Applied Investment Management (AIM) Program

AIM Class of 2012 Equity Fund Reports
Fall 2011

Date: Friday, October 14th Time: 2:30 pm – 4:00 pm
Road Show Location: Wells Capital Management.

Student Presenter	Company Name	Ticker	Price	Page No.
Jacob Brull	TransCanada Corporation	TRP	$40.00	2
Chris Gwinn	True Religion Apparel	TRLG	$29.22	5
Colleen Osborne	LogMeIn, Inc	LOGM	$33.40	8
Jeffrey Hoffmeyer	World Acceptance Corporation	WRLD	$57.63	11
Tom Kelly	Forward Air Corporation	FWRD	$26.23	14

Thank you for taking the time today and participating in the AIM ‘road show’ at Wells 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 Wells Capital.

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TransCanada Corporation (TRP)

October 14, 2011

Jacob Brull — Energy

TransCanada Corporation (NYSE:TRP) is one of the largest pipeline companies in North America. Connecting natural gas fields in Canada, the United States and Mexico to storage facilities and end-user terminals, TRP operates over 37,000 miles of wholly and 5,500 miles of partially owned natural gas pipelines. In addition to the transmission of oil and gas, TRP is involved in power generation. They own nearly 11,700 MW of electricity generation throughout Canada and the US. This Canadian-based energy company operates through three main business segments, namely, Natural Gas Pipelines, Energy and Oil Pipelines. These segments contributed 55.8%, 46.2% and 0.0% of 2010 revenues, respectively. The Oil Pipeline segment saw its first revenue with the opening of the Keystone pipeline in late 2010. In the first half of 2011, oil pipelines contributed a growing 7.7% of revenues. The Keystone project will account for more than half of TRP's growth over the next 5 years. TRP was founded in 1951 and is headquartered in Calgary, AB, Canada.

Market Price (10/07/2011)	$40.00	Beta:	0.83	FY: Dec	2010A	2011E	2012E
Price Target ($):	$48.42	WACC	6.95%	Revenue (Mil)	$7,832	$9,187	$9,975
52WK H-L ($):	$34.77-$45.09	M-Term Rev. Gr Rate Est:	7.4%	% Growth	8.72%	17.30%	8.59%
Market Cap (mil):	$28,201.00	M-Term EPS Gr Rate Est:	9.3%	Gross Margin	44.59%	47.00%	47.00%
Float (mil):	701.78	Debt/Equity:	123.6%	Operating Margin	30.17%	35.00%	35.00%
Short Interest (%):	0.51%	ROA:	4.03%	EPS (Cal)	$1.72	$2.32	$2.52
Avg. Daily Vol (mil):	0.837	ROE:	8.80%	FCF/Share	(2.7)	(0.7)	(0.7)
Dividend ($):	$0.42			P/E (Cal)	21.7	17.3	15.9
Yield (%):	4.09%			EV/EBITDA	13.6	11.3	10.7

Recommendation

Despite the recent volatility in the energy market, TRP offers utility-like revenue stability while providing potential revenue growth through expansion into crude oil pipelines. Although natural gas pipelines have been the foundation of TRP's revenues, oil pipeline revenue has the potential to grow to over 15% of total revenue by 2015. The current Keystone and proposed Keystone XL pipelines are crucial in providing the oil producers in the Canadian oil sands and Bakken shale fields access to key refineries, both within and outside the Midwest. Currently, TRP's Phase I and II of the Keystone pipeline are operational, with Phase I capacity of 435,000 barrels of oil equivalent per day (BOEPD) from Hardisty Alberta to the Wood River, IL refinery (360,000 BOEPD refining capacity). Additionally, Phase II has a capacity of 591,000 BOEPD between Steele City, NE and Cushing, OK. Phase III and IV, which are still waiting approval from the US State Department, would increase the Keystone Pipeline capacity to a total of 1.3 million BOEPD. The final two phases, with expected completion in early 2013, will transport oil from the Canadian Oil sands and Bakken oil fields to Cushing, OK, Houston, TX, and Port Arthur, TX. In addition to TRP's already stable revenue from power generation facilities and natural gas pipelines; the Keystone project looks to contribute to an overall 10% YoY revenue growth between 2010-2015. While FCF is currently negative, the completion of the Keystone project will reduce the need for CAPEX turning FCF positive in 2013. TRP has maintained a strong dividend between 3.25% and 5% since 2002. It is recommended that TRP be added to the AIM International Equity portfolio at a target price of $48.40, representing a 20% upside in addition to its 4.09% dividend yield.

Investment thesis

- **Keystone XL Expected Approval.** The Final Environmental Impact Statement (FEIS) concluded that the Keystone XL project is expected to have "no significant impact to most resources along the proposed project corridor". The FEIS statement paves the way for a 90-day State Department review period during which time it must be decided whether this project is in the "national interest" of the United States. Helping to reduce dependence on Middle Eastern oil and encouraging the continued development of oil sands and Bakken crude, it is believed the TRP will receive the necessary approvals to commence building the two, final phases of their $13 billion Keystone pipeline system. Final decision is expected by year-end. A favorable decision will likely cause a positive momentum swing for TRP's stock price as concerns about project approval are forgotten.

- **Need for Pipelines through Bakken.** Although originally designed to transport crude oil solely from the Canadian oil sands to delivery points at Cushing, OK and the Texas Gulf Coast, the increasing production in the Bakken formation has given TRP a project expansion opportunity. Currently, 500,000 BOEPD are produced from this formation with production expected to grow to 1 million BOEPD by 2020. After a successful open season, securing firm contracts for 65,000 BOEPD on a 5-year contract, TRP has decided to construct phase 4 of Keystone including receipt facilities in the Williston Basin to receive Bakken crude. The entire project is expected to generate and EBITDA of $1.5 billion, more than double Keystone EBITDA of solely phases one and two. This phase of the pipeline has a capacity of 900,000 BOEPD.
- **Stable, Utility-like Revenue.** With 46% of 2010 revenues contributed from the energy segment, TRP's diversification with power generation provides them with greater revenue stability. This revenue stability is strongly desired in times of slow economic growth and negative outlook on natural gas and oil consumption. While transmission volumes are affected by oil and gas consumption, the majority of TRP's transmitted materials are set in 5 year contracts.

