MARQUETTE UNIVERSITY
College of Business Administration
Applied Investment Management

AIM
APPLIED INVESTMENT MANAGEMENT

Applied Investment Management (AIM) Program

AIM Class of 2014 Equity Fund Reports
Spring 2014

Date: January 24th | ***Time:*** 3-5 p.m. | ***Location:*** ***AIM Research Room (488)***

Join us in person, or considering joining us live at:
Connect to the LIVE meeting via Blackboard web-based conferencing tool

Student Presenter	Company Name	Ticker	Price	Page No.
Louie Moran	Nutraceutical International Corp.	NUTR	$26.10	2
Ryan Bailey	Taseko Mines Ltd.	TGB	$2.19	5
Daniel Gaide	Globus Medical	GMED	$22.88	8
Steven Marszalek	Dycom Industries	DY	$28.80	11
Chi Zhuang	Navigator Holdings Ltd.	NVGS	$27.20	14
John Hurley	Newpark Resources	NR	$12.23	17
Brendan Durkin	Delphi Automotive PLC	DLPH	$62.73	20
Mark Long	Mindray Medical International Ltd.	MR	$40.20	23

These student presentations are an important element of the applied learning experience in the AIM program. The students conduct fundamental equity research and present their recommendations in written and oral format – with the goal of adding their stock to the AIM Equity Fund. Your comments and advice add considerably to their educational experience and is greatly appreciated. Each student will spend about 5-7 minutes presenting their formal recommendation, which is then followed by about 8-10 minutes of Q & A.

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Nutraceutical International Corp. (NUTR)
January 24, 2014

Louie Moran — Consumer Staples

Nutraceutical International Corporation (Nutraceutical) is an integrated manufacturer, marketer, distributor, and retailer of branded nutritional supplements and other natural products sold to and through domestic health and natural food stores. Internationally, it markets and distributes branded nutritional supplements and other natural products to and through health and natural product distributors and retailers. It manufactures and sells nutritional supplements and other natural products under numerous brands, including Solaray, KAL, Nature's Life, LifeTime, Natural Balance, bioAllers, Herbs for Kids, NaturalCare, Health from the Sun, Life-flo, Organix South, Pioneer and Monarch Nutraceuticals. On February 24, 2011, the Company acquired certain operating assets of SunFeather Natural Soap Company, Inc. On May 26, 2011, it acquired certain operating assets of Skin by Ann Webb, LLC. – Reuters™

Price (1/21/2014)	$26.10	Beta	0.85	FY	2013 (A)	2014 (E)	2015 (E)
Price Target	$42.08	WACC	8.38%	Revenue (mil)	$208.40	$217.78	$228.67
52 WK H-L	$15.61 - $27.54	M-Term Rev Gr Rate Est:	5.00%	% Growth	4.01%	4.50%	5.00%
Market Cap (mil)	$257.60	M-Term EPS Gr Rate Est:	5.38%	Gross Margin	49.37%	49.00%	49.00%
Float (mil)	8.70	Debt/Equity	23.57%	Operating Margin	13.56%	12.50%	12.50%
Short Interest (%)	0.63%	ROA	8.99%	EPS (Cal)	$1.74	$1.67	$1.76
Avg. Daily Vol (K)	20.61	ROE	12.65%	FCF/Share	$1.88	$1.72	$1.71
Dividends (Yr)	-	ROIC	11.00%	P/E (Cal)	11.33	15.67	14.86
Yield (%)	-	Z - Score	5.86	EV/EBITDA	10.07	6.36	6.22

Recommendation

The Natural Products market is a large, yet growing industry within the Consumer Staple sector. Submarkets within this industry include the personal care market ($13.1 B), natural/organic foods ($47.9 B), functional foods ($43.9 B), and VMS ($32.5 B). The vitamin, mineral, herbal and other nutritional supplements industry (VMS) is arguably the most fragmented submarket and NUTR's focus since its founding. In FY 2013, NUTR sold ~7,500 different SKUs under ~50 different brands, indicating the company's commitment to offer a diverse product portfolio offering treatments to a variety of conditions and illnesses. Aging populations in certain European markets, Chinese markets, and the existing US market will offer an opportunity for NUTR to grow for the foreseeable future. NUTR products are marketed as high quality products and sold at large, well known locations such as Whole Foods Markets, Vitamin Shoppe, and GNC along with other locations. For these reasons, NUTR should be added to AIM Domestic Equity Portfolio at a target price of $42.00, offering a 60% upside. NUTR does not offer a dividend.

Investment Thesis

- *VMS Market Growth* – Despite the industry's fragmentation, the subsector has been able to grow at an impressive clip. The market grew 7% over a time period when regular grocery sales grew only 4%. From 2008 to 2012 the industry grew 28.5%, with a CAGR of 7.1%. And though 68% of Americans already take a daily supplement or vitamin, this number is anticipated to grow. With NUTR's existing product offering and established brands, I believe that the company is poised to capture a larger percentage of this growth moving forward.
- *Diverse Product Offering* – While there is a potential argument that the company may spread itself too thin / cannibalize their current products, variety is crucial to offer a personalization factor within the industry. Variety allows the consumer the ability to tailor a routine to their daily and seasonal needs. The company's ~7,500 SKU's is only expected to grow, with 200 added in

FY 2013. This large number of SKU's under familiar brands will help cultivate consumer's loyalty and retention.

- *International Expansion* – Of the ~7,500 SKU's that the company currently offers, only ~1,000 SKU's are actively marketed and sold outside the US. While exact sale numbers by geographic region are not indicated in the company's filings, the opportunity of adding ~6,500 SKU's to an existing market is potentially explosive for top line growth. While the US remains the largest consumer of vitamins and supplements, aging populations in Europe and China show that this reality may be changing.

Valuation

The intrinsic value of NUTR was generated using three different valuation techniques. A 5-year DCF was evaluated, using a WACC of 8.38% and a perpetuity growth of 2.84%. Using these numbers an intrinsic value of $37.90 was calculated. Sensitivity analysis on the WACC (±1.5%) and perpetuity growth (±1.0%) showed a spread of $31.80 – $46.77. A second and third round of sensitivity analysis was computed, evaluating changes in year 1 CF's (±$3.0 M) in relation to WACC (±1.5%) and perpetuity growth (±1.0%). Spreads were very similar, with a window of ~$31.00 to ~46.00 being fairly consistent. A P/E 5-year historical average (10x) and peer analysis (35x) was evaluated, indicating an intrinsic value of $46.56. Finally an EV/EBITDA analysis was computed using a company specific forecast (5.5x) and peer analysis (18x), indicating an intrinsic value of $48.31. To arrive at the ultimate intrinsic value, the DCF was weighted 0.75, and the two multiples analysis 0.125 each. This analysis resulted in an intrinsic value of $42.00, offering an upside of 60%.

Risks

- *Litigation* – The nature of the VMS market is that faulty supplements and vitamins may have serious effects on individuals taking them if they are abused and administered incorrectly. While the company has not had any serious litigation issues recently, it is a concern they may encounter in the future
- *Goodwill Impairment* – Recent operations and stock acquisitions of smaller companies has led to a significant expansion in their goodwill. Goodwill has nearly doubled since 2011. While they have not had any significant write-downs, a significant decrease could have adverse effects on their capital structure and cause difficulty in acquiring debt to fund expansion and future acquisitions
- *Consumer's Perception* – A change in perception due to new research or news unrelated to the company could cause sales volume to decrease. New drugs, techniques, or practices that potentially replace current supplements and vitamins could adversely affect the company.

Management

Frank Gay is the Chairman of the Board and CEO and has been with the company since 1994. Similarly, Bruce Hough holds the title as President and has been with the company since 1994. Cory McQeen was appointed CFO in 2007, and also holds the title as VP. Jeffrey Hinricks holds the title of Executive VP and COO, and came to the company in 1998. Mr. Gay and Mr. Hough have been with the company since its origination in 1994, and Mr. Hinricks has been with the company since their IPO.

