Applied Investment Management (AIM) Program

AIM Class of 2017 Equity Fund Reports
Fall 2016

Date: Friday, October 7th | ***Time:*** *3:00 – 4:30* p.m. | ***Location:*** ***AIM Research Room 488***

Student Presenter	**Company Name**	**Ticker**	**Sector**	**Page**
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These student presentations are an important element of the applied learning experience in the AIM program. The students conduct fundamental equity research and present their recommendations in written and oral format – with the goal of adding their stock to the AIM Equity Fund. Your comments and advice add considerably to their educational experience and is greatly appreciated. Each student will spend about 5-7 minutes presenting their formal recommendation, which is then followed by about 8-10 minutes of Q & A.

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Farmer Brothers (FARM)
October 7, 2016

Patrick Wade Consumer Staples

Farmer Brothers Co. (NASDAQ: FARM) is a national coffee roaster, wholesaler, and distributor of coffee (68% of revenue), culinary products (10%), tea (4%), spice (6%), and other beverages (11%). All of their revenue is generated in the United States. Coffee makes up the largest portion of their operations with a robust line of roast and ground coffee, including organic, direct trade, Direct Trade Verified Sustainable Coffees (DTVS), and other sustainably produced offerings. They serve a large assortment of customers which include institutional clients such as restaurants, convenience store chains, hotels, gourmet coffee houses, etc. Farmer brothers was founded in 1912, incorporated in California in 1923, and reincorporated in Delaware in 2004.

Price ($):	34.59
Price Target ($):	45.13
52WK H-L ($):	$24.04 - 36.96
Market Cap (M):	610.4
Float (000):	7,786.80
Short Interest (%):	4.10%
Avg. Daily Vol:	62872.0
Dividend ($):	-
Yield (%):	0.00%

Beta:	0.75
WACC	7.36%
M-Term Rev. Gr Rate Est:	3.73%
M-Term EPS Gr Rate Est:	4.91%
Debt/Equity:	1.4%
Debt/EBITDA (ttm):	0.05x
ROA:	29.5%
ROE:	66.0%
ROIC:	65.1%

FY: June	2015	2016	2017E	2018E
Revenue (Mil)	545.88	544.38	567.52	591.07
% Growth	3.31%	-0.27%	4.25%	4.15%
Gross Margin	35.32%	40.72%	37.18%	36.33%
Operating Margin	1.81%	5.42%	3.17%	5.04%
EPS (Cal)	$0.04	$5.41	$0.60	$1.08
FCF/Share	$0.62	($1.35)	($3.16)	$1.57
P/E (Cal)	587.5	5.9	57.7	32.1
EV/EBITDA	16.4	11.1	13.0	9.8

Recommendation

With a relatively new management team, there are concerns their about their inability to perform moving forward. However, if you look at their previous industry experience, they have a wealth of leadership and management positions previous to joining Farmer Brothers. Since 2012, when Michael Keown, the President and CEO took office, the company has appreciated over 200%, which is a testament to his leadership abilities. Keown has also initiated a strategic initiative to reduce costs to compete more effectively, which is the major reason they are moving their headquarters from Torrance, California to Fort Worth, Texas. Additionally, Farmer Brothers replaced their long-haul fleet operations with a new third-party logistics service provider and have entered into a vendor managed inventory arrangement with a third party. This third party logistics arrangement is expected to reduce costs associated with fuel consumption and empty trailer miles, while the vendor managed inventory arrangements will help reduce raw material, finished goods, and logistics costs. Both of these arrangements are expected to increase efficiency and expand margins in the coming periods. Also, the acquisition of China Mist will not only help grow their tea product lines, but will increase value through their distribution chains and add to the culture of sustainable practices. Due to the projections that Farmer Brothers will continue to be a strong, stable force in the production of coffee, tea, etc., it is recommended that Farmer Brothers Co. be added to the AIM Equity Fund with a price target of $45.13, representing a 30.46% upside. FARM does not pay a dividend.

Investment Thesis

- **Corporate Relocation Plan.** Mike Keown, CEO, announced that the company is planning to move into a new corporate headquarters located in Fort Worth from their previous facility in Torrance, California in the third quarter of FY ‘17. The new facility is going to be state-of-the-art and will allow Farmers Brothers to produce their products more efficiently. Mike Keown estimates that the new facility, along with the addition of third party logistics and inventory management, will reduce annual costs by up to $20 Million, which is approximately 5% of their current SG&A cost.
- **Expanding Tea Market.** During the last quarter of FY ‘16, Farmer Brothers entered into an agreement to acquire China Mist Brands, Inc. a producer and distributor of iced teas sold in over

20,000 locations throughout the United States. The Transaction is expected to take place in the second quarter of 2017. The overall consumption of tea in the United States is expected to grow at a CAGR of 5-6% in the coming years, which will help stimulate revenue growth. Additionally, between 2010 and 2015, tea saw a 16% increase in menu occurrences. This paired with the established customers of Farmer Brothers could lead to top line growth for the coming quarters.

- **A Move Toward Sustainability.** Along with the Global Coffee Platform, the Specialty Coffee Association of America, and the Sustainable Coffee Challenge, FARM has made the initiative to make progress to make the industry 100% sustainable. In fiscal 2016, Farmer Brothers completed their first third-party audit of their Direct Trade Verified Sustainable program and has led to a greater transparency within the program. Additionally, the new facility is expected to achieve LEED* Silver Certification, which would join their already LEED* Certified facility in Portland. With this in mind, a report issued by CDP states that companies that invest in carbon reduction achieved a 50% less volatility and had an 18% higher ROI than companies that are not low carbon friendly.

