Applied Investment Management (AIM) Program

AIM Class of 2012 Equity Fund Reports
Fall 2011

Date: Wednesday, November 2nd
Road Show Location: Chicago Circles

Student Presenter	Company Name	Ticker	Price	Page No.
Chris Gwinn	True Religion	TRLG	$34.55	2
Kristina Gergens	Emergent BioSolutions, Inc.	EBS	$19.17	5
Jared Klingeisen	Petroleo Brasileiro S.A.	PBR	$27.64	8
Colleen Osborne	LogMeIn	LOGM	$41.52	11

The 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. Thank you for allowing us the opportunity to present at the Chicago Circles Event.

For more information about AIM please contact:

David S. Krause, PhD
Director, Applied Investment Management Program
Marquette University
College of Business Administration, Department of Finance
436 Straz Hall, PO Box 1881
Milwaukee, WI 53201-1881

mailto: AIM@marquette.edu

Website: MarquetteBuz/AIM AIM Blog: AIM Program Blog
Twitter: Marquette AIM Facebook: Marquette AIM

True Religion Apparel (TRLG)
November 2, 2011

Chris Gwinn Consumer Discretionary

True Religion Apparel Inc. (TRLG) designs, markets, distributes, and sells apparel under the name True Religion Brand Jeans. TRLG distributes its products worldwide and operates in four primary segments: U.S. Consumer Direct (56% of revenue), U.S. Wholesale (24%), International Wholesale (19%), and Core Services (1%). TRLG's product line consists of upscale premium denim, sportswear, and knits for men and women. Price points of True Religion Jeans typically range from $170 to $300 per pair. TRLG currently operates 102 stores (73 full-price and 29 outlet) under the name True Religion Brand Jeans. In addition, TRLG sells their product lines through Bloomingdale's, Neiman Marcus, Nordstrom's, Saks Fifth Avenue, and via approximately 800 specialty retailers. True Religion Apparel was founded in 2002 and is currently headquartered in Vernon, CA.

Price ($) (10/28/11):	$ 34.55	Beta:	1.28	FY: December	**2010A**	**2011E**	**2012E**
Price Target ($):	$ 37.54	WACC	13.92%	Revenue ($Mil)	363.71	430.81	533.89
52WK H-L ($):	34.92 - 18.17	LT Rev. Gr Rate Est (3-5 yr):	19.02%	% Growth	16.95%	18.4%	23.9%
Market Cap (mil):	886.90M	LT EPS Gr Rate Est (3-5 yr):	3.84%	Gross Margin	63.23%	65.46%	65.60%
Float (mil):	16.52M	Debt/Equity:	8.2%	Operating Margin	20.40%	15.51%	16.30%
Short Interest (%):	5.9%	LT Debt/Total Assets	0.0%	EPS ($Cal)	$1.75	$1.63	$2.12
Avg. Vol (10 day)	290,011	EBITDA 1-yr Growth	28.2%	FCF/Share	2.02	1.74	2.43
Inventory Turnover:	8.72	2010A ROA:	14.70%	P/E (Cal)	19.74	21.25	16.31
Cash Ratio:	770.5%	2010A ROE:	17.33%	EV/EBITDA	10.05	5.90	4.23

Recommendation

Despite the stressed economic environment and weak recovery, TRLG has several platforms propelling estimated 19% growth across all of its apparel lines. TRLG has strong liquidity (the firm currently holds a cash balance of $173.7 MM) and has no outstanding debt. It has consistently generated strong cash flows (FCF of $56.96 MM in TTM Q2 2011), which has placed the company in a strong position to continue to execute its growth initiatives in all of its segments. Management has continued to build a thriving consumer direct businesses and has made important strategic investments internationally, including the addition of wholesale sales operations (South Korea, Hong Kong, and Germany), brick and mortar stores (Tokyo, Toronto, London, and Cologne) and new regional headquarter offices (Hong Kong and Switzerland). True Religion's strong brand name has provided the company with a loyal customer base, which has allowed the company to defend itself against potential inflationary pricing pressure via initial markups. TRLG has strong operating and gross margins of 20.40% and 63.23% (2010A) compared to the peer average at 12.56% and 53.96%, respectively. Management's effectiveness can be seen in its TTM ROA of 16.15% and TTM ROE of 18.87%, both of which outperform the industrial average (ROA of 10.80% and ROE of 15.69% in Q2 2011). Because of these reasons, it is recommended that TRLG be added to the AIM Equity Fund with a target price of $38, offering a potential upside of over 10%.