Valuation

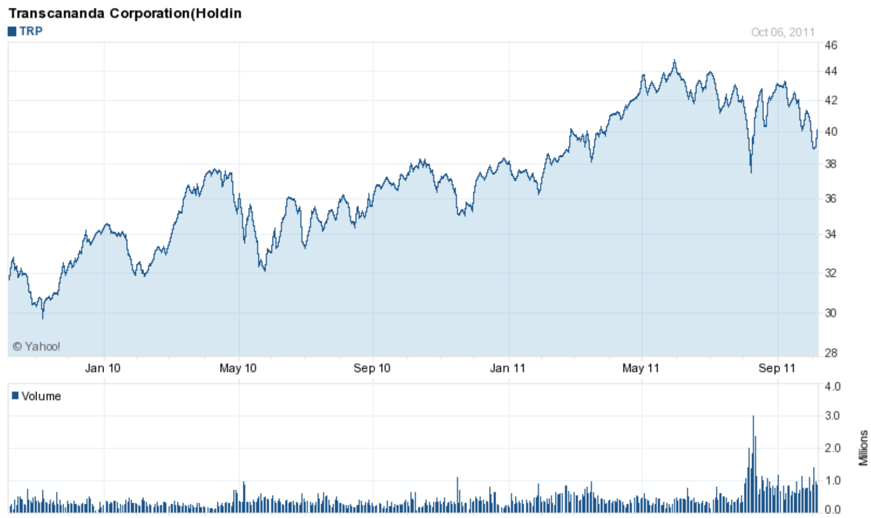
Utilizing a ten year DCF model with a computed WACC of 6.95% and terminal growth of 3%, an intrinsic value of $47 was obtained. A sensitivity analysis adjusting the WACC and terminal growth rate produced a range of $43-$54. In addition, a 21x P/E multiple was applied to 2012 estimated EPS yielding an intrinsic value of $53. TRP's valuation looks attractive given that the stock is currently trading at 19x and 12.7x to 2012E EPS and EV/EBITDA and versus a current competitor average P/E of 23x and EV/EBITDA of 14.1x. Considering the varying approaches, a price target of $48.40 was obtained, representing a 20% upside. This is in addition to ERJ's stable 4% dividend yield.

Risks

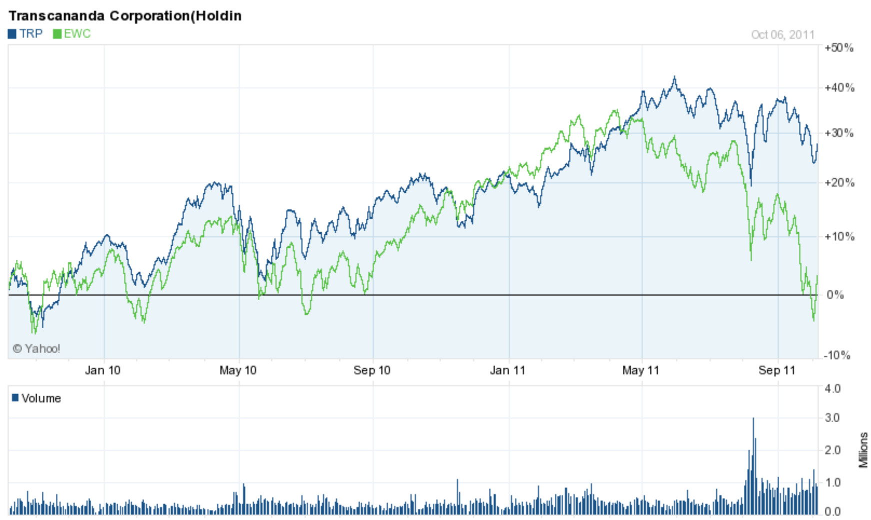
- **Regulatory Risk.** TRP's assets are subject to regulatory risk in both the United States and Canada. Most notably are the risks to the Keystone XL expansion and the amended mainline tolling agreement. The Keystone XL, as noted above, requires a State Department and Presidential Permit. While most parties agree these will be granted, there is a possibility they won't. TransCanada's fair value, without the expect approval would be ~$38 per share.
- **Operational Disruptions/environmental risk.** Another major concern is environmental risk. An event, such as a major pipeline rupture, would cause months of downtime and possible environmental liability risk. While there has been around a dozen incidents on the Keystone pipeline, the majority leaked very minimal (less than 1 barrel) amounts of oil and were primarily contained on TRP's land. Additionally, all leaks have taken place at aboveground pump stations. The department of State has found that the overall likelihood of an oil spill remains low, at 1.78-2.51 spills per year.

Management

Mr. Russell Girling is the President and CEO of TRP. Prior to being appointed CEO in 2010, Mr. Girling was COO, responsible for overseeing TRP's Pipeline and Energy businesses, corporate strategy, and operations of major projects. Additionally, Mr. Girling is the former Chairman of the Interstate Natural Gas Association of America (INGAA) and the Natural Gas Council (NGC), and holds an MBA from the University of Calgary. Having been an active member within the natural gas pipelining community and with the company since 1994, Mr. Girling is an obvious candidate to lead TRP into the future.



Source: Yahoo! Finance



Source: Yahoo! Finance

Ownership

% of Shares Held by All Insider and 5% Owners:	0.95%
% of Shares Held by Institutional & Mutual Fund Owners:	48.61%

Source: MSN Money

Top 5 Shareholders

Holder	Shares	% Out
Royal Bank of Canada	28,778,232	4.10
IG Investment Management LTD	25,993,746	3.70
Jarislowsky Fraser Limited	25,254,404	3.31
Harris Financial Corp	21,028,719	2.99
RBC Global Asset MGMT INC	16,014,267	2.28

Source: Bloomberg

True Religion Apparel (TRLG)
October 14, 2011

Chris Gwinn Consumer Discretionary

True Religion Apparel Inc. (TRLG) designs, markets, distributes, and sells apparel under the name True Religion Brand Jeans. TRLG distributes its products worldwide and operates in four primary segments: U.S. Consumer Direct (56% of revenue), U.S. Wholesale (24%), International Wholesale (19%), and Core Services (1%). TRLG's product line consists of upscale premium denim, sportswear, and knits for men and women. Price points of True Religion Jeans typically range from $170 to $300 per pair. TRLG currently operates 102 stores (73 full-price and 29 outlet) under the name True Religion Brand Jeans. In addition, TRLG sells their product lines through Bloomingdale's, Neiman Marcus, Nordstrom's, Saks Fifth Avenue, and via approximately 800 specialty retailers. True Religion Apparel was founded in 2002 and is currently headquartered in Vernon, CA.