Valuation

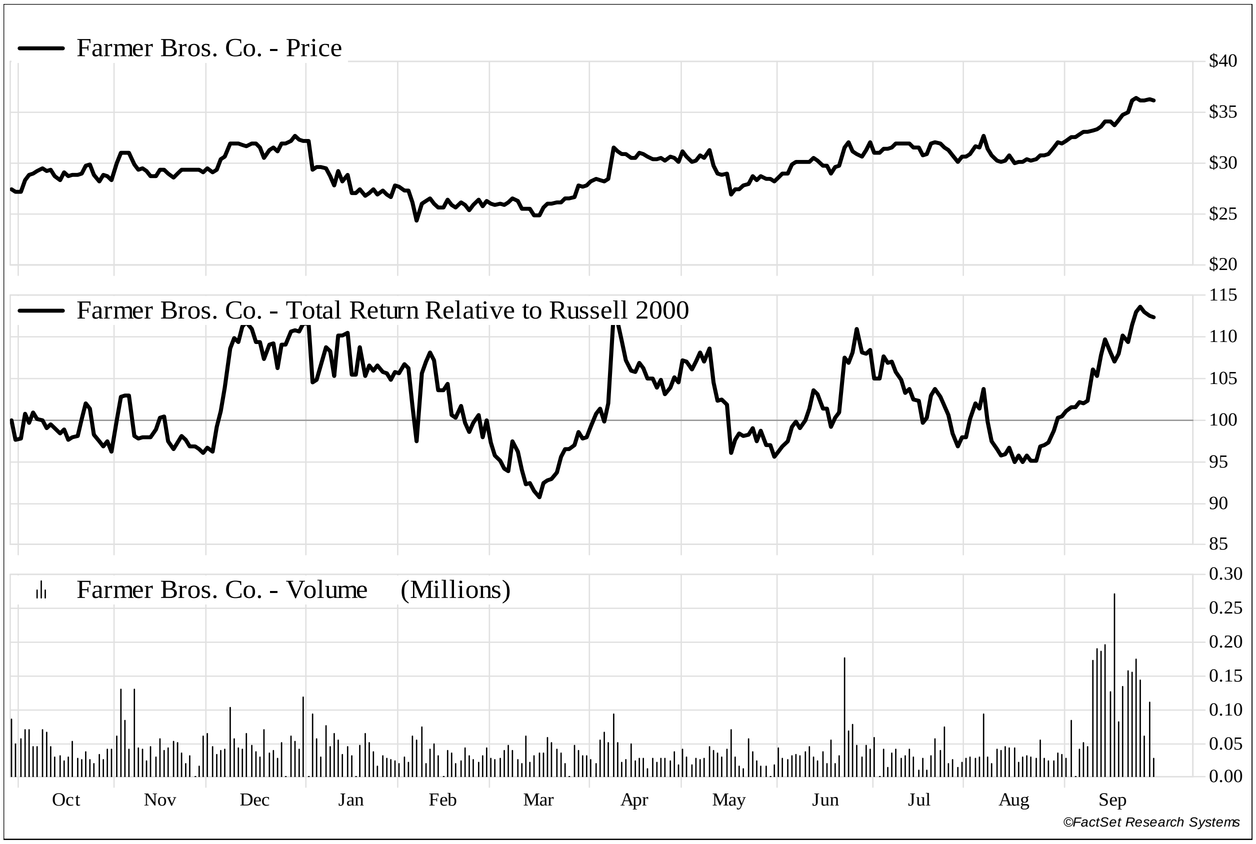
In order to reach an intrinsic value for FARM, a five year DCF model was constructed. Using a terminal growth rate of 2.25%, WACC of 7.36%, an intrinsic value of $46.15 was reached. A sensitivity analysis on the terminal growth rate and the WACC ranged from $39.39 - $55.94. Additionally, an EV/EBITDA multiple valuation was conducted using NTM EBITDA of $42.98 and a comparables average EV/EBITDA of 16.975x, which resulted in a valuation of $43.48. By weighting the two valuation models 60/40, a price target of $45.13 was reached, which yields a 30.46% upside. FARM does not pay a dividend.

Risks

- **Save Farmer Bros Group.** Carol Farmer Waite, the granddaughter of the founder of Farmer Brothers, wants a change in leadership due to the decision to relocate the corporation to Fort Worth. In a letter to Farmer’s directors, she highlights that her and other family members of the group own 23% of the stock outstanding. Waite revealed three names she intends to push for a leadership position: Tom Mortenson, a retired senior vice president of route sales; John Samore, a tax and accounting consultant; and Jennifer Gonzalez-Yousef, senior group manager for WNS Limited.
- **Global Climate Change.** Significant changes in weather patterns have caused and will continue to change the severity and frequency of extreme weather events. A large portion of coffee growing countries are affected by El Nino and La Nina, and because of global climate change, these forces are acting irregularly. This has been causing irregular wet and dry seasons and adversely affecting the quality of the coffee cherries, which could lead to a lower quality product or higher prices.
- **Unforeseen Facility Difficulties.** There is no guarantee that the new facility will be completed in the expected time frame. There have been delays due to unanticipated weather delays over the course of the spring and summer, and there could possibly be more delays in the future. Additionally, the facility may not deliver the promised cost advantages.

Management

Michael H. Keown is the President and CEO of Farmer Brothers and is on the Board of Directors at Welch Foods, Inc. Previously, he was the President of both Indulge Brands and Dean Branded Products Group. Keown has over 25 years of experience in the Consumer Goods business. The CFO and Treasurer of Farmer Bros. is Isaac Newton Johnston, Jr. Previous to his employment, he served in many different leadership roles with companies such as Frito-Lay, PepsiCo, and USPI.



