Applied Investment Management (AIM) Program

AIM Class of 2014 Equity Fund Reports
Fall 2013

Date: Friday, October 11, 2013
Road Show Location: Timpani Capital Management

Student Presenter	Company Name	Ticker	Price	Page No.
Kevin Hansen	Calix, Inc.	CALX	$12.64	2
Sean Whitney	Netgear, Inc.	NTGR	$31.19	5
Danny Muench	Shutterfly	SFLY	$54.25	8
Jim Ford	Wintrust Financial Corporation	WTFC	$41.07	11

Thank you for taking the time today and participating in the AIM 'road show' Timpani Capital Management. 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. Today, each student will spend about 5-7 minutes presenting their formal recommendation, which is then followed by about 8-10 minutes of Q & A. Again, thank you for allowing us the opportunity to present at Timpani.

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Calix, Inc. (CALX)
October 11, 2013

Kevin Hansen | Information Technology

Calix, Inc. (NYSE: CALX) was incorporated in 1999 and IPOed on March 24, 2010 at a price of $15.10, which raised $57.3MM in capital. CALX provides broadband communications access systems and software that enables communications service providers (CSPs) to connect to residential and business subscribers. CALX focuses solely on the portion of the network that governs available bandwidth and determines the range and quality of services that can be offered to subscribers. The growth of internet data traffic due to bandwidth intensive services such as high-speed internet, high-definition video, and online gaming is driving CSP's to invest in and upgrade their networks. These access networks are physical products that are sold to customers, and over the company's lifetime 16 million of these ports have been sold by CALX. The firm does not report revenue distribution between the software and hardware side, however the geographic breakdown of revenues for FY 2012 was 92.7% in the USA, 3.3% in Canada, 2.8% in the Caribbean, and 1.2% other. CALX is headquartered in Petaluma, California.

Price 10/3/13 ($):	$12.64	Beta:	1.86	FY: Dec 31	2012A	2013E	2014E
Price Target ($):	$17.26	WACC:	15.6%	Revenue ($M):	330.2	401.7	480.6
52 WK L-H ($):	5.47-13.98	M-Term Rev. Gr Rate	13.1%	% Growth:	-4.2%	21.6%	19.6%
Market Cap (M):	$621.8	M-Term EPS Gr Rate:	N/A	EPS:	($0.59)	$(0.64)	$ (0.52)
Float (M):	36.7	Debt:	$0	Gross Margin (%):	41.66%	42.86%	44.06%
Shares Out. (M):	49.7	2012A ROE:	-10.5%	Operating Margin (%)	-8.36%	-6.75%	-4.25%
Short Interest (%):	4.09%	2013E ROE:	-11.69%	Pretax Margin (%):	-8.53%	-7.88%	-5.38%
Avg. 3 Month Vol:	305,078	2012A ROA:	-7.50%	P/E:	-21.4x	-23.5x	-33.3x
Dividend:	$0.00	2013E ROA:	-7.97%	P/S:	1.9	1.8	1.8

Recommendation

CALX has seen persistent revenue growth from 2007 until 2011 at a CAGR of 12.2%, but took a slight hit in 2012 due to delays in broadband stimulus awards under the American Recovery and Reinvestment Act of 2009. There was also a slowdown in cap-ex by CSPs due to uncertain regulatory reforms and macro-economic conditions. 2013 has rebounded thus far with $185MM in sales through the first two quarters and analyst predictions of $404MM, a 21% increase in revenues. Growth is being driven by increases in bandwidth usage across the country as individuals stream more movies, play more games, and use the internet for communications. As nationwide internet usage increases, connections become unable to handle the traffic and CSPs have to upgrade their infrastructure. CALX has also used acquisitions to increase growth. In 2011 Occam was acquired by CALX and the industry as a whole has been going through a consolidation phase. Occam was acquired at a P/S ratio of 1.94 with $29.8MM in revenue. The balance sheet of CALX has zero debt which means that financing options are available in the future should CALX be able to further identify undervalued companies in the sector. This also has the potential to lower their cost of capital and raise the price because their cost of equity is currently bringing down the valuation of the stock.

One of the concerns for CALX is that it has had negative net income every year since going public, which is attributable to several factors. The first is that they have been investing heavily in the business both from a cap-ex standpoint and in R&D which has empirically received 20% of revenues. The firm has improving margins though as they reach economies of scale and due to the aforementioned lack of debt has plenty of time to become net income positive. The strong cash flow despite negative net income combined with CALX's excellent growth track record and future prospects is what their valuation is base off of. With these factors determining CALX's intrinsic value, it is recommended that CALX be added to the AIM Equity Portfolio with a price target of $17.26, representing an upside of 49.8%.

