Applied Investment Management (AIM) Program

AIM Class of 2016 Equity Fund Reports
Fall 2015

Date**:* Friday, December 11, 2015 | ***Time: *3:00 – 4:00* p.m. | ***Location:*** ***1492 Capital Management***

Student Presenter	Company Name	Ticker	Sector	Page
Robert Uhland	Oxford Industries	OXM	Consumer Discretionary	2
Brendan Duffy	Envestnet	ENV	Financial Services	5
Patrick Sanchez	Volaris	VLRS	International Industrials	8
Dylan Harkness	Lending Tree	TREE	Financial Services	11
Travis Mantel	KB Financial Group	KB	International Financial Services	14

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.

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

Oxford Industries, Inc. (OXM)
December 11, 2015

Robert Uhland — Domestic Consumer Discretionary

Oxford Industries, Inc. (NYSE: OXM) is a top tier, theme driven lifestyle brands retailer and global apparel company. OXM designs, sources, markets, and distributes products bearing the trademarks of company owned lifestyle brands. Its portfolio of brands includes Tommy Bahama, Lilly Pulitzer, and Lanier Clothes following its recent sale of Ben Sherman. The company generates revenue through two distribution channels: Direct-to-Consumer channels (61.0% of revenues in FY14) and Wholesale Channels (39%). OXM's Direct-to-Consumer channel consists of and sells through retail stores and e-commerce platforms while the Wholesale channel sells through better department stores, specialty stores, and national chains among others. The company models its products around innovation and creativity in tandem with a resort-esque lifestyle. OXM operates globally, with a major presence in the US (90% of revenues), and a much smaller position in Canada and the Asia-Pacific region, maintaining over 185 retail stores and 15 Tommy Bahama restaurants. OXM was founded in 1942 by John Hicks Lanier and is headquartered in Atlanta, GA.

Price ($):	69.6	Beta:	0.96	FY: Dec	02/01/2014	01/31/2015	01/31/2016	01/31/2017
Price Target ($):	93.12	WACC	7.12	Revenue (Mil)	917	997.81	987.40	1,063.45
52WK H-L ($):	91.24 - 50.13	M-Term Rev. Gr Rate Est:	-1.6%	% Growth	7.19	8.80	-1.00	7.70
Market Cap (mil):	1,154	M-Term EPS Gr Rate Est:	-	Gross Margin	55.83	55.34	57.40	57.80
Float (mil):	14.7	Debt/Equity:	13.9	EBITDA Margin	10.96	10.36	13.90	14.60
Short Interest (%):	3.5	Debt/EBITDA (ttm):	0.38	EPS (Cal)	$2.75	$2.78	$3.66	$4.00
Avg. Daily Vol (mil):	0.2	ROA (%):	9.77	FCF/Share	$0.57	$2.74	$0.91	$2.67
Dividend ($):	1.00	ROE (%):	19.04	P/E (Cal)	27.4	20.1	20.9	20.0
Yield (%):	1.4	ROIC (%):	15.25	EV/EBITDA	13.7	9.9	10.0	8.8

Recommendation

Oxford Industries, Inc. is one of the world's leading purveyors of lifestyle brands and as such OXM has positioned itself in a market that is estimated to grow by 80% through 2018. OXM has been able to maintain an edge over its competitors, like Perry Ellis, PVH Corp, and Ralph Lauren, in the apparel industry due to its ability to be a design-led, trend aware business with a sound capital structure. OXM has set forth efforts to considerably increase its brand awareness and exposure of Tommy Bahama and Lilly Pulitzer, emphasizing an 8-10 and 5+ new store growth each year for Tommy Bahama and Lilly Pulitzer, respectively. Furthermore, the divestiture of the Ben Sherman business in July 2015 provides cash to strengthen an already solid balance sheet. The divestiture is accretive to earnings and harmonizes well with the company's organic growth strategy. Moving forward to spring 2016, Tommy Bahama is poised to launch a women's line that they forecast as being immensely popular. Currently, the TB women's line only accounts for 30% of direct to consumer net sales and OXM is making the push to have this level reach 50% over time. Additionally, Lilly Pulitzer's 41% YoY comparable store sales increase, new store openings, and wholesale growth resulted in 9% net sales growth and 15% EPS growth YoY through the first half of 2015. With the prized Tommy Bahama and Lilly Pulitzer brands shifting to make up 90% of OXM's business and a 3 year CAGR on net sales of 11.8% and 21.6% respectively, it is clear that the company has been able to capture a significant consumer base in a highly competitive market. The aforementioned drivers, paired with a 19% 3 year EPS CAGR, are reflective of OXM's highly qualified management and their continued expansion of top and bottom line margins. Due to the company's rock-solid balance sheet, prosperous organic growth opportunities, and management's continued commitment to delivering exceptional shareholder value moving forward, it is recommended that Oxford Industries, Inc. be added to the AIM Equity Fund with a price target of $93.12, yielding an upside of 34%. OXM pays a quarterly dividend of $.25, yielding 1.4%.

