Applied Investment Management (AIM) Program

AIM Class of 2018 Equity Fund Reports
Fall 2017

Date**:* Friday, October 13th | ***Time:** 2:00 – 3:15* p.m. | ***Location: AIM Research Room 488

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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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Bank of N.T. Butterfield & Son Ltd. (NTB)

October 13, 2017

Adam Hamilton — International Financial Services

The Bank of N.T. Butterfield & Son Limited (NYSE: NTB) is a full service bank and specialized international wealth management company which provides community banking, asset management, investment advisory, residential property lending, and trust services to individual, family, and corporate clients. The geographic revenue breakdown is Bermuda (56.3%), Cayman Islands (30.4%), and Guernsey (9.2%), United Kingdom (2.1%), Bahamas (1.2%), and Switzerland (0.9%). NTB was founded in 1858 and is headquartered in Hamilton, Bermuda.

Price ($):	36.89	Beta:	0.44	FY: Dec	FY15	FY16	FY17	FY18
Price Target ($):	46.06	M-Term Rev. Gr Rate Est:	22.7%	Revenues	86.00	123.38	149.77	185.86
52WK H-L ($):	37.03-25.02	M-Term EPS Gr Rate Est:	16.0%	% Growth	-15%	43%	21%	24%
Market Cap (mil):	1,925	Financial Leverage	3.30	Net Interest Income	239.27	258.48	271.40	294.47
Insider Holdings	23%	WACC	6.74	%Growth	3%	8%	5%	9%
Avg. Daily Vol (mil):	259,431	ROA (%):	1.08	Net Interest Margin	2.48%	2.46	2.69	2.85
Yield (%):	3.5	ROE (%):	11.52	EPS	-	2.43	2.71	3.27
ESG Rating	G	Tier 1 Capital Ratio (%)	15.3	P/E	-	12.9	13.20	12.10
		Credit Provisions/Loans (%)	0.12	P/B	-	2.40	2.62	2.25

Recommendation

After a successful IPO and new focus strategy, NTB looks to concentrate on improving their core strengths of private banking and wealth management. There is significant opportunity to continue the upward trend set forth in FY16, generating strong capital, due to its increasing amount of fee income, low costs deposits, high yielding portfolio, and presence in income tax neutral jurisdictions. Hamilton, Bermuda, where the company is headquartered, has one of the highest per capita incomes in the world, known for providing financial services for international firms and luxury tourist facilities for 360,000 visitors annually. This tourist industry accounts for an estimated 28% of GDP, which NTB taps into through ATM fees daily. NTB is well positioned, with headquarters and leading market share in Bermuda and also the Cayman Islands, which is where 86.7% of revenues are derived. Being in the center of a growing economy and huge tourist attraction in Hamilton, NTB has leading market share composed of strong brand recognition and their savvy, relationship-oriented style of business, which helps them foster the ability to increase the clientele in traditional banking services as well as trust and asset management services. LT growth of 2.5% is expected in its primary business units, which is their principal driver going forward. Butterfield has experienced a 49% increase in net income and 22% increase in core net income from FY15 to FY16 which is largely attributable to increase in both non-interest income and net interest income. Non-interest income represented 36% of revenues in FY16 and 44% of non-interest income is attributable to growing presence in the U.K. mortgage business along with the core integration of Legris Holdings' trust and corporate services business, HSBC's corporate and retail banking business in Cayman Islands, and HSBC's Bermuda trust business and private banking investment management operations. Presuming that rates will rise, net interest income will see growth due to indication of a strengthening economy in which borrowers have an easier time making loan payments also means that banks can earn more from the spread between what they pay for deposits and what they can earn from Bermudan sovereign debt securities. With its huge prospect of growth, efficient capital, and leading brand recognition, it is recommended that NTB be added to the AIM International Equity Fund with a target price of $44.61, which offers an upside of 21.72%. NTB currently pays a dividend of $0.62.

Investment Thesis

- **Fee Income Growth.** NTB looks to capitalize on growth in fee income their two segments of asset management and residential mortgage lending. In the past four years, NTB's fee income ratio has remained above 35% due to NTB's award-winning wealth management team which ranks among the best of structuring trusts for ultra-high net worth individuals and family offices based in Europe, Asia, and Latina America. In FY14, NTB completed two acquisitions that allowed them to both expand and complement our existing businesses. The most notable acquisition was in FY16, where NTB acquired HSBC's Bermuda trust business and private banking investment management operations. This acquisition added over $18.9 billion of trust AUA, $1.3 billion of AUM, and $1.6 billion of deposits. This is significant because fee revenue in the wealth management business is primarily driven by the size of clients' assets and holdings which has kept NTB above their fee income ratio threshold at 37.5%. This acquisition also helps maintain strong liquidity due to the fact NTB covers their expenses with their deposits, which has increased by 9.3% YOY to $10B. Also, NTB's subsidiary Butterfield Mortgages Limited, established in FY16, provides residential property lending services in Central London for ultra-high net worth international clients with an interest in receiving financing for high-value residential properties. In FY16, the segment reported net revenue of $6mm, which accounted for 1.5% of the total net revenue. These are two areas where NTB looks to capitalize on growth in fee income and can contribute a substantial amount to revenues as the demand for NTB's asset management and residential lending services rises.

- **Leading Bank.** NTB's unique business model and strong brand recognition helps them have leading market shares in Bermuda of 39% in local deposits and in Cayman Islands of 35% in local deposits and 25% in local mortgages. Both of these countries have limited participants in the banking industry and high barriers to enter the market which give the bank a unique position to tap into international private wealth industries. In Bermuda there are also no taxes on profits, income or dividends, nor is there any capital gains tax on trusts. At 35%, NTB's fee income ratio is ahead of its Caribbean competitors and helps produce a leading ROE in FY16 of 15.87%.
- **Adequate Capital.** NTB has restructured their capitalization and strategically decided to completely shut down their private banking, deposits, and investment management businesses in the United Kingdom. This represents the increase in expenses incurred in FY16 that would not recur in the future. This recapitalization allowed NTB to increase their efficiency ratio and banking and transaction fees which allowed them to pass that cost on to clients causing a recurring and sticky fee income ratio. These factors lead to a 22% increase in core net income, above what is needed to execute their balance sheet growth strategy. Management has given indication it will look in the future for strategic acquisitions, and with a tier one capital ratio of 15.3%, NTB's balanced capital structure makes room for the opportunity to grow in quality, high GDP per-capita jurisdictions which will in the long run grow fee income.

