Applied Investment Management (AIM) Program

AIM Class of 2018 Equity Fund Reports
Fall 2017

Date**:* Friday, December 1st | ***Time:** 11:00 – 11:45* a.m. | ***Location: Chicago Road Trip

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

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BBVA Banco Frances S.A. (BFR)

December 1, 2017

Adam Hamilton | International Financial Services

BBVA Banco Frances S.A. (NYSE: BFR) is a financial services company which provides personal, commercial, and corporate banking services. It is the 4th largest bank in Argentina by market capitalization and currently supports over 2.2 million retail clients, 19,330 companies, and 743 large corporations. BFR also acts as a pension fund manager and engages in capital markets and securities operations. The group was founded in 1886 and is headquartered in Buenos Aires, Argentina.

Price ($):	21.71	Beta:	0.74	FY: Dec	FY15	FY16	FY17	FY18
Price Target ($):	25.83	M-Term Rev. Gr Rate Est:	15.0%	Revenues	1,637.62	1,385.34	1,620.84	1,831.55
52WK H-L ($):	$22.75-14.55	M-Term EPS Gr Rate Est:	16.3%	% Growth	18%	-15%	17%	13%
Market Cap (mil):	4,401	Financial Leverage	3.30	Net Interest Income	1019.89	713.95	1016.59	1228.81
Insider Holdings	10%	WACC	14.90	%Growth	45%	-30%	42%	21%
Avg. Daily Vol (mil):	422,295	ROA (%):	2.69	Net Interest Margin	62.28%	51.54%	57.39%	55.69%
Yield (%):	1.5	ROE (%):	23.27	EPS	2.22	1.34	1.60	1.81
ESG Rating	N/A	Credit Provision/Loans (%)	12.2	P/E	6.3	12.7	13.20	12.10
		Tier 1 Capital Ratio (%)	13.6	P/B	3.21	2.99	2.82	3.18

Recommendation

Argentina is currently recovering from a 14-year recession, but after substantial policy adjustments by newly elected president Mauricio Macri, strong signals have been sent that the new government is committed to reform - and thus setting the path to once again be a hub for business in South America. GDP growth has increased to 4.3% in the third quarter compared to 2.7% throughout the first half of FY17. Since the reforms, the presence of foreign companies has increased and total assets have risen approximately 30%. BFR looks to benefit from these forth coming macro-economic trends and as the economy continues to improve, more Argentinian citizens and companies will look to consume more and require lending to make long-term investments. BFR's services are easily accessible as they operate a network of 251 branches, including 82 branches in the sovereign city of Buenos Aires and 169 branches located in all 23 Argentinian provinces. The bank also operates 728 ATMs and 789 self-service terminals (ATS), a telephone banking service, an Internet Banking Service (IBS) called Francés Net, and a mobile app from which its clients and non-clients may have readily access to a wide variety of discounts and benefits. BFR's main segment provides financial services to large corporations, small and medium sized companies, and individuals. Consumer loans increased by 22% YoY and commercial loans to small and medium size companies established strong growth of 67.5% YoY, reaching a market share in commercial loans of 7.1%. BFR's second segment is composed of pension fund manager & insurance operations, which has seen a 248% increase in AUM in FY16. BFR reported sales of $1.8 billion for FY16, representing an increase of 38% YoY, which is strongly attributed to its banking segments that have fostered an ROE of 23.3%. With its huge prospect of a very promising economic environment, loan growth, digitalization initiatives, and leading customer benefits, it is recommended that BFR be added to the AIM International Equity Fund with a target price of $25.83, yielding an 18.96% upside. BFR currently pay a quarterly dividend of $0.25.

Investment Thesis

- **Loan Growth.** BFR will continue to grow its loan portfolio by capitalizing on its clientele growth through new company initiatives. In FY16, BFR continued its "Frances GO" campaign, which provides credit card discounts and additional banking benefits that encompass partnerships with Latam Airlines, in addition to Argentina's most important sporting clubs (Club Atletico Boca Juniors, Club Atletico River Plate, and Club Atletico Talleres de Cordoba). The campaign was launched on the company's mobile app in September of 2015 and by the end of 2016, the app was downloaded half a million times and increased the number of subscribers by over 40%. This has contributed to credit card loan growth of 23% YoY and total loan growth well above its Argentinian peers of 57% YoY and 25% quarter-to-quarter. A strategy was set to attract ultrahigh net worth individuals in Argentina by launching the "Premium Segment." This consists of the 15,000 clients with the highest annual incomes who have access to a new and unique private banking service experience. At the end of FY16, BFR's private loan portfolio totaled $4.3 billion, an increase of 38.2% compared with FY15, and the bank fostered a market share of the private loan market of 6.7%. As the economy continues to strengthen, new consumers will drive demand and come right to BFR for its retail, private banking and credit card perks.

- **Digital Banking Pioneer**. BFR recently created the Digital Banking and Transformation division with hopes of transforming Argentinians' client experience through optimization and digitalization of all retail banking processes. This separates BFR from the rest of its Argentinian competitors as other banks have incorporated very little variety of their consumer banking services to mobile applications. BFR has increasingly employed innovative communication channels by adding their main consumer transactions, such as payment of credit card balances and auto settlement of consumer loans to its mobile app. Customers can also purchases credit cards online, which produced over 40,000 credit card sales in FY16. More than 500,000 lines of credit were issued online, representing 10% of total sales and will continue growing in FY17. The proportion of digitalized clients at the end of FY16 exceeded 46%, indicating YoY growth of 30%. This digitalization is huge because digital banking has very low cost transactions compared to a human teller. BFR looks to continue to capitalize on this strategy and as consumers continue to search for convenience factors, this will propel BFR in contrast with other Argentinean banks, further benefiting brand recognition and sales.
- **Economic Prosperity.** Argentina is the third largest economy in Latin America with GDP >$600 billion – and it is currently undergoing an economic transformation, promoting sustainable economic development with social inclusion and integration into the global economy. At the end of 2016, Argentina was the top performer in the region in reducing poverty and incomes of the bottom 40% - which grew at an annual rate of 11.8% YoY, compared to the average South American bottom 40% income growth of 7.6%. Due to this growth and stability, more consumer confidence will be placed in banks, leading to BFR's ability to lend more to loyal clients and attract new clients, thus making cash flows more sustainable and predictable.

