Applied Investment Management (AIM) Program

AIM Class of 2014 Equity Fund Reports
Fall 2013

Date: Tuesday, October 29, 2013
Road Show Locations: *3 pm at Driehaus Capital Management LLC and 5 pm at the Marquette Chicago CIRCLES in The Union League Club*

Student Presenter	Company Name	Ticker	Price	Page
Mona Syed	Shire PLC	SHPG	$122.41	2
John Osborne	Allegiant Travel Company	ALGT	$106.29	5
Sean Morrissey	Applied Industrial Technologies	AIT	$51.83	8
Ryan Bailey	Tata Motors	TTM	$30.46	11
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We appreciate the opportunity to take an AIM 'road show' to Driehaus Capital Management LLC and the Marquette Chicago CIRCLES event. 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. Again, thank you for allowing us the opportunity to present at Driehaus and the Marquette Chicago CIRCLES event.

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Shire PLC (SHPG)
October 29, 2013

Mona Syed International Healthcare

Shire PLC (NASDAQ: SHPG) is a biopharmaceutical company that researches, develops, manufactures, sells, and distributes pharmaceutical products. The company operates in three business segments: Specialty Pharmaceuticals (SP), Human Genetic Therapies (HGT), and Regenerative Medicine (RM). The company's biggest revenue source is their products for the treatment of attention deficit and hyperactivity disorder (ADHD). Additionally, the company offers products for behavioral health, gastrointestinal treatment, and other therapeutic areas. Shire PLC markets its products directly to government hospitals, clinics, pharmacies, and other agencies through wholesalers and distributors. The company primarily operates in North America, the United Kingdom, the Republic of Ireland, in addition to other locations around the world. Shire PLC was founded in 1986 and is headquartered in Dublin, Ireland.

Price ($): (10/24/13)	$ 122.41		Beta:	0.65		FY: Dec	2012 A	2013 E	2014 E
Price Target ($):	$ 143.17		WACC:	5.97%		Revenue ($mil)	$ 4,648	$ 4,985	$ 5,651
52 WK H-L ($):	124.96-81.76		M-Term Rev Gr. Rate Est:	8.5%		% Growth	7%	10%	13%
Market Cap (bil):	$ 22.43		M-Term EPS Fr. Rate Est:	9.7%		Gross Margin	86%	87%	87%
Float (mil):	182.94		Debt/Equity:	103.7%		Operating Margin	27%	29%	33%
Short Interest (%):	N/A		ROA (ttm):	10.64%		EPS (Cal)	3.17	3.49	3.94
Ave Daily Vol (3m):	360,112.00		ROE (ttm):	15.90%		FCF/Share	$ 1.71	$ 1.85	$ 2.37
Dividends ($):	$ 0.18					P/E (Cal)	38.55x	39.24x	39.87x
Yield (%):	0.10%					EV/EBITDA	14.08x	14.70x	15.32x

Recommendation

Shire PLC is a company that offers a high potential for growth. As our current healthcare holdings are made up of healthcare giants that already dominate a large market share, Shire can offer a position of growth. Providing a wide range of treatments in Neuroscience, Rare Diseases, Gastrointestinal, Internal Medicine and Regenerative Medicine, Shire is placed well to increase its share of the pharmaceutical market. Shire's growth strategy focuses on developing and marketing innovative specialty medicine for symptomatic conditions to meet significant patient needs that have gone unmet. Shire's strategic priorities are to drive optimum performance of existing products by enabling access to treatments for current patients as well as building a pipeline through their research & development and business development divisions to deliver access to future patients. Because of these reasons and a favorable valuation, it is recommended that SHPG be added to the AIM International Equity Fund with a target price of $143.17, which offers a potential upside of 17%.

Investment Thesis

- **Newly Approved Vyvanse.** While drug treatment is not appropriate for all patients, it is estimated that approximately 10 million adults over the age of 18 have ADHD in the US. The US FDA recently approved Vyvanse in treatment of ADHD patients; Vyvanse is the only stimulant approved for treatment in children, adolescents, and adults with ADHD and has an edge over other drugs as it releases the active ingredient slowly into the bloodstream, making it long acting. Vyanse is predicted to earn Shire close to $300 million in revenue.
- **Strategic Acquisitions.** Shire has been working to improve its product pipeline, one method to do this has been through strategic acquisitions. Last year, Shire acquired FerroKin BioSciences, Inc., targeting the company's clinical trial iron chealator treatment (SPD602) to develop Shire's hematology business. Shire also acquired Pervasis Therapeutics last year, targeting Vascugel, providing the company with a new cell-based technology platform. Both drugs have been designated orphan status in the US and Europe, meaning that the FDA's Office of Orphan Products Development will advance the evaluation and development of these products as they

demonstrate promise for the treatment of rare diseases. Shire is also currently in the running against Sanofi to acquire ViroPharma, a company earning Zacks #1 Rank, targeting its Cinryze treatment for hereditary angioedema.

- **Potential Gain of European Market Share.** As Europe is still recovering economically, an Irish company might be a red flag. But in terms of pharmaceutical revenues, Ireland is the only of one of the five GIIPS markets to have projected sales increasing after 2011. As the majority of Shire revenues come from North America and the company has not yet penetrated the European market, there is a high potential for increase in market share. While many European countries, primarily Italy, are reluctant to accept prescription ADHD medication, there are countries such as Germany where critics argue the disease is overly diagnosed.

