Applied Investment Management (AIM) Program

AIM Class of 2018 Equity Fund Reports
Fall 2017

Date: Friday, November 3rd | ***Time:*** *2:30 – 3:30* p.m. | ***Location: AIM Research Room 488***

Student Presenter	**Company Name**	**Ticker**	**Sector**	**Page**
Grant Runnoe	Signet Jewelers Limited	SIG	International Consumer Discretionary	2
Connor Konicke	The Michaels Company	MIK	Consumer Discretionary	5
Thomas Dietz	Brookfield Infrastructure Partners	BIP	International Utilities	8
Stephen Arcuri	Anixter International	AXE	Industrials	11

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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Signet Jewelers Limited (SIG)
November 3, 2017

Grant Runnoe International Consumer Discretionary

Signet Jewelers Limited (NYSE: SIG) is the world's largest retailer of diamond jewelry, watches and accessories holding the top market share in the United States, Canada and Europe. Signet operates in brick and mortar with a total of 3,637 stores and kiosks as well as initiating a presence in omni channel. SIG contains four segments: Sterling Jewelry (61% of revenue, brands: Kay Jewelers, Jared the Galleria of Jewelry), Zale Division (24.2% of revenue, brands: Zale Jewelry), UK Jewelry (10.1% of revenue, Brands: H. Samuel and Ernest Jones) and Piercing Pagoda (4.1% of sales, brand: Piercing Pagoda). Sales is geographically allocated to the United States (~86%), United Kingdom (~10%) and Canada (~4%). The company was founded in 1949 and is headquartered in Hamilton, Bermuda.

Price ($): (10/30/2017)	64.36	Beta:	1.03	FY: Dec	2017A	2018E	2019E	2020E
Price Target ($):	84.72	WACC	10.8%	Revenue (Mil)	6,232.90	6,405.00	6,602.89	6,933.04
52WK H-L ($):	101.46-46.09	M-Term Rev. Gr Rate Est:	5.2%	% Growth	-2.7%	2.8%	3.1%	5.0%
Market Cap (mil):	3,891	M-Term EPS Gr Rate Est:	13.0%	Operating Income	379.47	606.60	698.38	815.75
Insider Holding	0.9%	Debt/Equity:	59.0%	Operating Margin	6.1%	9.5%	10.6%	11.8%
Avg. Daily Vol (B) :	1.64	Debt/EBITDA (ttm):	2.03x	EPS (Cal)	$6.86	$8.58	$8.92	$9.98
Dividend ($):	$1.14	ROA:	7.7%	FCF/Share	$4.39	$6.17	$6.52	$7.62
Yield (%):	1.9%	ROE:	17.2%	P/E (Cal)	12.3x	9.9x	9.5x	8.5x
ESG	AA	ROIC:	12.3%	EV/EBITDA	9.9x	7.1x	6.4x	5.4x

Recommendation:

SIG is well positioned in the $43B addressable jewelry market, holding 30% of the US market share in the bridal category and 13% global share in a very fragmented market - doubling its nearest competitor. They target the mid-market segments which includes merchandise in the range of $100-$1,000 for the bridal market and $50-$500 for gifting, which currently accounts for 95% of SIG's revenue. The U.S. Census Bureau reported that the middle class experienced incomes increase this past year of 5.2% which marked the first increase in median income since 2007. In addition to wage increases the market has witnessed additional spending with the increasing trend of purchasing for self-gifting, friend to friend and sister to sister. SIG notes that only 25% of its revenue come from wedding purchases. SIG's performance has been plagued due to management turmoil, however there has been an adjustment as Virginia Drosos has taken over CEO position. SIG has recently hit a trough in earnings due to the need for increased advertising/promotional activity, delayed tax refunds impacting the Valentine's Day performance and the later timing Mother's Day. Despite the near term slowdown, the company has accomplished a 5-year CAGR in net income of 10.9% and free cash flow of 12%. New management should help to rekindle fundamental performance, by focusing on three goals: priority of the customers, Omni-Channel focus and creating a culture of agility and efficiency. In addition SIG is insulated as many retailer are concerned about the Amazon threat. SIG notes that jewelry brick and mortar is alive and well with 90% of consumers utilizing a combination of both online and in-store channels when buying jewelry. Consistent to new management's goal of creating an Omni-Channel focus, SIG acquired R2Net and its brand JamesAllen.com – which have grown 2.5x in the past 24 months. They will contribute to a strong pipeline with the implementation of virtual vault which will allow SIG's customers the ability to virtually try on over 100,000 diamonds in every store. With its market position and growth potential, it is recommended that Signet Jewelers be added into the AIM International Equity Fund at a target price of $84.72 yielding a 31.63% upside and pays a 1.9% dividend yield.

Investment Thesis:

- **Polishing off the R2Net Acquisition:** The new CEO, Virginia Drosos, noted the importance of the rapid consolidation of the R2Net acquisition. Investors have yet to fully realize the synergies and growth opportunities of this transaction. SIG severely lacked an e-commerce presence and this acquisition adds that element. During the last holiday season, the company lost 1% of sales growth due to poor omni-channel execution. As of the second quarter 2017, SIG reported a rapid improvement in e-commerce sales of 18.1% YoY. The acquisition also introduces a team of 24/7 customer service of JamesAllen.com's diamond experts accessible online or via phone, which is the first in the industry to offer interactive assistance. Prior to the acquisition, the firm's customer service primarily responded to credit questions. This introduction is critical to enriching customer experiences and allows for inventory on hand reduction.