Source: Factset

Ownership

% of Shares Held by All Insider Owners:	53.59%
% of Shares Held by Institutional & Mutual Fund Owners:	45.99%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
Trigran Investments, Inc.	1,140,924	6.80
Dimensional Fund Advisors LP	539,246	3.21
Royce & Associates LP	506,977	3.02
Renaissance Technologies LLC	465,200	2.77
BlackRock Fund Advisors	445,261	2.65

Source: FactSet `

Peer Comparables

Name	Ticker	Market Cap	Debt/Equity	Sales (mil)	P/E	EV/EBITDA
Farmer Brothers Co.	FARM	610.4	1.4%	544.40	6.72	11.18
Guan Chong	GCB	111.4	205.0%	615.80	9.47	17.02
Key Coffee	2594	425.1	0.4%	648.02	47.48	15.56
Dunkin' Brands Group	DNKN	4625.7	0.0%	819.70	37.91	19.17
Balchem Corp	BCPC	2425.7	65.2%	546.80	43.58	16.15
Peer Averages		1896.975	68%	657.58	34.61	16.975

Source: Factset

Bank of the Internet (BOFI)
October 7, 2016

Donnie Smiley — Financial Services

Bank of the Internet Holding, Inc. (NASDAQ: BOFI) is the holding company for Bofi Federal Bank, which is a diversified financial services company that provides consumer and business banking products through their branchless, low cost distribution channels and partners. The bank generates fee income from consumer and business products including fees from loans originated for sale and transaction fees earned from payment processing. BOFI provides financing for single and multifamily residential properties and small to medium size businesses in various sectors. BOFI has approximately $7.6B in assets and is headquartered in San Diego, CA. BOFI was founded in July 1999.

Price ($):	$22.35
Price Target ($):	**$29.67**
52WK H-L ($):	13.47-35.98
Market Cap (mil):	$1,417.00
Enterprise Value	$1,756.00
Short Interest (%):	40.00%
Avg. Daily Vol (mil)	1.25
Dividend ($):	$0.00
Yield (%):	0.00%

Beta:	1.49
WACC	6.3%
M-Term EPS Gr Rate Est:	10.0%
Financial Leverage	11.03x
ROA:	1.75%
ROE:	19.43%
Provision for Credit Loss	9.7%
Efficency Ratio	34.4%
Tier 1 Capital Ratio	14.5%

FY: June	6/30/2015	6/30/2016	6/30/2017e	6/30/2018e
Revenue (m)	$ 229.50	$ 327.40	$ 393.30	$ 459.10
% Growth	-0.23%	42.66%	20.13%	16.73%
Net Interest Margin	3.92%	3.91%	3.87%	3.86%
Pretax Margin	61.40%	62.60%	60.50%	60.10%
EPS (Cal)	$ 1.37	$ 1.86	$ 2.30	$ 2.51
P/E (Cal)	19.60x	9.60x	10.70x	9.40x
BVPS	$ 8.51	$ 10.73	$ 12.84	$ 15.26
P/B	3.1x	1.7x	1.7x	1.5x

Recommendation

BOFI finished FY 2016 with positive momentum, which was highlighted by net income increasing 44.3% to a record $119.3M. Net income for Q4 2016 increased to $29.7M, a rise of 21.9% from Q4 2015. Earnings per diluted share for Q4 2016 were $0.46; representing an increase of 22% from Q4 2015. Strong loan growth coupled with fee income growth enabled them to achieve a 1.75% ROA and 19.43% ROE for the year. BOFI has a disciplined credit underwriting and low loan to value strategy which results in outstanding credit quality. In addition to the solid results mentioned previously, BOFI originated approximately $1.2B in gross loans in the fourth quarter. Single family jumbo mortgages, which makes up 57% of their gross loans, has an average LTV of 58%, which shows they have a proven track record as a conservative lender. Funding this strong loan growth, total deposits increased by $1.6B which equates to an increase of 36% YoY. Based on continued strong prospects, it is recommended that BOFI be added to the AIM Fund with an upside of 30%. The firm does not pay a dividend.

Investment Thesis

- **Leveraging distribution.** BOFI has developed a full application programming interface (API) stack that allows partners to access their online enrollment systems and banking functionality. This API stack will be utilized to integrate into H&R's tax software for IRA account opening this tax season. This will allow BOFI the ability to expand their distribution by allowing them to execute seamlessly on their exclusive right to cross-sell IRA's though H&R block's 12,000 tax offices and 80,000 tax professionals.
- **Expanding consumer and industrial lending group.** C&I represents almost 15% of total loans, a segment that has seen solid growth. They have no direct energy exposure or shared national credit exposure to oil or gas service firms in their loan book. On March 31, they closed on the purchase of $140M of equipment leases and added 25 employees from Pacific Western Equipment Finance. This provides another commercial lending vertical that they intend to broaden. The leasing team is expected to originate between $80m-$100M in new leases next year, with equates to $5.7M in additional interest income.

- **Strong financial position.** BOFI holding company has more than $70M in cash that can be used for future acquisitions, growth opportunities, stock repurchases, and to provide new capital to the bank to support future growth.
- **Pipeline of loan growth.** According to management's estimates, the pipeline for loan growth is promising which includes approximately $954M in new loans. Consisting of single family jumbo's ($522M), single family agency mortgages ($122M), income property loans ($82M) and C&I loans ($228M, including the newly purchased equipment finance business).