Valuation

In order to reach an intrinsic value for HNRG, a ten year discounted cash flow model was conducted.
To reach an intrinsic value for SHPG, a five year discounted cash flow model was conducted. Using a terminal growth rate of 3% and a WACC of 5.97% resulted in a valuation of $135.80. Additionally, a EV/EBITDA comparative valuation was analyzed. Calculating an industry average EV/EBITDA multiple of 10.76x and a 2013 expected EV/EBITDA multiple of 15.13x, a value of $150.42 was obtained. By weighing the DCF model and EV/EBITDA comparative model equally, a price target of $143.17 was obtained, representing a 17% upside. SHPG offers a 0.10% dividend yield.

Risks

- **European Stigma Around ADHD.** Shire's revenues from ADHD drugs are its biggest sector and therefore it is necessary that we monitor these revenues closely. 90% of the company's ADHD drug sales come from the US, where the illness is diagnosed close to 25 times more often than in the UK. Pharmaceutical companies have noticed that while attitudes are not uniform throughout Europe, many parents, teachers, and even doctors are resistant to treatment involving medication when behavioral problems are present in children.
- **Generics.** As with any pharmaceutical company, investors should be weary of patent expiration on blockbuster drugs, including Vyvanse. The ADHD medication Adderall was a major source of revenue for Shire; when the drug came off patent in 2012 however later that year Shire began selling authorized generic versions of Adderall to Teva and Impax while continuing sales of the branded version.
- **Litigation.** Within the past year Shire has been involved in numerous litigation issues: against Teva regarding patent infringement concerning Intuniv; against Actavis, Watson, Anchen, and TWi regarding the same drug; against their previous executive Jeff Jonas regarding age discrimination; as well as a suit filed on belaf of California Adderall regarding Shire's drug patent.

Management

Flemming Ornskov, MD, assumed the position of Chief Executive Officer fairly recently, in April of this year and has been a board member since January of this year. New to the company, Ornskov brings operational and medical knowledge as well as a background in international, strategic, and operational experiences in the pharmaceutical sector. He was previously a Chairman of Evotec AG and a Director of PCI Biotech Holding ASA. He was the Chief Marketing Officer and global Head of Strategic Marketing for General and Specialty Medicine at Bayer. Previous to that he was the Global President of Pharmaceuticals and OTC at Bausch & Lomb, Inc. He also has experience at Life-Cycle Pharma A/S, Ikaria, Merck, and Novartis AG. He earned a Master of Public Health from Harvard, his MBA from INSEAD, and his MD from the University of Copenhagen. Shire's Chief Financial Officer is Graham Hetherington who has been CFO and a member of the Board since July 2008.

Source: Yahoo! Finance

Ownership	
% of Shares Held by All Insider and 5% Owners:	0%
% of Shares Held by Institutional & Mutual Fund Owners	18%

Source: Yahoo! Finance

Top 5 Shareholders		
Holder:	Shares	% Outstanding
Goldman Sachs Group, Inc.	3,256,944	1.74
Paulson & Company, Inc.	2,843,500	1.52
Waddell & Reed Financial Inc.	1,658,497	0.88
Invesco Ltd.	1,564,594	0.83
Janus Capital Management, LLC	1,515,904	0.81

Source: Yahoo! Finance

Allegiant Travel Company (ALGT)
October 29, 2013

John Osborne Domestic Industrials

Allegiant Travel Company (NASDAQ: ALGT), through its subsidiaries, operates as a leisure travel company in the United States. It provides scheduled air transportation on limited frequency nonstop flights between small city markets and leisure destination. The company also provides air-related services and products in conjunction with air transportation, including use of its call center for purchases, baggage fees, advance seat assignment, travel protection products, change fees, priority boarding, food and beverage purchases on board, and other air-related services. In addition, it offers third party travel products, such as hotel rooms, ground transportation, and attractions. Further, the company provides air transportation through fixed fee agreements and charter service on a seasonal and ad-hoc basis. Allegiant Travel Company was founded in 1997 and is headquartered in Las Vegas, Nevada.

Price ($) (10/24/13)	106.29	Beta:	0.71	FY: December	2012A	2013E	2014E
Price Taget ($):	128.79	WACC	9.2%	Revenue (Mil)	909	1,030	1,132
52WK Range ($):	65.93-109.72	M-Term Rev. Gr Rate Est:	10.0%	% Growth	16.60%	13.35%	9.92%
Market Cap:	2.0B	M-Term EPS Gr Rate Est:	7.0%	Gross Margin	39.80%	40.87%	41.02%
Shares Oustanding	18.9M	Debt/Equity	37.7%	Operating Margin	14.56%	16.40%	19.00%
Short Interest (%):	5.1%	ROA:	10.5%	EPS	$4.62	$4.91	$5.29
Avg. Daily Vol:	101.45K	ROE:	20.9%	FCF/Share	2.67	2.67	3.01
Dividend ($):	N/A	ROIC	16.7%	P/E (Cal)	23.35	24.87	22.24
Yield (%):	N/A			EV/EBITDA	8.86	9.72	9.16