Ownership	
% of Shares Held by All Insiders and 5% Owners:	11%
% of Shares Held by Institutional & Mutual Fund Owners:	77%

Source: Bloomberg

Top 5 Share Holders		
Holder	Shares	% Out
FMR LLC	1,153,710	11.73%
Burgundy Asset Management	1,073,893	10.92%
Frank W. Gay II	738,441	7.51%
Blackrock	648,206	6.59%
Dimesional Fund Advisors	497,277	5.06%

Source: Bloomberg

Taseko Mines Ltd. (TGB)
January 24, 2014

Ryan Bailey International Materials

Taseko Mines Ltd. (NYSE: TGB) is the fourth largest open pit copper miner in North America specializing in the production of copper and molybdenum. Taseko owns four mines (Gibraltar, New Prosperity, Aley and Harmony) in British Columbia, a low tax jurisdiction, with reserves of 4.1B lbs. of copper and 60M lbs of molybdenum as well as 285M tons of niobium. Currently, Gibraltar is the only mine that is operational, and with the recent completion of a Capex project, the mines production has doubled 2011 levels. New Prosperity is in the approval process and Aley and Harmony are currently in the testing phase. Taseko's EBITDA is highly levered to copper prices, creating strong upside potential if the price of copper rises, while implementing a hedging strategy, limiting downside. Taseko Mines was founded in 1966 and is headquartered in Vancouver Canada.

Price ($): Jan 17 2014	$2.19	Beta:	1.22		FY: Dec	2012A	2013E	2014E
Price Target ($):	$3.64	WACC:	7.87%		Revenue ($mil)	$253.79	$275.62	$460.56
52 WK H-L ($):	$1.78-3.51	M-Term Revenue Gr. Rate Est:			% Growth	-0.38%	8.61%	67.10%
Market Cap (mil):	$421.71	M-Term EPS Gr. Rate Est:			Operating Margin	-6.20%	4.76%	15.04%
Float (mil):	187.55	Debt/Equity Ratio	62.34%		EPS (Cal)	($0.08)	($0.16)	$0.19
Short Interest (%):	0.47%	ROA:	-1.6%		FCF/Share	-$2.03	-$0.91	-$2.19
Avg Vol (K):	458,288	ROE:	-3.8%		P/E (Cal)	-27.34x	-13.61x	11.69x
Dividend ($):	--				EV/EBITDA	-21.09x	25.32x	4.79x
Yield (%):	--							

Recommendation

With a net loss of $15.68M in 2013, and an expected loss of $19.38M in 2013, Taseko's stock price has fallen 35.59% in the past twelve months. With its negative earnings, the stock has been passed over by investors, and is undeservedly cheap. The cause of the valuation lies primarily in the New Prosperity mine as investors wait on the sideline for more information about the mine's approval. On October 31st 2013, Natural Resources Canada released a report suggesting that the New Prosperity mine should be denied permission on the basis of potential harm to fish and surrounding waters, sending the stock price down 21.84% during the following 6 trading days. The approval decision is ultimately made by the government, however, Natural Resources Canada is taken as a significant authority and their reports are used extensively in the approval process. Although there appears to be concern that the mine will not receive government approval, an in depth review of the legal fillings and evidence present a bullish argument that has not yet been fully priced in by the market. In addition to this market mispricing, Taseko is projected to have positive earnings in 2014 thanks to the improvement in productive capacity at the Gibraltar mine. The Aley and Harmony mines have significant measurable and identifiable reserves of gold, copper and niobium which present future growth opportunities, and, if New Prosperity is approved, the market will revalue these other mines as having a higher likelihood of approval. Given the strong chance of approval at New Prosperity and these other drivers, it is recommended that Taseko be added to the AIM International Fund with a target price of $3.64, representing a 66% upside.

Investment Thesis

- **Plans Askewed, Then Renewed.** With the potential of approval for the New Prosperity mine, Taseko has the opportunity to add 7.7M ounces of gold and 3.6B pounds of copper to their production. The mine is expected to have a 20+ year life providing a stable revenue stream with expected operating costs of $7.625 per ton milled. As part of federal environmental assessment, a panel was convened to understand the environmental impact of the potential mine. Concerns were raised regarding seepage into the fractured bedrock around Lake Fish. It was later discovered that the panel used the incorrect version of the plans in their assessment. Now that this has been clarified, there is a strong argument to be made for approval. Taseko's evidence concluded that there was no significant adverse effect to the natural environment. If approved, it is estimated that

the mine will nearly double 2015 revenue, an increase of $453M, through the mining of 160,000 ounces of gold and 75M lbs of copper. If the mine is approved the upside will be considerable. Currently, the market is valuing the stock as if there is less than a 50% chance of approval.

- **A Different Kind of GDP Growth.** With the completion of GDP3 (Gibraltar Development Plan 3), a production increasing initiative, the Gibraltar mine has seen its production capacity double. GDP3 included a new copper concentrator and a molybdenum plant. With capital expenditures in the project amounting to $325M, the company expects an IRR of 35% and payback of three years based on a copper price of $1.50/lbs. (copper is currently trading at ~$3.35). The mine has increased throughput to 101,000 tons per operating day from 50,000 tons per operating day in 2H11. With this significant ramp in volumes, improving margins and the current price of copper, earnings are projected to be positive for 2014.

- **Gems in the Pipeline.** Taseko's management team has proven to be patient and careful in terms of mine development. Aley is the site of the second largest deposit of Niobium in the world with an estimated 739M Kgs (1630 lbs) of the metal. Taseko acquired the mine in 2007 and the company has conducted extensive surveys in order to estimate the amount of Niobium that can be recovered feasibly. Although this has been a time consuming process, it insures investors that the company will not deploy capital in areas with low IRRs. It is expected that the mine will become operation in 2017 and add $350M in annual revenue. Taseko also owns a site that is expected to have 64M tons of gold off the coast of mainland Canada. The Harmony site, is currently being explored before government approval is requested.

Valuation

In order to reach an intrinsic value for TGB a 5Yr DCF analysis and two P/E multiples for estimated 2014 earnings were used. A terminal growth rate of 1.7% was used with a WACC of 7.9% to estimate a price of $4.77 based on a copper price of $3.40. A P/E multiple of 13.75x from American copper miners gave a price of $2.57 and a multiple of 12.73x from Canadian silver and diversified miners arrived at a price of $2.48. Weighing the DCF 33.33% and the P/E multiples each 33.33%, and intrinsic value of $3.24. This represents an upside of 48.1%.

Risks

- **Above and Beyond the Law.** If Taseko is denied permission to construct the New Prosperity mine, the firm will lose $1.99B in NAV. After Natural Resources Canada released their report regarding their opinion to reject the mine, the stock price fell to roughly $2.00. If this were to occur again, there would be an expected downside of 8.5-13.2%.
- **A Copper Lever.** Given that Taseko has the highest leverage to copper prices amongst its competitors, places it in high risk/reward situation. An analysis from Dundee Capital Markets suggests that for every $0.25 copper increases, Taseko's EBITDA increases 23%. However, Taseko protects this increased risk of falling copper prices by hedging with puts.
- **Aley Approval.** TGB is currently seeking approval for its Aley mine which has 739M Kg (1.629B lbs.) of niobium. Metallurgical test work is currently being completed, and the Feasibility study concluded in 2013. With the management team distracted by the approval process for the New Propensity mine, there is a chance that delays or problems will occur.

Management

The management team has significant experience in mining and engineering. Russell Hallbauer, the president and CEO has over 35 years of experience in open pit and underground mining. John McManus, the Sr. VP of Operations has worked for 30 years in the British Columbia mining industry with particular experience in mine operations, mine engineering and environmental management.

Source: Yahoo Finance

Ownership		
% Shares Held by All Insider and 5% Owners:	17.26%	
% Shares Held by Institutional & Mutual Fund Owners:		
Source: Yahoo! Finance		

Top 5 Shareholders		
Holder	Shares	% Out
RS Investment Management	28,719,965	14.90%
Geologic Resource Partners	7,122,600	3.70%
Covenant Financial Services	2,112,750	1.10%
Technical Financial Services	2,066,780	1.07%
UBS AG	2,021,595	1.05%
	Source: Yahoo! Finance	

Peer Group		
Name	Market Cap (M)	P/E
Silvercrest mines Inc.	$224.38	8.96x
Rio Alto Mining Limited	$388.85	8.15x
Endeavour Silver Corp.	$428.76	15.93x
Fortuna Silver Mines Inc.	$437.12	86.75x
Silvercorp Metals Inc.	$457.69	17.87x
	Source: Yahoo Finance	

Globus Medical (GMED)

January 24, 2014

Dan Gaide — Domestic Healthcare

Globus Medical (NYSE: GMED) designs, develops and commercializes medical instruments used in spinal surgery and treatment. GMED utilizes superior engineering to deliver innovative products, which allowed them to win the Marcum Innovator of the Year Award in 2013. GMED works closely with surgeons to assess their needs and address new treatment options. GMED develops its products across two product categories: Innovative Fusion and Disruptive Technologies. Innovative Fusion products (62% of revenue) are used to treat degenerative, deformitive, tumor and trauma conditions in the spinal cord. Spinal fusion has become a standard treatment for patients in advanced stages of spinal disease. Disruptive Technologies (38%) develops innovative technologies in the spinal care market by creating novel surgical procedures, improving existing surgical procedures and increasing surgical intervention earlier in the life of the treatment. GMED's products are marketed and sold in the United States (92%) and across 24 other countries around the world (8%). As of December 31, 2012, GMED operates with over 800 employees and is headquartered in Audubon, Pennsylvania.