						FY: December	2010A	2011E	2012E
Price ($) (10/06/11):	$ 29.22		Beta:	1.26		Revenue ($Mil)	363.71	430.81	533.89
Price Target ($):	$ 36.88		WACC	13.71%		% Growth	16.95%	18.4%	23.9%
52WK H-L ($):	34.80 - 18.17		LT Rev. Gr Rate Est (3-5 yr):	19.02%		Gross Margin	63.23%	65.46%	65.60%
Market Cap (mil):	748.81M		LT EPS Gr Rate Est (3-5 yr):	3.84%		Operating Margin	20.40%	15.51%	16.30%
Float (mil):	16.52M		Debt/Equity:	8.2%		EPS ($Cal)	$1.75	$1.63	$2.12
Short Interest (%):	5.9%		LT Debt/Total Assets	0.0%		FCF/Share	2.02	1.74	2.43
Avg. Vol (10 day)	290,011		EBITDA 1-yr Growth	28.2%		P/E (Cal)	16.70	17.97	13.80
Inventory Turnover:	8.72		2010A ROA:	14.70%		EV/EBITDA	7.98	4.56	3.11
Cash Ratio:	770.5%		2010A ROE:	17.33%					

Recommendation

Despite the stressed economic environment and weak recovery, TRLG has several platforms propelling an estimated 19% growth across all of its apparel lines. TRLG has strong liquidity, as it currently holds a cash balance of $173.7 MM, with no outstanding debt. It has consistently generated strong cash flows (FCF of $56.96 MM in TTM Q2 2011), which has placed the company in a strong position to continue to execute its growth initiatives in all of its segments. Management has continued to build its thriving consumer direct businesses and has made important strategic investments internationally, including the addition of wholesale sales operations (South Korea, Hong Kong, and Germany), brick and mortar stores (Tokyo, Toronto, London, and Cologne) and new regional headquarter offices (Hong Kong and Switzerland). True Religion's strong brand name has provided the company with a loyal customer base, which has allowed the company to defend itself against potential inflationary pricing pressure via initial markups. TRLG has strong operating and gross margins of 20.40% and 63.23% (2010A) compared to the industrial average at 12.56% and 53.96%, respectively. Management's effectiveness can be seen in its TTM ROA of 16.15% and TTM ROE of 18.87%, both of which outperform the industrial average (average ROA of 10.80% and ROE of 15.69% in Q2 2011). Because of these reasons as well as a favorable valuation, it is recommended that TRLG be added to the AIM Equity Fund with a target price of $36.88, offering a potential upside of 26.20%.

Investment Thesis

- **Domestic Growth.** TRLG maintains plans of opening 15 new retail stores a year. In Q2 2011, TRLG opened six domestic stores ending the quarter with 102 domestic stores versus 81 stores in Q2 2010. During the past quarter, TRLG posted same-store sales growth of 15%. Furthermore, TRLG currently distributes to approximately 800 specialty dealers and they are targeting approximately 1,500 additional dealers in this channel. Management anticipates growing their specialty dealers by 25% in fiscal year 2011. Longer term, TRLG will continue to pursue a ratio of full-price to outlet stores of 3-1, which will aid in properly positioning the True Religion brand while also helping to eliminate excess inventory through sales in outlet stores.

- **Improving Margins via Reducing Reliance on Off-Price Channels.** TRLG is aggressively reducing its off-price channel sales. This will create added demand for TRLG's merchandise in True Religion stores and in full-price wholesale stores, as consumers will be forced to purchase TRLG products at full-price as discount retailers will become limited. Management has effectively demonstrated this as Q2 2011 off-price channel sales declined 23%, while its developing sportswear collection witnessed sales growth of 32%. Additionally, veering away from off-price channels helps to strengthen margins, as gross margin has improved by 344 basis points since its strategic announcement in Q3 2010.
- **International Expansion.** TRLG is underdeveloped internationally, as international sales account for 18% of total sales and 14% of operating income for fiscal year 2010. Compared to more mature competitors such as VF Corp. and Ralph Lauren, international sales typically represent between one-third to one-half of total sales. TRLG has placed a strong emphasis on aggressively growing this segment and moving the contribution percentage closer to one third of sales with profit contribution increasing accordingly. In Q2 2011, international sales grew 31.4%, primarily driven by expansion in Canada and Germany.

Valuation

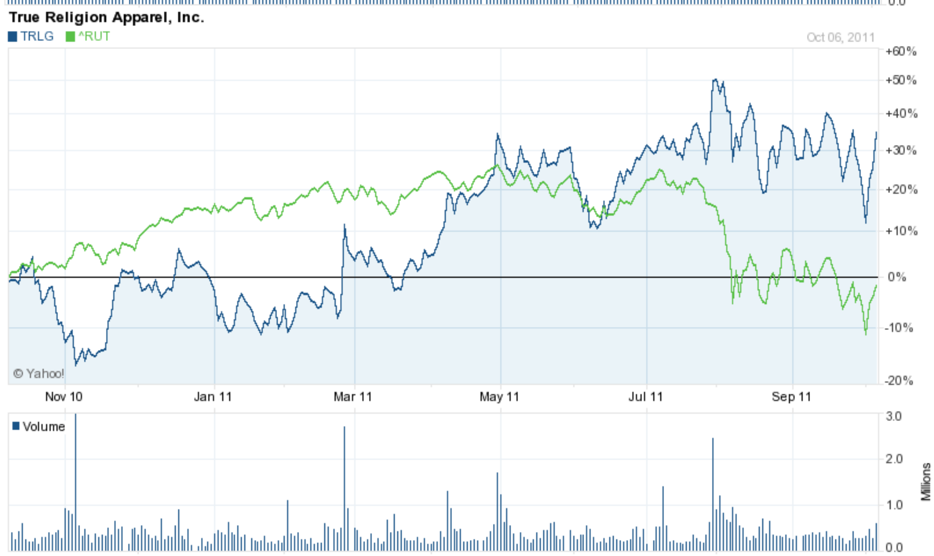
A five-year DCF was conducted to find the intrinsic value of TRLG. Sales growth rates were forecasted through management's expectations in 2011. Sales are expected to grow 18% in 2012, as TRLG begins to benefit from the added exposure to the international market. Through its continued expansion into new international markets, TRLG is expected to generate long-term growth rate of 19.02%. The short-term drop in operating margin can be attributed to the added SG&A that goes into opening up new locations abroad. This also translates into a drop in EPS and their FCF (increasing capital expenditures). A conservative WACC of 13.71% and a terminal growth rate of 2.5% was used and yielded an intrinsic value of $38.78. Additionally, a sensitivity analysis was applied, with the WACC and terminal growth rate varying from 13-14% and 2-3%, respectively, yielding an average intrinsic value of $39.24. An EV/EBITDA multiple approach was also applied. With a forward year EV/EBITDA multiple of 7.74, this method provided an intrinsic value of $31.87. Taking all three valuations into account and weighting the intrinsic values appropriately, a price target of $36.88 was established offering an upside of 26.20%. TRLG currently does not pay a dividend.