Valuation

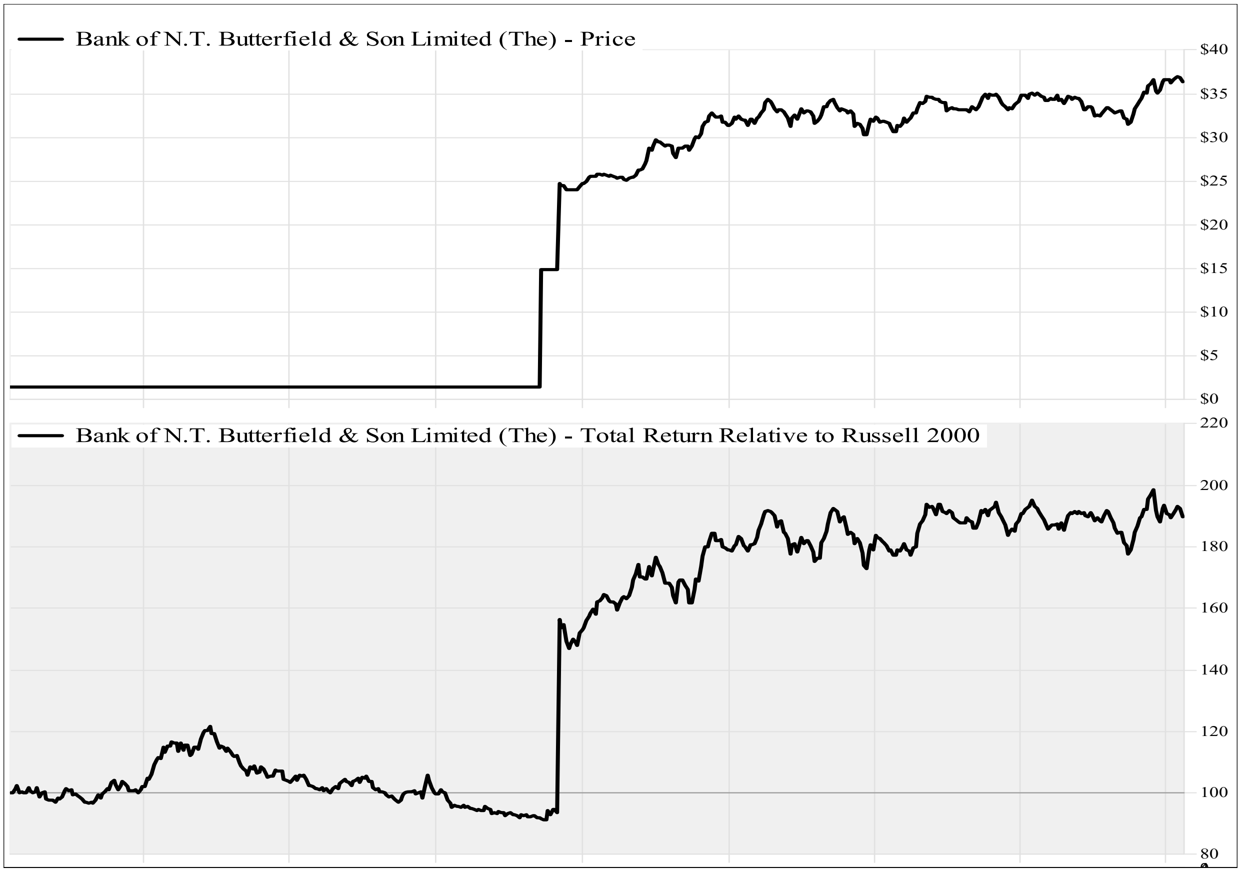
To find the intrinsic value of NTB a price to tangible book multiple was used. The 10 quarter weighted average historic price to book for NTB was 2.04x and the 10 year average historic price to book for NTB was 2.09x. NTB's peer average P/B multiple was higher at 2.58x. A target price to book valuation was created alternatively using a Gordon Growth Model, using a COE of 6.17%, 2017 ROE of 12.25%, and LT growth of 2.5%. This resulted in a price to book value of 2.46x. A sensitivity analysis was run altering LT growth ± 1% and 2017 ROTE ± .5%, yielding a price range of 32.52-50.24. Weighting historical, peer, and Gordon growth valuations 10/30/60, the final estimated intrinsic value of NTB is $44.61, which provides an upside of 21.72%. The stock's dividend yield is 3.5%.

Risks.

- **Liquidity.** NTB depends on deposits to fund their liquidity needs. Their deposits are growing at a faster rate than their loans and if financial distress occurs, their equity may not be able to sustain and absorb the losses.
- **Competition.** An increase in competition could potentially impact NTB's retention of profitability. Their size and strength is relatively small compared to other international competitors.

Management

Mr. Michael W. Collins is the CEO and has served in this role since 2015.



Source: FactSet

Name	Ticker	NIM	ROE	ROA	Tier 1 Capital %	N.I. 1 Yr % Growth
Bank Of N.T. Butterfield	NTB	2.7	15.9	1.08	15.3	49
BBVA Banco Frances SA	BFR	-	23.3	2.7	13.6	-30.0
Grupo Supervielle ADR	SUPV	21.0	28.3	3.0	-	21.7
National Australia Bank	NAUBF	1.9	12.1	0.8	12	-2.2
Royal Bank of Canada	RY	1.4	15.6	0.9	12.3	5.3
Peer Averages		8.1	18.7	1.5	12.2	8.3

Source: Bloomberg

Name	Ticker	Market Cap	P/E	P/B	P/TBV	Div Yld %
Bank of N.T. Butterfield	NTB	1,925	24.59	2.61	2.84	3.50
BBVA Banco Frances SA	BFR	4,352	21.54	1.39	3.85	1.20
Grupo Supervielle ADR	SUPV	2,190	12.97	3.83	2.52	0.20
National Australia Bank	NAUBF	66,191	13.76	1.78	1.98	-
Royal Bank of Canada	RY	114,737	14.40	0.38	2.84	3.70
Peer Averages		61,039	13.71	2.00	2.45	1.95

**Removed For Relative Valuation Analysis*

Source: Bloomberg

Medtronic plc, (MDT)
October 13, 2017

Brian Holland — International Healthcare

Medtronic plc (NYSE: MDT) is among the world's largest medical technology, services and solutions companies. MDT strives to alleviate pain, restore health, and extend life for millions of people around the world. The company operates in four segments: Cardiac and Vascular Group, Minimally Invasive Technologies Group, Restorative Therapies Group, and Diabetes Group. Each of these groups is then broken into further divisions. The company derives over half its revenue from the Americas, most of which comes from the United States (56%). MDT's remaining sales are in Europe, Middle East, Africa, Asia Pacific, and China. The company was founded in 2015 and is headquartered in Dublin, Ireland.

