



*Celebrating
100 Years*

Applied Investment Management (AIM) Program

AIM Class of 2012 Equity Fund Reports Fall 2011

Date: Friday, November 11th Time: 2:30 pm – 4:00 pm
Road Show Location: Timpani Capital Management

Student Presenter	Company Name	Ticker	Price	Page No.
Sajid Bhimani	LVMH Moet Hennessy Louis Vuitton	LVMUY. PK	\$31.71	2
Kristina Gergens	NuVasive, Inc.	NUVA	\$14.04	5
Jared Klingeisen	Sasol Ltd.	SSL	\$46.95	8
Leonard Hartanto	HDFC Bank Ltd.	HDB	\$31.00	11
Rupali Varma	Boingo Wireless, Inc.	WIFI	\$7.76	14
Caitlin McMahan	Bridgepoint Education	BPI	\$22.95	17

Thank you for taking the time today and participating in the AIM ‘road show’ at Timpani Capital 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. 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 to Brandon Nelson and team for allowing us the opportunity to present at Timpani.

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Moët Hennessy Louis Vuitton SA (LVMUY)

November 11, 2011

Sajid Bhimani

International Consumer Goods

Moët Hennessy Louis Vuitton SA is a French-based global producer and distributor of luxury goods. LVMUY operates in 5 main business segments: fashion and leather goods; watches and jewelry; wines and spirits; perfumes and cosmetics; and selective retailing. In Q2 2011 fashion and leather goods made up 38% of revenues that came primarily from brands such as: Louis Vuitton, Fendi, Donna Karan, Loewe and Marc Jacob, which came dominantly from Asia (Ex Japan), Europe (Ex France) and the U.S. The selective retailing segment (27%) revenues came primarily from brands such as: DFS, Miami Cruiseline and Sephora. The wine and spirit division (14%) collects revenues largely from their high end Cognac (Hennessy) and sparkling wine and champagne. Perfumes and cosmetics (14%) revenues were achieved through brands such as: Christian Dior, Guerlain, and Givenchy. The watches and jewelry segment is currently producing close to 5% of revenues and is comprised of names such as: TAG Heuer, Hublot, Zenith, and Chaumet- and is expected to become a significant up and coming contributor for the business as a whole. LVMUY has a product portfolio of over 60 prestigious luxury brands. Although LVMUY is headquartered out of France, they have found to derive the majority of their total revenues from Asia.

Price (\$) (9/10/10):	31.71	Beta:	1.50	FY: December	2010A	2011E	2012E
Price Target (\$):	\$ 37.00	WACC	11.87%	Revenue (\$Mil)	26,953.94	30,031.0	33,501.9
52WK H-L (\$):	4.87-\$34.50	Debt/Equity:	37.0%	% Growth	19.20%	11.4%	11.6%
Market Cap (mil):	\$78.91B	ROA:	8.1%	Gross Margin	64.65%	64.00%	66.00%
Avg. Vol (90 day)	101,048.0	ROE:	19.3%	Operating Margin	21.26%	21.81%	22.00%
Dividend (2011E):	\$ 2.79	Terminal growth rate	2.5%	EPS (\$Cal)	\$9.22	\$8.89	\$11.58
Div. Yield (2011E):	8.8%	Revenue Growth rate year 3-5	8.0%	FCF/Share	11.99	3.80	8.00
				P/E (Cal)	17.19	20.81	15.97
				EV/EBITDA	13.71	12.16	10.00

Recommendation

LVMUY grew at a remarkable pace in 2010, allowing them to surpass previous historical levels of revenue and profitability. Revenue growth of 19% and gross profit growth of 21% allowed the gross margins to expand to an all time high of 66% - while operating margins grew to 21% The results were driven primarily by new operations and growth throughout Asia and North America. LVMUY hired 18,000 more employees, bringing the total employee count at the end on 2010 to 83,542 employees. These employees were utilized in taking on and assisting in the operation of new major investments for future development including acquisitions in 2010 and 2011, primarily through in store development. Approximately 25% of revenues in 2010 came from recurring operations; where as 75% of revenues were sourced by new operations as well through acquisitions of various business groups and brands. The company has grown their store base from 2,314 stores in 2008 to 2,729 stores at the end of June 2011. LVMUY has grown each of its operating segments faster in the last year then there respective industry and looks to continue this growth over the next 3 years at a 10% weighted average growth amongst all business lines. The long-term corporate strategy has ensured uninterrupted growth for the company even in times of recent and any future economic crises. It is recommended that LVMUY be added to the AIM international equity fund with a conservative price target of \$37

Investment Thesis

- **Wine and Spirits Growth.** The first half of the year was dominated by a robust growth in the Wines and Spirits division. China is currently the 2nd largest consumer of LVMUY's wines and spirits - and management indicates that China will soon be first. Management continues to see Asia as a developing story - with expected growth in the division for year-end 2011 of 17.2%.
- **Growth from Acquisitions and Further Investment.** Inventory levels have increased by 1.2 million since 2010 and working capital has increased by 602M Euros. LVMUY has had further investment opportunities through acquisitions of very reliable and profitable brands such as

Bulgari and an incremental investment in Hermes International. These moves have allowed them to become the leader in luxury watches and jewelry segment in addition to giving them further exposure into the leather goods and perfume divisions. LVMUY also completed its acquisition of Ole Henriksen, a botanical skincare company, in February of 2011. The firm has recently invested 370 M Euros to the further development of its most profitable business line -leather and fashion line. Management has said to investors that LVMUY is very responsive and has a very selective approach in their markets when looking for long-term success in the markets they look to enter. Further acquisitions were also done to penetrate the Brazilian online market with LVMUY's premier brand of Sephora. LVMUY looks to drive up revenues in the long-term specifically toward their current operations and depend less on their Louis Vuitton, Sephora and Hennessy brand names. This will continue to limit FCF slightly; however, change in trade accounts receivable generated a cash inflow of 302M Euros and in addition the potential ROIC from the investments looks to be close to 20-25%.