Valuation

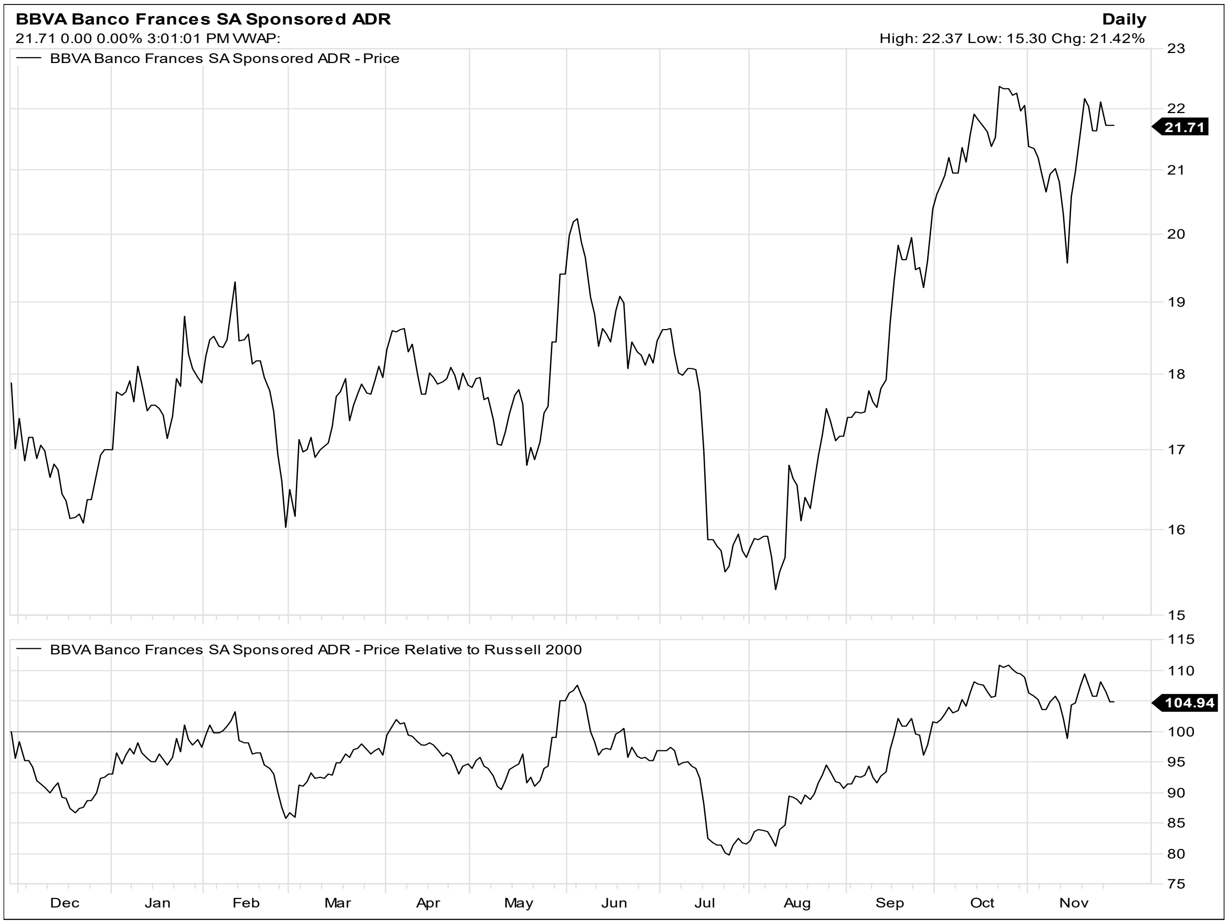
In order to find the intrinsic value of BFR, a price-to-tangible-book multiple was used. The 10-quarter weighted average historic price to book for BFR was 3.07x and the 10-year average historic price to book for BFR was 2.44x. BFR's peer average P/B multiple was higher at 3.52x. A target price-to-book valuation was created alternatively using a Gordon Growth Model, using a COE of 12.31%, FY 2017 ROE of 20.05%, and LT growth of 3%. This resulted in a price-to-book value of 2.82x. A sensitivity analysis was run altering LT growth ± 1% and 2017 ROTE ± 2%, yielding a price range of $18.47-$35.12. Weighting historical, peer, and Gordon growth valuations 10/30/60, the final estimated intrinsic value of NTB is $25.83, an upside of 18.96%. BFR currently pays a dividend, yielding 1.48%

Risks.

- **Interest Rate Volatility.** In the current Argentinean climate, the government attempts to stabilize high inflation rates, thus causing a risk of volatility in the interest rates. This could adversely affect the financial margin of BFR because of differential movements in interest rates for deposits, loans or other bank assets and liabilities.
- **Competition.** The financial services markets are highly competitive. Competition in the Argentinean banking market from other banks and non-bank competitors (electronic payment platforms) could negatively affect the results from operations and the financial position of the bank.

Management

BFR has a young management team. Mr. Martin Ezequial Zarich, CEO of BBVA Banco Frances S.A., is 53 and has served in this role since 2015, while Mr. Ingacio Arcelus, CFO, is 51 years old.



