Applied Investment Management (AIM) Program

AIM Class of 2015 Equity Fund Reports
Fall 2014

Date: Friday, October 31sth   Time: 2:30 pm – 4:00 pm
Road Show Location: Cortina Asset Management

Student Presenter	Company Name	Ticker	Price	Page No.
Richard Bernard	Nautilus Inc.	NLS	$13.36	2
Jaime Rehm	Frank's International N.V.	FI	$17.21	5
Alex Isken	Shenandoah Telecommunications Co.	SHEN	$24.97	8
Patrick Lonzo	American Axle & Manufacturing Holdings	AXL	$17.71	11
Jordan Schumacher	CGI Group Inc. (GIB)	GIB	$33.36	14

We appreciate the opportunity to take an AIM 'road show' to Cortina Asset 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. Each student will spend 4 minutes presenting their formal recommendation, which is then followed by about 5 minutes of Q & A.

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Nautilus Inc. (NLS)
October 31, 2014

Richard Bernard — Consumer Discretionary

Nautilus Inc. (NASDAQ: NLS) develops, markets and sells consumer cardio and strength fitness products and accessories. The company sells its products primarily through the Nautilus, Bowflex, Schwinn, and Universal brands. NLS generates a majority of its revenues through two business segments: Direct (62%) and Retail (38%). The company was founded in 1986 and is committed to providing innovative, quality solutions to help customers achieve a fit and healthy lifestyle. The company competes primarily with other distributors and manufacturers of fitness products, such as Fitness Quest, ICON Fitness, Beach Body and Cybex. Nautilus generates its revenues primarily in the U.S and Canada. The company is headquartered in Vancouver, WA and has approximately 311 employees.

Price ($): (10/24/14)	13.36	Beta:	1.32	FY: December	2013A	2014E	2015E
Price Target ($):	16.98	WACC	11.80%	Revenue (Mil)	218,803	256,000	294,399
52WK H-L ($):	13.58-6.76	M-Term Rev. Gr Rate Est:	15.00%	% Growth	12.83%	17.00%	15.00%
Market Cap (mil):	417.90	M-Term EPS Gr Rate Est:	18.00%	Gross Margin	48.66%	50.34%	49.66%
Float (mil):	27.8	Debt/Equity:	0.00%	Operating Margin	7.19%	10.12%	8.19%
Short Interest (%):	3.68%	ROA:	12.41%	EPS (Cal)	1.53	0.49	0.58
Avg.Volume(3month):	257,675	ROE:	17.67%	FCF/Share	$0.56	$0.76	$0.91
Dividend ($):	-	PEG	1.54	P/E (Cal)	27.25	26.29	23.15
Yield (%):	-			EV/EBITDA	11.09	12.37	10.47

Recommendation

Since 2009, when Nautilus began focusing solely on the consumer market and selling its products through its Direct and Retail segments, the company has made changes to increase profitability and generate returns for shareholders. In 2013, revenues were up by 13% from $193 million in 2012 to $218 million. Sales from the Direct segment increased 14% in 2013, led primarily by increased sales of the Bowflex Tread Climber. The increase in direct sales was coupled with a 20% increase in retail sales, which was attributed to greater demand for strength products, such as the Select Tech dumbbells and Universal Strength products. Nautilus sells its products to a variety of retailers, primarily sporting goods stores, warehouse stores and online retailers - its largest customer is Amazon which accounts for about 11% of total revenues. Operating and gross margins have continued to increase steadily as the company has been able to increase sales, seeing benefits due to relatively high operating leverage. In 2012, operating margins were about 5.5%, and in 2013 they increased to over 7%. Research and development has been a key driver, allowing NLS to create new products and update existing ones, while remaining an innovator in the consumer fitness products business. Because Nautilus owns some of the most popular and well-known names in the fitness market, it benefits from strong brand identity and consumer appeal. The company is well diversified with many cardio and strength fitness products, such as treadmills, exercise bikes, ellipticals, and kettle bell weights. This diversification allows the company to sell its products to a variety of consumers, with different fitness needs. For those reasons and a favorable valuation it is recommended that Nautilus Inc. be added to the AIM Equity portfolio with a price target of $16.98, which represents an upside of 27%.

Investment Thesis

- **Introduction of New Products.** In the beginning of 2014, Nautilus released the Bowflex Max Trainer, which management has noted has been positively received by consumers. This has added to 2Q'14 revenue growth of about 26% YoY. Recently the company announced the Bowflex Body Line, which is the company's entrance into the nutrition and energy products segment. NLS also announced the updated Select Tech Dumbbells, which are being marketed as the first "smart" dumbbells, along with The Nautilus Cardio Series. These new products offer intriguing prospects for future growth potential.

- **Margin Expansion.** Over the past 3-5 years management has been taking the necessary steps to improve margins both in the Retail and Direct segments. The company has been able to increase margins due to increasing sales, more cost-efficient online media advertising and positive product mix. Sine 2011, gross margins have increased 6% and operating margins have increased by about 7%. Margins are expected to increase due to continued high margin product introduction and favorable costs. The company's high margins have led a significantly higher cash balance in 2013 (over $40 million), - 70% higher than 2012.
- **Improving Macroeconomic Conditions and Demographics.** U.S. unemployment is at 5.9%, its lowest level since the mid-2000's. Decreasing gas prices, along with relatively stable food prices should give consumers more confidence and willingness to spend their disposable incomes. Additionally, Americans are participating in more physical activity and the fast paced lifestyle of younger Americans will benefit Nautilus' business giving them the opportunity to achieve fitness at home.

Valuation

In order to reach an intrinsic value for NLS, a five year discounted cash flow model and a P/E multiple approach were employed. Using a terminal growth rate of 3% and a WACC of 11.08% resulted in a valuation of $17.94. A sensitivity analysis on both the terminal growth rate and WACC provided for a range between $12.93 and $22.40. Using a sporting goods industry average P/E multiple of 28.8x and a 2014 estimated EPS of $0.49, a value of $14.12 was obtained. By weighing the DCF model 75%, and the P/E multiple approach 25%, a price target of $16.98 was established. The company does not pay a dividend.