- **Strengthen Fundamentals:** SIG has recently completed the first phase of its strategic outsourcing of its in-house credit program. They sold their prime-only credit in a 7-year contract to Alliance Data Systems Corporation for $960 million, representing 55% of its portfolio. Alliance absorbs the responsibility of funding, underwriting and servicing to SIG's U.S. stores. The proceeds have been used to pay off the R2Net debt early, reducing its overall debt, and buy back shares. The second phase is set to be completed in 2Q18 to sell of the remaining 45%. Divesting this program enables SIG to be nimble and continue to seek opportunities in the fragmented market. SIG also has an overfunded pension of $31.9 million, $304 million in cash and has increased its dividend for 7 consecutive years.
- **A Diamond in the Rough**: The market has yet to realize the valuable addition of Ms. Drosos who settles in as CEO after spending 5 years on SIG's Board. She is focused on accelerating the *Vision 2020* strategy as she brings experience, having managed multibillion dollar P&Ls, while delivering cost reductions and operational efficiencies. She indicates 'less is more,' which has been a main focus and important driver of her success with P&G and Assurex Health. She quickly established three areas of focus, priority of the customers, Omni-Channel focus and creating a culture of agility and efficiency, which will propel a positive image of the company.

Valuation:

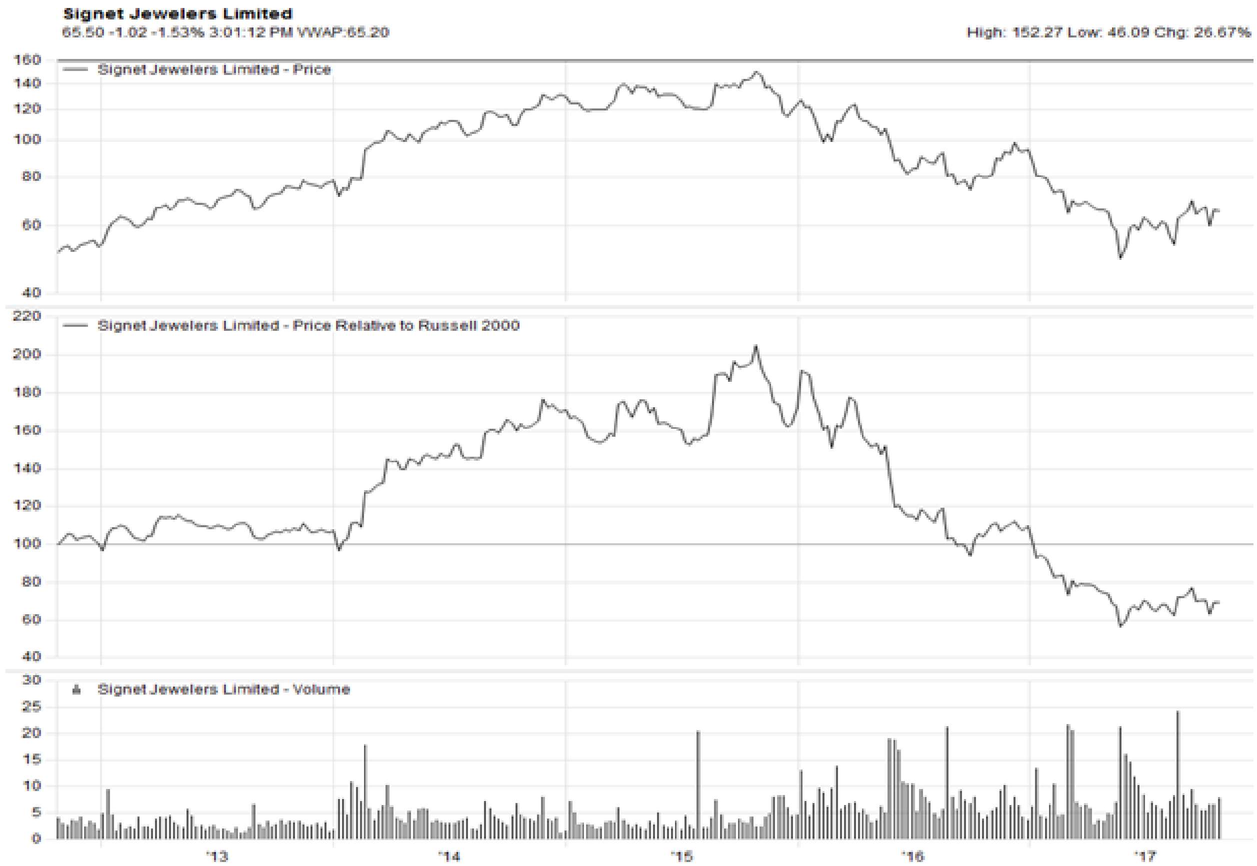
In order to reach an intrinsic value for SIG, a five-year DCF model was constructed. Using a terminal growth rate of 1.75%, WACC of 10.8%, an intrinsic value of $82.89 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $101-77.95. Additionally, an EV/EBITDA valuation was used using a multiple of 9x and value of $135.66 by weighting the three valuation models 60/40, a price target of $84.72 was reached, which yields a 31.63% upside. SIG pays a dividend of $1.14, yielding 1.9%.

Risks:

- **Down Turn in the Economy:** Although historically in a down economy rings are still purchased for wedding purposes and special events, a swing in the US economy would have a negative effect on SIG revenue growth. Larger ticket price items have the potential to be less valued with customers seeking cheaper investments.
- **Poor Integration of R2Net:** R2Net holds a great opportunity for SIG; if the integration in terms of Omni Channel implementation is not sound for this holiday season the company could repeat history, losing out on frothy sales opportunities.
- **Brexit Regulations:** Regulatory changes and global economic conditions resulting from the United Kingdom's intentions of exiting the European Union could adversely affect as 10% of its revenue is allocated to this region.

Management:

As of August 1st, Virginia Drosos (53) became the CEO following the resignation of Mark Light. Prior to joining SIG, Ms. Drosos was the president of AssureRX Health (2013-2016). Most notably is Mrs. Drosos's 25-year tenure with P&G, successfully expanding the company internationally responsible for Global Beauty, Skin and Cosmetics. Mr. Hobbs (47) joined Signet's UK division in March 2011 and became Managing Director of the UK division and Commercial Director of UK Division since July 2013 before entering into the CCO and president role.