- **Growth in Luxury Markets.** The macroeconomic driver for LVMUY and the luxury market as a whole is that there is a renewal cycle of new younger luxury customers, referred to as the newcomers, who are not particularly rich, but who spend a lot in high fashion and restaurants. In the first half of 2011 the rate of spending in Australia and Japan was close to 47%, in Brazil 34%, U.S 10% and Europe was 17%. Macro trends have suggested that this growth is not a rebound from prior 2009 level, but rather a sustained renewal of spending on luxury apparel. Growth of 12% in the luxury good revenues in the U.S., 10 % in China and 10% in Europe are suggested despite economic downturn environments.

Valuation

To value LVMUY a 5 year DCF was conducted with a WACC of 11.87% and a terminal growth rate of 2.5% which yielded an intrinsic value of \$36.59. After conducting a sensitivity analysis on the WACC and terminal growth rate, the price target ranged from \$33-\$45. When looking at comparable companies and using a 50% weighting on a peer adjusted justifiable 2012 P/E multiple of 18.5x, and a 50% weight on a 2013 EV/ EBITDA multiple of 12x, a price target of \$37.48 was obtained. A dividend discount model was also conducted on the 2013 expected dividend per share of \$3.45, which led to a \$37.13 target. Combining the different valuation methods with weights of 40%, 50% and 10% respectively and accounting for the conversion of 5 ADR's being equal to 1 common share, an overall price target of \$37.00 was established which offers a 17% upside potential.

Risks

- **Imitative Products.** Performance of LVMUY is altered by the rising influx of counterfeit products. The U.S Chamber of commerce suggests that a cost of \$500-600 billion a year to the global economy comes from counterfeiting and piracy activities and accounts for 5%-7% of world trade. The counterfeiting of brand name products that LVMUY has to offer can tarnish the brand name and eat into market share. Imitative products are seeing an increase in market share every year; however these are very slight increases. The under or over performance of these segments can have a material impact on the companies revenues.
- **Currency risk.** Consolidated revenues for the most recent period were up 13% however it was affected by the appreciation of the dollar relative to the Euro in some divisions by up to 5%. Total revenue net of gains and losses from currency amounted to 11%, which represents a 2% decrease in actual revenue growth. As Asian markets start to develop more value in their currency there is expected appreciations to those currencies, which would adversely affect LVMUY. Currency fluctuations had a net impact of 20M Euros on LVMUY's net profit

Management

Bernard Arnault has been the Chairman and the CEO of LVMUY since 1992. Prior to this, he served as the CEO of Financiere Agache and Christian Dior. Currently, Arnault also serves as the Chairman of Christian Dior and Louis Vuitton pour la Creation, Fondation d'Entreprise, and Groupe Arnault.



Ownership %

% of Shares Held by All Insider and 5% Owners:	46%
% of Shares Held by Institutional & Mutual Fund Owners:	1%

Top 5 Shareholders

<u>Holder</u>	<u>Shares</u>	<u>% Out</u>
Thornburg Investment Management	4,899,079	.19
Fisher Investments Inc.	2,176,865	.09
Prudential Series Equity Fund	997,544	.04
Vanguard Group	914,379	.04
Transamerica Investments	730,681	.03

NuVasive, Inc. (NUVA)

November 11, 2011

Kristina Gergens

Healthcare

NuVasive, Inc. (NUVA) is a medical device company which designs, develops, and markets minimally invasive surgical products and procedures for the spine. NUVA's current product portfolio includes a minimally disruptive surgical platform called Maximum Access Surgery (MAS), as well as cervical, biologics, and motion preservation products. The firm's MAS platform combines three categories of its product offerings: NeuroVision, a software-driven nerve avoidance system; MaXcess, a split-blade design retraction system providing surgical access to the spine; and specialized implants. This solid pipeline continues to account for about 80% of organic growth for NUVA. NuVasive's minimally invasive procedures avoid and minimize the risk of spinal procedure complications, such as vascular injury and intestinal injury. NUVA continues to focus significant amounts of research and development on the expansion of its MAS product platform, advancement of its applications of unique technology to additional procedures, and the development of motion preserving products, such as its total disc replacement products. The company sells its products through independent sales agencies and direct sales representatives to surgeons and hospitals located in the U.S. (95% of total revenue) and internationally. NuVasive was founded in 1997 and is headquartered in San Diego, California.

Price (\$) (11/03/11)	14.04	Beta:	1.22	FY: December	2010A	2011E	2012E
Price Target (\$):	22.59	WACC	8.2%	Revenue (Mil)	478	540	616
52WK Range (\$):	13.55-34.91	M-Term Rev. Gr Rate Est:	6.5%	% Growth	29.14%	13.00%	14.00%
Market Cap:	729M	M-Term EPS Gr Rate Est:	6.5%	Gross Margin	82.20%	82.00%	81.50%
Float	39.73M	Debt/Equity	53.0%	Operating Margin	6.70%	7.00%	7.50%
Short Interest (%):	3.9%	ROA:	13.5%	EPS (Cal)	\$1.77A	\$0.41E	\$0.62E
Avg. Daily Vol:	1,108,530.00	ROE:	21.4%	FCF/Share	0.51	0.14	0.31
Dividend (\$):	N/A			P/E (Cal)	13.3	16.60	16.60
Yield (%):	N/A						

Recommendation

In the United States, over 5 million people suffer from some form of chronic back pain and 600,000 spine fusion procedures are performed annually. In addition, the U.S. market for lumbar and cervical spine fusion, the focus of NUVA's business, was estimated to be nearly \$5B in 2010. NuVasive's product portfolio is focused on applications for spine fusion surgery, including biologics, which is a combined market estimated to exceed \$7.7B globally in 2011. NUVA continues to demonstrate impressive top-line growth, increasing revenues by 10.5% YoY in 3Q11, while maintaining a gross margin around 82% and accomplishing a 40% increase in cash from operations in 2010. In October, NUVA finalized its \$800M acquisition (50% cash, 50% stock) with Impulse Monitoring, an intra-operative monitoring provider based mainly in eastern and southern regions of the U.S. Impulse Monitoring will provide NUVA with the services of certified neurophysiologists who try to prevent neurological compromise during spinal procedures. NUVA continues to record market share gains throughout the MAS/MIS (minimally invasive surgery) spinal industry and demonstrates a history of executing strategic acquisitions to enhance technology. Given its technological developments, recent market share gains, and increasing revenues, it is recommended NUVA is added to the AIM Equity Fund with a target price of nearly \$23, offering an upside of over 60%.

