MARQUETTE
UNIVERSITY

Applied Investment Management (AIM) Program

AIM Fund Investment Advisory Board Meeting
April 29, 2008
AIM Equity Fund Presentations

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Tim Kellen	Longtop Financial Technologies	LFT	$19.59	55

Actuate Corp.
ACTU
Price: $3.97 ($3.81 - $8.99)
Fiscal Year Ends: December 31

Date: April 23, 2008 — Andy Verchota
Russell 2000 Index: 718.00 (643.28 - 856.48) — Software Sector

Actuate provides software for Business Intelligence, performance management, and reporting throughout the United States and abroad. Their products are user-friendly and fully scalable, focusing on improving customer relations and the efficiency of a business. Actuate's customers cross a broad range of sectors, including financial services, government, health care, manufacturing, pharmaceuticals and many others. Sales are performed through two channels, direct sales and indirect original equipment manufacturers (OEM's). Actuate has a diminishing list of direct competitors including Information Builders Inc. and Microstrategy Corporation. Competition also comes from larger firms such as Microsoft, SAP, and Oracle. The company is headquartered in San Mateo, California and had 581 full-time employees as of December 31, 2007. Actuate was founded in 1993 and went public in 1998.

Recommendation

Actuate creates value through the global sales of their diverse product line. The company is positioned well in a niche of the market that has undergone significant consolidation in recent years. The past two years the company has shown strong top-line growth, 9.0% and 21.0% in 2007 and 2006, respectively. Fear over a widespread macroeconomic downturn has hurt valuation of software stocks susceptible to decreased IT spending. Future growth will be driven by BIRT open-source software, license fees, and international market share. Actuate also has a reoccurring revenue stream, resulting from customer service contracts. Actuate is well positioned to capitalize on the recovery of the technology sector, and with a target price of $7.00, Actuate would make a valuable addition to the AIM equity portfolio.

Key Statistics	Apr. 23, 2008
Market Cap	$238M
Shares Outstanding	60.06M
Average Volume	.488M
Beta	1.256
EPS (TTM)	$0.32
F2009 Estimated EPS	$0.39
P/E (forward)	10.2
PEG (forward)	.50
P/S (TTM)	1.72
WACC	9.48%
ROE	22.56
Gross Margin	80.85%
Operating Margin	12.68%
Target Price	$7.00

Source: Bloomberg*

Investment Thesis

- **BIRT Open-Source Technology.** This open source solution offers Actuate the opportunity to expand its customer base with minimal costs. BIRT technology is a platform available through the Eclipse Community, which encourages development of open source Java-based applications. Actuate products are gaining exposure with 2.9MM Java developers who use Eclipse. It is estimated that over 100k developers have downloaded BIRT technology since inception in 2005. Revenue generation from BIRT has increased significantly in a short time

period. Sales from BIRT customers have grown from $1MM to $8MM for FY '07. Company projections suggest 100% revenue growth in 2008.

- **High Switching Costs.** Recently, JP Morgan Chase filed an injunction with New York Courts to prevent ACTU from stopping services over a license revenue dispute. JPMC stated that a stop of service would cause serious disruption to their business, preventing clients from receiving monthly statements and stopping other units from doing business. The online services have become a staple to maintain customer expectations of service. The complaint mentioned was later voluntarily dropped by JPMC.
- **Emphasis on Global 9000.** The Global 9000 companies generate revenues of over $1 billion annually. Utilizing the direct sales method, these deals offer the opportunity to expand market share in the coming years. Deals in excess of $1 million increased from six to nine over FY '07. Problems in the Financial Services could lead to a stall in this improvement. Once the issues have passed, Financial Services will likely reassume its position as a leading adopter of RIA applications.

Valuation

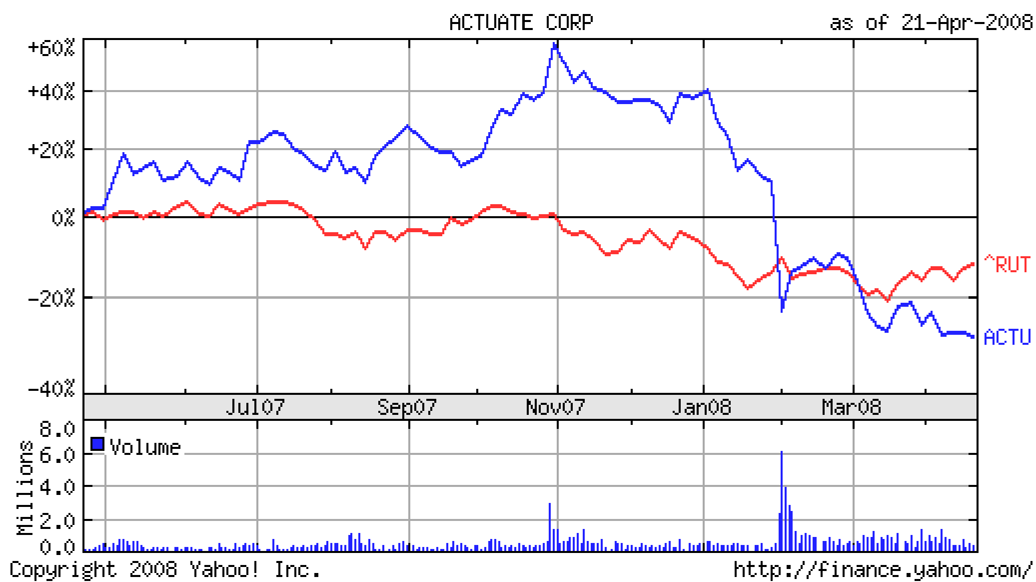
Valuation is based on a DCF model constructed to project out the next ten years of growth. Using a beta of 1.25 and a WACC of 9.48 a price target of $7 dollars was derived. At this valuation, the stock will be trading at 19X FY '09 earnings. This price target is in line with analysts' estimates following flat guidance for 2008.

Risks

- **Reduced IT Spending.** Current economic conditions have lead to the deferral of IT spending. If market conditions continue to erode, companies may decrease spending on the value added services offered by ACTU. IT budgets are expected to grow only modestly due to the current negative expectations. These conditions further the limited visibility of future earnings. Exposure in the financial services industry could lead to adverse affects in license revenues if the sector continues to struggle.
- **Failure to Expand International Business.** Over the past three years 27%, 25%, and 24% of total revenues were generated from abroad. Keys for expansion are improvement of international sales channels, hire additional personnel, and establish additional foreign operations. Also, the company will look to shift away from direct sales techniques, focusing more on indirect channel partners to drive sales. Failure to succeed in these other markets will hurt revenue and diversification of the business.
- **Acquisition Risk.** Continual acquisitions present integration risks. To keep up with the fast pace of software development ACTU must continue to improve and expand upon its existing business offerings. In January 2006, Actuate acquired Performancesoft, Inc., which provides Performance Management applications that creates real-time solutions. The benefits of acquisitions may not materialize as expected.

Management

Nicolas Neirenberg (owns 1.9% of shares) has been Chairman of the Board of Directors since co-founding Actuate in 1993. He also acted as the CEO from 1993 through 2000. Peter I. Cittadini (own 8.7% of shares) has since assumed the position of Chief Executive Officer. Mr. Cittadini has been with the firm since 1995 and previously held positions with Interleaf, Inc. and Oracle Corp.



Ownership

% of Shares Held by Insiders:	13%
% of Shares Held by Institutional & Mutual Fund Owners:	85%

Source: Yahoo! Finance

Top 5 Institutional Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Columbia Wanger Asset Management	5,000,000	8.33%
Ashford Capital Management Inc.	3,540,230	5.89%
Barclays Global Investors UK Holdings	3,529,730	5.88%
Intrepid Capital Management Inc.	2,618,600	4.36%
Wells Fargo & Company	2,152,718	3.58%

Source: Yahoo! Finance

AU Optronics (ADR)
AUO
Price: $18.54 ($19.55-$19.96)
Fiscal Year Ends: Dec. 31

April 23, 2008 — YaoTing Zhuang
MSCI ACWI xUSA Index: 309.51(271.91-357.03) — Information Technology Sector

AU Optronics Corp. engages in the design, development, manufacture, assembly, and marketing of thin film transistor liquid crystal display (TFT-LCD) panels and other flat panel displays. TFT is the most common technology used in production LCD monitors and TVs. The company's TFT-LCD panels are used in computer products, such as notebook computers and desktop monitors; consumer electronics products comprising mobile devices, digital cameras, digital camcorder, car television, car navigation systems, portable televisions, multiple function machines, printer displays, portable game consoles, and portable digital versatile disk players; and LCD televisions. AU Optronics sells its panels principally to original equipment manufacturing service providers like Qisda and Compal, who are primarily in Taiwan, China, and other Asian countries. The company was founded in 1996. It was formerly known as Acer Display Technology, Inc. and changed its name to AU Optronics Corp. in 2001. In 2006, the company acquired QDI, another LCD maker. AU Optronics is based in Hsinchu, Taiwan.

Recommendation

The TFT-LCD market has seen robust growth since 2001. The obsolesence of CRT monitors and the continually decreasing costs of production have triggered the proliferation of TFT-LCDs worldwide. TFT-LCD consumption grew over 200% from 2005 to 2007. Moreover, demand from emerging markets has provided AUO a vast potential in increasing the overall unit sales, as well as marketshare. In 2007, AUO reached a record revenue of NT$480.2 billion (USD$15.8 billion), up 63.8% YoY, net income of NT$56.5 billion, up 521% YoY. Additionally, a growing amount of AUO's revenue comes from large size LCDs, which help AUO's botton line. The whole TFT-LCD demand market is expected to grow about 28-30%, while supply is only expected to grow at 22-24%. This inequality will be beneficial to AUO in terms of pricing power.

Key Statistics	Apr. 23, 2007
Market Cap	USD14.90B
Shares Outstanding	7,817M
Average Volume	2.84M
Beta	1.21
2007 EPS	$2.23
2008 Estimated EPS	$3.21
P/E (TTM)	6.93
P/S (TTM)	0.91
P/B	1.2
Debt/Assets	60.5%
ROE**	21.66%
ROA	9.46%
Net Margin	11.76%
Target Price	$25.00

*Source: Thomson, *Yahoo! Finance, **Bloomberg*

Investment Thesis

- **Huge Growth Potential in LCD TV demands from emerging markets.** Asia and Taiwan together account for AUO's 78% revenue in 2007, led by demands from China and other emerging markets. China's demand for TFT-LCD is expected to increase about 40% YOY in 2008. The 2008 Olympics is a huge catalyst for China's LCD market as both the government and citizens are looking to upgrade to LCD in public facilities and homes.

- **Demands from branded companies and OEM service providers are expected to pick up earlier than usual.** Q1s have been weak historically due to seasonality; although many analysts expected an inventory correction to happen in Q1 and subsequently damaging the ASP more than previous years, AUO has stood up against these negative expectations so far. In fact, AUO announced that ASP is expected to bottom out in Feb/Mar, about a month ahead of historical average. Customers are expected ramp up inventories earlier this year after experience supply shortages last year.
- **Market leader in rolling out new technologies.** The TFT-LCD market is a very competitive industry with tight net margins hovering around 10%. AUO has to compete with players like Phillips and Samsung, In addition to other Taiwanese firms. Keeping a diversified product mix is critical to AUO's success. As the trend leans toward enlargement of LCD panels, AUO has been able to deliver the right product mix by through state-of-the-art fabs.
- **Taiwan's newly elected President is pro-China.** The relationship across the Taiwan straits will improve during his Presidency and this will enhance investment opportunities for AUO.

Valuation

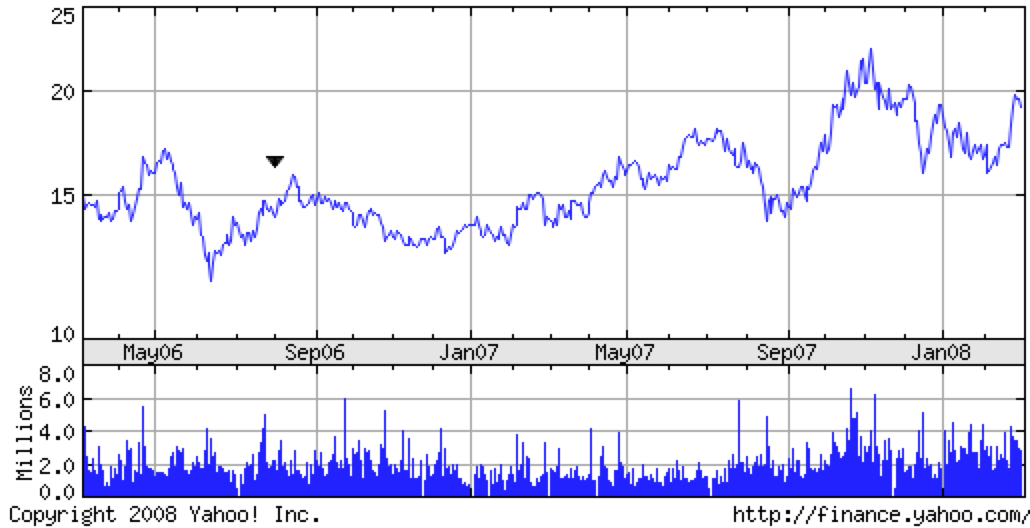
Industry PE multiples averaged 8.47, while the historical PE for AUO is 7.94. Estimated earnings for 2008 is NT$9.59(USD$2.94). My conservative PE valuation suggests stock should trade around $24.00 by year-end. 10-Year DCF analysis yields an intrinsic value of 26.50$, with a WACC of 10.40%. Dividend yield is .48%

Risks

- **Less than expected demand**. Although the outlook for the TFT-LCD market looks positive for the next couple of years, any unexpected economic downturn in the U.S., China, or other large markets might negatively impact AUO's performance.
- **China's labor law conflicts.** China has reformed its labor laws that increased the minimal wage of labor and forced many enterprises to sign contracts with its workers, along with providing certain mandatory benefits. AUO's operations in China is very labor intensive and any further unfavorable labor law reforms could be detrimental to their bottom line.
- **Natural disasters.** This past season, China experienced several winter storms that heavily crippled its transportation infrastructures. As a result, some operations were delayed and AUO wasn't able to deliver certain order on-time. As customers generally place orders a month ahead of the delivery time, AUO's inventory might go obsolete if any interruption occurs.

Management

Chairman and CEO Kuen Yao Lee has been under some litigation issues for possible insider trading of Qisda's stocks. Qisda owns about 8.47% of AUO, and Lee is also the chairman of the board of Qisda. The two companies also conduct a substantial amount of businesses with each other.



Ownership

% of Shares Held by All Insider and 5% Owners:	4.0%
% of Shares Held by Institutional & Mutual Fund Owners:	100%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
AXA	10,496,222	1.36%
Schneider Capital Management, L.P.	6,046,505	0.78%
UBS Global Asset Management (Americas) Inc.	4,826,689	0.62%
Nordea Investment Management Bank Denmark A/S	3,613,592	0.47%
Legg Mason Inc.	3,547,127	0.46%

Source: Yahoo! Finance

AZZ Inc.

AZZ

Price: $27.93 ($24.18-$41.58)

Fiscal Year Ends: February 28

April 23, 2008 | Connor Lawrie

Russell 2000 Index: $708.11 (643.28-856.48) | Industrial Materials

AZZ Inc. operates in two primary lines of business; a global electrical equipment and components manufacturer and a national provider of hot dip galvanizing services. Its electrical products are used to distribute power to and from generators, transformers, switching devices and other electrical configurations. Its industrial products include lighting and tubular products used for petro-chemical and industrial applications. These products are distributed through the company's manufacturer representatives, distributors, agents and its internal sales force. AZZ is the nation's largest after-fabrication galvanizer with 20 plants located throughout the Midwest and Southern U.S. AZZ was established in 1956 and is incorporated in Fort Worth, Texas. The electrical and industrial segment contributes roughly 56% of total revenue with the galvanizing services segment contributing the rest.

Recommendation

AZZ Inc. has experienced tremendous revenue growth of 22.8%, 39.1% and 23% for 2006, 2007 and 2008 respectively. This stems from acquisition growth in its galvanizing services segment and strong demand for its electrical and industrial products. Going forward management has projected another record setting year for F2009 revenues of $365M to $380M. The integration of AAA Industrials Inc. into the galvanizing segment and expectations of three large international orders for electrical products indicate further growth going into fiscal 2010. The range of contract price is estimated at $10M-$20M. The international demand for AZZ's electrical and industrial products for petrochemical and power distribution is expected to remain strong for markets in China, Africa and the Middle East. AZZ has been trading near its 52 week low making it an attractive purchase price. The stock has dropped due to a decrease in backlog of 10% for 4Q08, but management bases this off a timing issue not a market correction. Due to its strong financial position, long-term growth opportunities for its electrical products and increasing market share in the galvanizing services, I recommend AZZ as an addition to the AIM portfolio at a target price of $33.50.

Key Statistics	Apr. 23, 2008
Market Cap	$343.87M
Shares Outstanding	12.11M
Average Volume (Avg. 3mo)	244,922
Beta*	1.01
EPS (TTM)	$2.26
2009 Estimated EPS	$2.44
P/E (TTM)	12.35
P/S (TTM)	1.08
WACC*	10.37%
Debt/Assets* (2009 Est.)	5.52%
ROE	21.52%
Gross Margin	25.15%
Operating Margin	13.83%
Target Price	$33.50

*Source: Yahoo! Finance, *Bloomberg*

Investment Thesis

- **International Orders-** Backlog is expected to increase over the next six months as the company is awaiting orders from China and the Middle East. These projects range from $10M -$20M and management has a high confidence level that AZZ will land three of the projects in the near term. There is potential for up to five projects.
- **Domestic Backlog Increase-** Despite a slowing US economy, AZZ's domestic backlog for its electrical and industrial segment has increased 6% since the record setting backlog levels of the second quarter of fiscal 2008.
- **Solid Acquisition Growth-** AZZ has positioned itself as the nation's largest provider of after-fabrication steel galvanizing services. The acquisition of AAA Industries Inc. closed on April 1, 2008 added 7 new facilities in the upper Midwest. Management is projecting the addition of $50M in revenue for fiscal 2009 from the integration of AAA Industries Inc.
- **Diversified Revenue Streams-** AZZ's galvanizing services segment provides approximately 44% of total revenue. This segment will experience further customer diversification away from the petrochemical market as AAA Industries Inc. will provide access to the OEM market. AZZ's electrical and industrial segment provides 56% of revenues across several different types of products.