Risks

- **Contract Manufacturers in Asia.** Nautilus has outsourced the production of all of its products to outside contract manufacturers, with each product being produced by a single manufacturer. This production method exposes Nautilus to many risks that lay outside the scope of its control. The inability to control the quality of its finished products, and delivery schedules provide risks for the company. The economic, social, and geopolitical climates in the Asian countries where the products are produced are also a source of additional risk.
- **Long Inventory Lead-Times.** Lead times for inventory purchases from the company's Asian suppliers generally range from two to three months, with transit time being three to four weeks. The long lead-times require Nautilus to maintain high levels of inventory. If the company is not able to accurately forecast demand for its products, it could effect sales and revenue projections. Inventory obsolescence may increase as a result of inaccurate forecasts as well.
- **Weaker Than Expected Consumer Spending.** Declines in consumer confidence, economic growth, or any other negative changes to general economic conditions could negatively impact the company's net sales, operating results and financial position. Consumer products are highly correlated to consumer discretionary spending and a weakening of the economy could limit the amount consumers are willing to spend.

Management

Bruce Cazenave has been the Chief Executive Officer of Nautilus since being elected in 2011. Prior to joining the company, he served as managing director of Inflection Point Consulting, a business consulting firm where he served as executive advisor to private equity firms in the U.S and Europe. Sidarth Nayar was recently named Chief Financial Officer in Feburary of 2014, but before this he served as the VP of Finance and ulitmatley served as CFO of Congoluem Corporation, a flooring products company.

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 Share Holders

Holder	Shares	% Out
BlackRock Institutional Trust Company	1,180,451	3.77%
Punch & Associates Investment Management, Inc.	1,176,180	3.76%
Royce & Associates, LLC	1,129,200	3.61%
Dimensional Fund Advisors LP	1,051,121	3.36%
Disciplined Growth Investors, Inc	985,752	3.15%

Source: Yahoo! Finance

Frank's International N.V. (FI)

October 31, 2014

Jaime Rehm International Energy

Frank's International N.V. (NYSE: FI) is a global provider of highly engineered tubular services to the oil and gas industry. Frank's provides its services to leading exploration and production companies in both offshore and onshore environments, with a focus on complex and technically demanding wells. Frank's operates in three segments: International Services, U.S. Services and Pipe and Products, which represent 47%. 39% and 14% revenue respectively. Frank's revenue is globally diversified, the company derives 50% of revenues from the U.S., 29% from Europe and Africa, 10% from Latin America, and 11% from the rest of the world. Frank's designs and manufactures products that are sold or rented directly to customers, such as their large outside diameter pipe connector and casing attachments Frank's tubular services also include the handling and installation of multiple joints of pipe. The company has operations in over 90 offices that are located in over 60 countries. Frank's employs 4,100 people and is headquartered in Amsterdam, Netherlands.

Price ($): (10/24/14)	$17.21	Beta:	0.64	FY: Dec. 31	2013A	2014E	2015E
Price Target ($):	$22.24	WACC:	6.79%	Revenue (Mil)	$1,077.72	$1,136.30	$1,275.00
52 WK H-L ($):	$31.71-$16.04	M-Term Rev. Gr Rate Est:	6.82%	% Growth	3.72%	5.16%	12.21%
Market Cap (mil):	$2,642	M-Term EPS Gr Rate Est:	1.72%	Gross Margin	52.44%	49.03%	49.37%
Float (mil):	34.30	Debt/Equity	4.01%	Operating Margin	31.60%	26.76%	27.10%
Short Interest (%):	5.66%	ROA:	16.36%	EPS (Cal)	$ 1.38	$ 1.02	$ 1.19
Avg. Daily Vol (mil):	1.104	ROE:	26.29%	FCF/Share	$ 0.62	$ 0.66	$ 0.72
Dividend 2014 ($):	$ 0.45			P/E (Cal)	12.50	16.93x	14.42x
Yield (%):	2.61%			EV/EBIDTA	5.75x	6.14x	5.42x

Recommendation

Frank's is the sole deep-water service company to offer critical, fatigue-sensitive fabrication services and offshore welding for high quality product lines, as well as manufacturing specialized offshore equipment. Their commitment to continuously manufacturing high quality and customized equipment for the oil and gas industry has been demonstrated through their unique technology, in which they have over 250 patents. Frank's has been successful in assisting the oil and gas industry to utilize this efficiency, which is exemplified in the company's 10 year revenue CAGR of 13.5%. Frank's onshore focus is on the high-grade, heavy will, large outside diameter (OD) pipe, enabling exploration and production companies to see greater efficiencies in drilling. Due to their innovative products and improving efficiency, Frank's saw 9% QoQ growth in their U.S. land business in 2Q 2014, mainly attributable to the U.S. energy renaissance. Frank's is well insulated from customer losses, as the loss of any individual customer would not materially affect revenues, because no one customer accounts for more than 11% of revenue. Frank's is well positioned to fund their investment in new equipment and new facilities in addition to returning cash to shareholders through doubling their quarterly dividend from $0.075 to $0.15. With its low tax rate, low debt to equity, commitment to creating value for shareholders and history of strong performance, it is recommended that FI be added to the AIM International Equity fund with a target price of $22.24 offering an upside of over 29%. The company will also pay dividends of $0.45 in 2014, and will pay dividends of $0.60 in 2015, a current yield of 2.61%.