Valuation

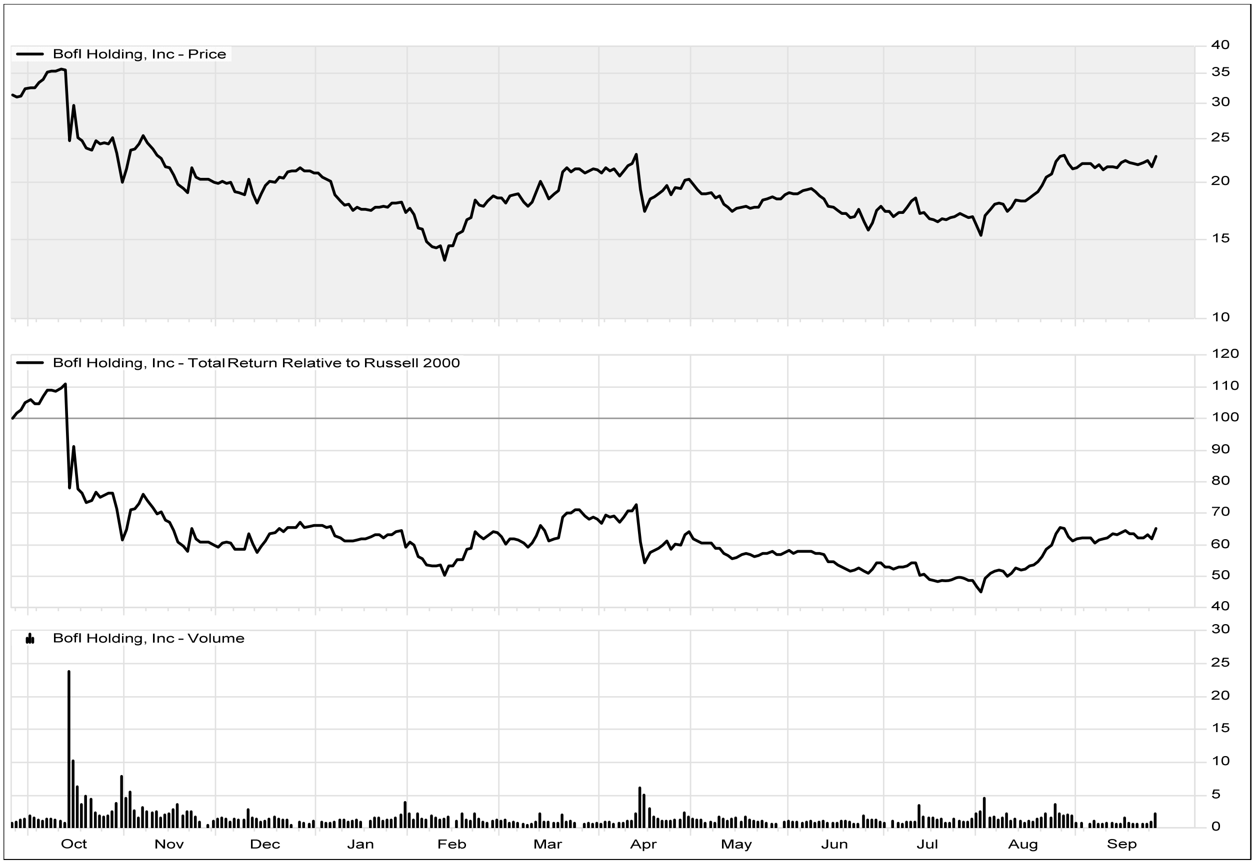
To find the intrinsic value of BOFI, a Price to Earnings and a Price to Book analysis was connducted. Using the current P/E of 9.6x and a peer average of 16.8x, resulted in a a price target of $30.33 based on 2017 estimates. A LTM P/B of 3.1x and a peer average of 1.3x was used to yield a price target of $28.67. Weighing these two approaches 60%/40% a price target of $29.67 was reached, representing a 31% upside. The firm does not pay a dividend.

Risks

- **Tightening spreads.** BOFI's results of their operations depend greatly on net interest income which is the difference between interest rates earned on assets and interest rates paid on liabilities such as deposits. BOFI has some interest rate risk due to the interest earning assets and interest bearing liabilities do not react concurrently to changes in rates. Loan and lease originations are negatively correlated to rates. On the deposit side, increasing rates leads to increases on the deposit account. The average yield on interest earning assets is 4.75% and the average rate paid on interest bearing liabilities was 1.05%. About 80% of their loans that are due after June 30th, 2017 are floating or adjustable. In conclusion, a large and rather rapid increase in rates could have an adverse impact on net interest income.
- **Cyber security.** Since nearly all of BOFI's products and services are internet based, BOFI is susceptible to interruptions in their operations or security breaches such as hacking or identity theft.
- **Litigation:** BOFI has been the subject of much litigation over the last year and a half which has had a material impact on their stock price. The stock has also seen extremely high short interest by short sellers through articles. The main subject of the litigation was a disgruntled employee, among some other derivative class action suits. Most of this litigation is still occurring however, one of the world's largest law firms conducted an independent investigation and found his allegations to be without factual basis and cleared management of the alleged wrong-doing. Subsequently, the bank has completed two record-setting fiscal years, closed two acquisitions that both required regulatory approval and successfully completed multiple OCC and Federal Reserve Regulatory examinations. Furthermore, regulators found no merit in his claims, and he wasn't awarded whistleblower status. The stock has recovered nicely over the last 3 months, +46%.

Management

Theodore Allrich has served as Chairman of the Board of Directors since 2009. Mr. Allrich's received his BA from University of California and his MBA from Stanford. Gregory Garrabrants is President and CEO of BOFI Federal Bank and has served in this position since 2007. Prior to joining BOFI, Mr. Garrabrants was an attorney, investment banker with Goldman Sachs, and a Principal with Deloitte. Mr. Garrabrants graduated from Northwestern with both his JD and MBA with honors.



Ownership	
% of Shares Held by all Insider Owners	12%
% of Shares Held by Institutional & Mutual Fund Owners	98%

Top 5 Shareholders

Holder	Shares	% out
BlackRock Fund Advisors	5,153,000 ▼	8.14
Vanguard Group	3,816,000 ▲	6.03
Hankey Don Rufus	3,607,000 —	5.70
Victory Capital Management	3,206,000 ▼	5.07
TimeSquare Capital Management	2,625,000 ▲	4.15

Competitor Analysis

Name	Ticker	Market Cap	Sales (Mil)	Net Margin	P/E NTM	P/B LTM
Bofi Holding, Inc	BOFI	$ 1,488.00	$ 385.80	30.9%	10.7x	3.1x
Northwest Bancshares	NWBI	$ 1,602.00	$ 416.00	15.6%	15.5x	1.2x
Provident Financial	PFS	$ 1,388.00	$ 352.50	24.1%	14.7x	1.1x
Capitol Federal Financial	CFFN	$ 1,939.00	$ 323.00	24.5%	22.2x	1.2x
WSFS Financial Corp	WSFS	$ 1,075.00	$ 290.80	19.8%	14.8x	1.7x
Average		$ 1,501.00	$ 345.58	21.0%	16.8x	1.3x

Source: Factset

CalAmp Corp. (CAMP)

October 7, 2016

Brett Stuck | Domestic Technology

CalAmp Corp. (NASDAQ: CAMP) is a leading provider of wireless communications solutions that deliver data, voice and video for critical networked communications and other applications. Traditionally, CalAmp has operated in two business segments: Wireless DataCom and Satellite. The Wireless DataCom segment offers solutions to address the markets for Machine-to-Machine, (M2M), communications, Mobile Resource Management, (MRM), applications and other emerging applications that require connectivity anytime and everywhere. Its portfolio of wireless communications products includes asset tracking devices, targeted telematics platforms, fixed and mobile wireless gateways and multi-mode wireless routers. The Satellite segment was closed at the end of Q2'17. CalAmp was founded in 1981 and is headquartered in Irvine, CA.