Valuation

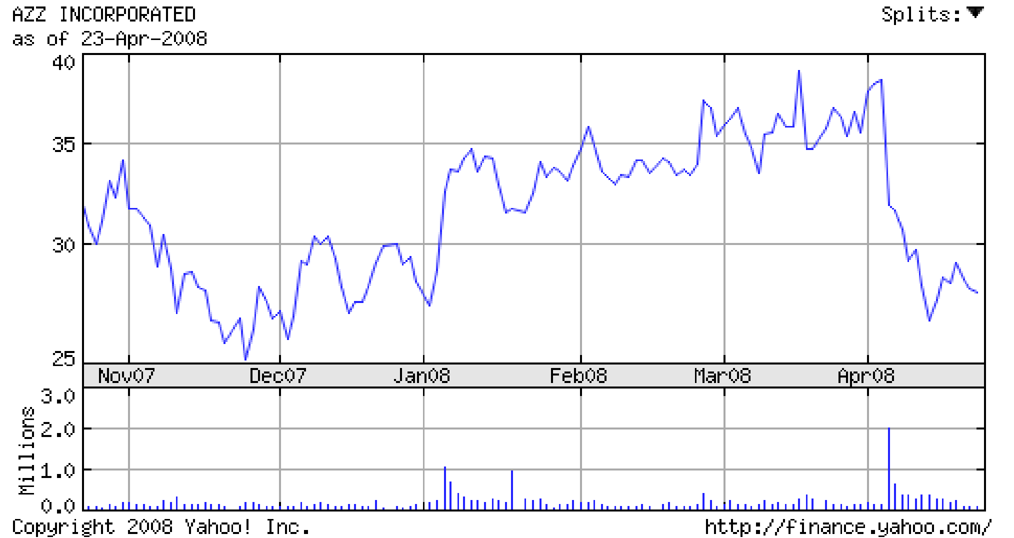
The 10 year DCF valuation for AZZ Inc. indicates an intrinsic value of $33.30 using a WACC of 10.19% and a terminal growth rate of 3.0% compared to the current price of $27.97. Adjusting for WACC assumptions leads to a price range of $32.20-$37.50 and adjusting for varying scenarios reflects a price range of $29.80-$42.00 for the stock. A P/E model was formed using the mean and median P/E ratios of industry peers. From this a worst, base and best case scenarios were calculated using the respective F2009 EPS estimations. Averaging each value yielded a price of $34.02. Taking into account all valuations, a target price of $33.50 was found.

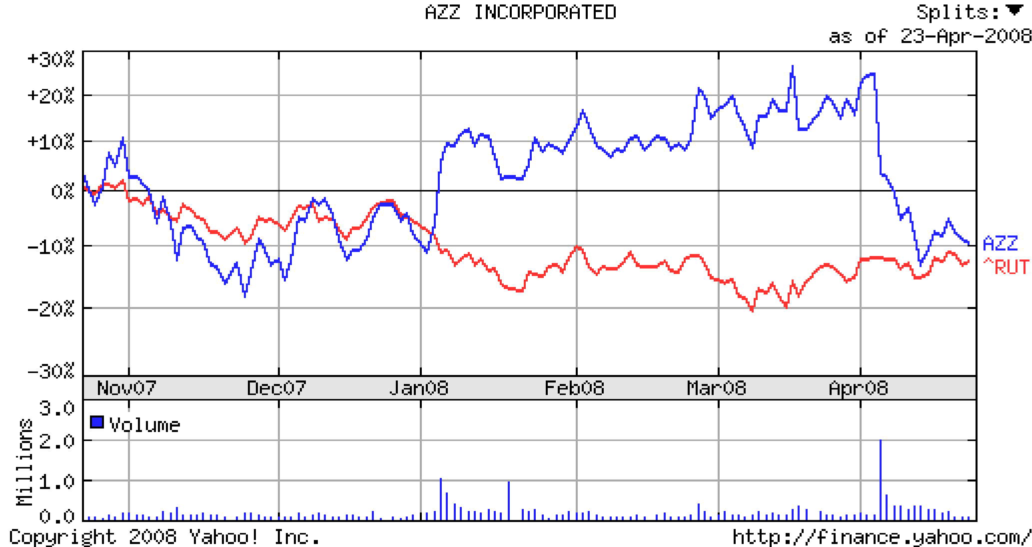
Risks

- **Zinc Prices-** Zinc, the main input used in AZZ's steel galvanizing segment has experienced relatively stable prices around $1.00 for the last several months. Revenues will potentially be impacted in future periods if market pricing is required to be adjusted as a result of reduced zinc cost.
- **Uncertain Backlog-** For the fourth quarter ending fiscal 2008, AZZ Inc. reported a decrease of 10% for backlog in its electrical and industrial segment. Management sites this as a result of International orders not materializing. Certain projects in the backlog can be delayed or cancelled which would negatively impact forward revenue streams.
- **Economic Downturn-** The sales volumes of AZZ's products are partially subjected to economic environment. A slowing economy may result in decreased spending on large capital expenditures potentially delaying or canceling AZZ's orders. AZZ's electrical and industrial products segment has 35% of its revenues from aboard. Due to the regionalized business, AZZ's galvanizing segment is substantially dependent on the US market.
- **Acquisition Risk-** AZZ could face difficulties with the integration of its recently acquired galvanizing companies of AAA Industries Inc. and Witt Industries. The acquired plants operate 3% to 3.5% below the current operating margins of AZZ's existing facilities.

Management

Mr. David H. Dingus has been President and CEO of AZZ Inc. since 2001. He previously served as the company's COO from 1998 to 2001. Mr. Dana L. Perry has been the CFO of the company since 2004. He served as Vice President of Finance from 1992-2004.





Ownership

% of Shares Held by All Insider and 5% Owners:	4%
% of Shares Held by Institutional & Mutual Fund Owners:	85%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
FMR LLC	1,088,200	8.98%
GENDELL, JEFFREY L.	1,068,600	8.82%
KEELEY ASSET MANAGEMENT CORP.	765,000	6.32%
Barclays Global Investors UK Holdings Ltd	577,393	4.77%
BOGLE INVESTMENT MANAGEMENT LP	496,586	4.10%

Source: Yahoo! Finance

Bio-Rad Laboratories, Inc.

BIO

Price: $79.99 ($68.18-115.23)

Fiscal Year Ends: December 31

April 23, 2008 — Maggie Hughes

Russell 2000 Index: 703.71 (643.28-856.48) — Healthcare Sector

Bio-Rad Laboratories, Inc. produces, markets, and develops products that separate complex chemical and biological materials, used to test and further analyze their components. BIO has a global network of operations, serving customers in over 30 countries. BIO operates through two segments: Life Sciences and Clinical Diagnostics. The Life Sciences segment produces reagents, software and laboratory instruments that assist universities, medical schools and research organizations with process studies, drug discovery and biotechnological research. The Clinical Diagnostics segment manufactures and sells medical screening and diagnostic products. Hospital, outpatient and government laboratories use these products to perform a range of tests from routine blood work to genetic disorder testing. BIO was founded in 1952 and had its initial public offering in 1966. It is currently headquartered in Hercules, CA.

Recommendation

BIO is a leader in producing innovative tools and testing materials to the life science research and clinical diagnostics markets that encourage education and further scientific advancement. Its two segments, Life Sciences and Clinical Diagnostic, account for 42% and 56% of annual net sales respectively. BIO has recently acquired three companies in hopes of developing a competitive advantage and a stronger industry presence. BIO's strong bottom-line growth over the past three years and continued positive guidance from management, make it an attractive growth investment. Due to BIO's global presence and long-term ability to remain a competitor in the life sciences and clinical testing markets, I am recommending the addition of BIO to the AIM equity portfolio with a $110.00 target price.

Key Statistics	April 23, 2008
Market Cap	$2.109B
Shares Outstanding	26.97M
Average Volume	9,3156.2
Beta	.763
EPS (TTM)	$3.89
2009 Estimated EPS	$4.20
P/E (TTM)	20.07
PEG Ratio	1.00
WACC	8.43%
Debt/Assets	23.20
ROE	10.38%
Gross Margin	54.16%
Operating Margin	9.78%
Target Price	$110.00

Source: Bloomberg

Investment Thesis

- **Global Competitor.** BIO is able to diversify its risk among geographic locations and hedge against country-specific economic downturns by competing on a global scale. In 2007, sales revenues were 46% in Europe, 34% in the United States, 14% in the Pacific Rim, and 6% in other areas. BIO's strong presence in the Pacific Rim and its expansion into Western Europe heighten its ability to capitalize on the growth opportunities in emerging markets.

- **Experience.** BIO demonstrates its successful business model by remaining a world-renowned manufacturer and distributor of laboratory and diagnostic products for over 50 years. BIO's Life Sciences segment boasts a position among the top 5 life sciences companies worldwide, maintaining its reputation for quality and customer satisfaction.
- **Niche Focus.** BIO focuses on specialty diagnostic markets, producing autoimmune-efficiency tests. Their R&D investment helps them advance in current markets and research and produce goods for other niche industries.
- **Acquisition of DiaMed Holding AG.** In May 2007, BIO paid $399.3 million to acquire 85.96% of outstanding shares of DiaMed Holding AG, a Swiss company that manufactures instruments used in blood typing. This acquisition will enhance BIO's Clinical Diagnostic segment, while providing opportunity for cross selling. DiaMed is subject to decreased tax liability due to lower statutory tax rates on Swiss operations.

Valuation

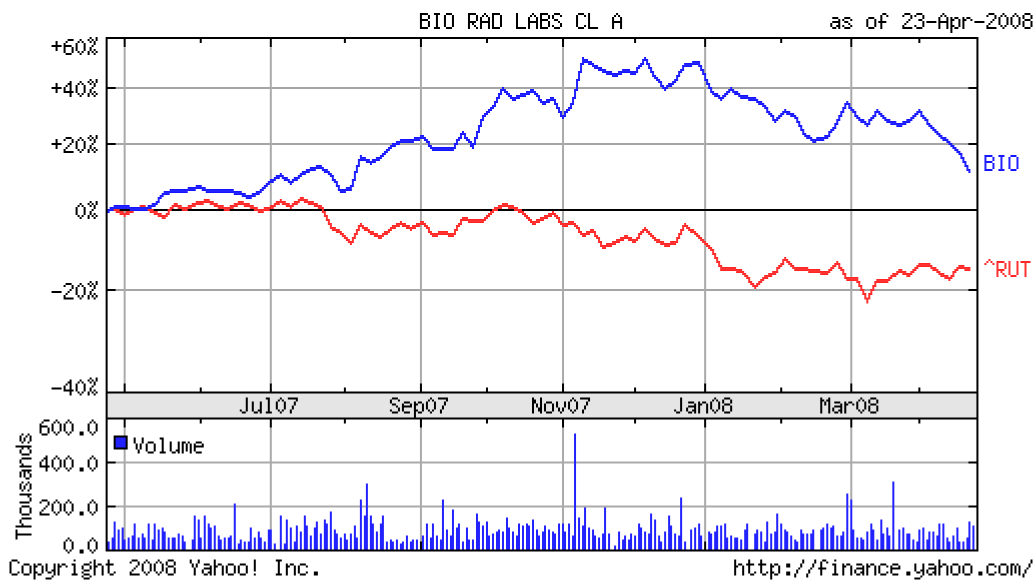
BIO is currently trading at 20.35x FY2007 earnings of $3.93. Integration of acquisitions and capitalization on emerging markets leads to an estimated P/E of 28.46, yielding a $112.14 target price. BIO's P/E is in line with the industry average P/E of 28.35, which yields a $110.27 target price. Based on revenue growth increasing periodically from 9% to 12% until year 10, a terminal growth of a conservative 3.0% and a WACC of 8.28%, my DCF model currently values BIO at $100.29. Even under a bearish approach (WACC of 10.28% and a LTG of 2.00%), BIO's intrinsic value is $81.72, in line with its current market price.

Risks

- **Integration of Acquisitions.** BIO acquired DiaMed in May of 2007 along with Ciphergen Biosystems, Inc and Blackhawk Biosystems in fall of 2006. Difficulties arise when trying to integrate acquisitions into a pre-existing business model and create corporate synergy. DiaMed is a Swiss company that has never been subject to GAAP; BIO spends time and capital assessing disclosure controls and guaranteeing compliance.
- **Highly Competitive Industry.** BIO operates in two highly competitive market segments with companies ranging from start-up firms to global corporations. To remain a major player in this ever-advancing industry, it is imperative that BIO spend capital on research and development. BIO's historical R&D expense averages 9.66% of sales revenue.
- **Dependence on Government Funding and Capital Spending Policies.** BIO's largest customers are universities and research laboratories, dependent on grants and research budgets, which are subject to reallocation. Changes to capital spending policies and budget decreases have a significant effect on demand.
- **Intellectual Property Rights.** Many of BIO's assets are intangible intellectual property rights in the form patents and copyrights. Competitors challenge these rights; the corporation must defend against infringements to maintain exclusivity.

Management

David Schwartz, Chairman of the Board since 1957, and his wife, Alice, are the founders of BIO. David served as President and CEO from 1957 to 2003 when Norman Schwartz, David's son, took over. Prior to his role as President and CEO, Norman worked as Vice President and Manager of both segments. To maintain family control of the corporation, BIO issued both Class A and Class B Common Stock.



Ownership

% of Shares Held by Insiders:	90%
% of Shares Held by Institutional & Mutual Fund Owners:	78%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Times Square Capital Management	1,181,675	5.41%
Noonday Asset Management, L.P.	950,500	4.35%
Barclays Global Investors UK Holdings	918,214	4.20%
Renaissance Technologies Corp.	837,400	3.83%
The Vanguard Group, Inc.	547,647	2.51%

Source: Yahoo! Finance

Bio-Reference Laboratories, Inc.

BRLI

Price: $25.02($23.61-$35.80)

Fiscal Year Ends: October 31

April 23, 2008 — Lauren Grebe

Russell 2000 Index: 703.71 (643.28- 856.48) — Health Care Sector

Bio-Reference Laboratories, Inc. provides clinical laboratory testing and esoteric testing services primarily to the greater New York area. Their customers are governmental units, clinics, employers, and doctors. Routine clinical tests include cholesterol checks, pap smears, pregnancy tests, and blood cell counts. In 2006 BRLI purchased GeneDx, which uses DNA sequencing technology to diagnose genetic disorders. The GenPath business unit performs esoteric testing in endocrinology, genetics, immunology, microbiology, oncology, serology, and toxicology. CareEvolve is a physician-based connectivity portal for clinical labs, and PSIMedica provides health information analytics for insurers, clinical trial companies, and health plans. BRLI was founded in 1981 in Elmwood Park, New Jersey and currently has 1,243 employees.

Recommendation

Bio-Reference Laboratories, Inc. (BRLI) is the largest regional lab testing corporation of its kind. They have experienced incredible growth, with a 29.2% increase in net income for 2007, as compared to the industry median of 13.9%. ROE of BRLI is 17.8% while the industry median is 10.7%. ROA is 9.8%, compared to the industry median is 2.2%. They intend to further expand laboratory operations through marketing and diversify through acquisitions. GeneDx's esoteric testing will be the main driver of growth as they continue to develop tests for diagnosis of developmental disorders. These new gene tests will create increased margin growth. While core clinical lab testing is continuing to gain regional market share, esoteric testing is taking over lab testing as a percentage of sales. Esoteric testing was 25% of sales in 2001, 45% in 2007, and is expected to surpass clinical lab testing in 2008. Considering the above factors and a target price of $35.91, a recommendation has been made to buy Bio-Reference Laboratories, Inc.

Key Statistics	Apr. 23, 2008
Market Cap	$344.529M
Shares Outstanding	13.781M
Average Volume	106.751 M
Beta	0.55
EPS (TTM)	$1.02
2008 Estimated EPS*	$1.01
P/E (TTM)	24.51
PEG	1.00
WACC	8.79%
Debt/Equity*	40.00%
ROE	17.80%
Gross Margin*	47.81%
Operating Margin	9.84%
Target Price	$35.96

Source: Yahoo! Finance, *Thompson Financial

Investment Thesis

- **Growth Potential of GeneDx.** GeneDx has the potential for nationwide expansion in esoteric testing. The unique nature of testing, and experienced clinicians and researchers have made GeneDx the major source of growth in 2007 and is expected to continue in the future.

Development of new tests and platforms in esoteric areas will result in a unique product with high margins.

- **Increasing Regional Market Share.** Patient count is up 15% and net revenue per patient is up 9% for the first quarter of 2008 over the first quarter of 2007. They have over 50 clinics in the greater New York area. BRLI attributes their high customer retention to superior marketing representatives and service.

  - **Gross Profit Margin.** BRLI has a gross profit margin of 47.81%, as compared to the industry median of 40.8%. This will remain stable or increase over time through the development of new esoteric tests and platforms, and through decreasing costs in clinical lab testing.

Valuation

A discounted cash flow model with a WACC of 8.80% gives a target price of $35.96, and a potential upside of 43.72%. Adjusting the WACC assumptions leads to a price range of $32.80-$39.67.