Price 1/22/14 ($):	$ 22.88	Beta:	0.35	FY: Dec 31	2012A	2013E	2014E
Price Target ($):	$ 29.00	WACC:	8.4%	Revenue (M)	385.99	434.41	480
52 WK L-H ($):	12.27 - 23.13	M-Term Rev. Gr Rate Est:	9.0%	% Growth:	16%	13%	10%
Market Cap (M):	2100	M-Term EPS Gr Rate Est:	13.9%	Gross Margin	81%	80%	80%
Float (%):	81.35	Debt / Equity:	0.00	Earnings	73.83	75.41	83.33
Short Interest (%):	9.6%	ROA:	19.0	% Growth:	21%	2%	10%
Avg. 10 Day Vol (K):	750	ROE:	22.1	EPS:	0.81	0.83	0.91
Dividend:	N/A	Credit Rating:	N/A	P/E:	31.17	27.8	26.3

Recommendation

The $11.5B spinal care industry is expected to experience a 5.1% annual growth rate over the next five years. Despite having only 5% of the world's population, nearly 50% of all spinal care and treatment revenue occurs within the United States. Spending on healthcare and spinal care surgery is expected to grow rapidly in many Asian countries as awareness about medical technologies, reimbursement coverage and the purchasing power of hospitals improves. International healthcare expenditures have increased more than 140% between 2000 and 2011, to participate in this growth GMED has begun training and hiring a direct sales force in an additional 24 countries around the world. In addition to its global expansion strategy, GMED has been able to establish itself as a viable competitor domestically growing its revenue by at least 11% annually since 2007. The firm has been able to maintain operating margins at about 30% since 2009, making GMED the most profitable public pure-play spine company. GMED has been able to grow faster than its competitors because of its high-quality products and constant innovation, driven by over 100 product developers and engineers who work closely with surgeons in their state-of-the-art facility. Since its inception in 2003, Globus has launched a broad array of over 100 spinal care products and has 30 more in various stages of development. Within its Disruptive Technology segment, GMED has experienced revenue growth above 30% since 2010, as they have attempted to shift the paradigm of the spinal care industry with novel developments and improvements. On January 9, 2014 GMED purchased Excelsius Surgical, a robotics based system used for surgical navigation and implant orientation. For the aforementioned reasons and a favorable valuation, it is recommended that GMED be added to the AIM Domestic Equity Fund with a target price of $29.00, which offers a potential upside of over 30%.

Investment Thesis

- **Global Expansion.** The healthcare expenditures of more than 20 Asian and Middle Eastern countries have grown over 10% each year since 2003. As healthcare around the world is improving and spending is increasing, GMED is working to rapidly increase its sales and

marketing presence. GMED's products are currently sold and distributed in 24 countries around the globe. GMED uses an exclusive global sales force, which is required to go through an extensive training program, helping to ensure high quality sales and revenue generation.

- **Disruptive Technologies.** GMED markets and develops its instruments and procedures across two product categories: Innovative Fusion and Disruptive Technologies. Revenue from Disruptive Technologies has grown more than 100% since 2010, as surgeons look to improve patient outcomes with faster recoveries and lower total costs. These goals are being accomplished through advanced biomechanics and less-invasive surgical techniques, attracting patients that previously may have pursued non-surgical options.
- **Development Process.** GMED maintains a competitive advantage through its iterative development process. Spinal surgeons are consulted throughout the development, testing, evaluation and manufacturing process to allow for rapid product development and improvement. GMED is able to foster quick adoption and innovation via its integrated corporate headquarters. GMED's state-of-the-art headquarters includes a clinical research facility, cadaver lab, materials characterization laboratory and a training facility all at one location. The corporate headquarters offered over 40 training programs to more than 500 surgeons in 2012, helping increase product acceptance and growth.
- **Excelsius Surgical Acquisition.** On January 8th Excelsius Surgical was acquired by GMED. Excelsius Surgical products are not currently available for sale in the United States, but they are expected to be approved in 2015 and commercially sold in 2016. This acquisition has been viewed favorably as a long-term move to remain competitive through surgical robotic technologies with digital 3-D imaging that focus on less invasive surgery with less radiation.

Valuation

To find the intrinsic value of GMED, Discounted Cash Flow and EV/EBITDA models were employed. A WACC of 8.4% was used in the DCF model. The DCF model was stress tested; adjusting short, medium, long-term revenue growth, and WACC between 5-20%, 3-13%, 1-5% and 7-10%, respectively, yielding an average price target of $28. For the EV/EBITDA model, a blended historical and peer average of 12x was used to yield an intrinsic value of $30. Weighting the DCF and EV/ EBITDA models at 50% and 50%, respectively, a price target of $29 was established, offering a 30% upside, GMED does not pay a dividend.

Risks

- **Third-Party Coverage and Reimbursement.** In addition to the restructuring of the insurance industry that is occurring under ObamaCare, some third-party vendors such as Blue Cross Blue Shield of North Carolina are becoming more restrictive of the spinal care procedures that they will cover and reimburse. If more insurers become unwilling to insure spinal care procedures they may become inaccessible for many clients. GMED management believes that the costs of their products are justified and that their procedures will reduce healthcare expenses long-term.
- **Competition and Clinical Trials.** GMED has been successful in gaining market share in the spinal care industry. But the spinal care industry is subject to intense competition. GMED has grown faster than its competition through its innovation and constant product development. If GMED fails to continue developing proprietary products its long-term growth may be hindered.

Management

David Paul has served as the CEO since the inception of GMED in 2003. Prior to GMED, Paul was a Director of Product Development at Synthes, a medical device manufacturer focused on skeletal fixation. Paul is credited with 119 patents and pending patent applications. David Demski serves as President and COO for GMED, he has been with the company since 2008. Demski received his M.B.A. from Stanford University and founded a boutique leverage buyout consultancy.

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
Goldman Sachs Group, Inc.	6,825,337	7.32
Wellington Management Company	5,707,185	6.12
Vanguard Group, Inc. (The)	5,321,539	5.71
RS Investment Management Co., LLC	2,705,663	2.90
Massachusetts Financial Services Co., LLC	1,772,827	1.90

Source: Yahoo Finance

Peer Analysis

Company Name	Ticker	Market Share	Market Capitalization (MM)	P/E
Medtronic, Inc.	MDT	31.0%	59,412	15.9
Synthes Biologics	SYN	23.0%	108	N/A
Stryker Corporation	SYK	8.0%	29,592	33.6
Nuvasive	NUVA	6.0%	1,638	N/A
Globus Medical	GMED	5.0%	2,106	31.0

Source: Market Share Reporter

Dycom Industries (DY)
January 24, 2014

Steven Marszalek — Domestic Industrials

Dycom Industries (NYSE:DY) provides engineering, construction, and maintenance services to telecom providers in the United States. The company operates in three segments: telecommunications, underground facility location, and utility maintenance. Dycom's primary customers are the giant telecommunication and cable providers. Telecommunications is the company's largest segment and is responsible for 87.8% of revenue. The company typically operates through master service agreements, which provide a framework for negotiations to quickly meet the needs of customers and continue working relationships. In the past three years, revenue from these agreements has accounted for roughly 77-85% of Dycom's revenue. Dycom was founded in 1969 and is headquartered in Palm Beach Gardens, Florida.

Price ($): (01/17/14)	28.80		Beta:	1.2		FY: July 31st	2013A	2014E	2015E
Price Target ($):	35.65		WACC	11.00%		Revenue (Mil)	1608.61	1883.00	2020.00
52 WK H-L ($):	31.75-17.87		M-Term Rev. Gr Rate Est:	8.99%		% Growth	33.93%	17.06%	7.28%
Market Cap (mil):	972.10		M-Term EPS Gr Rate Est:	10.91%		Gross Margin	19.16%	19.26%	19.31%
Float (mil):	32.60		Debt/Equity	106%		Operating Margin	5.20%	5.53%	5.95%
Short Interest (%):	1.09%		ROA:	4.21%		EPS (Cal)	1.17	1.46	1.87
Avg. Daily Vol (mil):	0.185		ROE:	9.85%		FCF/Share	1.29	0.83	1.19
Yield (%):	0.00%					P/E	21.17	19.68	15.38
						EV/EBITDA	7.81	8.20	6.87

Recommendation

As data usage continues to push the limits of traditional cell capacity, the need for increased cell capacity and coverage density will provide significant revenue opportunities for Dycom. The explosion of the wireless industry can be seen in AT&T's mobile data traffic, which has increased by over 30,000% since 2007. With smartphones, data, and video technologies continuously improving, wireless carriers must continune to improve data speeds, coverage, and reliability to win customers. After acquiring Quanta's telecommunications subsidiary in 2012, Dycom increased its leading market share to slightly over 25% in 2013. For 2014, the communications construction industry is expected to grow by 4.42%, reflecting growing competition and rising customer capital expenditures. The growing prevalance of fiber connections to households provides another unique opportunity in the company's hardwire business. Dycom has capitalized on previous industry-wide changes in technology such as the transitions to broadband internet and wireless data. Because of solid historical and forecasted operating results, it is recommended that Dycom Industries be added to the AIM Equity Fund with a target price of $35.65, which offers a potential upside of 23.7%.