Investment Thesis

- **Opportunity to increase U.S. tubular market share.** As the U.S. continues to see growth in its production of shale and natural gas, Frank's has an opportunity to capture more American market share. Frank's has over 25 facilities in nearly all major U.S. basins, including the Permian Basin, Eagle Ford Shale, Marcellus Shale, Utica Shale, Barnett Shale, Woodford Shale, Piceance Basin, San Juan Basin, Uintah Basin, Big Horn Basin, Powder River Basin, DJ/Wattenberg Basin, Williston Basin and in the U.S. Gulf of Mexico. Frank's currently has a large portion of the U.S.

market, commanding 27%. Their specialization in the OD pipe will enable them to capture a greater share of the tubular U.S. market.

- **Patents.** Frank's has a total of 258 patents, 115 issued within the U.S. and 143 foreign issued. In 2014, the company obtained 8 new patents in the U.S. and has filed for an additional 19. Moreover, Frank's currently has over 55 new products and technology improvements in development. Frank's has a history of innovation in their engineering department of continuously improving their technology to develop the best equipment to be a leader in their field. They are able to design customized deep and ultra deep-water equipment to tailor to their customers' specific needs. Through these patents, they have created an economic moat for themselves, which should serve to fend off competitors reproducing their cutting edge technology.
- **Commitment to Shareholder value.** The Board of Directors is committed to creating and maintaining value for the company's shareholders. The company is consistently engineering not only to improve existing equipment and for the development of new equipment, but to ensure the health and safety of all their employees. Frank's Board of Directors has recently approved doubling the company's dividend, and has indicated they are dedicated to continuing to ensure to generate value for their shareholders in the future.

Valuation

To find the intrinsic value of FI, a five year discounted cash flow model was conducted. Using a terminal growth rate of 2.5% and a WACC of 6.79% resulted in a valuation of $22.05. Sensitivity analysis on both the terminal growth rate and WACC provided for a range between $18.99 and $26.42. Additionally, an EV/EBITDA multiple evaluation was conducted. Using a blended peer and historical EV/EBITDA multiple of 7.15x, a price target of $22.43 was generated. By weighing the DCF model 50% and the EV/EBITDA multiple 50%, a price target of $22.24 was achieved. FI pays dividends of $0.15 quarterly, currently yielding 2.61%.

Risks

- **Oil prices and industry volatility.** As any company within the oil and gas industry, Frank's financial position can be affected by commodity prices, geo-political risks and local regulatory requirements. The energy industry is inherently cyclical, and Frank's products are dependent upon the level of expenditures by the industry for the exploration, development and production, of oil and natural gas. Further declines in oil and natural gas prices could have adverse effects on financial position of the company.
- **Steel prices.** Frank's ability to manufacture their products is contingent upon their ability to obtain raw materials, such as steel. Frank's ability to acquire steel for their pipes in a cost effective manner is critical to maintain a competitive advantage. In recent years, steel prices have risen, and have caused Frank's expenses to increase. If steel prices continue to trend upward, profits could be negatively impacted.
- **Foreign exchange risk.** As any global company, Frank's is subject to foreign exchange risk. Their exposure to foreign currencies may result in fluctuations in their cash flows and have and adverse effect on their financial position. In February 2013, Venezuela announced a devaluation of the Bolivar against the dollar, causing an exchange rate decline from 4.3 to 6.3 Venezuelan Bolivars to the U.S. Dollar. This caused a material loss of $1.8MM in the first quarter of 2013. Similar devaluations or fluctuations in foreign currencies could cause a comparable material loss.

Management

Mr. Donald Keith Mosing is Chairman of the Board, President and CEO of Frank's International. He is the grandson of Frank Mosing, who founded the company over 75 years ago. Mr. Mosing began working for his family's company at the age 14 in 1965. He is responsible for the expansion of the company across North America, South American Asia, Europe, Africa, the Middle East and Australia. In addition, Mr. Mosing can be attributed with taking his grandfather's company public in August 2013.

Mr. John Walter Sinders, Jr. is the Interim Chief Financial Officer and Executive Vice President of Administration. Before assuming this role Mr. Walters served as Senior Vice President of Finance and Investor Relations.

Ownership

% of Shares Held by All Insider & 5% Owners:	0.08%
% of Shares Held by Institutional & Mutual Fund Owners:	21.54%

Top 5 Shareholders

Holder	Shares	%Out
FWW BV	119,024,000	77.53%
Select Equity Group LP	3,902,853	2.54%
Lord Abbett & Co LLC	2,606,213	1.70%
Perkins Investment Management LLC	2,413,810	1.57%
Federated Investors Inc.	2,208,200	1.44%

Shenandoah Telecommunications Co. (SHEN)

October 31, 2014

Alex Isken Telecommunications

Shenandoah Telecommunications Company (NASDAQ: SHEN), DBA Shentel, is a diversified telecom holding company that provides various voice, video, and data services to end-users in Virginia, West Virginia, central Pennsylvania and western Maryland through its subsidiary corporations. The company's seven subsidiaries provide services in three main segments: Wireless (60% of revenues), Cable (24%), and Wireline (16%). The Wireless segment provides digital wireless phone services as a Sprint PCS Affiliate. The Cable segment provides video, voice, and data services, primarily via the Shentel fiber network. Lastly, the Wireline segment provides telephone services, DSL internet, and leases fiber optic facilities, primarily in Northern Shenandoah Valley. Shentel was founded as a mutual company in 1902, and is headquartered in Edinburg, Virginia.