Risks

- **Rising Cotton Prices.** Potential inflationary pressures on prices for denim, caused by rising cotton prices, could begin to increase the cost of merchandise purchases. TRLG maintains plans to mitigate some of this pressure, including increased initial mark-up on new styles and more conservative production planning to reduce the amount of excess merchandise sold at season end. Despite this concern, the total amount of denim cost accounts for less than 30% of total cost of goods sold.
- **Faltering Women's Line.** Sales of women's in both major accounts and specialty channels have continued to remain weak as women's wholesale sales have declined 5.9% YTD. However, TRLG is committed to fixing this business segment with its key partners. One key initiative in the women's line is to broaden its fashion orientation to include less obvious uses of the True Religion logo and offer new jeans styles like the Phantom series. Despite this, within True Religion Brand stores, women's apparel has experienced a 26.5% increase in overall sales.

Management

Jeffrey Lubell has been the Chairman of the Board of Directors, CEO, and Chief Merchant since he founded TRLG in 2002. Lubell is also CEO of their wholly owned subsidiary, Guru Denim. Previously, he was the President and Creative Director of Hippie Jeans. Lynne Koplin is the President and COO of TRLG. She previously served as President of the women's division of Tommy Bahama.



Ownership

% of Shares Held by All Insider and 5% Owners:	19%
% of Shares Held by Institutional & Mutual Fund Owners:	77%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
VANGUARD GROUP, INC. (THE)	1,318,425	5.00
BlackRock Fund Advisors	1,097,704	4.26
OAK RIDGE INVESTMENTS, LLC	1,017,869	3.95
SNOW CAPITAL MANAGEMENT LP	939,678	3.65
Norges Bank Investment Management	918,468	3.57

Source: Yahoo! Finance

LogMeIn, Inc (LOGM)
October 14, 2011

Colleen Osborne Technology

LogMeIn, Inc. (NASDAQ: LOGM) is a global provider of proprietary remote-connectivity, collaboration, and IT support solutions to small and medium-sized businesses (SMBs). LOGM's on-demand services allow users to access Internet-enabled devices while away from the home or office via a centralized, Software-as-a-Service (SaaS) platform, Gravity. The firm's access segment (47% of 2010 revenue) includes a variety of products for remote control and file sharing. Support products (53%) can be used for system administration, data backup, business collaboration, and customer service. LogMeIn Free is the firm's most prevalent product, and in addition to LogMeIn Hamachi and join.me, provides free, on-demand remote-connectivity and collaboration to more users than any other service provider. Revenues for LOGM are derived from sales of fee-based products, including LogMeIn Pro, which adds file transfer, remote printing, and drive mapping features, and LogMeIn Ignition, a one-click access tool that is now available on smartphones and tablets. With five offices and four data centers across the Netherlands, Hungary, Australia, the UK & the United States, LOGM employs 415 employees and deploys solutions in 12 languages. LOGM's 12 million users in more than 200 countries have connected over 127 million computers and other devices across both complimentary and premium services. LOGM was founded in 2003 as 3am Labs, went public in 2009, and is headquartered in Woburn, Massachusetts.

				FY: December	2010A	2011E	2012E
Price ($) (10/7/11)	33.40	Beta:	1.06	FY: December	2010A	2011E	2012E
Price Taget ($):	47.24	WACC	12.05%	Revenue (Mil)	101.06	120.26	145.52
52WK Range ($):	26.74-49.50	Mid Term Rev. Gr Rate Est:	15.0%	% Growth	35.8%	19.0%	21.0%
Market Cap:	791.80M	Mid Term EPS Gr Rate Est:	20.0%	Gross Margin	91.0%	91.5%	91.5%
Float	20.91M	Debt/Equity	0.0%	Operating Margin	18.0%	16.5%	17.5%
Short Interest (%):	14.6%	ROA:	12.8%	EPS (Cal)	$0.87A	$0.55E	$0.68E
Avg. Daily Vol:	407,113	ROE:	18.4%	FCF/Share	$1.33	$1.13	$1.46
Dividend ($):	0.00			P/E (Cal)	34.0	61.2	49.4
Yield (%):	0.0%			EV/EBITDA	40.6x	32.2x	26.6x

Recommendation

As the IT access and support space becomes more complex, LOGM's niche product paired with their ability to tap expanding markets, gives them potential to gain ample traction, even in a bear market. While primarily regarded for their consumer play on remote access technology, management has indicated that 75% of LOGM's annual revenue is driven by IT support functions, with 50% of LogMeIn Pro subscribers using it for this purpose. The IT support market is overall more technical and less price sensitive than access alone. *Gartner* predicts that by 2015, 95% of organizations will support a blended approach to enterprise architecture, making way for these firms to utilize platforms like LOGM's while still maintaining longstanding application software contracts. Given its 75% recurring revenue stream and 91% gross margin, LOGM also is in a better position to withstand adverse macroeconomic conditions SMBs could face. Even if organizations cut IT spending or outsource IT operations, these outsourced professionals will still rely on LOGM to manage devices remotely. The scalability of LOGM's solutions has led to a broad client base that attracts individual consumers as well as corporations across various sectors, including 3M, Best Buy, CGI, Fujifilm, HSBC, IBM, Raytheon, Rolls-Royce, SAP, ServiceMaster, and Winnebago. With a quality product suite and favorable valuation, it is recommended that LOGM be added to the AIM Equity portfolio with 40% upside potential.

Investment Thesis

- **Emphasis on Mobility.** LOGM's Ignition and Rescue solutions are available on Apple iOS & Android devices for a perpetual fee, with plans for support of Microsoft 8 tablets expected in the near term. Mobile devices contributed to 25% of new business for LOGM in 2Q11. A 50% price decrease on Ignition, ran as a promotion during back-to-school season, paired with higher sales of the iPad2, drove Ignition to a record 8% of total revenue for the quarter. With over 60% of the user base residing outside of the U.S., LOGM seeks to continue penetration of the fast-growing international mobile market.

- **Cloud-Based Suite.** LOGM deploys all solutions via the SaaS model, allowing the firm to keep margins high and advertisements online. Market research firm IDC estimates that spending on public, cloud-based solutions will grow 30% during the next year to $29B. SMBs will contribute to this growth, with spending forecasted to reach $55B by 2014. Strength in this delivery method can be shown by the quick uptake of join.me, LOGM's meeting and screen-sharing service available with both free and premium options. During Q211, 500,000 people held at least one meeting on join.me, and enhancements are expected before year end.
- **Strategic Acquisition.** On July 19th, 2011, LOGM announced their $15M cash acquisition of Pachube, a UK-based connectivity startup. Pachube's unique technology is used to network non-computer smart devices, such as appliances, energy and personal health monitors, automobile components, and environmental sensors. As the need for data in these products increases, LOGM will benefit from connectivity diversification this acquisition will bring.