Investment Thesis

- **Rising Customer Capital Expenditures.** Over the past year, Dycom's major customers have increased their capital expenditures for the first time post-recession. In 2013, AT&T, responsible for 15.5% of Dycom's revenue, increased their capital expenditures by almost 10%, outpacing the industry average of 5%. AT&T expects capital expenditures to increase at similar rates for the next two years as they complete the remaining 70% of Project VIP, a $14 billion project to enhance the company's broadband networks. Comcast's management recently indicated a 10% capex growth target for 2014. Six of the seven largest providers boosted capital expenditures in the 3rd quarter, and various management teams have indicated a continuing need to improve wire/wireless coverage, density, and data speeds. In addition, the Connect America Fund, a government initiative to expand broadband coverage, recently allocated an additional $386 million in funds to smaller providers such as Windstream, a Dycom customer. Street analysts estimate nearly $1.7 billion in annual capex support for these projects over the next four years.

- **Strong Organic Growth.** In the past 15 months, Dycom has acquired Quanta's telecommunications subsidiary and Sage Telecommunications. While the Quanta acquisition has accounted for a substantial portion of the company's growth over the past two years, Dycom has consistently grown its legacy business. In FY 2013, organic growth improved every quarter, ending with a 4th quarter QoQ growth rate of 7.5%. Additionally, the company continues to grow its relationships with its biggest customers. In 2013, Dycom's business with AT&T and CenturyLink grew 87.7% and 15.5% respectively. While this may seem alarming, Dycom's exposure to their five biggest customers has actually dropped from 63% to 58.5% over the past three years. Dycom's legacy backlog totaled nearly $2.2 billion at the end of 2013, and they expect to complete roughly 50% of this work in 2014. Finally, contract revenues grew 10% in 2013.
- **Nascent Fiber Technologies.** In the past two years, Google has built three fiber to the premise (FTTP) networks in the United States. These FTTP networks provide internet speeds 10-20x faster than basic broadband at competitive prices. AT&T has announced plans to build a 1GBit/s fiber system in Austin, TX. CenturyLink, one of Dycom's biggest customers, has recently announced plans to implement an FTTP network in Las Vegas, NV. If these networks become successful and create a new standard for speeds, the industry will likely expand these networks across the country, providing an enormous opportunity for Dycom Industries.

Valuation

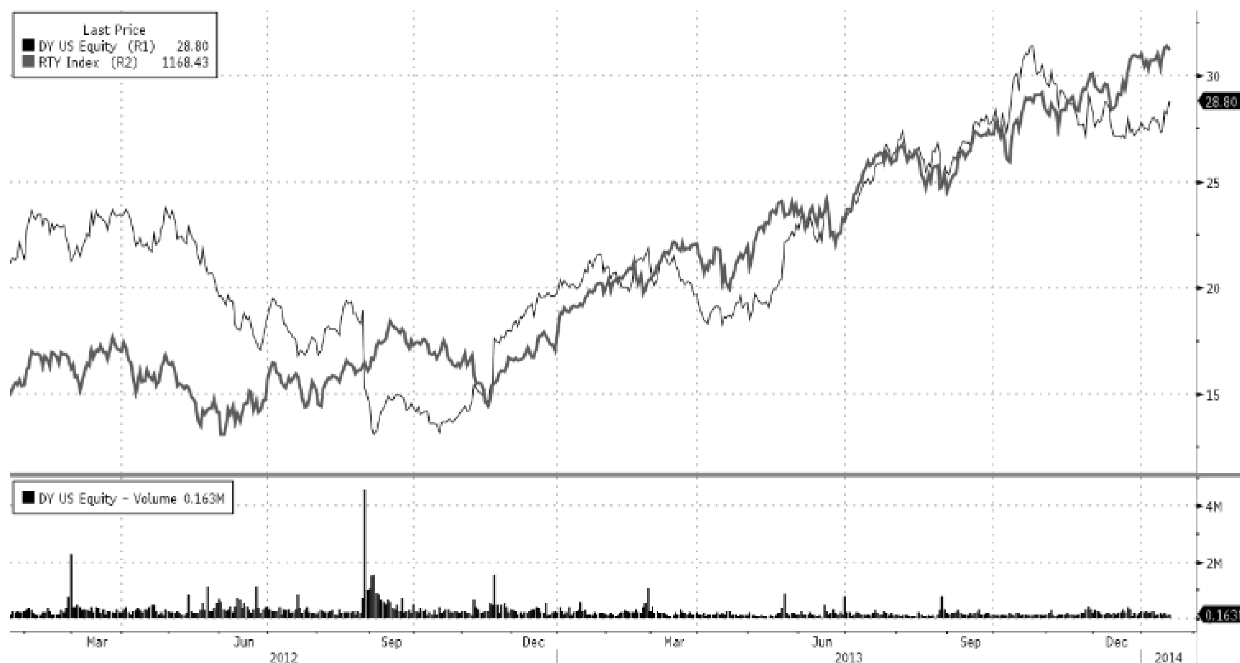
In order to reach an intrinsic value for DY, a five year discounted cash flow model was conducted. Using a terminal growth rate of 3% and a WACC of 11% in the DCF model resulted in a valuation of $34.65. Sensitivity analysis conducted on both the revenue growth rate and WACC provided for a range between $27.54 and $42.61. Using a blend of industry average, regression, and historical EV/EBITDA, an EV/EBITDA multiple of 8.2x was used to calculate an intrinsic value of $36.65. By weighing the DCF and EV/EBITDA models 50% each, a price target of $35.65 was obtained—which provides an upside of 23.7%. DY does not pay a dividend, but has $40M in authorized share repurchase available.

Risks

- **Concentrated Customer Base.** While Dycom has master service agreements with every major telecom and cable provider, their customer base is highly concentrated. In 2013, their top five customers accounted for 58.5% of revenues. Dycom's largest customer, AT&T, accounted for 16% of revenues. In the unlikely event that Dycom loses one of their major customers, the loss would significantly harm revenues.
- **Cyclical Industry.** Demand for Dycom's services has been and will continue to be cyclical. Factors such as the domestic economy, the housing market, seasonality, and technological trends will influence company performance going forward. While master service agreements provide a negotiated framework for projects, they do not guarantee revenue streams. Therefore, Dycom will be dependent on continued capital expenditures from their customer base.
- **Weather.** Nearly all of Dycom's activities are performed outdoors. Inclement weather can cause project delays, cancellations, or alterations. However, natural disasters, such as Hurricane Sandy, occasionally destroy infrastructure, which can lead to additional business for the company.

Management

Dycom Industries has a very experienced management group. Steven Nielsen has been Chariman President, and Chief Executive Officer since 1996. He was a director of SBA Communications from 2001 to 2009. Timothy Estes has been Executive Vice President and Chief Opearting Officer since 2001. Andrew DeFerrari has held the titles of Senior Vice President and Chief Financial Officer since 2005.



