Applied Investment Management (AIM) Program

AIM Class of 2013 Equity Fund Reports
Fall 2012

Date: Friday, October 5, 2012 Time: 1:00 p.m.- 2:30 p.m.
Road Show Location: Red Granite

NOTE: The students below will also present to their class from 11 am to noon which will be broadcasted live. Follow this link to join

Student Presenter	Company Name	Ticker	Price	Page No.
Maggie Wanner	Herman Miller	MLHR	$19.44	2
Sam Sladky	Cenovus Energy	CVE	$34.86	5
Peter Lemek	Datalink Corporation	DTLK	$8.28	8
Taylor Nordmark	Genesco Corporation	GCO	$66.73	11

Thank you for taking the time today and participating in the AIM 'road show' at Red Granite. These student presentations are an important element of the applied learning experience in the AIM program. The students conduct fundamental equity research and present their recommendations in written and oral format – with the goal of adding their stock to the AIM Equity Fund. Your comments and advice add considerably to their educational experience and is greatly appreciated. Today, each student will spend about 5-7 minutes presenting their formal recommendation, which is then followed by about 8-10 minutes of Q & A. Again, thank you for allowing us the opportunity to present at Red Granite.

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Herman Miller, Inc. (MLHR)
October 5, 2012

Margaret Wanner — Industrials

Herman Miller, Inc. (NASDAQ: MLHR) designs, manufactures, distributes, and services interior furnishings for office, healthcare, educational, and residential use. The company's products are sold primarily to or through independent furniture dealers in the United States, Europe, Canada, the Middle East, Latin America, South America, and the Asia/Pacific regions. The company is split into three segments. By revenue, those segments are North American Furniture Solutions (71%), Non-North American Furniture Solutions (20%), and Specialty and Consumer (9%). In addition to selling under the Herman Miller name, the company sells furniture under Geiger®, Nemschoff®, Action Office®, Ethospace®, Aeron®, Mirra®, Eames®, PostureFit®, and Canvas Office Landscape™. Herman Miller was incorporated in 1905 and is headquartered in Zeeland, Michigan.

Price: (9/28/12)	$19.44	Beta:	1.25	FY (Dec 31):	2012A	2013E	2014E
Price Target:	$23.35	WACC:	11.00%	Revenue ($mil):	$1,724	$1,799	$1,926
52 WK H-L ($):	23.54-16.03	Mid-Term Rev. Gr. Rate Est.	4.0%	% Growth:	4.54%	4.32%	7.06%
Market Cap ($mil):	1,101.70	Mid-Term EPS Gr. Rate Est.	5.0%	Gross Margin:	34.26%	34.20%	34.80%
Float (mil):	56.1	Debt/Equity:	100.7%	Operating Margin:	8.29%	7.99%	9.42%
Short Interest:	3.87%	ROA:	9.10%	Basic EPS:	$1.29	$1.36	$1.86
Avg. 3 mo. Vol:	139,283	ROE:	33.20%	FCF/Share:	$1.06	$1.31	$2.13
Dividend ($):	$0.36	Shares Outstanding (mil):	58.4	P/E:	14.73	12.53	
Div Yield (%):	1.90%			EV/EBITA (ttm)	6.43		

Recommendation

Herman Miller is a solid company that has built a good reputation over the past hundred years. The company has a strong commitment to maintaining strong margins, keeping employees happy, and providing quality products. Recently, the company missed earnings primarily due to non-cash losses associated with the restructuring of their employee pension plan and softened demand in Europe. Because of the missed earnings, HMLR is at a prime time to buy. Over the next two years, the company plans to invest in improving their facilities and will have lower earnings due to the pension restructuring. Given that, Herman Miller should be bought with a 3-5 year time horizon. In the meantime, the company pays a solid quarterly dividend and is in a good position to take advantage of a slowly recovering American economy. Taken as a whole, it is recommended that Herman Miller be added to the AIM Equity Fund with a target price of $23.35 offering an upside of 20%. Herman Miller pays quarterly dividends with a 1.9% annual yield.

Investment Thesis

- **Strong Brand Image.** When consumers think of Herman Miller, they think quality and design. Herman Miller is a not necessarily a luxury brand, but they are by no means a discount operation. For the past hundred years, the company has grown its reputation for excellence in design and corporate responsibility. The company consistently win awards in all areas of their business from product design to environmental stability. Herman Miller's commitment to both quality and corporate responsibility helps them win government contracts and appeal to a wide customer base. As employment begins to pick up in the United States, HMLR is well positioned to gain market share.