Valuation

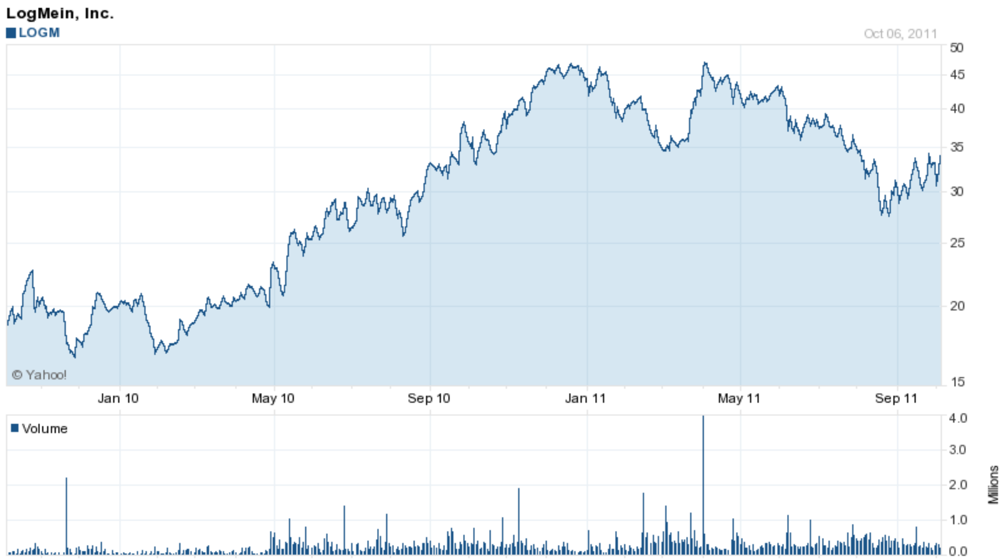
A ten-year DCF and EV/Sales multiples approach were used to value LogMeIn, Inc. A WACC of 12.05% was calculated, and a terminal growth rate of 3% was used to discount future cash flows for the firm. The approach yielded an intrinsic value of approximately $42. A sensitivity analysis adjusting the terminal growth rate between 2 and 4% and conservative WACC between 11.1% and 13.1%, yielded a price range of $36.59 to $49.02. A 8.8x EV/Sales multiple was calculated using forward revenues for FY2012 to yield an intrinsic value of $53. Weighing the two methods equally, a $47 price target was established, representing over 40% upside potential. The firm does not pay a dividend.

Risks

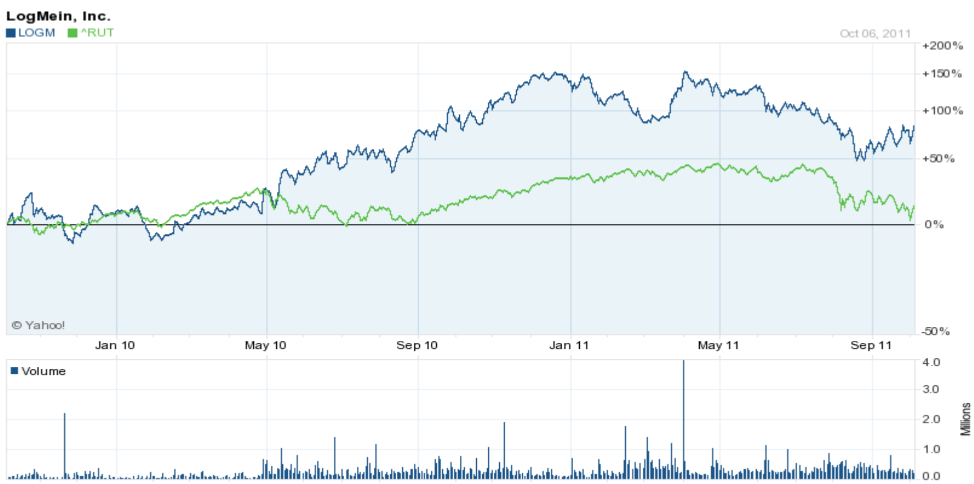
- **Increasing Competition.** Citrix and Cisco are LOGM's largest competitors, and hold larger market positions in the SaaS market. With broader product suites, a move by these firms towards bundling their remote access products with already-existent enterprise solutions could negatively impact LOGM's future revenues. Citrix's GoToAssist product, however, has yet to hone in on the mobile capabilities LOGM's products embrace, a feature that undoubtedly needs to be included in today's wireless world.
- **Customer Churn Rates.** LOGM relies on revenue from subscription renewals, which are usually one year in duration. The length of these contracts allows customers to quickly switch between remote-access providers, if desired. While LOGM realizes customer retention rates of 80%, should they not keep their prices competitive, churn rates could increase, especially in a down market.
- **Faster uptake of free services than paid subscriptions.** While LOGM has been successful in establishing a user community through their free services, very few have converted to the paid versions. Around 4% of the user base pays for LOGM services, with Rescue being the highest-end product and selling for around $1,200 per year. Large costs for hosting these operations on-site could be incurred should the number of free users increase without this switchover.

Management

Michael Simon has served as the President and CEO of LogMeIn since the company's foundation. He also serves as Chairman of the board of directors, and founded Uproar, Inc., a publicly-traded online gaming provider, in 1995. Marton Anka founded LogMeIn and currently serves as the firm's Chief Technology Officer. Prior, he was the founder and Managing Director of 3am Labs.



Source: Yahoo! Finance



Source: Yahoo! Finance

Ownership

% of Shares Held by All Insider and 5% Owners:	26%
% of Shares Held by Institutional & Mutual Fund Owners:	80%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Fidelity Management & Research, LLC	3,607,743	14.91%
Wells Fargo & Company	1,741,300	7.20%
Waddell & Reed Financial, Inc.	996,055	4.12%
The Vanguard Group, Inc.	886,808	3.66%
Alger Management, Inc.	850,229	3.51%

Source: Yahoo! Finance

World Acceptance Corporation (WRLD)
October 14, 2011

Jeffrey Hoffmeyer Financial Services

World Acceptance Corporation (WRLD) is a small-loan consumer finance business. The company offers short-term small loans, medium-term larger loans, related credit insurance and ancillary products services to individuals. The company also provides income tax return preparation services for its customers. WLRD's customers are mainly individuals that have limited access to consumer credit from banks, savings and loans, other consumer finance businesses, and credit card lenders. Interest and fee income accounts for approximately 86% of revenues, with the remaining 14% coming from insurance commissions and other services. World Acceptance operates through 972 offices in 12 states located in the Midwest and Southeast and has 95 offices in northern Mexico. Loan terms range from four months to 36 months, with the average loan size being about $1,100. The company is based out of South Carolina, was founded in 1962 and went public in 1991.