Price ($):	78.24
Price Target ($):	92.97
52WK H-L ($):	69.35-89.7
Market Cap (mil):	108,100
Float (mil):	1,344
Short Interest (%)	0.66
Avg. Daily Vol (m	4.7
Dividend ($)	1.8
Yield (%):	2.34%

Beta:	0.72
WACC	6.30%
M-Term Rev. Gr Rate	5.0%
M-Term EPS Gr Rate	5.0%
Debt/Equity:	67.1%
Debt/EBITDA (ttm):	2.21
ROA (%):	4.14%
ROE (%):	8.11%
ROIC (%):	5.08%

FY: Dec	4/30/2016	4/30/2017	4/30/2018	4/30/2019
Revenue (Mil)	28,833.00	29,710.00	30,749.85	32,287.34
% Growth	42%	3%	3%	5%
Oper Inc	5288.00	6535.00	7072.47	7587.53
% Growth	12%	24%	8%	7%
Op Margin	18%	22%	23%	24%
EPS*	$2.48	$2.89	3.17	3.43
P/E (Cal)	31.9	28.8	24.65	22.80
EV/EBITDA	15.95x	14.14x	13.54	12.90

Recommendation

The medical technology industry market size is about $400 billion, with medical devices being the industry's most important component. The medical technology industry generated $387 billion in revenue in 2016 and is expected to reach $522 billion by 2022. The United States is currently the largest player in the industry, but emerging market countries, such as China, are starting to gain the attention of medical technology companies. MDT is a global player with sales in the United States, as well as the developed and emerging markets. During the fiscal year 2017, MDT had sales growth of 1% in the United States, 4% in developed markets, and 7% in emerging markets. The emerging markets segment accounts for 12% of the company's sales. The growing medical technology industry coupled with the entrance into emerging markets, provides strong growth opportunities. MDT also has a strong portfolio and full pipeline of healthcare technology solutions. The company has growing sales in all four business segments and has a healthy supply of new products entering the market. Two products in particular are the HeartWare Ventricular Assist Device (HVAD) and the insulin pump, which are projected to be top products in their respective markets. Lastly, the company has a management team that is experienced in making value added acquisitions. In the last two years, MDT has acquired Covidien and HeartWare, which are projected to lead to cost synergies as well as add depth to the company's portfolio. MDT is a stable company with the ability to be a leader in a quickly growing market, a proven and growing pipeline of products, and the ability to strategically acquire companies to outperform competitors. For these reasons, it is recommended that Medtronic plc be added to the International AIM Equity Fund with a price target of $92.97, which represents an 18.83% upside. MDT pays a quarterly dividend of $0.43.

Investment Thesis

- **New Products Entering Pipeline.** MDT has a wealth of products that were recently released or are expected to be released in the near future in each of their four segments. In the Cardiac and Vascular Group, the FDA recently approved the HVAD, which is a device is designed to reduce surgical invasiveness, improve patient recovery times, and enhance patient outcomes. The device was tested against the HeartMate II, the most widely used VAD, and performed well. The VAD market is projected to $2.9 billion by 2023.

- **Acquisitions Leading to Value.** In late 2016, MDT acquired HeartWare International, Inc. This is a leading innovator of less-invasive, miniaturized circulatory support technologies for the treatment of advanced heart failure. This acquisition lead to the product HVAD and strengthened MDT's therapies, and diagnostic tools portfolio. In 2015, MDT acquired Covidien which is a global leader in development, manufacturing and selling of healthcare products for use in clinical and home settings. This acquisition will result in $800 million in cost synergies as well as strengthen MDT's portfolio and global reach. MDT's management has shown a strong track record regarding acquisitions and is actively looking to add value through acquisitions.
- **Key Players Exiting Pump Business.** This October, Animas Corp., a Johnson & Johnson diabetes care business, announced it is exiting the insulin pump market. J&J estimates 90,000 patients currently use Animas products and pumps. J&J also estimate about 55% of the 90,000 are in the U.S., or 10% of the U.S. insulin pump market. J&J has named Medtronic as its primary partner to assist in the transition of their patients. This gives MDT the clear advantage to capture most of the 90,000 patients for future years.

Valuation

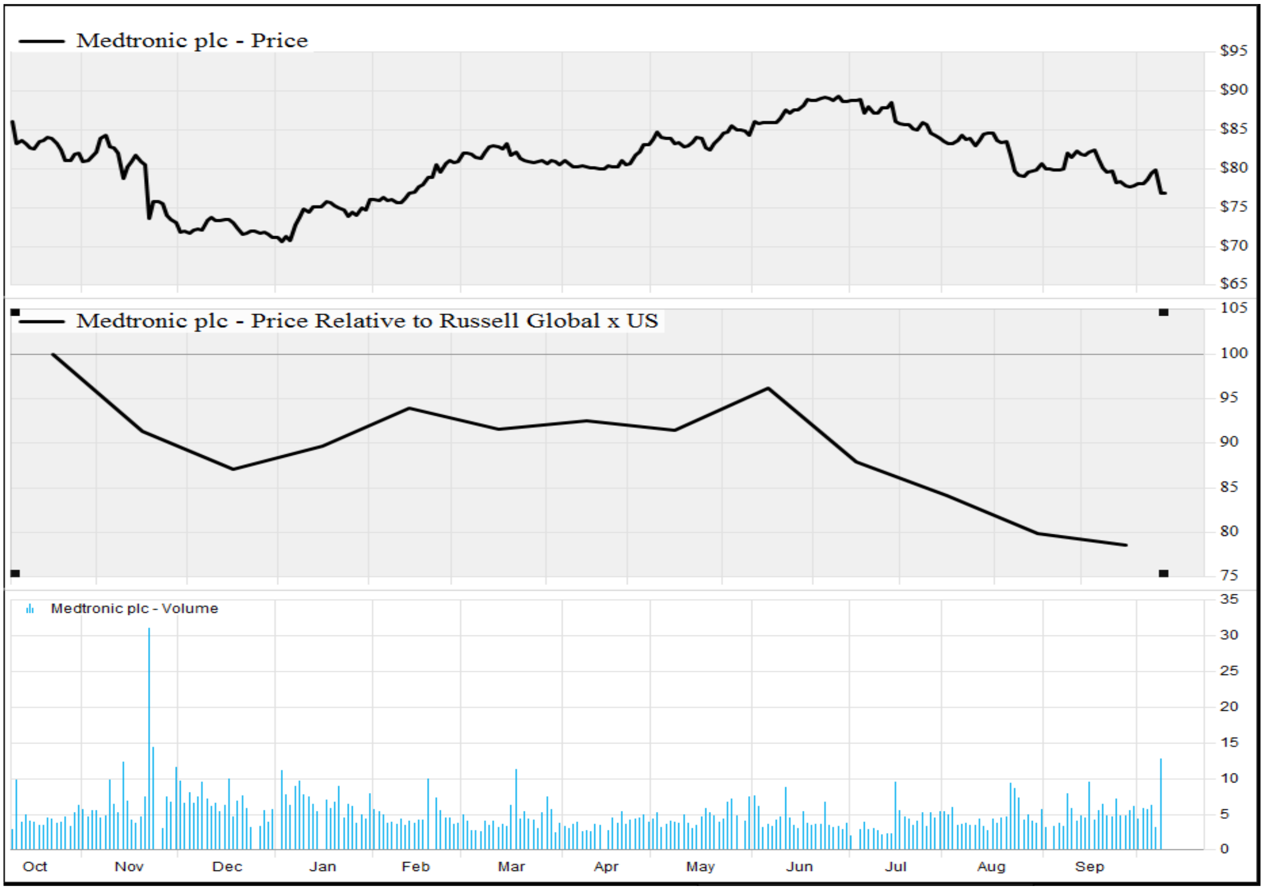
In order to reach an intrinsic value for MDT, a five year DCF model was constructed. Using a terminal growth rate of 1.5%, WACC of 6.3%, an intrinsic value of $92.85 was reached. Additionally an EV/EBITDA multiple approach was employed. Using a multiple of 13.42x and estimated FY18 EBITDA of $11,586, an intrinsic value of $93.01 per common share was obtained. Weighing the DCF 25% and the EV/EBITDA multiple 75%, an intrinsic value of $92.97 was obtained, yielding a 18.83% upside. The company pays a dividend of $0.43 per share each quarter.