Investment Thesis

- **Unsatisfied Internet Customers.** The customers of CSPs are constantly complaining about slow connection speeds and lack of bandwidth as they try to stream movies. The risk of losing these customers drives CSPs to improve their infrastructure and allow faster connections, which is done by purchasing products from CALX. This type of internet usage can only grow in the future as more and more things are moved online and connections become even more bogged down.
- **Increasing Use of Cloud Storage and Computing.** Cloud computing is the future of data storage in the world but this, like everything else done online, is reliant on the speeds of the internet providers. CALX is once again poised in the perfect position to reap the benefits of this trend and continue to grow revenues. Unlike data storage centers which are the obvious benefactor of this trend and have already been seeing valuations soar over the past year, CALX is both cheap and provides a good way to claim a slice of the profits from this phenomenon.
- **Lack of Debt.** Having zero debt on the balance sheet means several things for CALX, all of which are positive going forward. If they come into a cash crunch, which has not happened yet and management does not predict, they have a safety valve that is untouched so far. Also should growth opportunities or acquisitions become available financing will be easily attained in order to perpetuate their growth trend. Finally, should they take on debt in the future it will lower their weighted cost of capital and provide a more favorable discount rate by which to value the company.

Valuation

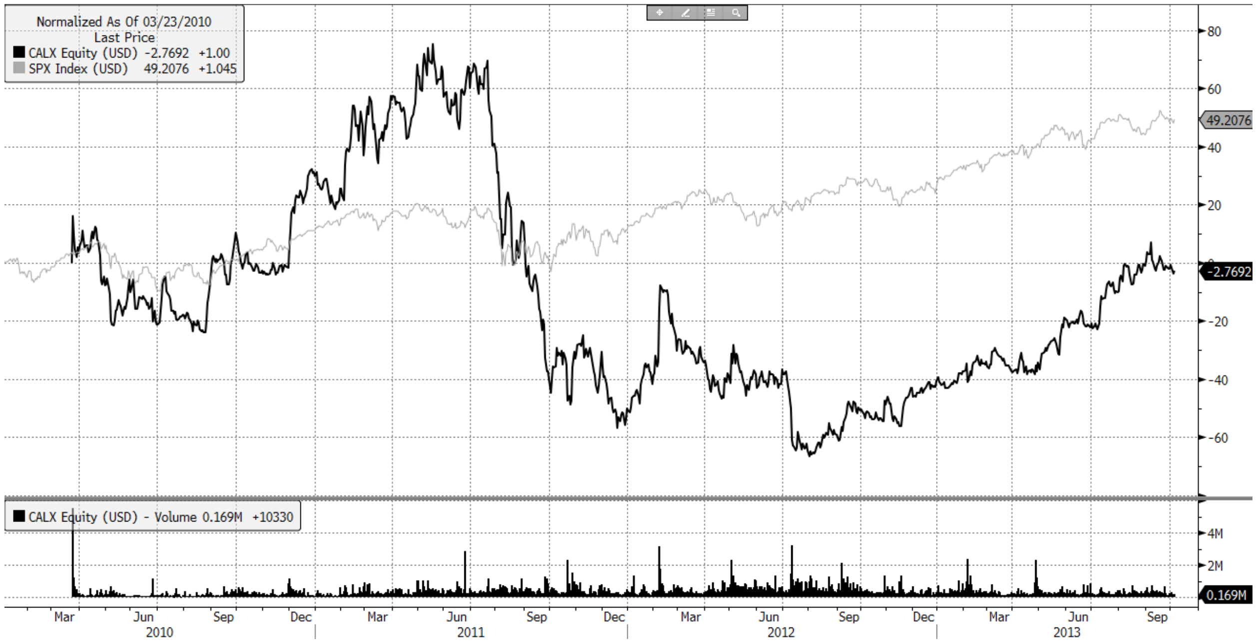
A DCF model combined with two comparables-based metrics, price to sales and price to cash flow, were used to find the intrinsic value of CALX. The DCF was weighted 60% while P/S and P/CF were each weighted 20%. The DCF used a cost of capital of 15.6% and a terminal growth rate of 2%, projecting out to a value of $17.26. The comparables metrics were projected out three years and then average, using the same four competitors for both metrics. This yielded a P/S valuation of $24.76 and a P/CF valuation of $18.16. The peer companies chosen were ADTN, CIEN, TLAB, and BSFT. Combining the aforementioned target prices and weightings produces an intrinsic value of $18.94, representing an upside of 49.8%. CALX does not pay a dividend.

Risks

- **No History of Positive Net Income.** CALX has numbers published back through 2007, and has yet to record positive net income for a year. This problem is alleviated by the fact that the business remains cash flow positive and its competitors are all in the same situation, so it is an industry problem more than specifically a CALX problem.
- **Very Concentrated Business Plan.** Revenues rely on CSPs capital expenditures focused on upgrading and maintaining their networks. A slowdown in the industry would have major effects on CALX as it is not diversified.
- **Expensive Product Development.** This market is undergoing rapid technological changes and CALX has to continually adapt its product offerings to ensure that it has the highest quality products on the market. For the past three years it has maintained an R&D budget at 20% of revenues.

Management

Carl Russo is President and CEO in addition to his role on the board. He has 25 years of experience in the networking and telecomm industries, joining Calix in 2002. He owned 3.44MM shares of stock as of Sept 3, which would make him the second largest stock holder. Michael Ashby is the Executive Vice President and CFO as well as a member of the board of directors. He was previously the VP of finance for Cisco, which he joined in 1999 along with Carl Russo as part of Cisco's acquisition of Cerent Corp.