- **Growth Opportunities.** The company's plan for growth is essentially to keep playing to their strengths. Herman Miller spends about 3% of sales on research and design to offer superior interior solutions. This commitment to R&D will allow for growth in both their primary markets and adjacent markets; such as small businesses, higher education and residential. Sales of specialty products from adjacent markets and new markets rose 18% in FY 2012. While the company has sales worldwide, there is still significant room for growth both in their current markets and in an expanding geographic area.

Valuation

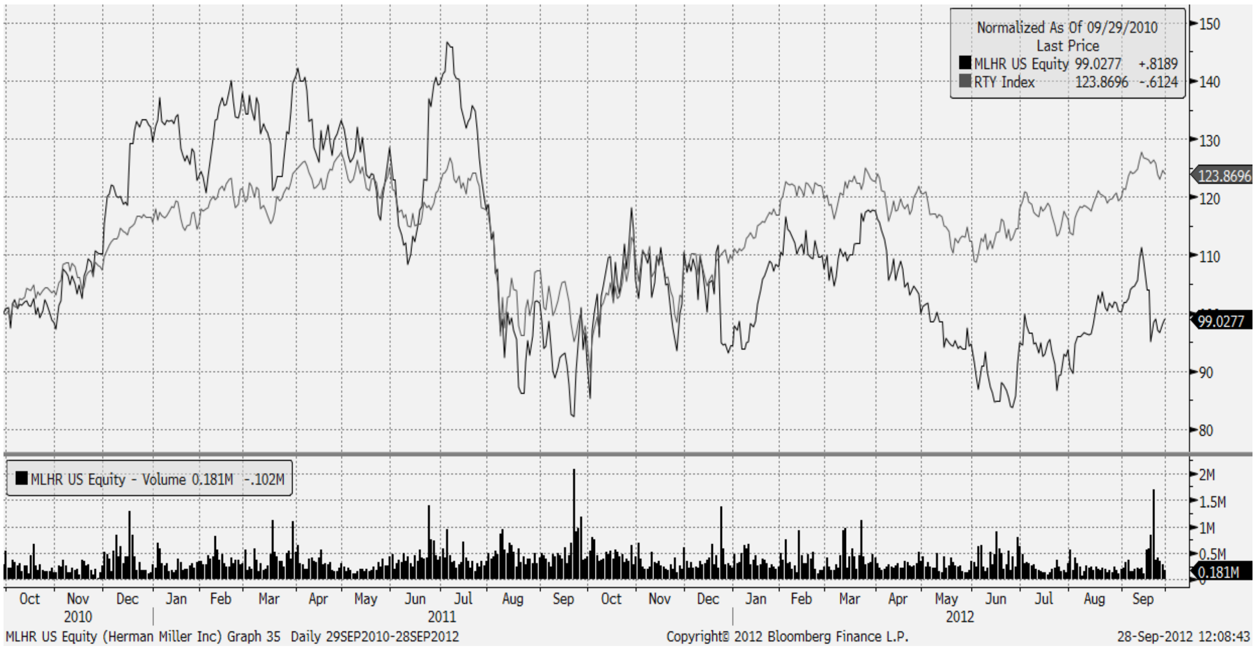
To find the intrinsic value of Herman Miller, a ten-year discounted cash flow was conducted. Revenue growth rates varied based upon management's predictions and plans for expansion. A discount rate of 11% and a perpetuity rate of 1.5% were used to yield an intrinsic value of $21.09. A sensitivity analysis was also performed with varying discount rate and terminal value assumptions. In addition to using a DCF model, a relative valuation approach was used. Using a P/E ratio of 17.71x, this method provided an intrinsic value of $26.74. The P/E ratio was based on a five-year historical average of 16.54x and competitor comparison of 18.88x. Giving a 60/40 weight to the DCF and multiple methods respectively, a price target of $23.35 was established. At the current price of $19.44, this allows for an upside potential of 20.1%.

Risks

- **Competition.** The furniture market is highly competitive and there is a chance that Herman Miller will not be able to successfully compete. While Herman Miller attempts to differentiate itself with brand recognition and an emphasis on quality and design, there is no guarantee that the company will be able to compete with lower priced competitors. Among their main competitors are Haworth, HNI Corporation, Kimball International, Knoll, and Steelcase.
- **Federal Budget Cuts.** The US federal government is the largest single end-user accounting for 9.5%, 14%, and 14% of sales in 2012, 2011, and 2010 respectively. While it is unlikely that the US government will stop awarding contracts to Herman Miller, a decrease in sales may occur with federal budget cuts.
- **Struggling World Economy.** The weak Euro and lower European demand was a main contributor for lower than expected EPS in Q1 FY 2013. Sales continue to grow in Asia and Latin America although that could change. The slow down in China could also be detrimental to sales in the future, but may help to lower the cost of their materials if commodity prices fall. At home there appears to be the beginning of some of the highest growth in the industry since the beginning of the recession, but continued recovery is not guaranteed.