Risks

- **Growing Competition.** MDT faces strong competition in each of their business segments. In each product line, MDT faces competitors ranging from large manufacturers to small manufacturers focused on niche products. Large players such as Johnson & Johnson, Boston Scientific, and Edwards Life Science have strong product lines. Furthermore, competition for marketing, distribution, and relationships with academic and research institutions continues to intensify.
- **Clinical and Regulatory Approval.** MDT's medical devices, technologies and business activities are all subject to strengthening regulations in the industry. Any failure to maintain or obtain approval of existing or testing products could lead to material effects on the business.
- **Political Uncertainty.** Changes in healthcare and in taxation can lead to significant changes to the business. Currently the excise tax of the ACA has been suspended until the end of 2017. However, if the tax is exercised, it would affect the company. A change in taxation for profits of U.S. affiliates which are earned abroad could also impact the company

Management

The current Chairman and CEO of MDT is Omar S. Ishrak, who has held the position for two years. He was previously the President and CEO at GE Healthcare, Inc. and Healthcare Systems, Inc. Karen L. Parkhill is the CFO and Executive Vice President of the company. She has served as Vice Chairman at Comerica, Inc. and CFO- Commercial Banking Business and MD at JPMorgan Chase & Co. She has been with the company for a year.



Source: FactSet

Name	Ticker	Sales	ROE	ROA	Debt/Equity
Medtronic Plc	MDT	$29,934.00	8.1%	4.1%	67.1%
Boston Scientific	BSX	$ 8,714.00	11.7%	4.4%	80.6%
Johnson & Johnson	JNJ	$72,596.00	22.6%	11.2%	48.1%
Stryker	SYK	$11,957.00	17.8%	8.1%	73.4%
Zimmer Biomet Holdings	ZBH	$ 7,777.60	7.2%	2.7%	103.9%
Edwards Lifesciences	EW	$ 3,232.40	26.5%	15.6%	34.6%
Peer Averages		$20,855.40	17.15%	8.39%	68.13%

Source: FactSet

Name	Ticker	Market Cap	P/S	P/E	EV/EBITDA	P/B
Medtronic Plc	MDT	104,209.0	3.54x	25.90x	13.20x	2.06x
Boston Scientific	BSX	40,244.5	4.68x	52.03x	20.88x	5.56x
Johnson & Johnson	JNJ	358,180.0	5.04x	22.58x	14.97x	4.98x
Stryker	SYK	54,587.0	4.64x	32.57x	17.73x	5.44x
Zimmer Biomet Holdings	ZBH	23,762.1	3.08x	33.48x	12.63x	2.31x
Edwards Lifesciences	EW	23,273.8	7.36x	33.40x	22.02x	7.92x
Peer Averages		100,009.48	4.96x	34.81x	17.65x	5.24x

Source: FactSet

New Relic, Inc. (NEWR)
October 13, 2017

Joseph Amoroso | Domestic Technology

New Relic, Inc. (NYSE:NEWR), is a SaaS company specializing in digital intelligence software through a cloud-based suite. NEWR enables organizations to collect, store and analyze massive amounts of data in real time so as to better understand their application and infrastructure performance, improve their digital customer experience, and achieve business success. The New Relic Digital Intelligence Platform is made up of six product offerings: Application Performance Management, Mobile, Browser, Synthetic, Infrastructure and Insights. The company caters to three different customer types: Software Developers, Business Users and IT Operations Teams. NEWR derives the majority of its revenue from the United States (67.8% of total revenue), followed by markets in EMEA (18.9%) and APAC (7.5%). The company was founded in 2007 and is headquartered in San Francisco, CA.

Price ($):	50.79
Price Target ($):	52.38
52WK H-L ($):	51.97 - 27.85
Market Cap (mil):	2,769
Insider Holdings	32.2%
Avg. Daily Vol (mil):	0.5
Yield (%):	0.0
ESG Rating	BBB

Beta:	1.89
M-Term Rev. Gr Rate Est:	29.5%
M-Term EPS Gr Rate Est:	nm
Debt/Equity:	nm
Debt/EBITDA (ttm):	nm
WACC	12.1%
ROA (%):	-18.03
ROE (%):	-31.14
ROIC (%):	-31.14

FY: Mar	03/31/2017	03/31/2018	03/31/2019	03/31/2020
Revenue (Mil)	263.48	346.47	448.68	581.05
% Growth	45.3%	31.5%	29.5%	29.5%
Oper Inc*	($29.40)	($21.92)	($8.53)	$14.43
% Growth	33.7%	25.4%	61.1%	269.1%
Op Margin	-11.2%	-6.3%	-1.9%	2.5%
EPS	($1.18)	($1.16)	($1.04)	($0.79)
Non-GAAP EPS	($0.49)	($0.25)	$0.26	$0.72
EV/EBITDA	nm	nm	nm	nm

*Adj. for Stock-based Compensation   Source: FactSet

Recommendation

The origin of NEWR is in the launch of its first product, New Relic APM (Application Performance Management). Since then, NEWR has rolled out a suite of additional products to help companies of all sizes achieve business success. These included New Relic Mobile and New Relic Browser which were created to help business users analyze and track every aspect of performance and customer experience during the use of a company's app or web page. New Relic Synthetics was introduced to provide developers with a system for testing their software through simulated usage. New Relic Insights was introduced in order to leverage big data analytics and most recently, New Relic Infrastructure was released to provide real-time server monitoring. Today, NEWR caters to more than 15,400 paid clients, including many large name-brand businesses such as Airbnb, Morningstar, MLB and Dunkin Brands. NEWR's offerings are simple, highly customizable, and very powerful when combined. Since its inception, NEWR has grown market share of the APM market consistently with a current market share of ~8%, and is poised to become the largest player in the space by the end of FY18. Management has pegged their medium-term goal at achieving $1B in sales by FY22/CY21. If they were to accomplish this goal, they would effectively control 15% of the APM market. As NEWR has expanded its product offerings, it has continued to expand its TAM beyond the ~$5B APM market to a ~$25B TAM. A paradigm shift is underway in business intelligence software as its strategic significance to firms shift from the cost side of operations to a driver of revenue and a provider of revenue intelligence. NEWR is perfectly positioned to capitalize on this shift and looks poised to continue its growth in a blossoming market. However, management has its eye not only on growth, but on profitability. As NEWR Founder and CEO Lew Cirne put it, the company is "still a high growth company, but not growth at all costs". While earnings are currently negative, management has provided a clear plan and path to profitability while still maintaining the company's meteoric growth. For these reasons, it is recommended that New Relic, Inc. be added to the AIM Equity Fund with a price target of $70.41, which represents a 27.87% upside. NEWR does not pay a dividend.

Investment Thesis

- **Race to Profitability.** Management has pegged 4Q18 as its goal for achieving sustainable profitability as well as sustainable positive free cash flow. As the business matures, and operating expenses shrink as a percentage of sales, the company looks to be on track to achieve management's goal. On the 1Q18 earnings call, management reiterated the confidence they felt in their guidance. The end of this fiscal year marks a key point of maturity for the company as they continue to grow sales and aim for $1B in sales by FYE22.