Investment Thesis

- Technology Developments.** NUVA's patented MAS/MIS procedures reduce hospitalization and recovery time. In addition, these procedures have less extensive dissection and trauma than other spinal procedures. Because of the use of differentiated patented technology, NUVA's lateral approach to lumbar surgery (XLIF) provides the firm with a competitive strength. Over the next

10 years, 80% of the market is expected to shift to MAS/MIS. NUVA currently has over 65 solutions to offer its surgeon customers and plans on creating 10 new products and line extensions per year which will result in over \$1B in revenue over the next few years. In 2008, NUVA expanded its biologics offering by acquiring the Osteocel technology and it continues to look for strategic acquisitions to enhance technology.

- **Recent Market Share Gains.** Currently, NUVA is the 5th largest player in the \$7.7B global spine market. NUVA is expected to outgrow the industry to \$1B or higher within the next few years due to a driving shift toward MIS, their leading position regarding innovation, and the surgeon adaptation rate. NUVA also continues to demonstrate strong growth in both the Asian and South American markets. Despite the recent Medtronic litigation, NUVA plans on competing for market share in the spine industry in the future, particularly with Medtronic. In addition, NUVA will be third to market with a high quality cervical disc and will soon produce a new high quality bone graft similar to Medtronic's.
- **Increasing Revenues.** NUVA continues to grow revenues at a double digit pace which was again demonstrated in 3Q11 with revenues of \$132.9M, up 10.5% versus \$120.3M reported in 3Q10. A main source of revenue growth continues to come from the recent change in demographics. In addition, the U.S. Lombard business also continues to grow, comprising 65% of revenue in 3Q11. NUVA also has a history of increasing revenues by offering nearly 500 surgeon training sessions annually at its training facilities in San Diego and at NUVA East.

Valuation

Using a 10-year DCF with a computed WACC of 8.20% and a LT growth rate of 3%, an intrinsic value of \$26.68 was determined for NUVA. The DCF model grew revenues in the first year at 13%, 14% for the next year, then an average of 12% for the next few years. Operating margins of 8% were employed in the model. In addition, a 17x PE multiple was applied to 2012 EPS forecast of \$0.79 and yielded an intrinsic value of \$13.16. Taking both methods into account, a \$22.59 price target was established, representing a potential 61% upside. The firm does not pay a dividend.

Risks

- **Litigation Risk.** On September 20, 2011, a civil jury found that both Medtronic and NUVA infringed each other's patents and awarded MDT \$101M in damages and NUVA \$0.66M. While small, NUVA's award was in line with what it had requested. This was a jury verdict and NUVA plans on appealing the verdict in the near future. Patent issues continue to be a concern throughout the medical device industry; however, NUVA has taken precautions for future litigation issues.
- **Economic Risk.** U.S. jobs and consumer confidence trends will continue to have an impact on NUVA's revenues and growth. In addition, the European economy remains a risk for NUVA due to the reduction in surgery volumes. However, the slowly improving non-farm payroll trends and constant emerging market demand should be enough to offset European and U.S. uncertainty. NUVA believes market growth will increase by as much as 4% in 4Q11.

Management

Alexis V. Lukianov has served as our President, CEO, and a director since July 1999. Mr. Lukianov has nearly 25 years of experience in the orthopedic industry. Prior to joining NuVasive, Mr. Lukianov was a founder, and served as Chairman of the Board and CEO, of BackCare Group, Inc. Michael J. Lambert has served as Executive Vice President and CFO since November 2009. Prior to joining NuVasive, Mr. Lambert worked with Advanced Medical Optics, Inc.



Ownership

% of Shares Held by All Insider and 5% Owners:	11%
% of Shares Held by Institutional & Mutual Fund Owners:	88%

Source: Yahoo! Finance

Top 5 Shareholders

<u>Holder</u>	<u>Shares</u>	<u>% Out</u>
Wellington Management Company, LLP	3,868,768	9.70
Waddell & Reed Financial Inc.	2,296,698	5.76
Vanguard Group, Inc. (THE)	2,084,296	5.22
BlackRock Fund Advisors	1,885,531	4.73
New Economy Fund (THE)	1,820,286	4.56

Source: Yahoo! Finance

HDFC Bank Ltd.
November 11, 2011

Leonard Hartanto

Int'l Financial Services

HDFC Bank Ltd. (HDB) is a diversified bank incorporated in August 1994. HDB is a subsidiary of Housing Development Finance Corporation Limited (HDFC). HDFC owns 23.2% of HDB, the rest are held by foreign holders. HDFC and HDB have a special arrangement. HDFC structure the home loan product, and HDB sells it. HDFC then retain a spread for the loan that HDB sells. HDB was created because HDFC was the first to receive an approval from the RBI to set up a bank in the private sector, as part of the RBI's liberalization of the Indian Banking Industry in 1994. 49.5% of HDB revenue comes from retail banking, 29.51% from wholesale banking, 13.7% from Treasury, and 7.2% from other operations. The bank earns all of their revenue in India. HDB is headquartered in Mumbai, India.

Price (\$) (11/04/11):	\$31.00	Beta	1	FY: March	2011 A	2012 E	2013 E
Price Target:	\$40	WACC	13.03%	NII	\$2,167	\$2,558	\$3,044
52WK H-L:	\$37.90-\$26.42	M-Term Rev Gr. Rate Est:	10%	% Growth	25.88%	18.04%	19.00%
Market Cap (bil):	\$24	M-Term EPS Gr. Rate Est:	10%	NIM	4.48%	4.15%	3.88%
Float (mil):	\$642.75	Financial Leverage:	10.61	Net Profit	\$ 814.79	\$ 1,059.23	\$ 1,355.82
Short Interest (%):	1.80%	ROA:	1.44%	EPS (cal)	\$1.05	\$1.32	\$1.64
Avg. Vol (10 Day):	1,198,540	ROE:	15.53%	P/E (cal)	30.59	24.23	19.50
Dividend Annually:	\$0.22	Tier 1 Capital Ratio	12.23	BVPS	\$6.74	\$7.85	\$9.14
Yield (%):	0.70%	Credit Provisions/Loans	0.49%	P/B	4.75	4.08	3.50