Source: FactSet

Name	Ticker	NIM	ROE	ROA	Efficeincy Ratio	Tier 1 Capital
BBVA Banco Frances	NTB	51.54	23.27	2.69	68.47	13.60
Banco Macro SA	BMA	56.53	33.43	4.90	57.36	-
Grupo Financiero Galicia S	GGAL	59.54	33.55	2.90	68.68	-
Banco Santander Rio SA	BRPBF	53.30	27.65	2.84	61.07	-
Peer Averages		55.23	29.48	3.33	63.90	13.60

Source: FactSet

Name	Ticker	Market Cap	P/E	P/B	P/TBV	Div Yld %
BBVA Banco Frances SA	NTB	4,401	21.89	2.99	3.91	1.48
Banco Macro SA	BMA	6,867	13.34	2.97	2.92	1.17
Grupo Financiero Galicia SA	GGAL	8,014	15.81	3.90	3.12	0.40
Banco Santander Rio SA	BRPBF	62,400	14.56	3.72	3.87	2.57
Peer Averages		20,421	16.40	3.40	3.46	1.41

**Removed For Relative Valuation Analysis*

Source: FactSet

Quality Technology Services REIT, Inc. (QTS)

December 1, 2017

James Hannack Domestic Financial Services

QTS Realty Trust, Inc. (NYSE: QTS) is a self-managed Real Estate Investment Trust (REIT) focused on the data storage industry. QTS engages in the ownership, development, and operations of a portfolio of data center investments. It offers eight different products to customers, along with five different industry solutions, and six different supporting services. These are segmented among their "3C" product mix: Custom Data Centers, Colocation, and Cloud and Managed Services. As of November 2017, QTS owns 25 data centers, in which 6 are classified as "mega" data centers, across 14 markets, in four different counties, totaling over 2.7 million square feet of raised floor capacity. QTS has 780 employees and is headquartered in Overland Park, KS.

Price ($):	57.3
Price Target ($):	72.09
52WK H-L ($):	44.58 - 61.55
Market Cap (mil):	2,842
Insider Holdings	0.85%
Avg. Daily Vol (mil):	0.5
Yield (%):	2.8
ESG Rating	B

Beta:	0.71
M-Term Rev. Gr Rate Est:	19.4%
M-Term EPS Gr Rate Est:	51.5%
Financial Leverage	48.54
WACC	5.76%
ROA (%):	0.95
ROE (%):	2.33
FFO/Total Debt	15.63%
Debt/Equity	123.23%

FY: Dec	12/31/2016	12/31/2017	12/31/2018	12/31/2019
Revenues	402.36	444.95	502.80	594.81
% Growth	29.38%	10.59%	13.00%	18.30%
Net Income	21.53	25.74	36.39	64.89
% Growth	5.58%	19.56%	41.38%	78.30%
EPS (Cal)	$0.46	$0.52	0.65	1.00
% Growth	- year before	13.54%	26.03%	53.27%
FFO/Share	$2.17	$2.47	$2.85	$3.23
P/FFO	22.88x	23.20x	20.10x	17.75x

Recommendation

QTS has been growing steadily since its IPO in October of 2013. Total revenue has grown at a 3-year CAGR of 13.5% - and this pace is expected to continue for the near-term as projections have 2017 revenue increasing by 13.6% over 2016. Also, adjusted EBITDA has grown at a 3-year CAGR of 14.8%; meanwhile earnings growth from 2016 to 2017 is expected to be 15.2%. At the end of the Q3, QTS made three land purchases. The first was a 52 acre, $53 million purchase of land located in the coveted Northern Virginia territory, which is the fastest growing Tier 1 data center market in the U.S. This location will be constructed in phases, and once finished, will provide up to 700,000 square feet of raised floor capacity. Phase 1 is expected to be completed by mid-2018 and will yield up to 4MW of gross power. Already 2.2MW of this capacity has been pre-leased to customers. The other two land purchases QTS made at the end of Q3 totaled 176 acres for a price tag of $51 million. Another significant event that was announced towards the end of Q3 was a strategic partnership formation between QTS and Amazon AWS Marketplace. This partnership will provide QTS with the ability to sell its customer's access to the largest cloud computing market, thus leading to a significant increase in QTS' addressable market. In conclusion, due to QTS' strong operating numbers, along with the drivers listed below, it is recommended that QTS be added to the AIM fund with an upside of 22.32%. The firm also has a 2.8% annual dividend yield that is paid quarterly.

Investment Thesis

- **Growth within itself.** As of November 2017, QTS is currently utilizing 1.4 million square feet in fully built-out capacity. It also could nearly double in size with its 1.3 million square feet in incremental capacity within its powered shell. In addition to that, QTS also has the capacity to nearly double again with its 4.0 million square feet available to be built on land QTS already owns. This means QTS currently could quadruple in size, and increase its future revenue by over $420 million, without having to purchase more land. It also provides QTS with a de-risked future growth path because QTS knows where growth is going to come from and at a known build cost.
- **Growth in the industry.** Internet usage and data storage has greatly increased over the past several years, with the number of internet users growing at a 15-year CAGR of 17%, and this growth is expected to continue. From 2015 to 2020, Global IP traffic is expected to grow at a

22% CAGR. Over the same timeframe, data stored by data centers is supposed to grow at a 40% CAGR. Meanwhile, from 2016 to 2017 alone, the amount of data stored on private enterprise-owned data centers declined from 71% to 65% with 4% going to cloud storage and 2% going to multi-tenant data centers. Therefore, these rapid increases in data requirements, combined with continued IT outsourcing, provides a strong long-term demand opportunity for companies like QTS, which provide the real estate to house the engines that drive this growth.

- **Fully integrated services.** As mentioned above, QTS has its "3C" product mix. As of November 2017, 65% of QTS' recurring revenue is generated from customers using more than one C product. C1 accounts for 44% of MRR and it offers customers a wholesale option. C2 accounts for 41% of MRR and it is QTS' engine that drives the business. QTS also offers its service oriented C3 product, which allows QTS to be more than just a space provider, unlike its competitors. C3 accounts for 15% of MRR, and for C1/C2 customers who use C3, it increases their overall spend by over 30%. This is because QTS is able to charge more for its C1/C2 products due to customers utilizing C3's services. This integrated model allows customers to expand in place, while having the flexibility to change the products and services they use.