Price ($): (10/3/16)	13.54
Price Target ($):	20.73
52WK H-L ($):	21-13
Market Cap (mil):	492
Float (mil):	35.4
Short Interest (%):	11.50
Avg. Daily Vol (mil):	0.51
Dividend ($):	0.00
Yield (%):	0.00%

Beta:	1.12
WACC	8.0%
M-Term Rev. Gr Rate Est:	9.7%
M-Term EPS Gr Rate Est:	7.5%
Debt/Equity:	79.1%
Debt/EBITDA (ttm):	358%
ROA (%):	5.8%
ROE (%):	9.9%
ROIC (%):	7.1%

FY: Feb	2015A	2016A	2017E	2018E
Revenue (Mil)	250.61	280.72	353.63	387.82
% Growth	6.23%	12.02%	25.97%	9.67%
Gross Margin	32.25%	34.32%	35.00%	35.50%
EBITDA Margin	13.70%	15.39%	16.75%	16.25%
EPS (Cal) ($)	$ 0.45	$ 0.47	$ 0.47	$ 0.50
FCF/Share ($)	$ 0.58	$ 1.17	$ 0.98	$ 1.06
P/E (Cal)	29.80x	29.04x	28.62x	27.31x
EV/EBITDA	15.10x	12.00x	8.75x	8.22x

Recommendation

The telematics industry merges telecommunications and informatics. It is the technology of sending, receiving, and storing information relating to remote objects such as vehicles via telecommunication devices. YTD, the North American telematics industry can be defined by significant macro headwinds in the form of lackluster demand for MRM telematics products. Despite these headwinds, CAMP has produced solid results and positioned itself for future growth. Management believes the worst of the North American low product demand has passed and expects to see increased demand in 2H'17 and onward. This increased demand has already started to come into fruition, ending Q2'17 with a higher backlog level than Q1'17. CAMP recently posted Q2'17 earnings generating $90.5MM in revenues, a 30% increase over Q2'16, while also increasing their gross margin by 770 bps over the same time period to 42%, a new record for CAMP. The firm's ability to increase revenues and expand margins has resulted in a 5-year revenue CAGR of 22% and 4-year net income CAGR of 34%. In March 2016, CAMP purchased LoJack, a well-known, global provider of mobile asset tracking and recovery products. CAMP has already seen synergies deriving from this acquisition as $31.9MM of their $90.5MM Q2'17 revenue came from LoJack products and services. This transformative acquisition has positioned them for significant growth both domestically and internationally. 26% of CAMP's Q2'17 revenues were generated outside of the US, up from 17% in Q2'16. They have seen significant growth by young licensee, LoJack Italy, which has grown at 60% YoY and is expected to maintain this strong momentum. Despite currency issues in Europe and the UK in particular, CAMP increased Q2'17 European MRM product sales by 50% YoY. CalAmp has also generated recognition and recently they received their first independent certification of Instant Crash Network, ICN, by a major insurance industry testing organization attesting to their industry leading ICN technology. Due to CalAmp's robust organic and inorganic revenue growth, expanding margins, and solid financial position, it is recommended that CAMP be added to the AIM Equity Fund with a target price of $20.73, representing 53.11% upside.

Investment Thesis

- **LoJack Acquisition.** The LoJack acquisition provides CAMP with a plethora of unique domestic and international opportunities. LoJack has over 4,000 relationships with active dealers in the US and does business in 30 countries. CAMP's strategic acquisition will allow them to leverage the

LoJack brand as a gateway to delivering next generation recurring revenue applications. LoJack also provides the opportunity for growth in Europe and Latin America where multiple LoJack licensee are moving to integrate MRM telematics devices. Through CAMP's continued development of leading aftermarket connected vehicle solutions and leveraging LoJack channels, management firmly believes CAMP can achieve $100MM recurring revenues within the next two to three years. Early in September, the firm announced two new LoJack branded products; LotSmart and SureDrive, which management believes are significant growth catalysts. LotSmart was developed in close collaboration with LoJack dealer channel partners and provides customers the opportunity to optimize operations and enhance the customer buying experience. SureDrive, a connective car mobile app for consumers incorporating CAMP's industry leading ICN technology and other services, serves as a base for future applications and services in the future. Revenues generated from LotSmart and SureDrive are expected to be seen late this year.

- **New Customers.** CAMP has recently won over two significant customers, Omnitracs and another they did not name. Management believes these new customers could become as financially material to them as Caterpillar has been (8% of YTD revenues). This gave management confidence that the MRM products business is on the right track for future growth. CAMP recently announced agreements with MapAnything and Chevin. They now use CAMP's Telematics Cloud service for their offerings. The firm now totals six companies (5 domestic, 1 European) relying on CAMP's Telematics Cloud service to power their telematics solutions.
- **Trading Near 52-Week Low.** CAMP posted their Q2'17 earnings on September 29th. The company met EPS expectations, however, they missed on revenues, posting $90.5MM vs. $92.26MM expected. Management also provided Q3'17 guidance that was weaker than analyst expectations. Conscious of the North American demand issues, CAMP reorganized their sales organization and infrastructure. Through the restructuring, CAMP now is more engaged with their customers than ever before. Management has increased visibility and expects to see an increase in demand beginning in 2H'17. After a significant sell off of the stock after the Q2'17 earnings call, it is an opportune time to invest in the firm. As demand increases going forward, CAMP's strong fundamentals will come into fruition resulting in significant upside.