Investment Thesis

- **Domestic Growth.** TRLG maintains plans of opening 15 new retail stores a year. In Q2 2011, TRLG opened six domestic stores ending the quarter with 102 domestic stores versus 81 stores in Q2 2010. During the past quarter, TRLG posted same-store sales growth of 15%. Furthermore, TRLG currently distributes to approximately 800 specialty dealers and they are targeting approximately 1,500 additional dealers in this channel. Management anticipates growing their specialty dealers by 25% in fiscal year 2011. Longer term, TRLG will continue to pursue a ratio of full-price to outlet stores of 3-1, which will aid in properly positioning the True Religion brand while also helping to eliminate excess inventory through sales in outlet stores.

- **Improving Margins via Reducing Reliance on Off-Price Channels.** TRLG is aggressively reducing its off-price channel sales. This will create added demand for TRLG's merchandise in True Religion stores and in full-price wholesale stores, as consumers will be forced to purchase TRLG products at full-price as discount retailers will become limited. Management has effectively demonstrated this as Q2 2011 off-price channel sales declined 23%, while its developing sportswear collection witnessed sales growth of 32%. Additionally, veering away from off-price channels helps to strengthen margins, as gross margin has improved by 344 basis points since its strategic announcement in Q3 2010.
- **International Expansion.** TRLG is underdeveloped internationally, as international sales account for 18% of total sales and 14% of operating income for fiscal year 2010. Compared to more mature competitors such as VF Corp. and Ralph Lauren, international sales typically represent between one-third to one-half of total sales. TRLG has placed a strong emphasis on aggressively growing this segment and moving the contribution percentage closer to one-third of sales with profit contribution increasing accordingly. In Q2 2011, international sales grew 31.4%, primarily driven by expansion in Canada and Germany.

Valuation

A five-year DCF was conducted to find the intrinsic value of TRLG. Sales growth rates were forecasted using management's guidance for 2011 and beyond. Sales are expected to grow 18% in 2012, as TRLG begins to benefit from the added exposure to the international market. Through its continued expansion into new international markets, TRLG is expected to generate long-term growth rate of 19%. The short-term drop in operating margin can be attributed to the added SG&A that goes into opening up new locations abroad. This also translates into a drop in EPS and FCF (due to increased capital expenditures). A conservative WACC of 13.92% and a terminal growth rate of 2.5% were used and yielded an intrinsic value of $38.42. Additionally, a multiple factor sensitivity analysis was applied, with a varying WACC, terminal growth rate, operating margin, gross margin, and revenue growth – which yielded an average intrinsic value of $40.80. An EV/EBITDA multiple approach was also applied using a forward year EV/EBITDA multiple of 8.5x; this method provided an intrinsic value of $35. Taking the various valuation approaches into account, a price target of $37.87 was established offering an upside of 10%. TRLG currently does not pay a dividend.

Risks

- **Faltering Women's Line.** Sales of women's in both major accounts and specialty channels have continued to remain weak as women's wholesale sales have declined 5.9% YTD. However, TRLG is committed to fixing this business segment with its key partners. One key initiative in the women's line is to broaden its fashion orientation to include less obvious uses of the True Religion logo and offer new jeans styles like the Phantom series. Despite this, within True Religion Brand stores, women's has experienced a 26.5% increase in overall sales.
- **Consumer Confidence.** Due to TRLG's participation in the luxury goods market, consumer sentiment is a continued concern. Despite this, current consumer confidence rose slightly to 60.9 from 59.4 in September 2011 and is beginning to veer away from recession-like readings seen in late summer 2011.