Valuation

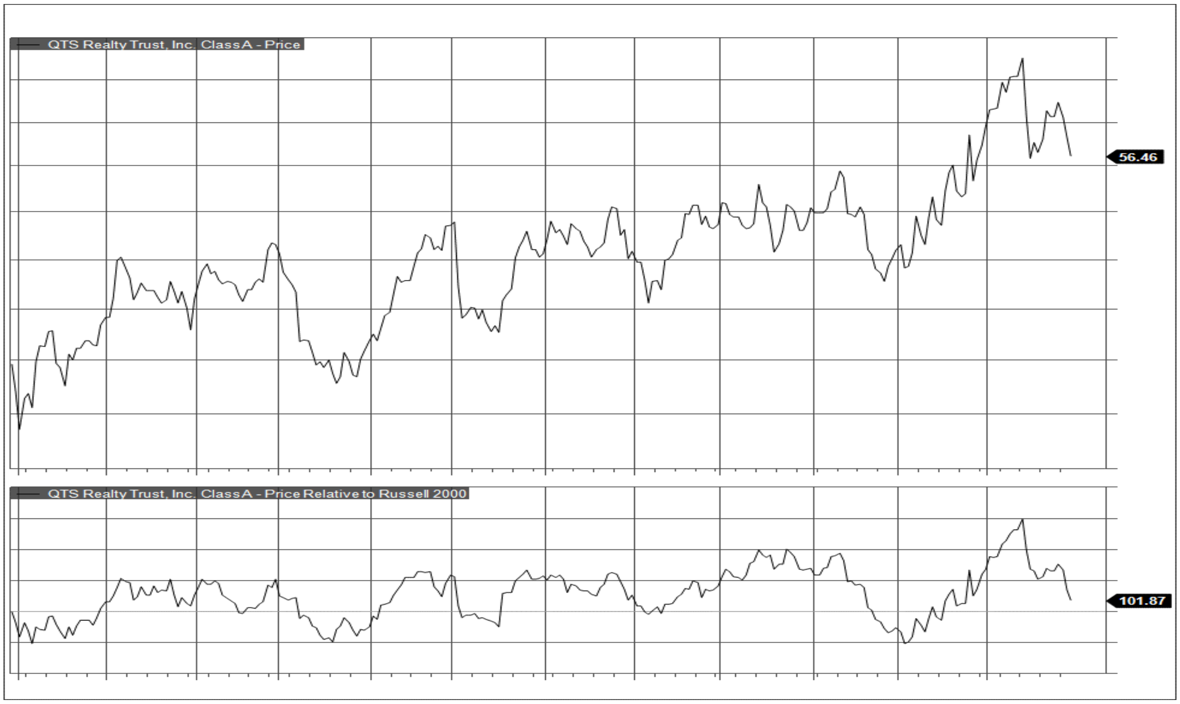
To find the intrinsic value of QTS, a five-year dividend discount model (DDM) was used, as well as a price to funds from operations multiple model (P/FFO). For the 5-year DDM model, a terminal growth rate of 2.5% was used along with a WACC of 5.76%. This resulted in an intrinsic value of $71.99. A sensitivity analysis of the WACC and long-term growth rate produced a range of $57.72-$95.46. As for the P/FFO multiple model, QTS' 3-year average historic P/FFO was 19.30, with its peer average at 19.51, which was computed by weighing the peer average (60%) and the historic average (40%), resulting in an average of 19.42%. When multiplied by the quotient of average estimated FFO and average shares outstanding (3.72), an intrinsic value of $72.23 was obtained. Weighing DDM to P/FFO 60/40, the final estimated intrinsic value of QTS is $72.09, representing a 22.32% upside while also yielding a 2.8% dividend.

Risks

- **Reputational Risk.** In 2016 alone, U.S. companies and governmental agencies experienced a record 1,093 reported data breaches, representing a 40% increase from 2015. With cybercrimes such as hacking growing exponentially over the last several years, it challenges managers of data storage facilities, such as QTS to make sure their customer's data is safe and secure. If one of QTS' data centers were to get hacked, it could cause an exodus of their clients, due to a break in trust. This in turn would materially affect the topline of QTS' business.
- **Client Risk.** Currently tech firms such as Facebook, Uber, Apple, etc. are focused on growing their businesses as fast as they can. Therefore, capex is spent on client base growth rather than building private data storage centers. However, companies such as Dropbox decided to leave public storage to build their own private storage centers. If more tech firms decide to build their own data storage centers, it could materially affect QTS' top and bottom line.
- **Low Credit Rating.** QTS currently maintains a S&P credit rating of BB-, which is in the lower half of credit ratings among its six other U.S based competitors. This poses a risk because over the past five years interest expense has accounted for an average of 7.7% of QTS' total expenses. In a rising interest rate environment, the spread should widen between companies with different credit ratings. In a commoditized market such as data storage, this could pose a significant headwind to QTS' profits versus its competitors.

Management

QTS' core management team is comprised of Chad Williams (CEO), Jeff Berson (CFO), Shirley Goza (General Counsel), and James Reinhart (COO). Mr. Williams founded the company in 2005 and is the person responsible for growing the company into what it is today.



Peer Analysis

Name	Ticker	Market Cap (mil)	Price to B.V.	Price to FFO	Div. Yld. %
QTS Realty Trust	QTS	2,885.01	3.23	16.22	2.73
CoreSite Realty	COR	3931.05	13.47	16.60	3.13
Digital Realty Trust	DLR	24121.10	2.62	19.51	3.17
Switch Inc	SWCH	4620.88	4.07	--	0.00
Internap	INAP	346.04	148.99	1.88	0.00
Equinix	EQIX	36917.80	5.64	25.45	1.70
CyrusOne	CONE	5632.72	4.09	21.02	2.72
Peer Averages		12,594.93	29.81	16.89	1.79

Source: Factset

Peer Analysis

Name	Ticker	Gross Margin	ROE	ROA	Ttl. Debt/Ttl. Equity
QTS Realty Trust	QTS	31.47	2.33	0.95	123.23
CoreSite Realty	COR	36.98	16.67	4.96	193.65
Digital Realty Trust	DLR	32.37	3.45	1.61	81.04
Switch Inc	SWCH	47.89	--	--	523.76
Internap	INAP	24.72	-1,047.43	-10.15	88,736.19
Equinix	EQIX	50.42	4.15	1.47	153.25
CyrusOne	CONE	26.84	-6.73	-2.62	156.78
Peer Averages		36.54	-205.98	-0.95	14,974.11

Source: Factset

Alkermes plc, (ALKS)

December 1, 2017

Brian Holland International Healthcare

Alkermes plc (NASDAQ: ALKS) is global pharmaceutical company focused on the development, manufacturing, and distribution of novel treatments for severe psychiatric and neurological disorders. Their flagship product, Vivitrol, is the first long-acting, non-opioid based treatment for alcoholism and opioid addiction. The long-acting injection platform has the potential to improve patient compliance and outcomes. ALKS also makes and licenses schizophrenia drugs, in addition to a license for a diabetes drug. They are developing treatments for major depressive disorder, schizophrenia, multiple sclerosis, and opioid dependence. Alkermes derives revenue from the United States (75%) and abroad (25%). Alkermes was founded in 1987 and went public in 1991.

