean, the Middle East, and Asia from over 500 locations.

Recommendation

Rollins, Inc. is one of North America's top companies in commercial pest control, having a 20% market share in the nearly $2 billion industry. Major competitors include Terminex, Ecolab, and Rentokil. ROL's extensive experience and excellent reputation for safety and quality service has allowed the company to gain market share in the commercial pest control segment which now accounts for 40% of revenues compared to 27% ten years ago. ROL has taken advantage of current economic conditions through aggressive acquisition tactics (Home Team Pest Defense and Crane Pest Control). The company boasts a strong capital position with $13M in cash and $110M available on a line of credit through 2013. As a result of ROL's strong balance sheet, management continues to provide wealth to the shareholder as they increased the quarterly dividend (1.65% yield) by 12% for 2009 as well as announced the repurchase of up to 5M shares beginning in October 2008. Because of ROL's prominent position in the commercial pest control market and strong customer retention capabilities (>80%) despite the current economic decline, it is recommended that ROL be added to the AIM Equity Portfolio with a target price of $22.

Key Statistics	April 14, 2008
Market Cap	$1,698.9M
Shares Outstanding	100.5M
Ave. Volume (3 month)	249,527
Adjusted Beta	.902
EPS (TTM)	$.70
2009 Estimated EPS	$.73
P/E (TTM)	24.16
PEG Ratio	2.38
WACC	9.01%
Debt/Assets	11%
ROE	29.84%
ROA	13.16%
Gross Margin	47.63%
Operating Margin	11.13%
Dividend Yield	1.65%
Analyst Coverage	4
Target Price	$22.00

Source: Bloomberg

Investment Thesis

- **Home Team Pest Defense.** ROL acquired Home Team Pest Defense in April 2008 for $134M. Home Team is the 4th largest company in the industry, contributing an 11% increase in ROL's FY08 revenues. Home Team will continue to positively impact ROL as 90% of revenues are recurring from servicing residential customers, and management believes the acquisition will aid in improving ROL's operating margin by 3% (in 4 yrs) due to economies of scale. Home Team boasts strong partnerships with 1,000 builders nationwide; particularly 18 of the nations top 20 builders.
- **Recession Resistant.** ROL operates in a relatively recession resistant environment as many commercial businesses (40% of FY08 revenues), particularly food and health organizations, must meet regulations imposed by federal and state authorities. Commercial customers often possess a

legal responsibility to provide for pest control; therefore, minimizing pest control spending is not a viable option for these companies. These businesses value ROL as a partner to help ensure they meet these mandated standards. As a result, management sees 80-90% recurring revenues coming from these organizations. Also, ROL has a proven ability to perform well during a recessionary period as revenues grew at 5% from 1981 to 1983.

- **Taexx – Built-In Pest Control System.** ROL's newly acquired company, HomeTeam Pest Defense, employs an original pest defense service, Taexx, differentiating ROL from their competition in the business builder segment. The Taexx system involves installing a network of tubes that run throughout designated walls of residences. This allows the pesticide materials to remain effective because they are no longer exposed to the sunlight. The Taexx system has improved customer retention since it allows ROL to inject pest control materials from an unobtrusive service port outside the house, conserving customer privacy.