Ownership

% of Shares Held by All Insider and 5% Owners:	27%
% of Shares Held by Institutional & Mutual Fund Owners:	61%

Top 5 Institutional Shareholders

Holder	Shares	% Out
Wellington Management Company, LLP	3,640,504	7.32
Ameriprise Financial, Inc.	2,219,774	4.47
Vanguard Group, Inc.	1,981,788	3.99
BlackRock Institutional Trust Company, N.A.	1,745,448	3.51
Goldman Sachs Group, Inc.	1,718,138	3.56

Netgear, Inc. (NTGR)
October 11, 2013

Sean Whitney Information Technology

Netgear Inc. (NASDAQ:NTGR) is a global networking company that provides innovative products to consumers, businesses, and service providers. The company's products allow users to share Internet access, peripherals, files, digital media content and applications among multiple personal computers, tablets, Wi-Fi enabled smartphones, TV's and other Internet-enabled devices. Netgear operates in three business unit: Retail, Commercial, and Service Provider. In 2012, retail, commercial, and service provider accounted for 39.7%, 24.2%, and 36.1% of revenue respectively. The Retail business unit consists of high performance and dependable home networking, storage, and digital media products to connect customers with the Internet. The Commercial business unit is made up of business networking, storage and security solutions with lower cost and less complexity than big information technology. The Service Provider business unit consists of whole home networking solutions sold to service providers for sale to customers. NTGR contains three major product portfolios: Business networking, Broadband, and Wireless and Wired adapter products. Netgear operates in three geographic territories: Americas, Europe, Middle-East and Africa and Asia Pacific. The firm was founded in 1996 and is headquartered in San Jose, California.

Price ($) (10/4/13)	31.19	Beta:	1.3	FY: December	2012A	2013E	2014E
Price Taget ($):	43.68	WACC	12.5%	Revenue (Mil)	1,272	1,450	1,667
52WK Range ($):	26.82-40.97	M-Term Rev. Gr Rate Est:	15.0%	% Growth	7.70%	14.00%	15.00%
Market Cap:	1,206.1 M	M-Term EPS Gr Rate Est:	17.5%	Gross Margin	30.16%	30.75%	31.50%
Shares Oustanding	38.7 M	Debt/Equity	0.0%	Operating Margin	10.04%	10.75%	11.50%
Short Interest (%):	6.0%	ROA:	6.5%	EPS	$2.24	$2.47	$3.04
Avg. Daily Vol:	339,876 K	ROE:	9.3%	FCF/Share	1.04	2.09	2.61
Dividend ($):	$ -			P/E	17.89	17.71	14.37
Yield (%):	0.00%			EV/EBITDA	7.85	7.11	5.84

Recommendation

Netgear is poised for strong future revenue growth (15-20%) due to an increased product portfolio, growing revenue, and favorable trends within the technology industry. Revenue has grown at a CAGR of 23% over the last 3 years and management projects a 15-20% CAGR for revenue in the long term. The strong technology industry trends greatly support Netgear and its prospects for increased revenue growth. Cloud based services are expected to post a CAGR of 24% for the next five years, according to IDC. Additionally, demand for increased storage capacity is being driven by digital entertainment and data retention. Storage system software is projected to increase by a 3.5% 5-year CAGR. Cyber security is one of the fastest growing areas of IT spending, in the public and private sectors, due to the increasing frequency of cyber-attacks. Security solutions are expected to grow at a 5-year 14.6% CAGR. NTGR provides products in cloud based services, storage software, and security solutions which puts them in a valuable position to take advantage of these powerful trends. R&D is crucial to any technology based company, and their strong emphasis on R&D helps it stay ahead of the competition. For instance, NTGR introduced 22 new products in Q2 FY2013 and they just released their new Nighthawk AC1900 Smart Wi-Fi router. The most advanced and fastest in the industry and is designed to support bandwidth-intensive activities such as online gaming and video streaming. The firm also has no debt, while maintaining strong free cash flow. Lastly, Netgear's global reach and distribution capabilities are among the best in the industry and one of its strongest competitive advantages. They have 45,000 retail outlets and 40,000 Value Added Resellers worldwide. No customer accounted for more than 10% of net revenues in 2012, which demonstrates the diversity within its customer base. Due to significant growth potential, continuing strategic acquisitions, positive industry trends and a favorable valuation, it is recommended that NTGR be added to the AIM Equity Fund with a target price of $43.68, which offers a potential upside of 40%.