Management

Brian Walker has been CEO of Herman Miller since July of 2004 and is the only member of company management on the board. Before becoming CEO, Walker served time as COO, President of Herman Miller North America, and CFO. Michael Volkema has been Chairman of the Board, since October of 2000. He has more than 20 years of experiences as a senior executive in the home and office furnishing industry partly from serving as CEO and President of Herman Miller in the past.



Source: Bloomberg

Ownership

% of Shares Held by All Insider and 5% Owners:	3.87%
% of Shares Held by Institutional & Mutual Fund Owners:	85.1%

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
Capital Research Global	3,520,000	6.03
Vanguard Group, Inc.	3,082,688	5.28
Neuberger Berman LLC	2,787,619	4.77
Colombia Wanger Asset Management	2,575,400	4.72
J.P. Morgan Chase & Co.	2,638,429	4.52

Source: Bloomberg

Cenovus Energy, Inc. (CVE)
October 5, 2012

Sam Sladky International Energy

Cenovus Energy, Inc. (CVE) is a Canadian integrated oil company which began operations in December 2009. It is the result of EnCana Corporation splitting into two independent energy companies: EnCana, which produces natural gas and CVE, which operates primarily in the oil industry. CVE and its subsidiaries are in the business of the development, production, and marketing of crude oil and natural gas in Canada with refining operations in the United States. The company primarily explores and produces oil in northern Alberta and southern Saskatchewan, through oil sands projects and the use of steam-assisted gravity drainage. The upstream business segment of exploring, drilling, and producing oil comprised 34% of revenue in 2011, while downstream refining made up the other 66%. CVE is headquartered in Calgary, Alberta with approximately 5,000 employees.

Price ($) (9/26/12):	$ 34.86	Beta:	1.34	FY: December	2011A	2012E	2013E
Price Target ($):	$ 40.39	WACC	11.0%	Revenue ($Mil)	15,862.42	16,881.98	17,393.00
52WK H-L ($):	39.55-28.78	M-term Rev. Growth Rate Est	3.4%	% Growth	29.2%	6.4%	3.0%
Market Cap (mil):	26,440.80	M-term EPS Gr Rate Est.	1.7%	Gross Margin	91.76%	90.00%	90.00%
Short Interest:	0.59%	Debt/Equity:	41.4%	Operating Margin	15.78%	15.00%	15.00%
Float (mil)	4.4	ROA:	7.5%	EPS ($Cal)	$2.00	$2.07	$2.13
Ag. Daily Volume (mil)	1.187	ROE:	17.0%	FCF/Share ($)	0.57	0.76	1.71
Dividend (2011):	$ 0.81			P/E (Cal)	19.33	20.00	20.00
Div. Yield (2011):	2.36%			EV/EBITDA	11.22	7.01	6.68

Recommendation

As an essential aspect of energy production and transportation, the demand for oil remains relatively inelastic. According to the International Energy Administration, estimates project the demand for oil will outpace supply with global demand nearing 118M barrels per day by 2030. Due to the increasing demand, oil companies will need to continue to expand their production capabilities in order to take advantage of the increase. CVE is well positioned to meet this demand by further developing its oil sands acreage, which consists of over 6.7M acres of land in Alberta and Saskatchewan. During 2011, CVE drilled a record 491 strategic test wells to support the next phase of its expansion. Currently, CVE is ahead of schedule in completing multiple phases as well, with projections to reach production levels of 500,000 barrels of crude oil per day by the end of 2021. In addition to increasing topline growth, CVE has insulated itself from oil price shocks through its integrated oil partnership with ConocoPhillips. CVE has a 50% ownership in 2 refineries, which vertically integrates the company's operations to mitigate the volatility associated with commodity price movements. CVE is recommended to be added to the AIM International portfolio with a price target of $40.39, yielding an upside of 16%. The current dividend yield is 2.36%.

Investment Thesis

- **Oil Sands Acreage Potential:** CVE's current oil sands acreage holdings are among the most economical in Canada. CVE owns land in key bituminous bearing regions of Alberta which is key since oil sands projects are on track to account for more than 88% of Alberta's oil production by 2017. CVE has committed to 500,000 net barrels of oil production per day, citing increased production through these oil sands as the primary driver. The oil sands acreage will lead to development opportunities and production growth for years to come.
- **Completion of Phases:** The Foster Creek and Christina Lake oil sands projects have multiple development phases in construction, which are projected to double net bitumen production by 2015. CVE currently has 3 phases in the midst of development at Foster Creek, with another 10

phases recently given regulatory approval at Narrow Lake. Each development phase has an expected life of 30-40 years with minimal maintenance capital requirements and nonfuel operating costs. The 10 recently approved phases are projected to net CVE around 220,000 barrels per day. Analysts estimate that CVE's production from its share of Alberta's oil sands will grow nearly 5 times higher by 2019 than in 2011, due to phase completions.