		Terminal Growth Rate				
		2.50%	2.75%	3.00%	3.25%	3.50%
WACC	8.20%	$ 37.98	$ 39.34	$ 40.83	$ 42.48	$ 44.30
	8.50%	$ 35.73	$ 36.93	$ 38.24	$ 39.67	$ 41.25
	8.80%	$ 33.69	$ 34.76	$ 35.91	$ 37.17	$ 38.55
	9.10%	$ 31.85	$ 32.80	$ 33.82	$ 34.93	$ 36.14
	9.40%	$ 30.17	$ 31.02	$ 31.93	$ 32.91	$ 33.98

Risks

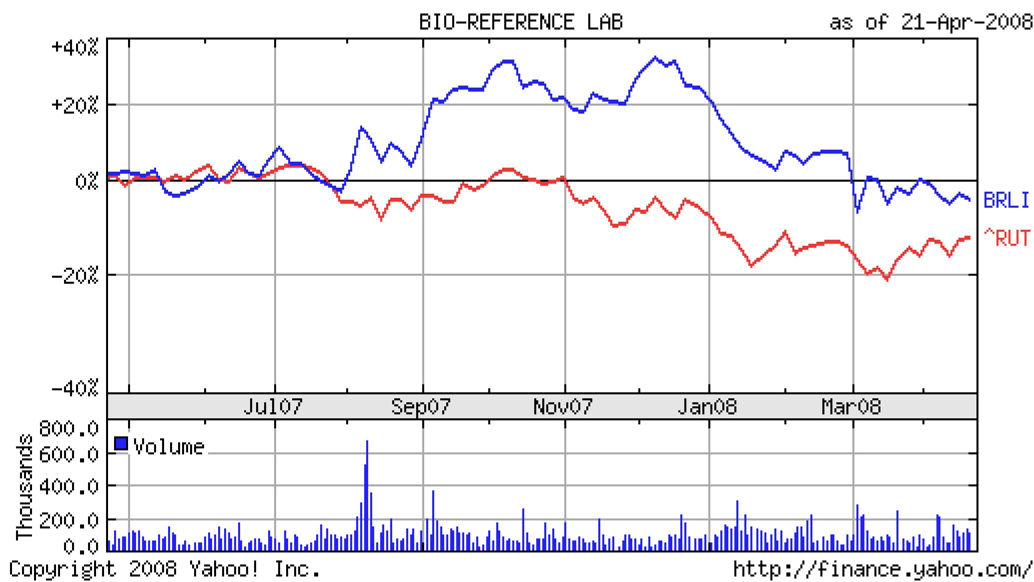
- **Accounts Receivable**. BRLI is paid by government entities, insurance companies, Medicare, and Medicaid. The billing system is very complex where kickbacks and uncollectible accounts have been an issue. AR collection time is currently 133 days, making collections a large area for improvement. The industry days for sales outstanding is 56.

- **Highly Regulated Industry.** Breaking laws or regulations can result in large fines or loss of license. To date, BRLI has no history of compliance issues. Any future issues could result in large losses. Changes in laws regarding Medicare and Medicaid could also negatively impact earnings.

- **Acquisitions.** As BRLI delves further into esoteric testing, nationwide expansion will occur partially through acquisitions. Though management has been very selective in acquiring companies, having recently backed out of an acquisition, smooth integration will be an issue.

Management

Marc Grodman M.D. has been the founder, chairman, CEO, and president since BRLI's founding in 1981. BRLI cites dependence on Gorman as one of their potential weakness if he were ever to leave the corporation.



Ownership

% of Shares Held by All Insider and 5% Owners:	16%
% of Shares Held by Institutional & Mutual Fund Owners:	72%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
ARBOR CAPITAL MANAGEMENT, LLC	732,900	5.32%
NORTHPOINTE CAPITAL LLC	597,306	4.33%
OPPENHEIMER FUNDS, INC.	567,433	4.12%
WASATCH ADVISORS INC	527,135	3.83%
EMERALD ADVISERS	499,660	3.63%

Source: Yahoo! Finance

Cascade Corp.

CAE

Price: $41.32 ($39.70 – 89.87)

Fiscal Year Ends: January 31

April 23, 2008 — Andy Parker

Russell 2000 Index: 703.71 (643.28 – 856.48) — Industrial Materials Sector

Cascade Corporation is the leading global manufacturer and distributer of lift truck attachments. The company's products assist customers in the materials handling process. Their attachments have custom applications that enable lift trucks to engage, lift, and reposition various types of loads and products, such as paper rolls, appliances, canned goods, lumber, and boxed, packaged, or containerized products. Cascade also designs products for construction vehicles, making them capable of performing similar maneuvers. Its biggest customers are companies and industries that use lift trucks to handle materials like pulp and paper, grocery products, textiles, and general consumer goods. The company sells its products in North America, Europe, Asia Pacific (excluding China) and China. Cascade was founded in 1943 in Portland, OR. The company went public in 1965. Its headquarters are now in Fairview, just outside of Portland.

Recommendation

Key Statistics	Apr. 23, 2008
Market Cap	$447.17M
Shares Outstanding	10.82M
Average Volume	129,825
Beta	0.99
EPS (TTM)	$4.88
Debt to Equity (mrq)	0.413
P/E (TTM)	8.47
Dividend Yield	1.70%
PEG	1.37
WACC	10.5%*
ROE	22.29%
ROA	11.41%
Target Price	$52.50

Source: Yahoo! *Bloomberg

Cascade Corporation has found a niche making materials handling devices for a wide variety of customers. CAE's lift truck attachments are essential for shipping and handling many goods. For the past five years FCF/Sales has been above 5% every year, and revenue has grown at 18% on average. Still, the stock has been crushed in the past year. The stock is now priced at only 8.47 times earnings. The industry average is around 15 times earnings. The stock has been trading near its year low since missing analyst expectations of earnings at the end of March. Around 70% of Cascade's annual gross profit comes from the North American market. I believe the stock price has dropped significantly because investors fear the company will not be able to find growth in a slow US economy. CAE controls over 80% of the North American market and also holds significant portions of foreign markets- 35% in Europe and 75% in China- providing real opportunities for growth. Also, with the cyclicality of the industry, Cascade will see improvements in home markets if and when the US economy turns around. I have issued a buy rating on CAE until the company shows it will not be able to profit from operations abroad.

Investment Thesis

- **Strong Customer Relationships.** Cascade works closely with their customers to make sure their specific requests are met. CAE has great relationships with original equipment manufacturers (OEMs) like Toyota and Caterpillar who install Cascade's products before they sell their lift trucks. Original equipment dealers (OEDs), who lack similar name recognition, sell CAE's products to companies in need of special attachments for lift trucks they already own. The sales break down is 40% for OEMs and 60% for OEDs.

- **Attractive Market Niche.** Without the materials handling devices that CAE provides, lift trucks would useless or inefficient at best for many companies. In certain industries, such as paper and pulp or grocery, the attachment can represent 30-35% of the trucks overall value. Cascade supplies OEMs with an essential component of their product, and for reasons of scale they cannot justify producing them internally.

- **Growth in Foreign Markets.** Opportunities in Cascade's three major foreign markets (Europe, China, Asia Pacific) could provide substantial sales as North American markets cool. In the Q4 of FY2008 these three markets grew 11, 31, 18%, respectively, excluding currency changes year over year. These increases in sales are mainly due to the strong lift truck markets abroad.

Valuation

Using a terminal growth rate of 3% and a WACC of 10.2%, my DCF model valued CAE's shares at $53.80 in the base case. A P/E multiple valuation, using industry averages, returned a value of around $62 in the base case because of CAE's extremely low P/E ratio.
I set the target price at a conservative estimate of $53 a year from now.

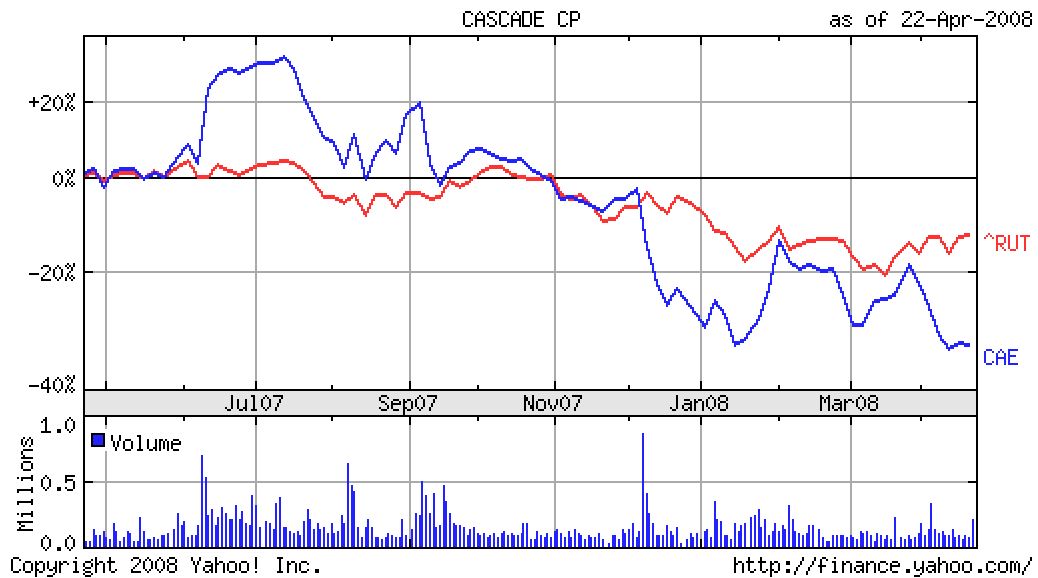
Risks

- **Cyclicality of Industry.** Sales of Cascade's attachments are closely tied to the lift truck market which tends to fluctuate. Lift trucks are considered capital goods because of their longer useful lives. Consumers of capital goods have the ability to delay purchases until they have extra cash to spend.

- **Commodity Prices.** Steel is CAE's primary raw material. They also need aluminum and rubber to manufacture their products. These materials, like other commodities, are becoming more and more expensive in the current market. Cascade runs the risk of not being able to pass these costs onto their customers.

Management

Cascade has been fortunate to have a stable team of top officers. CEO Robert Warren, Jr. and CFO Richard Anderson have both been with the company since 1972, so they have experience in all stages of the business cycle. Warren has been CEO since 1996 and Anderson has held his position since 2001. Management has significant interest in the performance of the stock with their substantial holdings in the firm.



Ownership

% of Shares Held by All Insider and 5% Owners:	23.0%
% of Shares Held by Institutional & Mutual Fund Owners:	85.0%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Price (T. Rowe) Associates Inc	955,550	8.83%
Barclays Global Investors UK Holdings Ltd	604,620	5.59%
Royce & Associates, Inc.	603,293	5.57%
James Investment Research, Inc.	378,792	3.50%
Vanguard Group, Inc.	368,794	3.41%

Source: Yahoo! Finance

Chemed Corp.

CHE

Price: $31.38 ($29.94 - $71.30)

Fiscal Year Ends: December 31

April 23, 2008 — Brian Finnie

Russell 2000 Index: 715.63 (643.28 - 856.48) — Business Services Sector

Chemed Corp. provides essential services to home owners and businesses through its Vitas Healthcare Corp. (Vitas) and Roto Rooter Group wholly owned subsidiaries. Vitas is the nation's largest provider of end-of-life hospice care through 60 operations programs in 15 states. Vitas provides routine home care, inpatient care, continuous care, and counseling through a staff of doctors, nurses, and social workers. Roto Rooter is the nation's leading provider of plumbing and drain cleaning services with more than 110 company-owned branches and approximately 500 franchisees. The company is headquartered in Cincinnati, Ohio, with approximately 11,750 employees. Chemed Corp. was a publicly traded company from 1971 to 1986 as a subsidiary of W.R. Grace & Co. Chemed Corp. acquired Roto Rooter in 1980 and Vitas in 2004.

Recommendation

Chemed Corp. combines two vastly different segments in hospice care and plumbing services that should provide consistent growing revenues. Vitas' revenue growth was high for the industry at 8% in 2007. 70% of CHE's revenue comes from Vitas, which has substantial long term revenue growth prospects from an aging United States population. Roto Rooter has provided consistent revenue growth of 7.5% for the past three years and expectations are for that to continue. Additionally, CHE has a net profit margin of 7.1%, which compares favorably to a healthcare industry with low profit margins. Although CHE's current P/E (TTM) of 20.20 is relatively high, its forward P/E and PEG are relatively low compared to the S&P 500. EPS has grown at a 30% average since Vitas was acquired and consensus expectations are for a 14% increase in 2008. I am recommending that CHE be added to the portfolio as CHE has a large upside and should provide stable growth, regardless of the market conditions.

Key Statistics	Apr. 23, 2008
Market Cap	$954M
Shares Outstanding	24.1M
Beta	1.06
EPS (TTM)	$2.87
F2008 Estimated EPS	$3.05
P/E (TTM)	13.77
Forward P/E	11.10
P/S (TTM)	.88
WACC	10.28%
PEG	.89
ROE	16.28%
Gross Margin	30.3%
Operating Margin	11.16%
Target Price	$55.00

Source: Bloomberg

Investment Thesis

- **Recession Proof.** Vitas operates in a sector of the economy that should maintain growth regardless of broader macroeconomic conditions, as illustrated by 7.9% revenue growth in Q1. Hospice care correlates more closely with the age of the population than with specific business cycles. Meanwhile, Roto Rooter had 0.3% revenue growth in Q1, which while

disappointing is strong for a declining U.S. economy. Plumbing repair and maintenance services are necessary services in any industrialized nation and will remain in steady demand.

- **Aging Population.** Vitas is in good position to take advantage from the aging United States population. From 2010 to 2030 the population of age 65 and above is expected to grow 78%, tilting the distribution of the United States population to 35% as age 50 and over. Sadly, yet inevitably, this shift in population age will increase demand of Vitas hospice care services.
- **Minimal Competition.** Vitas and Roto Rooter are the largest providers in the United States of hospice care and plumbing service, respectively. Vitas main competition is from small, non-profit, community based hospices, while Roto Rooter's main competition is small regional and local servicers. It would be tough for such small companies to combine to be a formidable threat across the nation. Both subsidiaries have the network and corporate support to provide lower cost, quality services as compared to local companies.

Valuation

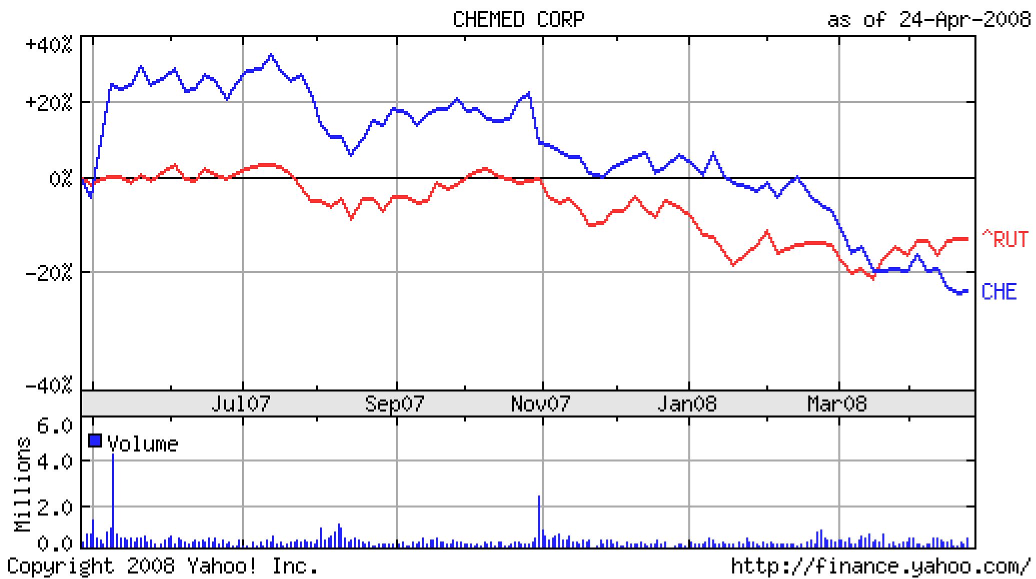
The DCF valuation, using an 10.24% WACC and 4.0% long term free cash flow growth rate, calculated a value of $56.60. CHE is also trading at a discount according to its forward P/E ratio of 12.09 compared to the S&P 500 P/E of 13.94 or the 17.98 P/E of a peer group of the fifty closest companies by revenue in the commercial services industry. Based on the DCF analysis, I am establishing a $55 price target.

Risks

- **Medicare and Medicaid Dependence.** 90% of Vitas revenue comes from Medicare and 5% of their revenue comes from Medicaid. Since 70% of Chemed's revenue is from Vitas, 66.5% of Chemed's revenue stems from Medicare or Medicaid payments. Any adverse changes in Medicare and Medicaid rates could adversely affect the company's financial position. At the same time, if Medicare and Medicaid rates do not rise, Vitas profitability will be dependent upon the ability to manage the costs of providing hospice services.
- **Litigation.** Vitas is in a much regulated industry as citizens lives and information are in their hands. Meanwhile, Medicare also provides stipulations on care and billing procedures. Both of these factors increase the potential for litigation against Vitas. Currently, an investigation is ongoing into whether Vitas allegedly improperly billed Medicare and Medicaid.
- **Future Competition.** There are very low barriers to entry in both the hospice care and plumbing services industries. As long as employees are properly trained (in either plumbing or hospice) and coincide with federal legislation, a company can enter either industry, squeezing Chemed's margins.

Management

Kevin McNamara, 54, is the President and CEO of CHE. He has been with the company since 1986 and has held these positions since 1994 and 2001, respectively. Timothy O'Toole is an Executive VP and has served as the CEO of Vitas Healthcare Corporation since 2004. He has been with the company since 1992 in various management roles. Spencer S. Lee serves as the CEO of Roto Rooter Group and has since 1999. David Williams is the CFO of Chemed and Roto Rooter and has held these positions since 2004 and 1998, respectively.



Ownership

% of Shares Held by Insiders:	6%
% of Shares Held by Institutional & Mutual Fund Owners:	100%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Iridian Asset Management LLC.	1,847,751	7.65%
Bamco Inc.	1,598,200	6.62%
Barclays Global Investors UK Holdings	1,277,163	5.29%
Vanguard Group, Inc.	1,047,948	4.34%
JP Morgan Chase & Company	833,790	3.45%

Source: Yahoo! Finance

Cal Dive International

DVR

Price: $12.22 ($9.05 – 18.62)

Fiscal Year Ended: December 31

April 23, 2008 — Stanley Nunoo
Russell 2000 Index: 721.07 (643.28 – 856.48) — Energy Sector

Cal Dive International (DVR) is a global leader in the marine construction industry. The company provides offshore construction solutions to its customers. For over 30 years the company has provided essential marine contracting services in support of offshore oil and natural gas infrastructure throughout the product life cycle. In 2005, the company acquired all of the diving and shallow water pipelay business of Acergy USA Inc. Cal Dive continued its acquisition campaign acquiring the business of Singapore-based Fraser Diving International in 2006 and Horizon Offshore in December of 2007. The firm was founded in 1975 in Houston Texas. Cal Dive International has operations globally, with market exposure in Gulf of Mexico, Australia, India, Saudi Arabia, Brazil, Southeast Asia, the Mediterranean, and West Africa.