Investment Thesis

- **Focus on High Growth Opportunities.** The Smart Home market and cloud computing contain significant growth opportunities that the firm is poised to capitalize upon. The Smart Home market continues to grow near 30% YOY in North America. For Europe, forecasts estimate there will be on average 3.6 screens per person in 2015 (including smartphones and tablets) versus 1.7 in 2000. This statistic shows the push towards the Smart Home in Europe which allows for further market penetration. Cloud computing has been growing at an exceptional rate. Software as a Service (SAAS) and cloud based applications are projected to grow from $13.4 billion in 2011 to $32.2 billion in 2016 which equates to a 19.1% CAGR.
- **Strategic Acquisitions.** Netgear acquired AVAAK Inc., Firetide Inc. and Sierra Wireless' AirCard business within the past year. NTGR believes AVAAK will improve retail business unit product offerings and expand their presence in the smart home market. Firetide is expected to increase wireless product offerings in the commercial business unit and improve market position within the wireless LAN market. The wireless LAN market is growing 15% YOY, which provides significant growth opportunities for the firm. Lastly, Netgear's acquisition of Sierra Wireless' AirCard business is the most significant in company history. The acquisition greatly strengthens their position in the LTE wireless technology segment, which they believe is its biggest growth opportunity. Currently only 35% of the world's population is connected to broadband Internet. Emerging markets and rural areas lack internet due to limitations of traditional wired telecommunications infrastructure. LTE wireless technology is capable of penetrating these markets with cost-effective infrastructure, while providing comparable broadband speeds. By combining Netgear's Wi-Fi expertise and global distribution capabilities with AirCard's LTE technology, the company is positioned to be the leader in the next generation fixed mobile LTE internet access.
- **Cost-effective Approach.** Due to high competition, a cost-effective approach is crucial in the technology industry. NTGR obtains products manufactured from third parties at a low cost, mainly from China. This allows them to offer low cost products without compromising its standards. Netgear has quality control centers to ensure its products meet the company's high standards. For instance, they recently released the first 10-gigabit switch for under $1,000. Additionally, increasing bandwidth requirements have led to sales of 10 Gb switches and 40 Gb switches increasing 13% YOY and 177% respectively. Netgear's ability to create low cost products that are still top of the line, will allow the company to continue gaining market share.

Valuation

To find the intrinsic value of NTGR, a ten-year DCF model was constructed. A WACC of 12.5% was used, as well as a long term 3% terminal growth rate. The DCF model generated an intrinsic value of $45.78 per share. A forward EV/Sale multiple approach was also used with a peer multiple of 0.85 and an intrinsic value of $41.58 was generated. Weighing the two values at 50/50, a price target of $43.68 was established, representing a 40% upside. The firm does not pay a dividend.

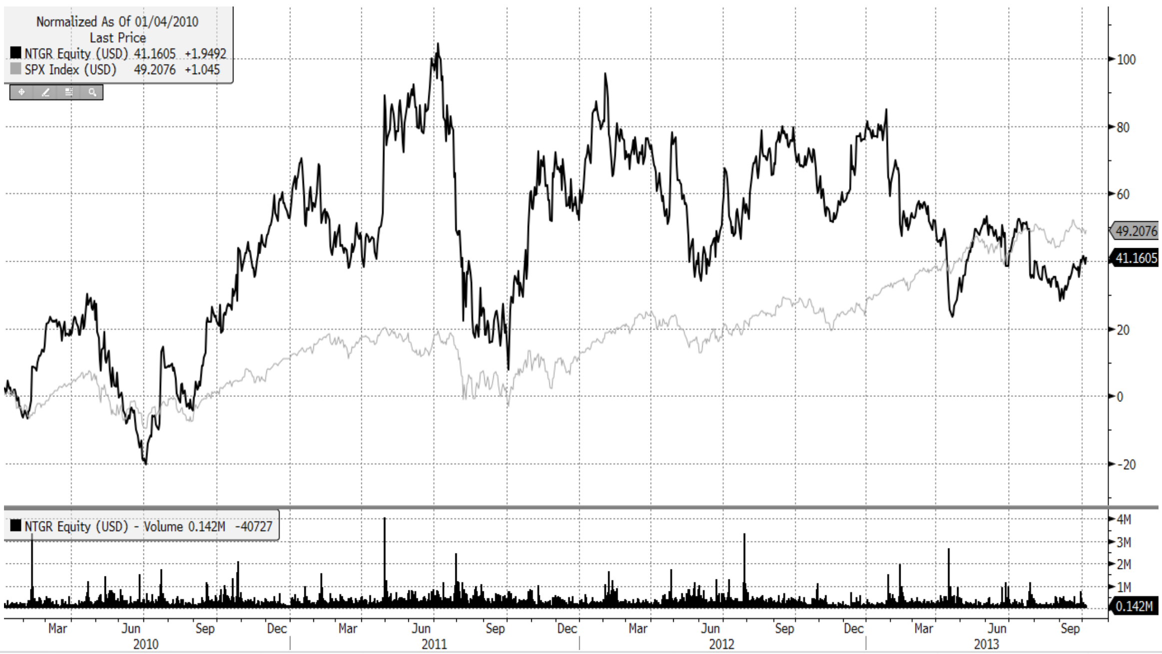
Risks

- **Global and Domestic Economic Conditions.** Netgear's product offerings are reliant on healthy economic conditions. Thus, if economic conditions worsen, Netgear stands to be adversely affected. Macroeconomic weakness in the European Market has recently negatively affected Netgear's revenue stream. Due to Netgear's significant global presence it is exposed to greater economic risk.
- **Costs of Penetrating Markets.** NTGR spends a significant amount on research and development. The cost of R&D, as well as acquisitions to penetrate the LTE, Smart home, and cloud based markets further could be greater than expected and adversely affect profits.

- **Increasing Competition.** Netgear competes in an extremely competitive market. Therefore, increased competition could lead to less market share, reduced margins, and fierce price competition. Top competitors include: D-Link, Hewlett-Packard, and Cisco Systems. NTGR must continue to offer top of the line products at low cost in order to maintain its strong customer base.