Ownership

% of Shares Held by All Insider and 5% Owners:	3%
% of Shares Held by Institutional & Mutual Fund Owners:	82%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
AllianceBernstein, L.P.	2,405,212	7.13
Peconic Partners, LLC	2,213,304	6.56
Vanguard Group, Inc.	1,896,233	5.62
Dimensional Fund Advisors LP	1,881,789	5.57
BlackRock Fund Advisors	1,758,551	5.21

Source: Yahoo! Finance

Peer Group

Name	EV/EBITDA
Quanta Services Inc	8.50x
URS Corp	7.03x
AECOM Technology Group	8.20x
MasTec Inc	8.88x

Source: Yahoo! Finance

Navigator Holdings Ltd. (NVGS)
January 24, 2014

Zac Zhuang International Energy

Navigator Holdings Ltd. (NYSE:NVGS) is the owner and operator of the world's largest fleet of handysize liquefied gas carriers. The company provides international seaborne transportation and regional distribution services of liquefied petroleum gas (LPG), petrochemical gases and ammonia for energy companies, industrial users and commodity traders. NVGS now owns a twenty three LPG carrier fleet (496,925 cbm) with an average age of 6.4 year, and one chartered-in handysize LPG carrier. NVGS is also the largest owner of ethylene-capable vessels with five existing carriers and an additional five vessels on order. NVGS primarily deploys its LPG carriers on period charters of varying lengths and spot market charters of up to six months. Since 2000, NVGS has built a reliable and safe seaborne transporter with the largest, most modern and most versatile in the handysize segment (20-22k CBM). NVGS was registered in the Republic of Marshall Islands in 2008.

Price ($): (1/17/14)	$27.20	Beta:	0.95	FY: Dec. 31	2012A	2013E	2014E
Price Target ($):	30.17	WACC	7.86%	Revenue (Mil)	$147	$220	$248
52 WK H-L ($):	$28.85-$12.83	M-Term Rev. Gr Rate Est:	17.78%	% Growth	65.08%	50.04%	12.84%
Market Cap (mil):	1,504.9	M-Term EPS Gr Rate Est:	27.41%	Operating Margin	27.07%	34.48%	48.24%
Float (mil):	13.8	Net Debt/Cap	46.3%	Profit Margin	20.81%	21.05%	33.90%
Short Interest (%):	0.5%	ROA:	3.67%	EPS (Cal)	2.48	0.84	1.52
Avg. Daily Vol :	250,924	ROE:	6.82%	FCF/Share	-2.49	2.05	2.91
Dividend ($):	$0.00			P/E (Cal)	14.3x	36.0x	19.8x
Yield (%):	0.0%			EV/EBITDA	9.2x	17.7x	12.4x

Recommendation

In 2006, the current management team, led by David Butters took control of the company after the preceding owners and management of the company filed for Chapter 11 bankruptcy protection in 2003. After 7 years, NVGS has established a dominant position in the handysize gas carrier segment. The company has a modern fleet with a focus on more sophisticated semi-refrigerated vessels, allowing it to earn premium rates. Featured with high specification designs, NVGS's carriers offer a distinct trading dynamics relative to larger vessels. Semi-refrigerated carriers are able to transport most of the primary NGLs and NGL byproducts in addition to offering in-transit processing options that are largely unavailable on larger carriers. Versatility of the fleet gives possibility to triangulate vessels, which entails loading other cargo in the vicinity on the backhaul. Triangulation could increase the time charter to $1.3 to $1.4 million per month. Furthermore, NVGS is uniquely positioned to capitalize on ethane exports out of the U.S. with an over 40% market share as the trade is expected to develop in the near future. The U.S. shale production has created a greater expansion of export capacity and growing LPG trading activities. Global LPG export ton-mile is expected to increase by 23% through 2015. Given the company's leading position in the handysize segment and upward trending charter rates, it is recommended that NVGS be added to the AIM International Fund with an upside of 10.9%. NVGS does not pay a dividend.

Investment Thesis

- **Handy size provides attractive gains.** Navigator has solid footprint in the handysize LPG carrier market with an approximately 31% market share and roughly 35% of the segment's order book. Handysize carriers typically generate higher returns than VLGCs. These semi-refrigerated vessels of 20-22k CBM can earn approximately $900k per month and incur daily voyage expenses of about $7.5kpd, which would resulting in a 16% unlevered EBITDA yield. This represents a 4% premium versus VLGC. Handysize carriers provide better functionality and flexibility for transporting processed NGLs from LPG import destinations that could support superior utilization. The low of $18,000 per day charter rates experienced by handysize segment in Q1 2010 were still very profitable relative to daily operating cost of about $7,500 per day.

- **Flexible chartering strategy.** Navigator currently has only one chartered-in vessel. The company uses a combination of time charter contracts, spot voyage contracts and COAs (contracts of affreightment) to secure employment for its fleet. Current semi-refrigerated handysize 1-year time charter rates are up roughly 60% from the lows in 2010. More importantly, Navigator has been cautiously not to commit to significant duration on charter arrangements given the expected pricing tailwinds in the market. It has 67% of its 2014 operating days open and over 90% of its 2015 and 2016 operating days available. This strategy allows Navigator to secure high utilization levels while simultaneously giving it the ability to take advantage of improving market conditions.
- **Significant growth potential in LPG exports.** Continued robust LPG demand growth from emerging countries will likely be increasingly satisfied by growing U.S. LPG exports. The boom in U.S. shale gas production has resulted in an abundant supply of natural gas liquids. Domestic LPG demand has failed to keep pace with increasing supply. According to Poten & Partners, U.S. LPG exports will triple over the next two years from its 2012 levels. LPG price in U.S. is well below international prices, particularly in Asia and South America. The market for handysize vessel will remain tight for at least 2 years given the fact that 5% of the global fleet is over 25 years old while current order book stands at roughly 23%. This makes NVGS the major beneficiary of the booming LPG trading activities as the second largest competitor has less than a 10% market share.

Valuation

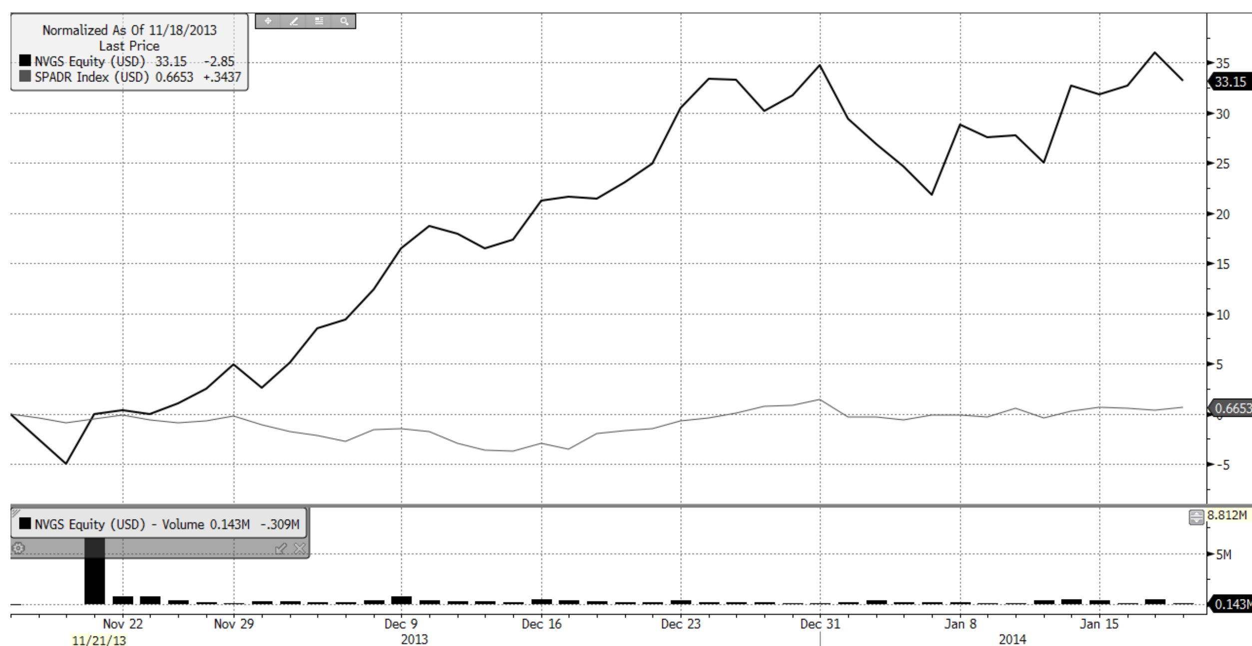
In order to reach an intrinsic value for Navigator, a five year discounted cash flow model was conducted. Using a terminal multiple of 12.4x and a WACC of 7.86%, a price target of $31.45 was obtained. Additionally, a relative valuation model by using peer average EV/EBITDA multiples was conducted; a price target of $27.19 was obtained. By weighing the DCF model 70% and the EV/EBITDA model 30%, a price target of $30.17 was established. The price target represents a 10.9% upside.