Recommendation

With the recent acquisition of marine construction company, Horizon Offshore, DVR continues to increase its presence as a global provider of diving support services to the offshore oil and natural gas industry. The addition of Horizon Offshore's business line allows DVR to benefit from having significant exposure to each stage of the offshore production platform's life cycle including: infrastructure and installation, production and well remediation, and decommission and salvaging. DVR's management has continued to increase its international exposure, leading to a 22% year-over-year growth in revenue as well as a 7% growth in EBITDA during 2007. The increasingly diversified fleet, enhanced services, and strong customer relationships will enable DVR to continue to expand into high-growth offshore regions worldwide. In addition, because 40% of DVR's revenues are derived from repair and maintenance activities, the company's business model provides an excellent hedge against the volatility in oil prices. The F2008 P/E of 9.48x is below the industry multiple of 12.87x, which provides an opportunity for growth. I am recommending that DVR be added to the AIM equity portfolio with a price target of $16.06.

Key Statistics	Apr. 23, 2008
Market Cap	$1.30B
Shares Outstanding	105.73M
Average Volume	336,239
Beta	0.877
EPS (TTM)	1.36
2008 Consensus EPS	1.22
P/E (TTM)	9.10
Gross Margin	36.46%
Price/Book	2.21
WACC	9.07%
ROE	28.32%
Operating Margin	28.70%
Target Price	$16.06

*Source: Bloomberg

Investment Thesis

- **Leading Market Position.** DVR is currently the leading provider of diving services in the GOM with 23 dive support vessels and three shallow-water pipelay vessels. The company has approximately 70% of the total market share in the GOM by vessel count, up from 50+% two years ago. With over 600 divers, managers and support team, DVR has the largest and most experienced offshore marine contracting team, allowing the company to complete technically complex projects.

- **International Growth Potential.** In 2007, international operations accounted for 25% of total revenue. In the coming year management guides this amount toward 35%, growing toward 50%+ over the next two-three years. DVR presence in Mexico and Southeast Asia and its successful record of making international acquisitions provides a solid base to accelerate the company's international expansion.

- **Diver Demand.** Contracted marine construction services represent 75% of DVR's domestically generated revenues in 2007. These projects include: platform installation, inspection, repair and removal, pipelay, pipe burial as well as abandonment and decommissioning activities. Demands for these services are less cyclical and more stable than those derived from exploration, development and production activities.

Valuation

The 10 year DCF valuation for DVR International with an estimated WACC of 8.93% and a terminal growth rate of 3.0% leads to an intrinsic share price of $16.03, versus the current price of $12.38. Adjusting for WACC assumptions between 8%-10% and terminal growth rate assumptions between 2.0%-4.0%, leads to a price range of $12.14-$23.05. Based on an industry average P/E of 10.6x for firms in the oil and gas services industry, the stock should be valued at $16.05. In addition, a 6.9x 2008 EV/EBITDA multiple of the company yielded a return of $16.09. Accounting for all of these valuations, the target price is $16.06.

Risks

- **Deep Water.** As the international and deep water oil market becomes more attractive, offshore jack-ups have begun to leave the Gulf of Mexico, one of DVR's core areas of performance. Less shallow water drilling activities lead to less front work involving pipelines and platform installations.

- **Seasonality.** Weather conditions play a significant role in determining DVR's performance. Continued warm winter weather would likely lead to lower gas prices and lower activity, but severe winter weather could lead to significant down time for DVR's vessels. Typically the first and fourth quarters are the company's worst.

Management

Cal Dive International is lead by CEO Quinn Herbert, who joined the team in November of 2005 following the Acergy acquisition. The COO, Scott Naughton, has been in position since 2005. Both men have been instrumental in the integration of acquisitions at Cal Dive.

Ownership

% of Shares Held by All Insider and 5% Owners:	1%
% of Shares Held by Institutional & Mutual Fund Owners:	41%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Artisan Partners Limited Partnership	2,420,320	2.30%
JP Morgan Chase & Company	2,417,861	2.29%
Chartwell Investment Partners	2,286,268	2.17%
Times Square Capital Management	1,933,900	1.84%
Alger (FRED) Management Inc.	1,769,484	1.68%

Source: Yahoo! Finance

Kendle International, Inc.

KNDL

Price: $40.09 ($31.22 - $51.60)

Fiscal Year Ends: December 31

April 23, 2008 William Lunkes

Russell 2000 Index: $692.06 ($643.28 - $856.48) Healthcare Sector

Kendle International Inc. is a global clinical research organization that provides a broad range of services for research phases 1 thru 4, in the biopharmaceutical industry. KNDL's areas of expertise include: clinical trial management, clinical data management, statistical analysis, medical writing, regulatory consulting and organizational meeting management, and publications services. Offering high quality clinical research services, KNDL is able to add value to pharmaceutical companies by lowering expenses and speeding up development time. Founded, in 1981, the company employs 3325 employees, 55% of which work outside of the United States in locations in North America, Europe, Asia/Pacific, Latin America, and Africa.

Recommendation

Kendle International experienced 40% revenue growth in the past two years, and with its recent acquisitions, is poised to continue expansion. With CRO spending growing at 20% and 40% in Europe and Latin America respectively, the additions of regional firms CRL Clinical Services and IC Research will allow KNDL to better profit from this increase. This growth has been fueled by cost pressures in the pharmaceutical industry as drug companies are now using CROs more to drive down costs and speed development. Additionally, the company has diversified revenue stream. As of FYE2007, no company accounted for more than 10% of KNDL's revenues and the top 5 customers only accounted for 25%, providing a buffer to any possible revenue shock. While the market has adjusted rather well to KNDL, a 22% upside is realizable using conservative drivers. With this, a recommendation to buy has been made to take advantage of the growth potential the company has positioned itself to realize. KNDL does not pay dividends.

Key Statistics	Apr. 23, 2008
Market Cap	$589.3M
Shares Outstanding	14.7M
Average Volume	175,380
Beta	.88
Diluted EPS (TTM)	$1.26
P/E (TTM)	26.88
P/S (TTM)	1.08
Price/Book	4.38
WACC	8.84%
ROE	13.27%
ROA	5.97%*
Gross Margin	44.91%*
Operating Margin	11.40%*
Target Price	$49.20

Source: Bloomberg, Thomson*,

Investment Thesis

- **Growth.** By the end of 2006, the Clinical Research Organization market was valued at roughly $14B. With growth estimates ranging 14%-16%, the market is expected to be $24B by 2010. Additionally, clinical research spending is growing at 20%, 40%, and 5% in Europe, Latin America, and the U.S. respectively. KNDL, with its recent acquisitions is well poised to take advantage of this growth.
- **Key Acquisitions.** In 2006 KNDL acquired International Clinical Research which operates in Argentina, Brazil, Chile and Colombia. Additionally, the company acquired the Phase II-

IV Clinical Services business of Charles River Laboratories International Inc, which will give KNDL better access to Europe and Russia. With 50% of 2007 revenues derived in high growth foreign markets, the company is positioned well. The CRL acquisition is responsible for 28% of the 2007 North American revenue growth and 50% of European growth.

- **Diversification.** The company has healthy revenue diversification. In 2007, no single company accounted for more than 10% of revenues. Additionally, KNDL's top five customers combined only account for 25% of the total revenues generated.
- **Management.** KNDL recently made strategic moves to expand its upper management by promoting Simon S. Higginbotham to President, and hiring Alan Boyce to fill the roles of VP and CMO. Mr. Boyce has extensive experience in foreign CRO markets and will help focus the company on continuing to grow abroad.

Valuation

Using a discounted cash flow evaluation of KNDL and assuming a perpetuity growth between 2.5% and 3.5% results in an intrinsic value between $28.17-$124.19. Further analysis indicates a stronger upside as 2/3 of the values are above the current price of $40.09.

	Present Value of Equity Per Share at Perpetuity			
		2.5%	**3.5%**	**4.5%**
	6.8%	$66.23	$86.51	$124.19
	7.8%	51.33	63.54	83.07
WACC	8.8%	41.15	49.20	60.97
	9.8%	33.77	39.41	47.17
	10.8%	28.17	32.30	37.74

Risks

- **Trends.** The company's business relies on the continuation of the current trend of pharmaceutical companies outsourcing R&D expenditures. Reduction of drug R&D as well as mergers of large drug companies to reduce drug costs could hurt KNDL as there would be fewer contracts on the market.
- **Termination.** KNDL is exposed to risk of clients terminating contracts with little warning. If a major contract is canceled for any reason, the company's future revenues and expected profitability could suffer.
- **Contract Prices.** The company currently uses fixed prices in its bids for contracts. Should the company underestimate its costs, through underbidding or poor planning, revenues would be adversely affected.
- **International.** KNDL operates globally and 50% of revenues were earned outside of the United States. The company is exposed to many risks associated with international business, such as: political instability, currency exchange rates, foreign tax policies, and foreign legislation.

Management

In April 2008, KNDL promoted Simon S. Higginbotham to president, and Alan Boyce was hired to fill the roles of VP and CMO. Through all of this, Candice Kendle has remained CEO since Co-founding the company in 1981.

Ownership

% of Shares Held by Insiders and 5% Owners:	12%
% of Shares Held by Institutional & Mutual Fund Owners:	100%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Independence Investment LLC	1,007,200	6.84%
Earnest Partners LLC	749,223	5.09%
AXA	688,948	4.68%
Allianz Global Investors of America L.P.	686,770	4.67%
Thompson, Siegel &Walmsley Inc.	685,171	4.66%

Source: Yahoo! Finance

Monro Muffler Brake, Inc.

MNRO

Price: $16.67 ($14.70-$26.14)

Fiscal Year Ends: March 31

April 23, 2008 — Andrew Knapp

Russell 2000 Index: $703.71 (697.80-715.98) — Consumer Service Sector

Monro Muffler Brake, Inc., together with its subsidiary, Monro Service Corporation, provides automotive undercar repair and tire services in the United States. It offers a range of services on passenger cars, light trucks, and vans for brakes; mufflers and exhaust systems; and steering, drive train, suspension, and wheel alignment, as well as provides other products and services, including tires and maintenance services. In addition, Monro replaces and services batteries, starters, and alternators, as well as offers air conditioning services. The Company currently operates 720 stores and has 14 dealer-operated stores under the Monro Muffler Brake & Service, Tread Quarters Discount Tire, and Mr. Tire names. The company was founded in 1957 by Charles August and is headquartered in Rochester, New York.

Recommendation

Monro obtains its revenues through a diversified service line specializing in undercar repair. The majority of the company's revenues are driven by three main components that focus on periodic service: Maintenance (31%), Tires (24%), and Brakes (23%). The company's quality work and customer friendly approach have propelled them to its position as one of the top undercar specialists in the country. The company has experienced an average sales growth of 10% over the past five years and Q3 sales have increased 4.4% YOY. Monro's continuous efforts for expansion have not slowed as the company has seen a 25% net increase in stores since 2003. Many of these new stores have been obtained through acquisitions of smaller shops, with the most recent acquisitions of Valley Forge and Craven Tire & Auto in July 2007. These acquisitions are expected to continue into the future and have been funded in majority by cash flows and a credit facility. Given certain economic conditions, a relatively conservative DCF and P/E multiples analysis of the company has yielded a per share target price of $20.00. With a potential upside of 20%, I am recommending the addition of Monro Muffler, Inc. to the AIM portfolio.

Key Statistics	Apr. 23, 2008
Market Cap	$307.73M
Shares Outstanding	18.46M
Average Volume	153,229
Beta*	1.06
EPS (TTM)	$1.07
2008 Estimated EPS*	$1.02
P/E (TTM)	15.75
P/B*	1.80
WACC	9.00%
Dividend Yield	1.44%
ROE	12.24%
ROA	7.38%
PEG	1.09
Operating Margin	9.31%
Target Price	$20.00

*Source: Yahoo! Finance, *Thomson One*

Investment Thesis

- **Good Demand for Repair Services.** According to industry reports, the demand for repair services has increased due to the general increase in amount of vehicles registered, miles driven, average age of vehicles, and increased complexity of vehicles. The report also notes

the decrease in amount of active repair outlets as fewer gas stations now perform undercar repairs.

- **Strong Growth Prospects.** Monro has established its reputation as one of the fastest growing automotive repair companies in the country. Led by strong management, the company is attempting to maximize shareholder return through its stock repurchase program, new store expansion, and continual acquisitions. New President John Van Heel will lead acquisition efforts, an area in which he has extensive experience.
- **Quality Service and Staff**. Monro guarantees the quality of its work and the company makes an effort to provide total customer satisfaction. This is accomplished through the retention of its qualified technicians. High retention is achieved through competitive compensation, benefits, and a 401k profit sharing plan. The company also looks to hire employees on the basis of long term commitment.

Valuation

A DCF valuation for Monro was performed using three scenarios: Base, Bear, and Bull. The relatively conservative Base DCF indicates an implied intrinsic value of $19.96. When adjusting for WACC and Terminal Growth assumptions, a sensitivity analysis reveals a price range of $14.99-$28.39. This data was compared with the Bear and Bull DCF valuations ($18.00-$27.33) and a multiples analysis, in which an industry P/E multiple of 18.76x was found ($20.07). Taking each method and its result into account, a target price of $20.00 was established.

		Terminal Growth Rate				
		2.0%	**2.5%**	**3.0%**	**3.5%**	**4.0%**
WACC	**7%**	$26.80	$29.89	$33.82	$38.94	$45.90
	8%	$21.05	$23.04	$25.43	$28.39	$32.13
	9%	$17.01	$18.37	**$19.96**	$21.85	$24.14
	10%	$14.02	$14.99	$16.11	$17.40	$18.92
	11%	$11.71	$12.43	$13.25	$14.18	$15.25

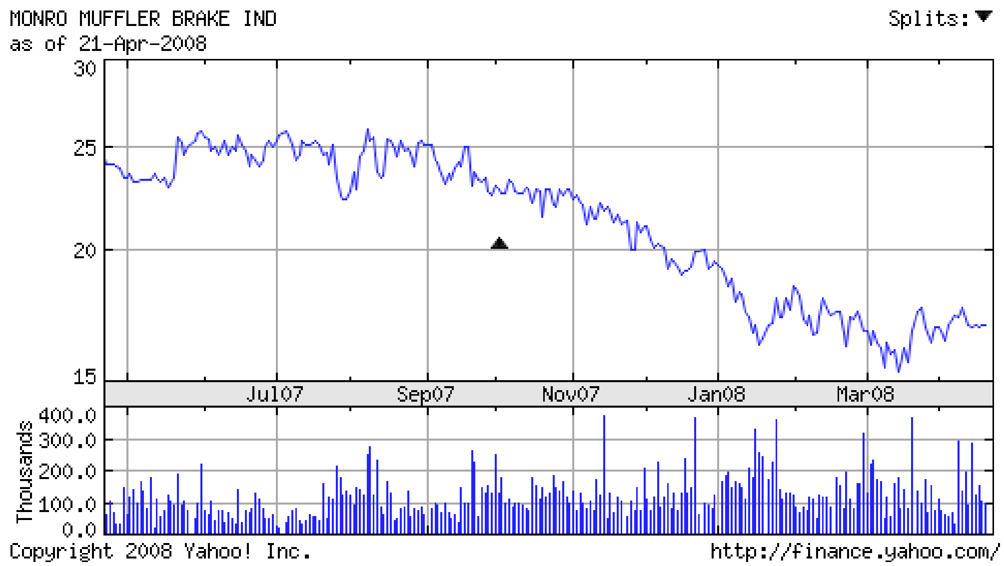
Risks

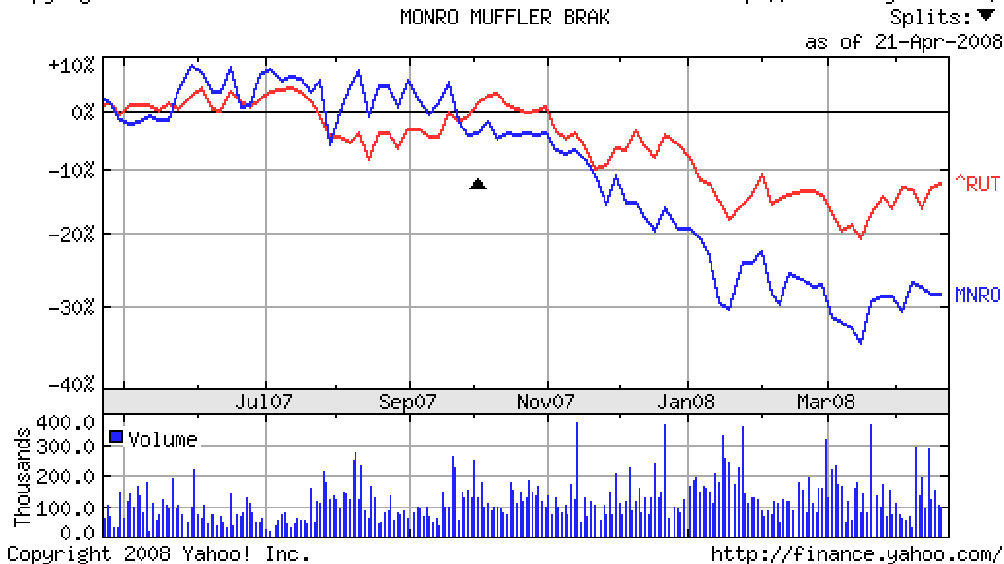
- **Economic Conditions**. In the event of an economic downturn, consumers may defer or forego maintenance or repair on their vehicles. Contrastingly, with good economic conditions customers may opt to purchase new vehicles rather than service old ones.
- **Seasonality/Gas Prices.** While the industry considers it to be relatively low in effect, some seasonality does exist. The industry experiences higher revenues during warmer months (Mar.-Oct.) which is attributed to the amount of miles driven. Also, as gas prices go up the average amount of miles driven by customers goes down. This can adversely affect the amount of business Monro receives.
- **Pricing Pressure.** Monro seeks to offer competitive prices. If competitors reduce prices, Monro may be forced to reduce their own, which could have a material adverse effect on its business, financial condition, and results of operations.

Management

Monro is led by Chairman and CEO Robert Gross who has been with the company since January of 1999. John Van Heel was recently promoted to the position of President effective March 31,

2008. Prior to his position as President, Van Heel served as the company's Executive Vice President and has worked largely with acquisitions, logistics, and facilities. Van Heel has been with Monro since October of 2002. Catherine D'Amico is the company's CFO.