Valuation

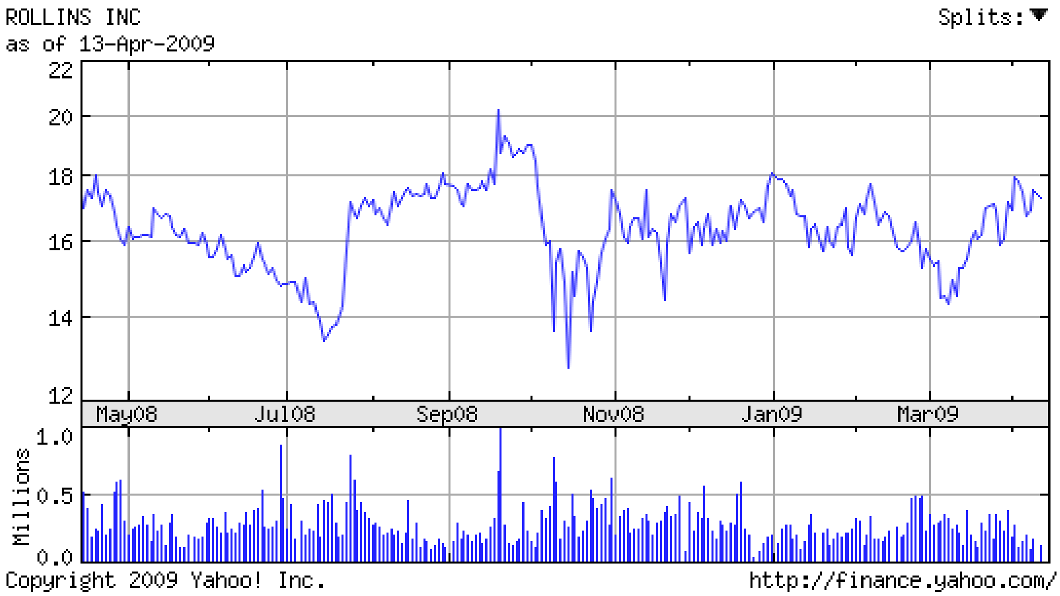
Based on a 10 year DCF analysis with a computed WACC of 9.01% and a terminal growth rate of 3%, an intrinsic value of $22.41 was obtained for ROL. A sensitivity analysis that adjusts both the long-term growth rate (1-5%) and the WACC (8-10%) generates a price range of $19.74-32.30. Taking into consideration both the DCF valuation and the sensitivity analysis, a target price of $22.00 was obtained. With the stock currently trading around $17.50, the $22.00 price target would yield an almost 30% return.