Management

Jeffrey Lubell has been the Chairman of the Board of Directors, CEO, and Chief Merchant since he founded True Religion Apparel Inc. in 2002. Mr. Lubell is also CEO of the company's wholly owned subsidiary company, Guru Denim, Inc., a company founded by Mr. Lubell in November 2002. Previously, Mr. Lubell was the President and Creative Director of Hippie Jeans. Lynne Koplin is the President and COO of True Religion Apparel Inc. Prior to her employment with True Religion Apparel Inc., Ms. Koplin served as President of the women's division of Tommy Bahama.

Ownership

% of Shares Held by All Insider and 5% Owners:	19%
% of Shares Held by Institutional & Mutual Fund Owners:	80%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
VANGUARD GROUP, INC. (THE)	1,318,425	5.00
BlackRock Fund Advisors	1,097,704	4.26
OAK RIDGE INVESTMENTS, LLC	1,017,869	3.95
SNOW CAPITAL MANAGEMENT LP	939,678	3.65
Norges Bank Investment Management	918,468	3.57

Source: Yahoo! Finance

Emergent BioSolutions, Inc. (EBS)
November 2, 2011

Kristina Gergens — Healthcare

Emergent BioSolutions, Inc. (EBS) is a biopharmaceutical company focusing on the development, manufacture, and commercialization of vaccines and antibody therapeutics in the United States, the United Kingdom, and Vietnam. EBS operates in two segments: BioDefense and BioSciences. The BioDefense Division (98.8% of revenues) is targeted towards government-sponsored development and the obtainment of countermeasures against bioterror or biowarfare, specifically focusing on the infectious disease Anthrax. EBS manufactures and markets BioThrax, the only FDA-approved vaccine for prevention of the Anthrax infection. The BioDefense Division also includes investigational product candidates such as PreviThraz, a recombinant protective antigen Anthrax vaccine; Anthrivig, a human Anthrax immunoglobulin; Thravixa, a fully human Anthrax monoclonal antibody; NuThrax, an Anthrax vaccine absorbed with CPG 7909 adjuvant; and a double mutant recombinant protective antigen Anthrax vaccine. The BioSciences Division (1.2% of revenues) targets oncology, including non-Hodgkin's lymphoma. Additionally, the division focuses on autoimmune and inflammatory disorders, such as rheumatoid arthritis, tuberculosis, influenza, and typhoid. All products are sold to healthcare providers and purchasers for use in preventing and treating disease in the biodefense and commercial markets. Emergent BioSolutions was founded in 1998 and is headquartered in Rockville, Maryland.

Price ($) (10/28/11)	19.17	Beta:	0.99
Price Taget ($):	28.07	WACC	10.6%
52WK Range ($):	13.18-25.94	L-Term Rev. Gr Rate Est:	3.0%
Market Cap:	1.89B	L-Term EPS Gr Rate Est:	3.0%
Float	23.55M	Debt/Equity	12.7%
Short Interest (%):	4.9%	ROA:	12.2%
Avg. Daily Vol:	280.61K	ROE:	16.9%
Dividend ($):	N/A		
Yield (%):	N/A		

FY: December	2010A	2011E	2012E
Revenue (Mil)	286	291	340
% Growth	21.89%	1.86%	16.62%
Gross Margin	83.50%	83.50%	83.50%
Operating Margin	25.50%	18.50%	22.50%
EPS (Cal)	$1.63A	$0.96E	$1.33E
FCF/Share	1.66	1.45	1.90
P/E (Cal)	14.75	20.02	14.40