Recommendation

HDB is currently operating in an environment that is poised for growth. India has been forecasted to have a GDP growth of 8.5% in 2011. India is currently the fourth biggest economy in the world, surpassing Germany. This growth has led to rising disposable income, which makes purchasing homes more affordable. India's urban population is 30%, with a rate of urbanization of 2.4%. In comparison, Indonesia is 44% and 1.7%, China is 47% and 2.3%, and Brazil is 87% and 1.1%, respectively. With more people going to the cities there should be a larger demand for mortgages. HDB's financials have been steadily growing; the 5-year NII CAGR is 30.74%. This growth was fueled by HDB's loan book, which grew 25.6% Y-o-Y. This exemplifies the strong growth in the lending business in India. HDB is also experiencing higher credit quality with provisions decreasing 19.5% Y-o-Y. HDB is growing its footprint by opening up new branches all around India. Currently HDB owns 2,150 branches, an increase of 8.26% from March 2011. Despite the rapid expansion, HDB managed to keep its cost-to-income ratio stable at 48.9%. HDB possess a strong deposit base with 25% of their funds coming from its deposit. Its deposit base grew 9% Q-o-Q with 47.3% of this amount in current accounts; which is the cheapest form of funding since it pays a small interest rate. HDB NIM is the highest among all banks in India (average of 3.56). This gives HDB a competitive advantage compared to its rivals. HDB's brand is probably its biggest moat. It was part of *The Economic Times* ranking of 'Top 50 Valuable Corporate Brands 2010'. Due to the strong opportunity growth and financials, it is recommended that HDB be added to the AIM International Portfolio with a target price of \$40, providing a 29.5% upside.

Investment Thesis

- Housing Growth.** There are several tailwinds that favor an increase in housing demand in India. Currently 60% of India's population (1.2 billion) is below 30 years of age. Housing in India is also becoming more affordable than ever. The rise in disposable income and tax incentive (interests and principal repayment deductible) is helping the case for Indians to own a house. Currently 9% out of India's GDP are mortgages, while in comparison, China's rate is 20% and Thailand's is 17%. This implies room for penetration and growth. HDB specialty in the mortgage market and strong brand name will help them sell more home loans as the market grows. Currently home loans makes up 13.29% of HDB retail loan portfolio.

- **Loan Growth.** HDB's major revenue stream is from loans and HDB has a diversified loan portfolio. Its retail loans (49% of revenue) grew 34% Y-o-Y. In this portfolio, commercial vehicles (CV) went up 63.1% Y-o-Y, while home loans grew 34.5% Y-o-Y - personal loans grew 28.7% Y-o-Y. Management has guided that retail loans are going to grow faster than wholesale loans in the next couple quarters. It is estimated that loan book is going to grow at 24.5% CAGR over the next 2 years. With increasing loan growth and increasing credit quality will increase HDB profitability.
- **Strong Management.** Currently HDB has a very strong management team and have shown this through their strong financial result. The current management has also won numerous awards that have recognized their achievements. HDB is the only Indian company to be enlisted among the 'World's Most Ethical Companies' by New York's *Ethisphere* Institute. It won 'Best Governed Company Award' in 2010 by the Asian Center for Corporate Governance & Sustainability. HDB was also awarded 'Top 2 Best Managed Companies in India' by Finance Asia. HDB was also rewarded "Excellence in Customer Experience" by IDC FIIA.

Valuation

To value HDB, the excess equity return, P/E multiple, and P/B multiple were used. Using a terminal growth of 2.5% gives a valuation of \$50. Using a P/E of 28 against EPS of \$1.30, gives a valuation of \$36.32. A P/B multiple of 4.5 used against a BVPS of \$7.85 resulted in a valuation of \$35.32. Weighting all three valuations equally yields \$40. This is an upside of 29.5%. HDB currently pays 0.72% dividend yield.

Risks

- **Inflationary Pressure.** Being a fast growing nation means that inflation is also growing at a high rate. India's inflation rate in 2010 was 12%; however, in 2011 the rate is predicted to be better. The RBI predicted that India's inflation rate will ease up to 7% by March 31, 2011 (India's government fiscal year end). HDB real income will be hurt if inflation is higher than estimated. Higher global commodity prices are also predicted that it will not be helping India slow down its inflation as commodity prices have bigger effect in inflation from previous years. Inflation will increase the expenses of HDB, especially because HDB have been expanding.
- **Global Risk.** India's primary economy relies on its export. If there is a global recession, India's export will not be as demanded, therefore it will impact corporation in India. This might hurt the disposable income for the Indian people.
- **Regulatory Risk.** India is notoriously known for having a strict financial regulation. Nevertheless this does not mean that a bank could not grow under such strict regulations. One recent event that is a risk is deregulation of deposit rates. Management and experts agreed that the deregulation of deposit rates is going to increase the cost of capital for banks in India, therefore reducing NIM. Management has indicated that it might battle the increasing rates by charging fees. The most immediate effect of this deregulation is that CA/SA went from 49% to 47% Q-o-Q.

Management

Mr. Chander Mohan Vasudev is the current chairman of HDB. He has worked as an Executive Director of the World Bank representing India, Bangladesh, Sri Lanka, and Bhutan. He chaired World Bank's committee on development effectiveness with responsibility for ensuring effectiveness of the World Bank's operations. He also worked in the Ministry of Finance. Mr. Aditya Puri is the managing director and CEO of HDB. Mr. Puri is a Chartered Accountant, graduated from University of Punjab with a Bachelor's Degree in Commerce. Mr. Puri won "Outstanding Finance Professional" by CNBC in 2011. He won Economic Times "Business Leader of the Year" in 2010.