Price ($): (10/26/14)	24.97		Beta:	1.22		FY: Dec 31	2013A	2014E	2015E
Price Target ($):	30.98		WACC	6.79%		Revenue (Mil)	308.90	331.00	352.90
52WK H-L ($):	22.19-33.99		M-Term Rev. Gr Rate Est:	7.1%		% Growth	7.22%	7.15%	6.64%
Market Cap (mil):	614.16		M-Term EPS Gr Rate Est:	10.0%		Gross Margin	59.47%	60.34%	61.19%
Float (mil):	22.58		Debt/Equity:	98.2%		Operating Margin	17.90%	21.23%	23.50%
Short Interest (%):	7.3%		ROA:	5.1%		EPS (Cal)	$ 1.12	$ 1.52	$ 1.83
Avg. Daily Vol (k):	62.6		ROE:	13.4%		FCF/Share	$ (0.95)	$ 0.66	$ 0.41
Dividend ($):	0.47		Churn Rate:	2.58%		P/E (Cal)	20.17	16.82	13.96
Yield (%):	1.8%					P/S	1.94	1.86	1.75

Recommendation

As a regional telecom carrier, Shentel provides the typical array of services (voice, internet, and cable) to homes on the East Coast. While telecommunications companies are not often known for their growth, Shentel has managed to post an impressive 16.4% 5-year revenue CAGR. In addition to above average revenue growth, the company has experienced improved profitability, primarily by reducing its drag from its cable segment. This segment, which provides 24% of revenues, has historically caused losses, posting a -42% operating margin in 2010. This margin recovered to -18% in 2013, and then to -10% for the first half of 2014. This segment has consistently hurt Shentel's overall margins, and although the segment is not yet profitable, its operating margin movement is helping the firm significantly. Overall operating margins have increased 5% in the past two years alone, from 12.9% to 17.9%. Shentel's largest segment by revenue, Wireless, has seen the most consistent growth and margins. In 2013, growth for this segment was 12.3%, including a 13.4% increase in tower lease revenue. Depreciation expense also decreased 11%, contributing to the Wireless segment's operating margin boost from 29.7% to 30.3% in 2013 and 32.5% in Q2 2014. Lastly, Shentel just announced an increase in its annual dividend from $0.36 to $0.47, a dividend yield of 1.85%. In summary, Shentel has strong revenue growth, margins with a good opportunity for improvement, healthy cash flows, and a small but consistent dividend. Due to these reasons, as well as a favorable valuation, it is recommended that Shentel be added to the AIM Equity Fund at $24.97, with a target price of $30.98, offering a potential upside of 24.08%.

Investment Thesis

- **Opportunity within Cable Segment.** As noted previously, Shentel has plenty of room for improvement within its Cable segment. Improvements in the cost of goods sold and operating leverage could potentially bring the margin closer to zero within the next few years. One major expense within this segment was the cost of upgrading previously purchased networks to Shentel's network standard, which management has deemed complete as of Q1 2014. Per Shentel's latest 10-K, as of Dec 31, 2013, the cable segment has only penetrated its potential market 27% for high-speed internet, 9% for voice services, and 49% for digital video. These numbers allow a lot of room for organic growth, and with the cable network expansion just completed (increasing Shentel's total fiber cable miles from 39K to 70K), Shentel is poised to make a push for this segment.

- **Acquisition Strategy.** Much of Shentel's growth has been made possible by its strategy to acquire network assets and expand its own network. In late 2010, Shentel acquired JetBroadBand, as well as portions of Suddenlink Communication's cable networks. While Shentel has not made any acquisitions since 2010, management has noted that they are still looking to further increase the size of their network. Bottom line growth in 2012 was 92% coming out of the acquisitions, and management is looking for future opportunities to see similar results.

Valuation

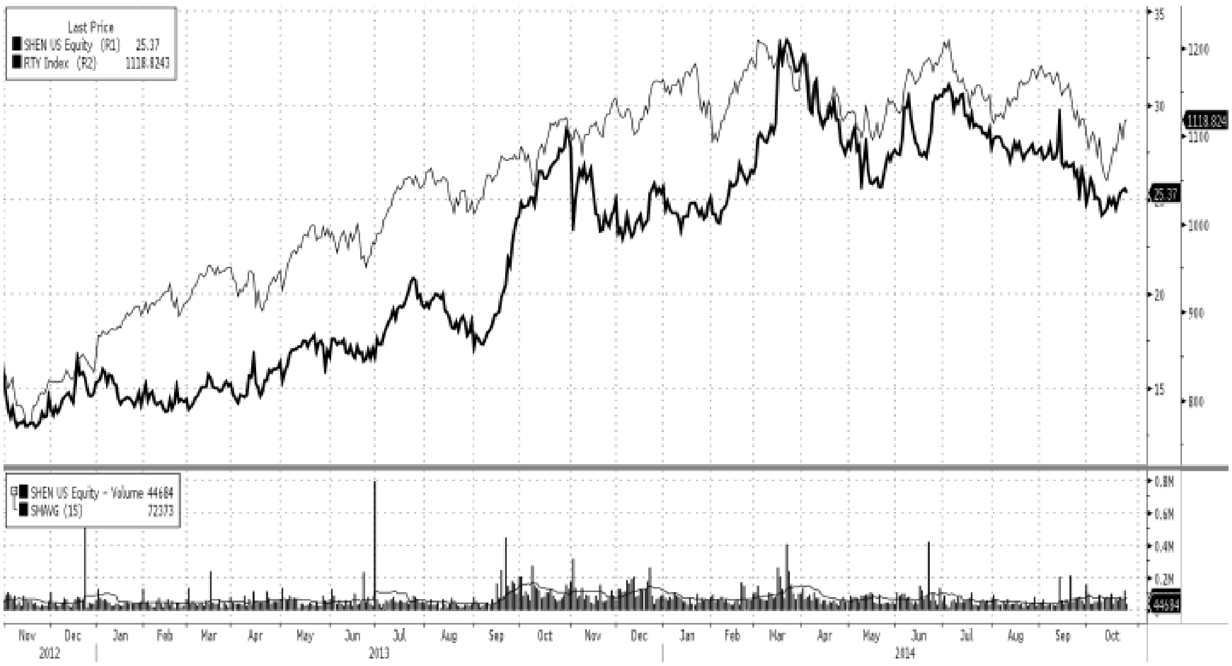
In order to reach an intrinsic value for Shentel, a 5-year discounted cash flow model was conducted. A WACC of 6.79% was used, along with a terminal growth rate of 3%. This yielded an intrinsic value of $29.58. Sensitivity analysis on both terminal growth rate and WACC provided for a range between $22.31 and $37.13. Additionally, relative values using P/E and P/S ratios were conducted using a peer average P/E multiple of 23.40x and a 2014 expected EPS of $1.52, and a value of $35.61 was obtained. Using a peer P/S multiple of 2.12x and 2014 expected sales per share of $13.73, a value of $29.16 was obtained. By weighing the DCF 50% and each relative valuation 25%, a price target of $30.98 was established. SHEN also pays an annual divided of $0.47, a 1.8% yield.