Recommendation

Instead of focusing on the business traveler, which most of the competition does, Allegiant focuses on the leisure traveler, selling directly to the consumer with no intermediaries. It's different and very profitable as a result. Revenues come from three sources: regularly-scheduled flights, fixed-fee customers from Harrah's and ancillary revenue from the sale of hotel rooms, rental cars and other travel-related business. The company's diversified revenue model works because of its backward nature. From 2011 to 2012, Allegiant Travel was rising over 78% in a little over a year. ALGT does not sell tickets through Expedia, Travelocity or any other travel website. Tickets can only be purchased via their website, over the phone or at a ticket counter. This equates to less expenses. ALGT focuses on markets where competitors will find it difficult to enter. The bigger airlines will have to accept losing money in these markets if they want to compete for market share. Of the 161 routes it flies, only 10 routes have competition. Shares have already jumped over 100% year-over-year. A 15% jump in travelers and a 13% increase in customer revenue has also occurred. Its load factor , an industry yardstick measuring the number of seats filled, jumped jumped from 86.9% to 90.8% during 4Q 2012 and has stayed consistent thus far in 2013. After having consistent profitability in a volatile airline industry, a strong financial position and opportunity to expand, it is recommended that ALGT be added to the AIM Domestic Equity portfolio with a price target of $128.77, which has a potential upside of 20.3%.

Investment Thesis

- **Company Diversification.** Allegiant Travel Company has added new air related fees in order to increase revenues in 2013. They introduced a carry on bag fee in April 2012 that has increased total bag fees per passenger +93% YoY. They are also coming out with a new loyalty program and co-branded credit card by the end of this year. Their third party products have continually done well over the past five years and management only sees that continuing to grow. They just introduced bundled vacation packages that gives the customer a wholesale price for hotel and a rental car. 94% of FY2013 sales thus far have come through their website. They had over 29 million website visitors in 2012 and it is projected for that number to double by the end of 2013.

- **Strong Financial Position.** As of December 31, 2012 they had $352.7 million of unrestricted cash, cash equivalents and investment securities, total debt of $150.9 million and very strong debt to total capitalization ratio. Their ability to generate operating cash flows with their capital structure has allowed them to grow profitability with generation of net income in twn consecutive years. They believe they have more than adequate resources, with their current liquidity position and future financing opportunities, to invest in the growth of their fleet, information technology infrastructure and development, while also meeting their short-term obligations.
- **Growing Aircraft Fleet with Low Ownership Cost.** During 2012, they announced contracts under which they will add used Airbus equipment to their fleet. As of February 1, 2013, they have contracted to purchase seven A320 aircraft (with two additional aircraft expected to be under contract in the near future) and entered into operating lease agreements to lease nine A319 aircraft. These Airbus aircraft will allow for low aircraft ownership costs consistent with their very distinct business model.

Valuation

In order to reach an intrinsic value for ALGT, a ten year discounted cash flow model was conducted. The firm's current WACC of 7.2% was given a 200 bps safety margin that is more in line with industry averages, resulting in 9.2%. The DCF model generated an intrinsic value of $129.88.85 per share. An EV/EBITDA multiple approach was also used with a peer multiple of 8.86x; resulting in an intrinsic value of $131.51. A P/E multiple also was used with a peer multiple of 23.35x; producing an intrinsic value of $123.81. Weighing the three values 50/25/25 respectively, a price target of $128.77 was established, representing a 20.3% upside. ALGT does not pay a dividend.

Risks

- **Negative Economic Condititions Hurts Business.** The U.S. Economy continues to be impacted by high unemployment and other factors which may reduce the wealth and tighten spending of customers. Leisure travel is aligned with discretionary spending and it is uncertain to what extent the continuance of these current economic conditions will affect consumers and leisure travel in the future. These conditions could impact demand for airline travel in their small city markets or to their leisure destinations.
- **Increases in Fuel Prices Could Hurt Profitability.** Fuel costs constitute a significant portion of their total operating expenses, respresnting approximately 47.7% and 43.6% during 2012 and 2011, respectively. Significant increases in fuel costs have negatively affected their operating results in the past and in the future fuel cost volatility could materially affect ethir financial condition and reults from operations. Both the cost and availability of aircraft fuel are subject to many meteorological, economic and political factors and events which ALGT has no control.
- **Aging Fleet of Aircrafts.** Their MD-80 aircraft range from 16.9 to 27.4 years old, with an average age 23.3 years. The cost to maintain aircraft increases as they age and exceeds the cost to maintain newer aircraft. FAA regulations require additional and enhanced maintenance inspections for older aircraft. These regulations include Aging Aircraft Airworthiness Directives, which typically increase as an aircraft ages and vary by aircraft or engine type depending on the unique characteristics of each aircraft.

Management

Mr. Maurice J. Gallagher, Jr. has been the Chief Executive Officer of Allegiant Travel Company since August 2003 and Chairman since 2006. Mr. Gallagher provides senior management direction to companies that include Telecommunications and Internet applications service provider companies. Mr. Andrew C. Levy has been the President of Allegiant Travel Company since October 2009. Mr. Levy served various positions with ValuJet Airlines including Director of Contracts.

