Applied Investment Management (AIM) Program

AIM Class of 2015 Equity Fund Reports
Fall 2014

Date: Friday, October 3rd Time: 2:30 pm – 4:00 pm
Road Show Location: Timpani Capital Management
Milwaukee, WI

Student Presenter	Company Name	Ticker	Price	Page No.
Patrick Doyle	MKS Instruments Inc.	MKSI	$33.78	2
Mark Messier	Associated Estates Realty Corp.	AEC	$17.68	5
Anne Wiesman	Pzena Investment Management, Inc.	PZN	$9.56	8
Mariano Sanz	Industrias Bachoco, S.A.	IBA	$58.06	11
Mary McNellis	Interval Leisure Group	IILG	$20.80	14

We appreciate the opportunity to take an AIM 'road show' to Timpani. 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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MKS Instruments Inc. (MKSI)
October 3, 2014

Patrick Doyle | Domestic Information Technology

MKS Instruments Inc. (NASDAQ: MSKI) is a global provider of instruments, subsystems and process control solutions that measure, control, power, monitor and analyze critical parameters of advanced manufacturing processes to improve process performance and productivity. MKSI groups their products into four product segments: Instruments and Controls; Power and Reactive Gas; Vacuum; and Analytical Solutions. MKSI's primary served markets are manufacturers of capital equipment for semiconductor devices, and for other thin film applications including flat panel display; solar cells; light emitting diodes (LEDs); data storage media; and other advanced coatings. MKSI's top two customers, Applied Materials and Lam Research Corp, accounted for 17% and 12% of MKSI's revenues in 2013, respectively. MKSI obtained 46% of its revenues in 2013 from international sales. MKS Instruments was founded in 1961 and is headquartered in Massachusetts.

Price ($) (9/28/14)	33.78	Beta:	1.15
Price Target ($):	41.43	WACC	9.82%
52WK Range ($):	26.16-34.89	M-Term Rev. Gr Rate Est:	9.11%
Market Cap:	1.78B	M-Term EPS Gr Rate Est:	25.83%
Float	53.00M	Debt/Equity	0.00%
Short Interest :	4.9%	ROA:	6.50%
Avg. Daily Vol:	0.286M	ROE:	7.30%
Dividend ($):	$ 0.66	ROIC:	6.97%
Yield (%):	1.95%		

FY: December	2013A	2014E	2015E
Revenue (Mil)	669	770	831
% Growth	4.02%	15.00%	8.00%
Gross Margin	39.83%	43.00%	43.00%
Operating Margin	8.72%	13.00%	13.00%
EPS (Cal)	$0.68A	$1.32E	$1.43E
FCF/Share	0.59	1.98	2.13
P/E (Cal)	50.01	25.56	23.66
EV/EBITDA	13.18x	10.34x	9.88x

Recommendation

MKSI is the leading global provider of critical technologies that assist their customers in improving productivity in the semiconductor and other advanced, high growth technology-related markets. MKSI is highly diverse in their operations and has had success in all segments of their business. Their top market segment is semiconductors at 68% of sales, with the solar/LED/thin film segment accounting for 7% of 2013 sales. The drop-off in solar/LED sales was a major reason for the company's decreased sales in 2011 and 2012; however, this segment is expected to again grow at a CAGR of about 15% - similar to the growth rate observed during the entire 2003-2011 period. MKSI has put a focus on finding companies to acquire that diversify their product offerings, while still fitting with the company's overall goals. With the acquistion of Granville-Philips, they have obtained a leader in vacuum measurement and control instruments which complements MKSI's already strong position in the market. This acquisition, along with a strong R&D focus (9% of sales), should lead to stronger organic growth rates. With revenue expected to grow at a near 10% rate in the long term, management has focused on improving margins in the next year and to maintian these in the long run. This should help to generate stronger EPS and FCF from the sales growth to provide the company with more capital as they continue their expansion efforts. For these reasons it is recommended that MKSI be added to the portfolio with a target price of $41.43, which offers an upside of about 23%. Additionally, MKSI currently offers a dividend yield of about 2%.

Investment Thesis

- **Acquisition of Granville-Philips.** MKSI recently completed the acquisition of Granville-Philips, a division of Brooks Automation in May 2014. Granville-Philips is a leading provider of vacuum measurement and control instruments to the semionductor industry with sales of approximately $30 million. The successful intergration of Granville-Philips should help drive revenue growth, further complementing MKSI's #1 position in direct gauges. Granville-Philips' operating margin of 28% should help to drive future margin growth, resulting in an increase to MKSI's bottom line.
- **Capital Deployment Strategy.** With FCF/Revenue of about 14%, MKSI has generated strong cash flows that help drive management's capital deployment strategy. MKSI's strategy consists

of three parts: dividends, stock repurchases, and M&A. MKSI initiated a dividend in 2011 and raised the rate in 2012 and 2014 - with plans to continue the dividend growth going forward. With cash flows expected to show consistent continued growth, the dividend payout of 2% will continue to be paid and complement MKSI's revenue growth. Another large part of the strategy is the continued focus on M&A. Management will seek acquisition opportunities for profitable growth and diversification into their advanced market segments. This focus will help grow MKSI's revenue both through acquisations and organically as the companies become fully integrated into the business.

- **Increase in Margins.** MKSI's management has put a focus on an improved operating model. This targeted model is expected to increase the forward outlook on margins by up to 2%. Once this level is reached it is expected to be sustained and will help provide better than expected bottom line growth for the long term. While the increase in operating margin is not expected to contiually increase year over year, the strong one time growth will help the profitablity of the company going forward.