Risks

- **Generational Breakthroughs in Telecom Technologies.** As with any technology, telecommunications technologies are constantly being upgraded and advanced. Cellular towers and devices have evolved from using 1G, the first generation of wireless network, to the latest 4G LTE, which transmits data over 40,000 times faster. Whenever new technologies are developed, telecom carriers incur huge amounts of capital expenditures to update their tower and base station capabilities. Between 2012 and 2013, Shentel spent $200M on capex in order to upgrade its base stations to support 4G LTE backhaul. This resulted in the overall negative free cash flow in 2013. While research does not indicate that any new "5G" technology is on the horizon, any technological advance that would require further work on Shentel's part could have a large effect on cash flows.
- **Sprint Management Fees.** Shentel's largest segment, Wireless, operates through the subsidiary Shenandoah Personal Communications, LLC, a Sprint PCF Affiliate. Sprint provides Shentel with customer service, billing, collections, and other support services, and in return, Sprint takes a management fee before passing through revenues to Shentel. Postpaid PCS revenues had a 20% fee retained by Sprint 2011-2013, which was increased to 22% in mid-2013. Revenues then decreased Q2 to Q3 2013 before resuming growth in Q4. Any similar fee increases in the future could have a similar negative effects on revenues.
- **Regulation.** Shentel is subject to a host of government regulations in all three of its segments. Most notably, the cable segment is legally subject to pricing regulation via local franchise authorities due to the low competition in the area Shentel markets to. While no authorities have attempted yet to regulate Shentel's pricing, the firm could be subject to it at any time.

Management

Christopher French serves as President and CEO of Shentel, and has served in that role since 1988. He holds a BS in electrical engineering as well as an MBA. Earle MacKenzie, Executive Vice President and COO, has been with Shentel since 2003. He has been working within the telecommunications industry since 1975. Adele Skolits is the VP of Finance and CFO, and has been since 2007. Richard Baughman, the VP of Information Technology, has been contributing to Shentel's infrastructure systems since 2006.



Ownership

% of Shares Held by All Insider and 5% Owners	6%
% of Shares Held by Institutional & Mutual Fund Owners	36%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Vanguard Group, Inc.	1,162,114	4.82%
BlackRock Fund Advisors	1,090,550	4.52%
12 West Capital Management LP	1,082,336	4.49%
BlackRock Institutional Trust Company, N.A.	644,680	2.67%
Crow Point Partners, LLC	590,000	2.45%

Source: Yahoo! Finance

American Axle & Manufacturing Holdings, Inc. (AXL)
October 31, 2014

Patrick Lonzo | Consumer Discretionary

American Axle & Manufacturing Holdings, Inc. (NYSE: AXL) designs, engineers, manufactures, and validates driveline and drivetrain systems and related components for light trucks, sport utility vehicles, (SUVs), passenger cars, crossover vehicles, and commercial vehicles. Products include axles, chassis modules, driveshafts, power transfer units, transfer cases, steering components, and transmission parts. About 82% of total revenues in each of the past three fiscal years were attributable to axles and driveshafts, while approximately 18% were attributable to drivetrain components, forged products, and other goods. General Motors Company (GM) is AXL's principal customer, accounting for 71% of net sales in 2013. Outside of the U.S., AXL conducts business in Canada and Mexico, as well as countries in South America, Asia, and Europe. The firm was founded in 1994 and is headquartered in Detroit, Michigan.

Price ($): (10/26/14)	17.71		Beta:	1.68		FY: Dec	2013A	2014E	2015E
Price Target ($):	23.83		WACC	9.96%		Revenue (Mil)	3,207.3	3,695.6	3,981.2
52WK H-L ($):	21.5-16.4		M-Term Rev. Gr Rate Est:	10.79%		% Growth	9.43%	15.22%	7.73%
Market Cap (billion):	1.35		M-Term EPS Gr Rate Est:	24.17%		Gross Margin	14.93%	15.29%	15.35%
Float (mil):	75.06		Debt/Equity:	10.78		Operating Margin	7.49%	8.53%	8.51%
Short Interest (%):	11.1%		ROA:	5.76%		EPS (Cal)	$1.23	$2.32	$2.61
Avg. Daily Vol (mil):	1.43		ROE:	7.04%		FCF/Share	-$0.38	$0.73	$0.23
Dividend ($):	0.00					P/E (Cal)	9.34	7.79	6.93
Yield (%):	0.0%					EV/EBITDA	5.78	5.36	5.00

Recommendation

American Axle & Manufacturing Holdings continues to benefit from the growth of General Motor's truck and SUV production and sales (18% YoY increase in truck sales and 30% YoY increase in commercial sales in September). Additionally, AXL's EcoTrac disconnecting all-wheel drive (AWD) system has been well-received in Chrysler's 2014 Jeep Cherokee and was selected as a 2014 Automotive News PACE Award Finalist. Chrysler plans to include the disconnecting AWD system in future Jeep Cherokee models and is considering implementing the technology into vehicles in other product lines as well. *Motor Trend's* 2014 car of the year, the Cadillac CTS, also includes AXL's high efficiency rear-drive module.With these recent product developments, AXL has demonstrated a commitment to technological innovation and improving fuel efficiency. The firm is well-positioned to continue enhancing its profit margins in 2014 (predicted to increase from 2.95% to 4.84%) and 2015E (from 4.84% to 4.99%). AXL is also expected to achieve positive free cash flow in 2014, which will be the first time since before the financial crisis. With these stronger financials, management is seeking profitable expansion opportunities. AXL is targeting a 10% CAGR through 2015, compared to a projected 5% for the industry. In addition, the company successfully closed over $1.25 billion in financing agreements in 2013. This has reduced interest expenses, extended debt maturities, and improved debt covenant terms. With this financial flexibility, AXL will be less restricted in its pursuit of growth and product development. Because of the company's proven ability to innovate and expand, it is recommended that AXL be added to the AIM Equity Fund with a target price of $23.83. This valuation offers a potential upside of 31.86%.