Ownership	
% of Shares Held by All Insiders and 5% Owners:	21%
% of Shares Held by Institutional & Mutual Fund Owners	81%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	**Shares**	**% Out**
Renaissance Technologies, LLC	1,127,300	5.97%
Wasatch Advisors Inc.	1,075,740	5.70%
Franklin Resources, Inc.	1,072,335	5.68%
Vanguard Group, Inc.	915,044	4.85%
Times Square Capital Management	854,230	4.53%

Source: Bloomberg

Applied Industrial Technologies, Inc. (AIT)
October 29, 2013

Sean Morrissey Domestic Industrials

Applied Industrial Technologies, Inc. (NYSE:AIT) is involved in the distribution of MRO and OEM products and applications. The company operates in two segments: Service Center Distribution (81% of 2013 revenue) and Fluid Power Businesses (19%). The Service Center Distribution has facilities in North America, Australia, and New Zealand and offers products and services primarily for the maintenance and repair of machinery and manufacturing equipment. The Fluid Power Businesses are located in North America, Canada, and Mexico and they distribute as well as assemble and repair fluid power components for aftermarket customers and OEMs. The firm is headquartered in Cleveland, Ohio, employs about 5,000 workers and was founded in 1923.

Price ($) (10/23/13):	$ 51.83		Beta:	1.35		FY: February	2013A	2014E	2015E
Price Target ($):	$ 58.38		WACC	11.36%		Revenue ($Mil)	2,462.20	2,622.20	2,818.90
52WK H-L ($):	36.52-53.57		M-Term Rev. Gr Rate Est.	7.0%		% Growth	3.7%	6.5%	7.5%
Market Cap (mil):	2,200.00		M-Term EPS Gr Rate Est.	11.5%		Gross Margin	27.74%	28.25%	28.75%
Short Interest:	2.89%		Debt/Equity:	0.0%		Operating Margin	7.16%	7.75%	8.25%
Avg. Vol (90 day)	151,171.0		ROA:	11.7%		EPS ($Cal)	$2.78	$3.23	$3.69
Dividend:	$ 0.92		ROE:	16.5%		FCF/Share	2.35	3.21	3.59
Div. Yield:	1.80%					P/E (Cal)	18.66	18.09	15.81
						EV/EBITDA	10.46	9.99	8.80

Recommendation

Continued and accelerated improvement of domestic industrial production has the potential to benefit the performance of both operating segments of Applied Industrial Technologies stemming from an increase in end market demand. Increased capacity and utilization of manufacturing facilities requires a higher turnover of material inputs such as bearings, rubber products, and other maintenance products. Other maintenaince and system updates are typical results of anticipated increasing utilization to ensure the efficiency of production. A look at recent key indicators of domestic industrial economic activity support the expectation of continued growh beyond the near term. For example, total industrial production has increased 2.7% from August 2012 to August 2013. Manufacturing capactiy utilization has increased 1.5% during the same time period to reach a level of 76.1% in August. However, this figure is still well below the pre-recessionary averages in the 80-84% range which shows the potential for continued improvement. Similarly, the ISM Manufacturing Index also continues to increase as purchasing managers have a positive outlook on production, but its level is well below pre-recessionary levels. As an effect of recent increased industrial activity AIT's revenue has grown 3.7% in FY13 yoy. Looking forward, AIT can continue topline growth as the underlying industrial factors grow. For these reasons, it is recommend that Applied Industrial Technologies be added to the AIM Equity Fund with a price target of $58.38, which has a potential upside of 13%.

Investment Thesis

- **Increasing Demand for Bearings and Fluid Systems.** The continued growth of domestic industrial manufacturing requires a supply of bearings (ball, rolling, and plain) to meet the demand of MRO and OEM producers. According to industry reports, this will result in the growth of general bearing demand by an average of 4.4% annually through 2017. This is promising to AIT as one of the largest distributors of bearings in North America. The continued integration of hydraulic equipment in the industrial manufacturing market also offers a source of growth for the Fluid Power Businesses segment of AIT. It is expected that the North American hydraulic cylinders industry will grow by 4.6% annually through 2018. Strength in both of these end markets have the potential to translate to consistent top-line growth for AIT.
- **Emphasis on Margin Expansion.** Management has highlighted continued improvement through increasing margins to combat the potential for slow and declining growth. Expansion in recent

quarters to over 28.25% gross margin and 7.5% operating margin has helped to offset previous contractions due to acquisitions that were undertaken during the last year. Overall, in 2013, gross margin increased 0.19% yoy and operating margin increased 0.07% yoy. Management looks for more pronounced expansion of margins towards the latter half of 2014 as AIT has invested a significant amount of time and money into an ERP project that will enhance the company's technology platforms and customer service efficiency. As of now, the system has been implemented only minimally in Canada and some facilities in the U.S., but AIT expects it to be fully implemented in North America by the end of FY14. The company stands to benefit from improving operational efficiency thorugh margin expansion with this project.