Peer Valuation

Name	Ticker	Market Cap (mil)	P/S	P/E	EV/EBITDA NTM	P/B
Signet Jewelers	SIG-US	3,960	0.74	10.08	5.49	1.81
Tiffany	TIF-US	11,639	2.90	25.40	11.01	3.70
Burberry Group	BBRYF	10,830	3.11	31.08	11.51	5.22
Swatch Group	UHR-CH	21,979	2.95	36.27	12.40	2.01
Chow Tai Fook Jewellery	1929-HK	10,829	1.64	27.49	12.55	2.65
Peer Averages		13819.40	2.65	30.06	11.87	3.39

Source: Factset

Name	Ticker	Revenues	ROE	ROA	Debt/Equity	Est 5 yr NI growth
Signet Jewelers	SIG-US	6,259	17.2%	7.7%	59.0%	44.8
Tiffany	TIF-US	4,038	15.2%	8.9%	35.5%	4.4
Burberry Group	BBRYF	3,603	17.1%	11.8%	2.0%	-11.1
Swatch Group	UHR-CH	7,611	5.5%	4.5%	2.7%	-62.0
Chow Tai Fook Jewellery	1929-HK	6,605	9.2%	5.8%	31.5%	-51.7
	Peer Median	5,321.44	12.19	7.35	17.07	-11.10

Source: FactSet

The Michaels Companies Inc. (MIK)

November 3, 2017

Connor W. Konicke — Domestic Consumer Discretionary

The Michaels Companies Inc. (NASDAQ: MIK) is the largest arts and crafts specialty retailer in North America offering materials, project ideas and education for creative activities. MIK's mission aims to inspire and enable customer creativity, create a fun and rewarding place to work, foster meaningful connections with communities and be an industry leader in growth and innovation. As of 2Q of FY2017, MIK operated 1,230 Michaels stores, 101 Aaron Brother's stores, and 35 Pat Catan's stores. MIK also operates an international wholesale business under the Darice brand name. MIK was founded by Michael J. Dupey in 1973 in Dallas, Texas.

Price:	$19.99	Beta:	0.95	FY: Jan	2015	2016	2017 E	2018 E
Price Target:	$26.84	M-Term Rev. Gr Rate Est:	3.5%	Revenue (Mil)	4,912.8	5,197.3	5,375.2	5,564.4
52WK H-L:	$25.57-$17.25	M-Term EPS Gr Rate Est:	13.3%	% Growth	3.5%	5.8%	3.4%	3.5%
Market Cap (Mil):	3,618	Debt/Capital:	267.3%	Op Income	720.6	715.3	754.8	802.6
Float:	59.2%	Debt/EBITDA (TTM):	3.3x	% Growth	15.0%	-0.7%	5.5%	6.3%
Avg. Daily Vol (Mil):	2,109	WACC:	6.0%	Op Margin	14.7%	13.8%	14.0%	14.4%
Yield:	0.0%	ROA:	17.7%	EPS	$1.73	$1.83	$2.17	$2.35
Short Interest	14.2%	ROIC:	36.8%	P/E	24.8x	12.7x	9.2x	8.6x

Source: FactSet

Recommendation

As Amazon continues to penetrate and disrupt the consumer discretionary environment (as well as many other industries), some of the few companies that continue to show competitive advantage are those that provide customers with a unique experience that the online environment cannot replicate. An industry that has remained stable and shown its dominance since the rise of the "Amazon effect" has been the Arts and Crafts industry. The Arts and Crafts industry is highly fragmented industry, worth roughly ~$35B. As of the end of 2016, ATKearney Internet Retailer estimated that the online share of total sales in the arts and crafts industry was ~5%, while the remaining ~95% came from store based shares. According to MIK's research, of the 95% of $35B, 26% came from mass merchants (Target, Walmart), 34% from specialty chains (Michaels, Jo-Ann, AC Moore and Hobby Lobby), 24% from specialties, and 11% from value retailers. With ~1.5%, or $500M share of the overall $35B market, MIK has become the market leader and has shown their ability to gain market share. MIK's constant currency comps have grown at an average of of 2.2% over the 2013-2016 period. In addition, total sales for MIK have grown at a 4.4% CAGR over the same period. With better than average top line sales, MIK also experienced better than peer average operating margins. From 2013 to 2016, peer average operating margins declined to 9.6% from 10.8%, while MIK's operating margins increased to 14.0% from 13.7%, and hit peak margins in 2015 of 14.7%. Due to MIK's ability to create customer store experience, their moat around Amazon and other pure-play online competition, and leader in a large fragmented market, it is recommended that The Michaels Companies, Inc. be added to the AIM Equity Fund with a price target of $26.84, representing an upside of 34.2**%.**

Investment Thesis

- **Store Experience.** MIK continues to invest in enhancing customer in-store experience. From 2013 to 2016, MIK has significantly improved customer satisfaction by enhancing store visual experience, implementing a new POS system to increase speed of customer checkouts and clean up stores by reducing clutter and increasing the pleasantness of MIK staff. Per an MIK report, customer satisfaction improved significantly with 18% more customers satisfied with store cleanliness, 18% more satisfied with friendliness of team members, 17% more satisfied with customer satisfaction and 12% of customers are now more likely to recommend MIK to others. In addition, MIK has continued to attract customers by providing low cost (~$2) in-store classes and events for customers. Store classes and events have grown 39%, with 780,000 attendees in 2013 to 1,100,000 attendees in 2016 and were up 50% from FY2Q2016 to FY2Q2017. Continuing to provide in-store experiences for customers keeps online encroachment risk low and will help drive sales (3-5%) and operating income (5-7%) for MIK.