Investment Thesis

- **Expansion in Emerging Markets.** As recently as 2006, U.S. sales accounted for approximately 69% of AXL's total sales revenue. In 2013, U.S. sales accounted for about 52%. Sales growth in Mexico, South America, and Asia has largely contributed to this shift. The company has recently constructed new manufacturing facilities in Mexico and India, improved facilities in Brazil and Thailand, and expanded the Hefei joint venture in China. These projects suggest that AXL will continue expanding its global capabilities. AXL is currently the second largest axle supplier in China's light commercial truck segment and sales are expected to nearly double in the next five years. AXL's 2013 10-K revealed that about 35% of their business backlog launching from 2014 to 2016 is for end use markets outside of the United States.

- **Increase in Non-GM Sales.** Non-GM sales increased by 33% YoY in 2Q 2014. In 2005, 80% of total sales revenue came from General Motors. By 2010, this proportion was reduced to 75%. AXL predicts that GM will only acccount for 50% of sales revenue by as early as 2015 (this forecast includes the impact of the Hefei joint venture). In recent conference calls and company presentations, AXL executives have expressed their intent to focus on customer base diversification. By continuing this trend, AXL has significant opportunity for growth and will reduce its reliance on a single large customer.
- **Innovation and Focus on R&D.** AXL's R&D expenses increased 23% in 2010, followed by an additional 38% increase in 2011. Over the past few years, R&D expenses have remained relatively stable at these higher levels. The company has positioned itself well by focusing its efforts on electronic integration, hybrid vehicle systems, and the development of products and systems that provide customers with advancements in fuel efficiency and emissions reduction. With this focus, AXL has developed a disconnecting AWD system, which is an industry-first technology that combines high-quality AWD functionality with better fuel efficiency and a reduction in CO_2 emissions. This innovation is featured in the 2014 Jeep Cherokee and strengthens AXL's position as a leader in global driveline systems technology.

Valuation

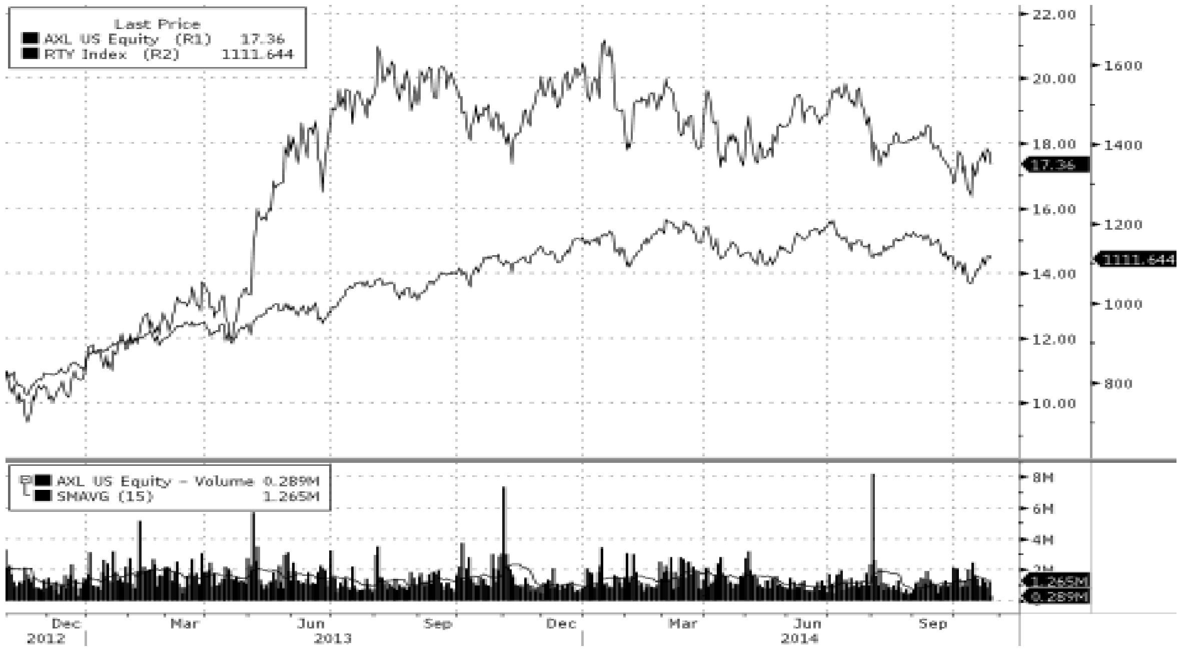
In order to reach an intrinsic value for AXL, a five year discounted cash flow model was constructed. Using a terminal growth rate of 2.50% and a WACC of 9.96% resulted in a valuation of $24.25. Sensitivity analysis on both the terminal growth rate and the WACC resulted in a range between $20.99 and $28.89. Averaging the data that was calculated in the sensitivity analysis led to a valuation of $24.36. Additionally, P/E multiples were used as another valuation approach. Using an industry average of 9.44x and an expected 2014 EPS of $2.32, a value of $21.90 was established. By weighting the result of the five-year discounted value model 40%, the result of the sensitivity analysis 40%, and the result of the P/E multiple calculation 20%, a price target of $23.83 was obtained. AXL does not pay a dividend.