Valuation

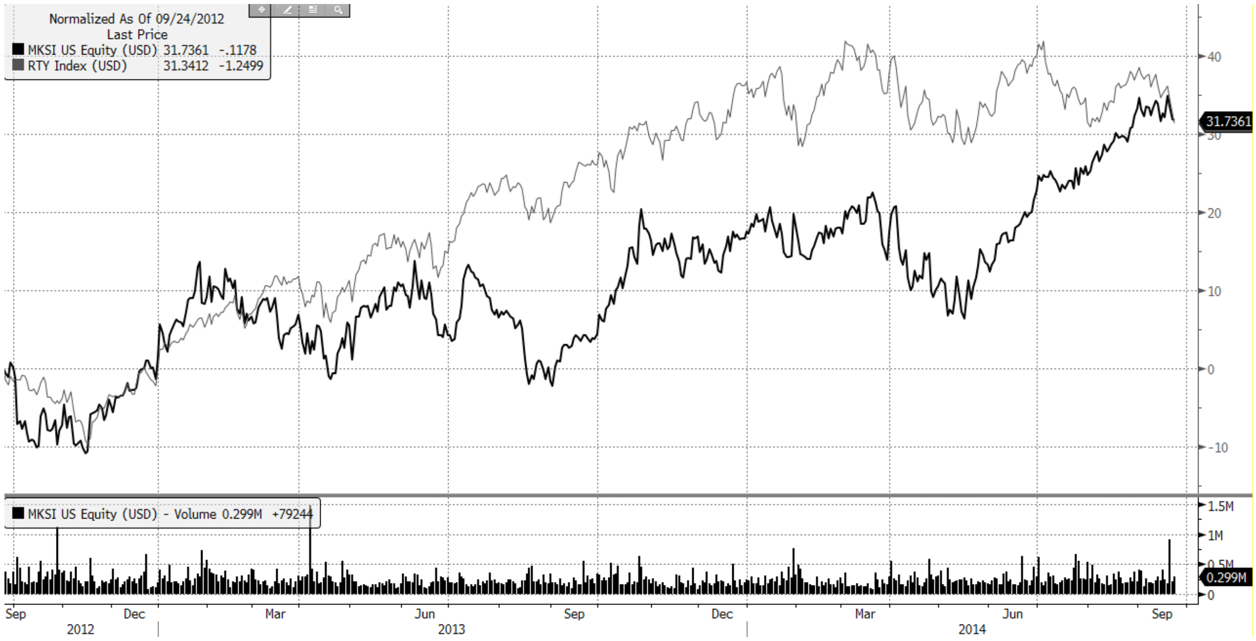
In order to reach an intrinsic value for MKSI, a five year discounted cash flow model was conducted. Using a terminal growth rate of 3.0% and a WACC of 9.82% resulted in a valuation of $44.28. Sensitivity analysis on both the terminal growth rate from 2.0-4.0% and WACC from 8.8-10.8% provided for a range of $40.80 and $48.95. Additionally, an EV/EBITDA valuation and a P/E comparison were conducted. Using an industry average EV/EBITDA multiple of 13.27x and MKSI's 2014 projected EV/EBITDA of 10.26x, a value of $43.38 was obtained. Using a projected 2014 P/E of 25.26x and a 2014E EPS of $1.32, a value of $33.78 was obtained. By weighing the DCF model 50%, the P/E multiple 25%, and the EV/EBITDA valuation 25%, a price target of $41.43 was established. MKSI pays a dividend of $0.66.

Risks

- **High Dependence on Certain Customers.** MKSI has a high dependence on their top customers as they have consistently represented a large portion of total sales. The top 10 customers accounted for 46%, 42%, and 41% of net sales for the years ended 2013, 2012, 2011, respectively. The loss of a major customer or any reduction in those orders would likely have an adverse effect on their business, financial condition, and results of operations.
- **The Industry is Subject to Rapid Demand Shifts.** The semiconductor industry is subject to rapid demand shifts which are often difficult to foresee, leaving the possibility that MKSI may not be able to increase capacity quick enough to respond to a rapid increase in demand. If MKSI is not able to expand their manufacturing capacity in a timely manner, they would miss out on the increased demand in the industry. If demand were to shift downward, then they would have high expense costs and could materially affect their operations.
- **Manufacturing Interruptions or Delays.** MKSI's business depends on its timely supply of equiptment, services, and related products that meet the rapidly changing technical and volume requirments of their customers. If manufacturing were to be interrupted or delayed, it could affect their ability to meet customer demand and lead to higher costs. The failure to estimate customer demand accurately could result in excess or obsolete inventory. Any of these factors could materially affect MKSI's business operations.

Management

Gerald Colella has been the CEO, Director, and President of MKS Instruments since January 2014. He joined MKSI in 1983 and has served as MKSI's President, COO, Vice President, and as a part of their global business team. Seth Bagshaw has served as the CFO, VP, and Treasurer of MKSI since 2010, after joining the company in 2006. John Bertucci is the Chairman of the Board of MKSI and has served as a director since 1974. He was previously CEO of MKSI from 1995-2005.



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
Dimensional Fund Advisors LP	3,559,724	6.71%
Vanguard Group, Inc	3,508,897	6.62%
BlackRock Fund Advisors	2,769,054	5.22%
Nuance Investments, LLC	2,280,691	4.30%
Fiduciary Management Inc.	1,930,351	3.64%

Source: Yahoo Finance

Associated Estates Realty Corp. (AEC)
October 3, 2014

Mark Messier | Domestic Financial Services

Associated Estates Realty Corporation (NYSE: AEC) is an independent real estate investment trust. It specializes in owning and managing apartment communities in the Midwest (43% of revenue), Mid-Atlantic (33%), Southeast (16%) and Southwest (8%) regions of the United States. AEC specializes in multifamily ownership, operating, acquisition, development, construction, disposition and property management activities. Its multifamily properties provide approximately 99.4% of its consolidated revenue in 2013. As of December 31, 2013, AEC's property portfolios consisted of 53 owned apartment communities containing 13,676 units in ten states. Associated Estates Realty Corporation is headquartered in Richmond Heights, Ohio and was founded in 1964.