Ownership

% of Shares Held by All Insider and 5% Owners:	7.22%
% of Shares Held by Institutional & Mutual Fund Owners:	91.60 %

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Price Associates Inc.	1,693,500	9.17%
Wells Fargo & Company	1,359,834	7.37%
Times Square Capital Management	993,274	5.38%
Bank of America Corporation	930,179	5.04%
Vaughan, Nelson, Scarborough & McCullough LP	833,202	4.51%

Source: Yahoo! Finance

Max Capital Group Ltd.
MXGL
Price: $23.76 (23.25 - 30.61)
Fiscal Year End: December 31

April 23, 2008 — Kyle Zabel
Russell 2000 Index: $708.16 (643.28 - 865.48) — Financial Services

Max Capital Group Ltd. is a diversified international provider of reinsurance and specialty insurance to corporations, public entities, property & casualty insurers, and life & health insurers. Max operates through five major subsidiaries: Max Bermuda, Max Europe Holdings, Max Specialty (USA), Max Diversified, and Max Managers. These segments work to serve both the North American and European markets (45% revenues are non-US). Revenues are generated from underwriting profits (premiums) and investment income. While there are many competitors in the industry, few can boast such a diversified business model. Max offers nine P&C reinsurance lines, four P&C specialty insurance lines, three Excess & Surplus lines, as well as life & annuity reinsurance. The company (formerly Max Re., MXRE) was established in 1999, went public in 2001, employs a staff of over 200, and is headquartered in Hamilton, Bermuda (with major corporate offices in Dublin, Ireland and Richmond, VA).

Recommendation

Max is attractive primarily because of its diversified insurance platform. It should continue to perform well in the long term and with less risk than many peers. Not only does the company provide reinsurance, but also specialty lines including marine, aviation, worker's comp, medical malpractice, professional liability, and others. Also, with the new formation of Max Specialty and the purchase of Travelers Indemnity to extend reach into the U.S. market, the company continues to show its desire to add book value. With revenues & EPS up 34% & 40% from last year, F2007 was an exceptional year for Max, but unfortunately one that will not be replicated in F2008 as the markets soften. On these expectations, the stock has been hit hard. However, Max is a solid company with a very profitable average combined ratio of 92% over the last three years, even when including the F2005 hurricane season of Katrina and Rita. Investment yields have been consistently above benchmark in recent years, and reduced exposure to alternative investments will mitigate risk moving forward into F2008. I foresee a dampened performance this year, but Max is geared to outperform when the industry pricing environment turns in their favor. With the stock trading below book value, at a bargain to its peers, and providing dividend yield, I see this as a smart purchase on long-term play. I therefore recommend MXGL as an addition to the AIM portfolio at a weight of 1% or 200 shares.

Key Statistics	Apr. 23, 2008
Market Cap	$1.33B
Shares Outstanding	56.10M
Average Volume	509,105
Beta	0.88
EPS (ttm)	$4.81
Est. F08 EPS	$3.37
P/E (ttm)	4.92
PEG	0.88
P/B (ttm)	0.86
ROE	20.4%
Operating Margin	29.0%
Debt/Assets	6.57%
WACC	9.03%
Combined Ratio	0.88
Est. F08 Combined Ratio	0.92
Dividend Yield	1.44
Target Price	$31.00

Sources: Bloomberg, Morningstar Direct

Investment Thesis

- **Diversification.** Max maintains its strong initiative to diversify and hedge risk. Initially a classic reinsurer with intense exposure to risky high-yield investments, Max now runs 18 business lines including specialty insurance, life & annuity, and international reinsurance. Alternative investment exposure has decreased (to 20% of holdings), investment grade bonds strengthen their Fixed Income portfolio, and sub-prime losses are relatively immaterial (at about $18M).
- **Increasing Market Reach.** Last April, MXGL created Max Specialty as a reach to U.S. Excess and Surplus insurance lines. Management indicated that organic growth in F08 should stem from Specialty in its first full fiscal year. Moreover, in March Max purchased a segment of TRV called Travelers Indemnity so that it is now licensed to write in all 50 states. Max also continues to enjoy business in much of Europe through its Dublin subsidiary (Max Europe Holdings).
- **Share Repurchases.** Management spent $114M to buyback 4M shares in F2007, bought another $100M worth in January, and has set aside $50M to purchase more before the end of 1Q08. Max feels that its continued growth in book value and recent declines in stock price have made shares very attractive.

Valuation

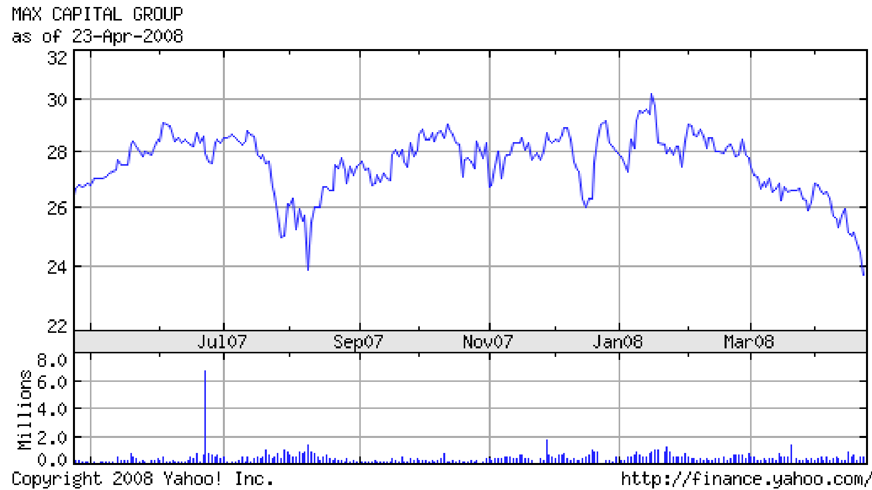
Max presents difficulty in utilizing typical DDM or DCF methods, primarily because of the nature of its industry. Thus, my valuation was limited to a multiples approach. Based on a P/E model in relation to the Russell 2000 Financials Index, Max should be trading at 10-11x earnings, yielding a $36-40 price range. However, based on a P/E model in relation only to direct industry peers, Max should be trading at 7-8x, yielding a more conservative price range of $23-31. Finally, based on a P/B comparison of direct peers, Max should be trading at 1.1-1.2x book, or a $31-33 range. In light of these valuations, the company's attractive business model, and analysts' consensus, I am establishing a $31 price target. As such, the potential upside is about $7/share, or 29%.

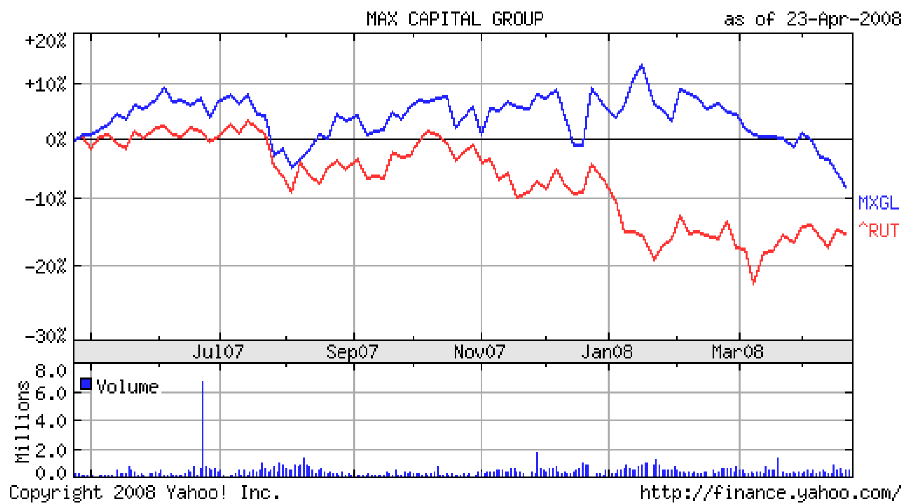
Risks

- **Catastrophic Events.** Insurance providers are in the business of absorbing and spreading risk. The incidence and severity of catastrophes are unpredictable and claims from such events could bring increased earnings volatility. Max's total loss potential is limited to 20% of equity in any "1-in-250 year" event, as Max has reduced its exposure through added reinsurance protection.
- **Price Pressures.** Competition is fierce as entry barriers are low, and pricing is often cyclical in regard to industry capacity. Premium rates are softening, and F2008 guidance is relatively flat for gross premiums written. To retain accounts, Max has had to discount some prices 5-15%. This places more pressure on the new Max Specialty and Travelers Indemnity divisions as they may have to carry the team.
- **Investment Portfolio.** Almost 30% of F2007 revenues were from investment gains. 79.3% of Max's portfolio is in Fixed Income and 20.9% in Alternative Investments. A rise in interest rates would hurt the Fixed Income, and continued volatility in the markets would hurt Alternatives. On 4/18/08 management projected a -2.1% return in Alternatives for 1Q08, relative to a -4.3% return in the HFRI Hedge Fund Index benchmark. F2008 EPS projections were adjusted and the stock was hit.

Management

Upper management has seen change in the past few years. W. Marston Becker began as Chairman and CEO in October 2006. He is a CPA, an admitted attorney in West Virginia, and has been involved in upper management with several reinsurance firms since 1994. One year ago, Joe Roberts became Executive VP and CFO after serving since 2002 as MXGL's controller. This new team has been in place for only a short time, but results have been excellent thus far.





Ownership

% of Shares Held by Insiders:	19%
% of Shares Held by Institutional & Mutual Fund Owners:	76%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Shares Outstanding
T. Rowe Price Associates Inc.	3,118,300	5.56%
FMR LLC	2,716,359	4.84%
Goldman Sachs Group Inc.	2,467,571	4.40%
Moore Capital Management LLC	2,333,334	4.16%
Massachusetts Financial Services Co.	1,907,880	3.40%

Source: Yahoo! Finance

NATCO Group, Inc.
NTG (NYSE)
Price: 52.78 (37.13-60.40)
Fiscal Year Ends December 31

April 23, 2008 Philip Benedict
Russell 2000 Index: 707.49 (643.28-856.48) Energy Sector

NATCO Group, Inc. (NTG) is a leading oil technologies firm that produces process systems and services for oil and gas companies worldwide. NTG has a portfolio of proprietary technologies and products holding over 50 patents and trademarks. NTG's principal products separate hydrocarbon streams into oil, gas, and water while removing contaminants such as salt and CO_2. Management plans to accelerate growth through strategic acquisitions which add new or complementary technologies and by international joint ventures with local, experienced partners who share risk and cost. NTG earned 50% of revenues in 2007 from international operations in the Middle East (8%), Asia (16%), Latin America (7%), Europe (4%), Africa (6%), and Canada (9%). After a restructuring in 2007, NTG operates three business segments: Integrated Engineered Solutions, Standard & Traditional Equipment Sales and Service, and Automation & Controls. Senior management has an average of over 20 years of industry experience.

Recommendation

NTG's diversified line of products improves customer performance and efficiency while lowering operating costs. The changing profile of existing oil and gas reserves results in lower quality or higher contaminants in hydrocarbon streams. This requires retrofitting more sophisticated and innovative equipment to extract salable gas and oil, NTG's area of expertise. On October 30th, 2007 NTG announced a joint venture in Saudi Arabia to manufacture and sell separation and treatment products for drilling, refining, and petrochemical markets in the Middle East, a project management guides has the potential to add $.25-$.30 to 2009 EPS. In January NTG purchased a gas and oil measurement equipment firm for $23MM in cash, which management says will be accretive to 2008 EPS and gives NTG entry into new market segments including transportation, processing, and storage.

Key Statistics	Apr. 23, 2008
Market Cap	$998.2MM
Shares Outstanding	19.9MM
Avg. Volume 3mo.	349,508
Beta*	1.53
FY07 EPS*	2.35
FY08E EPS*	2.80
P/E TTM*	22.72
P/E Forward*	18.6
P/S TTM	1.65
WACC*	13.13%
ROE*	21.33%
Gross Margin*	27.7%
Operating Margin*	12.6%
Net Margin*	7.9%
Target Price	$67.00
Yahoo! Finance, Bloomberg*	

Investment Thesis

- **Intellectual Property.** NTG has R&D facilities in California, Oklahoma, and the UK with a new state-of-the-art R&D facility under construction in Texas which will be completed by 2009. In 2007, NTG expanded its R&D workforce 54% to 40 and will continue to hire staff in 2008.

- **Testing Capabilities.** NTG's facilities conduct tailored studies and testing to ensure all customer specifications are met at the appropriate cost and to establish performance guarantees. With customers in attendance, NTG runs client crude samples on their technologies as-well-as comparison runs on competitor products to demonstrate their relative performance.

- **International Growth.** NTG has operated internationally for over 50 years and plans to increase global market share through strategic alliances in new and existing markets. The firm has existing joint ventures in Angola, Malaysia, Japan, and Saudi Arabia.

- **Strong Financial Position.** NTG currently has no debt and $87.2MM in liquidity (cash and credit facility) with an option for an additional $50MM increase in credit. Management intends to fund future capital expenditures and acquisitions through cash from operations.

- **Restructured Operations.** NTG just completed a restructuring in 2007 and is implementing an Enterprise Resource Planning system in 2008 to improve its supply chain and IT management. As a result, management expects improved margins going forward through lower operating costs and increased productivity.

Valuation

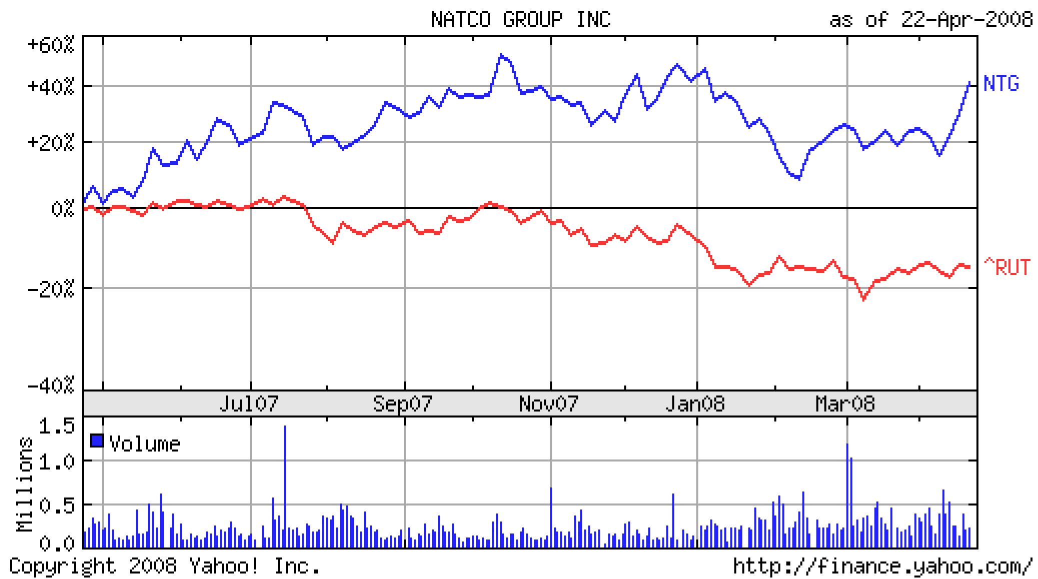
The ten year discounted cash flow valuation yields an intrinsic value of $62.25. Adjusting for WACC and scenario assumptions, a price range of $44.93 to $79.71 was found. Based on an industry forward P/E of 23.6x for oil and gas firms, NTG should be valued at $66.79. Based on an industry forward PEG ratio of 1.63 for oil and gas products and services firms, NTG should be valued at $95.14. Considering all metrics, a price target of $67.00 is reasonable.

Risks

- **Concentration of Customers.** No single customer comprises greater than 10% of total revenue, but the old Gas Technologies and Automation & Controls segments, which comprised 36% of total revenue, relied on a few customers for a significant portion of their revenue.

- **Acquisition and Expansion Failure.** There is significant risk the company may not be able to effectively integrate new acquisitions or have sufficient capital to continue its expansion and acquisition strategy. Operations in the Middle East, Asia, Africa, and Latin America are not without significant risks.

- **Commodity Price Sensitivity.** NTG's business is highly correlated to demand for oil and gas products and the exploration and development of oil and gas reserves. A decline in these activities could adversely affect the market for NTG's production equipment and services. Cost increases in raw materials, labor, and transportation are generally passed on to customers but margin compression concerns remain for fixed price contracts.



Ownership

% of Shares Held by Insiders and 5% Owners:	18%
% of Shares Held by Institutional and Mutual Fund Owners:	77%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent Outstanding
Neuberger Berman, LLC	2,439,484	13.03%
FRM LLC	1,912,440	10.21%
Keeley Asset Management Corp.	1,000,678	5.34%
Times Square Capital Management	897,850	4.80%
Westfield Capital Management	580,150	3.10%

Source: Yahoo! Finance

Netgear, Inc.
NTGR
Price: $19.60 ($18.15 – $41.33)
Fiscal Year Ends: December 31

April 23, 2008
Russell 2000 Index: 703.71 (643.28 - 856.48)

Kevin Roloff
Hardware Sector

Netgear Inc. designs, develops and markets networking products for homes and small businesses of less than 250 people. Their product offering contains both wired and wireless products in three major classes: Ethernet Networking, Broadband, and Wireless Networking. Their products enable customers to share Internet access, files, multimedia, content, and applications across local area networks (internal) and the World Wide Web (external). To appeal to homes and small businesses, Netgear produces products that are easy to use, reliable, and affordable. Products are sold through traditional retailers (Best Buy, CompUSA, and Staples), online retailers (Amazon.com and Ebay), wholesale distributors, and broadband service providers (Time-Warner Cable, Comcast, and Charter Communications). The company was incorporated in Delaware in 1996, and its headquarters are located in Santa Clara, CA. NTGR went public on the NASDAQ exchange in 2003.