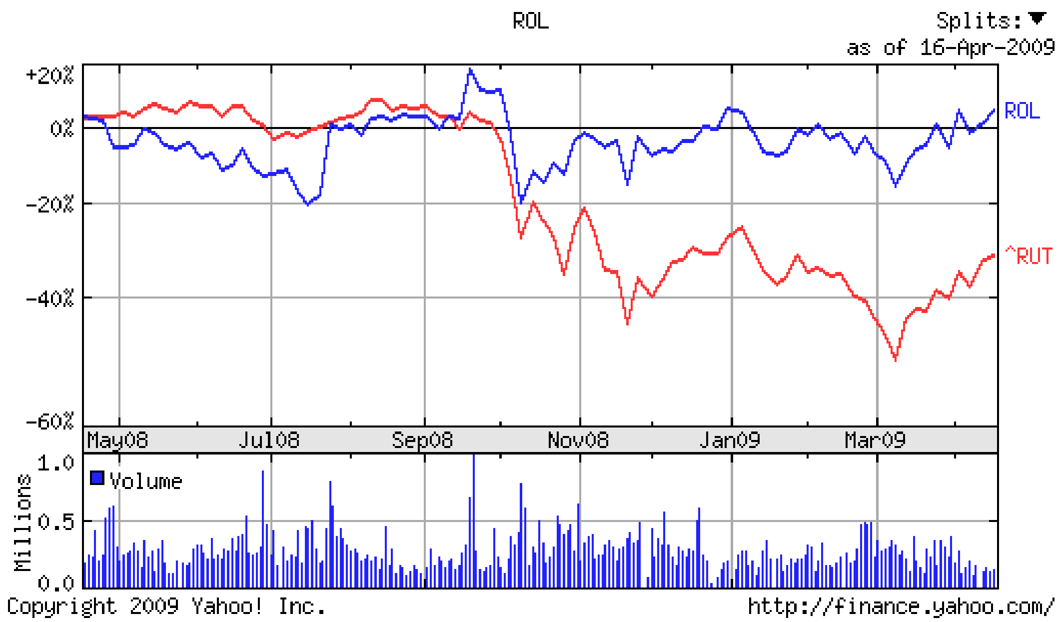
Risks

- **Weather/Seasonality.** ROL is directly affected by the weather conditions across the United States and other countries in which it operates. ROL is negatively affected by extreme weather such as drought, which can greatly reduce the pest population and consequently the need for ROL's services. Conversely, the increase in pest pressure and activity, as well as the arrival of termites in the spring and summer, has historically resulted in an increase in revenue and income during these periods (typically Q2 & Q3).
- **Decline in New Home Construction.** Residential private construction was off 29.2% y-o-y in February. Due to continued declines in home construction, ROL could be adversely affected. Management notes that Home Team Pest Defense, the subsidiary most affected by new home construction, only derives 10% of its revenues from new residential construction.
- **Currency Exposure.** PCO services, a Canadian subsidiary of ROL, experienced over 5% real growth in 2008 Q4. Due to a 20% decline in the Canadian dollar in the fourth quarter, ROL reported consolidated Canadian revenue decline of -14%. Yet, ROL management does not believe currency fluctuations will pose a material risk to the company, and as a result, do not partake in any currency hedging activities.
- **Litigation.** Orkin, the main subsidiary of ROL, is a defendant in many ongoing lawsuits and arbitrations. These proceedings allege that the plaintiffs have been adversely affected as a result of the services rendered by Orkin. ROL believes there is no immediate, material impact that could result concerning these proceedings; yet, management acknowledges a possible material change that could impact an individual quarter.

Management

R. Randal Rollins, Chairman of the Board of Directors, and his brother, Gary W. Rollins, CEO and COO, together are descendants of the original Rollins, Inc. founders, John W. Rollins and his brother O. Wayne Rollins. The CFO, Harry J. Cynkus, possesses an eclectic range of management experience, having formerly worked as the CFO of Mayer Electric Company as well as serving as the Vice President of Brach & Brock Confections. The combination of direct ownership of the brand name and a culmination of an experienced management team has lead to a strong sense of director loyalty, focused towards striving shareholder best interest.





Ownership

% of Shares Held by Insiders:	59%
% of Shares Held by Institutional & Mutual Fund Owners:	33%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Rollins (R Randall)	52,454,056	52.3%
Gamco Investors, Inc.	5,714,076	5.7%
Neuberger Berman, LLC	4,352,857	4.3%
Barclays Global Investors UK Holdings Ltd	2,838,857	2.8%
Loomis Sayles & Co LP	2,102,172	2.1%

Source: Bloomberg

Penn Virginia Corporation
PVA
Price: 12.87 ($7.22-81.00)
Fiscal Year Ends: December 31

April 14, 2009 | Daniel Knight
Russell 2000 Index: 456.09 (371.30-764.38) | Energy Sector

Headquartered in Radnor, PA, Penn Virginia Corporation (PVA) is an independent natural gas and oil company focused on the exploration, acquisition, development and production of reserves. PVA operates in the onshore regions of the U.S., including the Cotton Valley play in east Texas, the Selma Chalk play in Mississippi, the Mid-Continent region, the Appalachian Basin and the Gulf Coast of Louisiana and Texas. PVA also owns 77% of Penn Virginia GP Holdings, L.P. (PVG), the owner of the general partner and the largest unit holder of Penn Virginia Resource Partners, L.P. (PVR), a manager of coal and natural resource properties and related assets and the operator of a midstream natural gas gathering and processing business. PVA was founded in 1882.

Recommendation

PVA operates in a volatile oil and gas industry that relies heavily on the spot rate of crude oil and natural gas. Key competitors consist of Cabot Oil & Gas Corp., EQT Corporation and Peabody Energy Corporation. Its revenue stream is very large given the size of the company bringing in $1.18BB, with a 5 year average percentage growth of 65%. Higher commodity prices have been a catalyst for PVA's strong earnings growth. From 2004-08, PVA averaged a 39% increase in annual revenues. The firm has been able to sustain a consistent increase in operating income, despite an increase in total expenses due to higher commodity prices. PVA has continued to expand in recent years spending $580MM in 2008 on additional property and equipment, such as drilling oil and natural gas wells spread across its areas of operations. The future outlook for PVA is very optimistic with a forward PE multiple of 27.1 and a 5 year expected price to earnings growth ratio of 8.8, the industry being 2.42. The stock is currently trading significantly lower than its 52-week high (down 85%) at $12.87, which provides a margin of safety if the economy remains in poor shape. Given the long-term growth potential in the commodities market, it is recommended that PVA is added to the AIM fund energy sector with a target price of $35.