- **Acquisitions Offer Growth Opportunities**. AIT acquired 5 businesses in fiscal 2013. The operations of the companies were focused on the component areas as AIT's core business; bearings, rubber products, fluid system controls. Although there has been slight margin contraction associated with some of these acquired companies, management expects that was a transitionary cost and looks for improvement moving forward. Also, those recent acquisitions added significantly to top-line growth for the company which did not see organic growth. AIT maintains high levels of free cash to take advantage of potential acquition opportunities in the highly segmented industrial distribution market.

Valuation

A five year discounted cash flow model was conducted to reach AIT's intrinsic value. Using a terminal growth rate of 2.75% and a WACC of 11.36% resulted in a valuation of $57.59. Varrying the WACC and terminal growth rate in a sensitivity analysis yielded a range of values from $46 to $59. An EV/EBITDA multiple was also performed in this analysis. An industry average EV/EBITDA multiple of comparable firms yielded a multiple of 13.3x compared to the current value of 10.5x. By weighting the DCF model 50% and the EV/EBITDA multiple 50%, a price target of $58.38 was established offering a potential upside of 13%. AIT pays a $0.92 dividend.

Risks

- **Increasing Raw Material Prices.** The industrial distribution industry is very competitive and many of the products offered are generic with little value-add. Therefore, the ability to pass the increase in input costs on to customers is highly reliant upon market conditions. An inability to pass increased costs to customers because of reduced sales will result in decreasing margins and overall act as a headwind to the firm's performance.
- **Deteriorating Industrial Factors.** As emphasized in the recommendation and investment drivers, the growth of AIT is directly related to the growth of industrial production. If market conditions weaken, industrial production will fall and demand for the material inputs supplied by AIT will also decrease. A look at the industrial distribution market in 2009 is an example of the potential downside that has resulted from signifcant reduction industrial activity.
- **Ineffective Integration of Acquired Companies.** In an effort to gain market share, AIT has been involved in various acquisitons over the last several years, and has experienced periods of margin reduction as a result. There are many costs associated with the acquisition of a company and one of those costs may potentially be short term reduction in efficiency. It may take time to align cultures and processes to return expected margin levels.

Management

Neil Schrimsher has held the CEO and President positions at AIT since 2011. Mr. Schrimsher has relevent industrial distribution and manufacturing experience having worked in that particular focus beginning in 1984 at GE. Mark Eisele is the CFO and VP of AIT, and he has worked at the company since 1991. Mr. Eisele is a CPA and frequently speaks on financial management topics at local clinics and conferences.

Ownership	
% of Shares Held by All Insider and 5% Owners:	10%
% of Shares Held by Institutional & Mutual Fund Owners	88%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Neuberger Berman Group, LLC	3,240,806	7.68%
Vanguard Group, Inc.	2,208,380	5.23%
BlackRock Fund Advisors	2,053,724	4.28%
Schroeder Investment Management Group	1,508,455	3.57%
Wellington Management Company	1,171,621	2.78%

Source: Yahoo! Finance

Tata Motors Limited (TTM)
October 29, 2013

Ryan Bailey International Consumer Discretionary

Tata Motors Limited (NYSE: TTM) is a leading producer of commercial and passenger vehicles within South East Asia. Tata separates its operations into three segments: Jaguar Land Rover (72.5% of revenue), Tata Vehicles (26.9%) and Construction Equipment (0.6%). The purchase of British consumer-vehicle manufacturer, Jaguar Land Rover in 2008, has supplemented Tata's ultra-low-cost vehicles and commercial lines with luxury automobiles. Tata produces a variety of vehicles; from micro and compact cars designed for bustling East-Asian dirt roads, to premium sports vehicles, as well as vans, trucks, buses and hybrid vehicles. Tata Motors Limited is part of the Indian conglomerate, Tata Group which was founded in 1945 and was, until recently, a family business.

Price ($): Oct 23 2013	$30.46	Beta:	1.44	FY: Dec	2013A	2014E	2015E
Price Target ($):	$40.54	WACC:	12.03%	Revenue ($mil)	$34,522	$34,883	$36,976
52 WK H-L ($):	$21.75-32.44	M-Term Revenue Gr. Rate Est:	5.31%	% Growth	0.75%	1.05%	6.00%
Market Cap (bil):	$19.43	M-Term EPS Gr. Rate Est:	6.90%	Operating Margin	8.94%	8.71%	9.91%
Float (mil):	420.47	Debt/Equity Ratio	141.00%	EPS (Cal)	$2.87	$2.68	$3.23
Short Interest (%):	0.97%	ROA:	5.5%	FCF/Share	$0.21	-$0.18	$0.30
Avg Vol (K):	1,502,930	ROE:	24.6%	P/E (Cal)	10.59x	11.37x	9.42x
Dividend ($):	$0.18	Tata Segment Vol Gr. YTD	-25.7%	EV/EBITDA	6.21x	6.10x	5.15x
Yield (%):	0.59%	Jaguar/Land Rover Vol Gr. YTD	15.8%				