Price 9/30/14 ($):	$17.68	Beta:	0.87	FY: Dec 31	2013A	2014E	2015E
Price Target ($):	$22.05	WACC:	7.77%	Revenue (MM)	181.48	186.20	199.23
52 WK L-H ($):	$14.29 - $18.87	M-Term Rev. Gr Rate Est:	6.67%	% Growth:	14.46%	2.60%	7.00%
Market Cap (MM):	$1,033.60	M-Term EPS Gr Rate Est:	13.16%	Operating Margin (%):	19.08%	19.29%	20.87%
Float (MM):	53.41	Financial Leverage:	2.32%	EPS ($):	1.17	2.69	1.21
Short Interest (%):	6.30%	ROA:	11.96%	P/E:	13.73	6.58	18.18
Avg 3 Month Vol:	315,245	ROE:	29.86%	BVPS ($):	10.44	10.81	11.10
Dividend ($):	$0.76	LT Debt/Equity (%):	44.29%	P/B:	1.54	1.64	1.99
Dividend Yield:	4.24%						

Recommendation

Associated Estates Realty Corporation has been able to maintain a high quality financial position since the 2007-08 housing crash. AEC has produced solid sustainable growth in recent years as shown by a 7% five-year CAGR in operating revenues, which is predicted to continue grow in forthcoming years. The firm has been able to generate this growth with its successful acquisition and disposition strategy. Operating income has seen a five-year CAGR of 8% and a YoY growth of 19% from 2012 to 2013. Operating margins have grown from 11.8% in 2011 to 19.1% in 2013 (730 bps improvement), supporting their revenue/expense strategy. Occupancy at AEC's properties is currently at 95.4%, which is in line with prior year figures, suggestive that the firm is able to purchase properties where demand is high, ultimately maximizing return. Specific metrics to AEC's business model include Funds from Operations (FFO) and Funds Available for Distribution (FAD). FFO has had a 5-year CAGR of 26% while FAD has had a 5-year CAGR of 32%. These measures suggest a solid business strategy and the ability of management to generate strong profits from its properties. Solidly profitable operations, higher expected future earnings and increasing FFO are all indicative factors that there is room to raise the dividend and drive total return moving forward. With AEC's unique market position and its ability to drive revenues, it is recommended that AEC be added to the AIM Equity Fund with a target price of $22.05, representing a potential upside of 25%. The firm does pay a dividend that presently yields more than 4%.

Investment Thesis

- **Well-Diversified Business.** AEC has been able to achieve attractive profitability levels due to its uniquely diversified business. AEC's diversification enables it to withstand fluctuations when certain regions experience poor market climates. AEC operates in 10 states, including Ohio, Michigan, Indiana, Maryland, North Carolina, Virginia, Tennessee, Florida, Georgia, and Texas. AEC in the past year has also expanded its reach a bit further by acquiring properties in San Francisco, California.
- **Rebounding Housing Market and Overall Economy.** Although AEC took a large hit during the housing crisis, it has and should continue to experience positive growth as the economy

continues to climb out of the 2008-09 recession. The S&P U.S. REIT Index experienced its low mark of 78.46 in March 2009. This index has since experienced solid growth and is currently at 270.70, an increase of 245%. According to the U.S. Bureau and Labor Statistics, unemployment rates have also come down considerably since the recession to 6.1%, ultimately providing for an increase in future housing market activity.

- **Positive Capital Markets Activity.** AEC is active in its acquisition and disposition strategy. This strategy has allowed the firm to purchase undeveloped and developed land in markets it sees as providing profitability and disposing of property in struggling markets. This strategy is proven, given the firms consistent 5-year improving net operating income margin. The firm's most recent activity includes 267 additional units in Charlotte, NC and a 50/50 joint venture opportunity with AIG Global Real Estate in San Francisco, CA for 410 additional units.

Valuation

To find the intrinsic value of AEC a price to book multiple was used, as well as a dividend discount model. The 5-year average historic price to book for AEC was 2.31x with its peer average being slightly higher with an average P/B of 2.88x. Weighting the historic average at 70% and the peer average at 30%, the P/B yielded an intrinsic value of $22.51. Based on a calculated cost of equity of 8.62% and a long-term growth rate of 3.0%, the DDM analysis yielded in an intrinsic value of $21.60. Weighting these valuations at 50% each, the final estimated intrinsic value of AEC is $22.05, which provides for a potential upside of 25%. The current annual dividend yield is in excess of 4%.

Risks

- **Inherent Risks of REIT Industry.** AEC is always under pressure due to potential changes in the economic climate in the markets in which the firm owns and manages properties, including interest rates, the overall level of economic activity, and the availability of consumer credit, mortgage financing, and unemployment rates. Rising interest rates can also have a negative impact on firms within the REIT sector.
- **Potential Government Intervention.** In the event that the federal government would tighten its regulations on GSE's, AEC could experience lower profitability. If the government were to eliminate or place limitations on its support for Fannie Mae and/or Freddie Mac, the availability of mortgage financing sources would decrease significantly, as well as increases in interest rates for mortgage financing.

Management

Jeffrey I. Friedman, Chairman, President and CEO, joined the Company in 1974. Mr. Friedman has served as Chairman and CEO of the Company since 1993. He has more than 40 years of real estate experience. He is a graduate of Leadership Cleveland and is active in several professional organizations, which include the National Association of Real Estate Investment Trusts (NAREIT), Chief Executives Organization, Urban Land Institute, and the National Multi-Housing Council. He is involved in both national and local civic and charitable organizations, including the Greater Cleveland Sports Commission and the Cleveland Clinic. Mr. Friedman was honored by Ernst & Young as an "Entrepreneur of the Year" in 2011.