Management

Patrick Lo is the current CEO of Netgear. He has been with NTGR since inception and has been the CEO since 2002. Mr. Lo co-founded Netgear with Mark Merrill, the current senior vice president, in 1996. Previously, he worked at Hewlett-Packard, serving in various positions. Lo was named the Ernst & Young National Technology Entrepreneur of the Year in 2006.



Ownership

% of Shares Held by All Insiders and 5% Owners:	2%
% of Shares Held by Institutional & Mutual Fund Owners	>90%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Neuberger Berman Group, LLC	3,438,586	8.89%
Vanguard Group, Inc.	2,265,108	5.86%
BlackRock Fund Advisors.	2,009,49	5.20%
Jennison Associates LLC	1,265,202	3.27%
Fisher Asset Management, Inc.		3.08%

Source: Yahoo! Finance

Shutterfly (SFLY)
October 11, 2013

Danny Muench Consumer Discretionary

Shutterfly (NASDAQ: SFLY) is the leading manufacturer and digital retailer of high quality personalized photography-related products and services offered through a portfolio of lifestyle brands. The four brands are Shutterfly, Tiny Prints, Wedding Paper Divas, and Treat. Shutterfly has been in operation since the firm's inception in 1999; however Tiny Prints and Wedding Paper Divas were acquired in 2011 and Treat was recently launched in early 2012. They offer a range of personalized photo-based products and services for consumers to upload, edit, enhance, organize, find, share, create, print, and preserve their memories. They also sell photo-books, greeting and stationary cards, personalized calendars, and other photo based merchandise. The firm is headquartered in Redwood City, California.

Price ($) (10/7/2013):	$ 54.25	Beta:	1.46	FY May	2012A	2013E	2014E
Price Target ($):	$ 69.78	WACC:	10.60%	Revenue ($Mil)	$ 640.62	$ 781.00	$ 898.15
52WK H-L ($):	25.18-59.93	Mid-Term Rev Gr Rate Est	12%	% Growth	35.36%	21.91%	15.00%
Market Cap (mil):	$ 2,099.40	Mid-Term EPS Gr. Rate	22%	Gross Margin (%):	53.97%	54.00%	54.00%
Float (mil):	39	Debt/Equity:	13.2%	Operating Margin (%):	6.35%	2.61%	3.50%
Short Interest (%):	13.12%	2012 ROE:	2.70%	EPS	$ 0.59	$ 0.37	$ 0.47
Avg. Vol (3 month):	497,648	2012 ROA:	2.06%	EPS % Growth	64%	-38%	28%
Dividend				FCF/Share	0.53	0.57	0.24
Yield (%)	0.00%	2012 EV/Adjusted EBITDA	15.69				

Recommendation

With an increased product portfolio and continued expansion of revenue, SFLY offers an excellent opportunity for strong future growth. SFLY has grown 160% since 2009 through their innovation and expansion. They have significant growth organically and through M&A, including 13% through M&A and 22% organically in 2012. Mobile, which includes their new ecommerce apps, and enterprise, their commercial business with Fortune 1000 companies, has begun to impact revenue as well. Management believes these two lines of business can make a noticeable impact in the future, as mobile begins to tap the markets of Android and tablets, and enterprise improves. Customers are also leaning towards higher end products as demonstrated through increased average order value (AOV). AOV, $34.96, grew 10% YoY and also reached the highest amount ever for a non Q4 quarter. AOV is expected to increase with the additional tablet and mobile apps. Cloud integration is also a plus for SFLY as they bring software sophistication into the market place and make it easier for customers to purchase products. Their main strategy is to introduce auto product creation into the world of photo related products, through the intelligence and technology acquired through This Life and Photoccino. Expansion opportunities are not just domestic though, as they have plans to go overseas. With little to no competitors outside of the U.S., they have expansion capabilities and it is speculated they will go there within the next year. Outside of their growth through their portfolio of products, they are expanding the amount they in-source as well. They have over 50% outsourced related to Tiny Prints, and they have purchased the grounds to increase their manufacturing capabilities and bring more in house, which will increase their margins. They did $600M out of 200K sq. ft. and are growing it to 650K sq. ft. which entails massive expansion.

Investment Thesis

- **Increased revenues due to new products**: SFLY has recently gone into the markets of mobile and enterprise and they will be entering the tablet and cloud space soon. The enterprise portion has grown from $500K in 2008 to $27M in 2012, with a compound annual growth rate of 170%; it has less of a seasonal risk and can lead to positive results in Q1-Q3. Mobile has grown to 5% of revenue through Q2 and was launched at the end of 2012. SFLY has also purchased technology able to create software sophistication into the photo space for cloud and mobile**.**

- **Active through M&A:** SFLY has generated strong cash flows generating 65M in 2012 and 121M so far in 2013. They are projecting operating margins of 3% and gross margins of 54% in 2013, but are expecting to increase it as acquisitions pan out. They purchase companies in order to gain synergies such as; increased customer accounts without the price of marketing (Kodak), and tech companies that provide outside R&D and allow them to take new products to market sooner (Penguin Digital). This has already been proven as Penguin Digital has allowed them to enter mobile sooner than they hoped, and it will also help in the future as they are now closer to a cloud based product due to the acquisition of This Life, which will in turn gain revenue and increase the value of the company.