- **Omni-Channel Is Key.** What gives MIK a unique and defensible position around Amazon and other online-only competition is the underlying characterisitics of the arts and crafts industry: long distribution of stock keeping units (no 80/20 rule), slow inventory turns, the average unit retail is $4, the un-commoditized items and the unattractiveness supply chain economics. As MIK has the largest store footprint in North America with 1,366 at the end of 2Q2017, they have been able to succesfully integrate omni-channel capabilites, which have allowed for double digit e-commerce growth in 2016. Depsite e-commerce only accounting for ~50M of 2016 sales, omni-channel has proven to increase customer spend by 3-4x as much vs. pure brick and mortar or online retailers. As MIK continues to build out omni-channel presence, management expects e-commerce to account for 9% of total revenues.
- **Leader in Large Fragmented Market**. Despite MIK being an industry leader of the $35B Arts and Crafts industry, MIK only makes up ~1.5% of the market, providing significant room for market penetration. Compared to many peers who have suffered from declining operating margins (10.8% to 9.6%), MIK has been able to generate positive sales, earnings and free cash flow growth to continue to gain market share. From the end of FY2013 to FY2016, MIK recognized a 4.4% top line CAGR, a diluted EPS CAGR of 13.1%, and generated ~2B in FCF. Combined with their domestic footprint, MIK will have adequate capex to continue investing in technology and stores to gain market share in the fragmented market.

Valuation

An intrinsic value of MIK was generated using a 5-year discounted cash flow model, a comparable NTM price-to-earnings ratio analysis and a MIK historical price-to-earnings ratio analysis. A 5-year discount cash flow model was constructed using a terminal growth rate of 0.5% and a WACC of 6.0%, which resulted in a price target of $26.55. A comparable NTM price-to-earnings analysis was constructed. Weighing the comparable NTM P/E multiple and MIK's NTM P/E multiple 50/50, an implied multiple of 10.9x was reached. Using my estimate of $2.23 for MIK's 3Q2017-2Q2018 estimated NTM EPS, a price target yielded $24.37. Lastly, a historical price-to-earnings analysis was performed. MIK's historical average NTM P/E was 13.2x, with a peak multiple of 17.9x and a trough multiple of 8.4x. Using my estimate of $2.23 for MIK's 3Q2017-2Q2018 estimated NTM EPS, a price target of $29.33 was reached. Weighing the three valuation methologies equally, an intrinsic value of $26.84 was reached, yielding a 34.2% upside from MIK's close price of $19.99 on October 27, 2017. MIK does not pay a dividend.

Risks

- **Interest Rate Exposure.** As of 2Q FY2017, MIK ran a highly leveraged balance sheet (3.3x of Debt/EBITDA). Of the $2.842B of outstanding debt, $2.332B was tied to LIBOR, with the remaining $0.51B subject to fixed rates. Given a 100 basis point increase in LIBOR, MIK would experience $-23M impact on EBT margins, causing a $-0.07 to $-0.08 impact on EPS.
- **Macro Environment.** Given that MIK's revenue stream and profitability are contingent on the nature of consumer spending, MIK is susceptible to significant sales reduction and margins squeeze is the event of a market correction.

Management

Carl S. Rubin has served as CEO since joining The Michaels Companies Inc. in March of 2013 and has served as Chairman of the board since April of 2015. Prior to joining, Mr. Rubin served as President and CEO of Ulta Salon, Cosmetics & Fragrance Inc. Denise A. Paulonis joined in 2014 but recently was appointed Executive VP – CFO in August of 2016.

Peer Valuation

Name	Ticker	Market Cap (Mil)	P/E - Current	P/E - NTM	3 Yr. Historical CY P/E	EV/EBITDA - Current
The Michaels Companies, Inc.	MIK	3,794	10.5x	9.3x	15.6x	7.9x
Sally Beauty Holdings, Inc.	SBH	2,308	10.6x	8.9x	18.8x	7.2x
Tractor Supply Company	TSCO	7,386	16.9x	16.4x	27.0x	9.2x
Bed Bath & Beyond, Inc.	BBBY	3,068	5.3x	7.5x	11.6x	3.3x
Dollar General Corporation	DG	23,062	18.7x	17.4x	18.0x	10.6x
Peer Averages		**8,956**	**12.9x**	**12.5x**	**18.8x**	**7.6x**

Source: FactSet

Peer Fundamentals

Name	Ticker	Revenue	EBIT Margin	ROIC	ROE	Total Debt / Total Capital
The Michaels Companies, Inc.	MIK	5,209	13.7%	38%	*0%	267%
Sally Beauty Holdings, Inc.	SBH	3,897	11.9%	16%	*0%	123%
Tractor Supply Company	TSCO	7,041	9.9%	24%	30%	26%
Bed Bath & Beyond, Inc.	BBBY	12,168	7.9%	14%	21%	35%
Dollar General Corporation	DG	22,767	9.0%	15%	22%	35%
Peer Averages		**11,468**	**9.7%**	**17%**	**24%**	**55%**

* Negative Shareholder Equity

Source: FactSet

Brookfield Infrastructure Partners (BIP)
November 3, 2017

Thomas Dietz — International Utilities

Brookfield Infrastructure Partners (BIP) is a global diversified utility owner and operator with the objective of producing long-term stable returns for infrastructure investors. BIP is a subsidiary of Brookfield Asset Management, an alternative asset manager with over 250bn in AUM. BIP earns revenue through four operating segments: transportation (37% of revenue), utilities (37%), energy (19%) and communication infrastructure (7%). BIP recognizes revenue in both developed and emerging markets, spanning the US, the UK, Australia, France, several South American countries, and India. The firm is a market leader for diversified utility holdings and excels in both organic growth and excellent M&A activity. BIP is legally held in Bermuda with headquarters in Toronto. BIP went public in January of 2008 and is traded on both the NYSE and the TSX.