Recommendation

Key Statistics	Apr. 23, 2008
Market Cap	$702.3M
Shares Outstanding	35.327M
Average Volume	491,168
Beta	1.47
EPS (TTM)	$1.28
2008 Estimated EPS	$1.80
P/E (TTM)	15.29
P/E (Forward)	9
PEG (5 yr expected)	.64
WACC	12.56%
Debt	0
ROE	13.80%
Gross Margin	35.00%
Operating Margin	12.00%
Target Price	$30.00
Dividend yield	0%

Though most of Netgear's competitors (Linksys, 3Com, D-Link, Dell) were founded in the 1980s, Netgear has caught up to them in a hurry and is currently number one or number two in all the markets it competes in. NTGR's RangeMax product line vaulted them to the top spot in market share position worldwide for high speed wireless networking. Aside from growing the top line, management has continued to expand margins and build brand recognition. Gross margin and operating margin have increased by 9% and 7%, respectively, over that last 5 years. This is due in part to the continued emphasis NTGR has on innovation. An example of such innovation is embodied by a new product introduced for internet service providers. This device includes a DSL modem, wired router, wireless router, print server; and it is VOIP enabled, connects to mobile phones and has a SIM card slot. This innovation would enable service providers to grab 100% of a consumer's telecommunications budget with one device. Based on the assumption that NTGR stock is undervalued and the fact that the AIM portfolio does not include a company with activities in the data networking industry, I recommend adding this stock to the portfolio at its current market price.

Investment Thesis

- **Market Expansion.** Sales in the networking hardware and equipment market totaled $9 billion in 2004. The market is expected to grow to $21 billion by 2009, which is an annualized growth rate of 26%. Since 1999, NTGR has experienced a CAGR of 26%. Growth is fueled by the desire of customers for perpetual internet connectivity, faster connections, increased network security, and mobility.

- **Trends in networking.** NTGR is poised to capitalize on the newest trends in technology, especially those related to the transfer of music, movies, and applications over the internet. Also, they have embraced the development of VOIP communication by creating phones that use wireless internet to connect users. Furthermore, analysts predict that future home networks will include stereos, telephones, digital video recorders, and home appliances, in addition to computers. Given their dedication to innovation, this could be a market that NTGR chooses to exploit.

- **International Revenue.** The majority of NTGR's revenue comes from international sales: 62% in 2006 and 65% in 2007. Sales in EMEA grew 50% from '05 to '06 and 28% from '06 to '07. APAC sales grew 34% from '06 to '07. With a weakening US Dollar, increased foreign dependence should boost revenues.

Valuation

Using a WACC of 12.6%, the DCF model yielded an intrinsic value of $32.38. Comparing the current industry PE of 20.9 to NTGR's 2007 earnings of $1.68, a price of $35.11/share is derived. After comparing these estimates of intrinsic value, a target price of $30 was established. NTGR currently trades at $19.60, which suggests an upside of 53%.

Risks

- **Competition is fierce.** A lot of competitors have longer histories, greater name recognition, and substantially greater resources than NTGR. NTGR anticipates competitors to intensify their efforts to gain share in NTGR's current markets. This may reduce NTGR's revenues due to loss of market share or price slashing.

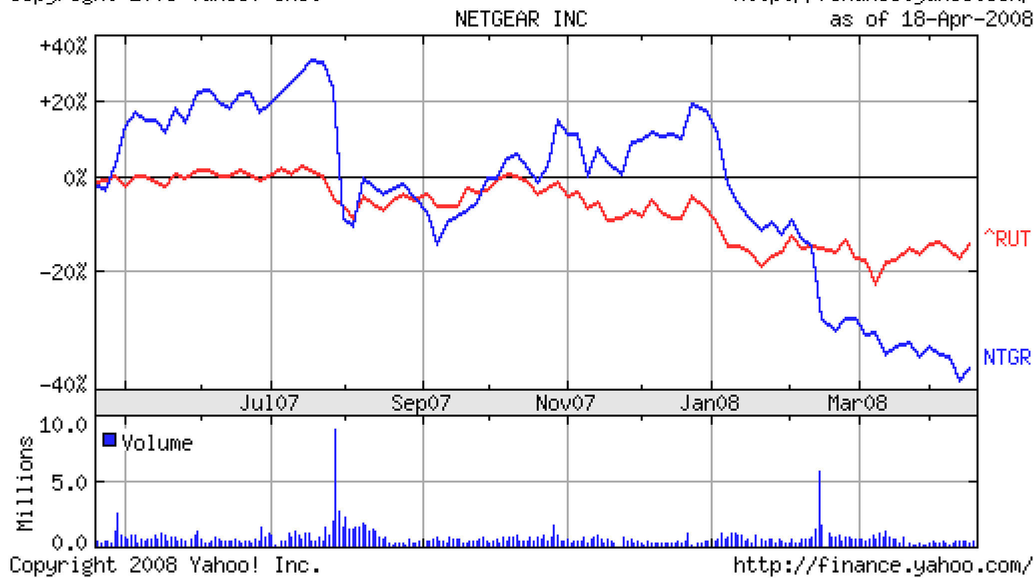
- **Revenue Concentration.** At the end of 2007, Ingram Micro, Inc and Tech Data Corporation (IT distributors) accounted for 17% and 14% of revenues, respectively. However, these percentages have declined from 19% and 16% in 2006, respectively.

- **Freight Costs.** Increased operating expenses, mainly due to higher than anticipated freight costs, caused NTGR to miss EPS in Q4F07 and may adversely affect future earnings. In addition to increased operating costs due to rising oil prices, high gas prices may also lead to reduced consumer spending.

Management

NTGR is lead by Patrick Lo, Chairman and CEO, who has been with the company since the inception of the business. Michael Falcon, Senior VP of Operations joined NTGR in 2002 after serving as VP of Operations at Quantum Corporation since 1999. Christine Gorjanc was

promoted to CFO from VP of Finance in November of 2006. Christine has been with the company since November 2005.



Ownership

% of Shares Held by All Insider and 5% Owners:	1%
% of Shares Held by Institutional & Mutual Fund Owners:	102%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Fidelity Low Priced Stock Fund	3,461,327	9.80%
Bank of New York Mellon Corporation	2,351,132	6.66%
AXA	2,072,366	5.87%
Barclay's Global Investors UK Holdings LTD	1,924,723	5.45%
Columbia Wanger Asset Management, L.P.	405,314	3.36%

Source: Yahoo! Finance

NTELOS Holdings Co.
NTLS
Price: $24.84 ($18.47-33.02)
Fiscal Year Ended: December 31

April 23, 2008 — Jason Rector
Russell 2000 Index: 703.71 (643.28 – 856.48) — Telecommunications Sector

NTELOS provides telecommunications services in the United States and is the leading provider in Virginia and West Virginia. They also provide service to customers in Kentucky, Tennessee, Ohio, and North Carolina. The company offers wireless and wire line services and the majority of business comes from personal communication services (PCS), local and long distance telephone services, and broadband and DSL internet services. As of December 31, 2007 they operated over 44,000 RLEC telephone access lines, and owned a 2,110-mile regional fiber optic network. The company was founded in 1897 and is headquartered in Waynesboro, Virginia.

Recommendation-

NTELOS offers a wide variety of telecommunications services. Because of this diversity they are protected against the recent trend of customers using exclusively wireless products over land line. There is lots of room for the wireless business to grow because of this trend and the strategic network alliance the company has with Sprint-Nextel. This alliance is what prompted them to upgrade their network to Evolution-Data Optimized Rev A Technology. This is the latest technology that all companies will eventually upgrade to. It's approximately 10x faster than the current network, but its capabilities are only for data not voice services. They are on schedule to finish implementation one year ahead of time, by the end of 2008. Even though the competition in the wireless service industry has driven down the per minute rate for service each of the past three years, NTELOS's relationship with Sprint-Nextel and their wholesale business in general should offset the risk. As long as Sprint does not experience any further troubles financially NTLS should be in good shape through 2015. The company is very young and because of that its dividends and dividend yield are both expected to increase.

Key Statistics	Apr. 23, 2008
Market Cap	$1,094.29M
Shares Outstanding	42.088M
Average Volume	292,184
Beta	1.92
EPS (TTM)	$0.77
2008 Consensus EPS	$0.87
P/E (TTM)	33.77
Profit Margin	6.49%
Price/Book	6.20
WACC	10.44%
ROE	20.09%
Operating Margin	20.03%
Payout Ratio	39%
Dividend	2.8%
Yield(2007)	$35.48
Target Price	

*Source: Bloomberg

Investment Thesis

- **Strategic Network Alliance.** NTELOS has a deal with Sprint-Nextel through 2015 that states that NTELOS will be the exclusive provider of PCS services for the national company. The deal currently brings in $8.0 million per month.
- **Healthy Ratios and Recent Growth**. Due to significant investments in their wireless network the past three years the company has seen a 10.8% increase in subscribers from

2006-07. Also, the investment to upgrade their network to Evolution-Data Optimized (EV-DO) has helped wholesale revenue increase by 23.4% from 2006 to 2007. Total quarterly revenue has increased 12.40% from Q1-2007 to Q1-2008. Finally, their ROE of 20.09% and profit margin of 6.49% are high compared to the industry average.

- **Growing Earnings and Dividends.** Their dividend yield is expected to grow from 2.8% to over 3% in 2008 and the company states that they will continue to increase dividends as long as they are able financially. Their earnings are expected to grow 12% in 2008 and 39% in 2009 (to $0.86, and $1.21 respectively).

Valuation

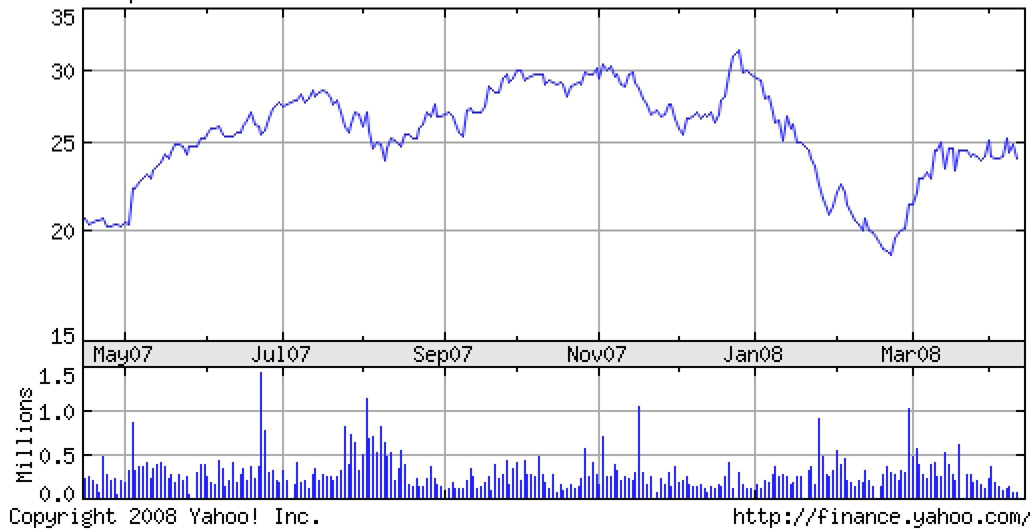
A DCF analysis assuming a WAAC of 10.44% yielded an intrinsic value per share of $33.97 per share. This model predicts revenue growth starting at 12% and declining to 6% throughout the next ten years. An EV/EBITDA model found a multiple of 8.37 and an estimated enterprise value of $2,116 million and an intrinsic value per share of $36.99. These models together provide an average intrinsic value per share of $35.48 which would yield a one year return of 36.46%.

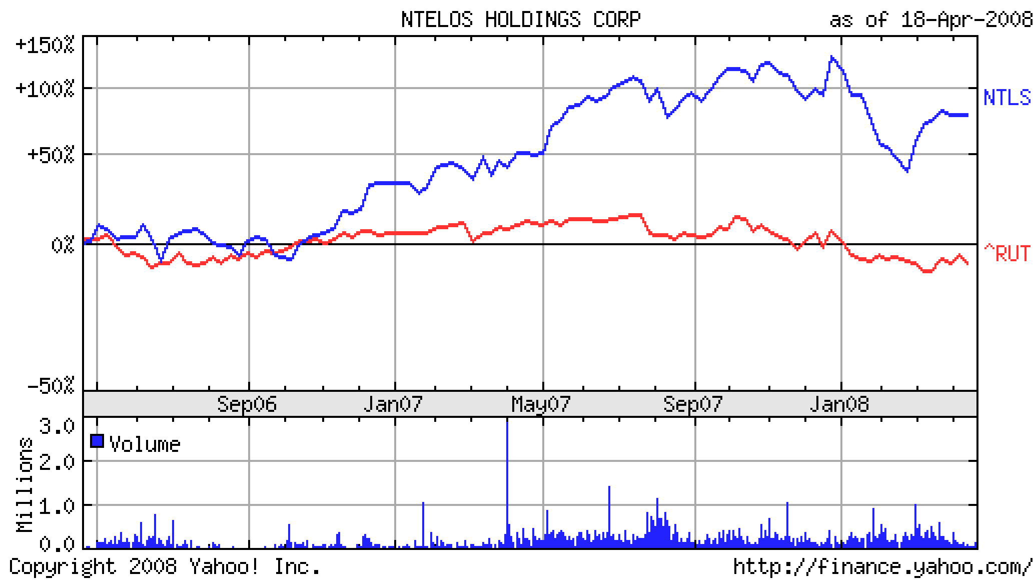
Risks

- **Competition.** The only real way to give your firm a differential advantage in this industry is to come out with a technology before competitors, to have more resources than competitors, or to lower prices. Ntelos has advertised no new technology, is a small cap company in a large cap dominated sector, and cutting prices would start a price war which would hurt the company's margins and returns.
- **New Technology Threatens Long Distance.** In the years to come the internet is starting to take over the long distance business as it is close to free for customers to make calls over the internet rather than pay for long distance plans. This is obviously a concern for the wire line services provided by NTELOS.
- **Reliance on Large Customers.** Sprint-Nextel accounts for 21.6% of revenues and there are other large wholesale customers vital to the health of NTELOS. If they were to lose one or a few of these customers due to any reason the company would be in serious financial trouble.

Management

All top management has been with the firm since going public in early 2006 and most have been with the firm since at least 2001. The managers all hold good qualifications in their respective area and come from another respectable, established firm prior to joining Ntelos. All named executive officers are required to have holdings in the firm to align themselves with the success of the company.





Ownership

% of Shares Held by All Insider and 5% Owners:	35.0%
% of Shares Held by Institutional & Mutual Fund Owners:	72.0%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Systematic Financial Management L.P.	2,667,267	6.34%
Tremblant Capital Group	1,973,965	4.69%
Federated Investors Inc	1,730,505	4.11%
Goldman Sachs Group Inc	1,641,237	3.90%
Capital Research Global Investors	1,604,175	3.81%

Source: Yahoo! Finance

Strayer Education, Inc.
STRA
Price: $173.03($119.19-$195.91)
Fiscal Year Ends: December 31

April 23, 2008 Greg Sirotek & Anna Toshach
Russell 2000 Index: 708.11 (643.28-856.48) Consumer Services Sector

Strayer Business College was founded in 1892 in Baltimore, Maryland, by S. Irving Strayer. It received regional accreditation from the Middle States Commission on Higher Education in 1981, approval to offer Master's degrees in 1987, and approval to grant online degrees in 1996. Strayer became a University in 1998 through expanding its degree offerings to include business administration, accounting, information technology, education, and public administration. After being taken public in 1996, Strayer began to expand from its eight campuses in the greater Washington, D.C. area. Today, it owns and operates 55 physical campuses along the East Coast from Pennsylvania to Florida, as well as offering classes via the Internet. Now headquartered in Arlington, Virginia, Strayer University had more than 32,000 actively enrolled students as of December 31, 2007.

Recommendation

Strayer Education is a market leader for post-secondary education in the Mid-Atlantic States, and is well positioned for geographic expansion. Management has proven its ability to organically grow the company through new campus openings, while continuing to expand its online education presence. In doing so, the company has been able to maintain best-in-class operating margins and an equitable brand reputation. In the wake of the subprime meltdown, for-profit education companies have suffered due to investor fears of subprime student loan exposure and the current tight lending environment. However, according to management, less than 1% of Strayer's revenues are derived from subprime private loans, thus contraction in that market has a negligible effect on Strayer's profits. Also, the recent economic downturn is a positive indicator for Strayer, as the education market is historically countercyclical. Due to these conditions, STRA is currently trading around $170, which we feel is below the true value of this security. As such, we recommend adding Strayer to the AIM portfolio, with a target price of $208.

Key Statistics	April 2008
Market Cap	$2.5B
Shares Outstanding	14.248M
Average Volume	303,477
Beta	0.62
EPS (TTM)	$4.47
2008 Estimated EPS	$5.36
Div Yield	.9
P/E (TTM)	38.68
PEG	1.8
WACC	6.85%
ROE	36.07%
Gross Margin	20.42%
Operating Margin	30.68%
Target Price	$208

Investment Thesis

- **Steady Growth in Market for Post-Secondary Education.** As the United States continues to evolve toward a service-based economy, and the wage gap between individuals holding post-secondary degrees and those without increases, the pressure for employees to obtain college degrees is also mounting.

- **Large, Attractive Target Customer Base.** Strayer has chosen a promising target market in working adults, age 25 and older. Within this group, 62% possess no education beyond a high school diploma. (2007 U.S. Census Bureau) Working adults also typically have a goal path to further their career, know how to efficiently manage their time, and are more credit worthy than traditional college students.
- **Popular Online Classes.** Strayer has significantly developed its online course materials, which are becoming a standard in post-secondary schools. During Q1 2008, 60% of Strayer students took all of their courses online, while over 90% were enrolled in at least one online course. Having such a developed and successful internet system is a strong asset for use in company growth.
- **No Regulatory Issues.** Although many of its competitors have been subject to regulation or accreditation issues, Strayer has retained a clean slate. We believe this achievement is due in part to the dual management strategy employed by Strayer, discussed below.

Valuation

A five year discounted cash flow model yields an intrinsic value of $205.40, and applying a sensitivity analysis to the DCF in order to allow for economic variation, the intrinsic value of STRA still remains between $197 and $228. Additionally, utilizing a P/E valuation with the PE ratios of Strayer's top five competitors yields an intrinsic value for STRA of $210. Taking into account both of these valuation metrics, our target price for Strayer is $208, which represents 20% of upside potential to the current stock price.