- **Increased operating efficiency**: SFLY's manufacturing has primarily been outsourced, but they are bringing higher volume products in house. They have purchased two new facilities in SC and MN that will allow for their increased production and shipping efficiency. They are also building a new co-location in order to save costs. They will save 40-45% per kilowatt in energy. In-source Manufacturing and their new co-location are estimated to save $35M of operating expenses from 2015-2017, helping them become more than a top line company.

Valuation

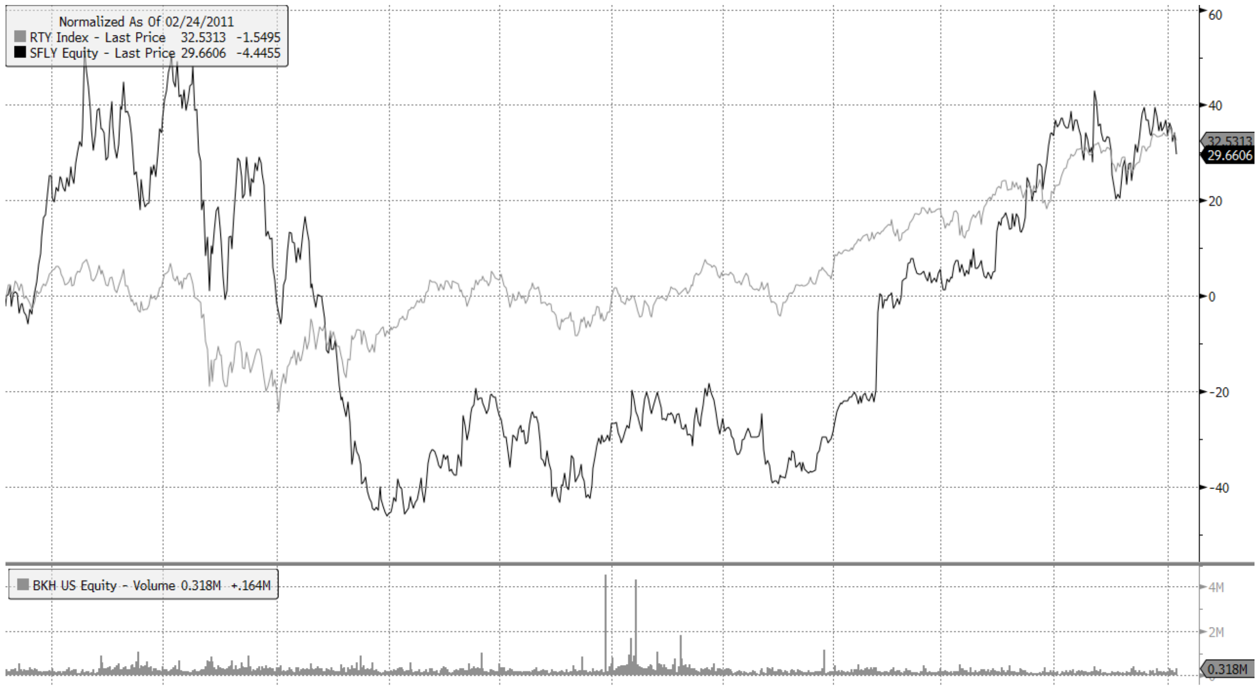
In order to reach an intrinsic value for SFLY, a ten year discounted cash flow model was conducted. Using a terminal growth rate of 2.5% and a WACC of 10.6% resulted in a valuation of $73.35. Additionally, a EV/EBITDA comparison and valuation of the company was analyzed. Using a forward looking EV/EBITDA multiple of 15.0X and a 2014 EBITDA of $147.60M, a value of $59.05 was obtained. By weighing the DCF model 75% and the EV/EBITDA multiple 25%, a price target of $69.78 was established. The firm does not pay a dividend.

Risks

- **Increase in competition:** The online photo business is already very competitive, and many competitors offer similar photo printing services. Competition could increase from new business and other social network sites which would adversely affect SFLY's objectives. Competition could result in increased pricing pressures, reduced margins, or a loss of market share, any of which could substantially harm the business and results of operations. Inability to respond to customer developments and increase the customer base would be detrimental to their valuation.
- **Seasonality:** The SFLY business model is highly seasonal with a large proportion of revenue generated during the fourth quarter holiday season. They incur significant additional expenses in the period leading up to the fourth quarter holiday season, if they are unable to accurately forecast and respond to consumer demand can lead to suffering financial results. System or machinery break down can be very costly during the holiday season.

Management

Jeff Housenhold is the CEO; he has been with the company for 9 years and was formerly the Vice President of Business Development and Internet Marketing at Ebay. At Ebay he also held positions as VP and GM of its business to consumer group and VP of M&A. Brian Regan has been the CFO since August of 2012. He joins from Wize Commerce/Nextag where he was the CFO of the global digital marketing and online commerce leader, prior to that he was CFO at Ticketmaster.