Recommendation

After being battered by rumors of tapering, EMs have recovered significantly and now appear to have stabilized as expectations are that tapering will be pushed back to late 1Q14. One of the EMs most effected in August and September was India. With a growing current account deficit and a depreciating Rupee, investors fled the Sensex. Although GDP growth has decelerated to 4.8%, its lowest point since 2010 (compared to the high of 9.2%), inflation has resettled at 4.8% (10% in 2011) and projections are that core inflation will remain low. The depreciation of the Rupee has in fact been favorable to domestic producers as the cheap currency has caused imports to be more expensive and exports cheaper. Tata Motors is in a position to significantly benefit from the cheap Rupee and will likely see stronger sales growth over the next two quarters. With the Indian government investing in improved national highways, Tata could benefit from increased demand for commercial vehicles as producers transport goods by road rather than rail. Tata's subsidiary, Jaguar Land Rover has taken advantage of the European recovery. In order to the meet the increasing demand for Jaguar and Land Rover models, the subsidiary is expanding its manufacturing operations to supply wait-listed of customers. Given the economic moat caused by the currency, the opportunity to benefit from improved highways and demand for the Jaguar Land Rover models, it is recommended that Tata Motors Limited be added to the AIM International Portfolio with a price target of $40.54, representing a 33% upside.

Investment Thesis

- **Rupee Switching to a Lower Gear.** On September 3rd, the Rupee reached its historic low against the US Dollar, with US$1 purchasing Rs68.75 as a result of a sell-off in emerging market assets and a fear of India's wide current account deficit. With the Rupee significantly depressed, imports for Indian consumers have appeared more expensive relative to historical norms and Indian exports appear cheaper. As such, Tata's vehicles appear less expensive to consumers in India while foreign competitors appear more expensive. As the second largest Indian producer of cars, Tata's 2Q14 and 3Q14 sales should benefit from the short-term economic moat established by the relative pricing change.

- **The Road to Commercial Recovery.** In order to develop the nation's infrastructure, the Indian government has spent $71B since 2006 in order to upgrade, repair and widen the National Highways Network. This network represents only 2% of the length of roads in India, but carries ~40% of national traffic. Tata's commercial lines will benefit from the completion of the project as producers switch from rail to road in order to transport their goods. This is supported by the increase in the average road freight index's accelerated growth to 1.93% in 2Q13 from 0.3% in 2Q12 as Phase I and II near completion.
- **That New Factory Smell.** With a slight, but important recovery in Europe (as evidenced by the first quarter of growth in two years for Spain), Tata's Jaguar segment is seeing higher sales volumes as consumer confidence and discretionary spending improve. UK Consumer confidence, taken by market research firm GfK, reached its highest point in six years. Jaguar increased sales by 18% in the UK over the past 12 months. SUV sales also increased by 36%. The subsidiary recently announced an investment of nearly £1.5B (US$2.43B) to expand its manufacturing facility in Solihill. This comes after reaching maximum production at three of their plants, and wait-listing customers for up to nine months for some vehicle lines. With such strong consumer demand, investing in the development of operations will help the firm reach customers faster. Ralf Speth, Jaguar Land Rover's Chief Executive has pronounced the launch of 40 new models within five years and expects to double the current volume to 750,000 vehicles by 2015.

Valuation

To find an intrinsic value for Tata Motors, a 5-Yr DCF was paired with a P/E multiple. Each valuation method was given a 50% weight. The 5-Yr DCF used a terminal growth rate of 3.5%, had a WACC of 12.03% (which included a 300bps country premium) and resulted in a value of $45.58. An expected P/E multiple of 13.24x was used against 2014E earnings resulting in a value of $35.49. Weighing the valuations evenly resulted in a target price of $40.54, representing a 33.08% upside. Tata Motors has a dividend yield of 0.6% (TTM).

Risks

- **Indian Economy Leaning on the Break.** India's economy grew at 4.8% in 2Q13, well below the high of 9.2% growth in 2Q11. With growth decelerating across Asia, and a recent downward revision in forecasts for 2013-14 from Fitch and the World Bank, a decrease in consumer spending is also possible. This will likely negatively impact Indian sales for Tata.
- **Inflating Prices, Not Tires.** Although inflation has cooled recently with the deceleration in economic growth in India, the risk of a return to inflation higher than 5% can be expected in 2014 as the economy returns to higher levels of growth, and uncertainty over the Indian federal government elections ends. High inflation puts pressure on the costs of manufacturing for Tata that cannot be entirely passed on to the consumer without impacting demand negatively. Additionally, Indian LPG prices have increased 8% YoY and high speed diesel increased 21.49% in 1Q14. More expensive driving costs will be a disincentive for consumers to purchase vehicles.
- **Running Out of "Easy-Money" Gas.** As was seen between August and September, speculation of Fed tapering led to investor flight from EM, which caused the Sensex to fall nearly 12%. When the Fed does decide to taper, there is the chance that such an investor flight could occur again. However, the Indian government has taken steps to secure the Rupee by increasing its holdings of foreign currencies, and it appears likely that tapering will not begin until 1Q14.

Management

Karl Slym is the Managing Director of Tata Motors Limited, having joined the firm in September 2012, after spending 25 years at GM, including seven years as head of Indian Operations. Slym is well known in the Indian automobile industry and his move from GM to Tata did not go unnoticed. The Jaguar Land Rover subsidiary, headquartered in the UK, is operated independently by Ralf Speth. Ratan Tata, the great-grandson of Tata Group's founder, is Chairman Emeritus and advises the entire Tata Group. He previously served as Chairman of the Group, but his position now maintains the family's presence in the business.