Risks

- **Cyclical demand and charter rates.** Demand growth for LPG carrier and charter rates will largely depend on global economic condition, demand for LPG export, and supply growth within the sector. Future demand growth will likely depend primarily on demand in China, India, and Southeast Asia, changes to commodity arbitrage activities, and changes to global capacity.
- **Operating risks.** A number of risks are in nature associated with the operation of marine transportation, including mechanical failure, collision, human error, terrorism, cargo loss or damage, etc. The operation is also subject to the possibility of marine disaster and environmental calamities.
- **Pitfall of overspending on fleet expansion.** With LPG shipping being one of the most profitable shipping sectors with an attractive outlook, companies have committed a substantial amount of cash in ordering new carriers. An oversupply may alter the current supply/demand outlook, leading to a decline in LPG shipping charter rates.

Management

In 2006, a new management team replaced the preceding owners and management of the company. David Butters, who worked at Lehman Brothers Inc. for over 30 years became the chairman of NVGS and then took on the responsibility of CEO in that year. Mr. Butters is currently the chairman of the board of directors and chairman of compensation committee of GulfMark Offshore, Inc., a director of Weatherford International Ltd., and a director of Angelicoussis Shipping Group, Ltd. The company chief operating officer is Tommy Hjälmås, who was also appointed in 2006. Niall Nolan has been working for the company as the chief financial officer since 2006, when he was also the representative of the creditors committee during the company's transition period.



Ownership

% of Shares Held by All Insider & 5% Owners:	7.01%
% of Shares Held by Institutional & Mutual Fund Owners:	46.1%

Top 5 Shareholders

Holder	Shares	% Out
Fidelity Management & Research Company	1,389,500	2.43%
MFS Investment Management	834,342	1.46%
BlackRock Financial Management, Inc.	215,500	0.38%
Friess Associate LLC	12,630	0.21%
ODIN Forvaltning AS	10,000	0.18%

Peer Group

Name	EV/EBITDA
Dorian LPG	7.60x
StealthGas Inc.	10.0x
Scorpio Tankers	14.1x
Exmar NV	27.7x
Qatar Gas Transport	12.8x

Source: Thomson One & Bloomberg

Newpark Resources (NR)
January 24, 2014

John Hurley | Domestic Energy

Newpark Resources (NR) has two main business segments: Fluids Systems and Engineering, and Mats and Integrated Services. The company provides drilling fluids, technical services, mat rental and preparation, and environmental waste management to oil drilling companies. They have operations primarily in North America, but also in Europe, the Middle East, Africa, Latin America, and the Asia Pacific. Newpark was founded in 1932 and is based in The Woodlands, Texas.

Price ($) (1/23/14)	12.23	Beta:	1.6	FY: December	2012A	2013E	2014E
Price Target ($):	15.84	WACC	12.7%	Revenue (Mil)	1,038	1,135	1,283
52WK Range ($):	8.04 - 13.64	M-Term Rev. Gr Rate Est:	5.5%	% Growth	8.33%	9.37%	13.00%
Market Cap:	1.07 B	M-Term EPS Gr Rate Est:	7.8%	Net Income Margin	5.78%	6.26%	6.70%
Float	84.9 M	Debt/Equity	50.5%	Operating Margin	10.20%	10.31%	11.00%
Short Interest (%):	7.6%	ROA:	6.6%	EPS (Cal)	$0.69A	$0.81E	$0.98E
Avg. Daily Vol:	584,784	ROE:	11.6%	FCF/Share	0.76	0.55	0.69
Dividend ($):	N/A			P/E (Cal)	$ 17.81	$ 15.04	12.44
Yield (%):	0.00%						

Recommendation

Newpark Resources has unique products and is currently focusing on expanding their most profitable business segments. Evolution, their relatively new high performance water-based drilling system, is considered to be better for the environment and has been widely accepted by North American drillers, especially those engaging in horizontal fracking. NR recently opened a $15 million technology center to continue experimentation and enhancement of the Evolution fluid. Newpark is also focusing on expansion of their Mats and Integrated Services segment which experienced impressive margins of 40% in the Northeastern region of the U.S. last year. The firm primarily rents out DuraBase, a high quality mat, to oil producing companies. DuraBase has an exceptional spill containment technology that is superior to previous generations of mats. Newpark is spending $40 million to expand their manufacturing facility in order to meet the high demand for DuraBase. While Newpark is expanding in profitable areas, they are also exiting the market in those areas that have performed below expectations. For instance, they are selling their Environmental Services business and leaving the equipment rental business entirely. In 2012, Newpark experienced revenue growth of 8.3% and is expecting their top line to grow by over 9% in 2013. As they focus on more profitable industries and gain market share, Newpark is poised to see their margins widen. Due to a favorable valuation and encouraging growth propects, it is recommended that NR be added to the AIM Equity fund with a target price of $15.84. This would provide a potential upside of 25.5%. Newpark Resources does not pay any dividend.

Investment Thesis

- **Evolution.** Newpark is the 4th largest drilling fluids provider in the world. They recently acquired Alliance Drilling Fluids in December 2012, which helped increase their market share in Texas. This represents their largest business segment, comprising 83% of total revenue. Evolution is a water-based drilling fluid which is better for the environment and preferable in horizontal drilling. It has been widely accepted in the U.S. and Newpark is now looking to expand the sales of the fluid into other regions. The technology center they built in 2012 will help Evolution stay competitive and ahead of the curve. Newpark is focused on continuously improving and expanding their largest revenue driving product.
- **DuraMat.** DuraMat is a unique product that also helps separate Newpark from its competitors. They primarily rent out the mats to Oil E&P companies in order to be certain that demand does not decrease. Newpark has currently gained an economic moat in this industry as DuraMat is one of the best in terms of spill containment and helps their customers limit cleanup costs. NR's new

manufacturing facility will nearly double their mat capacity. The past few quarters they have been operating at 100% capacity and a recent study by the firm indicates there is significant additional demand for their DuraMat product. This should increase the rentals of their most profitable business segment and expand Newpark's margins.

- **Leaner Business Model.** Their completion services and equipment rental business experienced a $1.7 million operating loss in the first nine months of 2013. Newpark is getting rid of that business segment completely which should help enhance profitability. They are also selling their Environmental Services segment which comprises 12.9% of their revenue. It has been consistently providing Newpark with operating income of around $10 million. By selling this portion of their firm, they can focus on the more profitable and higher growth segments of the company.

Valuation

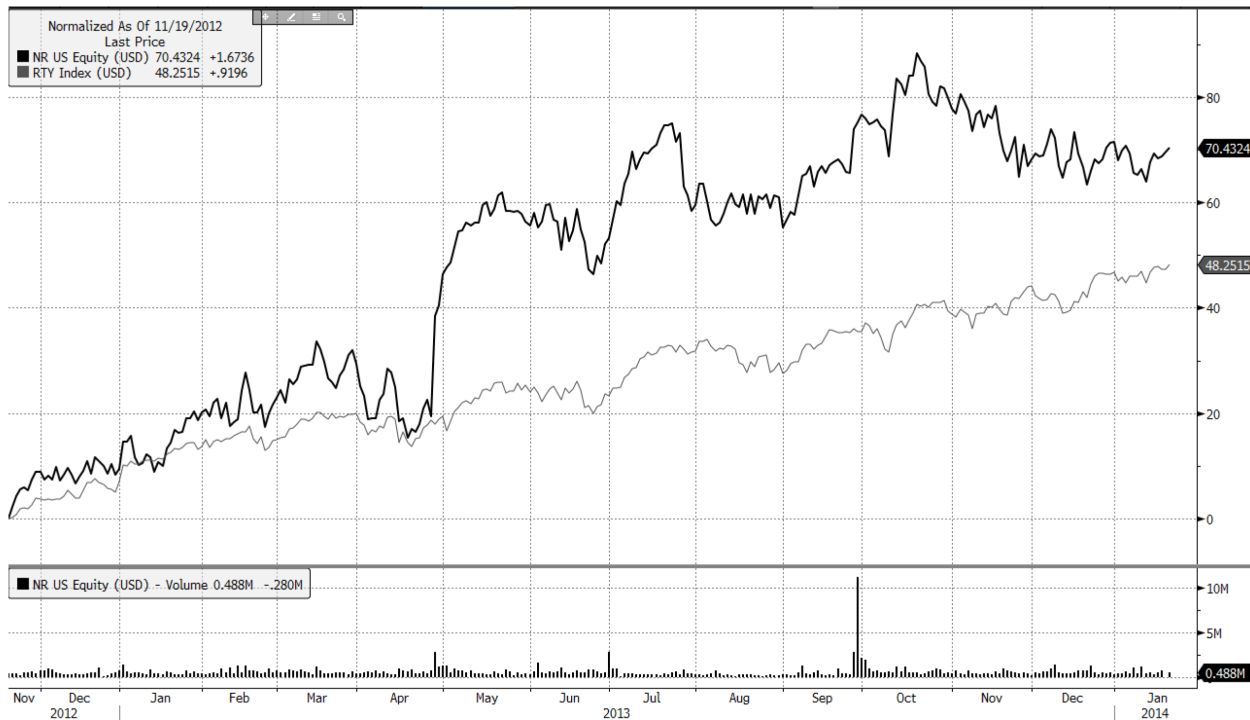
In order to reach an intrinsic value for NR, a ten year discounted cash flow model was conducted. A WACC of 13.36% was combined with a terminal growth rate of 3.0% to reach a valuation of $14.23. A P/E comparables analysis was also performed to get a relative share price. Multiplying the 17.97x P/E competitor average by Newpark Resource's expected 2014 earnings per share eventually led to an intrinsic value of $17.61. Finally, a historical EV/EBITDA analysis of Newpark Resources was done. Again looking to their expected 2014 EBITDA, a value of $15.65 was found. By weighing the DCF model 50%, the P/E valuation 20%, and the EV/EBITDA valuation 30%, a target price of $15.33 was reached. Newpark Resources does not pay a dividend.