Price ($)	51.45
Price Target ($):	67.20
52WK H-L ($):	49.45-63.40
Market Cap (mil):	7,744
Float (mil):	98.9
Short Interest (%):	5.50%
Avg. Daily Vol (mil):	0.83
Dividend ($):	0.00
Yield (%):	0.00%

Beta:	1.31
WACC	9.6%
M-Term Rev. Gr Rate Est:	15.0%
M-Term EPS Gr Rate Est:	26.5%
Debt/Equity:	23.5%
Debt/EBITDA (ttm):	-358%
ROA:	-11.6%
ROE:	-16.5%
ROIC:	-13.5%

FY: Dec	2015	2016	2017E	2018E
Revenue (Mil)	628.34	745.69	857.55	994.76
% Growth	1.54%	18.68%	15.00%	16.00%
Gross Margin	67.71%	73.05%	75.00%	75.97%
Operating Margin	-35.70%	-27.98%	-21.00%	-12.58%
EPS (Cal)	($1.52)	($1.38)	($0.20)	($0.12)
FCF/Share	($0.62)	($0.71)	($0.71)	($0.35)
P/E (Cal)	--	--	--	--
EV/EBITDA	--	--	--	--

Recommendation

The United States is currently dealing with one of its worst drug crises ever. The 'opioid epidemic' is currently taking the lives of more than 1,000 people per week. Opioid overdose deaths have increased from 33,091 in 2015 to 53,332 in 2016, a 61.17% increase. ALKS is a global player in the development, manufacturing and distribution of central nervous system disorders, such as schizophrenia, depression, addiction, and multiple sclerosis. ALKS produced Vivitrol, a once-a-month medication for the treatment of alcohol dependence as well as the prevention of relapse to opioid dependence. With over 12.5 million people misusing prescription opioids in 2015, and 15.7 million people having an alcohol use disorder, Vivitrol has the opportunity to become a top drug in this market. Furthermore, ALKS has a strong and deep pipeline. The company currently has seven drugs in Phase 3 testing. One of these drugs, ALKS 3831, focuses on the treatment of schizophrenia. Approximately 2.4 million Americans suffer from schizophrenia and most cases are diagnosed between the ages of 18-25. Lastly, ALKS recently announced the preclinical trial of ALKS 4230, an immune-oncology drug. The immune-oncology market is expected to reach $14 billion in 2019 and $34 billion in 2024 as medical professionals continue to find drugs to fight cancer. ALKS is a growing company with the ability to compete in expanding markets and it has a proven and growing pipeline of products. For these reasons, it is recommended that Alkermes plc be added to the International AIM Equity Fund with a price target of $67.20, which represents a 30.61% upside.

Investment Thesis

- **Vivitrol Sales Growth.** Recent publications have validated Vivitrol's efficacy. New data from the X:Bot study has proven that Vivitrol compares to Suboxone in both efficacy and safety. Suboxone is a drug that must be taken daily and is both an opiate and an opiate blocker. Vivitrol is purely an opiate blocker and lasts for approximately a month. Currently Vivitrol captures only a 4% market share, but with the release of this new data, Vivitrol should capture more of the market. Suboxone currently holds 61% of the market and Vivitrol hopes to take a bigger market slice.

- **Phase 3 Pipeline.** ALKS currently has seven drugs in Phase 3 trials. ALKS 6428 is used to ease the transition into Vivitrol. To begin Vivitrol, a patient must be clean for seven days and ALKS 6428 is designed to aid in the transition. If successful, this will increase sales of both products. Furthermore, ALKS 3831 is being tested in the Enlighten-1 and Enlighten-2 studies. In June 2017, the Enlighten-1 study produced positive results in efficacy, safety, and tolerability. The drug demonstrated significant reductions from the baseline on the Positive and Negative Syndrome Scale. Results for Enlighten-2 are expected mid-2018 and if successful, the basis for NDA would be submitted, giving ALKS another drug in an underpenetrated market.
- **Preclinical Trial Success** Lastly, preclinical trials for ALKS 4230 showed significant delay in tumor growth and led to accumulation of tumor-killing T cells in the tumor microenvironment in individualized and humanized melanoma xenograft models of tumor immunology. Immuno-oncology is a rapidly growing market that ALKS hopes to enter with ALKS 4230.