Source: Yahoo! Finance

Ownership

% of Shares Held by All Insider and 5% Owners:	4%
% of Shares Held by Institutional and Mutual Fund Owners:	80%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Allianz Asset Management AG	3,618,206	6.28
City National Bank, City National Investments	3,387,929	5.88
Alliance Bernstein, L.P.	3,173,703	5.51
BlackRock Fund Advisors	3,025,710	5.25
BlackRock Institutional Trust Company	2,512,818	4.36

Source: Yahoo! Finance

Pzena Investment Management, Inc. (PZN)

October 3, 2014

Anne Wiesman — Financial Services

Pzena Investment Management, Inc. (NYSE: PZN) functions as an asset management firm founded in 1995. PZN offers its 15 long-term investment strategies to a global client base of sophisticated institutional investors, high net worth individuals, and select third party distributors. Investment strategies at PZN have a value-oriented approach and are generally classified into three different value strategies – U.S. Value (62%), Global Value (20%), and Non-U.S. Value (18%). As of August 31, 2014 PZN's assets under management (AUM) were $27.2 billion – which consists of both institutional (54%) and retail (46%) mutual funds and separate accounts. PZN has established a team-oriented investment strategy of 23 research analysts of which several also function as portfolio managers. PZN has 76 full time employees and is headquartered in New York City, NY.

Price ($): (9/29/14)	$ 9.56	Beta:	1.68		FY: Dec	2013A	2014E	2015E
Price Target ($):	$ 11.84	WACC	14.41%		Revenue (Mil)	95,769.00	115,019.10	124,273.16
52WK H-L ($):	12.73-6.44	M-Term Rev. Gr Rate Est:	0.11		% Growth	25.55%	20.10%	8.05%
Market Cap (mil):	630.8	M-Term EPS Gr Rate Est:	0.19		Pretax Margin	51.19%	53.73%	55.12%
Float (mil):	11.8	Financial Leverage	0.0%		EPS (Cal)	$ 0.45	$ 0.63	$ 0.78
Short Interest (%):	2.32%	ROA:	9.2%		P/E (Cal)	19.30	18.78	15.11
Avg. 3 Month Vol:	29,705.00	ROE:	43.1%		BVPS	$ 0.25	0.32	0.41
Dividend ($):	0.12				P/B	46.70	37.20	29.09
Yield (%):	1.3%							

Recommendation

PZN produced solid AUM growth over the past 5 years with a CAGR of nearly 51%. The first half of 2014 continued to provide growth for PNZ's AUM with an annualized 2014 growth rate of 16%. AUM growth is the result of market performance and positive client investment flows. Market performance is a reflection of strategy performance with 14 of PZN's 15 strategies beating their benchmark since inception on a net annualized return basis. Strong fund performance increased PZN's profile as a potential manager among consultants, which has given rise to a growing client pipeline. Earlier in 2014 PZN signed a contract with Vanguard to sub-advise its Mid Cap Value space, which is expected to result in increased flows. PZN reported growth for the third quarter thus far and positive net flows for the quarter in addition to market appreciation are anticipated. While PZN has seen significant growth over the past 5 years, it is important to note PZN's focus on sustainable growth. Additionally, PZN witnessed FCF increase at a 5 year CAGR of 72%. PZN distributes a portion of FCF in a special yearly dividend payable in the first quarter of their fiscal year. As a result of PZN's investment culture and growth pipeline, in combination with a favorable valuation, it is recommended that PZN be added to the AIM Equity Fund with a target price of $11.84, representing nearly 24% upside. It should also be noted that PZN pays a quarterly dividend of $0.03 as well as a special dividend.

Investment Thesis

- **Investment Culture.** PZN employees 76 fulltime employees, of which 23 are investment professionals serving as research analysts. Each analyst is assigned a specific industry and/or particular companies to follow. However, analysts' coverage responsibilities rotate every 3 to 4 years in order to ensure a fresh perspective on industries and the long-term success of the strategies. Each strategy has three portfolio managers (who also act as analysts), who jointly make decisions but individually possess veto power. Weekly meetings are conducted between analysts and PMs (and are open to all PZN employees) in which potential new holdings are discussed and debated. Daily meetings between PMs, analysts, traders, distribution personnel and back office administrators also take place to communicate trading strategies and to discuss any developments in current holdings. This fosters a strong investment culture across the entire company, which is critically important to PZN's long term success.

- **Growth Pipeline.** PZN's strong investment has performance triggered an increase in PZN's customer pipeline. This is a result of being ranked more highly in consultant rankings, creating broader industry recognition and fostering more wins client wins. PZN's sub advisory business is growing, which is generating increased flows, primarily from the relationship with Vanguard. Additionally, PZN recently began establishing offices and relationships outside of the USA in an attempt to gain more international clients. While PZN places strong emphasis on growing assets, it is important to understand their dedication to sustainable growth. For this reason PZN will close strategies to potential new investors in order to maintain the integrity of a fund.
- **Product Development.** A major component of PZN's growth resulted from the launch of new products. PZN is open to launching new strategies – but only if they believe it will add value to a client's portfolio. Therefore, PZN chooses to incubate new products for anywhere from 1 to 5 years. Incubation allows PZN's investment professionals the ability to refine their investment process and test the strategy before making it available to new clients. As of 2013 PZN was incubating several new products. They believe these new investment vehicles will be valuable to new investors and will provide new AUM growth.