Investment Thesis

- **New Horizons for Lilly.** Lilly Pulitzer has been rapidly growing revenues and expanding out its brand to new markets since it was acquired in 2010. With only 10% of FY 2014 revenues coming from west of the Mississippi and a sustainable capital structure to fund expansion, Lilly Pulitzer is poised to gain a significant share of that market moving forward. Additionally, the recently opened Chicago store generated a strong pull and should drive Midwest expansion and recognition moving forward.
- **El Niño.** OXM's natural bias towards warmer weather has desensitized their weakness in a highly cyclical industry that traditionally results in a breakeven or lossmaking quarter for the company. This has given them the ability to push lighter colored fall patterns and leverage a stronger consumer demand for polos and dresses.
- **Healthy Balance Sheet.** With over $182M in unused availability under their revolving credit agreement, OXM is suited to fund any future capital expenditures, operating activities, or strategic acquisitions. Additionally, management remains aggressive on the hunt for lifestyle-driven brands to further diversify brand strength and recognition.
- **Long-Term Growth Play.** Management estimates long-term revenue annualized growth rates of 6-8% for Tommy Bahama and 10-15% for Lilly Pulitzer. Building on this growth story, both Tommy Bahama and Lilly Pulitzer have continued to register double-digit operating margins. Coupled with management's push to triple the number of Lilly Pulitzer doors and double the Tommy Bahama store base, it is evident that management is poised to reach these goals.

Valuation

In order to reach an intrinsic value for OXM, a five year DCF model was constructed. Using a terminal growth rate of 2.5%, and a WACC of 7.12%, an intrinsic value of $91.77 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $85.92-$98.18. Additionally, a P/E multiple valuation was conducted using 2016 E EPS, a comparables average P/E of 19.22x, and OXM's 5-year historical average P/E of 22.83x, which resulted in a valuation of $86.48. Finally, an EV/EBITDA multiple valuation was calculated. Using the peer comparables average of 10.83x, OXM's EV/EBITDA of 7.70x and 2016 E EBITDA of $155.19M, the multiple resulted in a valuation of $95.81. By weighting the three valuation models evenly, a price target of $93.12 was reached, which yields a 34% upside.

Risks

- **Potential Margin Compression.** OXM generates a significant portion of its Wholesale revenues through five major customers. Around 41% of OXM's FY 2014 Wholesale revenue was generated through these five key customers. If the company were to lose one of these customers it could adversely impact net sales and profitability margins.
- **Department Store Exposure.** Tommy Bahama generates around 17% of net sales from department stores and 10% from Lilly Pulitzer, which is low relative to its peers. Although this relatively small position helps to alleviate much of the downward pressure on the department store space, the company could face adverse impacts if this trend continues moving forward.
- **International Expansion Headwinds**. As OXM targets the Asia-Pacific region in the near term it may see downward pressure on its operating margins due to infrastructure development and a larger team to support the Asia-Pacific retail operations.

Management

Thomas C. Chubb III has served as President and CEO of Oxford Industries, Inc. since 2013. Prior to this he served as President starting in 2009. He has been employed by Oxford Industries, Inc. for 25 years. Scott Grassmeyer has served as Executive VP-Finance and CFO since 2014. Prior to this he was CFO and controller from 2011-2014. Other executive directors include: Thomas E. Campbell (Senior VP & GC) and Scott A. Beaumont (CEO, Lilly Pulitzer Group).

Source: Factset

Ownership

% of Shares Held by All Insider Owners:	11.65%
% of Shares Held by Institutional & Mutual Fund Owners:	127.19%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
BlackRock Fund Advisors	1,198,729 ▲	7.23
The Vanguard Group, Inc.	1,081,176 ▲	6.52
Daruma Capital Management LLC	824,983 ▲	4.98
SunTrust Banks, Inc. (Wealth Management)	717,642 ▼	4.33
Dimensional Fund Advisors LP	581,477 ▲	3.51

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA	Dividend Yield	EV/ EBITDA
Oxford Industries, Inc.	OXM	1237.70	1005.00	118.50	1.40	10.00
Perry Ellis International Inc.	PERY	338.00	908.00	41.60	0.00	10.34
PVH Corp	PVH	7608.00	8045.20	807.90	0.20	13.03
GIII Apparel Group	GIII	2388.30	2233.50	205.10	0.00	11.65
Ralph Lauren Corporation	RL	10129.00	7620.00	1343.00	1.70	8.30
Peer Averages		5,116	4,702	599.4	0.48	10.8

Envestnet, Inc. (ENV)
December 11, 2015

Brendan Duffy — Financial Services

Envestnet Inc. (NYSE: ENV) is a leading provider of wealth management technology and services to financial advisors and institutional clients. The company obtains its revenues in two ways; a fee based on the percentage of assets under management (84%) and licensing and service fee agreements (16%). As of yearend 2014, Envestnet has 40,000 investment advisors supporting $713B in assets under management (AUM) including 2.9M investor accounts. Envestnet is considered a leader in open architecture investment because the flexibility they provide financial advisors with access to a series of integrated services to help better serve their clients. Envestnet is headquartered in Chicago, Illinois and was founded in 1999 by CEO and Chairman Judson Bergman.