- **Moving Up Market.** NEWR has historically catered to the SMB market. As the company has expanded from its original niche APM offerings, it has created a full suite of products and built an enterprise sales force. Recently, NEWR signed its largest contact event at $24M over 3 years with a Fortune 100 company and now has more than 30 accounts playing +$1M in annual recurring revenue. This demonstrates the value seen in the company's product offerings, while still showcasing the enormous potential available in the market for the unique and industry leading products that are offered by NEWR. As of 1Q18, ARR from enterprise business accounts make up 49% of the businesses total ARR, on track to beat management's goal of 50% by FYE18.
- **Strong Balance Sheet.** NEWR maintains a very strong balance sheet. As of 1Q18, the company possess $227.3M in cash and short-term investments, with no long-term liabilities. Additionally, at no point in the history of the company has NEWR ever used debt to finance its operations.

Valuation

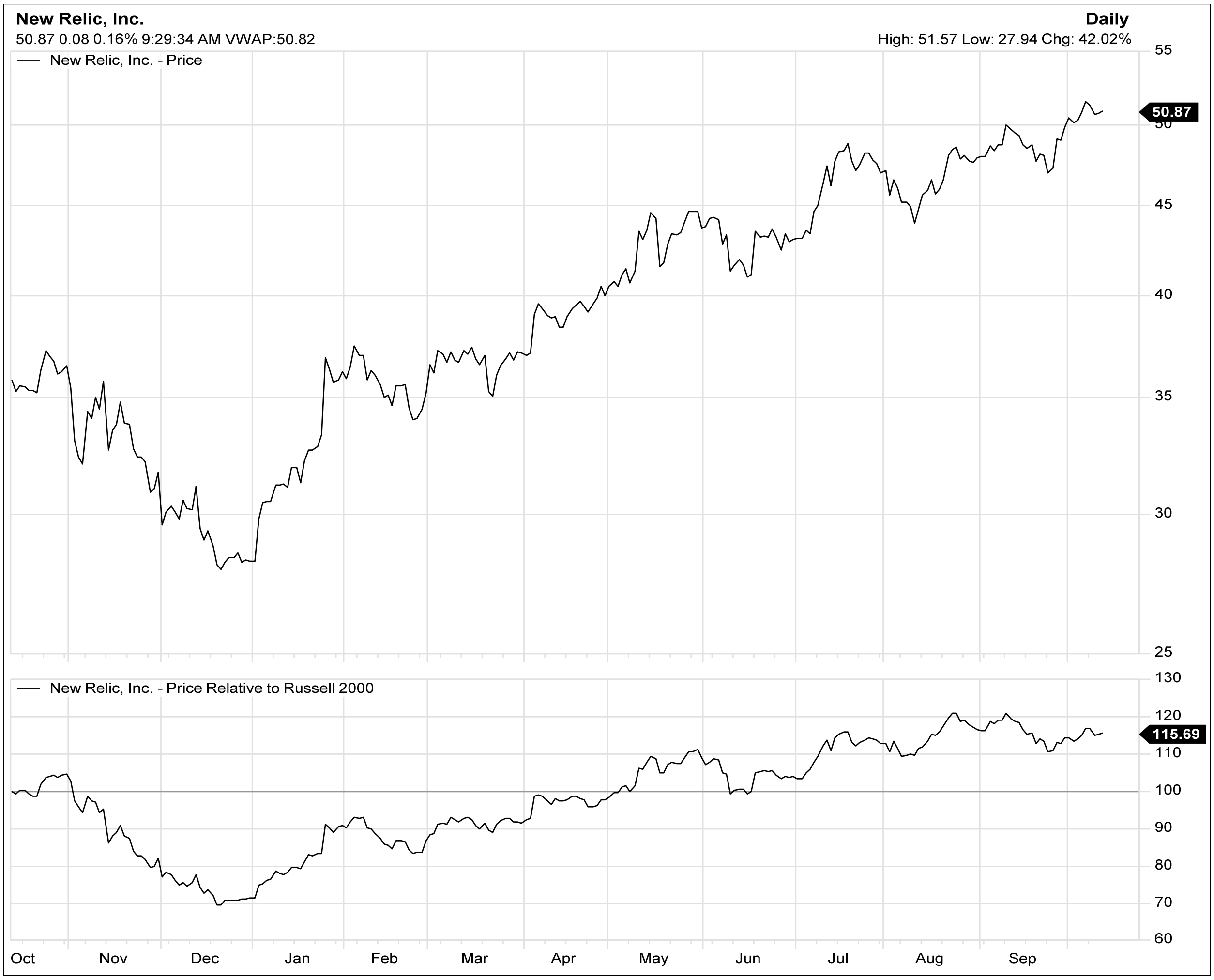
To reach an intrinsic value for NEWR, a EV/Sales multiple analysis was conducted. A peer average EV/FY18S multiple of 7.92x was used, resulting in a valuation of $64.19. A ± 1% sensitivity analysis was conducted for the EV/Sales valuation which ranged from $61.67-$66.80. Additionally, buyout valuation was conducted by applying the multiples from Cisco's acquisition of AppDynamic, NEWR's closest compeitior. Using a multiple range of 10-12x EV/FY18 Sales, a valuation of $78.69-$94.43 was reached, resulting in an alternative upside of between 34.47-45.39%. Weighting the two valuation methods 75%/25%, an intrinsic value of $70.41 was reached, representing an upside of 27.87%.

Risks

- **Slow Market Adoption.** The vast growth of this market depends largely on the market adopting this new breed of cloud-based digital intelligence. Lew Cirne ignited the industry with the founding of Wily Technology, Inc. in 1998. As APM reaches 20 years since introduction, complete market adoption has not yet happened. Additionally, recognition, traction, and adoption from enterprise businesses will play a key role in the growth of this company and the industry. If the expected level of market adoption is not achieved that could be damaging for NEWR and other market participants. Ultimately, a slip in adoption could severely affect sales and therefore impact the sales and EPS goals of management.
- **Competition.** As the IaaS market continues to grow, vendors such as Amazon AWS and Microsoft Azure may begin to prove similar APM services. While this is not a serious competitive factor today, as these companies expand their services offerings they will create downward price pressure as the APM market becomes more commoditized. Additionally, as NEWR moves towards enterprise account they will face much more competition compared to the limited competition historically faced in the SMB. These larger and more lucrative clients may already have legacy systems which in the short term will prove advantageous to DynaTrace and AppDynamics which both operate hybrid (cloud and on-premise services) models.

Management

New Relic, an anagram of the company founder's name, was founded by Lewis (Lew) Cirne, and he currently serves as the company's CEO. Before founding NEWR, Mr. Cirne founded Wily Technology, Inc., the first provider of APM software, and sold the company to CA, Inc. in 2006 for $375 million. Mr. Cirne is viewed as a thought leader in the APM and digital intelligence industry. Mr. Cirne is also the largest shareholder of the company, controlling 18.28% of the common shares.