Valuation

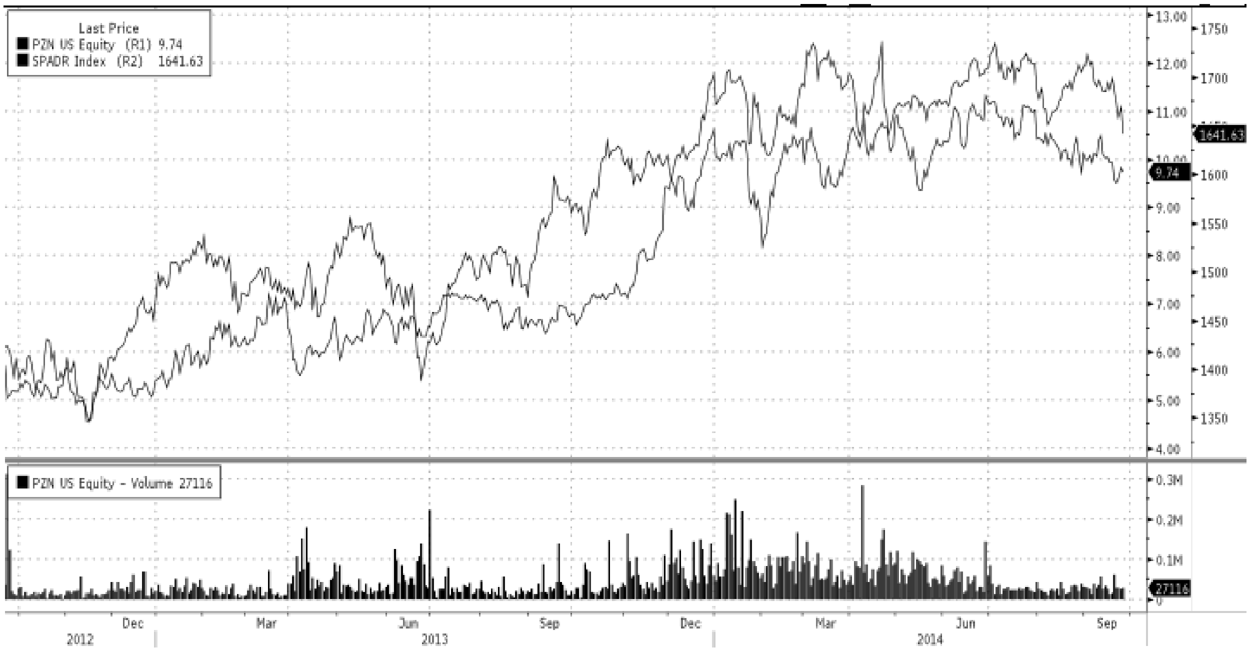
In order to reach an intrinsic value for PZN a 5 year DDM as well as a price-to-earnings multiple model were employed. Using a terminal dividend growth rate of 2.5% and a cost of equity of 14.41% resulted in a valuation of $6.47. A sensitivity analysis performed on both the terminal dividend growth rate as well as the cost of equity resulted in a price range of $5.60 to $7.69. A P/E multiple model using the 5 year historical averages of 6 of PZN's competitors (50%) as well as PZN's five year historical average (50%) resulted in an average multiple of 24.45x. A combination of the multiple and PZN's 2014 EPS estimate of $0.63 resulted in a price of $15.42. Weighting the DDM 40% and the P/E model 60%, a target price of $11.84 was established. PZN pays both a quarterly dividend as well as a special dividend.

Risks

- **Termination of Relationships.** As of 2013 four client relationships represented 43% and 25% of AUM and revenue respectively. Client relationships can be terminated at anytime on relatively short notice. There is no assurance that client relationships will continue and could be redeemed for a number of reasons including but not limited to fee structure, fee rates, and adverse relative market performance of the PZN's strategies.
- **Resignation of Talent.** Investment professionals drive the long-term success of any asset management firm as they are the key factor in producing fund performance. Resignation of investment professionals can adversely affect strategy performance. PZN takes many steps to ensure professionals will not leave PZN for another firm, including the forfeiture of class B stock held. However, while this is a deterrent, there is no guarantee employees will not leave.
- **Underperformance.** ETFs and other passive investment strategies put a great deal of pressure on active management to generate performance above their benchmarks. Underperformance relative to the benchmark could cause attrition rates to increase as clients move to products with a lower fee base.

Management

Richard Stanton Pzena is the founder, chairman, CEO, and Co-CIO of PZN. Mr. Pzena also serves as a portfolio manager and analyst for PZN. Prior to founding PZN Pzena served as an equity analyst at Stanford C. Bernstein & Co., LLC. John Paul Goetz serves as the president, Co-CIO, and director of PZN. Goetz joined PZN in 2005.



Source: Bloomberg

Ownership

% of Shares Held by All Insider and 5% Owners:	10.02%
% of Shares Held by Institutional & Mutual Fund Owners:	66.38%

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
Punch & Associates, Inc.	1,345,650	10.07
Cacti Asset Management LLC	721,650	5.40
Despirito III Antonio	683,563	5.12
Wasatch Advisors Inc.	587,413	4.40
Systematic Financial Management	547,895	4.10

Source: Bloomberg

Industrias Bachoco, S.A. (IBA)
October 3, 2014

Mariano Sanz International Consumer Staples

Industrias Bachoco, (NYSE: IBA) through its subsidiaries, operates as a poultry producer in Mexico and the United States. Its main business lines are chicken (80% of revenue), eggs (9%), balanced feed (6%), and swine, turkey and beef value-added products (5%). The company sells its products to wholesalers, retailers, supermarkets, and food-service operators. IBA reports its sales by country, with Mexico accounting for 80% of the total revenue and the United States (20%). Industrias Bachoco owns and manages more than a thousand farms, organized in 9 production complexes and 64 distribution centers in Mexico, and a production complex in the United States. The firm was founded in 1952 and is headquartered in Celaya, Guanajuato located in Central Mexico. IBA currently employs more than 25,000 people.