Price ($): (10/7/11)	57.63	Beta:	1.03
Price Target ($):	$70.25	WACC	9.34%
52WK H-L ($):	70-34	M-Term Rev. Gr Rate Est:	5%
Market Cap (mil):	820.51	M-Term EPS Gr Rate Est:	5%
Float (mil):	14.32	Financial Leverage	1.59x
Short Interest (%):	16.9%	ROA:	13.9%
Avg. Daily Vol:	212,863	ROE:	23.8%
Dividend ($):	0.00	Credit Provisions/Loans	11.7%
Dividend Yield (%):	0.00%	FCF Per Share ($)	12.86

FY: March	2011A	2012E	2013E
Revenue (Mil)	491.45	549.34	604.55
% Growth	11.53%	11.78%	10.05%
Net Interest Margin	67.34%	67.22%	67.10%
Operating Margin	29.15%	30.48%	30.66%
EPS (Cal)	6.07	7.24	8.01
P/E (Cal)	8.99	7.54	6.81
BVPS	$29.43	$36.67	$44.69
P/B	1.85	1.49	1.22

Recommendation

World Acceptance has consistently grown earnings over the past five years, with net income growing to $91.2 million in 2011, up from $73.7 million in 2009 and $47.9 million in 2006. Loan origination volume has grown from $1.46 billion to $2.57 billion during that time period, a 15.31% CAGR. This rise is a result of World Acceptance's expansions into new locations both organically and through acquisitions, as well as increased revenues at its existing offices. The company plans to continue this growth by opening over 70 new offices this year and increasing same store revenue by 8% due to its improved tax preparation services. Because of the firm's consistent expansion and its ability to maintain profitability under various market conditions, it is recommended that World Acceptance Corp. be added the AIM Equity Fund with a target price of $70.25, representing a 21.9% upside. The company also has a stock repurchase program and has been buying shares back every year since 2005.

Investment Thesis

- **Favorable Conditions in Mexico.** World Acceptance began doing business in Mexico in 2005 and has grown to 95 offices, operating in 11 of Mexico's 31 states. In Mexico, the company faces far less government regulation than in the United States. Additionally, there is much less competition in the small, short term loans business. As result, World Acceptance has been able to charge very high interest rates, with over 95% of the loans made in Mexico being charged an annual rate of 99% or higher. Though the company has grown quickly in Mexico, with loans exceeding $33 million, there is significant room for further expansion. During 2012, the company plans to open 10 new offices in Mexico.
- **Expansion into New Locations.** The company has continuously expanded its number of locations by opening new offices and acquiring existing ones. World Acceptance had grown to 1067 total offices at the end of the 2011 fiscal year, up from 732 in 2007 and 410 in 2001. On average, the firm has gained about 40 offices a year through acquisitions, with World Acceptance retaining slightly less than half of these. The company continues to evaluate new acquisition

opportunities as they arise. Additionally, the firm looks for new states in which to operate that have favorable regulations and demographics - and they recently began doing business in Wisconsin. World Acceptance plans to open 63 new offices in the U.S. during 2012.

- **Ability to Charge High Interest Rates.** One of the main advantages of the short-term, small-loan business is the ability to loan money at a very high annual interest rate. World Acceptance charges its customers between a 22% and 210% annual interest rate including fees and other charges. More than half of all customers are charged greater than 50% annual interest. Its customers in Mexico are typically charged a higher rate than those in the U.S, at rates between 99% and 149%. Operations in Mexico continue to account for a larger percentage of loans made, resulting in overall higher average interest rates.

Valuation

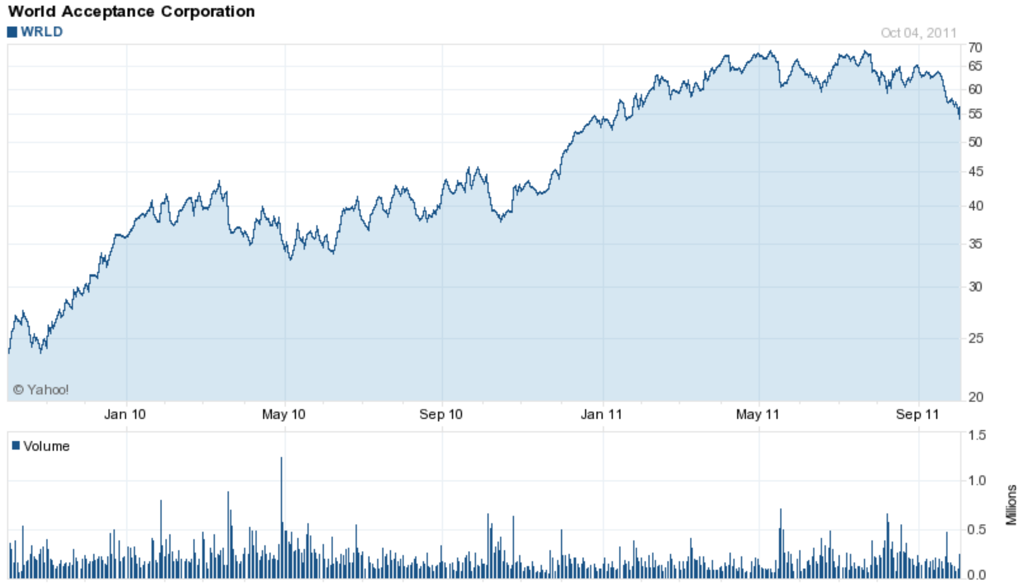
To value World Acceptance, a Price/Earnings multiple approach was used. A multiple of 11 was chosen based on what similar companies in the industry trade and how World Acceptance historically has been valued. This yielded an intrinsic price of $79.62. An excess equity model was also used, with a cost of equity of 11.27% to arrive at an intrinsic value of $60.88. The two approaches were equally weighted to arrive at target price of $70.25, representing a 21.9% upside. The company also repurchases shares in varying amounts, instead of paying a dividend. A sensitivity analysis of share repurchases showed that the intrinsic value of the stock increases to a range of $70.72 and $78.03 if the company repurchases between 100,000 and 1.5 million shares, which it has typically done since 2005.