Ownership		
% Shares Held by All Insider and 5% Owners:		NA
% Shares Held by Institutional & Mutual Fund Owners:		NA
		Source: Yahoo! Finance
Top 5 Shareholders		
Holder	Shares	% Out
JP Morgan Chase & Company	5,878,504	1.11%
Schroeder Investment Management Group	5,729,309	1.09%
BlackRock Group Limited	4,362,374	0.86%
American Century Companies, Inc.	3,768,322	0.81%
Allianz Asset Management Inc	3,731,006	0.73%
		Source: Yahoo! Finance

Stepan Company (SCL)
October 29, 2013

Steven Marszalek | Domestic Materials

Stepan Company (NYSE:SCL) is a specialty and intermediate chemicals manufacturing company. Its business is divided into three segments: surfactants, polymers, and specialty products. Their surfactants are used in detergents, soaps, personal care, and other cleansing products. Stepan's main customers in its polymer business are construction companies, who use polymers for roofing insulation. The company's specialty products are used in nutrition products and dietary supplements. In 2012 surfactants, polymers, and specialty products accounted for 70%, 25%, and 5% of revenue respectively. Stepan has a truly global presence with plants in the United States, Europe, Asia, and South America. Stepan was founded in 1932 and is headquartered in Northfield, Illinois.

Price ($): (10/24/13)	61.57		Beta:	1.05		FY: Dec. 31	2012A	2013E	2014E
Price Target ($):	73.39		WACC	8.50%		Revenue (Mil)	1803.74	1867.47	1970.00
52 WK H-L ($):	64.99-44.89		M-Term Rev. Gr Rate Est:	6.90%		% Growth	-2.14%	3.53%	5.49%
Market Cap (mil):	1368.20		M-Term EPS Gr Rate Est:	7.40%		Gross Margin	16.16%	15.90%	16.35%
Float (mil):	18.90		Debt/Equity	45%		Operating Margin	7.14%	6.88%	7.82%
Short Interest (%):	0.96%		ROA:	8.03%		EPS (Cal)	3.50	3.60	4.45
Avg. Daily Vol (mil):	0.04		ROE:	15.77%		FCF/Share	1.21	1.19	1.39
Yield (%):	1.10%					P/E	16.11	17.10	13.84
						EV/EBITDA	6.98	8.16	7.00

Recommendation

Through its recent acquisitions and forays into international markets in the past three years, Stepan has escalated its operating expenses and capital expenditures at 10.5% CAGR each. While higher material costs and increased operating expenses have compressed margins by roughly 110 bps in the last three years, Stepan is poised to experience solid growth in the next few years due to their fully implemented acquisitions and a recovering economy. In addition to inorganic growth strategies, Stepan has also grown organically, particularly in their polymer segment. The company has not yet benefitted from increased domestic construction spending, but there are measures that suggest a domestic polymer volume increase is around the corner. Before their recent expansion efforts, Stepan enjoyed gross and operating margins of 18% and 8.3% respectively. The company was able to outpace industry averages of 14.5% and 4.5% thanks to its diverse technology base, strong customer relationships, and strong product mix. In the past, Stepan has used its acquisitions and research initiatives to improve technologies and adapt product mix to service its customers, which facilitates its competitive stance and improves customer retention in a spot order industry. This can be seen in their European polymer business, which grew 29% despite a flat economy and posted a gross margin of 19.3%. Because of solid historical and forecasted operating results, and a dividend yield of 1.1%, it is recommended that SCL be added to the AIM Equity Fund with a target price of $73.78, which offers a potential upside of 19.9%.

Investment Thesis

- **Growing Polymer Business.** Over the past 15 months, the construction industry in the United States has experienced consistent growth. The Architectural Billing Index (ABI), an indicator of construction activity, has indicated construction growth for 13 of the last 14 quarters, with a positive month over month increase in three straight months. This index typically leads actual construction spending by 9 to 12 months, which suggests that Stepan is poised to benefit from the growing industry. With positive sales growth in 2013 despite a sluggish summer, Stepan should enjoy high single digit sales growth in its polymers business over the next two to three years. In addition to this expected organic growth, Stepan has also used its financial position to gain market share in the polymer business. In April, the company purchased Bayer Material Science's polyol segment, which will add $64MM in annual sales while providing new technologies for the company's portfolio diversification invitiatives.

- **Improving Efficiency.** While Stepan's margins are expected to decrease 30 bps for 2013, management is confident that margins will rebound in the next few years. Higher material costs, accounted for under the LIFO system, reduced gross margins 40 bps for the year. For example, ethylene, a key input, has since fallen from $1,420/mt to $1,290/mt. With expected improvements in product mix and lower material costs, gross margin should rebound to roughly 16.5%. While Stepan's operating expenses rose as the company integrated recent acquisitions, the company has finished its international projects. The Singapore plant, purchased in 2011, is now fully operational after an 18 month redevelopment project. With these projects completed, Bayer acquisition outstanding, operating margins will climb above 8% due to improvements from facility integration, production efficiency, and material cost carry-through.
- **Personal Care Industry.** With their international presence, particularly in Brazil, Stepan's specialty products segment will grow organically due to an expanding middle class. Brazil's middle class has grown by over 40 million people in the past ten years, creating a personal care market that has grown by double digits each of the past five years. Stepan's presence in Brazil should provide growth in excess of the global 6% CAGR expected over the next five years in personal care products.