Key Statistics	April 17, 2009
Market Cap	$558.98M
Shares Outstanding	41.87 M
Ave. Volume (3 month)	1,061,100
Adjusted Beta	1.27
EPS (TTM)	$3.26
2009 Estimated EPS	$.34
P/E (TTM)	4.53
PEG Ratio	8.90
WACC	8.09%
Debt/Assets	37.97
ROE	13.58%
ROA	4.73%
Gross Margin	33.13%
Operating Margin	23.30%
Analyst Coverage	12
Target Price	$35
Dividend Yield	1.70%
Dividend (USD)	.23

Source: Bloomberg

Investment Thesis

- **Poor economy.** The potential upside for PVA rests with market demand and the low price of crude. Crude last closed around $49, nearly 50% below the peaks of $147.77/ barrel in July 2008. If the economy improves and the demand for oil increases, PVA's stock price should be greatly influenced in a positive way.
- **Well costs.** The sharp fall in gas prices will likely continue to put downward pressure on natural gas rig counts. If this trend continues, the service and drilling costs will ultimately fall as a result.

A consensus estimate believes in a 25% decrease in 2010, relative to 2008 averages. These reduced costs lowers the need for PVA to achieve their IRR by about $1/MMBtu (million British thermal unit)

- **Diversification.** PVA has two major subsidiaries. While oil and natural gas are the main sources of revenues, they also own 77% of Penn Virginia Group Holdings (PVG). PVG engages in the management of coal and natural resource properties, and the gathering and processing of natural gas in the U.S. PVG is the general partner of Penn Virginia Resources (PVR) who operates in coal and other natural resources, while also engaging in land management, such as selling standing timber and leasing fee-based coal facilities. Operating income in 2008 consisted of $170MM from oil and gas, $96MM from PVR coal and natural resource management, and $18MM from PVR's natural gas midstream.

Valuation

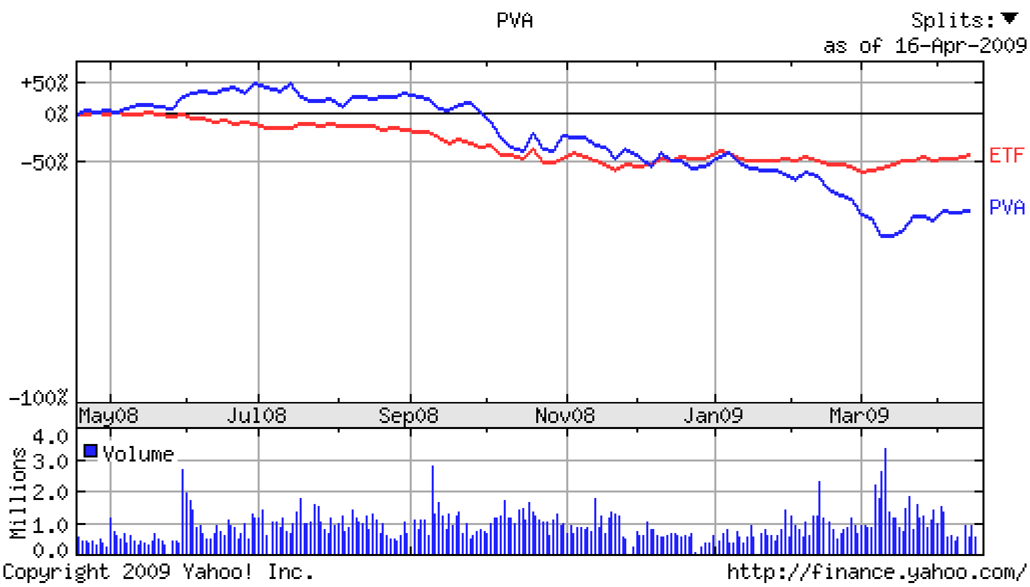
A 5-year DCF model with a computer WACC of 8% and a terminal growth rate of 3% led to an intrinsic value of $32.40. Adjusting for best and worst case scenarios lead to an intrinsic value between $52.69 and $27.03. A PE Multiples model using an average price per share led to an intrinsic value of $40.08 versus the 5 year DCF intrinsic value of $32.40. Taking these valuations into consideration a target price of $35 was found. PVA also has a dividend yield of 1.70%.