Valuation

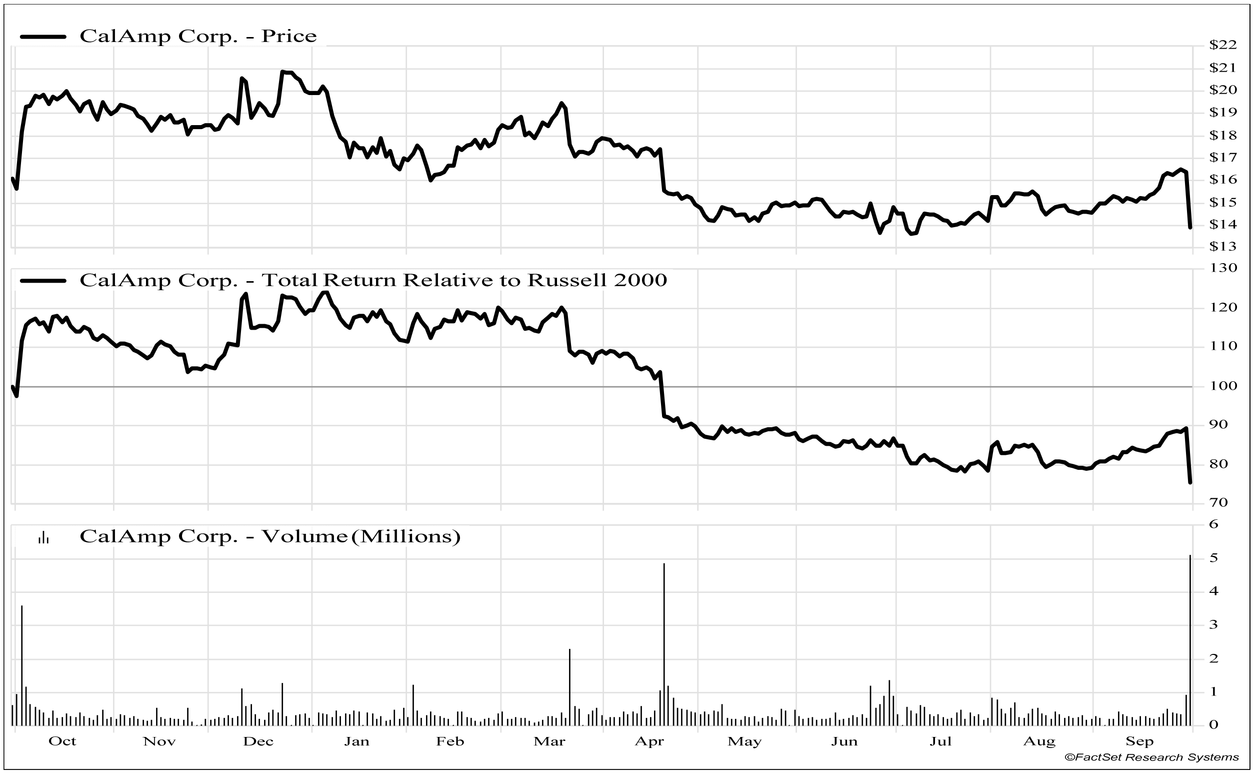
In order to reach an intrinsic value for CAMP, a five year DCF model was constructed. Using a terminal growth rate of 1.5% and a WACC of 8.03%, an intrinsic value of $23.29 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $21.21-26.12. Furthermore, a EV/S multiple valuation was calculated using a comparables average EV/S of 2.24x, and CAMP's FY17 estimated sales/share, resulting in a valuation of $21.84. Lastly, an EV/EBITDA valuation generated a price target of $14.51, using a peer average multiple of 8.90x and estimated EBITDA of $59.23 By weighting the three valuation models 50/25/25, a price target of $20.73 was reached, which yields a 53.11% upside. CAMP does not pay a dividend.

Risks

- **Competitive Industry.** The market for CAMP's products and services is extremely competitive and is subject to swift technological change, short product life cycles, and price erosion. If CAMP's operating markets become more competitive, it may be difficult to maintain the competitive advantages currently held by CAMP's products.
- **Lack of Long-Term Contracts.** CalAmp typically does not engage in long-term contracts with customers. In the past, this has made it difficult to determine the assurance of future sales.

Management

Michael J. Burdiek serves as, President, CEO, and Director of CalAmp Corp. He joined CalAmp in 2006 as Executive VP and served as President of CalAmp's Wireless Datacom business, COO, and President before being promoted to CEO and Director in 2011. Mr. Burdiek owns 1.33% of CAMP's outstanding shares. Richard Vitelle serves as CAMP's CFO and has been with the company for 15 years.



Source: FactSet

Ownership

% of Shares Held by All Insider Owners:	3.57%
% of Shares Held by Institutional & Mutual Fund Owners:	67.19%

Source: FactSet

Top 5 Shareholders

Holder	Shares		% Out
BlackRock Fund Advisors	3,330,786	▲	9.06
The Vanguard Group, Inc.	1,699,533	▲	4.62
Diimensional Fund Advisors LP	1,400,842	▲	3.81
T. Rowe Price Associates, Inc.	1,196,620	▼	3.26
Falcon Point Capital LLC	1,112,201	▲	3.03

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA	P/E	EV/Sales	EV/ EBITDA
CalAmp Corp.	CAMP	491.94	327.11	43.19	38.50	1.85	12.00
Sierra Wireless Inc.	SW	461.22	598.45	24.71	110.74*	0.61	14.68
Digi International Inc.	DGII	295.97	209.90	23.20	22.70	0.82	7.40
FleetMatics Group	FLTX	2,350.86	310.72	84.33	75.92*	7.03	25.90
Silver Spring Networks	SSNI	731.55	439.32	86.50	10.74	1.41	7.15
Spok Holdings	SPOK	366.13	183.54	39.16	4.48	1.36	6.36
Peer Averages		841.14	348.39	51.58	12.64	2.24	12.30