- **New Technologies/techniques:** CVE is continuing to implement new technologies and techniques to increase oil sands recovery and improve returns. Most recently, the company has begun to install high-temperature electrical submersible pumps (ESPs). These pumps help to decrease well pressure to increase flow rates, and help lower steam/oil ratios. CVE is also improving oil recovery without additional operating costs through infill drilling. By drilling a single horizontal well between two steam-assisted gravity drainage (SAGD) well pairs, CVE can collect additional bitumen which would otherwise have been unrecoverable. Finally, CVE has begun use of a Solvent Aided Process (SAP) which increases production by as much as 30%.

Valuation

To find the intrinsic value of CVE, a five-year DCF was conducted. After projecting out revenues, a WACC of 11% was used with a terminal growth rate of 2.5% to yield an intrinsic value of $36.32. A P/E multiple was also used with a price target multiple of 20x. After weighing the 2012 and 2013 EPS at 50-50, a price target of $41.96 was found. Finally, a dividend discount model was used. With a target dividend yield of 2.35% and a 2013 dividend of $0.96, a target price of $40.85 was achieved. After weighing the DCF, P/E multiple, and dividend discount price targets at 20%, 40%, and 40% respectively, an overall price target of $40.39 was achieved, with an upside of 16%.

Risks

- **Substantial Decline in Commodity Prices.** A decline in commodity prices can have a negative effect on the operational performance of CVE. A prolonged drop in the price of crude oil could cause earnings and cash flow to decline, forcing the company to curtail capital spending, sell assets, and increase external financing. Although CVE is heavily dependent on commodity prices to draw revenue, CVE has been able to diversify as a vertically integrated oil company. This will help to reduce the pressure of declining commodity prices since the downstream operations would see operating margin expansion with declining commodity prices.
- **Reserve Replacement Risk.** If CVE fails to acquire, develop, or find additional crude oil reserves, their reserves and production will decline materially from current levels. The company's inability to gain approval for new projects could negatively impact the performance of the company. Therefore, CVE's cash flows are highly dependent upon successfully producing current reserves and acquiring, discovering, or developing additional reserves.
- **Government Regulations.** Additional governmental laws and regulations, including environmental laws and regulations, may add costs or affect CVE's operating activity. New legislation in the U.S. or Canada restricting construction of new pipelines could curtail oil sands development, cause transportation bottlenecks, and negatively impact price differentials for the company.

Management

Many members of CVE's management team transitioned from EnCana in the 2009 split. President and CEO Brian Ferguson was previously the CFO of EnCana, which he joined in 1984. Prior to his role as CFO of EnCana, Ferguson held various executive leadership positions related to corporate development, reserve assessments, and legal functions. The current CFO of CVE was previously EnCana's Chief Risk Officer. With an effective, experienced management team in place, CVE is now pushing to establish its own identity separate from EnCana.

Ownership

% of Shares Held by All Insider and 5% Owners:	N/A
% of Shares Held by Institutional & Mutual Fund Owners:	67.21%

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
Pyramis Global Advisors Trust Co	29,104,595	3.86
Harris Associates	28,079,711	3.72
RBC Global Asset Management	26,953,931	3.57
BMO Financial Group	24,302,086	3.22
Jarislowsky Fraser Limited	23,177,041	3.07

Source: Bloomberg

Datalink Corporation (DTLK)

October 5, 2012

Peter Lemek Information Technology

Datalink Corporation (NASDAQ: DTLK) is a value added reseller (VAR) that is leader in database information architecture support focusing on mid- and large-sized companies. DTLK unifies IT structures such as servers, storage units, and networks throughout the lifecycle of projects to make data centers more efficient, manageable, and responsive to changing business needs. Their portfolio of solutions and services spans four sectors: consolidation and virtualization, data storage and protection, advanced network infrastructures, and business continuity and disaster recovery solutions. In 2011, DTLK generated 65% of revenue from software and hardware products and 35% of revenue from customer support contracts and consulting services. The company was incorporated in Minnesota in 1987, and it currently has approximately 390 employees.