Price ($):	10.85
Price Target ($):	13.64
52WK H-L ($):	$11.33/$7.76
Market Cap (mil):	7,248
Insider Holdings	50%
Avg. Daily Vol (mil):	1.8
Yield (%):	2.7
ESG Rating	B

Beta:	1.30
M-Term Rev. Gr Rate Est:	11.0%
M-Term EPS Gr Rate Est:	8.1%
Debt/Equity:	0.5
Debt/EBITDA (ttm):	2.31
WACC	14%
ROA (%):	8.1
ROE (%):	20.2
ROIC (%):	11.4

FY: Dec	2017E	2018E	2019E	2020E
Revenue (Mil)	4884	5464	5816	6235
% Growth	19%	12%	6%	7%
Oper Inc	1124	1319	1432	1602
% Growth	14%	15%	8%	11%
Op Margin	23%	24%	25%	26%
EPS	$1.19	$1.38	$1.49	$1.68
P/E (Cal)	9.1	7.9	7.3	6.5
EV/EBITDA	6.9	6.1	5.8	5.3

Recommendation

BIP began as a utility asset manager ten years ago, specializing in electric utilities and timber forestry in North America. They have since expanded into transportation, water and gas utilities, and communication infrastructure across the globe. BIP specializes in investing in high quality, long life assets, continuing and improving operations, and in some situations, opportunistically selling the assets for a significant gain. BIP has been growing revenues at 12% CAGR and funds from operations at 20% since inception. 2017 has been the most exciting year on record for Brookfield Infrastructure – as they have issued over 5bn USD in debt and equity to fund their massive project backlog. Roughly half of the capital was deployed this year through the purchase of a Peruvian water desalination plant, 50% of a Brazilian toll road, and partial ownership of a multi-billion dollar Petrobras natural gas transportation spin- off. BIP also has $1.5bn of projects ready for investment in 2018 and 2019. They will be further expanding the installation of millions of smart utility meters in the UK, building out their US gas distribution facilities, further expansion of South American toll roads, and first steps into the Indian telecom space. Brookfield has an unrivaled ability to target an investment opportunity, quickly execute acquisition activity, and maximize the asset's cash flows. With the combination of globally diverse revenue streams, an excellent project backlog, and a top tier management team, it is recommended that BIP be added to the AIM International Fund with a target price of $50.39, representing an upside of 18.1%. They current pay dividends that yield 2.7% annually.

Investment Thesis

- Strong Organic Growth and M&A Performance. Unlike state owned utilities and utilities limited to only one country, BIP can grow and invest wherever the environment is most rewarding to investors. Brookfield has a proven track record of excellent organic growth and acquisitions of assets that both generate excellent returns and appreciate over time.
- Top Tier Management. A key component of Brookfield Infrastructure Partners incredible success is its global veteran management team. When BIP makes an acquisition, they almost always keep the former management general manager in place and supplement the team with Brookfield's

leading industry acumen. Furthermore, when BIP decides it is prudent to sell an asset due, the average IRR on the divested assets is greater than 25%.

- Robust Dividend Growth. BIP has committed to being a source of stable cash flows to investors that can weather economic downturns. Roughly 90% of BIP's revenues are contractual based rather than volume based, and BIP's infrastructure is irreplaceable, with Peruvian toll roads or Australian coal rail lines serving as prime examples. Brookfield has demonstrated their commitment to strong dividends by increasing their dividends to 18% of revenue per share. Management has indicated that dividends will grow in line with revenues, and management believes that their dividends can grow 5-9% over the coming decades.