Valuation

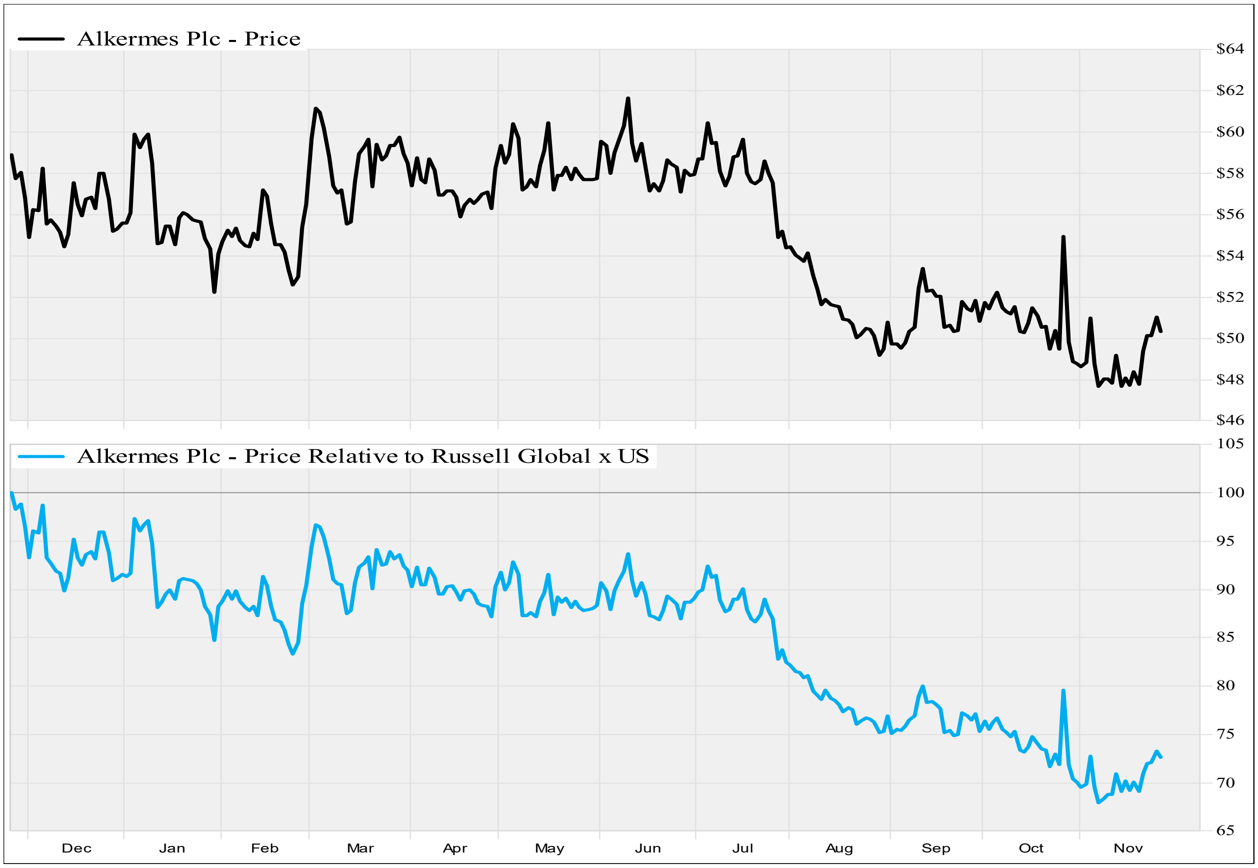
In order to reach an intrinsic value for ALKS, a five year DCF model was constructed. Using a terminal growth rate of 1.5%, WACC of 9.6%, an intrinsic value of $67.75 was reached. A sensitivity analysis of ± 0.10% on the terminal growth rate and a ± 0.10% on the WACC ranged from $59.96-$77.96. Additionally an EV/Sales multiple approach was employed. Using a multiple of 5.6x and estimated FY17 Sales of $857.55, an intrinsic value of $66.65 per common share was obtained. Weighing the DCF 50% and the EV/Sales multiple 50%, an intrinsic value of $67.20 was obtained, yielding a 30.61% upside. The company does not pay a dividend.

Risks

- **ALKS 5461 Efficacy** ALKS 5461 is a compound developed for the treatment of Major Depressive Disorder. Phase III trials were conducted for a third time, and results have begun to be shared with the FDA, after the company failed to demonstrate efficacy in two previous studies. ALKS claims to be optimistic regarding the approval potential for ALKS 5461, but MU pharmacologists and physicians are skeptical. It is our opinion that these trials are deeply flawed, that this drug will be rejected, and that the greatest risk at this point is that Alkermes continues to waste cash on the development of ALKS 5461.
- **Congressional Investigation** In a November 2017 letter from Senator Kamala Harris demanded ALKS turn over for investigation most of its data on Vivitrol sales interactions with public sector customers. Sen. Harris claims ALKS has acted unethically in this market by offering free doses to inmates to help keep them sober upon release. That ALKS has lobbied for the wider adoption of this practice is clear, but Harris's argument for why this is unethical is incoherent. Vivitrol is ideally suited to a corrections environment and can offer released inmates a chance at recovery. Its month-long effects will help reduce recidivism better than methadone, which must be administered daily, is addictive, and has failed to bring down addiction rates. This investigation is unlikely to impact near-term sales of Vivitrol, but complying with its demands will be costly and distracting for the company during an important phase of growth.
- **Loss of Upside in Biogen Deal** In a surprise announcement this week, ALKS announced it will license the commercialization of its upcoming schizophrenia drug ALKS 8700 to Biogen. The terms of the deal have the potential to smooth future revenue (with a royalty set in the mid-teens) and reimburse recently incurred costs from the development of ALKS 8700, but should the drug find success, ALKS will miss out on the majority of its sales.

Management

The Chairman and CEO of ALKS is Richard Pops, who has held the position for 6 years. He is a member at the Harvard Medical School and is on the board of directors at multiple other medical companies. The CFO and Senior Vice President is Jim Frates. Frates has been CFO for 6 years.



Source: FactSet

Name	Ticker	Sales	ROE	ROA	Debt/Equity	EV/Sales
Alkermes	ALKS	841.5	-14.1%	-9.8%	23.8%	9.20x
Abbott Laboratories	ABT	25,134.0	7.5%	3.5%	75.0%	4.37x
Eli Lilly	LLY	22,471.1	14.6%	5.5%	90.4%	4.46x
Novo Nordisk B	NOVO	16,776.8	87.4%	41.7%	0.6%	7.44x
Teva Pharmaceutical Inds	TEVA	23,189.0	-17.7%	-6.1%	121.0%	2.34x *
Reckitt Benckiser Group	RB	13,119.8	27.0%	7.5%	209.3%	6.15x
Peer Averages		20,138.13	23.8%	10.4%	99.3%	5.60
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Source: FactSet

Name	Ticker	Market Cap	P/S	P/E	EV/EBITDA	P/B
Alkermes	ALKS	7,911.8	9.40x	--	--	6.66x
Abbott Laboratories	ABT	96,742.6	3.88x	43.65x	23.03x	3.02x
Eli Lilly	LLY	93,549.0	3.99x	40.46x	16.14x	6.28x
GlaxoSmithKline	GSK	86,238.9	2.28x	28.95x	9.00x	49.38x
Novo Nordisk B	NOVO	128,115.0	7.55x	22.33x	16.04x	17.18x
Teva Pharmaceutical Inds	TEVA	15,134.1	0.65x	--	8.50x	0.60x
Reckitt Benckiser Group	RB	61,494.8	4.74x	26.09x	20.90x	5.75x
Peer Averages		80,212.40	3.85x	32.29x	20.90x	13.70x