Price ($): (9/28/201	8.28	Beta:	1.23		FY	2011A	2012E	2013E
Price Target:	$13.12	WACC (%):	12.23		Sales (mil)	380.027	491.13	613.913
52 week H-L($)	11.00-6.11	M-Term Rev Gr Rate Est	20%		%Growth	29.40%	29.24%	25.00%
Market Cap (mil):	149.6	M-Term EPS Gr Rate Est	2.50%		Gross Margin(%):	23.86%	23.36%	23.36%
Float (mil):	15.6	Debt/Equity:	0		Operating Margin(%):	4.71%	4.66%	4.86%
Short Interest (%):	3.93	ROA (%):	4.56		EPS	0.61	0.80	1.05
Avg Daily Volume	115,630	ROE (%):	13.65		FCF/Share	0.75	0.62	1.08
Dividend ($):	0				P/E	13.11	16.40	12.49
Yield (%):	0				EV/EBITDA	5.71	9.44	7.32

Recommendation

DTLK has preferred status with major hardware and software suppliers within the industry, including EMC, Hitachi, Oracle, and VMware. They currently have a broad customer base of over 2,000 with 95% of current revenue coming from retained customers including higher margined service products. Organizations are continuing to look outside their in-house IT personnel to make the transition to virtualization and private cloud computing to cut costs and expand capacity for their database centers. DTLK also benefits from unique pressures on manufacturers. Sophisticated virtualized storage, network, and server solutions require the integration of various products manufactured by various suppliers. These manufacturers generally only focus on their specific portion of a data center leaving integration efforts to expertise companies like DTLK. Despite a longer sales cycle, estimated at 30-45 days longer and negatively impacting 2Q12, DTLK still managed 26% q/q growth in revenue. Their sales pipeline continues to be strong with a 16% q/q growth in 2Q12 indicating continued demand for the company's services. The company purchased Midwave Corporation in 2011 at 9.8x earnings for $19.1 million, and it expects further mergers and acquisitions in the future to expand their market penetration along with organic growth. It is recommended that DTLK be added to the domestic equity portfolio at a price target of $13.12, an appreciation of 58%. The company does not pay a dividend.

Investment Thesis

- **Growth in Enterprise Data.** Industry surveyor, Gartner, estimates that enterprise data will increase by 800% over the next five years. As data continues to strain current in-house resources, companies are trying to increase capacities with cost efficiencies by turning to virtual machine platforms. The transition to a virtual platform can be daunting requiring the assistance of outside data center solutions and service providers. DTLK provides expertise in advanced network infrastructures to assist in making data centers more flexible to specific business needs and increasing regulatory demands.
- **Virtualization and Private Cloud.** With more secured data demand and continual budget constraints on companies' IT departments, Gartner estimates that firms will spend more money on private cloud solutions compared to public cloud solutions through 2014. Private cloud

computing allows for a safer way to share storage capacity within a company's network, as opposed to public cloud storage, while virtualization allows for new servers to be set up "virtually" on existing server hardware. 75% of mid- and large- sized corporations see virtualization as a basis for migration to private cloud computing through 2015. DTLK is well positioned to help companies achieve maximum storage usage and meet cost constraints through their virtualized data center (VDC) business. This business segment achieved a 31% q/q growth in Q2 with management expecting continual growth which the company is able to support with their 24/7 customer service personnel and their attached data protection and backup services enhancement.