Risks

- **Market Demand.** Low consumer spending forces companies to cut back on production, having a negative effect on the energy sector. If production continues to slide, revenues will suffer as we have seen in 4Q 2008, when PVA had an EPS of zero.
- **Credit Freeze in the Financial Markets.** Lack of funding for operations could be a potential headwind if PVA is unable to finance its capital expenditure initiatives. A tightening of lending could slow PVA's expansion and other day-to-day operations. In a competitive E&P industry, a company's access to capital and the level of liquidity is critical. Management stated that they are in compliance with their credit agreements and expect to continue throughout 2009.
- **Government Restrictions.** Any government interaction with the markets could pose a threat on the future of PVA. Despite positive news regarding the stimulus bill, an uncertain Obama administration could institute new laws and regulations, greatly affecting PVA's operations.
- **Future Oil and Gas Reserves.** Unless PVA successfully replaces the reserves that are produced, reserves will decline, eventually resulting in a decrease in oil and gas production and lower revenues and cash flows from operations. Low oil prices will make it difficult for PVA to invest in capital to help increase total reserves. PVA experienced a 35% increase in proved reserves from 680 Bcfe (billion cubic feet of natural gas equivalent) at year-end 2007 to 916 Bcfe at year-end 2008.

Management

Robert Garrett has been the Chairman of the Board since March 2000 and is also the Director of PVG GP, LLC. A. James Dearlove has served as the President and CEO since May 1996. Dearlove is also the Chairman, President and CEO of PVG GP, LLC. Frank A. Pici is an Executive Vice President and Chief Financial Officer. Pici has been in his current position since 2001, and has also served as the VP and CFO of PVG GP, LLC. All of management has a strong background with the energy business, many of which has served high level positions at competing companies.



Ownership

% of Shares Held by Insiders:	1.00%
% of Shares Held by Institutional & Mutual Fund Owners:	96.30%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Barclays Global Investors	2,870,397	6.89%
T Rowe Price Associates	2,806,617	6.70%
Bessemer Group Inc.	2,100,000	5.02%
Allianz Global Inv of America LP	1,820,000	4.35%
Blackrock Advisors	1,784,800	4.26%

Source: Bloomberg

L.B. Foster Company
FSTR
Price: $27.56 ($20.00 - 47.90)
Fiscal Year Ends: December 31

April 15, 2009 — Josué López
Russell 2000 Index: $453.22 ($342.59 - 764.38) — Industrial Materials Sector

L.B. Foster Company is a manufacturer and distributor of products and services for rail, construction, and energy businesses within the United States. FSTR operates in three segments: Rail Products (46% of net sales), Construction Products (47% of net sales), and Tubular Products (7% of net sales). The Rail Products segment focuses on providing new and used rail, trackwork, and accessories to railroads and mining companies. The Construction Products segment specializes in selling and renting steel sheet and H-bearing piling, as well as supplying precast concrete buildings, fabricated structured steel, and products for bridges and highway repair. The Tubular Products segment supplies pipe coatings for natural gas and oil pipeline, in addition to providing threaded pipe products for industrial water well and irrigation markets. FSTR is the only business to offer the rail, construction, and energy product blend granting the company a diversification advantage over their competitors. FSTR was founded in 1902 and is headquartered in Pittsburgh, Pennsylvania. FSTR operates 14 sales offices and 15 warehouses, plants, and yard facilities located in the continental United States.

Recommendation

FSTR is a diversified infrastructure company specializing in rails and construction. No other company offers the same product mix as FSTR giving the firm a distinct diversification advantage. In 2008, sales growth in the construction segment of 14.7% offset the 10% decline exhibited in the rail segment and 4.6% decline in the tubular segment. Sales for 2008 totaled $512.6 million, up 0.7% from 2007. This brings to a halt a strong trend started in 2005 and 2006 when sales increased 20% per year, and 31% in 2007. Gross margins remained steady for the year up only 60 basis points. FSTR's decreasing debt levels will allow the firm more flexibility in this recessionary environment. Growth in the infrastructure industry is largely being driven by fiscal policy under the Obama administration. FSTR has also expanded its stock repurchasing program, an indication that management believes the shares are undervalued. Due to the firm's strong balance sheet, proactive cost cutting techniques, and an expectation for growth in the infrastructure industry, I am recommending the addition of FSTR to the AIM Equity Portfolio with a target price of $40 representing a 50.26% upside relative to the current market price.