**Removed For Relative Valuation Analysis*

Source: FactSet

Meta Financial Group, Inc. (CASH)
October 7, 2016

Wenqin (Wendy) Liu — Domestic Financial Services

Meta Financial Group, Inc. (NASDAQ: CASH) operates as a financial holding company in both the banking and payments industries. Its segments include Retail Banking and Meta Payment System (MPS). The Retail Banking segment (31.3% of its total revenue) operates as a community bank providing deposit, loan and other related products. MPS (68.7%) provides a range of financial products and services, including issuance of prepaid debit cards, sponsorship of ATM into the debit network, credit programs, travel programs and tax-related programs and services. Meta Financial Group focuses on commercial, agricultural, and retail customers located in Iowa and South Dakota. The company was founded on September 20, 1993 and is headquartered in Sioux Falls, SD.

Price ($): (10/3/16)	63.17	Beta:	0.60	FY: Sept	2014A	2015A	2016E	2017E
Price Target ($):	73.99	WACC	4.0%	Revenue (Mil)	98.00	117.39	182.33	211.33
52Wk H-L ($):	66-36.2	M-Term Rev. Gr Rate Est:	11.5%	% Growth	7.07%	19.09%	55.32%	15.90%
Market Cap (mil):	523	M-Term EPS Gr Rate Est:	22.1%	Net Interest Margin	2.64%	2.76%	3.12%	3.20%
Float (mil):	0.3	Financial Leverage	10	Pretax Margin	15.13%	14.55%	15.80%	16.25%
Short Interest (%):	3.41%	ROA:	1.20%	EPS (Cal)	$2.54	$2.66	$4.24	$4.96
Avg. Daily Vol (mil):	0.45	ROE:	11.8%	P/E (Cal)	13.4	13.3	14.9	12.7
Dividend ($):	0.52	Tier 1 Capital Ratio	18.4%	BVPS	28.3	33.2	39.5	42.6
Yield (%):	0.85%	Credit Provisions/Loans	3.9%	P/B	1.2	1.3	1.6	1.4

Recommendation

With operations in both saving banking and consumer finance sectors, CASH has generated strong and sustainable revenue and EPS growth. CASH has grown revenue at a 10-year CAGR of 5.0% and diluted EPS at 19.4%. The company is estimated to grow 55% in FY2016 due to its robust revenue growth in the MPS segment. As of 3Q 2016, CASH has grown revenue of 33%. The 3Q MPS average deposit growth rate was 25% - or $314 million YoY. Meta now has approximately 90% of its deposits in non-interest bearing deposits, which positions the company well for the future as interest rates rise. CASH's unique business model is adding to its tremendous revenue growth. The company added seven new program managers during the year within MPS, which significantly added to their deposit growth in 2015 and is expected to continue to grow. The AFS/IBEX premium finance acquisition completed in December 2014 created a platform for nationwide expansion and provides high quality, strong and accelerating loan growth. They have enjoyed a 52% annualized growth rate since the expansion. MFG's FY2015 reported a net income of $8.9 million, which was a 91% growth YoY. Fee income, loans, and deposits all increased by more than 28% from 3Q 2015. In terms of dividend, the next dividend amount is projected to be $0.16, per share, which represents a dividend yield of 1.01% and has grown by 7% over the past two years. Additionally, Meta has a strong Tier 1 Capital Ratio of 18.4%, indicating that they are extremely well-capitalized, ensuring Meta's strength and the capital availability to support its business growth. With strong business growth, efficient management, favorable long-term business growth opportunities and increased acquisition activities, it is recommended that CASH be added to the AIM Equity Fund with a target price of $74, representing an upside of 17%.

Investment Thesis

- **High Asset Quality.** As of September 30, 2015, the company's assets grew by $475.7 million or 23.2%, to $2.5 billion compared to $2.1 billion at September 30, 2014. The increase in assets was reflected primarily in increases in the company's loan balances, investment securities portfolio, goodwill and intangibles associated with the Refund Advantage and AFS/IBEX asset purchases. Additionally, non-performing assets (NPA) as a percentage of total asset at 3Q

FY21016 is a small fraction of bank industry average art 0.07% of total assets. Thus, CASH provide high asset quality to generate capital doe its father growth.

- **Potential Growth in MPS segment.** Meta Payment Systems, as a national leader in prepaid card issuance, automated teller machine (ATM) sponsorship, and electronic funds transfer was found in September 2014. Along with the acquisition of Refund Advantage, which is a professional tax refund-transfer software service offers tax refund solutions through direct deposit, check and prepaid card, has contributed to ~30% of CASH's total sales under MPS segment. The integrated Refund Advantage Tax payments business had contributed $19.6 MM of revenue in 2Q FY2016 with $3.4 MM revenue carryover into 3Q FY 2016.
- **New Acquisition.** The new acquisition with EPS Financial LLC. has allowed CASH to pursue more growth opportunities in tax-related financial transactions. The company has signed a definitive agreement with privately-held Drake Enterprises, Ltd. and its wholly-owned subsidiary, EPS Financial LLC, for MetaBank to acquire substantially all of the assets and certain liabilities of EPS Financial, LLC for approximately $42.5 million. The proposed purchase, which is subject to certain conditions, has been approved by the boards of directors of all companies and is expected to close in the fourth calendar quarter of 2016. This newly transaction will provide immediate accretion of over 10% to CASH's earnings per share in the first full year of combined operations.