Valuation

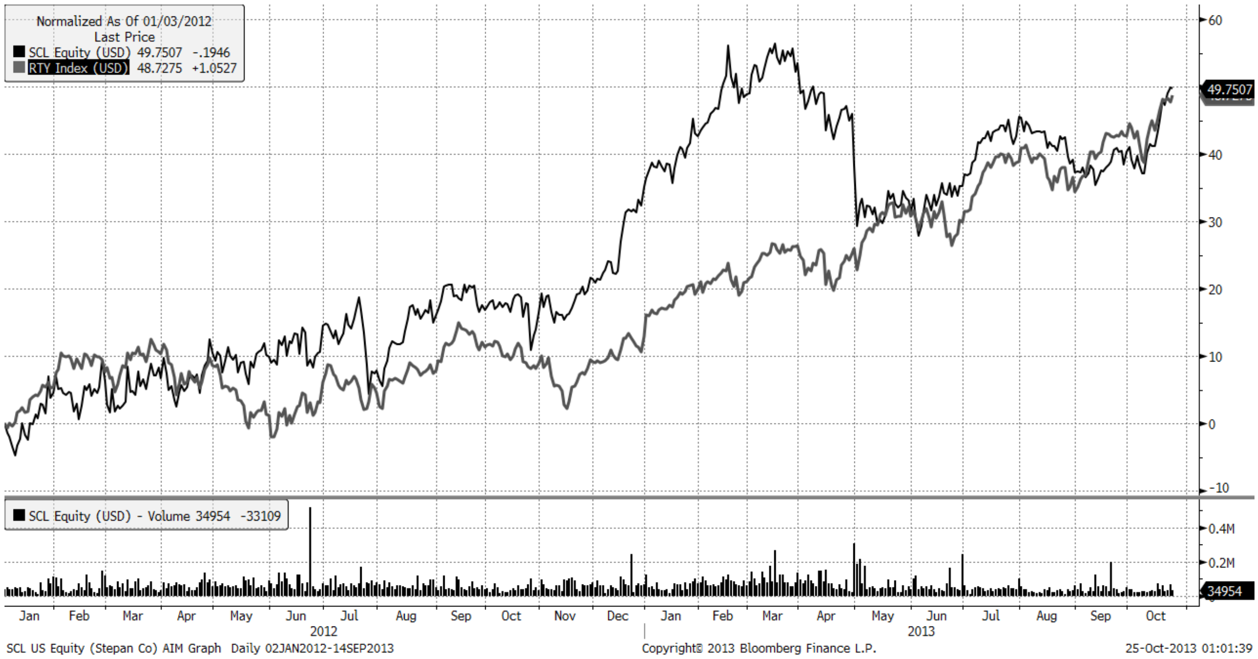
In order to reach an intrinsic value for SCL, a seven year discounted cash flow model was conducted. Using a terminal growth rate of 3% and a WACC of 8.5% in the DCF model resulted in a valuation of $73.39. Sensitivity analysis conducted on both the revenue growth rate and WACC provided for a range between $59.71 and $82.33. Using a blend of industry average, regression, and historical EV/EBITDA, an EV/EBITDA multiple of 9.5x was used to calculate an intrinsic value of $74.41. By weighing the DCF and EV/EBITDA models 50% each, a price target of $73.90 was obtained—which provides an upside of 19.9%. SCL pays a quarterly dividend of $0.17, yielding 1.1% annually.

Risks

- **Material Costs.** Although raw material costs have recently declined, input prices can be volatile and unpredictable. Any rise in input costs could harm the company's margins going forward. While the company can occasionally pass on these cost increases to customers, any significant increases in material costs will most likely be eaten by the company.
- **Dismantling of Chinese Plant.** Recently, the Chinese government requried the company to move its plant in Nanjing, China. Stepan plans to build a new facility that will be operational by 2015. Management believes that there will be a period of time for which the existing plant will be out of service while the new plant is under construction. As a result, the company may have to serve their customers via alternative facilities, potentially reducing profits and margins.
- **Transportation Costs.** Stepan uses third party logistic (3PL) companies to transport raw materials into their plants and ship finished goods to customers. They fill orders on a spot basis and are subject to carrier costs. Any increases in fuel or transportation costs could impact the company's profitability.

Management

Stepan Co has been family operated since 1959. Quinn Stepan, the current chairman, ran the company from 1967-2006. His son, Quinn Stepan Jr., took over as CEO and President in 2006. Quinn Stepan Jr. joined the company in 1987 and served as COO from 1997-2006. Management has increased dividend payments for 46 consecutive years, confirming their commitment to shareholder value.



Ownership

% of Shares Held by All Insider and 5% Owners:	16%
% of Shares Held by Institutional & Mutual Fund Owners:	58%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Royce & Associates, LLC	1,623,371	7.31
Vanguard Group, Inc.	1,183,916	5.33
Neuberger Berman Group, LLC	1,051,100	4.74
BlackRock Fund Advisors	900,275	4.06
Nicholas Company, Inc.	781,909	3.52

Source: Yahoo! Finance