Recommendation

Emergent BioSolution's FDA-approved Anthrax drug, BioThrax, has significant growth opportunities as the U.S. Government continues to seek this vaccine and recently expanded the BioThrax procurement contract to 17.92M doses which resulted in an increase in contract value by $101M. There are currently 20M doses of BioThrax and the Strategic National Stockpile (SNS) requirement is 75M doses. Consequently, the U.S. Government issued an RFP for 44.75M doses of BioThrax over a five year period. Currently BioThrax compiles over 80% of Emergent BioSolution's revenue; however, EBS has started to focus more on its oncology products which have a $4-$5B potential in the B-cell malignancy market. To date, 2.6M people have been vaccinated with BioThrax and that number continues to consistently increase. The government recently invested $107M into EBS's main production facility, Building 55, which is a strong indicator that the government plans on future contracts with EBS. Given the exceptional growth prospects, development of new products, and low-correlation with macro-economic events, EBS was added to the AIM Equity Fund with a target price of $28, offering an upside of over 40%.

Investment Thesis

- **BioThrax Contract.** BioThrax is the only vaccine approved by the FDA for Anthrax prevention. BioThrax contributed to $251 M of revenue (87.7% of revenues) in 2010, resulting in 16% YoY growth. A $400M+ contract for 17.92M doses of BioThrax will be completed by the end of 2011. In addition, the U.S. Government is currently producing a stockpile to prepare against future Anthrax threats. This 5-year renewal contract with the government should be finalized by the end of Q3 and will result in 44.75M new doses of BioThrax at an average price of $28/dose the contract could be worth $1.25 Billion for the firm.

- **Government Investment.** The U.S. Government invested $107M in April 2011 to boost manufacturing capacity at one of EBS's main production facilities, Building 55, which is believed to be a commitment for future contracts and revenues. The Building 55 manufacturing facility is expected to triple the current capacity of Emergent BioSolutions and will result in larger U.S. Government purchases of BioThrax. As a result of this facility expansion, management believes 20-30M doses of BioThrax will be produced annually by 2013, resulting in a 37% increase from 2010.
- **Development of New Technology and Research.** EBS continues to research many new drugs, focusing on therapeutics after acquiring several assets from its $132M acquisition with Trubion in October 2010. The therapeutic programs have the potential to add over $1B to EBS. In addition, process improvements over the last few years have increased BioThrax manufacturing efficiency from a few million doses a year to 7-9M a year. EBS has also completed clinical studies on Anthrivig (Anthrax Ig therapeutic) and recently agreed on an Animal Rule approval pathway with the FDA. In addition, Emergent BioSolution's tuberculosis vaccine is currently in Phase IIb of development and CSR is anticipated in 2H 2012. EBS is targeting markets in the developed world and has a $1B market potential.

Valuation

Using a 10-year DCF with a computed WACC of 10.56% and a LT growth rate of 3%, an intrinsic value of $30.77 was determined for EBS. The DCF model grew revenues in the first year at 2%, then 17% for the next year. Operating margins were maintained at an average of 20%. In addition, a 15x PE multiple was applied to 2012 EPS forecast of $1.33 and yielded an intrinsic value of $19.95. Taking both methods into account, a $28.07 price target was established, representing a potential 46% upside. The firm does not pay a dividend.

Risks

- **Government Regulation.** Emerging BioSolutions products are heavily regulated by the FDA and must go through a vigorous approval process. If these products are not approved, they will not be commercialized; therefore, resulting in a material decrease in revenues for the firm. All products success depends solely on approval from the FDA.
- **Reliance on Government for Revenue.** Emergent BioSolutions relies on the U.S. Department of Health and Human Services for a majority of its revenue via BioThrax. If the RFP posted on May 26, 2011 does not lead to a contract, EBS revenues may suffer substantially because BioThrax contributes to over 80% of total revenues. EBS dependence on BioThrax will continue until some of its early stage products gain FDA approval. If EBS fails to produce other biodefense or commercial products, its revenues will suffer substantially.

Management

Fuad El-Hibri has served as chairman of the board of directors and CEO of EBS since June 2004 and as president from March 2006 to April 2007. Prior to joining Emergent BioSolutions, Mr. El-Hibri was CEO and chairman of the board of directors of BioPort Corporation, which became a wholly owned subsidiary of EBS in 2004. Mr. El-Hibri also served as chairman of Digicel Holdings, Ltd., a privately held telecommunications firm. Mr. R. Don Elsey was appointed Senior Vice President, Finance and CFO in December 2006. Prior to joining EBS, Mr. Elsey served as the director of finance and administration at IGEN International, Inc., a biotechnology company.