Valuation

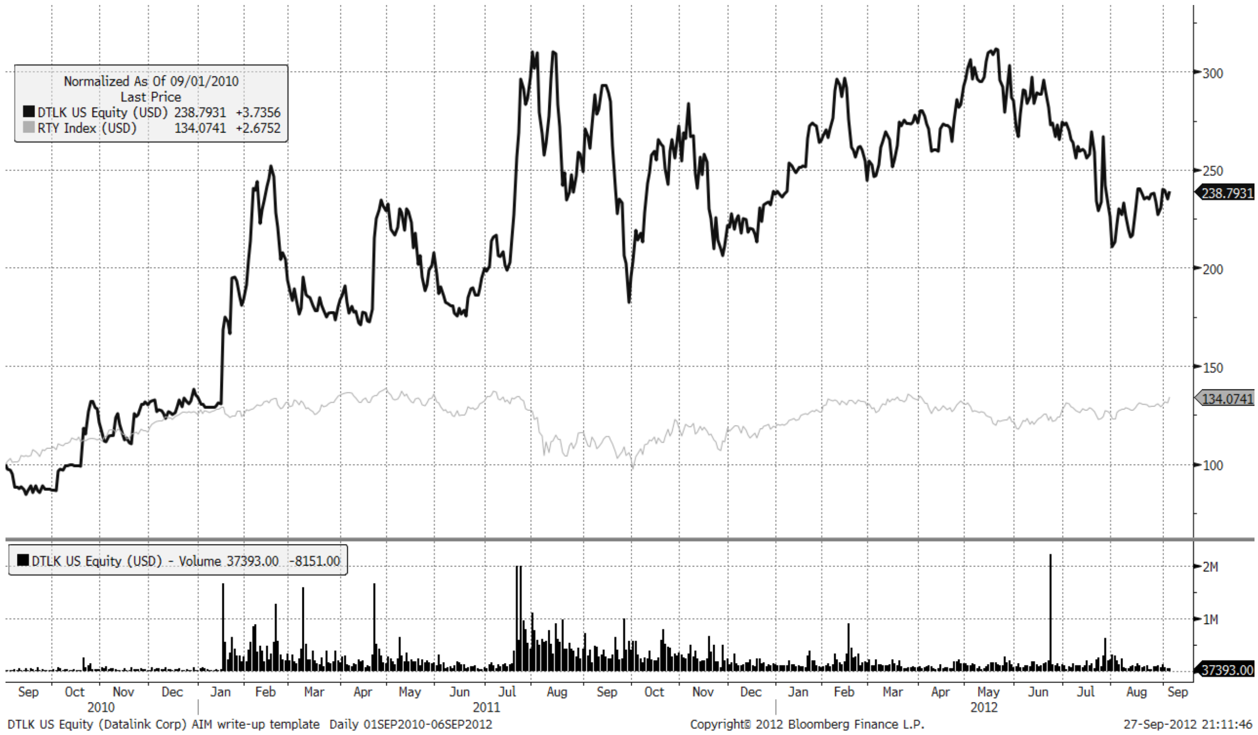
To find an intrinsic value of DTLK, a five-year DCF model was constructed. Sales growth rates were varied according to management and economic outlooks concerning the company's two reportable revenue segments. The company's current WACC of 12.23% was given a 200bps premium. This discount rate of 14.23% was used along with a 3% perpetuity growth rate to arrive at a value of $16.93. A sensitivity analysis was conducted varying the discount rate and the growth rate which yielded a low of $12.72 and a high of $24.80. Along with the DCF, an industry average EV/EBITDA was determined and used to return an intrinsic value of $9.30. A weighted mix of 50/50 DCF to EV/EBITDA yielded an intrinsic value of $13.12, an upside of almost 60%, with no dividend.

Risks

- **Adverse Macro-Economic Conditions.** The recent volatility in the global macroeconomic environment has negatively affected the abilities of many of DTLK's customers and suppliers to obtain financing for significant purchases, reducing orders for their products and services.
- **Competition and Consolidation.** The current marketplace for enterprise-class data storage, servers, and networking is rapidly evolving and very competitive. Many current and potential competitors are the firm's suppliers, and many have significantly more resources. If the current industry continues to consolidate, competition from suppliers is expected to increase as fewer suppliers with more resources would increase in the market. It would have an adverse outcome on the company's market presence if it lost its preferred provider status which it maintains with many of these suppliers.
- **Adverse Acquisitions.** As the company continues to penetrate new market places through mergers and strategic acquisitions, integration issues may occur. Risks include failing to achieve anticipated synergies, increased revenues, and integration of acquired new technologies. DTLK could also increase substantial indebtedness or dilute existing equity for acquisition payment purposes leading to a 200bps premium.

Management

Mr. Paul Lidsky is the current President and CEO. He was elected as a director for the company in 1998, and he was appointed to his current position in July 2009. Mr. Lidsky was the President and CEO of Calbrio, Inc. from 2007-2009, and COO of Spanlink Communications, Inc. from 2005-2007. Mr. Gregory Barnum is the Vice President of Finance and the company's CFO. He has been on the Board of Directors since 2006, and prior to joining DTLK, he served as the CFO and Corporate Secretary of Computer Network Technology Corporation from 1997-2005.



Ownership

% of Shares held by All Insider and 5% Owners:	17%
% of Shares Held by Institutional & Mutual Fund Owners:	54%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Outstanding
Wellington Management Company, LLP	685,119	3.79
Allianz Asset Management AG	638,510	3.53
Punch & Associates Investment Mgt.	550,969	3.05
BlackRock Institutional Trust Company	526,233	2.91
Putnam Investment Management	505,800	2.80

Source: Yahoo! Finance

Genesco Corporation (GCO)
October 5, 2012

Taylor Nordmark — Consumer Discretionary

Genesco Corporation is a leading retailer of branded footwear, licensed and branded headwear and accessories and is a wholesaler of branded footwear. The company sells its merchandise in North America (90% of global sales), Ireland, and the United Kingdom (combined 10%), in roughly 2,400 retail locations and through e-commerce platforms. In addition, GCO distributes merchandise under several licensed brands, including Dockers footwear and SureGrip footwear, in various department and specialty stores. The company operates stores under numerous banners including Journeys (1017 locations), Underground by Journeys (137), Johnston and Murphy (153), Lids Sports (1002), and Schuh (78). Genesco Corp. was founded in 1924 and is headquartered in Nashville, TN.