Risks

- **Heavy Reliance on Few Customers.** Although the company intends to improve customer base diversification, AXL would still face severe financial adversity if it lost one of its primary customers. In 2013, General Motors (GM) and Chrysler combined for about 83% of AXL's consolidated net sales. Because sales to GM alone accounted for approximately 71% AXL's 2013 net sales, GM's durability and continued business are particularly important to AXL's success. GM currently faces a lawsuit seeking more than $10 billion that was brought on the behalf of drivers of 27 million vehicles that were sold with defects. There have been over 150 fatality claims and nearly 1,200 non-fatal injury claims attributed to these defects, most of which are still under review.
- **New Regulations and Emissions Standards.** In 2012, new CAFE standards for cars and light-duty trucks were announced. These standards will require at least 54.5 miles per gallon by 2025. To meet these standards, AXL and its customers will need to plan, adjust, and develop accordingly. End-consumer demand may also shift to levels even higher than these legal requirements. Due to the company's progressive product launches, however, these stricter standards may actually drive increased demand for AXL's products.

Management

David C. Dauch is Chairman of the Board, President, and Chief Executive Officer of American Axle & Manufacturing Holdings. He has held positions of increasing responsibility since joining the company in 1995. He became a member of the Board of Directors in 2009. Michael K. Simonte has been Chief Financial Officer since 1998. Alberto L. Satine is the Senior Vice President of Global Driveline Operations and Terry J. Woychowski is the Senior Vice President of Engineering and Quality.



Ownership			
% of Shares Held by All Insider and 5% Owners			2%
% of Shares Held by Institutional & Mutual Fund Owners			88%
	Source: Yahoo! Finance		

Top 5 Shareholders			
Holder	Shares		% Out
Barrow, Henley Mewhinney & Strauss, Inc.	4,789,600		6.32
Ameriprise Financial, Inc.	4,007,238		5.29
Vanguard Group, Inc.	3,861,155		5.10
Gmt Capital Corp	3,293,100		4.35
BlackRock Institutional Trust Company, N.A.	3,047,854		4.02
	Source: Bloomberg		

CGI Group Inc. (GIB)

October 31, 2014

Jordan Schumacher International Technology

CGI Group Inc. (NASDAQ: GIB) is the largest technology firm in Canada and provides IT and business process services. Through its subsidiaries, CGI operates in two main segments: management consulting and system's integration (44.3%), and outsourcing (55.7%). The consulting and system integrations segment includes services such as business transformation, IT strategic planning, business process engineering, and systems architecture. The outsourcing segment develops and implements new application such as integrated enterprise resource planning software for back office operations including financial management, payroll, human resource management, budgeting, and procurement. The company has a rather eclectic customer base, servicing firms in healthcare, financial services, manufacturing, telecom and utilities, as well as government agencies. CGI has operations throughout the world deriving its largest sources of revenue from the US (27%), Canada (15%), UK (14%), and France (12%). The company was founded in 1976 is based in Montreal, Canada.

Price ($): (10/24/14)	33.36	Beta:	0.98	FY: Aug	2013A	2014E	2015E
Price Target ($):	45.41	WACC	9.0%	Revenue (Mil)	$9,936.40	10,433.22	10,694.05
52WK H-L ($):	39.47-29.40	L-Term Rev. Gr Rate Est:	3.5%	% Growth	109.71%	5.00%	5.00%
Market Cap (mil):	10,430.60	L-Term EPS Gr Rate Est:	8.3%	Gross Margin	28.51%	29.50%	30.00%
Float (mil):	275.5	Debt/Equity:	53.3%	Operating Margin	10.63%	13.00%	13.20%
Short Interest (%):	6.9%	ROA:	7.6%	EPS (Cal)	2.27A	2.73E	2.86E
Avg. Daily Vol (mil):	0.244	ROE:	18.0%	FCF/Share	$1.69	$2.29	$2.52
Dividend ($):	N/A			P/E (Cal)	17.13x	13.28	11.66
Yield (%):	N/A			EV/EBITDA	9.29x	8.00	7.61x

Recommendation

CGI Group saw revenue growth of 110.1% in 2013 as a result of its acquisition of Logica in August 2012. However, this revenue growth has slowed to just over 1% for each of the last two quarters as the company fully realizes the net effects of the integration. CGI's experience in M&A integration has proven beneficial to managing synergies associated with the Logica acquisition. CGI has steadily reduced its debt levels and delevered. The firm's debt to equity has fallen to 53.3% from its 2012 high of 95.9%, and financial leverage has trended down to 2.40 from its Q1 2013 high of 3.09. In September, CGI took further steps to strengthen their capital structure by entering into an $855 million debt private placement. The move converted a sizeable portion of the company's short-term obligations into long-term debt at a favorable coupon (weighted average of 3.62%). Globally, CGI's book-to-bill ratio for the trailing twelve months as of Q3 2014 comes in over 1.00, indicating solid demand; moreover, backlog has grown to $16.7 billion compared to just $12.1 billion pre-acquisition. CGI has a presence in a variety of vertical markets. One of the most promising and lucrative is government contracts. CGI derives 13% of revenues from the US federal government alone and is additionally involved with nine state governments. The federal IT market is valued at close to $80 billion representing an excellent opportunity for CGI to capture market share given their experience and expertise. From a valuation standpoint, CGI appears to be trading at a discount to its peers. A P/E of 13.28x and an EV/EBITDA of 8.0x both fall below peer multiples of 15.1x and 9.2x, respectively. Given these reasons along with a favorable valuation, it is recommended the CGI Group Inc. be added to the AIM International Equity portfolio with a price target of $44.26, representing a potential upside of 32.67%.