Ownership

% of Shares Held by All Insider and 5% Owners:	35%
% of Shares Held by Institutional & Mutual Fund Owners:	57%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Bank of New York Mellon Corporation	2,444,532	6.82
Royce & Associates, LLC	2,277,951	6.35
Capital Research Global Investors	1,285,000	3.58
Vanguard Group, Inc. (THE)	1,223,421	3.41
Scopia Management Inc.	1,192,010	3.32

Source: Yahoo! Finance

Petróleo Brasileiro S.A. (PBR)

November 2, 2011

Jared Klingeisen International Energy

Petróleo Brasileiro S.A. (NYSE: PBR), or Petrobras, headquartered in Rio de Janeiro, is the largest integrated energy firm in Brazil and the largest publicly-traded oil company in Latin America. The company operates 12 refineries in Brazil with capacity of 2 million barrels per day, which account for 92% of the country's total refining capacity. Petrobras operates in five main business segments: Supply (46% of fiscal 2010 operating revenue), Exploration and Production (26%), Distribution (18%), International (6%), and Gas and Power (4%). The company is responsible for over 20% of global deep-water production and has recently discovered vast oil and gas reserves off the coast of Brazil, with estimated recoverable reserves of 5–8 billion barrels of oil equivalent (boe). In 2010, production reached 2.6 million boe, and reserves totaled 12.7 billion boe. Incorporated in 1953, Petrobras was founded to conduct hydrocarbon activities for the Brazilian government. The government still holds a controlling stake in the company, and a recent $70 billion stock sale allowed them to increase their stake in the company from 40% to 48%. Petrobras shares trade on the Sao Paulo, New York, Madrid, and Buenos Aires stock exchanges.

Price (10/28/11):	$27.64	Beta:	1.35	FY: Dec	2010A	2011E	2012E
Price Target:	$38.00	WACC	10.10%	Revenue (mil)	$120,052	$148,641	$174,610
52WK H-L:	$24.51-$42.74	M-Term Rev. Gr Rate Est:	12.9%	% Growth	30.68%	23.81%	17.47%
Market Cap (bil):	$180	M-Term EPS Gr Rate Est:	10.4%	Gross Margin	41.11%	41.00%	40.00%
Float (bil):	3.63	Debt/Equity:	38.4%	Operating Margin	20.12%	20.66%	19.22%
Short Interest (%):	0.43%	ROA:	8.50%	EPS (Cal)	$3.70	$3.94	$4.00
Avg. Daily Vol (mil):	15.06	ROE:	22.10%	FCF/Share	(2.9)	(4.5)	(3.0)
Dividend ($):	$0.16			P/E (Cal)	7.2	7.0	6.9
Yield (%):	0.58%			EV/EBITDA	7.8	6.5	5.5

Recommendation

In Brazil the demand for fuel continues to exceed GDP growth. In 2010, imported fuel accounted for 5 percent of Brazil's product demand and in order to prevent this number rising to 40 percent by 2020, Brazil must expand its oil refining capacity. Based on 2010 production, Petrobras produced approximately 95% of the country's crude oil and natural gas - and nearly all of the country's refining capacity (~92%). The company holds a strong market position in the region and this is expected to continue in the future due to their close relationship with the Brazilian government. Gross profit margins were high in 2010 (41.1%) and in order to maintain these strong margins, the company plans to divest low margin assets worth $13.6 billion over the next two years. If Petrobras is able to achieve its ambitious five-year business plan targets, it could overtake Exxon Mobile and become the world's top oil producer. Because of its future growth prospects and favorable valuation, it is recommended that PBR be added to the AIM International Fund with a target price of $38, which offers a potential upside of nearly 40%.