Risks

- **Weather.** The extreme weather that parts of North America faced this winter could adversely affect Newpark. Around 70% of their revenues are generated in North America, so the severe cold could have affected their drilling fluids segment. If it was too cold for oil rigs to stay open, or projects were delayed, Newpark might have missed out on revenue days that companies would have used their Evolution fluid.
- **Competition and Excess Supply.** Newpark operates in a very competitive industry that has bigger players within it. They are not the price leader and instead rely on having what they believe is a superior product. If another company can steal market share from Newpark through a price war or more innovative product, their share price might tumble. There are hundreds of companies in the Oil and Gas Exploration and Production industry as well. If there is excess supply over demand, these companies might halt production and Newpark could lose business

Management

Paul Howes is the President and CEO of Newpark Resources. He has held the position 2006 and also sits on the board of directors. Mr. Howes has formerly worked as an inventor and was the CEO of a primary chemicals company based out of St. Louis. Gregg Piontek has been the Vice President and Chief Financial Officer since 2007. Prior to Newpark, Mr. Piontek was Vice President and Chief Accounting Officer of Stewart and Stevenson LLC. He also received his MBA from Marquette University. Management seems highly capable and in possession of the skills and capabilities to grow Newpark Resources successfully into the future.



Source: Bloomberg

Ownership

% of Shares Held by All Insider and 5% Owners:	3.2%
% of Shares Held by Institutional & Mutual Fund Owners:	89%

Source: Not Available

Top 5 Shareholders

Holder	Shares	% Out
Wells Fargo Advantage Small Cap Value Fund	6,813,900	7.80
Dimensional Fund Advisors	5,701,885	6.53
Earnest Partners LLC	5,613,680	6.43
Oslo Asset Management	5,404,283	6.19
The Vanguard Group	5,135,072	5.88

Source: Bloomberg

Delphi Automotive PLC (DLPH)
January 24, 2014

Brendan Durkin International Consumer Discretionary

Delphi Automotive PLC (NYSE:DLPH) together with its subsidiaries, manufactures vehicle components; and provides electrical and electronic, powertrain, safety, and thermal technology solutions for the automotive and commercial vehicle markets worldwide. The company operates in four segments: Electrical/Electronic Architecture (44%), Powertrain Systems (30%), Electronics and Safety (17%), and Thermal Systems (9%). Delphi sells its products and services to the automotive original equipment manufacturers (OEMs) and to the aftermarket for replacement parts. Delphi Automotive PLC is located in Gillingham, United Kingdom

Price ($) (1/21/2014)	62.73	Beta:	1.02
Price Taget ($):	71.45	WACC	10.9%
52WK Range ($):	37.46-63.34	M-Term Rev. Gr Rate Est:	6.0%
Market Cap:	19,386 M	M-Term EPS Gr Rate Est:	10.4%
Float	303.9 M	Debt/Equity	75.02
Short Interest	1.57%	ROA:	10.30%
Avg. Daily Vol:	1,786 M	ROE:	40.80%
Dividend ($):	$ 1.00	PEG	0.99
Yield (%):	1.59%	Inv Turnover	11.3

FY: December	2012A	2013E	2014E
Revenue (Mil)	15,519	16,450	17,602
% Growth	-3.25%	6.00%	7.00%
Gross Margin	17.13%	17.50%	17.50%
Operating Margin	10.61%	11.10%	11.30%
EPS (Cal)	$3.77A	$3.82E	$4.93E
FCF/Share	2.39	2.71	3.86
P/E (Cal)	16.64	16.40	12.73

Recommendation

Delphi Automotive is one of the most reliable and trusted auto parts suppliers in the world. The company supplies all 20 of the world's top vehcile makers and 17 of the top 20 vehicle makers in both the US and China. They produce and distribute parts on a global scale with regional capabilties. They have 6,400 suppliers from which they receive over 250 million parts and send out over 60 million parts to 23,000 customer locations daily. They are one of the most trusted suppliers with 99.5% on time delivery and quality levels, with only 2 rejected parts for every 1 million. Delphi is in position to capitalize on the auto industry boom and can take advantage of the increased demand for automated features, which are evolving faster than ever to promote safety and fuel effeciency in vehicles. Delphi is an industry leader in safety and connected technologies for the improving automated driving experience as well, investing billions in R&D to stay on top of the technological curve. Industry experts predict fully automated vehciles to hit the road by 2025, a development Delphi is prepared to take a leading role in. Delphi's Electrical/Electrical Architecture, which is already its most profitable segment, is also in position to grow, considering the normal vehicle has over a mile of wiring and is projected to have close to a mile and a half in the coming years. Delphi just announced a $1 billion share repurchase program and increased its dividend by 50% which shows the confidence management has going forward with its products. Delphi increased revenue 5%, operating income 9%, and EPS 12% in the past year and has posted a significantly higher EBITDA margin of 14.4% and EBIT margin of 11.1% compared to the peer averages of 10.6% and 7.8%, respectively. Delphi's FCF is also very strong and its ROIC of 33% is almost double the peer average of 18%. With continuing growth in the auto industry and the company's increasing global footprint, Delphi is in position to continue its strong growth and take advantage of the improving macro economy. With these favorable prospects, it is recommended that DLPH be added to the AIM international equity fund with a price target of $71.45, yielding an upside of 14%. Delphi pays an annual dividend of $1.00.

Investment Thesis

- **Positive Trends in Vehicle Production.** Forecasts predict strong auto sales and vehicle production in the coming years with increases of around 4% in North America, 5% in South America, and up to 9% in China. Many consumers have held on to cars much longer than historical averages because of the uncertainty and difficulty gaining credit during the recession.

With increased vehicle production, the company will experience continued growth in new products such as Gasoline Direct injection (GDi), Diesel Common Rail, and Connected Safety Systems. These products are a main driver of revenue growth and give manufacturers options in creating new vehicles for consumers.

- **Expanding Margins and Increasing Revenue.** Delphi is poised to increase margins in the coming years as they have very high fixed costs from the research and staffing requirements the company employs. They employ over 19,000 scientists, engineers, and technicians worldwide and invest over $1.7 billion in R&D annually. With rising income levels in emerging markets of China, Brazil, India, and Russia, Delphi is in position with its large global footprint to take advantage of these market opportunities with new OEM's on top of its exisiting relationships with OEM's in established markets. Delphi increased its EPS by 12% from last year on only a 5% increase in revenue, which shows the more effective cost management they have accomplished.
- **Increased Demand for Advanced Technology and Safety.** With the increased demand and interest in technology and convenience, Delphi is in position to take advantage of the market. They offer state of the art products for higher performance and power in vehicles while offering better fuel effiency and lower emissions. Each vehicle being produced is very complex and contains dozens of computer controled devices. Delphi's Ethernet Connectivity enables high speed information sharing between these complex electronic systems and will eventually serve as the base of the future of automated driving. Delphi Connect is another product introduced that is compatible with most car and SUV models made after 1996. The product connects cars to cell phones and computers through the cloud to monitor and track vehicles as well as access wireless hotspots through 4G LTE to allow internet connection on the go.

Valuation

To find an intrinsic value for DLPH, a ten year discounted cash flow was completed using a WACC of 10.9% and a terminal growth rate of 2.5%. The valuation returned a value of $73.51. A comparables analysis was also completed using an industry average of P/E multiples and also an industry average for EV/EBITDA multiples of top competitors. The resulting intrinsic values were $73.67 and $65.14, respectively. Weighting them 50/25/25 the intrinsic value found was $71.45 – representing a potential upside of 14%. Delphi pays a quarterly dividend of $0.25.