Valuation

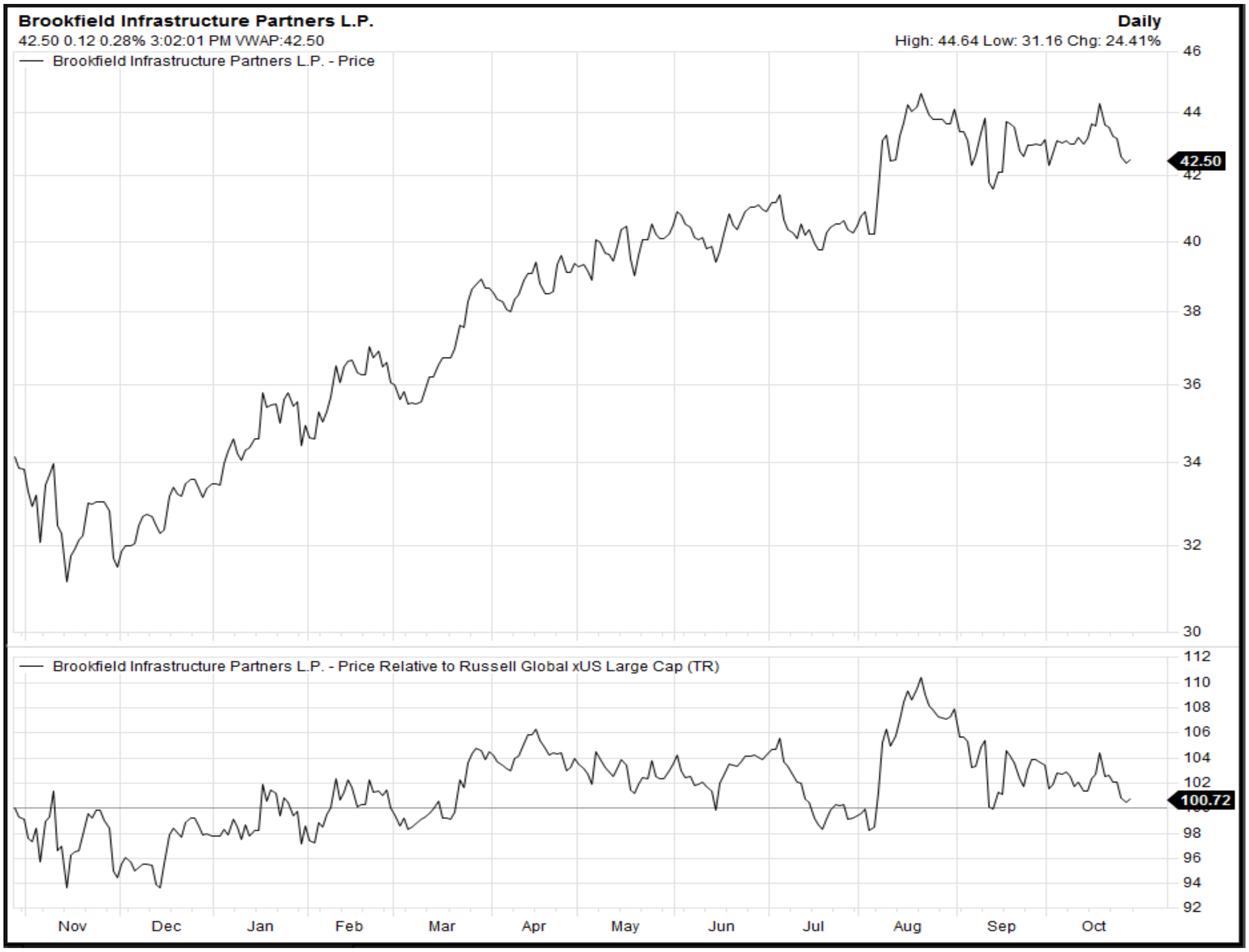
To determine the present value of BIP, a seven-year sum of the parts DCF was constructed. Company assisted guidance was used for the first three to five years with the final years seeing tapering growth. With a WACC of 8.67%, including a 1.0% diversified country risk premium, and a terminal growth rate of 2.25%, a target price of $53.29 was reached. A sensitivity analysis on the DCF valuation with growth rates ranging from 1.85 – 2.65% and WACC ranging from 7.67 – 9.67% resulted in valuations from $41.26 – 72.16. A DDM valuation was also performed due to BIP's strong and steady dividend growth, utilizing a WACC of 8.67% and a dividend perpetuity growth rate of 3.25%. This yielded in a target price of $45.84. A sensitivity analysis on the DDM valuation with dividend growth rates ranging from 2.85 – 3.65% and WACC ranging from 7.67 – 9.67% resulted in valuations from $36.64 – 61.42. A multiple valuation was not performed due to the diverse operations, massive size, and global reach that is unique to BIP. Weighting the DCF and DDM 60/40, a target price of $50.31, representing an 18.1% upside.

Risks

- Fixed Income Competition. Utility companies with stable growth and strong dividends have been very appealing compared to fixed income in the low interest rate, tight spread environment. Dividend yields are currently outperforming investment grade corporate credit instruments, but this will likely not last. As interest rates rise, credit instruments will become more attractive on a relative basis.
- Government Regulation. As a result of operating in over a dozen countries across five continents, Brookfield Infrastructure Partners must comply with a wide array of regulatory environments. Many of their businesses earn profits that must be negotiated with government officials. The safety of diversification comes with the caveat that BIP is exposed to many unique country risks like government seizures in South America, increased taxes in France, and environmental regulation in Australia.
- Competitive M&A Environment. Due to BIP's global scope and size, they are in constant competition with other strategic buyers, construction companies, and investment banks for M&A supply. This intense competition can drive up asset prices and put additional stress on BIP's financing.

Management

Derek Pannell is the Chairman of Brookfield Infrastructure Partners. He has been a managing partner at Brookfield Asset Management since 2007 and has over 42 years of experience in the mining and metals industry. Ben Vaughan is a senior managing partner and the CIO of BIP. He joined Brookfield in 2001 and was instrumental in building the 12% revenue growth per year across the company. Marcos Almeida is the managing partner in charge of Brazilian Infrastructure. He has over 20 years of experience in privatization of state owned utility and telecom Brazilian companies.



Name	Ticker	Revenues	ROE	ROA	Debt/Equity	Est 5 yr NI growth
Brookfield Infrastructure Partners	BIP-US	2,115.0	6.4	1.5	167.4	5.3%
Port of Tauranga	POT-NZ	182.7	9.2	6.1	40.8	0.1%
CCR SA	CCR-BR	2,868.0	20.6	5.7	315.0	-1.3%
United Utilities	UU-GB	2,220.0	15.7	3.6	261.7	-2.3%
Kinder Morgan	KMI-US	12,943.0	2.0	0.9	116.3	9.2%
Alupar Investimiento	ALUP11-BR	116.0	11.5	3.1	157.0	-1.8%
Cellnex Towers	CLNX-ES	741.9	8.6	1.6	362.2	13.6%
Peer Averages		4,287.2	10.5	3.5	176.0	2.2%

Source: FactSet

Name	Ticker	Market Cap	P/E	P/B	P/TBV	Div Yld
Brookfield Infrastructure Partners	BIP-US	17,680	90.4	2.60	-	4.00%
Port of Tauranga	POT-NZ	2,144	35.0	3.20	3.31	3.50%
CCR SA	CCR-BR	11,467	14.2	4.20	-	3.40%
United Utilities	UU-GB	7,421	12.8	2.00	2.57	4.70%
Kinder Morgan	KMI-US	40,399	32.3	1.10	5.15	2.80%
Alupar Investimiento	ALUP11-BR	1,513	12.0	0.70	0.74	2.70%
Cellnex Towers	CLNX-ES	5,591	135.0*	9.80	-	0.00%
Peer Averages		14,510.0	21.8	2.5	2.6	3.2%

Source: FactSet
*removed for valuation

Anixter International (AXE)

November 3, 2017

Stephen Arcuri — Domestic Industrials

Anixter International Inc. (AXE) is a global supply chain and logistics solution provider. It operates in three segments, Networking & Security Solutions (52% of CY17 revenue), Electrical & Electronic Solutions (27.5%), and Utility Power Solutions (20.4%). Anixter operates globally with 79.6% of revenue coming from the United States, 8.3% from Europe and the Middle East, and 12.1% from Emerging Markets. The company was founded in 1957 and is headquartered in Glenview, Illinois.