Investment Thesis

- **Future Production Growth.** Recent discoveries off the Brazilian coast, especially deep-water pre-salt reserves, have the potential to double Brazil's total reserves over the next few years. Results from pilot projects in the area have been promising, producing 36,000 boe per day, and it is estimated that 9.5 to 14 billion barrels of oil exist in this area. Petrobras has interests in these areas ranging from 20%-100% ownership, and recent changes to Brazilian oil laws will require Petrobras to have at least a 30% stake in all future discoveries in the area. The company has recognized the importance of this region, focusing $120 billion of investments on exploration and production over the next five years.
- **International Expansion.** Petrobras operates in 25 countries, and is focused on expanding its deep-water drilling technology in the Gulf of Mexico and West Africa. Many international

companies have difficulty competing in deep-water exploration because of the high costs of equipment and technology required to access these resources. As Petrobras continues to expand and develop its international operations, higher volumes and more efficient operations will cause their relative costs to fall. Recent success in deep-water drilling may allow Petrobras to expand and compete internationally and its current business plan promotes growth in this area. Almost $12 billion of capital will be allocated to developing the company's foreign operations, especially those in West Africa and Latin America.

- **Growing Domestic Demand.** Demand in Brazil is expected to outpace that of developed countries in the future, and Petrobras is well positioned to capitalize on this growth. Petrobras is responsible for nearly all of Brazil's refining capacity (92%), and recently revealed plans to increase capacity from 2 million barrels per day (bpd) to approximately 6 million bpd by 2020.

Valuation

To find the intrinsic value of PBR, a ten-year DCF was conducted. Using a WACC of 10.1% and a terminal growth rate of 3.5%, an intrinsic value of $37.79 was obtained. Product segment growth rates were varied year-to-year to account for changes in oil prices and increased competition. A sensitivity analysis adjusting the WACC and terminal growth rate produced a range of $31.34-$45.40. In addition, a 10x P/E multiple was applied to 2012 EPS, yielding an intrinsic value of $40.00. Taking these into account, a price target of $38 was established providing for a potential upside of 36%. PBR pays an annual dividend of $0.16, yielding 0.55%

Risks

- **Brazilian Government.** The Brazilian government, currently the company's largest shareholder, has held a significant stake in Petrobras since it was first incorporated. Following a recent share sale of $70 billion, the government added to its position, now controlling approximately 64% of the voting power. The company relies heavily on production in Brazil and interference by the government could cause future performance to suffer. It is expected that the government will want to benefit from new discoveries in Brazil and any discrepancies between the two parties could have a negative impact on business. The government has the power to change management and governmental policy, and has disclosed in company filings that it may pursue its political agenda through Petrobras.
- **Financial Uncertainty.** Rising global demand for energy and promising oil discoveries in Brazil have caused Petrobras to develop a very ambitious five-year business plan. Total investments during this period plan to exceed $244 billion, which will increase the company's leverage. This puts the company at greater risk, especially in an unstable economy. There is also concern that the recent $70 billion share sale will dilute future earnings.
- **Currency and Commodity Volatility.** International operations rely heavily on global currency and commodity prices, which can have a significant impact on business if the current rates fluctuate. Recently oil prices have been high and a sustained drop in prices could have a significant impact on the company's financial statements. Petrobras' international operations rely heavily on the dollar, and currency fluctuations could have a negative effect upon business.

Management

Dr. Jose Sergio Gabrielli De Azevedo is the President and CEO of Petrobras. He also serves on the board of directors. He has held his current position since July 2005, and prior to his current appointment, served as the company's CFO, beginning in 2003. Almir Guilherme Barbassa has served as CFO since July 2005, and has worked for Petrobras since 1974. The Brazilian government holds a controlling interest in the company.