Ownership

% of Shares Held by All Insider and 5% Owners:	2%
% of Shares Held by Institutional & Mutual Fund Owners:	90%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Columbia Wanger Asset Management, L.P.	2,560,550	6.78
AllianceBernstein, L.P.	2,085,054	5.52
Vanguard Group, Inc. (The)	1,930,086	5.11
Soros Fund Management LLC	1,610,086	4.27
Daruma Capital Management LLC	1,610,000	4.09

Source: Yahoo! Finance

Wintrust Financial Corporation (WTFC)

October 11, 2013

Jim Ford | Domestic Financials

Wintrust Financial Corporation (Nasdaq:WTFC) provides personal and commercial banking services, a range of wealth management services, as well as other specialty financial products. The Community Banking segment (70% of net income) operates in the Chicago metropolitan area and Southeastern Wisconsin through 115 branches. The Specialty Finance segment (27% of net income) offers financing for small businesses to pay premiums on commercial insurance policies. The Wealth Management segment (3% of net income) provides money management and investment services to individuals, mutual funds, and other organizations. Wintrust was incorporated in 1991 and is headquartered in Rosemont, Illinois.

Price 10/3/13 ($):	41.07	Beta:	1.21	FY: Dec 31	2012A	2013E	2014E
Price Target ($):	52.04	Cost of Equity:	10.7%	Net Interest Income ($M):	519.5	554.5	606.9
52 WK L-H ($):	34.40-42.28	M-Term Rev. Gr Rate Est:	10.0%	% Growth:	3.5%	6.7%	9.5%
Market Cap (M):	$1,627	M-Term EPS Gr Rate Est:	21.0%	NIM (%)	3.65%	3.63%	3.84%
Float (M):	38.8	Financial Leverage	15.2%	EPS:	$2.80	$2.82	$2.89
Short Interest (%):	11.23%	ROA:	0.6%	BVPS:	$45.46	$47.09	$50.27
Avg. 3 Month Vol:	354,578	ROE:	6.2%	Est P/B:	0.9x	1.0x	1.1x
Dividend:	$0.18	Tier-1 Capital Ratio	12.0%	Est P/E	15.1x	16.7x	18.9x
Yield:	0.44%	Credit Rating	BBB	Div. Per Share	$0.18	$0.18	$0.18

Recommendation

Wintrust Financial Corporation is taking advantage of the changing face of the community banking industry. Through the recession, community banks profits have been suppressed by all-time low interest rates and poor credit markets, resulting in a large consolidation within the American banking system. For example, 516 community banks have “failed” since 2008 according to the FDIC. The anticipated tapering of QE3 resulted in a 100 bps increase in interest rates earlier this year. However, the delay of tapering has seen interest rates stall which will lead to more community banks struggling and ultimately be acquired by stronger regional banks. Wintrust has been able to take advantage of weaker banks through a series of FDIC assisted acquisitions as well as their own separate acquisitions. WTFC has diversified by acquiring a variety of different financial services firms in addition to banks and bank branches. When interest rates do rise, they will be in a position to benefit from higher margins as their already outstanding 3.65% Net Interest Margin will expand. Finally, the improving economy will decrease the 9.2% Chicagoland unemployment rate and help provide organic deposit and loan growth in addition to growth through acquisition. Wintrust is undervalued compared to its peers based on P/B metrics and offers a regional bank with a diverse offering of products beyond deposits and mortgage lending. For these reasons, it is recommend that Wintrust Financial Corporation be added to the AIM Equity Fund with a price target of $52.04, which has a potential upside of 26.7%. Wintrust also pays a dividend of $0.18 per year to common stockholders yielding 0.44%.

Investment Thesis

- **Growth Through Acquisition.** Wintrust has been able to grow through strategic acquisitions. The most recent of which is Diamond Bancorp with four branches in suburban Chicagoland. Earlier this year, they acquired First Lansing Bancorp in addition to two other community banks in 2012 and 2011. In addition to these, Wintrust has acquired 3 banks in each of the last three years with FDIC assistance. These acquisitions are shown in an increase in deposits from $10.8 B in 2010 to $14.4B in 2012. Total loans have also increased by $2.5B in over that period. The Net Interest Margin has remained around 3.5% which shows good integration of underperformaing banks. The acquisitions don’t stop with community banks. Wintrust acquired Macquarie Premium Funding in 2012 and started FIRST Insurance Funding, their property and casualty premium and life insurance premium finance operations with international reach (Canada). This subsidiary provides great diversification and growth with $4.8B in loans generated in 2012.

- **Rising Interest Rates.** Interest rates have been an economic focus for several years now due to this unqiue period of history. While many expected the Fed to announce that tapering would begin in October driving rates up; tapering has been delayed leaving uncertainty in the interest rate world. Further increases in interest rates would help to expand Wintrust's already high Net Interest Margin. Their variety of loans from residential mortgages to life insurance premium financing will begin to yield a higher NIM as Wintrust uses funds from their increasing deposit base to fund higher margin loans.
- **Improving National Economy**. Banks are dependent upon the amount of deposits that they have. As the economy continues to improve, depositors put more money in the bank. The unemployement rate in Chicago is 9.2%, which is well above the national rate at 7.3%. Wintrust has been able to grow through periods of high unemployment, so further economic improvements should provide accelerated growth. Furthermore, an improving economy leads to better credit markets. With over $12B in loans on their balance sheet, Wintrust is in a position to take advantage of improving credit of the American people.