Price ($): (10/02/2014)	58.06	Beta:	0.654	FY: August	2013A	2014E	2015E
Price Target ($):	71.83	WACC	7.60%	Revenue (Mil)	3,033.70	3,045.93	3,323.72
52WK H-L ($):	61.68-37.896	L-Term Rev. Gr Rate Est:	2.70%	% Growth	-0.82%	0.40%	9.12%
Market Cap:	2.90B	L-Term EPS Gr Rate Est:	3.11%	Gross Margin	16.46%	20.53%	19.60%
Float (mil):	24.01	Debt/Equity:	29.38%	Operating Margin	8.24%	11.50%	10.90%
Short Interest (%):	0.08	ROA:	6.23%	EPS (Cal)	3.12	4.77	4.96
Avg. Daily Vol:	19,194	ROE:	8.35%	FCF/Share	3.13	4.79	4.97
Dividend ($):	0.92			P/E (Cal)	19.39	17.79	16.18
Yield (%):	1.10%			EV/EBITDA	7.35	6.68	6.08

Recommendation

Industrias Bachoco is one of the largest global poultry producers. During the last decade, the company has become the leader in the Mexican poultry industry with a market share of 35%. The company has improved its operational efficiencies due to its vertical integrations of operations. For instance, they now own all of their supply chain processes. Furthermore, the technology and the advanced logistics network implemented in their production facilities provide them with an operating margin of 11.50%, which is better than their competitors; Tyson Foods (4.23%) and Pilgrim Foods (9.72%). One of the competitive advantages of the company is its large geographical coverage in Mexico. It has more than 1000 facilities strategically distributed across the country. This allows the firm to focus on servicing customers nationwide, while competitors' facilities tend to be only located near major urban cities. IBA has been successfully expanding its operations into the United States through the acquisition of OK Industries in 2011. This acquisition has demonstrated to yield positive benefits to shareholders as it has been vertically integrated with IBA operations in Mexico. Currently, the company estimates that it has approximately 2% of the market share in the US poultry industry. Overall, 2014 has been a good year for the company. In 2Q14, sales volume increased 6% YoY, due to a decrease in the selling price of the company's products, which was driven by lower production costs. The positive impact on total sales was an increase of 0.6% in 2Q14. Because of these reasons, it is recommended that Industrias Bachoco be added to the AIM International Fund with a target price of $71.83, representing a potential upside of 23.72%. The company offers a dividend of 1.10%.

Investment Thesis

- **Organic Growth in Mexico**. Historically, IBA has grown volume sales around 4% annually, which is faster than the overall poultry industry in Mexico, which currently grows at 2%. Mexican reforms are attracting about USD $50 billion potential investments in infrastructure projects that could boost economic activity. As a result, the company estimates that this will make poultry consumption grow at rates between 3-4% annually. Furthermore, Mexico chicken consumption per capita in 2013 was 28 kilos, lower than similar countries such as Argentina, Chile and US (39, 37, and 42 kilos respectively). For this reasons, management expects sales to grow at an organic rate of 3-4% in Mexico in the coming years.

- **International Expansion**. In June 2014, Bachoco's CFO declared that the company is exploring acquisition opportunities in the United States. IBA's solid financial structure, which is reflected in its strong free cash flow generation and low levels of debt (6% of capital structure), gives the company the ability to pursue M&A opportunities aggressively. Therefore, an acquisition is highly possible in 2015, which may boost volume sales by 9-11%.
- **Stable Operating Margin**. IBA's vertical integration in its operations and its sophisticated distribution network allows them to be the lowest cost producer in Mexico, therefore enjoying higher margins than competitors. Furthermore, operating margins in this industry are dependent on the cost of grains, especially corn. According to the US Department of Agriculture, corn crops worldwide are increasing, and harvest techniques have improved productivity in the farms. For these reasons, management believes that operating margins should remain stable around 10.90% in the coming years.

Valuation

In order to reach an intrinsic value for IBA a five year discounted cash flow model was conducted using a terminal growth rate of 1.5% and a WACC of 7.6%. This resulted in a valuation of $84.45. Sensitivity analysis of both the terminal growth rate and WACC provided for a range between $78.34 and $91.84. Relative valuation methods using P/E and EV/EBITDA multiples were also conducted using a median peer multiple P/E of 13.50x and EV/EBITDA of 7.58x. Weighting these three valuations 60%, 20%, and 20% respectively, a price target of $71.83 was established, which provides a potential upside of 23.72%. The company pays a dividend with a yield of about 1.10%.

Risks

- **Sanitary Risks.** Operations in both Mexico and the US depend on raising animals and meat processing, which are subject to risks such as diseases and contamination during production, packaging, storage or distribution processes. Live chickens and swine are susceptible to infections by a variety of microbiological agents that may result in higher mortality rates. Currently, there are over 140 poultry diseases registered, which could potentially damage inventories, margins and profits.
- **Volatility in Raw Material Prices.** The poultry industry worldwide is sensitive to price changes in raw materials, such as corn, soybean meal and sorghum. The prices of these ingredients can be impacted by weather, the size of harvests, transportation and storage costs, governmental agricultural policies, currency rates and other factors.

Management

Francisco Javier R. Bours Castelo, member of the founder's family, has been the Chairman of the Board of Directors since 2002. Before his election as Chairman, he was Vice-Chairman for several years and has been a member of the board since 1982. Mr. Bours has deep expertise in the agricultural industry and currently serves as Chairman of the Boards of Directors of the following companies: Agriexport S.A. de C.V., Acuicola Boca, S.A. de C.V., and Centro de Servicios Empresariales del Noroeste, S.A. de C.V. Mr. Rodolfo Ramos Arvizu has been Chief Executive Officer of the company since October 2010. Mr. Arvizu served as Director as well as Director of Production of Industrias Bachoco S.A. de C.V and served as its Technical Director since 1992. He joined the company in 1980.