Risks

- **Performance Tied Directly to Automotive Sales and Production.** If vehicle production and auto sales do not increase as expected the business will not continue to grow as projected. A downturn in economic conditions will decrease OEM orders and cut back on business that is predicted to continue growth worldwide.
- **Downturn in Consumer Credit Availability.** Consumer credit availability and high costs of borrowing have caused vehicle production downturn in the past, decreasing ordering from OEM's worldwide.
- **Highly Competitive Industry.** OEM's are constantly looking for the best prices in a highly competitive industry. With prices being forced downward because of competition or the emergence of newer and cheaper alternatives to the technology Delphi produces, financial results could fall short of expectations.

Management

Rodney O'Neal is the CEO and President of Delphi and has held the position since 2007. O'Neal previously worked for GM with positions in engineering, production, and manufacturing supervisory throughout the US, Portugal, and Canada. Kevin Clark joined Delphi in 2010 as the CFO and became Executive Vice President in 2013. He has strong automotive background with two decades experience as well as investing experience being a co-founder of Liberty Lane Partners, LCC, a private equity firm.

Source: Yahoo! Finance

Ownership	
% of Shares Held by All Insider and 5% Owners	1%
% of Shares Held by Institutional & Mutual Fund Owners	99%

Source: Yahoo! Finance

Top 5 Shareholders		
Holder	Shares	% outstanding
Massachusetts Financial Services Co.	24,278,559	7.4%
Vanguard Group Inc.	19,125,316	5.83%
FMR, LLC	15,031,130	4.58%
Elliott Management Corporation	13,703,000	4.17%
Harris Associates L.P.	13,536,354	4.12%

Mindray Medical International Ltd. (MR)
January 24, 2014

Mark Long — International Health Care

Mindray Medical International Ltd. (NYSE ADR: MR), a large global player in the manufacturing and distribution of medical devices, equipment, and solutions. The firm is based out of Shenzhen, China. MR has four distinct operating segments. The revenue associated with these segments includes Patient Monitoring and Life Support Products (42.4%), In-Vitro Diagnostics Products (27.0%), Medical Imaging Systems (23.9%), and Veterinary and Others (6.7%). Since its formation in 1991, MR has been able to expand its offerings into 22 countries in six continents. MR's Geographic revenue segments are derived from China (44.6%), Other Segments (13.9%), North America (13.7%), Latin America (10.9%), Europe (9.5%), and Asia (7.4%).

Market Price on 1/16/14 ($)	40.20	Beta	1.33	FY for December 31	2012A	2013E	2014E
Price Target ($)	67.78	WACC	0.09	Revenue ($,M)	1,060.05	1,272.06	1,526.47
52 Week H-L ($)	43.81-33.88	ROA (TTM)	10.61	Growth	20.36%	11.75%	15.00%
Market Capitalization ($,B)	4.68	ROE (TTM)	15.06	Gross Margin	56.66%	55.65%	55.75%
Industry Cap (T)	1.45	Debt/Equity	10.44	Operating Margin	0.18	0.22	0.21
Average Daily Volume (M)	1,088,010	Debt/Asset	7.75	EV/EBITDA	45.93	47.56	50.65
Short Interest	19.80%	Dividend ($)	0.46	FCF/Share	1.47	2.09	3.64
P/E (TTM)	23.10	Yield	1.20%	Estimated EPS	1.54	1.74	1.82

Recommendation

Mindray Medical International Ltd. is a global manufacturer and marketing distributor of medical equipment and devices. MR's largest geographical revenue segment is in China, which is also the world's largest consumer base for the medical equpment. With a worldwide presence, MR has grown through its demonstrated innovations and comprehensive supply chain and research and developments throughout the world. MR has positioned itself to continue to be a large global player and the strongest player in the Chinese markets. Their future success will be a function of three key drivers. The first of these relates to the positive preliminary results announced by management last week. Another key development in the continued growth of MR is its enhancement of its imaging products through the acquisition of Zonare Medical Systems. Finally, the improving European economic situation, especially in Spain, will help revenues from Europe realize their full revenue potentials. MR's beta of 1.33 can be attributed to its consideration of operating cyclically in a non-cyclical industry, given that the purchase of equpiment is dependent on hospital and organizational needs. Based on the drivers mentioned earlier, Mindray Medical International, ticker MR, has positioned itself to continue to grow, as it has for the past five years. For this reason, it is recommended that this stock be added into the AIM International Equity Portfolio with a target price of $67.78, providing a potential upside of 68.62%.

Investment Thesis

- **Positive Preliminary Results.** Recently, Mindray International issued a preliminary report suggesting that revenues for FY 2013 would be very strong with a projected Non-GAAP growth rate of 11.5% from 2012 and at least a 15% growth for FY 2014. Co-CEO Mr. Xiting attributed this success to the successful introduction of 11 products in the marketplace and its successful acquisition of two companies. Improved supply chain operations and further research and development efforts were cited as the main reason for the projected strong 2014 revenue growth.
- **Upgrade of Imaging Product.** During the JPMorgan Healthcare conference held recently, Mindray executives stated that they believe a strong contribution to their growth in 2014 will lie in their medical imaging device upgrades. Through the acquisition of Zonare Medical Systems,

Mindray has gained access into the technology needed to improve MR's own Ultrasound equipment, which is expected to contribute to at least 15% increase in revenues in 2014. This acquisition will help Mindray expand their presence in the ultra-high net worth ultrasound industry.

- **Increased Sales from Europe.** With increasing brand presence in Europe, MR is was able to record double-digit growth in 2012 and expected to have strong growth in from 2013. Despite strong growth, Europe has traditionally been MR's lowest revenue segment over the past five years. Europe's growth potential, especially Spain's, has been hindered by the economic crisis. Given the recovery of the European economy, this should position MR to take advantage of the possible European expanded revenue segment going forward.

Valuation

In order to reach an intrinsic value for MR, a combined five-year DCF model and an EV/EBITDA multiple was modeled. Using a terminal growth rate of 1.00% and a WACC of 8.79% resulted in a valuation of $89.63. Sensitivity analysis performed on both the terminal growth rate and WACC provided for a range between $66.52 and $189.28. An EV/EBITDA multiple was also incorporated into the model to come up with a valuation of $45.93. Incorporating these two models together, an intrinsic value of $67.78 was found. This is a 68.62% increase over the current stock price of $40.20 on 1/16/14. For 2012, MR paid a $0.46 dividend, yielding a little of over 1%.

Risks

- **Possible Inaccurate Accounting Report.** Despite its long and strong presence in the world and the United States, in December, Ottoman Bay Firm accused Mindray of falsly providing inaccurate accounting reports, alleging possible earnings overstatement, acquisition problems, and possible loan forgiveness problems (or phantom cash). Ottoman indicted that this incident was an example of Chinese fraud that will be added to the record books for years to come. Mindray affirmed its accurate accounting reports and did not set up any specific task force, an action that Ottoman was disappointed did not take place.
- **Lower Growth in China.** Given MR's high beta, we can infer that, while MR operates in the healthcare industry, their specific segments operate in a cyclical industry, as Mindray has fierce competition to sell its equipments to hospitals, where the hospitals have the luxury to purchase from any of MR's competition, despite being in healthcare. With China being a significant portion of MR's revenues, if an economic crisis or lower growth occurred in China, this may lead some government hospitals to lower their purchase orders, thereby lowering MR's bottomline in China.

Management

Mindray Medical International has a unique management layout. MR has two CEO's sharing the position. Li Xiting has been with the company since its inception in 1991. Mr. Xiting serves as MR's Co-CEO, President, and director. Mr. Cheng Minghe currently serves as the Chief Strategic Officer and was also appointed to the newly-created Co-CEO position in June 2013. Mr. Cheng also started with the company in 1991 as MR's Vice President of the Sales Department. Alex Lung has held the Chief Financial Officer position at MR since August 2011. Following Mr. Lung's completion of his Bachelor's Degree in Mechanical Engineering from Imperial College in London, Mr. Lung worked at KPMG in the auditing, consulting, and corporate finance divisions. Mr. Lung is also holds the designation of UK Association of Chartered Certified Accountant.

Source: Yahoo! Finance

Ownership

% of Shares Held by All Insider and 5% Owners:	0%
% of Shares Held by Institutional & Mutual Fund Owners:	82%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares Outstanding	Outstanding
Commonwealth Bank of Australia	10,602,584	8.85%
Mondrian Investment Partners Ltd.	9,817,068	8.19%
Baillie Gifford and Company	8,408,970	7.02%
FIL Ltd.	6,086,370	5.08%
Manning & Napier Advisors	5,631,533	4.70%

Source: Yahoo! Finance