Ownership

% of Shares Held by All Insider and 5% Owners:	43.80%
% of Shares Held by Institutional & Mutual Fund Owners:	15.71%

Source: MSN Money

Top 5 Shareholders

Holder	Shares	% Out
Wellington Management Company	60,556,671	0.93
Capital World Investors	31,308,620	0.48
Vanguard Group, Inc.	22,611,072	0.35
Baillie Gifford and Company	21,214,601	0.33
Dimensional Fund Advisors LP	19,616,728	0.30

Source: Yahoo! Finance

LogMeIn, Inc (LOGM)
November 2, 2011

Colleen Osborne Technology

LogMeIn, Inc. (NASDAQ: LOGM) is a global provider of proprietary remote-connectivity, collaboration, and IT support solutions to small and medium-sized businesses (SMBs). LOGM's on-demand services allow users to access Internet-enabled devices while away from the home or office via a centralized, Software-as-a-Service (SaaS) platform, Gravity. The firm's access segment (47% of 2010 revenue) includes a variety of products for remote control and file sharing. Support products (53%) can be used for system administration, data backup, business collaboration, and customer service. LogMeIn Free is the firm's most prevalent product, and in addition to LogMeIn Hamachi and join.me, provides free, on-demand remote-connectivity and collaboration to more users than any other service provider. Revenues for LOGM are derived from sales of fee-based products, including LogMeIn Pro, which adds file transfer, remote printing, and drive mapping features, and LogMeIn Ignition, a one-click access tool that is now available on smartphones and tablets. With five offices and four data centers across the Netherlands, Hungary, Australia, the UK & the United States, LOGM employs 415 employees and deploys solutions in 12 languages. LOGM's 12 million users in more than 200 countries have connected over 127 million computers and other devices across both complimentary and premium services. LOGM was founded in 2003 as 3am Labs, went public in 2009, and is headquartered in Woburn, Massachusetts.

				FY: December	2010A	2011E	2012E
Price ($) (10/28/11)	41.52	Beta:	1.06	Revenue (Mil)	101.06	122.28	149.18
Price Taget ($):	48.33	WACC	12.05%	% Growth	35.8%	21.0%	22.0%
52WK Range ($):	26.74-49.50	Mid Term Rev. Gr Rate Est:	15.0%	Gross Margin	91.0%	91.5%	91.5%
Market Cap:	1.01B	Mid Term EPS Gr Rate Est:	20.0%	Operating Margin	18.0%	16.5%	17.5%
Float	21.04M	Debt/Equity	0.0%	EPS (Cal)	$0.87A	$0.55E	$0.69E
Short Interest (%):	14.6%	ROA:	12.8%	FCF/Share	$1.33	$1.15	$1.46
Avg. Daily Vol:	407,113	ROE:	18.4%	P/E (Cal)	34.0	74.8	59.9
Dividend ($):	0.00			EV/EBITDA	40.6x	32.2x	26.6x
Yield (%):	0.0%						

Recommendation

As the IT access and support space becomes more complex, LOGM's niche product paired with their ability to tap expanding markets, gives them potential to gain ample traction, even in a bear market. While primarily regarded for their consumer play on remote access technology, management has indicated that 75% of LOGM's annual revenue is driven by IT support functions, with 50% of LogMeIn Pro subscribers using it for this purpose. The IT support market is overall more technical and less price sensitive than access alone. *Gartner* predicts that by 2015, 95% of organizations will support a blended approach to enterprise architecture, making way for these firms to utilize platforms like LOGM's while still maintaining longstanding application software contracts. Given its 75% recurring revenue stream and 91% gross margin, LOGM also is in a better position to withstand adverse macroeconomic conditions SMBs could face. Even if organizations cut IT spending or outsource IT operations, these outsourced professionals will still rely on LOGM to manage devices remotely. The scalability of LOGM's solutions has led to a broad client base that attracts individual consumers as well as corporations across various sectors, including 3M, Best Buy, CGI, Fujifilm, HSBC, IBM, Raytheon, Rolls-Royce, SAP, ServiceMaster, and Winnebago. As of October, Microsoft and Dell are also part of this list. With a quality product suite and favorable valuation, LOGM was added to the AIM Equity portfolio on October 24, 2011 at a price of $34.84, representing nearly 40% upside potential.