Ownership

# of Shares Held by All Insider and 5% Owners:	73.25%
# of Shares Held by Institutional & Mutual Fund Owners:	8.22%
	Source: Thomson One

Top Five Shareholders

Top Five Shareholders	Shares	%Out
Royce Low-Priced Stock Fund	365,606	0.73
Legg Mason US Smaller Companies Fund	130,040	0.26
Legg Mason Royce Smaller Companies Fund	125,005	0.25
Royce Pennsylvania Mutual Fund	122,586	0.25
Royce Global Value Fund	90,000	0.18
		Source: Thomson One

Interval Leisure Group (IILG)
October 3, 2014

Mary McNellis Domestic Consumer Discretionary

Interval Leisure Group (NASDAQ: IILG) is the leading global provider of membership and leisure services to the vacation industry. IILG operates in two segments: Membership and Exchange (73% of revenue) and Management and Rental (27%). The Membership and Exchange segment offers travel-related products and services to owners of vacation interests and resort developers through its membership programs. The Management and Rental segment provides rental services to hotels, condominiums, timeshares and vacation property owners as well as homeowners' association management services. The firm was founded in 1976 and incorporated in May 2008 as a spin-off from InterActive Corp. IILG is headquartered in Miami, Florida.

Price ($):	20.80	Beta:	1.19	FY: Dec 31	2013 A	2014 E	2015 E
Price Target ($):	$ 24.22	WACC:	9.54%	Revenue ($mil)	501.22	572.40	636.66
52 WK H-L ($):	32.13-18.96	M-Term Rev Gr. Rate Est:	5.0%	% Growth	6%	14%	11%
Market Cap (mil):	1,158	M-Term EPS Fr. Rate Est:	6.0%	Gross Margin	64.2%	57.8%	54.7%
Float (mil):	38	Debt/Equity:	73.48%	Operating Margin	26.5%	23.8%	23.3%
Short Interest (%):	5.18%	ROA (ttm):	7.91%	EPS (Cal)	1.42	2.02	2.20
Ave Daily Vol:	315,474	ROE (ttm):	22.98%	FCF/Share	$ 1.89	$ 2.76	$ 2.65
Dividends ($):	$0.11			P/E (Cal)	14.3	10.3	9.4
Yield (%):	2.17%			EV/EBITDA	12.9	12.5	11.7

Recommendation

IILG is a multifaceted enterprise that is strongly positioned to compete in the evolving hospitality industry as it develops into a comprehensive provider of vacation services. As a leading exchange operator, IILG serves holders of vacation ownership interests through its Membership and Exchange (M&E) segment. Its principal exchange, Interval International, boasts 1.8 million members, including 2900 resorts in 80 nations across the globe. These exchanges maintain a 90% retention rate because they offer flexibility and increased destination choices. While M&E has historically been the firm's principle segment, long-term industry trends point toward consolidation. An additional headwind to this segment is the trend toward exclusive resort exchanges among developers. To remain competitive in this evolving marketplace, IILG is optimizing its service to resort developers and homeowners through its fee-for-service Management and Rental (M&R) segment to add growth platforms and to increase their fee-for-service revenues. The 2013 acquisitions of Aqua and VRI Europe broaden the company's footprint in the shared ownership space with additions of 55 and 180 resorts under management respectively. The announcement of its Q4 2014 acquisition of Hyatt Residential Group reinforces this diversification initiative and adds growth platforms for marketing and sales. The M&R segment has posted a 29% revenue CAGR over the last 3 years and now comprises 40% of Q2 2014 revenue compared to 23% last year, illustrating the company's pace to become a comprehensive vacation system provider. Currently, this market is a duopoly dominated by IILG (32%) and its counterpart, RCI (67%), a segment of Wyndham Worldwide. IILG distinguishes itself from RCI with a higher income consumer base ($102k versus $73k annually) and lack of a resort development arm, making it more attractive to higher quality resort affiliates. IILG serves a unique niche in the recovering hospitality industry and benefits from recurring revenue from its fee-for-service model, established exchange network and strategic position limiting exposure to industry headwinds. It is recommend that IILG be added to the the AIM portfolio with a price target of $24.22, which represents 16.5% upside. IILG offers a 2.2% dividend yield.

Investment Thesis

- **Competitive Advantage in Attracting Affiliate Agreements Against RCI.** Unlike its counterpart, IILG does not operate a competitive Resort Development segment, thus making it a more attractive affiliate for Resort Developers. This has led to long-standing relationships with quality-tier resort developers and branded hospitality companies including Hyatt, Sheraton, Four Seasons, Marriott, Westin and several other resorts. These affiliation agreements are protected with greater than a seven year average contract term and further serve to attract a higher income consumer base.

- **Acquisition of Hyatt Residential Group in Q4 2014.** The acquisition of Hyatt Residential Group (HRG) will bring IILG 16 desirable vacation properties and the branded name and existing management of the Hyatt Residence Club, HRG's timeshare exchange program consisting of 30,000 members. Management anticipates this acquisition to add $20-$25MM to EBITDA in 2015 as well as a growth platform for marketing and sales of vacation ownership interests within its M&R segment.
- **Exposure to Growth in Hawaiian Tourism.** The acquisitions of Hawaii-based Aston, Aqua and especially the acquisition of the joint venture interests from HRG in a 131-unit Maui development project make Hawaii the largest market for the M&R Segment. This will greatly increase exposure to Hawaiian tourism. The August tourism report indicates increases in visitor spending by 2.6% and arrivals by air of 2.4%. This growth is reflected by an increase in 8% revenue per available room at Aston and Aqua for the island.