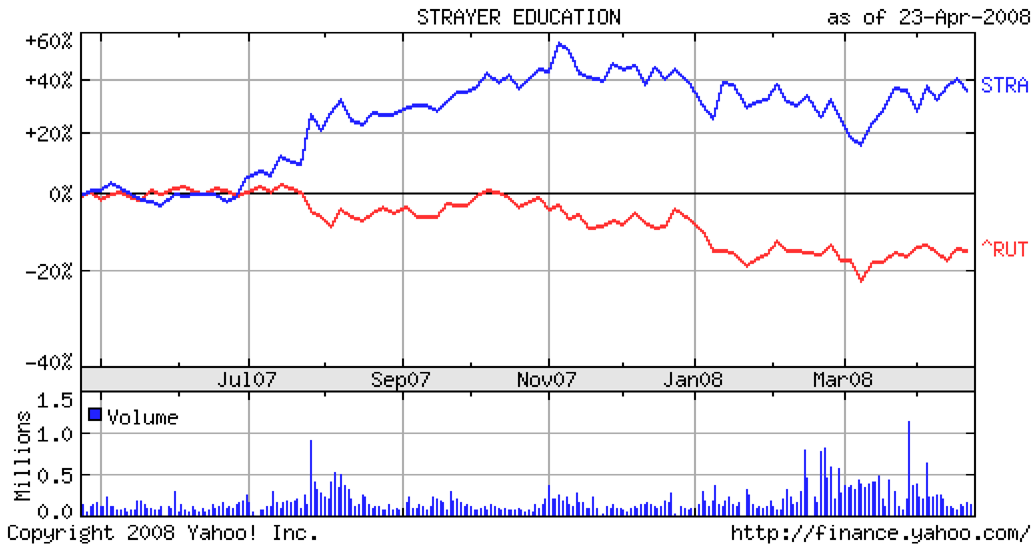
Risks

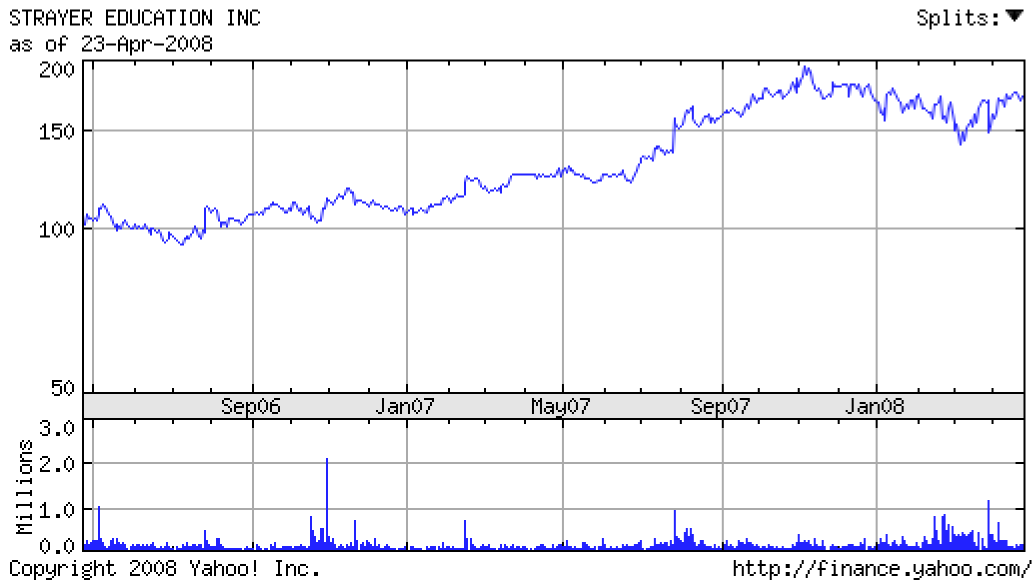
- **Regulatory Environment.** Strayer competes in a highly regulated environment and is at risk to changes or interpretations of applicable laws, rules and regulations. The company derives a significant portion of its revenue from financial aid programs and is at risk to changes in the government support of these programs. Furthermore, if the company loses its accreditation, it would also lose Title IV funding, which would prove detrimental to the company's ability to attract new students.
- **Opening of new campuses poses financial uncertainty.** Much of Strayer's recent growth has come from the successful execution of new campus openings. With each new campus opening, the company must employ quality management and personnel in order to retain the educational quality reputation of Strayer.
- **Competition in the post-secondary market for education is fierce** from not-for-profits and for-profits alike. The future success of Strayer is contingent on its ability to attract and retain quality personnel as well as students, and this may result in higher advertising costs. Brand awareness and local competition are challenges Strayer will face as it expands geographically, and competition will continue to increase in the online education realm as well.

Management:

Strayer employs a senior management team that has earned a best-in-class reputation for campus expansion execution in the last six years. Robert S. Silberman, chairman and Chief Executive Officer, was hired in 2001 to implement the growth strategy. Part of the growth strategy is to separate academic and operational leaders, and the company implements a dean at each campus responsible for academics and a director responsible for operations. They, in turn, report to six

regional deans and six regional vice presidents, who then report to the executive management team of the entire university. This structure, combined with significant insider stock ownership has provided for excellent execution campus expansion.





Ownership

% of Shares Held by All Insider and 5% Owners:	11%
% of Shares Held by Institutional & Mutual Fund Owners:	99%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
BAMCO INC.	1,430,124	9.91%
MORGAN STANLEY	859,849	5.96%
NEUBERGER BERMAN, LLC	780,860	5.41%
Barclays Global Investors UK Holdings Ltd.	712,666	4.94%
American Century Companies, Inc.	623,745	4.32%

Source: Yahoo! Finance

China Medical Technologies Inc.
CMED
Price: $38.84 ($22.81 – $57.50)
Fiscal Year Ends: March 31

April 23, 2008 Katie Wycklendt
NASDAQ Global Mkt Composite: 921.63 (840.80 – 1,242.77) International Healthcare Sector

China Medical Technologies is a leading provider of healthcare diagnostic systems and cancer treatment devices in China. Through its wholly owned subsidiaries Beijing Yuande Bio-Medical and Beijing GP Medical Technologies, CMED develops, manufactures, and markets two different product groups. The in-vitro diagnostic (IVD) line includes Enhanced Chemiluminescence Immunoassay (ECLIA) and Florescent in situ *Hybridization (FISH) technologies that detect a wide range of disease and disorders. The second line involves High Intensity Focused Ultrasound (HIFU) commonly used as therapy for solid cancers and benign tumors. Among its customers are large and medium-sized hospitals in China. Incorporated in 1999 in China as Beijing Yuande Bio-Medical Engineering Co. Ltd., CMED was renamed at its 2004 IPO and is headquartered in Beijing, China.*

Recommendation

China Medical Technologies, with its location in the budding Chinese healthcare market, is positioned for major growth. As the standard of living improves throughout the heavily populated nation, there will be increased demand for healthcare diagnostics and cancer treatments. With experience in operating in the Chinese environment, CMED is prepared to serve the growing market and may become an attractive takeover target in the future. Given these conditions, a target price of $61.33, and the current market price of $38.84, CMED appears to be highly undervalued. However, because the company operates internationally, historical information and management commentary are lacking. Results for fiscal year 2007 (ended March 31, 2008) will be reported in June 2008. The company's form 20-f should provide insight into the direction of the company as well as the performance of the newly acquired FISH line. Therefore, until FY2007 results can be incorporated into the valuation, it is recommended that CMED be kept on the AIM watch list for possible addition into the international portfolio in Fall 2008.

Key Statistics	Apr. 23, 2008
Market Cap	$1.06b
Shares Outstanding	27.4M
Average Volume	0.674M
Beta	1.20+
EPS (TTM)	$1.69
2007 Estimated EPS	$1.52*
P/E (TTM)	22.97
P/S (TTM)	9.29
PEG Ratio (5 yr exp.)	0.63
WACC	11.28%
Debt/Assets	0.435
ROE	16.48%*
Gross Margin	45.08%
Operating Margin	46.82%
Target Price	$61.33

Source: Yahoo! Finance, Thomson*, Bloomberg+

Investment Thesis

- **Major Growth Opportunities.** The Chinese healthcare sector is one of the fastest growing markets in the world. Easing economic controls are increasing discretionary income available for spending on health assessment services and therapies.

- **Chinese Business Expertise.** CMED is the market leader in China and well familiar with the cultural, political, and business environment. Established infrastructure gives CMED cost and distribution advantages within China that larger competitors do not have.
- **Consumable Reagents**. The FISH and ECLIA diagnostic systems require the use of a disposable reagent for each diagnosis. Those used in the ECLIA system must be CMED manufactured. This portion of the business can drive growth even when system sales are weak.
- **Patents and Pipeline.** Current products have overseas patent protection through 2022. At the same time, CMED continues developing reagents to assess infectious disease, infertility disorders, and cardio-vascular diseases.

Valuation

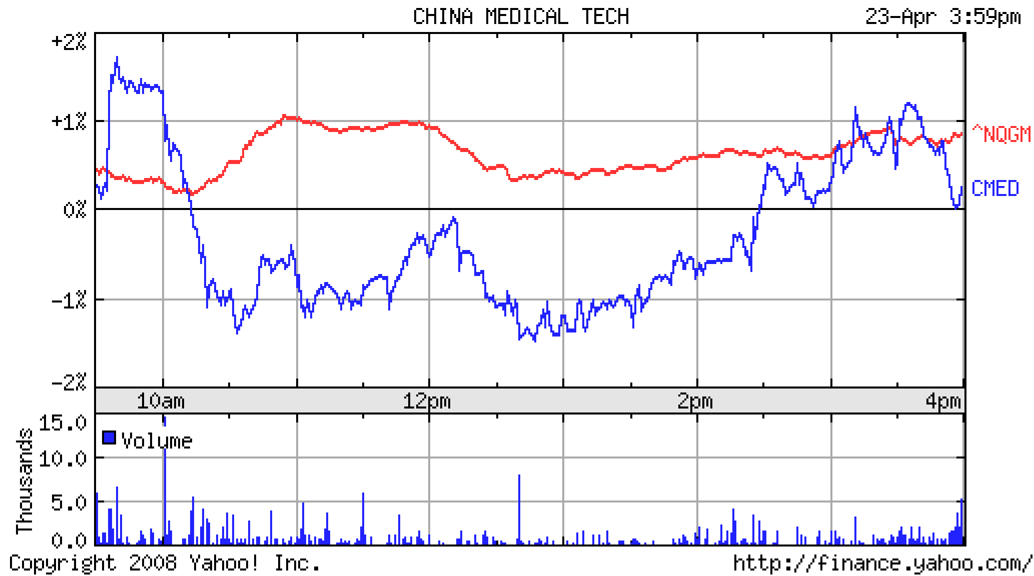
Based upon projected 2008 EPS of 1.82 RMB, the current exchange rate of 0.14 USD/RMB, and an industry multiple of 22.72, a value of $59.22 per ADR (at 10 shares per ADR) is reached. Additionally, using on a discounted cash flow model with a calculated WAAC of 11.28%, a value of $63.44 is reached using a 3.00% terminal growth rate. Adjusting assumptions leads to a price range of $50.67 – 84.35. Accounting for both valuation techniques results in a target price of $61.33.

Risks

- **Promotion Efforts.** The growth opportunities available in China also mean the market is highly underdeveloped. Extensive promotion is needed to inform the Chinese public about the benefits of CMED's product lines.
- **Chinese Concentration.** A host of risks are associated with operating almost exclusively in China. These include lack of intellectual property protection, prevalence of kickbacks, government price controls on HIFU treatment fees, and operating in a restricted currency. CMED relies on limited dividends from subsidiaries for cash in foreign currencies.
- **Integration of Acquisitions.** The company is relatively young and made acquisition of their HIFU and FISH lines as recently as 2004 and 2007, respectively. The success of these additions remains to be proven.
- **Lack of Distributor Contracts.** Products are sold on a unit-by-unit basis through a select few distributors. CMED thus assumes all risk in the event that sales slow.
- **High Unit Prices.** The HIFU line is the largest portion of sales and has a high unit price. Thus, a small number of unit sales can have a heavy impact on the top line. This can cause fluctuating and unpredictable results.
- **International Competitors.** CMED has extensive worldwide competition from well-established firms, including Abbot Laboratories, GE, and EDAP. Two of these (ABT and GE) are significantly larger with much greater capital resources than CMED.

Management

Xiaodong Wu founded the company in 1999 and continues to serve as CEO and chairman of the board. He also serves on the board of Beijing Chengxuan, an investment holding company with a major interest in CMED, and two other medical technology companies. CFO and director Takyung (Sam) Tsang, CPA, was an accounting and finance advisor to CMED before joining the company in 2005.



Ownership

% of Shares Held by Insiders:	0.00%
% of Shares Held by Institutional & Mutual Fund Owners:	10.16%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Perry Corp.	3,374,995	12.34%
Capital Research Global Investors	1,395,500	5.10%
AXA	999,411	3.65%
Robeco Fund Management	700,000	2.55%
Hansberger Global Investors, Inc.	654,151	2.39%

Source: Bloomberg

Digi International, Inc
DGII
Price: $11.30 ($10.20-$17.30)
Fiscal Year Ends: September 30

April 23, 2008 — Steve Briggs
Russell 2000 Index: 703.71 (643.28- 856.48) — Technology Sector

Digi International (DGII) was formed in 1985 with its initial public offering in 1989. Digi designs and manufactures various adapters and network connectivity components and solutions for computer networks. The company's products lines provide support for Ethernets, local area networks, and universal serial bus connections. Main product lines include technology to provide connectivity infrastructure for businesses. Examples of product lines are the embedded and non-embedded lines. Embedded products are used by a developer to build an electronic device (e.g., retail scanner, medical instrument). Non-embedded products are connected externally to a device or larger system (e.g., building access control panel, traffic controller). Digi has its worldwide headquarters in Minnetonka, Minnesota, with regional sales offices throughout North America, Europe, and Asia Pacific, while being listed on the NASDAQ Global Select Market.

Recommendation

A recommendation to buy shares of DGII is being made based on strong sales, gross margin expansion, international growth opportunities, and the possibility of either share buy-backs or growth through acquisitions. DGII was $.03 shy of consensus estimates of Q108 EPS of $.17, however, the company dispelled concerns over a challenging ASP (Application Service Provider) environment, through in-line sales of $44.6M ($44.9M consensus), strong gross profit based on the strongest gross margin in five quarters with a margin of 56.2%. G&A rose approx. $450K due to the increased investments in international expansion, which drove the drop in EPS, but should being to pay off 2H08. Margins are poised to expand, the PEG ratio of .65 (3-year growth rate of 16.7%) suggests that the company is significantly undervalued, and the cash adjusted P/E ratio, of 11x earnings, is at a drastic discount to the industry average (21.8x). With all these factors considered, along with the fact that only five extremely small equity research firms are covering DGII, it seems as though the company is flying under the radar, and with a strong 2H08, could see significant appreciation in the stock value.

Key Statistics	Apr. 23, 2008
Market Cap	$300.5M
Shares Outstanding*	26.59M
Average Volume*	112,738
Beta*	1.24
EPS (TTM)	$.75
2008 Estimated EPS*	$.70
P/E (TTM)	15.1x
P/E (Cash Adjusted)	11.0x
PEG (Cash Adj.)	0.65
Debt/Assets	0.25%
ROE	8.6%
EBITDA Margin	15.9%
Operating Margin	14.4%
Target Price	$18.00

Investment Thesis

- **Strong, Expanding Margins.** Due to international investments, Q108 was slightly off, but still posted strong gross profit based on the best gross margins in five quarters (56.2%). Prior to that, excluding an abnormally strong FY2005, DGII saw Q407 EBIT (16.0%) and Net Profit Margins (12.4%) expanding to the best in over 10 years. Most of the GM expansion was driven by license revenue, while both embedded and non-embedded product lines experienced GM expansion. Note that license revenue can be uneven for DGII, but this is an example of how the company is differentiating itself from the competition.

- **International Growth Opportunities.** International revenues account for 35.3% of total sales, and this figure is poised to expand significantly. The main reason EPS was shy of consensus in Q1 was due to management's increased investment in international expansion. DGII has a presence in over 69 countries, many of which are high growth emerging markets. Increased investments in these countries are expected to reap benefits in 2H08.

- **Strong Balance Sheet.** DGII holds basically no debt and approximately $87M in cash, or $3.37 per share. This excess of cash can be used to grow through acquisitions, in line with the several key acquisitions made over the past five years that are consistent with the corporate strategy. Stock buy backs are also an outside possibility to help counter the slight dilution caused by the company's stock compensation plan.

Valuation

A DCF was applied to DGII, with a weighting on a base, best, and worst case. Discounting the company back at 12% and a heavy weighting on the base case, a valuation of $18.00 was calculated. This was formulated using the conservative side of the street's estimates on growth over the next three years (14%, 16%, 13% respectively) and a terminal multiple of 15x EBITDA. Also, a cash adjusted P/E of 11.0x was calculated, compared to an industry average P/E of 21.8x.