Source: FactSet

Name	Ticker	Market Cap (mil)	P/S	P/E	EV/EBITDA	P/B
New Relic, Inc.	NEWR	2,811	9.72	-	-	14.59
salesforce.com, inc.	CRM	68,516	7.48	-	78.09	8.19
Splunk Inc.	SPLK	9,358	8.66	-	-	12.18
ServiceNow, Inc.	NOW	20,683	12.72	-	-	43.08
Workday, Inc. Class A	WDAY	14,771	12.33	-	-	16.73
		28,332	10	-	-	20.0

Source: FactSet

Name	Ticker	Revenues	ROE	ROA	Debt/Equity	Est 5 yr NI growth
New Relic, Inc.	NEWR	2,811	-32.14	-18.89	0.00	-
salesforce.com, inc.	CRM	68,516	2.87	1.18	29.72	42.10
Splunk Inc.	SPLK	9,358	-42.68	-21.82	0.00	95.05
ServiceNow, Inc.	NOW	20,683	-94.74	-23.53	131.23	162.62
Workday, Inc. Class A	WDAY	14,771	-35.52	-13.85	45.96	-
Peer Averages		28,332	-42.51	-14.50	51.73	99.92

Source: FactSet

AEGON N.V. (AEG)

October 13, 2017

Joe Flynn — International Financials

AEGON N.V. (NYSE:AEG) is a holding company that engages in insurance, pensions, and asset management services. It operates through the following segments: Americas, Europe, Asia, Asset Management, and Holding & Other activities. AEGON is one of the largest international diversified life insurance and financial service companies in the world, headquartered in The Hague, Netherlands. Through its Transamerica brand, AEGON generates approximately 60% of pretax earnings from the United States. Life insurance and annuities are the two largest contributors to earnings, followed by corporate pensions and individual savings and retirement products.

Price ($):	5.66
Price Target ($):	7.26
52WK H-L ($):	6.06 - 4
Market Cap (mil):	11,901
Insider Holdings	0%
Avg. Daily Vol (mil):	1.9
Yield (%):	4.5
ESG Rating	

Beta:	1.22
M-Term Rev. Gr Rate Est:	3.03%
M-Term EPS Gr Rate Est:	13.4%
Gross Leverage %	0.29
WACC	3.60
ROA (%):	0.17
ROE (%):	2.60
Solvency II Ratio	185%
Fixed Charge Coverage	6.0

FY: Dec	12/31/2015	12/31/2016	12/31/2017	12/31/2018
Revenues	33,902.15	33,655.23	34,272.56	35,812.90
% Growth	nm	-1%	2%	4%
UEBT*	1866.48	1912.50	2127.49	2263.70
%Growth	nm	2.47%	11.24%	6.40%
UEBT Margin*	5.51%	5.68%	6.21%	6.32%
Adj. EPS*	0.70	0.72	0.76	0.86
P/E	23.0	10.5	7.48	6.57
P/B*	0.41	0.52	0.58	0.47

Source: FactSet

*NON GAAP

Recommendation

AEG's stock has been weighed down this year due to low interest rates, industry-wide week life insurance demand, and high exposure to the United States. Balance sheet strength has also been a major concern to its business, and in particular to the Dutch Unit. AEG's high leverage has contributed to historically below average Solvency II ratios in comparison to the industry. The underlying structural problems of the past have been helped through AEG's commitment of returning capital to shareholders. AEG has increased its dividend for the past 5 years and has a dividend yield of 4.5%, which is above the peer group average of 3.8%. The company also completed a EUR 400M share-buyback in 2016, and will continue to buy back shares over the next few years to offset dilutive effects of stock dividends. AEG has begun restructuring its business to meet the imposed requirements under Solvency II and to improve its capital position. Restructuring activates have included shifting to a less capital-intensive fee-based structure to combat low interest rates and disposing of non-core assets to de-risk its balance sheet. However, after reporting a weaker than anticipated SII ratio of 147% in 1Q17, fears have arisen over a possible dividend cut. It is believed that the market has over-discounted anxieties surrounding AEG's capital position - and the depressed valuation, well below book value, provides a compelling entry point to reap the benefits of future cash generation as the new strategy unfolds. Aegon has made significant process in strengthening its balance sheet, improving hedging, and reducing costs to reposition its business. The company recently divested its two largest U.S. run-off businesses, the payout annuity unit and BOLI/COLI, which is expected to result in a capital release of around $700M in 2017. AEG has the potential to dispose non-core assets of EUR 2B in future periods as well, which can be used to generate capital with limited impact on earnings. AEG has moved away from annuity based products to defined contribution and asset management; acquiring BlackRock UK and Cofunds in 2016. Management has laid out clear financial targets for 2018 that include reducing operating expenses by EUR 350M, increasing ROE to 10%, keeping excess cash buffer of EUR 1.0-1.5B at the holding company, and returning EUR 2.1B of capital to shareholders. These targets may seem ambitious, but a reasonable case of 8%-10% ROE in the near term can be made driven by improved underlying fee margins and expense reductions. In addition, AEG's divestiture efforts should be more than enough to cover the company's 2018 dividend target, and the yield will remain compelling while the company continues shifting its business model. Continued divestment of risky assets, asset management ventures, and buybacks will improve the company's capital position and lead to a sustainable SII ratio of 175% over the next 3 years. It is recommended AEG is added to AIM International Equity Fund with a price target of $7.26, representing a 28% upside.

Investment Thesis

- **Improving Solvency II Ratio.** The solvency of AEG's Dutch unit has been concerning to investors, but recent strengthening should put an end to the drama for now. AEG Netherlands improved its solvency ratio from 144% in 1Q17 to 175% 2Q17 thanks to a EUR 1B capital injection from the group. The group also reached an agreement with Dutch regulators, which will allow absorption capacity of 75% on deferred taxes position. The Dutch segment is now resuming dividend payments upstream of EUR 100M in 2018. In addition, the US conversation factor was lowered from 250% to 150% which had a positive impact the SII ratio for the group as whole. The group's 2Q17 SII ratio came in at 185% in the 2Q and was well above the target ratio. In response, AEG increased its target ratio to 150%-200%, and is now in-line with its peers. The capital management actions will allow AEG to maintain its risk profile in times of financial market stress without having to take actions that will adversely impact future capital generation.
- **Asset Management.** Asset Management became its own segment in 2016 and will be an important vertical for driving fee income and helping offset premiums exposed to interest rate guarantees. After the acquisitions of BlackRock and Cofounds, AEG became the #1 retail platform in the UK with over GBP 100B in AUM. AEG has pursued a strategy of investing in fintech and big data in line with the company's goal of becoming a purely digital provider of retirement services and is expected that digital earnings in the UK will see almost 50% growth in profit 2018-2019, making up a greater higher percentage of fees than its legacy business. This will help drive net underlying earnings growth of 10-12% when synergies are realized in 2H18.
- **Deleveraging and Earnings Stability.** The net underlying earnings increase of 25% in 2Q17 could be a sign that management's efforts are beginning to work. Continued signs of earnings stability would be very positive for the stock going forward. Another possible catalyst would be to see de-leveraging in the quarters ahead to help narrow the gap of fee vs spread income. Keeping the gross leverage at the low end of Solvency II requirement of 26-29% would expedite expected free cash flow generation of EUR 1.2B by 2018.