Ownership

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

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
Vontobel Asset Management	16,570,225	2.13
Lazard Asset Management	10,069,490	1.29
Oppenheimer Fund Advisors	8,140,745	1.04
Blackrock Fund	7,596,969	0.97
JP Morgan Chase	6,187,865	0.79

Source: Bloomberg

Sasol Limited (SSL)

November 11, 2011

Jared Klingeisen

International Energy

Sasol Limited (NYSE: SSL) is a global integrated South African energy and chemical company. SSL mines about 40 million tons of coal per year, converting coal and gas feedstock into synthetic fuel components through its Fischer-Tropsch coal-to-liquids (CTL) and gas-to-liquids (GTL) technologies. Sasol's synfuel production facility currently has a capacity of 160,000 barrels per day (b/d) and supplies 36% of liquid fuels consumed in South Africa. SSL operates through three main business segments, International Energy cluster (~5% of 2011 operating profit), Chemical cluster (29%), and South African Energy cluster (~66%). The largest cluster, South African Energy, includes Sasol Mining, Oil, Gas and Synfuels. In 2011, Sasol purchased a 50% stake in both Farrell Creek and Cypress A shale gas assets in British Columbia, Canada from Talisman Energy. Sasol generates approximately 65% of its revenue in South Africa; however, it operates in 38 other countries across North America, Europe, the Middle East, Asia, Australia and other parts of Africa. The company was founded in 1950 and is headquartered in Johannesburg, South Africa.

Price (11/04/11):	\$46.95	Beta:	1.43	FY: June	2011A	2012E	2013E
Price Target:	\$57.00	WACC	11.36%	Revenue (mil)	\$20,363	\$21,788	\$23,531
52WK H-L:	\$38.15-\$60.39	M-Term Rev. Gr Rate Est:	8.0%	% Growth	26.25%	7.00%	8.00%
Market Cap (mil):	\$30,376	M-Term EPS Gr Rate Est:	3.9%	Gross Margin	36.49%	37.00%	36.00%
Float (mil):	579	Debt/Equity:	13.3%	Operating Margin	21.10%	21.50%	20.47%
Short Interest (%):	0.78%	ROA:	11.84%	EPS (Cal)	\$4.63	\$5.21	\$5.59
Avg. Daily Vol:	339k	ROE:	19.56%	FCF/Share	2.3	2.1	1.8
Dividend (\$):	\$1.69			P/E (Cal)	10.3	9.0	8.4
Yield (%):	2.80%			EV/EBITDA	6.1	5.2	4.8

Recommendation

Rising global demand and supply constraints are expected to maintain high oil prices into the future (in excess of \$90 per barrel). Sasol's business model benefits from the margin between oil and gas prices – and as such, the firm should be well positioned going forward. The potential for international expansion and continued advancements in their CTL and GTL technologies provide SSL with strong growth prospects. Sasol has historically traded with a 0.92 correlation to oil prices, but has recently broken from this correlation. Sasol plans to further expand its GTL and CTL technologies and is exploring the possibility of advanced projects in America, Canada, India, and Uzbekistan. Because of the company's attractive positioning in the growing South African economy, it is recommended that SSL be added to the AIM International Equity Fund with a target price of \$57, which offers a potential upside of 21%.

Investment Thesis

- **Expanding International Presence.** Most of SSL's sales are in South Africa, although Mozambique is responsible for a large portion of Sasol's gas production and oil which comes from the Gabon fields. Sasol has plans to expand CTL into emerging markets, such as India and China. Both of these countries hold a significant portion of the world's coal reserves and provide low cost of labor, two factors that are favorable for CTL. Supply constraints and growing demand for oil in emerging markets will create an opportunity for Sasol's CTL and GTL technologies in these counties. The company also has plans to expand operations into Canada and America.
- **Strong Technical Position.** Combining Sasol's GTL and CTL technologies with South Africa's abundant fuel reserves has lead to strong growth and healthy profit margins (>40%). Sasol can use its GTL technology to arbitrage between oil and gas, allowing for robust profitability in

many economic environments. The company will continue to make advancements to its technology to achieve more efficient large-scale operations.

- **Further Advancement and Expansion of GTL and CTL Technology.** The company is focused on the growth of its GTL technology, as evidenced by the two recent shale gas acquisitions in Canada. The shale gas purchases added over 10 trillion cubic feet resources to SSL's portfolio and they are conducting studies and testing the potential for a GTL facility in Canada. Sasol is also exploring the possibility of a GTL facility in Louisiana. Supply of natural gas in the U.S. is expected to increase 45% over the next twenty years and SSL will benefit greatly from the resulting spread between oil and gas prices.

Valuation

To find the intrinsic value of SSL, a ten-year DCF and DDM were conducted. Sensitivity analysis accounted for variations in WACC, the ZAR/USD exchange rate, and fluctuations in oil prices. A WACC of 11.36% was used, yielding an intrinsic value of \$55.21, while sensitivity produced a range of \$43-\$70. The DDM provided a value of \$50.02. A relative value approach was also used, taking into account P/E, P/B, P/S, and EV/EBITDA. This method gives an intrinsic value of \$58.64. Taking all of these into account, a price target of \$57 was established, which provides an upside of more than 21%. The company pays an annual dividend of \$1.69, yielding 2.8%.

Risks

- **Unproven Track Record.** The development of gas-to-liquid (GTL) has led to cost overruns and project delays, and both CTL and GTL need better long-term track records to become widely accepted. Currently, liquefied natural gas (LNG) is a more popular option in countries that have the infrastructure to support it. GTL has diesel-like properties that allow it to be transported through existing methods, while LNG needs an entirely new infrastructure. The ease of integrating GTL into existing operations makes it attractive, and Sasol will benefit from increased demand for GTL expertise. Additionally, GTL produces transportation fuel rather than fuel for heating and power plants, which already have more long-term substitutes.
- **Weak Rand-oil Environment.** Weaker than expected oil prices, as well as a stronger ZAR/USD exchange rate, would negatively impact the cash flow model. Sasol is expected to increase financial leverage in the future to finance their growth plans and prices less than 525ZAR/bbl would add additional risk. Every \$1 change in the average annual crude oil price changes operating profit by ZAR600million (~\$75million). Additionally, a \$.10 change in the annual ZAR/USD exchange rate impacts operating profit by ZAR950million (~\$120million).
- **Operations in High-Risk Countries.** A large portion of Sasol's operations is located in South Africa, which increases political risk. Additionally, electricity interruptions, strikes and infrastructure constraints can disrupt business. SSL plans to increase their own electricity generation to 60% by 2013 from 50% currently, which will reduce the company's exposure to rising electricity prices and power outages. Sasol also has operations in high-risk countries such as Iran, China, and Uzbekistan. The company plans to invest and expand in these markets, and unfavorable incidents in any of these countries could affect future plans. Furthermore, an increase in refining and petrochemical capacity in Asia and the Middle East could weaken Sasol's profit margins.