Investment Thesis

- **Improving Margins.** CGI's acquisition of Logica in August 2012 resulted in explosive growth in 2013 and into 2014, though it has weighed on margins. EBIT margin fell to 7.1% in September

2012; however, CGI has begun to effectively reduce its debt levels and experience integration payments associated with the Logica acquistion diminish. The company recorded Q3 EBIT margin at 12.8%, a 150 bps improvement from the same period one year ago. CGI should see further margin expansion as they shift from lower margin revenue to long-term higher margin contracts from its outsourcing and IP/software segments.

- **Equity Repurchases.** Management has recently indicated that top priorities for the firm's cash flow are organic investments, share buybacks, de-leveraging and acquisition. Historically, the company has returned 26% of its cash balance to investors in the form of equity repurchases. Since the Logica acquisition in 2012, CGI has only deployed 16%. The company uses net debt to capitalization as a measure of leverage. Accordingly, its leverage has fallen from 47% to a more historically appropriate 33%. At this level, the company should feel more comfortable shifting its cash flow deployment materially toward further share buybacks.
- **Further Acquisitions.** Chairman Serge Godin has expressed a goal for CGI to double in size over the next 5 to 7 years. As such, mutliple acquisitions will likely be necessary given the limitations of organic growth within the time period. In the last 10 years, CGI has made 3 acquisitions to expand its operations from both a product offering and geographical servicing standpoint. CGI has quickly grown to a globally recognized brand. However, CGI lacks exposure in several key markets - namely Germany and U.S. (non-governmental). Acquisition of a software or an IT services firm in either these markets would not only capture significant new revenue streams, but also provide existing or potential multinational clients with a single, comprenhensive IT solution.

Valuation

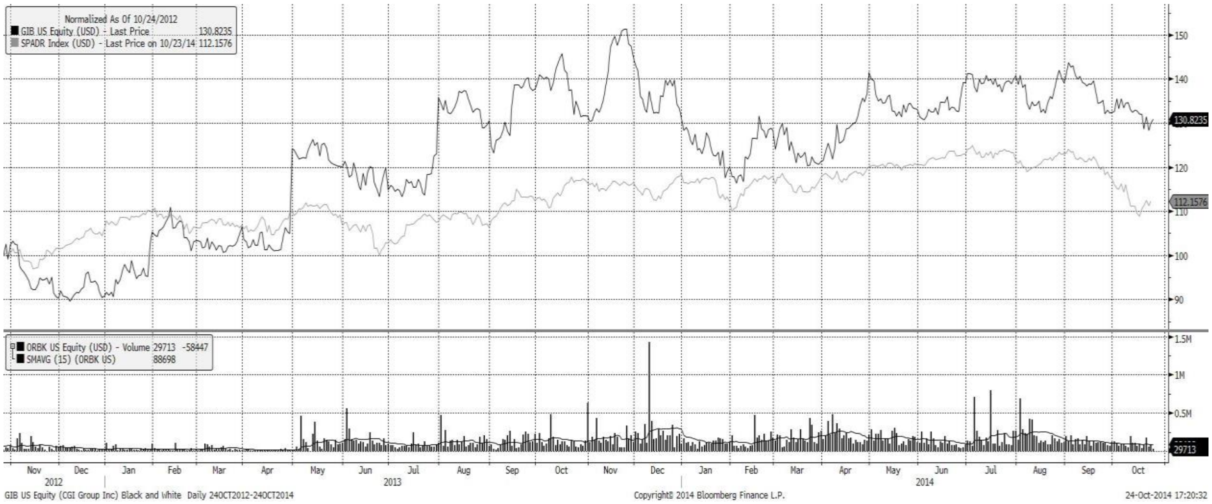
In order to reach an intrinsic value for CGI, a five year discounted cash flow model was run. Using a terminal growth rate of 2.5% and a WACC of 8.98%, the analysis yielded a $47.12 intrinsic value. A EV/EBITDA model was also run in order to strip away variations in capital structure. An industry average EV/EBITDA multiple of 9.2x was used and an intrinsic value of $39.98 resulted. A sensitivity analysis on both the discount rate and next year's cash flow for the DCF yielded a range between $35.61 and $55.83 Weighting the DCF and the EV/EBITDA models 60/40 respectively, a price target of $44.26 was established, representing a potential upside of 32.67%.

Risks

- **Slowing Eurozone Recovery.** The Eurozone has seen rather anemic economic growth since its sovereign debt crisis. CGI derives upwards of 40% of its revenues from this region. If the recovery continues to be stagnant, there could be an adverse effect on European IT services spending, resulting in a material decline from CGI's top line growth.
- **Healthcare.gov Fallout.** In 2011, CGI Federal was awarded a contract to roll out Healthcare.gov for an agreed upon sum of $93.7 million. Upon the site's launch, many users experienced technical problems accessing and utilizing the site, ultimately leading to a fairly public fallout for the current administration and CGI. The U.S. government chose not to renew the $90 million contract for the site's management with CGI in January 2014.

Management

Michael Roach was appointed to the positions of President and CEO in January 2006 and has been with the company since 1998. Roach also serves as a director of the Conference Board of Canada and the US. Andre Imbeau co-founded CGI in 1976 and served as Executive Vice-President and CFO until 2006. Imbeau currently holds an advisory role to the Executive Chairman and CEO. David Anderson is the current Executive VP and CFO. Anderson has close to 30 years of experience in a senior financial role within the technology and services industry.



Ownership

% of Shares Held by All Insider and 5% Owners:	1.30%
% of Shares Held by Institutional & Mutual Fund Owners:	96.01%

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
Caisse De Depot Et Placeme	58,174,038	20.84
FMR LLC	38,692,309	13.86
Bank of Montreal	17,895,486	6.41
CI Investments	15,737,264	5.64
BlackRock	13,581,714	4.87

Source: Bloomberg