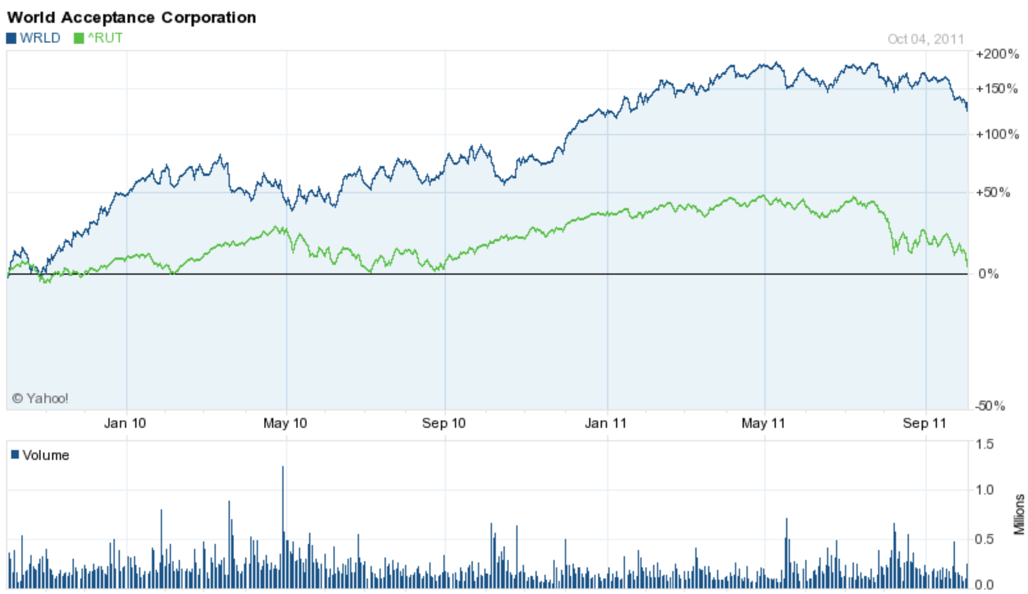
Risks

- **Significant Government Regulation.** The industry that World Acceptance operates in is subject to extensive regulation at both the federal and state levels. In general, these laws establish maximums on loan amounts, interest rates, and fees charged. Changes in these laws could negatively affect the company by further limiting the loans that can be made or lowering the interest rates or fees that can be charged. Many of the states the company operates in also prevent it from making more than one loan to an individual, limiting the number of loans that can be made.
- **High Percentage of Charge-Offs.** Though World Acceptance generally approves less than 50% of loan applications to new customers due to credit quality, the company still suffers a high amount of loan losses. Since 2002, net charge-offs as a percent of loans receivable ranged from 13.3% to 16.7%. In some cases the company will allow customers to refinance after being reviewed. Generally, the firm will try to remain in close contact with customers until a resolution is reached, and in some instances will garnish customer's wages for repayment. If World Acceptance's provision for loan losses is not sufficient to cover these losses, net income could be greatly impacted.

Management

Mr. A. Alexander McLean has served as the company's CEO since 2006 and as Chairman of the Board since 2007. Mr. McLean has been a director with the company since 1989 and was previously the firm's CFO. Mark Roland has been the company's COO since 2005 and President since 2006. He has been with the company since 1996 and has 30 years of experience in consumer finance management, holding officer level positions at Security Pacific, Bank of America and Fleet Bank.





Ownership

% of Shares Held by All Insider and 5% Owners:	7%
% of Shares Held by Institutional & Mutual Fund Owners:	90%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Vanguard Group, Inc	1,377,058	9.16
JP Morgan Chase & Company	690,038	4.59
BlackRock Fund Advisors	672,857	4.47
Acadian Asset Management	500,833	3.33
Kestrel Investment Management	468,300	3.11

Source: Yahoo! Finance

Forward Air Corporation (FWRD)
October 14, 2011
Tom Kelly Industrials

Forward Air Corporation. (NASDAQ:FWRD) is the industry leader in the deferred airfreight market. FWRD operates in two segments: Forward Air which provides time-definite surface transportation and related logistics services, and Forward Air Solutions (FASI) which provides pool distribution services throughout much of the continental United States. Forward Air runs a network of terminals in 84 cities in the U.S. and Canada, with a central sorting facility located in Columbus, OH and 12 regional hubs. Forward Air provides services to third-party logistics firms (3PL), integrated air cargo carriers like FedEx FDX and United Parcel Service UPS, and cargo airlines. Airport-to-airport trucking is the company's main business, and provides 66% of the company's revenue. FWRD uses independent owner-operators to haul its freight. Mid-sized retailers are the primary users of the FASI segment, including customers such as GAP, Aeropostale, Limited, and The Marmaxx Group. The company is headquartered in Greeneville, Tennessee and was founded in 1981.

Price ($): (10/7/11)	26.23	Beta:	1.16		FY: Dec	2010A	2011E	2012E
Price Target ($):	35.00	WACC	12.43%		Revenue ($mil)	484.0	537.2	574.8
52WK H-L ($):	23.70-36.32	Mid-Term Rev. Gr Rate Est:	6.00%		% Growth	16.07%	11.00%	7.00%
Market Cap (mil):	774.00	Mid-Term EPS Gr Rate Est:	11.57%		Operating Margin	11.36%	14.63%	15.48%
Float (mil):	29.14	Debt/Equity:	17.90%		EPS ($Cal)	1.12	1.58	1.79
Short Interest (%):	7.20%	ROA:	11.35%		FCF/Share	2.01	2.71	3.06
Avg. Daily Vol:	190,309	ROE:	15.65%		P/E (Cal)	23.45	16.60	14.67
Dividend ($):	0.28							
Yield (%):	1.1%							

Recommendation

Positive secular trends supporting the $2.5 billion North American deferred airfreight market have Forward well positioned to grow both revenues and earnings at double-digit rates. With shipping costs at $0.75/pound through the air and $0.15/pound by truck, Forward's customers can greatly decrease their transportation costs by improving their supply chain and deferring deliveries. By offering this low cost alternative to expedited shipping, FWRD has developed itself as a dominant force in a growing market. Areas that feed into Forward's success are also showing positive signs. For instance, 3PL's account for nearly 90% of the company's Forward Air business, and are experiencing industry expansion, which is expected to grow at 2-3x GDP. The company has also continued to drive up margins in recent quarters, by significant efforts from the management. These efforts of the company should support increasing EPS growth in a healthy freight market. Forward should also continue return on invested capital in the range of 15-20% due to the light asset-intensive model the company has in place. Therefore, because of Forward's strong operating margins and their dominance in the deferred airfreight market, it is recommended that FWRD be added to the AIM Equity Fund. Currently, FWRD pays a yearly dividend of $0.28 per share yielding 1.1%.