Valuation

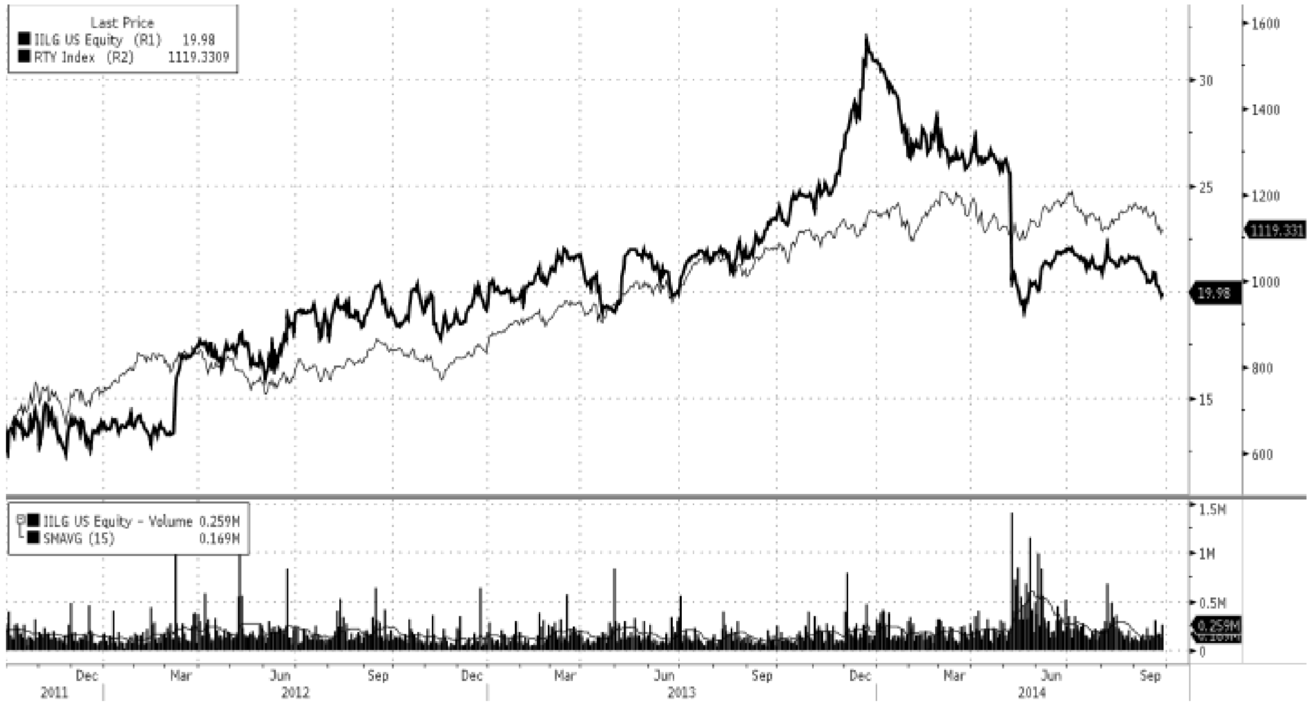
In order to reach an intrinsic value for IILG, a five year discounted cash flow model was conducted. Using a terminal growth rate of 2% and a WACC of 9.54% resulted in a valuation of $23.77. Sensitivity analysis on both the terminal growth rate and WACC provided for a range between $19.33 and $33.60. Additionally, a historical and peer P/S and EV/EBITDA comparison were conducted resulting in price targets of $27.66 and $21.69, respectively. By weighting the DCF valuation at 50%, and the P/S and EV/EBITDA multiple comparisons at 25% each, a price of $24.22 was reached, representing 16.5% upside.

Risks

- **Continuing Margin Compression Due To Consolidating Vacation Industry.** IILG is facing compression of its margins due to residual impacts of the economic recession. The industry is consolidating and renovating under the power of large corporate names. The impact of this on IILG is that the mix shift of its membership services has shifted towards more corporate memberships that offer a tighter margin. IILG's expansion into international markets will attract more traditional customers to partially offset this mix shift, but the company expects continual compression of margins in the near-term.
- **Industry Trend Toward Resort Development of Exchange Programs.** Developers are increasingly operating as self-contained vacation systems that compete with IILG's M&E segment. Should the next generation of timeshare buyers prove to be more interested in a closed club system, this segment could suffer considerably.
- **Largest Competitor Has Larger Financial and Marketing Resources.** IILG's largest competitor, RCI, is a segment of Wyndham Worldwide Inc. The large corporate affiliation provides greater financial resources to RCI, positioning it strongly to make new vacation ownership purchases. Should RCI utilize these financial resources and make more frequent and favorable affiliations, IILG would be negatively impacted.

Management

Craig M. Nash has served as President, CEO and Chairman of the Board since 2008. After joining the company in 1982, he served in increasingly significant roles within Interval. Similarly, Jeannette Marbert assumed the role of COO in 2008 after serving in various management capacities within Interval after her hire in 1999. The management team boasts an impressive 125 years of combined experience at IILG.



Ownership	
% of Shares Held by All Insider and 5% Owners:	2.66%
% of Shares Held by Institutional & Mutual Fund Owners	72.20%
	Source: Bloomberg

Top 5 Shareholders

Holder	Shares	Out%
Liberty Media Corp	16,643,958	29.15%
Blackrock	4,106,565	7.19%
Bamco, Inc	3,735,435	6.54%
Wells Fargo & Company	3,287,793	5.76%
Weitz Wallace R & Company	3,092,687	5.42%
	Source: Bloomberg	