Management

David E. Constable was named Sasol's new CEO in July 2011. Prior to his current position, he served as group president of operations at Fluor FLR. His previous role involved work on large capital projects in the energy and chemical sector. This experience should prove to be very beneficial since many of Sasol's growth opportunities involve large, capital-intensive projects. Additionally, Constable has a background in the field of CO₂ capture and sequestration, which is an important part of the coal-to-liquid operations.



Ownership

% of Shares Held by All Insider and 5% Owners:	10%
% of Shares Held by Institutional & Mutual Fund Owners:	4%

Source: MSN Money

Top 5 Shareholders

<u>Holder</u>	<u>Shares</u>	<u>% Out</u>
State Farm Mutual Automobile Insurance Co.	3,988,500	0.67
Allianz Global Investors of America	3,078,380	0.51
Dimensional Fund Advisors	2,379,884	0.40
Wellington Management Company	1,230,935	0.21
Wells Fargo & Company	1,200,952	0.20

Source: Yahoo! Finance

Boingo Wireless, Inc. (WIFI)

November 11, 2011

Rupali Varma

Telecommunications

Boingo Wireless (NASDAQ: WIFI) is the leading global Wi-Fi software and services provider with over 400,000 hotspots globally and over 60 managed and operated venues. WIFI operates in the wholesale (44%) and retail (56%) segments. The firm provides individuals with software and commercial Wi-Fi access for smartphones, laptops, and tablet computers via their network locations that include airports, hotels, coffee shops, restaurants, shopping malls, arenas, and stadiums. It also provides services to its partners, which include telecom operators, cable and technology companies, enterprise software and service companies, and communication companies to allow their users to connect to mobile internet through their hotspots. WIFI was founded in 2001 and is headquartered in Los Angeles, California employing 135 employees.

Price (\$ (11/04/11))	7.76	Beta:	0.80	FY: Dec	2010A	2011E	2012E
Price Target (\$):	11.91	WACC	11.85%	Total Revenue (Mil)	80.42	94.00	110.45
52WK Range (\$):	6.01-13.50	M-Term Rev. Gr Rate Est:	13.1%	% Total Rev Growth	22.38%	16.89%	17.50%
Market Cap:	261.82M	M-Term EPS Gr Rate Est:	10.4%	Gross Margin	60.26%	60.56%	60.93%
Float	14.71M	Debt/Equity	0.07%	Operating Margin	9.15%	10.05%	12.71%
Short Interest (%):	3.90%	ROA:	2.80%	EPS (Cal)	\$0.32A	\$0.14E	\$0.21E
Avg. Daily Vol:	15.44M	ROE:	11.30%	FCF/Share	\$ 0.24	\$ 0.31	\$ 0.45
Dividend (\$):	N/A			EV/EBITDA	19.9x	15.2x	11.8x
Yield (%):	N/A						

Recommendation

As Wi-Fi demand is expected to significantly increase due to technological developments, WIFI has successfully positioned itself as the leader in the global Wi-Fi network. Wireless usage level in the U.S. has increased to 80% and global demand is expected to increase 5% in the next year. To capitalize on this rising demand, WIFI aims to aggressively expand its network with a strong lineup of new additional venue launches. WIFI has been able to successfully enter international markets through their recent additions of three highly trafficked airports in Bangkok and Italy and their service agreements in Japan and South Korea, increasing the number of hotspots to over 400,000 in more than 100 countries. With international revenues accounting for 50% of WIFI's revenues, WIFI seeks to leverage these international venue additions to increase their presence and sell their regional plans to travelers throughout global markets. WIFI has shown the ability to grow its business on all levels. The firm has increased their subscriber base by more than 27% over the past year with net additions of 15,000 from the prior quarter. In Q3 2011, WIFI increased revenues by 22% y/y and EBITDA by 57% y/y. Management believes the strong response to the Wi-Finder app will further drive growth in its subscriber base. Also, management is confident that the restructuring of its rate plan to allow users up to two devices on a single account for \$9.95/mo will support average revenue per user in the long-term. This simplified plan has proven to be very popular already with nearly 25% of laptop subscribers registering more than one device. Accordingly, the increase in Wi-Fi demand from smartphones and tablets and management's aim to rapidly expand their network should drive strong growth, thus it is recommended that WIFI be added to the AIM Equity Fund with a price target of \$11.91.

Investment Thesis

- **Strong Emerging Position in Global Markets.** WIFI continues to aggressively expand its reach internationally. WIFI entered into a three year services agreement with LG U+ and Wi2 and acquired access to over 40,000 hotspots in South Korea and 30,000 hotspots in Japan. In Q2 2011, it added three international airports in Bangkok and Milan, Italy, bringing the total number of owned and operated (O&O) airport venues worldwide to 59 with 9 of the top 25 airports. The recent addition, Suvarnabhumi International Airport in Bangkok ranks as the fifth busiest airport in Asia and seventh busiest in the world, averaging more than 42 million annual passengers.

Expansion into these cities provides a key growth opportunity for WIFI since they are widely recognized as regional business and financial hubs. Milan has over 27 million passengers travel annually through the two airports acquired. WIFI now offers 150,000 hotspots across the Asia-Pacific region. This platform will not only drive growth in their retail business, but also allow them to offer Wi-Fi access to wholesale partners at these locations.

- **Solid Pipeline of Additional Venue Agreements.** WIFI also continues to seek out opportunities to venues such as sporting arenas, shopping malls, and quick-service restaurants. The firm recently announced their partnership with Gogo, the world's leading provider of in-flight connectivity, which provides its customers with robust Wi-Fi access on more than 1,100 airplanes across nine airlines. Additionally, WIFI also entered an agreement with Caruso Affiliated to provide Wi-Fi in two of the real estate company's shopping malls. Management has indicated a number of new venue launches that are yet to be announced including promised sporting arenas and recreational vending. O&O venues have proven to be a valuable tool for both customer acquisition (85% of adds) and roaming negotiations.
- **Technology Trends Driving Demand for Wi-Fi.** Technological developments are increasing the need for Wi-Fi, validating long-term growth expectations of 18%. WIFI's new Wi-Finder app was released in Q2 and has gotten over 250,000 downloads to date, exceeding management's expectations. Smartphones have become a bigger part of WIFI's mix, and management expects growth to further be fueled by increased penetration of Wi-Fi enabled devices and will reach beyond their core business traveler customers.