Price ($):	$68.90
Price Target ($):	$80.49
52WK H-L ($):	88.6-63.4
Market Cap (mil):	$3,486
Insider Holdings	8.40%
Avg. Daily Vol (mil):	0.13
Yield (%):	0.0%
ESG Rating	B

Beta:	1.72
M-Term Rev. Gr Rate Est:	14.6%
M-Term EPS Gr Rate Est:	65.6%
Debt/Equity:	87%
Debt/EBITDA (ttm):	3.8x
WACC	11.2%
ROA (%):	3.4%
ROE (%):	10.8%
ROIC (%):	6.1%

FY: December	FY2016	2017E	2018E	2019E
Revenue (Mil)	7,623	7,965	8,334	8,734
% Growth	23.1%	4.5%	4.6%	4.8%
Oper Inc	285	318	337	358
Op Margin	3.7%	4.0%	4.0%	4.1%
Net Margin	1.6%	2.1%	2.2%	2.2%
EPS	$4.15	$5.02	$5.38	$5.78
P/E (Cal)	16.6	13.7	12.8	11.9
EV/EBITDA	11.0	9.8	9.3	8.8

Recommendation

Anixter is a middle market industrial distributer that focuses on providing full line supply chain solutions for small to mid-market wire and cable producers. Originally an industrial wire and cable manufacturer, Anixter has discontinued production operations and expanded to provide enterprise networking, power, telecom, and internet solutions. They connect 5,000 suppliers to 150,000 customers by creating a one stop platform. Anixter carries 600,000 products and their sales team partners with customers to help match them with the products they need. Anixter's electronic integration solution, eLink, allows EDI, XML, and Excel files to directly interact with Anixter's systems, and real-time data on inventory and shipping status. These types of automatic transactions reduce lead times and costs for both suppliers and customers. A network of 320 warehouse and distribution centers provide customers with access to markets they would not otherwise be able to reach and removes the stress of establishing a supply chain. Anixter has expanded their offerings to capitalize on their existing network through bolt on acquisitions that provide complimentary services. To date, management estimates that the Utility Power Solutions (UPS) acquisition has resulted in 50bps of sales synergies, and UPS grew 10.5% YOY in Q3'17. Infrastructure projects are set to increase dramatically as the need for more and faster data increases. The American Institute of Architects (AIA) estimates that office construction will increase 4% in 2018, and believes that the momentum of growth in office space in select markets will continue. In this environment, management has shown a continued focus on core operations and building a single stop solution brand. In FY'15 they spun off their OEM Supply—Fasteners segment to American Industrial Partners, a middle market PE firm. The deal closed for $380 million in cash. Management's current focus is to de-lever after their recent acquisitions, with a target of debt as 45% of capital. Therefore, it is recommended that Anixter International be added to the AIM Small Cap Equity fund with a target price of $80.49, representing an upside of 16.8%. The firm does not pay a dividend.

Investment Thesis

- **Extensive Network Helps Users Go Farther:** Anixter is set to capitalize on a strengthening global economy by leveraging an already existing infrastructure. The Brookings Institute estimates that China alone will spend $250 billion and $1 trillion in direct investment in Latin America and East Asia respectively. While other logistics providers are working to establish themselves, Anixter immediately provides a value added service to clients. Their current holdings include 25 warehouses and services centers in Europe and the Middle East, 34 in Latin America, 11 in Asia, and 6 in Australia. Anixter's full line of solutions will continue to be a differentiator in a part of the world that lacks the infrastructure for high speed internet or reliable power. Inida's wire and cable demand is expected to grow at a 18.5% CAGR through 2020, while other emerging markets still face large difficulties in securing reliable power. Annually, Pakistan loses approximately 3 to 4% of their GDP annually due to consistent nation wide power outages.

- **Push to Compete on Amazon's Standards:** Anixter's TAM faces increasing pressure from changing industry standards that put emphasis on efficiency and lean operations. In response, Anixter has commited to stream lining both their own and their customers' supply chains; 99% of all orders are shipped within 24 hours. Anixter's network has become increasingly valuable as it becomes more comprehensive; From FY'15 to Q3'17, Anixter has added over 25,000 customers and 1,500 suppliers. As their clientel continues to increase, Anixter will benefit from the network demand effect they have worked to create by becoming an industry standard.
- **A Data Driven Future:** As business continue to focus on leaner operations, data analytics will become increasingly important, and Anixter's ERP solutions will produce customer savings in costs and efficiency. Anixter has also focused on creating data storage centers for their users throughout the world. The world currently creates 16.3 zettabytes of data per year, and storage is rapidly becoming an issue. As hacking risks increase, some customers feel more comfortable with custom in house data centers. Anixter continues to provide these solutions, as well as complimentary features like security and network products. According to Forbes, 60% of U.S. business have set aside additional money for dadta storage, and plan to spend $1.2 million on average.