Price ($) (9/28/2012):	$ 66.73	Beta:	1.121	FY January	2012A	2013E	2014E
Price Target ($):	$ 81.09	WACC:	11.48%	Revenue ($Mil)	$2,291.99	$2,531.49	$2,771.00
52WK H-L ($):	12.17 - 22.53	Debt/Equity:	5.7%	% Growth	28.06%	10.45%	9.46%
Market Cap (mil):	$ 1,653.70	2011 ROE:	12.3%	Gross Margin (%):	50.35%	51.00%	51.00%
Float (mil):	23.7	2011 ROA:	7.5%	Operating Margin (%):	6.39%	7.05%	7.70%
Short Interest (%):	5.1%	Long-Term Rev Gr Rate Est (3-5 yr)	8%	EPS	$ 3.48	$ 4.04	$ 5.01
Avg. Vol (3 month):	274,308	Long-Term EPS Gr. Rate	9%	EPS % Growth	51%	16%	24%
Yield (%)	N/A	P/EBITDA	6.81	P/E (Cal)	19.18	16.19	13.36

Recommendation

GCO has grown sales every year since 1996 from $434M to $2.3B, and has remained profitable throughout the recent business downturn. Capable management, as well as timely acquisitions and good execution have helped Genesco achieve consistent sales growth over the last 15 years (11.7% CAGR). During the trough of the Great Recession, management focused on leveraging expenses which has positively affected margins; operating margins climbed to 6.4% after posting a record low 3.5% in 2008. The company successfully entered the European market with their acquisition of Schuh in June 2011, and it has shown to be a valuable segment of their business already as it contributed 10% of total sales through only nine months of operation. Additionally, the economic downturn in Europe has allowed the company to enter into attractive retail locations at discounted rent prices. GCO is poised to deliver earnings growth through their continued expansion domestically and abroad, as well as through cost control and cost cuts. It is recommended that Genesco Corporation be added to the AIM domestic portfolio with a price target of $81, offering a 22% return potential.

Investment Thesis

- **Addition of Schuh and Increased Presence in Foreign Markets.** In June 2011, the company acquired Schuh for $100MM. Schuh retail stores sell a broad range of branded casual and athletic footwear along with a private label primarily for 15 to 30-year old men and women. The Schuh segment contributed $221M of sales and $11M operating income through just 9 months of FY12. The company opened up 5 new Schuh locations in the first half of FY13 and is on track to reach their target of opening 17 new stores for the year; this expansion target would translate to a 22% increase in square footage for the Schuh segment. Given that the average Schuh store sales are roughly 4x the average Journey store sales, this could represent significant growth. Additionally, as management felt that the domestic market for Journeys Group and Johnston & Murphy was becoming saturated, they have targeted Canada as the market with expansion potential. Management has stated interest in continued expansion for its most profitable segments: Lids Sports (10.8% FY12), Journeys (8.9%), and Johnston & Murphy (6.8%). GCO opened its first Canadian J&M store last year and has implemented an e-commerce portal with a Canadian URL.
- **Margin Expansion.** GCO is beginning to see operating margin return to historical levels albeit slowly. Since bottoming out at 3.6% in FY08, the company has steadily been improving

operating margin at a 15% CAGR and last year attained a margin of 6.4%; operating margin consistently remained around 9% in the 10-year period prior to 2008 and that is the company's target going forward. Several factors contributed to this turnaround including a rebound in Same Store Sales from -4% in FY08 to 13% in for FY12. Increased internet marketing through digital and mobile channels is on management's agenda. E-commerce sales typically produce higher margins than brick and mortar sales; effective marketing digital marketing campaigns would contribute to margin expansion.

- **Improved Condition of Leases.** GCO's management deserves credit for turning the adverse retail climate into a positive. Due to the slowdown in retail traffic and a shortfall in sales in 2010, Genesco was able to terminate lease agreements wherein there were clauses which called for a certain level of sales volume. This allowed the company to trim underperforming stores in a cost effective manner and negotiate better rents; these adjustments contributed to a decrease of 110 bps in SGA as a percentage of sales. The developing economic environment in Europe also presented an opportunity for GCO. The slowdown has caused retail locations in attractive markets to become available and at a discount.