Investment Thesis

- **Emphasis on Mobility.** LOGM's Ignition and Rescue solutions are available on Apple iOS & Android devices for a subscription fee, with plans for support of Microsoft 8 and Amazon Kindle Fire tablets expected in the near term. Ignition for mobile devices contributed to 85% of new premium customers for LOGM in Q311. Higher sales of tablets, notably the iPad2, have recently contributed to increased revenue. With over 60% of the user base residing outside of the U.S., LOGM seeks to continue penetration of the fast-growing international mobile market.

- **Cloud-Based Suite.** LOGM deploys all solutions via the SaaS model, allowing the firm to keep margins high and advertisements online. Market research firm IDC estimates that spending on public, cloud-based solutions will grow 30% during the next year to $29B. SMBs will contribute to this growth, with spending forecasted to reach $55B by 2014. Strength in this delivery method can be shown by the quick uptake of join.me, LOGM's meeting and screen-sharing service available with both free and premium options. During Q311, 800K people held at least one meeting on join.me, up from 500K during Q2, and enhancements are expected before year end.
- **Strategic Acquisition.** During Q3, LOGM completed their $15M cash acquisition of Pachube, a UK-based connectivity startup. Pachube's unique technology is used to network non-computer smart devices, such as appliances, energy and personal health monitors, automobile components, and environmental sensors. As the need for data in these products increases, LOGM will benefit from connectivity diversification this acquisition will bring.

Valuation

A ten-year DCF and EV/Sales multiples approach were used to value LogMeIn, Inc. A WACC of 12.05% was calculated, and a terminal growth rate of 3% was used to discount future cash flows for the firm. The approach yielded an intrinsic value of approximately $43. A sensitivity analysis adjusting the terminal growth rate between 2 and 4% and conservative WACC between 11.1% and 13.1%, yielded a price range of $36.59 to $49.02. An 8.8x EV/Sales multiple was calculated using forward revenues for FY2012 to yield an intrinsic value of $54. Weighing the two methods equally, a $48 price target was established, representing over 16% upside potential from its current price. The firm does not pay a dividend.

Risks

- **Increasing Competition.** Citrix and Cisco are LOGM's largest competitors, and hold larger market positions in the SaaS market. With broader product suites, a move by these firms towards bundling their remote access products with already-existent enterprise solutions could negatively impact LOGM's future revenues. Citrix's GoToAssist product, however, has yet to hone in on the mobile capabilities LOGM's products embrace, a feature that undoubtedly needs to be included in today's wireless world.
- **Customer Churn Rates.** LOGM relies on revenue from subscription renewals, which are usually one year in duration. The length of these contracts allows customers to quickly switch between remote-access providers, if desired. While LOGM realizes customer retention rates of 80%, should they not keep their prices competitive, churn rates could increase, especially in a down market.
- **Faster uptake of free services than paid subscriptions.** While LOGM has been successful in establishing a user community through their free services, very few have converted to the paid versions. Around 4% of the user base pays for LOGM services, with Rescue being the highest-end product and selling for around $1,200 per year. Large costs for hosting these operations on-site could be incurred should the number of free users increase without this switchover.

Management

Michael Simon has served as the President and CEO of LogMeIn since the company's foundation. He also serves as Chairman of the board of directors, and founded Uproar, Inc., a publicly-traded online gaming provider, in 1995. Marton Anka founded LogMeIn and currently serves as the firm's Chief Technology Officer. Prior, he was the founder and Managing Director of 3am Labs.

Source: Yahoo! Finance

Source: Yahoo! Finance

Ownership

% of Shares Held by All Insider and 5% Owners:	26%
% of Shares Held by Institutional & Mutual Fund Owners:	70%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Fidelity Management & Research, LLC	3,607,743	14.91%
Wells Fargo & Company	1,741,300	7.20%
Waddell & Reed Financial, Inc.	996,055	4.12%
The Vanguard Group, Inc.	886,808	3.66%
Alger Management, Inc.	850,229	3.51%

Source: Yahoo! Finance