Valuation

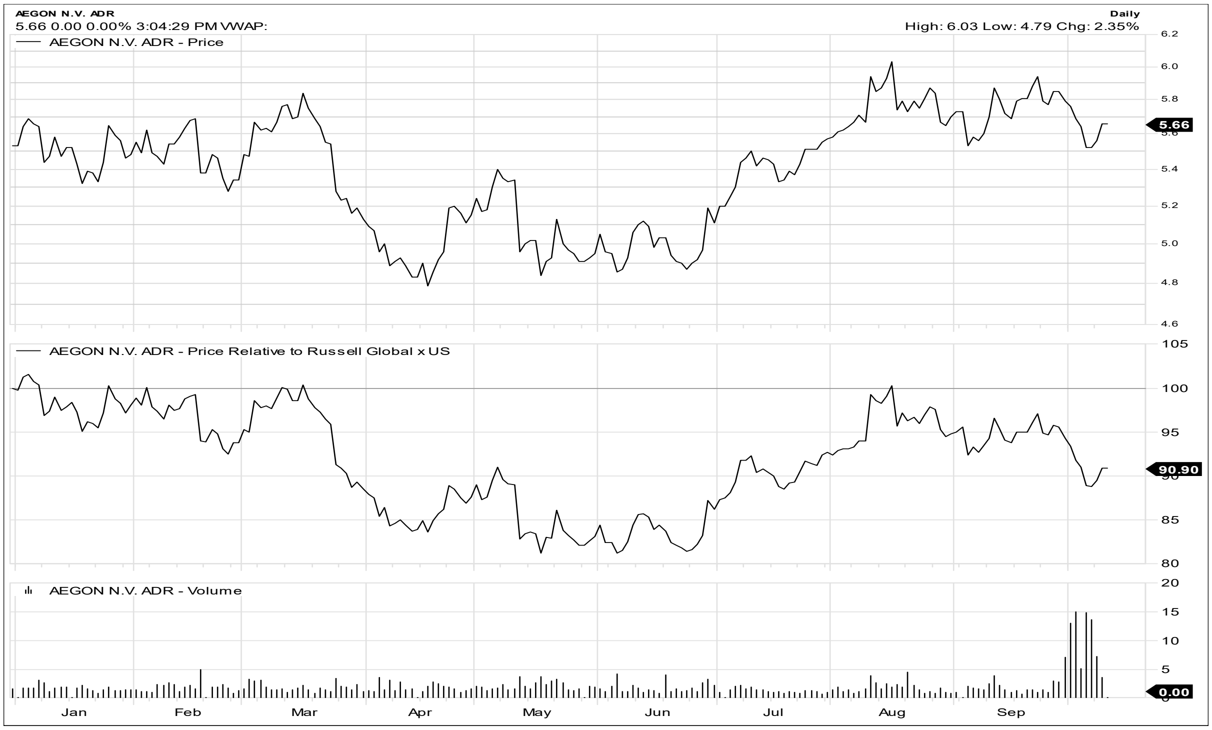
To reach an intrinsic value for AEG, a P/B multiple was used. A P/B of .6x was used with 2018E BVPS resulting in a target price of $7.26, representing a 28% upside. The multiple used was at the low end when compared to competitors. AEG also pays a semi-annual dividend yielding 4.5%.

Risks

- **Dependency on the US.** The company places a large emphasis on the US division to fund the group dividend, which leads to dependency on the strength of US $. In 2016 when the Dutch remittance to the holding company was zero, almost 80% of total remittance came from the US. Interest rate movements with gradually rising rates would be positive, but lower-for-longer interest rate would exert pressure on capital generation in the US and Netherlands.
- **Regulatory Risk.** Although Solvency Ratios have strengthened recently, AEG has been adversely affected by Solvency II regulation. The Insurance industry will continue to face regulatory in coming years, and revised calculation of the ultimate forward rate (UFR) used in the discount curve to value insurance liabilities may adversely affect capital generation or solvency position. In the US, Donald Trump's election has put DOL fiduciary changes under review which could negatively impact pensions and asset management.

Management

Alexander R. Wynaendts has served as CEO and Chairman of AEGON's Executive Board and Management Board since 2007. Prior he worked with ABN AMRO Bank. Matt Rider joined AEGON in January 2017, and was appointed CFO in May 19, 2017.



Name	Ticker	Revenues	ROE	ROA	Solvency II%	Est 5 yr NI growth
AEGON N.V. ADR	AEG	11,901	1.91	0.11	185.00%	4
Swiss Life Holding A	743780	11,091	7.14	0.47		60
ageas SA/NV	B86S2N	8,407	0.26	0.03	179.00%	-6
NN Group N.V.	BNG8PQ	12,109	5.35	0.70	241.00%	-3
AXA SA	708842	62,911	9.40	0.69	197.00%	9
Phoenix Group Holdi	B45JKK	2,985	-3.50	-0.15	140.00%	-9
Peer Averages		19,501	4	0.3	189%	10.5

Source: FactSet

Name	Ticker	Market Cap	P/E	P/B	P/TBV	Div Yld
AEGON N.V. ADR	AEG-US	11,901	6.75	0.43	0.44	4.49
Swiss Life Holding AG	743780	11,091	11.58	0.80	0.89	3.22
ageas SA/NV	B86S2N	8,407	21.82	0.90	1.05	2.96
NN Group N.V.	BNG8PQ	12,109	9.48	0.55	0.60	4.42
AXA SA	708842	62,911	11.08	1.03	1.51	4.47
Phoenix Group Holdings	B45JKK	2,985	#N/A	1.18	1.28	3.82
Peer Averages		19,501	13.5	0.891468	1.1	3.8

Source: FactSet

Fabrinet (FN)
October 13, 2017

Matthew Holland International Industrials

Fabrinet (NYSE:FN)), supplies optical packaging and precision optical, electro-mechanical, and electronic manufacturing services to original equipment manufacturers. Their service offerings include process design, manufacturing, supply chain management, assembly, packaging, integration, assembly, and test. They provide these for the optical communications, industrial laser, automotive, medical, and sensor industries, representing the automotive, biotechnology, communications, materials processing, medical devices, metrology, and semiconductor processing end-markets. They operate out of one business segment, with revenues derived from the Americas (46.6% of total revenue), Asia/Pacific (37.1% of total revenue), and Europe (15.4% of total revenue), and Africa/Middle East (0.9% of total revenue). The company was founded in 1999 and is headquartered in George Town, Cayman Islands.