Valuation

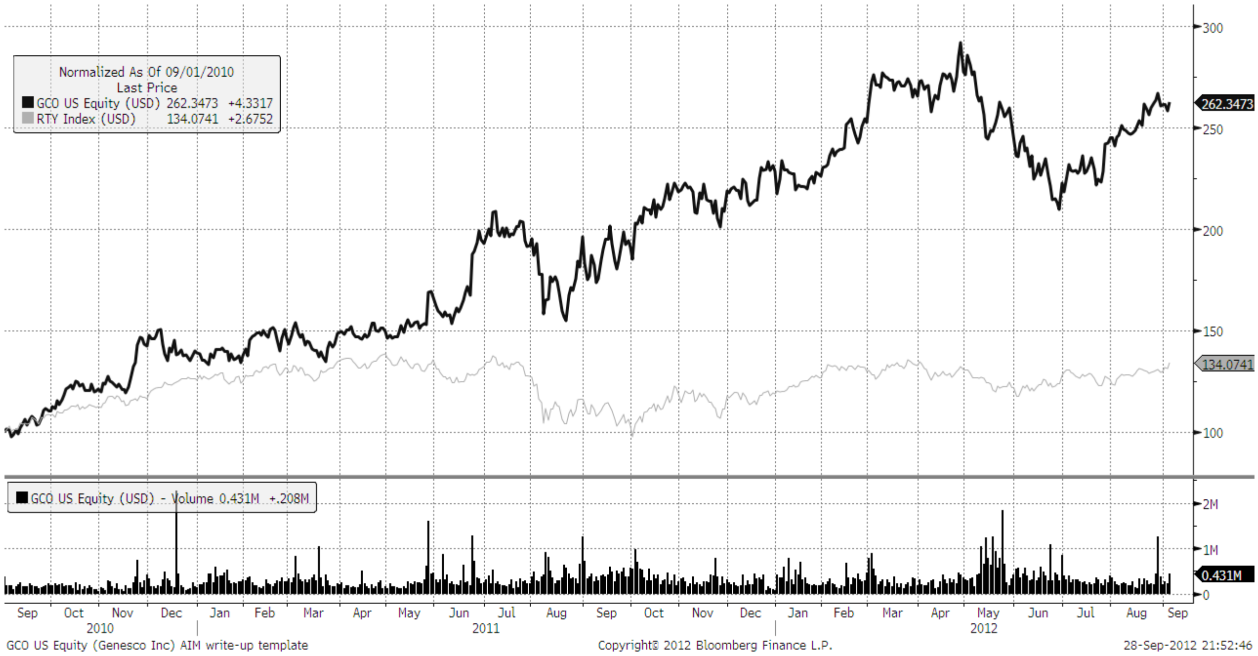
To find the intrinsic value of GCO, a five-year DCF using a computed WACC of 11.48% was performed to yield an intrinsic value of $84.87. Additionally, an industry average EBITDA multiple of 7x was applied to FY13 EBITDA forecast of $234M equaling a value of $65.87; a multiple of 7x was obtained by computing the average EBITDA multiple of its five closest competitors in regards to market cap and sales mix. Finally, a sensitivity analysis was applied with the WACC and terminal growth rate varying 8-15% and 1-3% respectively to yield $92.53. The three approaches were then equally weighted to obtain an intrinsic value of $81.09, an upside of approximately 22%. The company does not pay a dividend.

Risks

- **Challenging Macroeconomic Environment.** While the bulk of GCO's sales come from the United States, the expansion into Europe with the acquisition of Schuh brings about additional risks. Though Schuh has exceeded management's expectations since the acquisition, the continued presence of uncertainty and the deteriorating economic fundamentals in Europe do not bode particularly well Schuh. There could be a material drop in sales as well as tightening of margins as consumers in Ireland and the UK shift to items selling at lower prices and markdowns.
- **Competitive Environment.** Retail is one of the industries with the least barriers to entry and new competitors typically enter when existing firms are doing well. Performance is highly related to trend recognition and execution. GCO is slower to come to market than some of its vertically-integrated competitors. While the company has done a good job of staying on the right side of trends recently, slow trend recognition or execution could lead to obsolete inventory, margin pressure from markdowns, and loss of sales to competitors.

Management

Robert Dennis has been CEO of Genesco since October 2006. He has 27 years of retail experience and was a leader of McKinsey & Company's North American Retail Practice from 1990 to 1997. He holds an MBA from Harvard Business School with a focus on consumer marketing. James Gulmi has been with GCO for nearly 40 years and has acted as the company's CFO since 1986. The company's corporate officers have an average tenure of 21+ years with the company.



Ownership

% of Shares Held by All Insider and 5% Owners:	4%
% of Shares Held by Institutional & Mutual Fund Owners:	94%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
EAGLE ASSET MANAGEMENT, INC.	3,389,180	13.95
VANGUARD GROUP, INC.	1,333,100	5.49
DIMENSIONAL FUND ADVISORS LP	1,043,951	4.30
BLACKROCK FUND ADVISORS	1,026,536	4.23
FISHER INVESTMENTS, INC.	899,810	3.70

Source: Yahoo! Finance