Source: FactSet

Aclaris Therapeutics (ACRS)
December 1, 2017

Jacob Schwister | Domestic Healthcare

Aclaris Therapeutics, Inc. (NASDAQ:ACRS) is a biopharmaceutical company, with an emphasis on dermatology. Focusing their efforts towards identifying, developing, and commercializing treatments for dermatological conditions, the company also has a focus on their kinase inhibitor, treating inflammatory and immunological disorders and cancer. Using their KINect technological platform, Aclaris' drug discovery engine is able to aid in the development of their drug candidates. Their leading program, A-101 (40%, hydrogen peroxide), is the first topical treatment ever created for seborrheic keratosis (SK, a non-malignant skin tumor). Additionally, Aclaris created A-101 (45%), currently in the clinical development stage for verruca vulgaris (common warts). Expanding their pipeline, the company acquired a portfolio of Janus Kinase (JAK) inhibitors, which focuses on treatment of alopecia areata (autoimmune skin disease), androgenetic alopecia (hair loss), and vitiligo (pigment loss in skin color). The company is currently operating in the US and hopes to commercialize their lead product in the US as well as Europe. The company was founded in 2012 and it currently has 31 employees.

Price ($): (11/28/2017)	23.03
Price Target ($):	32.68
52WK H-L ($):	33.3 - 20.2
Market Cap (mil):	703.7
Insider Holdings	21.7%
Shares Out (mil)	30.84
Avg. Daily Vol (mil):	0.283
Div Yield (%)	N/A
ESG	A

Beta:	1.24
WACC	11.23%
M-Term Rev. Gr Rate Est:	60.0%
M-Term EPS Gr Rate Est:	Nm
Debt/Equity:	N/A
Debt/EBITDA (ttm):	N/A
ROA:	-
ROE:	-
ROIC:	-

FY: Dec	2016	2017E	2018E	2019E
Revenue (Mil)	0.00	0.68	28.50	120.40
% Growth	--	--	Nm	322.46%
Operating Income	-44.55	-72.81	-108.60	-65.73
% Growth	Nm	Nm	Nm	Nm
Operating Margin	0.00	-106.41	-3.81	-0.55
EPS	($2.11)	($2.44)	($3.57)	($1.99)
P/S	N/A	717.52	25.18	5.96
EV/Sales	N/A	451.66	21.05	9.97

Recommendation

The global aesthetic market is expected to grow at a CAGR of 11% and reach over $13B by 2021. Aclaris is developing a portfolio of dermatological products to treat large and underserved markets that currently have no FDA-approved medicine or where current treatment falls short. Their lead product candidate, A-101 40%, is designed to treat Seborrheic Keratosis (SK), which affects about 83M people in the US. SK is a non-malignant tumor that is found on the face or neck about 80% of the time, along with the chest and arms. Currently, there is no FDA approved treatment for SK. Because SK is not life-threatening, treatment options are classified as cosmetic and are not covered by insurance. Nonetheless, Aclaris has done extensive market research and believes they have a target market of 5.6M patients willing to pay out of pocket for the product. Sell side analysts believe this product can reach peak revenues of $300M - $400M. Aclaris passed two Phase 3 trials of A-101 40% and filed a New Drug Application (NDA) in May 2017. The company is now waiting on a possible FDA approval in late December. Also, Aclaris is in Phase 2 clinical trials with a similar 45% version of A-101 for common warts. If these products pass FDA approval, the revenues generated will provide Aclaris with better financial stability in order to finance the development of their pipeline products, which have significant potential. In addition to A-101, Aclaris has positioned their pipeline for continued growth through the acquisition of Confluence and their ATI-50001 and 50002 products. Aclaris is in a pivotal position to become a robust player in the dermatology market. Their long-term profitability outlook is promising due to strategic product positioning and an expanding pipeline. For these reasons, it is recommended that Aclaris be added to the AIM Equity Fund with a price target of $32.68, which represents a 41.89% upside.

Investment Thesis

- **A-101 40% is the Only SK Treatment Available.** Through market research, ACRS determined there are a significant number of SK patients (~5.6M) motivated to treat the condition and are willing to pay out of pocket due to concerns about appearance and health. The need for an FDA approved product is present because alternative treatment options such as cryosurgery and excision have adverse side effects such as scarring, hypopigmentation, and pain. A-101 provides attractive benefits including topical application of up to 5 lesions, reduced scaring, and minimal discomfort. If approved next month, A-101 40% could be a near-term catalyst for ACRS. Due to this potential launch, six new regional sales managers have been added to recruit 50 sales representatives that are waiting to be on boarded in January.

- **Expanding Pipeline.** Aclaris is developing ATI-50001 and 50002 targeting autoimmune induced hair loss disorders and skin conditions, specifically alopecia areata (AA) and vitiligo. It is believed that peak sales from these products, if approved, could reach $500M+. Additionally, Aclaris acquired Confluence in August 2017. The programs offered by Confluence have high potential to provide Aclaris with multiple options for treatment with the JAK inhibitor. Specifically, the ATI-450 inhibitor could potentially target psoriasis, psoriatic arthritis, rheumatoid arthritis (RA), CAPS, and chronic inflammation. Despite being early in development, the Confluence assets could provide large markets to enter later on. If this is successful, the company could go from a specialty-focused aesthetics company into a multibillion-dollar dermatology-focused biotech.
- **Upcoming Data Catalysts.** Aclaris's pipeline programs have a significant amount of news flow within the next 12-18 months. Two Phase 2 trials of A-101 45% have begun enrollment and are expected to release performance data in the early part of 2018. Also, two Phase 2 trials of the topical JAK inhibitor ATI-50002 in AA have begun and should release updates in the 1H 2018. Additionally, there are other studies taking place for other pipeline products.