Key Statistics	Apr. 15, 2009
Market Cap	$281.82M
Shares Outstanding	10.23M
Avg. Volume (3 Mo.)	89,296
Adjusted Beta	1.27
Diluted EPS (ttm)	$2.36
2009 Est Adj EPS	$1.93
P/E (ttm)	11.68
PEG Ratio	1.00
WACC	12.50%
Total Debt/Equity	12.65%
ROE (ttm)	12.86%
ROA (ttm)	8.37%
Gross Margin	15.65%
Operating Margin	7.66%
Analyst Coverage	3
Target Price	$40.00

Source: Bloomberg

Investment Thesis

- **Excellent Financial Health.** FSTR possesses a strong balance sheet and minimal liquidity risk. Cash on hand as of December 31, 2008 was $115.1 million, which is principally invested in tax-free money market funds maintaining AAA credit ratings. Working capital has increased annually since 2004 due in large part to increased accounts receivables generated through strong sales. The company's quick ratio of 2.18 for 2008 demonstrates FSTR has the ability to meet its short term obligations. FSTR also maintains a revolving credit facility that provides up to $90.0 million in borrowing to support liquidity requirements. The remaining availability for borrowing under this facility is $86.4 million. When compared to the company's year-end 2008 debt level ($27.5 million, or a 20% decrease compared to the end of 2007), FSTR's strong financial position becomes apparent.

- **Infrastructure Spending.** The infrastructure industry will see growth in the near future as highways, railroads, and bridges will be repaired and updated. The American Society of Civil Engineers assigned the rail industry a grade of C-, while bridges and roads received a C and D-, respectively. They estimate that to adequately improve roads alone will cost $186 billion annually, a $115.7 billion increase from current annual levels. President Obama's stimulus bill allocated $29 billion for highway improvements and $8 billion for public transport and infrastructure investments in an attempt to raise the low grades and create jobs. The Obama administration also unveiled a plan to expand high-speed rails with an $ 8 billion investment from the stimulus bill. In 2009, the current $287 billion SAFETEA-LU bill, which focuses on transportation, will expire. Management expects the successor bill to run as high as $500 billion.
- **Stock Repurchase Program.** In 2008, the board of directors approved a $15 million expansion of FSTR's stock repurchasing program. In 4Q08, the company repurchased 295,623 shares at an average price of $22.50, or approximately $6.7 million. That brought the total number of shares repurchased to over 865,000, or about $26.5 million. Currently, the $15 million dollar expansion is about 10% spent. Management believes that the program will not conflict with their current acquisition strategy.

Valuation

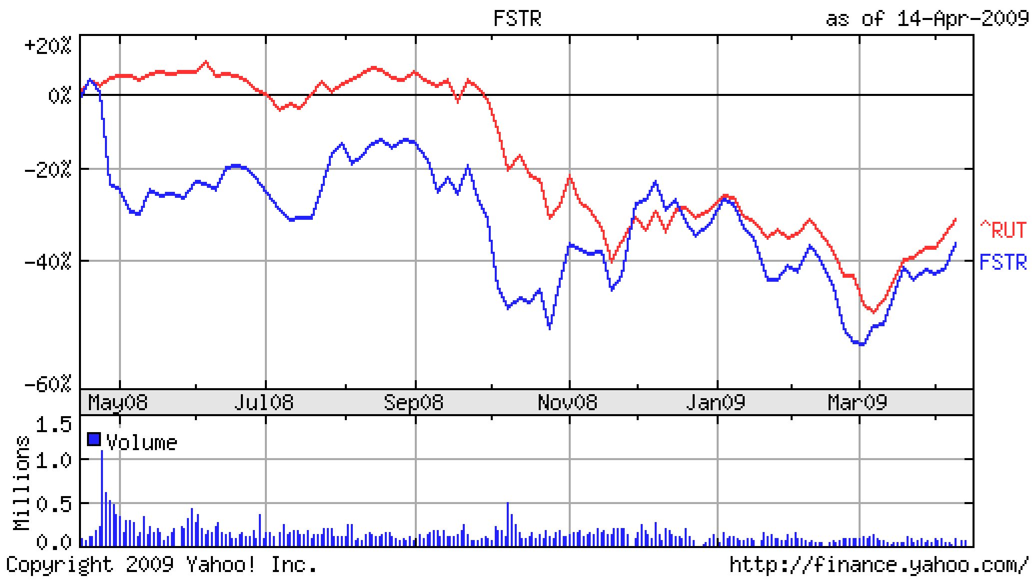
FSTR is currently trading at 11.7x EPS (ttm) of $2.36. Based on a 10 year DCF analysis with a WACC of 12.50% and a terminal growth rate of 3%, an intrinsic value of $53.74 was established for FSTR. A sensitivity analysis varying both the terminal value (1.5-4.5%) and the WACC (11-14%) yielded a price range of $47.10-65.81. Due to the uncertainty revolving the reauthorization of SAFETEA-LU bill in 2009, I set my price target at a conservative $40. With FSTR currently trading at $26.62, the $40 price target presents a potential return of 50.26%.