Valuation

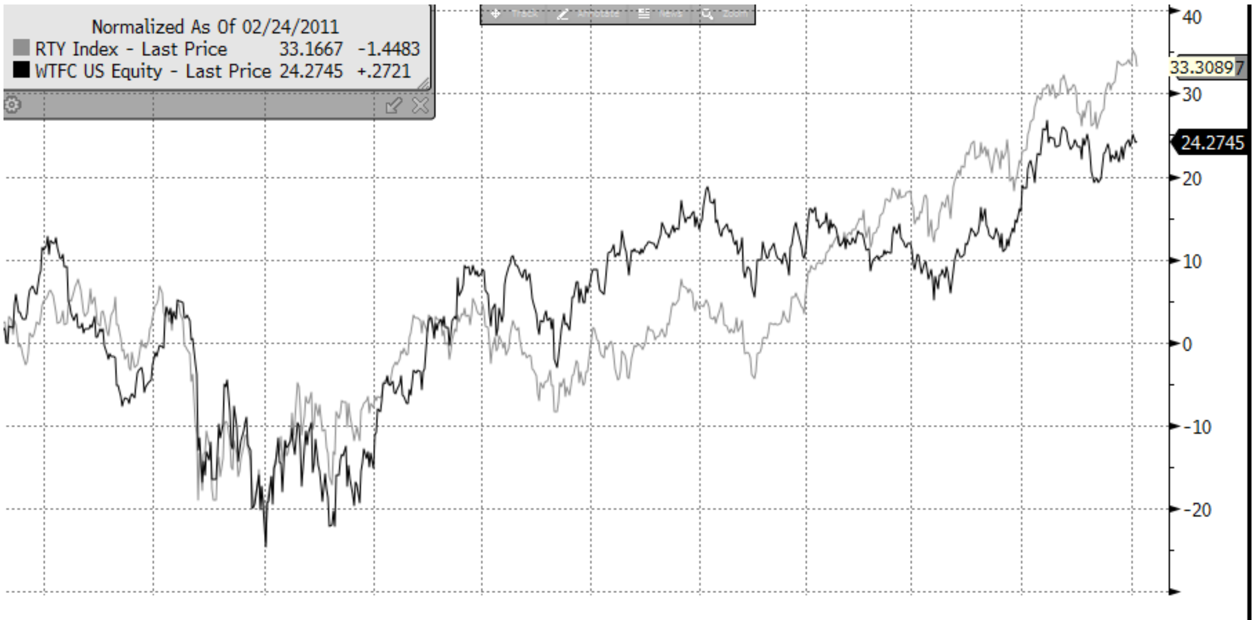
A five year Price to Book multiple model was conducted to reach Wintrust's intrinsic value. A group of seven peers that Wintrust compares itself against were used to find an average peer Price to Book. A historical average of Wintrust's P/B value since 2006 was also used. Weighting the peer average 70% and the historical average 30%, an intrinsic value of $65.73 was found. An Excess Equity Returns model was also performed in this analysis. Using a WACC of 10.70% as well as projected net income levels, a terminal equity value of $1,522.51 million was found resulting in an intrinsic value of $38.35 per share. Each method was weighted 50%, resulting in a final price target of $52.04. The dividend yield is 0.44%.

Risks

- **Adverse Economic Coniitions in the United States.** A further slow down of the economic recovery would be hard on Wintrust as well as many other financial services companies. As a lending institution, borrowers defaulting on loans as well as deterioration in value of underlying assets would be materially negative for operations.
- **Interest Rate Volatility.** We are currently in a unique period in economic history with prolonged very low interest rates. Wintrust is subject to interest rate volatility through a variety of their operations. Changes in the interest rate level without effective anticipation could result in a lower NIM and decreased earnings
- **Competition from Larger Banks.** The world of community banks is getting smaller. The number of bank charters in the state of Illinois has dropped from 1,253 in 1980 to 498 in 2011. The number continues to decrease as small community banks have trouble competing with the giants.

Management

Ed Wehmer founded Wintrust in 1991 and has remained President and Chief Executive Officer since that then. He serves as Chairman or Vice-Chairman and Director for each banking subsidiary of Wintrust. His entire career has been in banking for a variety of Illinois community banks. He also holds a CPA and worked for E&Y in the area of bank mergers and acquistions for 7 years. David Dykstra serves as the Chief Operating Officer, Senior Executive Vice President and Treasurer of Winstrust. He joined Wintrust through the acquisiton of River Forest Bancorp in 1995 and has served in his current capactiy since 2011. Prior to that, he spent 7 years at KPMG as an Audit Manager in the banking practice.



Source: Bloomberg

Ownership

% of Shares Held by All Insider and 5% Owners:	2.00%
% of Shares Held by Institutional & Mutual Fund Owners:	>90%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	%Out
Dimensional Fund Advisors LP	2,833,605	7.13%
T Rowe Price and Associates	2,525,290	6.36%
Invesco Ltd	2,060,215	5.19%
Vanguard Group Inc.	2,037,489	5.13%
Jennison Associates	1,921,679	4.84%

Source: Yahoo! Finance