Valuation

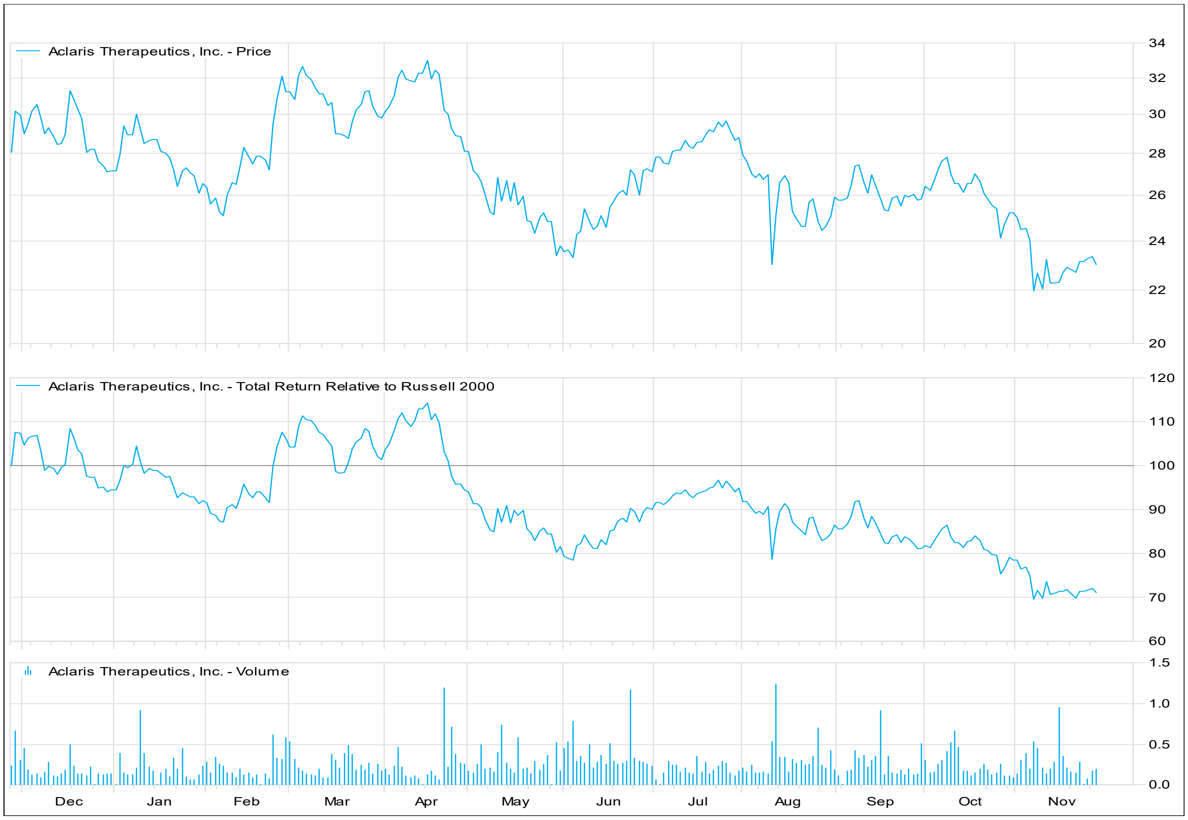
To reach an intrinsic value for ACRS, a six-year DCF and Price-to-Sales multiple analysis were conducted. Using a terminal growth rate of 2.0%, a WACC of 11.23%, an intrinsic value of $31.97 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $28.87 - $35.79. Additionally, a 2019 Price-to-Sales multiple was conducted using a peer average of 8.43x and a sales per share value of $3.96, which resulted in a valuation of $33.39. By weighing the two valuations equally, a price target of $32.68 was reached, resulting in a 41.89% upside.

Risks

- **Clinical and Regulatory Approval of Pipeline Products.** Any failure or delay in FDA product approval during clinical trials could have a significant effect on forward revenues and earnings. If A-101 40% does not pass FDA approval, the company could endure significant research and development expenses in order to resolve the issue or may have to give up on the product entirely.
- **Commercial Execution of A-101 40%.** With A-101 40% potentially being approved by the FDA on December 24, 2017, there comes a variety of commercial execution risks. Once a product is approved it has to be rolled out into the market that already has a standard of care established. Bringing a new product to market involves manufacturing, commercialization, competition, and sales risk.
- **Climbing Out of Accumulated Deficit.** Since their inception, Aclaris has incurred significant losses, accumulating to a $90.9 million deficit. In part due to no revenue generated and restricted operating history, long-term profitability could be limited. If these losses continue it could be impactful to the existence of Aclaris.

Management

Aclaris Therapeutics, Inc. was founded in 2012 by Dr. Neal Walker, Christopher Powala, Stuard Shanler, and Kamil Ali-Jackson, and Frank Ruffo. Dermatologist Dr. Neal Walker is the CEO and President, and serves on the board of directors. Frank Ruffo serves as the CFO with more than 20 years of expertise in biotech and specialty pharmaceutical management.



Peer Fundamentals

Name	Ticker	Revenues (ttm) (mil)	ROE	ROA	Debt/Equity	Est 5-yr NI Growth
Aclaris Therapeutics	ACRS-US	0.68	-35.1	-32.8	0.0	--
Concert Pharma	CNCE-US	144	60.9	54.8	0.0	--
MacroGenics	MGNX-US	11	-65.4	-55.1	0.0	--
Five Prime Thera	FPRX-US	35	-40.9	-34.3	0.0	--
Paratek Pharma	PRTK-US	8	-101.0	-62.1	49.8	--
Radius Health	RDUS-US	14	-71.7	-53.3	53.2	--
Peer Averages		42	-43.6	-30.0	20.6	--

Source: FactSet

Peer Valuation

Name	Ticker	Market Cap (mil)	P/S (2019)	P/E	EV/Sales (NTM)	P/B
Aclaris Therapeutics	ACRS-US	710	5.96	--	--	2.91
Concert Pharma	CNCE-US	506	15.35*	5.83	30.92	2.59
MacroGenics	MGNX-US	722	11.81	--	16.03	3.81
Five Prime Thera	FPRX-US	776	4.94	--	--	2.63
Paratek Pharma	PRTK-US	549	9.41	--	17.08	5.49
Radius Health	RDUS-US	1,302	7.57	--	13.24	4.25
Peer Averages		771	8.43	5.83	19.32	3.75

** Removed for Relative Valuation*

Source: FactSet