Risks

- **Customer & Supplier Reliance.** A prolonged recessionary environment affecting suppliers or customers could hurt FSTR's bottom line. The company's rail business is largely dependent on the Union Pacific Rail Road Company. In addition, the firm is dependent on a relatively new business relationship with Gerdau Ameristeel for raw materials. A downturn in these businesses could directly affect FSTR.
- **Dependence on Government Contracts.** Management has stated that a significant portion of operations relies on the federal funding of infrastructure projects. Although it is expected that the Obama administration will continue to fund infrastructure projects in the long-term, given that the current stimulus bill has fallen short of expectations, management is looking to a favorable reauthorization of the SAFETEA-LU bill in 2009.
- **Inventory Risk.** Threaded pipe product inventory from the tubular markets totals $7 million, up about twice as much from the end of 2007. Furthermore, management stated that lack of business in the rail group has led to an accumulation in industrial ties inventory. Lastly, the firm has about $102 million tied up in wire.

Management

Stan L. Hasselbusch has served as President of the firm since March of 2000 and Chief Executive Officer and Director since January 2002. Prior to serving as President, he held the title of VP-Construction & Tubular Products from 1996 to 1998 and COO from January 1999 until being named CEO. David J. Russo has been with the firm since July 2002 serving as a VP and CFO.



Ownership

% of Shares Held by Insiders:	2.88%
% of Shares Held by Institutional & Mutual Fund Owners:	81.69%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Keeley Asset Management	1,732,980	16.95%
Barclays Global Investors UK Holdings Ltd	552,378	5.40%
Advisory Research, Inc.	520,455	5.09%
The Vanguard Group, Inc.	365,033	3.57%
Kestrel Investment Management Corp.	333,400	3.26%

Source: Bloomberg

Owens & Minor, Inc.
OMI
Price: $36.08 ($30.19-55.00)
Fiscal Year Ends: December 31

April 17, 2009
Russell 2000 Index: 473.88 (342.59-764.38)

Anne Mongoven
Healthcare Sector

Owens & Minor, Inc. (OMI) is a leading distributor of medical and surgical supplies to the acute-care market and a healthcare supply-chain consulting firm. OMI caters to approximately 4,500 healthcare provider customers by delivering brand-name products at competitive prices through sophisticated logistic control and effective employee management. OMI's distribution of medical and surgical supplies account for over 95% of total revenue and consist of general consumable good items such as disposable gloves, dressings, needles and syringes, wound closure products and surgical products and gowns. Its customer base is comprised of freestanding hospitals, surgery centers, group purchasing organizations (GPOs), and the federal government. OMI was founded in 1882 and is headquartered in Richmond, Virginia. OMI began as a drug company and has since expanded to operate 55 domestic distribution centers and ten additional warehousing units.

Recommendation

Continuing efforts by the healthcare industry to control costs should benefit OMI as it works to reduce lead-times and efficiently manage its supply-chain. OMI reported $1.96B in revenue for 4Q 2008, an increase of 13.6% from 4Q 2007, despite challenging headwinds from a recent acquisition and current market conditions. Approximately 90% of that increase is attributable to sales from existing customers. OMI management projects 8-12% revenue growth for 2009 while also increasing first quarter dividends by 15%. Burrows, a privately-held medical supplies distributor acquired Oct. 2008, is expected to be fully integrated by 2Q 2009. The sale of its DTC diabetes supply business for $63M at the beginning of 2009 helped to shift OMI's focus back to its core and expertise. OMI's attention to business fundamentals and supplier and customer relationships distinguishes it from competitors. The realignment of company goals resulting from its exit from the DTC segment, coupled with The Burrows acquisition will provide inviting growth opportunities. Its product mix of essential items for healthcare providers makes OMI an attractive investment. I recommend the addition of OMI to the AIM Equity Fund with a target price of $47.00.