Valuation

Using a 5-year DCF with a computed WACC of 11.85% and terminal growth rate of 4%, an intrinsic value of \$12.00 was obtained for WIFI. Using a sensitivity analysis that adjusts for both the long term growth rate (3.00%-5.00%) and WACC (10%-12%) generates a price range of \$11.29-\$14.95. Additionally, peer average EV/EBITDA multiple of 10x was applied to estimated 2011- 2012 earnings to yield an intrinsic value of \$11.82. Applying an equal weighting to the DCF and EV/EBITDA valuation methods provides a target price of \$11.91. With the stock currently trading at \$7.76, the price target would yield a 53% return. WIFI pays no dividend.

Risks

- **Substantial Reliance on Partners.** A significant portion of WIFI's revenues is derived from their agreements with their venue and network partners, particularly key airport venue partners. Also, WIFI leverages off these relationships to generate new retail customers. Thus, a termination or failure of renewal of any of their agreements will reduce network of Wi-Fi hotspots and impede their ability to retain customers.
- **World Economic Pressures.** Weak global economic conditions, which have led to depressed levels of traveling and consumer spending, impact WIFI's business since spending on internet access is often a consumer discretionary cost. The slow global economic recovery could derail demand for Wi-Fi service and impair profitability.

Management

CEO David Hagan joined the company in 2001. He has had over 20 years experience in senior management roles in the telecom industry. Prior to joining, Hagan has held positions with Sprint and FirstSource Corp. Additionally, the founder of Boingo, Sky D. Dayton, the Independent Chairman of the Board, also founded Earthlink, eCompanies, Business.com, and JAMDAT Mobile. The board of directors determined that Mr. Dayton should serve as a director based on his long history with the company and experience with other growth companies



Ownership

% of Shares Held by All Insider and 5% Owners:	12.9%
% of Shares Held by Institutional & Mutual Fund Owners:	87.0%

Source: Bloomberg

Top 5 Shareholders

<u>Holder</u>	<u>Shares</u>	<u>% Out</u>
New Enterprise Associates	6,441,293	19.44
Mitsui & Company USA Inc.	6,061,324	18.29
Dayton Sky D	5,920,249	11.83
SteelPoint Capital Partners, L.P.	3,158,025	9.53
Sternhill Partners	1,749,661	5.28

Source: Bloomberg

Bridgepoint Education, Inc. (BPI)
November 11, 2011

Caitlin McMahon

Consumer Defensive

Bridgepoint Education Inc. (NYSE: BPI) is a domestic provider of postsecondary education services. The company offers over 1,400 accredited courses and 71 degree programs in Liberal Arts, Education, Business, Healthcare and Psychology. BPI delivers educational resources to its students online (99%) and via its traditional brick-and-mortar campuses (1%). The company's multi-disciplinary curriculum is designed to align with the underserved segments of the postsecondary market, namely military personnel, working adults, and those with unfinished degrees. Approximately 90,000 students are currently enrolled across BPI's Associates (14%), Bachelors (74%), Masters (11%) and Doctorate (1%) programs. The company was founded in 2004 by CEO & President Andrew S. Clark, went public in 2009, and is currently headquartered in San Diego, California.

Price (\$): (11/4/11)	22.95	Beta:	1.26	FY: Dec	2010A	2011E	2012E
Price Target (\$):	31.20	WACC	13%	Revenue (Mil)	\$713.23	\$925.00	\$1,035.00
52WK H-L(\$):	30.62-14.66	M-Term Rev. Gr Rat	15%	% Growth	57.00%	29.69%	11.89%
Market Cap (bil):	1.21	M-Term EPS Gr Rat	20%	Gross Margin	73.73%	72.17%	72.17%
Float (mil):	16.3	Debt/Equity:	N/A	Operating Margin	30.30%	28.00%	28.00%
Short Interest (%):	17.4%	ROA:	36.5%	EPS (Cal)	\$2.14	\$2.75	\$2.91
Avg. Daily Vol (mil)	0.56	ROE:	66.7%	FCF/Share	\$2.74	\$3.19	\$3.68
Dividend (\$):	0.00			P/E (Cal)	10.7x	8.3x	7.8x
Yield (%):	0.00%			EV/EBITDA	3.5x	3.1x	3.0x

Recommendation

Bridgepoint Education is well positioned within the \$410 billion postsecondary market to both capitalize on sector growth dynamics and to increase its market share. Over the next five years, the number of students taking postsecondary classes exclusively online is expected to grow at a CAGR of 23%; from 1.4 million students in 2010 to 3.9 million students in 2015. BPI's impressive enrollment growth and efficient margins suggest that the company is in a strong position to capture the industry's growing market share. Bridgepoint is an industry leader in terms of growth, with a 3-year revenue CAGR of 120% and a 3-year enrollment CAGR of 100%. BPI also leads its peers in operational efficiency, obtaining 74% gross margin and 30% operating margin in FY2010, versus the industry averages of 62% and 19%. To further propel industry demand, there are approximately 33 million adults in the United States that have some college experience, but no college degree (U.S. Department of Education). As BPI is accredited to accept a greater number of transfer credits than any one of its competitors, the company is strategically positioned to cater to this "working learner" market segment. The company's ability to align its services with niche market segments, coupled with its historical aptitude for efficient expansion, makes it a top player within its industry. Given these reasons and a favorable valuation it is recommended that BPI be added to the AIM Equity Fund at a target price of \$31.20, representing a potential upside of 35.94%.