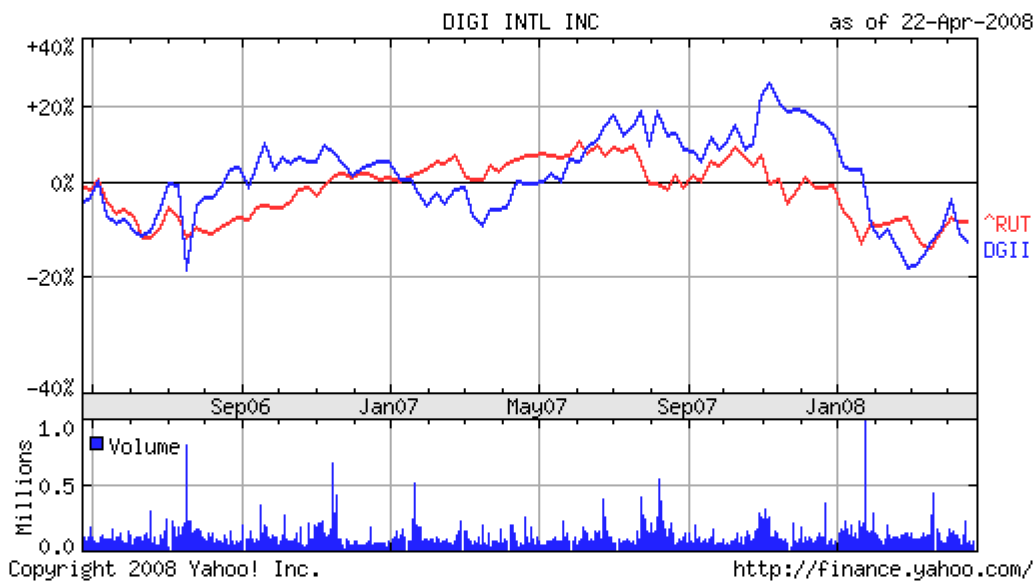
Risks

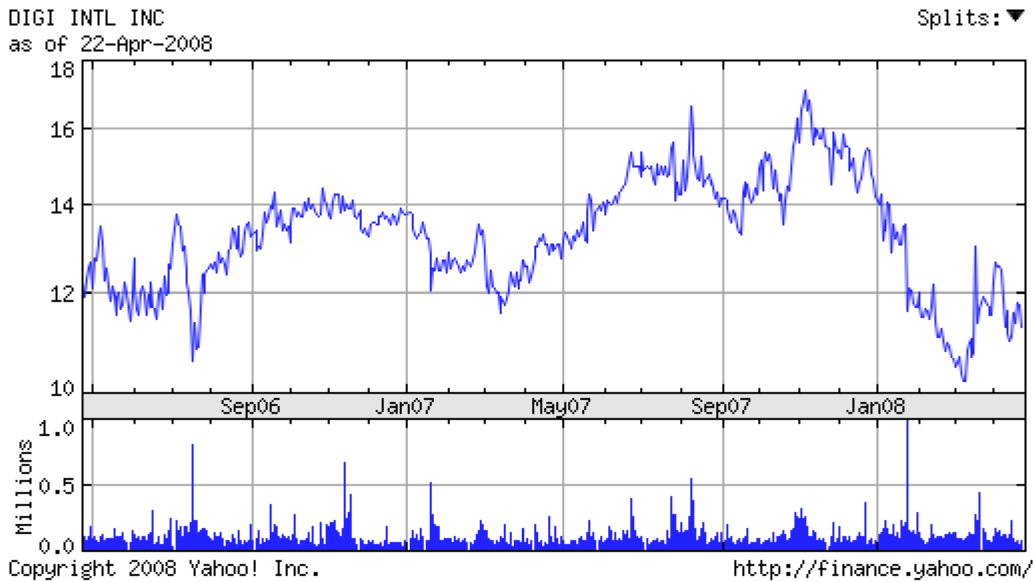
- **M2M Spending Trends Softening.** The street has some concerns over a weakening enterprising spending environment. Several companies within M2M (Machine-to-Machine) have indicated possible signs of softening spending trends and lengthening sales cycles. The company's average sales cycle of 12-24 months could be prone to slowdown across multiple segments.

- **Continued Declines in Legacy Products.** Legacy products, which are used to provide Ethernet networking interfaces for printers and various other USB peripherals, have trended down approx. 20% year-over-year, and could continue in a sharper decline in the current environment. Legacy products currently account for approx. 15% of sales. However, this is mostly due to the fact that this function is being replaced by the main processor line.

Management

Joseph Dunsmore, who joined the company in 1999 as CEO and a member of the board of directors, was elected Chairman of the Board in May of 2000. He brings with him a significant amount of experience at companies such as 3Com and AT&T.





Ownership

% of Shares Held by All Insider and 5% Owners:	9.67%
% of Shares Held by Institutional & Mutual Fund Owners:	74.9%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Royce & Associates	2,141,144	8.33%
Dimensional Fund Advisors Inc	1,902,156	7.40%
Munder Capital Management, Inc.	1,538,822	5.99%
Barclays Global Investors UK Holdings Ltd	1,450,864	5.65%
Riverbridge Partners LLC	1,338,095	5.21%

Source: Yahoo! Finance

Empresa Nacional de Electricidad S.A. "Endesa"
EOC (NYSE)
Price: $49.58 ($31.34-$51.28)
Fiscal Year Ends: December 31

April 25, 2008 — Alison Bettonville
MSCI ACWI (ex-US): 39.84 (33.55-45.39) — International Utilities

Endesa Chile is a multinational electricity generation company that operates in South America via a number of subsidiaries and related companies. Annual output is 12,720MW across four countries. In Chile, Endesa is the largest generation company on the country's main distribution network, which reaches 93% of the population. Internationally, Endesa subsidiaries provide Argentina, Colombia, and Peru with 15%, 21%, and 28%, respectively, of their local system capacity. The firm's recent focus and investments are centered on sustainable and renewable energies such as hydroelectric plants and wind farms; 64.7% of current output is hydroelectricity. Endesa shares trade on the Santiago Stock Exchange, Chilean Electronic Stock Exchange, Valparaíso Stock Exchange, Latibex, and NYSE, with an ADR ratio of 1 to 30 common shares. Endesa is headquartered in Santiago, Chile.

Recommendation

Currently, electricity demand far outpaces the available supply in many South American countries, especially Chile. With Endesa's electricity production concentrated in hydroelectric plants, the firm is a low-cost producer poised to benefit from the higher electricity demand of the growing economies. Additionally, planned capital expenditures of $3.5 billion (USD) over the next 5 years should continue to increase capacity and hold Endesa's position as one of the largest multinational generators in the region. Despite a low current dividend yield, I recommend Endesa for the international portfolio.

Key Statistics	Apr. 23, 2008
Market Cap	$13.25B
Shares Outstanding	273.39M
Average Volume	196,402
Beta	1.067
EPS (TTM)	$1.55
2008 Estimated EPS	$1.98
P/E (TTM)	31.28
Debt/ Equity	1.066
WACC	10.7%
Exchange rate: $1=	Ch$449.80
ROE (TTM)	10.1%
Gross Margin	11.14%
Dividend Yield	$.58 (1.2%)
Operating Margin	33.26%
Target Price	$58.00

Investment Thesis

- **Largest Chilean Producer.** Endesa is the single-largest producer of electricity in Chile. It supplies 49% of the capacity of the SIC, the main electricity distribution network in Chile, as well as 5% of the SING, the distribution network in the north of the country.
- **Low-cost Focus.** 64% of the electricity produced by Endesa and its subsidiaries is hydroelectric. Costs to produce hydroelectricity are much lower than the alternative, thermoelectricity, which can involve costly inputs such as coal or liquid natural gas. Endesa's main competitors, AESGener S.A. and Colbún, produce 80% and 59%, respectively, of their electricity thermally. Additionally, most regulated electricity prices in South America are based on marginal cost, Endesa's ability to produce at lower costs give the firm a significant advantage over its competitors.

- **Fixed Contracts and Prices.** Over 50% of Chilean sales come from regulated customers, where the price is set by the Chilean National Energy Commission. Set prices, based on marginal cost, are overwhelmingly favorable to Endesa. These customers enter into ten-year contracts with the firm, ensuring long-term revenues. However, as not all customers regulated, Endesa also free to sell electricity on the open market and to negotiate contracts with unregulated customers, which represent over 17% of Endesa's Chilean revenue.
- **Multinational Exposure.** Operating across many different countries gives Endesa a natural hedge against adverse changes in weather conditions, regulation, or currency movements in any one country.

Valuation

Using a DCF model with a WACC of 10.7%, 6% growth of operating cash flows, and a terminal growth rate of 3%, I found a value of $57.54 for the ADR shares, at current exchange rates. Further, in a dividend model assuming 6% dividend growth and Endesa's gradual movement toward its payout ratio goal of 60%, I found a value of $59.88. As a result, I believe $58 is an appropriate target price for Endesa.

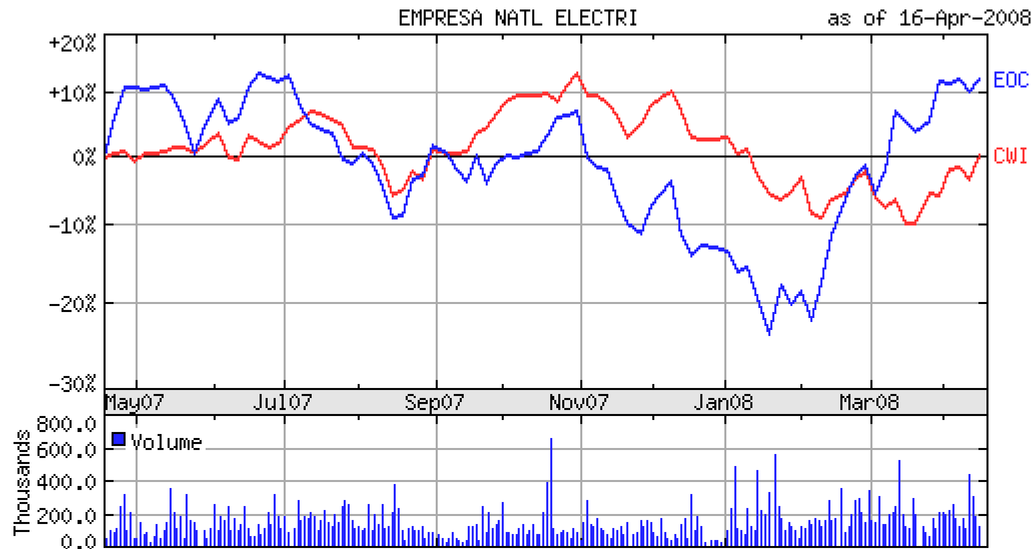
Risks

- **Subject to Weather Fluctuations.** Net income decreased 5.5% from 2006 to 2007, as a result of higher costs due to a lack of rainfall. Hydroelectricity production is very sensitive to weather fluctuations. When water levels are not adequate for sufficient energy production to fulfill contracts, Endesa must either generate more electricity thermally or purchase other firm's excess capacity on the spot market, both more costly than internal production.
- **Volatile Economies.** South American economies have a history of volatility, which has led to currency depreciations and extreme government regulations. Should an economic crisis occur in a country where Endesa operates, the firm could be adversely impacted.
- **Heavy Electricity Industry Regulations.** Electricity generation and distribution is subject to varying laws in each country. Most significantly, generation firms must produce enough electricity to fulfill contracts at all times, which may require Endesa to purchase some electricity on the spot market at a greater cost than internal production.
- **Cross-border Capital Flows.** Some South American countries limit the amount of profit that can be removed from a firm and repatriated, which could restrict Endesa's ability to recognize earnings from its foreign subsidiaries.
- **Debt Denominated in Dollars.** An overwhelming majority of Endesa's debt is priced in dollars. The current appreciation of the Chilean peso has been very beneficial for the company, but should this trend reverse Endesa would see greatly increased financing expenses.

Management

Many members of the management team have strong ties to both subsidiaries and Endesa's parent companies, Enersis and Endesa Spain. Chairman Mario Valcarce Duran was the former CEO and CFO at parent Enersis, an "umbrella company" in the Chilean electricity industry. CEO Rafael Mateo Alcala is also the chairman of the board in the Argentinean subsidiary Endesa Costanera.

Performance Chart Relative to MSCI All World Ex-US



Ownership

% of Shares Held by All Insider and 5% Owners:	N/A
% of Shares Held by Institutional & Mutual Fund Owners:	3%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Schroder Investment Management	1,358,387	.5%
BlackRock	984,300	.36%
Prudential	896,703	.33%
JP Morgan Chase & Company	370,157	.14%
Morgan Stanley	327,621	.12%

Source: Yahoo! Finance

Longtop Financial Technologies
LFT
Price: $19.32 ($13.03-$35.22)
Fiscal Year Ends: March 31

April 23, 2008 | Tim Kellen
S&P ADR Index: $1912.75 (1653.50-2148.84) | Business Services Sector

Recently making its initial public offering on October, 24 2007, listing on NASDAQ under ticker "LFT," Longtop Financial Technologies is a leader in the Chinese IT industry and is the industry's largest domestic company. Founded in 1996 as Xiamen Longtop System Co. by current Chairman Xiaogong Jia and CEO Weizhou Lian, the company specializes in providing software solutions for the Chinese financial industry. The company has three main segments that generate its revenues, which include management software, channel software, and business software. This software allows banks to manage ATM's, call centers, and share data to provide better service to their customers

Recommendation

Longtop Financial Technologies provides an opportunity to diversify into the Chinese market, obtain access to a growing Chinese financial industry, and avoid the current sub-prime problems that have plagued American and European financial sectors. Longtop's stock is trading just 10% higher than its IPO price after trading up 85% on its first day of trading. The company is well established as a software provider for three of the Big 5 Chinese banks and is proving its ability to generate growth in other sectors including the regional banking, asset management, and insurance industries. In a fragmented market where no company holds more than 4% of the market share and given the expansion that will take place in the Chinese financial services industry, significant growth opportunities are available for Longtop. In addition, the company is currently trading at $19.32, $8.68 under its intrinsic value of $28. This provides an upside of 45.6% and thus, it is recommended that Longtop be added to the AIM International portfolio.

Key Statistics	Apr. 23, 2008
Market Cap	$971.30M
Shares Outstanding	50.274M
Average Volume	72,939
Beta	1.806
EPS (TTM)	$.34
2008 Estimated EPS	$.558
P/E (TTM)	$57.15
WACC	16.80%
Debt/Assets	7.38%
ROE	25.36%
Gross Margin	83.28%
Operating Margin	29.54%
Target Price	$28.00

Source: Bloomberg

Investment Thesis

- **Increased IT Spending from the Financial Sector.** Currently, the Chinese financial sector is spending 9% of total US bank IT expenditures, even though the Chinese banking industry is 47% of the size of the US banking industry. This indicates significant room for growth in IT expenditures in the banking industry that would benefit Longtop. In addition, intensifying competition in the banking industry should serve as a catalyst for increased spending.
- **Expansion into New Industries.** Over the past six months, Longtop has begun expanding into new industries through contracts and acquisitions including the asset management business with China AMC through its Fenet acquisition, the insurance industry through its

agreement with Ping An Insurance, and the tobacco industry. Penetration into these industries will provide for solid growth and diversification opportunities, as well as the experience necessary to continue expanding into new industries.
- **Strong Margins.** While Longtop's margins are expected to decline in the coming years due to increased production of software solutions, they will still be extremely strong. The company should have profit margins near 65% and operating margins near 45% in the coming years. This will provide strong cash flows for the firm and provide the cash flows necessary for expansion.
- **Protection from Western Credit Problems.** Longtop only provides software solutions to Chinese financial companies which have minimal sub-prime exposure. As a result, Longtop's revenues should not be adversely affected by continued problems in the American and European financial markets.
- **Weakening Exchange Rate.** Since Longtop earns all of its revenues in the Chinese Renminbi, the depreciation of the dollar from 7.30 Renminbi per dollar in January to 7.00 in April should continue to provide a boost to the company's financial results.

Valuation

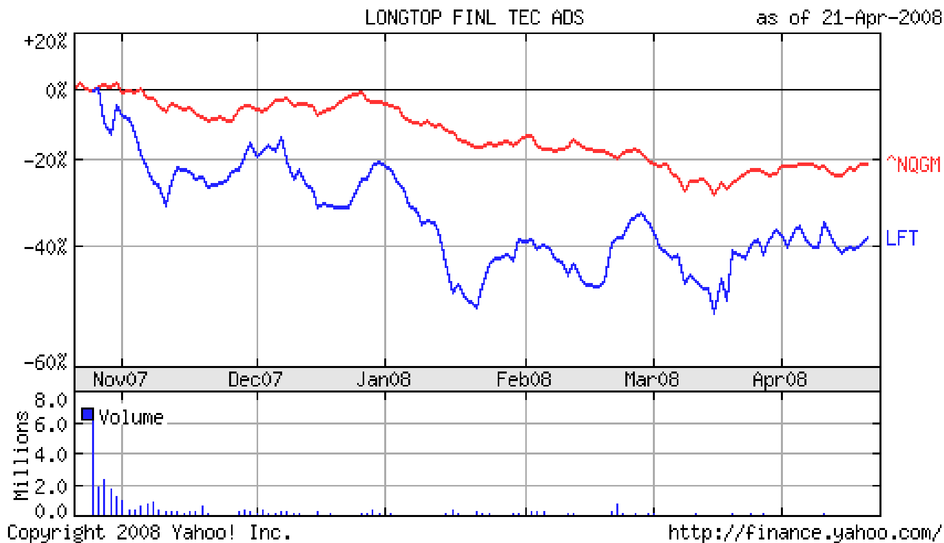
Based on a combination of discounted cash flow and various P/E valuations, a stock price of $28 is obtained for Longtop Financial Technologies. The discounted cash flow yielded a target price of $22.00 based off a range of $17.67 to $29.35, and the industry PEG of 1.98x provides a target price of $35.00. Combining these valuations with the results of the P/E valuation methods, the weighted target price is $28.00 per share taking into account the relevance of each method.

		Terminal Growth Rate				
		11.00%	12.00%	13.00%	14.00%	15.00%
WACC	18.00%	15.43	16.45	17.87	20.01	23.56
	17.50%	16.43	17.67	19.46	22.28	27.35
	17.00%	17.57	19.11	**21.41**	25.25	32.94
	16.50%	18.89	20.83	23.87	29.35	42.12
	16.00%	20.45	22.94	27.09	35.39	60.29

Risks

- **Competition from International Companies.** The growth opportunities that are available in the Chinese financial industry are sure to bring increased competition to the IT industry from abroad. LFT's ability to differentiate itself from those competitors and to take advantage of its knowledge of the Chinese financial industry and local regulation will be important to its future success.
- **Acquisition and Integration Risk.** Longtop has already made a number of acquisitions and has been able to successfully integrate those transactions. Since the Chinese IT services sector is very fragmented, acquisitions will be a key driver of Longtop's movement into different sectors. The ability to continue to integrate its acquisitions will be key to the company's future growth.
- **Exposure to the Big 5.** The strong business relationships with the big Chinese banks are critical to the success of Longtop. Although LFT has worked to diversify into regional banks and other financial services industry, approximately half of Longtop's revenues come from those banks and any cut in IT spending could be an obstacle for LFT.

Management
Longtop is led by Chairman Xiaogong Jia and CEO Weizhou Lian, who have been in their current positions since the company was founded in 1996. Both directors have substantial experience in China's IT industry with 49 combined years of experience and are surrounded by a veteran team of leaders.



Ownership

% of Shares Held by All Insider and 5% Owners:	20.00%
% of Shares Held by Institutional & Mutual Fund Owners:	52.00 %

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Tiger Global Management LLC	10,083,165	20.06%
Morgan Stanley	2,064,568	4.11%
Level Global Investors LP	1,413,147	2.81%
Fidelity Management & Research	977,800	1.93%
Mazama Capital Management INC	900,952	1.79%

Source: Bloomberg