Key Statistics	April 16, 2009
Market Cap	$1,372.18M
Shares Outstanding	41.42M
Ave. Volume (3 month)	628,813
Adjusted Beta	0.70
EPS (TTM)	$2.43
2009 Estimated EPS	$2.64
P/E (TTM)	14.85
PEG Ratio	1.09
WACC	7.98%
Debt/Asset	20.48%
ROE	14.32%
ROA	5.65%
Gross Margin	9.90%
Operating Margin	2.50%
Analyst Coverage	10
Target Price	$47.00

Source: Bloomberg

Investment Thesis

- **Expansion – The Burrows Company and Evolving Customer Base.** OMI's acquisition of The Burrows Company and its exit from the DTC service will change the composition of its revenue streams and widen its profit margins. Beginning in 2Q 2009 OMI will realize acquisition benefits from increased sales volume, as significant overlap exists between OMI's and Burrows' suppliers. Additionally, the successful addition of a McKesson subsidiary in 2007 exemplifies OMI's ability to identify and integrate acquisitions that improve performance. Exiting the DTC diabetes service will alleviate previous volatile performance and will allow OMI to allocate efforts to its competitive edge of superior customer service.

- **Growth in Private Label, MediChoice.** OMI's private label, MediChoice, offers cost-effective alternatives on over 1,800 mostly commodity products. MediChoice's sales increased 30% from 2007 to 2008. OMI is optimistic that sales will expand further as this product line is integrated into The Burrows product mix. Growth potential from the McKesson subsidiary and a likely increase in surgery volume will also spur MediChoice sales.
- **Cost Reduction Function.** Consolidation trends in the overall healthcare market and healthcare providers looking to reduce costs will grow OMI's supply-chain management function. This operation contains strategies that enable customers to streamline their supply-chain through inventory management, activity-based pricing, and consulting and outsource services. Sales of products from suppliers participating in OMI's efficiency programs represented 45% of 2008 revenue.
- **Resistant to Economic Downturns.** The medical and surgical distribution industry is a relatively low risk investment with regards to products and services. Healthcare providers require the products offered by OMI in order to operate. Customer and supplier relationship are an integral aspect of business and OMI understands the importance for continued positive interaction to achieve stable margins.

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 $45.62 was obtained. The DCF assumes a 9% growth rate in 2009 based on a mid range assumption from management discussion in a February 2009 earnings call and 12% growth in 2010 attributed The Burrows Company acquisition. 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 $43.66-$62.82. A P/E multiple approach, using a historical P/E average of 21.8x and $2.63 EPS in 2009, yields a price of $57.33. With the stock currently trading at $36.08, the $47.00 price target would yield a 30.27% return.

Risks

- **Competition.** The United States medical and surgical supply distribution industry is extremely competitive. OMI competes with a number of regional and local distribution centers, not to mention Cardinal Health Inc. (CAH) who operates with a market cap of $12.95B. OMI's success is dependent on delivering low cost products and satisfying its customer base through value-added transactions.
- **Dependence on Significant Customers and Suppliers.** OMI's top ten customers represent 20% of revenue. 70% of OMI revenue was generated from three GPOs: Novation, Premier and Broadlane. Although not every expired contract results in a loss of a customer, a loss of a major GPO would negatively impact sales. OMI obtains its products from over 1,200 suppliers to who they serve as a middleman to complete a transaction. Its top ten suppliers represented 56% of revenue in 2008. The potential exists for a supplier to instead directly deliver to the healthcare provider.
- **Supplier Operating Margin Initiatives.** Competitive pricing initiatives by suppliers affect OMI by reducing profitability and lowering margins. OMI understands the risk that failure to implement programs to combat such pressures could adversely affect business. Its value-added services including PANDAC, Wisdom Gold, and Clinical Supply Solutions work to enhance profitability. Outsourcing and consulting services set up through OMSolutions is another alternative. MediChoice offers competitive pricing arrangements.

Management

Craig Smith has been with Owens & Minor since 1989 and President and CEO since July 2005. James Bierman has served as CFO since June 2007 and has previously been CFO of Quintiles Transnational Corporation and a partner at Arthur Anderson LLP.

Ownership

% of Shares Held by Insiders:	2%
% of Shares Held by Institutional & Mutual Fund Owners:	95%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Barclays Global Investors UK Holdings Ltd	2,660,906	6.42%
Wellington Management Company, LLP	2,803,426	5.89%
Price (T. Rowe) Associates Inc	2,424,486	5.85%
Allianz Global Investors of America L.P.	2,112,132	5.10%
Vanguard Specialized Health Care Fund	2,000,000	4.83%

Source: Yahoo! Finance