Valuation

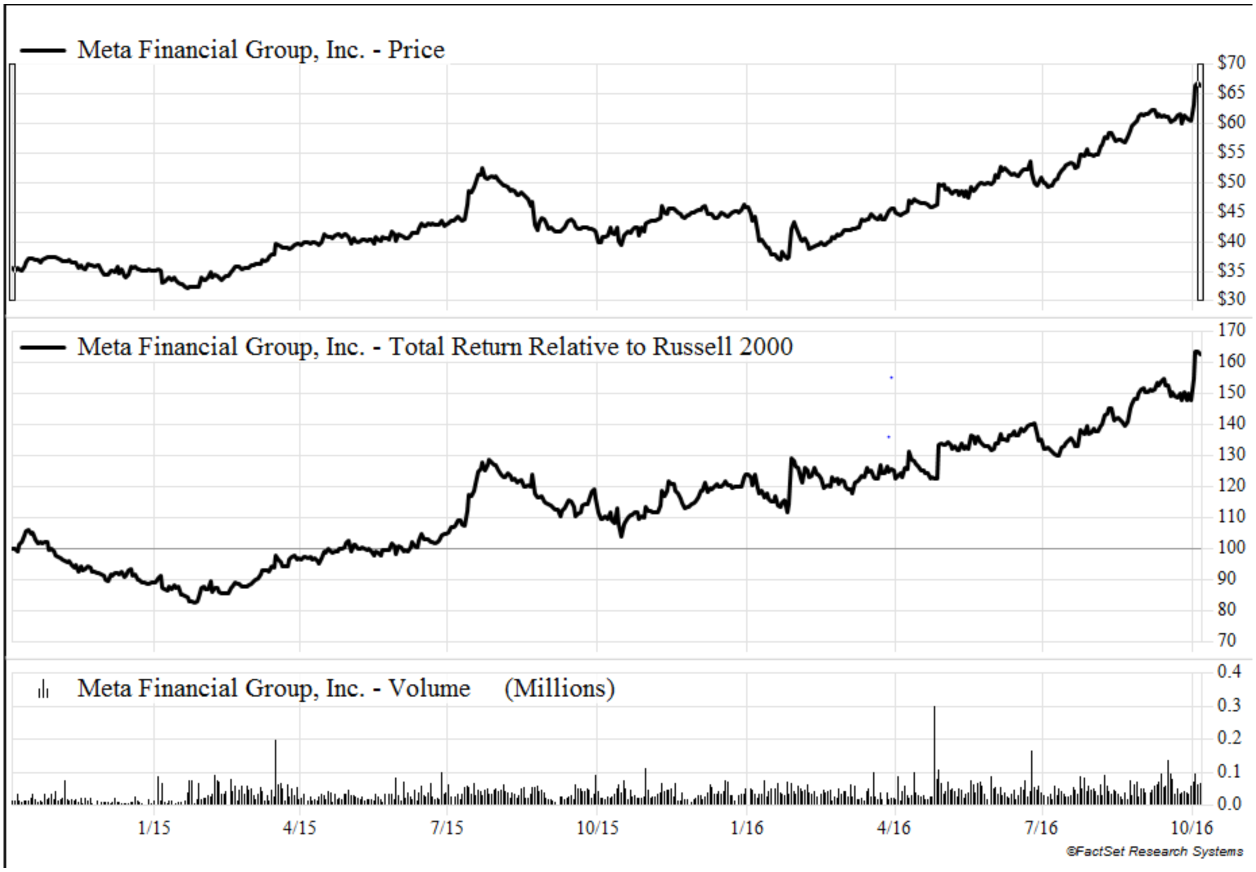
In order to reach to the intrinsic value of CASH, an excess equity model, a P/E multiple, and a P/B multiple were used. The excess equity method used a perpetual growth rate of 2.0%, a cost of equity of 7.82%, and reached an intrinsic value of $73.90. A sensitivity analysis on the terminal growth rate and cost of equity ranged from $82.61-$67.18. Additionally, a P/E multiple yield an intrinsic value of $74.21 using 2016E EPS of $4.24, a comparable average P/E of 22.2x, and CASH's 5-year average historic P/E of 12.62x. In a similar manner, a P/B multiple of 1.7x was constructed generating an intrinsic value of $73.87. Weighting the three valuations equally, an intrinsic value of $74 was established.

Risks

- **Loss in Loan Portfolio.** The company's loan portfolio has grown substantially over the last fiscal full years. If the underwriting criteria fail to identify credit risks related to loan portfolio, especially the new portion, CASH may incur losses.
- **Risk of Generating Sufficient Revenue.** The company has recently experienced considerable growth and increased its assets from $1.7n to $2.5bn in three full years. If CASH continued with its asset growth, it will demand a higher level of capital while the management team believes may not be met through earnings retention alone.
- **Risk related to Economic Conditions.** CASH may experience an increases in the number of borrowers who default on their loans, as well as in the value of the collateral securing such loans. If the local economic conditions worsen, it could have adverse effect on CASH's financial conditions and operations.

Management

Mr. J. Tyler Haahr serves as Chairman of the Board, Chief Executive Officer of Meta Financial Group Inc. since October 2013. He has been with Meta Financial Group and its affiliates since March 1997. Mr. Haahr received his B.S. degree with honors at the University of South Dakota in Vermilion, South Dakota. He graduated with honors from the Georgetown University Law Center, Washington, D.C.



Peer Analysis

Name	Ticker	Market Cap (mil)	Revenue (mil)	P/E	P/B	D/E
Meta Financial Group	CASH	539	173	16.41	1.7	1.6
First Defiance Financial	FDEF	400	118	14.88	1.4	0.6
NASB Financial	NASB	175	116	14.06	1.3	1.9
Pacific Premier Bancorp	PPBI	726	158	18.38	1.7	0.5
Bank Mutual Corporation	BKMU	353	106	22.79	1.4	1.5
Merdian Bancorp	EBSB	833	145	31.65	1.5	0.5
Peer Averages		497	129	20.4	1.5	1.0

Source: Factset

Ownership

% of Shares Held by All Insider Owners:	7.91%
% of Shares Held by Institutional & Mutual Fund Owners:	> 66.70%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
Nanthahala Ca[ital Management	474,000	5.56
EJF Capital LLC	406,000	4.76
Ashford Capital Management, Inc	400,000	4.70
BlackRock Fund Advisors	372,000	4.37
Philadelphia Financial Mnagement of San Francisco LLC	352,000	4.13

Source: FactSet