Price ($): 10/06/2017	$ 37.68	Beta:	0.90
Price Target ($):	$ 52.76	WACC	8.70%
52WK H-L ($):	$49.63-31.97	M-Term Rev. Gr Rate Est:	5.0%
Market Cap (mil):	1,408	M-Term EBIT Gr Rate Est:	4.3%
Float (mil):	36.2	Debt/Equity:	10.6%
Short Interest (%):	8.7	Debt/EBITDA (ttm):	0.55
Avg. Daily Vol (mil):	0.2	ROA (%):	10.28
Dividend ($):	0.00	ROE (%):	15.71
Yield (%):	0.0	ROIC (%):	14.99

FY: Dec	2017	2017	2018E	2019E
Revenue (Mil)	976.7	1,420.5	1,519.9	1,709.9
% Growth	26.3%	45.4%	7.0%	12.5%
Gross Margin	12%	12%	12%	12%
Operating Margin	7.1%	7.6%	7.3%	7.5%
EPS (Cal)	$ 1.71	$ 2.60	$ 2.76	$ 3.17
FCF/Share	$ 0.18	$ 0.07	$ 1.18	$ 1.76
P/E (Cal)	21.68x	16.40x	15.46x	13.44x
EV/ EBITDA	7.5x	10.0x	9.7x	9.1x

Recommendation

FN is a leading manufacturing partner for some of the world's most demanding OEMS. They specialize in high mix, low volume production in industries that require precision manufacturing capabilities. While their specialty is low volume, they have the capacity to support any-volume production. FN provides an efficient and flexible manufacturing platform that specializes in optics and equally complex products in a low-cost environment. FN's factory-within-a-factory approach allows for customizable flexibility and intellectual property protection. Additionally, FN's vertical integration reduces customers' competitors and allows for further cross-selling capabilities. This has allowed them to build long-term relationships with customers, and thus, generate repeat contracts. This model has worked of late for FN, as they have posted revenue growth of 14.1%, 26.3% and 45.4% for fiscal years 2015, 2016 and 2017, respectively. They are looking to build off this recent success by gaining further market share in the expanding optics market. With commercial equipment stabilizing and 100g upgrade cycle ramping, FN has opportunities to generate incremental revenues and carve out a bigger name for themselves in the industry. Additionally, further expansion opportunities exist on the horizon. Recent implementation into the strong barrier market of Japan could be promising if FN can expand within the region. Furthermore, potential relationships with powerhouses, Amazon and Tesla, can drive incremental revenues going forward. Lastly, FN recently completed a planned succession of founder and CEO David Thomas Mitchell. FN currently has the technology and capabilities to expand their proven business model into different industries. While this expansion has always been a plan, it now appears to be a real possibility with newly appointed CEO, Seamus Grady, at the helm. After three straight years of increasing revenue growth, FN has positioned itself for further expansion. The promising optics market, possibilities in Japan, potential long-term relationships with Amazon and Tesla, and new applications for FN's technology and business model provide a promising outlook for the future of FN. For these reasons, it is recommended that Fabrinet be added to the AIM International Equity Fund with a price target of $52.76, representing a 40.0% upside. FN does not currently pay a dividend.

Investment Thesis

- **Promising Trends.** Two of FN's largest Silicon Photonics customers, Acacia and Cisco, are in product transitions. While this resulted trimmed last quarter's results, both customers' outlook looks positive going forward. Both are expected to ramp new products, delivering growth in fiscal year 2018. Additionally, while ROADMS slowed in both China and North America, this is seen as more of a lull than trend. China is still in the early stages of implementing ROADM, and growth is expected to double by fiscal year 2018. Lastly, as the communications industry builds out 100G infrastructure over the next few years, optical communications system components should also grow.
- **New Customers.** FN has recently agreed to deals with Amazon and Tesla. Amazon opens opportunities as a cloud direct customer with FN. Tesla could increase demand for FN's capabilities with cameras for autonomous driving cars. Additionally, FN has gained access to the Japanese market, which is difficult to reach in optics. With a foot in the door, the hope is FN can continue receiving contracts from this company and potentially others. Growth into Japan could be a very lucrative opportunity for FN.
- **New CEO.** The founder and CEO of FN, David Thomas Mitchell, has recently stepped down as CEO in accordance with the succession plan upon which he insisted. The new CEO, Seamus Grady, provides new experience and a unique perspective. FN has been looking to expand into new industries that could utilize their technologies and business plan. Grady appears to be the man to lead this charge, utilizing his experience at Sanmina Corporation.

Valuation

To reach an intrinsic value for FN, a 5-year DCF model was constructed. Using a terminal growth rate of 1.50% and a WACC of 8.70%, an intrinisc value of $59.09 was reached. Additionally, a P/E relative valuation was conducted using 2018 expected EPS of $2.76 and a peer multiple of 16.83x, resulting in a valuation of $46.43. The DCF model and P/E relative valuation were weighted equally and a price target of $52.76 was reached, representing an upside of 40.0%.

Risks

- **Strong Competition and Possible Consolidation.** The internal manufacturing capabilities of current and prospective customers serves as FN's biggest competitor. If customers gain excess manufacturing capacity, it could adversely affect FN's businesses. Specifically, an economic downturn could result in underutilized capacity, thus creating a more competitive market for FN.
- **Concentrated Customer Base.** FN currently relies on a small number of customers for a significant portion of their total revenue. Specifically, one customer accounted for 17% and 20% of total revenues for fiscal year 2017 and fiscal year 2016, respectively. Any reduction in orders or loss of customers could have adverse effects on FN's business. Additionally, any increase in customer default risk could reflect poorly on FN's operations
- **Foreign Currency Exposure.** The majority of FN's contracts require payment in U.S. dollars, but many of their costs are in Thai baht. Any appreciation of the Thai baht against the U.S. dollar could have damaging effects. Additionally, FN has exposure to the RMB and the GBP. Any appreciation of these currencies against the U.S. dollar could negatively impact operating results.

Management

FN was founded by David Thomas Mitchell, who served as CEO until September 2017. He has now moved to Executive Chairman of the Board, leaving Seamus Grady as the new CEO. Prior to joining FN, Grady served as Executive Vice President and COO of the Mechanical Systems Division at Sanmina Corporation. Toh Seng serves as the CFO while Hong Q. Hou serves as the Chief Technical Officer.

Source: FactSet

Peer Fundamentals

Name	Ticker	Revenues	ROE	ROA	Debt/Equity	Est 5 yr NI growth
Fabrinet	FN	1,421	15.7%	10.3%	10.6%	9.4%
Benchmark Electronics, Inc.	BHE	2,365	4.9%	3.4%	15.4%	4.3%
Celestica Inc.	CLS-CA	6,206	10.8%	4.8%	16.6%	-6.9%
Sanmina-SCL Corporation	SANM	6,779	13.1%	5.8%	22.7%	22.2%
Venture Corporation Limited	V03-SG	2,452	11.9%	8.3%	3.9%	1.0%
Peer Averages		4,451	10.2%	5.6%	14.7%	5.2%

Source: FactSet

Peer Valuation

Name	Ticker	Market Cap (mil)	P/S	P/E	EV/EBITDA	P/B
Fabrinet	FN	1,408	1.14	16.22	8.93	2.34
Benchmark Electronics, Inc.	BHE	1,765	0.69	23.75	7.89	1.15
Celestica Inc.	CLS-CA	1,813	0.31	14.29	5.81	1.47
Sanmina-SCL Corporation	SANM	2,909	0.44	13.96	7.93	1.65
Venture Corporation Limited	V03-SG	3,833	1.01	15.31	9.29	1.77
Peer Averages		2,580	0.61	16.83	7.73	1.51

Source: FactSet