Investment Thesis

- **Increasing Operating Margin.** FWRD was able to re-align its cost structure during the recent economic downturn, and appears to be well positioned for expected volume increases. In the most recent quarter of 2010, Forward expanded it's operating margin over 400 bps to just over 15%. Management has made a conscious effort to push the margin, especially in the second half of 2011, by controlling cost, increasing prices, and leveraging revenues. Thus far, customers have accepted the rate increases. Using operator-owned deliverers has also allowed Forward to keep expenses low and maintain an asset light business model.

- **Leader in Niche Market.** FWRD is the leader in deferred airfreight transportation market and its vast network of terminals has discouraged any strong competitors from entering the market. FWRD's average ROIC of over 25% for the last decade demonstrates the economic moat the company has in the market. The company continues to post solid free cash flow (73% CAGR over the last five years) and some of the highest margins in the industry (currently 11.36%). Even during periods of weak demand, Forward is able to maintain some sense of steady business. Even with its strong positioning in the deferred airfreight transportation mark, FWRD is continually looking to expand its dominance in the market, and management has hinted at potential acquisitions in the future. Substantial cash buildup of the past five years and a balance of $96.1 million at Q2 show this is as viable option.
- **Improving Solutions Segment.** The FASI segment of Forward's business involves Pool Distribution, which is the managing high frequency handling and distribution of time-sensitive product to specific geographic regions. This $4 billion market is highly fragmented and dominated by small regional players and regional less than truckload shipping companies (LTLs). Many customers include mall-based retail chains delivering to stores. In 2007, FWRD entered into this market by acquiring USA Carrier. This acquisition expanded FWRD's market and in certain situations leverages its core capabilities within its airport-to-airport network. The FASI segment has struggled to consistently generate a profit since FWRD acquired into the market, and investor expectations in this segment are limited. However, the segments margins are showing signs of improvement, and stronger economic environment should allow this segment to see positive growth in Q3 and in the future.

Valuation

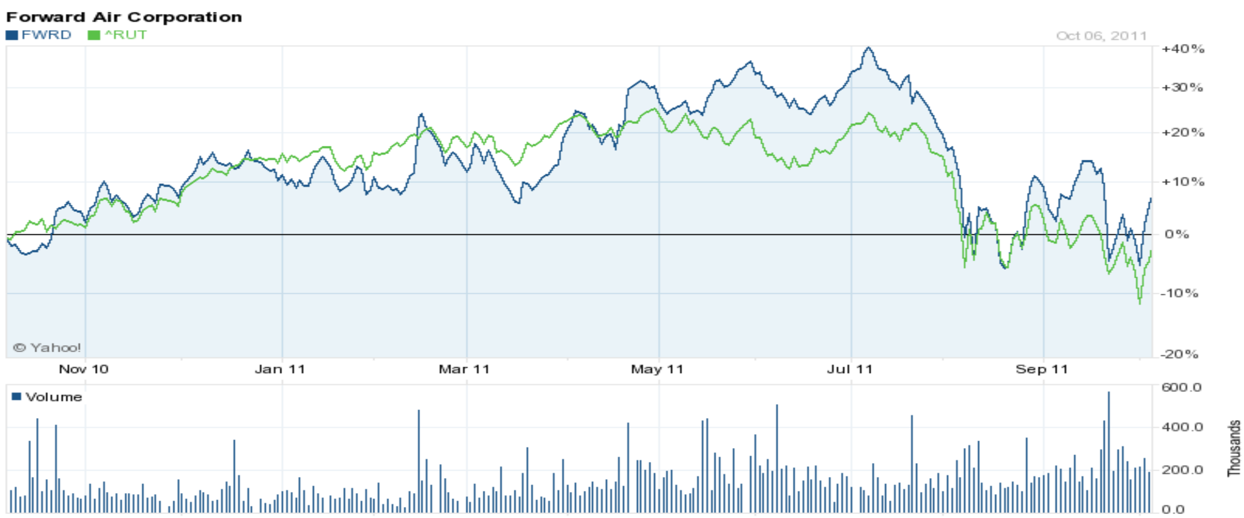
To find the intrinsic value of FWRD, a mixture of valuation methods were used. A DCF valuation was conducted projecting FCF out five years, and discounting them at a WACC of 12.43% and using a terminal growth rate of 3%. The DCF model returned an intrinsic value of $34.52, with a sensitivity analysis of +- 1% of the WACC and terminal growth rate yielding a range of $28.77-$43.30. Additionally, a 100 bps change in operating margin would move the intrinsic value approximately 6.5%. An EPS multiple valuation analysis was also performed. Applying a 20x multiple to the estimates 2012 EPS of $1.79/per share, an intrinsic value of $35.76 was found. This multiple is fairly conservative and could be increased with better visibility in the market. Taking both valuation techniques equally into consideration, a target price of $35 was established, representing an upside of over 30%.

Risks

- **Acquisition Risk.** The ability to integrate recent and pursue future acquisitions is constant risk to Forward's operations. Failure to integrate the recent acquisitions or identify new acquisitions would hinder FWRD's growth efforts.
- **Increasing Fuel Prices.** Due to the nature of Forward's business model, the company is highly susceptible to increasing fuel prices. Expenses and operating margins would be slammed if fuel prices jumped. Increasing fuel cost would also affect other expenses such as the costs of tires and propane.
- **Reliance on Owner-Operators.** As mentioned earlier Forward uses independent owner-operators for its delivers. With significant dependence on this industry, a shortage in drivers or decrease in quality would present significant problems to the company.

Management

Bruce A. Campbell in the President, CEO, and Chairman of Forward Air Corporation, and has been in these positions since 1998, 2003, and 2007 respectively. Mr. Campbell has over 20 years of leadership experience at FWRD, and prior to joining the company he served in another leadership role at Ryder-Transportation Controlled Carriage.



Ownership

% of Shares Held by All Insider and 5% Owners:	1%
% of Shares Held by Institutional & Mutual Fund Owners:	98%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Neuberger Berman Group, LLC	2,255,716	7.64
Royce & Associates, LLC	1,826,550	6.19
Invesco, LLC	1,713,312	5.81
Barrow, Hanley Mewhinney & Strauss, INC	1,689,118	5.72
The Vanguard Group, INC	1,566,371	5.32

Source: Yahoo! Finance