Investment Thesis

- Growth Play.** Bridgepoint has been growing rapidly and consistently since its inception with enrollment growth +45% YOY in 2010 and its student base up 17-fold since 2006; favorable online education growth trends; an attractive student demographic mix relative to its peers; and the weak domestic job market will continue to provide the company with a strong platform for future growth. A testament to the increasing demand for online education is the 21% increase in online enrollments during 2010, versus the just 2% growth found at traditional higher education institutions. Furthermore, important bachelor's level students comprise 74% of BPI's student base, which is a higher percentage than any of its publically traded peers. This element of BPI's business model is attractive because bachelor's level programs have a market opportunity that is 2x the size of the graduate degree market, provide higher retention rates than that of the

associates' degree market, and are the most profitable degree in terms of revenue duration. Lastly, both the employed and unemployed have historically turned to higher education during tough economic times, largely to increase their attractiveness and stability in the job market. The high unemployment and low consumer sentiment levels that currently plague the United States economy will continue to incrementally increase enrollment growth.

- **Discounted Tuition.** BPI provides postsecondary curriculum at a lower cost than its competition. An undergraduate academic year at BPI costs \$8,900, while its competitors – Devry (+51%), Kaplan (+50%), University of Phoenix (+48%), Strayer (+36%), Capella (+31%) and Grand Canyon (+17%) – charge significantly more. The affordability and quality of BPI's education will be further enhanced by the recent launch of *Constellation*, a proprietary, interactive, educational database. The \$75 program will replace third-party textbooks, which typically cost students twice as much at \$150 per course. During 2010 *Constellation* was implemented in eight courses and it will be used in approximately 80% of courses by 2014.
- **Flexible Curriculum.** Bridgepoint's online university is the only for-profit, domestic institution that is accredited to accept up to 99 transfer credits towards a bachelor's degree. To date, approximately 18% of BPI's students transfer in more than 70 credits. This is a significant competitive advantage, as the company's peers only accept 65-70 transfer credits. BPI's curriculum was specifically designed to align with underserved markets; the FY2010 student base was comprised of military personnel (18%), minorities (47%), and women (72%). BPI will continue to strategically target considerable, profitable, and underserved market segments.

Valuation

A ten-year DCF with a terminal growth rate of 2.50% and a WACC of 12.00% were utilized to value Bridgepoint Education. A sensitivity analysis was conducted in order to mitigate the effect of changes in COGS, WACC and growth rates, it produced intrinsic values that fluctuated from \$23.30 to \$35.74. Taking into consideration the factors stated above, the DCF model yielded a target price of \$30.90. A conservative 11x multiple was applied to a 2012 EPS estimate, and this metric yielded a target price of \$32.01. Weighting the DCF analysis 75% and the multiple valuation 25% derived a final price target of \$31.20, representing an upside of 35.94%.

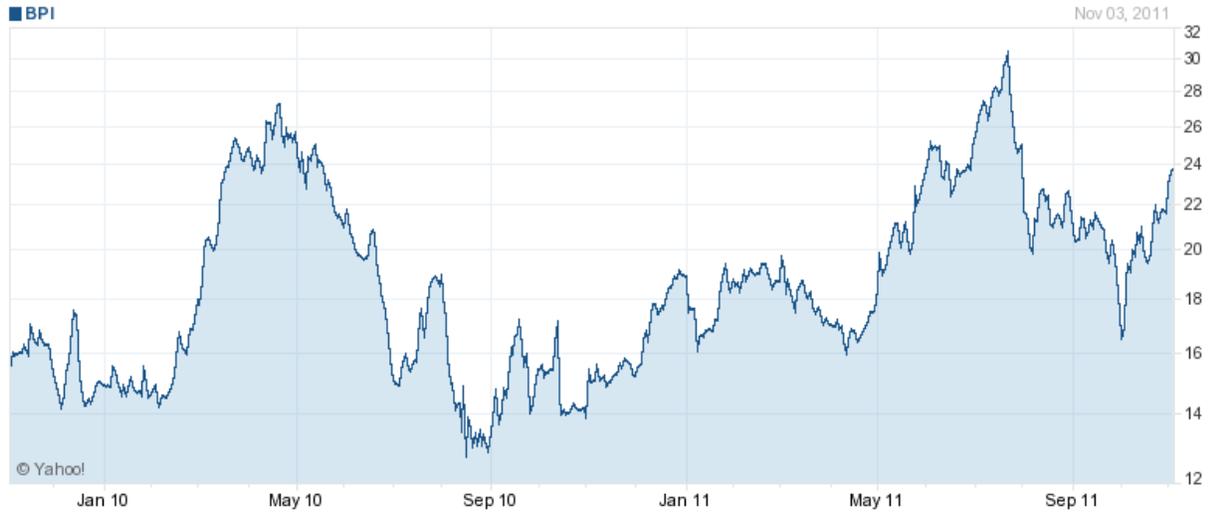
Risks

- **Enrollment Growth.** Enrollment growth is driven by subjective factors that are determined by prospective students. If BPI fails to meet the needs, preferences or tastes of its dynamic target market it will not attract, increase, or retain students; the company's top and bottom line will be significantly harmed if it does not keep pace with consumer demand or industry peers' innovation.
- **Revenue Concentration.** Revenue is primarily derived from federal student financial assistance programs under Title IV of the Higher Education Act. In FY2010, Bridgepoint earned 85% of revenue from Title IV programs and funding. If the company cannot comply with significant regulatory standards it will be ineligible for Title IV funding, and thus financially distressed.

Management

Andrew S. Clark is the CEO and President of Bridgepoint Education. He founded the company in 2004 with the help of Warburg Pincus, a private equity firm. Prior to founding BPI, he had 14 years of experience within higher education management. Daniel J. Devine has been the CFO and Executive Vice President of BPI since its origination. Devine is a CPA holder, has 15 years of experience as a CFO and over 22 years experience in management.

Bridgepoint Education, Inc.



Bridgepoint Education, Inc.



Ownership

% of Shares Held by All Insider and 5% Owners:	68%
% of Shares Held by Institutional & Mutual Fund Owners:	20%

Source: Yahoo! Finance

Top 5 Shareholders

<u>Holder</u>	<u>Shares</u>	<u>% Out</u>
Warburg Pincus LLC	34,598,220	67.40
Wells Capital Management Inc.	2,308,760	4.50
Prudential Financial Inc.	1,208,022	4.35
Jennison Associates LLC	1,160,882	2.26
Burgundy Asset Management Ltd.	953,792	1.86

Source: Bloomberg Terminal