Valuation

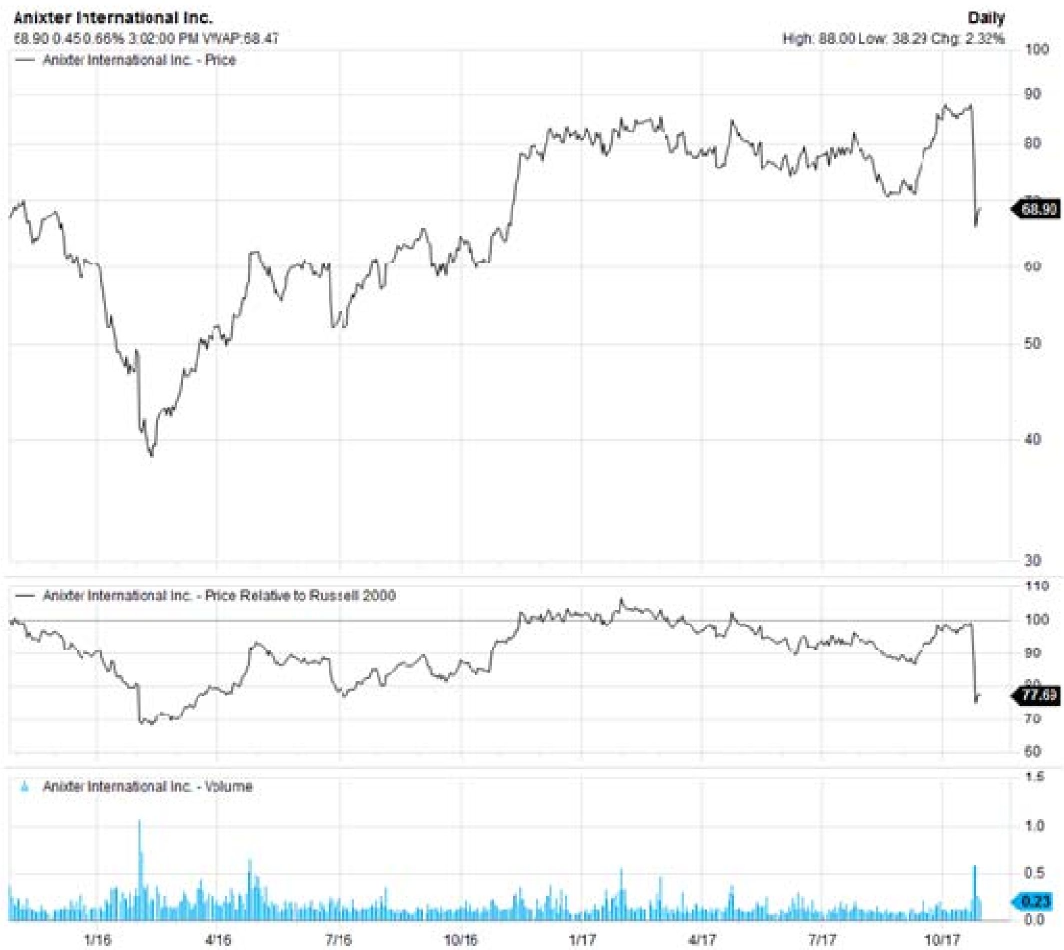
In order to reach an intrinsic valuation for Anixter, a 5-year DCF model was created. Using a WACC of 11.21% and peer average EV/EBITDA exit multiple of 9.4x, an intrinsic value of $62.04 was reached. A sensitivity analysis of ±50bps and .5x yielded a range of $56.16 and $68.14. A 5-year average P/E valuation was used to arrive at a price of $95.54, using a P/E of 17.76 and FY'18 EPS of $5.38. Additionally, a 5-year average EV/EBITDA of 9.64x and a FY'18 EBITDA of $353 million resulted in a price of $102.37. Weighing these valuations 50/25/25, a target price of $80.47 yielding a 16.8% upside. AXE does not pay a dividend.

Risks

- **Reputation Risk:** As a distributor, Anixter sources their products through manufacturers and then connects them to their final customer. Anixter's business hinges on their ability to find quality partners and products. Any deterioration in Anixter's ability to source high quality products could drive customers to their competitors.
- **Country and Political Risk:** Approximately 25% of Anixter's revenues come from countries other than the United States. Anixter has considerable interests throughout the world, and unique risks in each market it enters. Although Anixter primarily does business with domestic firms in USD, their sourcing solution exposes Anixter to some currency risk. To mitigate this risk, Anixter does take significant hedging positions.
- **Commodity Fluctuation:** Copper is a major component to wire and cables, and a significant and prolonged decrease in the price of copper would have significant negative impacts.

Management

Robert Eck has served at Anixter since 1989 and as CEO since July of 2008. Previously, he held roles in operations, strategy, and sales and marketing—all at Anixter. Mr. Eck graduated from Marquette University in 1980 with a degree in Economics. Theodore Dosch has been CFO since July, 2011. Before Anixter, Mr. Dosch worked in various positions at Whirlpool Corporation.



Name	Ticker	Revenues	ROE	ROA	Debt/ Equity	Est 5 Yr NI Growth
Anixter International	AXE	$7,623	10.8%	3.4%	87.2%	21.0%
Arrow Electronics	ARW	$24,603	10.9%	3.7%	65.2%	-7.2%
General Cable	BGC	$3,756	-90.7%	-7.5%	901%*	-451.2%
WW Grainger	GWW	$10,263	25.8%	8.4%	131.4%	-26.6%
WESCO	WCC	$7,331	5.1%	2.2%	66.2%	-53.3%
ScanSource	SCSC	$3,568	8.6%	4.3%	11.6%	-
Peer Averages		9,904	-8.1%	2.2%	68.6%	-134.6%

**Removed from averages*

Source: FactSet

Name	Ticker	Market Cap (mil)	P/S	P/E	EV/ EBITDA	P/B
Anixter International	AXE	2,292	0.3	16.0	9.4	1.6
Arrow Electronics	ARW	7,394	0.3	15.3	9.1	1.6
General Cable	BGC	1,045	0.3	-	11.1	8.7
WW Grainger	GWW	11,383	1.1	23.7	9.9	6.4
WESCO	WCC	3,070	0.4	30.6	11.2	1.5
ScanSource	SCSC	1,120	0.3	16.2	9.7	1.2
		4,802	0.7	20.6	9.4	3.8

Source: FactSet