Price ($):	32.46	Beta:	1.29	FY: Dec	12/31/2013	12/31/2014	12/31/2015	12/31/2016
Price Target ($):	41.90	WACC	10.80	Revenue (Mil)	243	348.75	415.60	632.30
52WK H-L ($):	58.21 - 28.12	M-Term Rev. Gr Rate Est:	23.0%	% Growth	54.22	43.79	18.60	52.20
Market Cap (mil):	1,165	M-Term EPS Gr Rate Est:	46.0%	Gross Margin	20.94	0.57	60.00	59.00
Float (mil):	32.8	Debt/Equity:	0.6	EBITDA Margin	9.18	11.73	16.90	17.70
Short Interest (%):	11.1	Debt/EBITDA (ttm):	3.06	EPS (Cal)	$0.10	$0.38	$0.66	$1.89
Avg. Daily Vol (mil):	0.5	ROA (%):	3.07	FCF/Share	$0.64	$1.35	-	-
Dividend ($):	0.00	ROE (%):	5.73	P/E (Cal)	403.0	129.3	34.7	27.0
Yield (%):	0.0	ROIC (%):	4.23	EV/EBITDA	62.3	42.8	14.7	10.7

Recommendation

Envestnet has seen rapid growth both organically and through transactions with a 46% CAGR in AUM since inception. AUM revenue grew 14% while licensing and professional services grew 30% to $17.8B year over year in Q3 2015. Management expects licensing and professional services to be up 25% next quarter, $14M coming from their recent acquisition of Yodlee, which is expected to add at least 100 basis points to adjusted EBITA in 2016. Yodlee is a comprehensive data aggregation and financial application company that was acquired in Q2 2015. They leverage over 800 organizations globally, including 9 of the top 15 U.S. financial institutions as clients to build their proprietary data aggregation application. Aside from Yodlee, ENV provides services to a wide variety of clientele including asset managers, broker dealers, insurance brokers, and register investment advisors (RIAs). Envestnet's product line includes Envestnet Wealth Management Software, Envestnet Portfolio Management Consultants (PMC), Envestnet Tamarac, Vantage Reporting Solution, Envestnet Placemark and Yodlee. ENV's Wealth Management Solutions enable advisors to better manage client outcomes and strengthen their practice. This wealth management software includes financial planning, capital markets assumptions, asset allocation guidance, research and due diligence on investment managers and funds; portfolio management, trading and rebalancing; multi custodial, aggregated performance reporting, and other billing and administration. Tamarac is the next tier of software and focuses on the needs of high end RIAs and institutional clients which provides leading portfolio accounting, rebalancing, trading, performance reporting and client relationship management. Vantage Reporting Solutions is a complimentary software that aggregates and manages investment data and provides performance and benchmark performance reporting. Envestnet Placemark develops unified managed accounts (UMAs) and other portfolio management solutions, including patented portfolio overlay and tax optimization services, for banks, full service broker dealers and RIA firms. Finally, since 2000, Envestnet has been a market leader in technology, becoming the first investment technology firm to operate from the cloud. In 2005, ENV was the first firm to develop a unified integrated investment data analytics approach and in 2007 they strategically unbundled their product offering. ENV offers a 28% upside and does not pay a dividend.

Investment Thesis

- **Favorable Secular Trends.** According to the Federal Reserve, U.S. household and non-profit financial assets totaled $66.8 trillion in 2014 - up 2.7% from $65 trillion in 2013. Additionally, a study by Cerulli Associates found that there has also been a shift from larger institutions to RIAs and dually registered advisors, which benefits ENV. Over the last five years independent advisors went from 42,000 to 53,000; representing a 26% increase. Lastly, the use of financial and wealth advisors is increasing. According to a study by Phoenix Marking International, 35% of U.S. households responded that they needed more financial and investment advice - up from 29% in a 2009 survey.
- **Market Opportunity.** According to Envestnet's management, the majority of investment advisors do not use aggregation software and financial planning software. ENV's management has noted that they are poised to capture 25% of the market share in the future with an average spend of $200,000 per advisor per year. They currently have 43,500 advisors with $800B in managed assets out of a total market of 287,000 advisors and $14.1 trillion of managed assets. ENV is poised to capture roughly $3 trillion in assets under management over the next ten years as financial advisors adapt to a new way of doing business.
- **Acquisition of Yodlee.** Yodlee provides data to large institutions like Chase, PNC, Bank of America, HBSC, Citi, Northern Trust and Merrill Lynch. They aggregate their data of over 14,000 clients and provide data analytics back to their customers on an anonymous basis. ENV is expected to gain synergies in two primary ways; cross-selling to data aggregation to Envestnet advisors and cross selling to Yodlee's 30M accounts. The estimated synergies combined up to approximately $70M. The best opportunity will be for Yodlee and ENV to combine their research and data analytics and sell to the open market where they are expected to see revenues for data analytics to be at a $100M run-rate for 2017.

Valuation

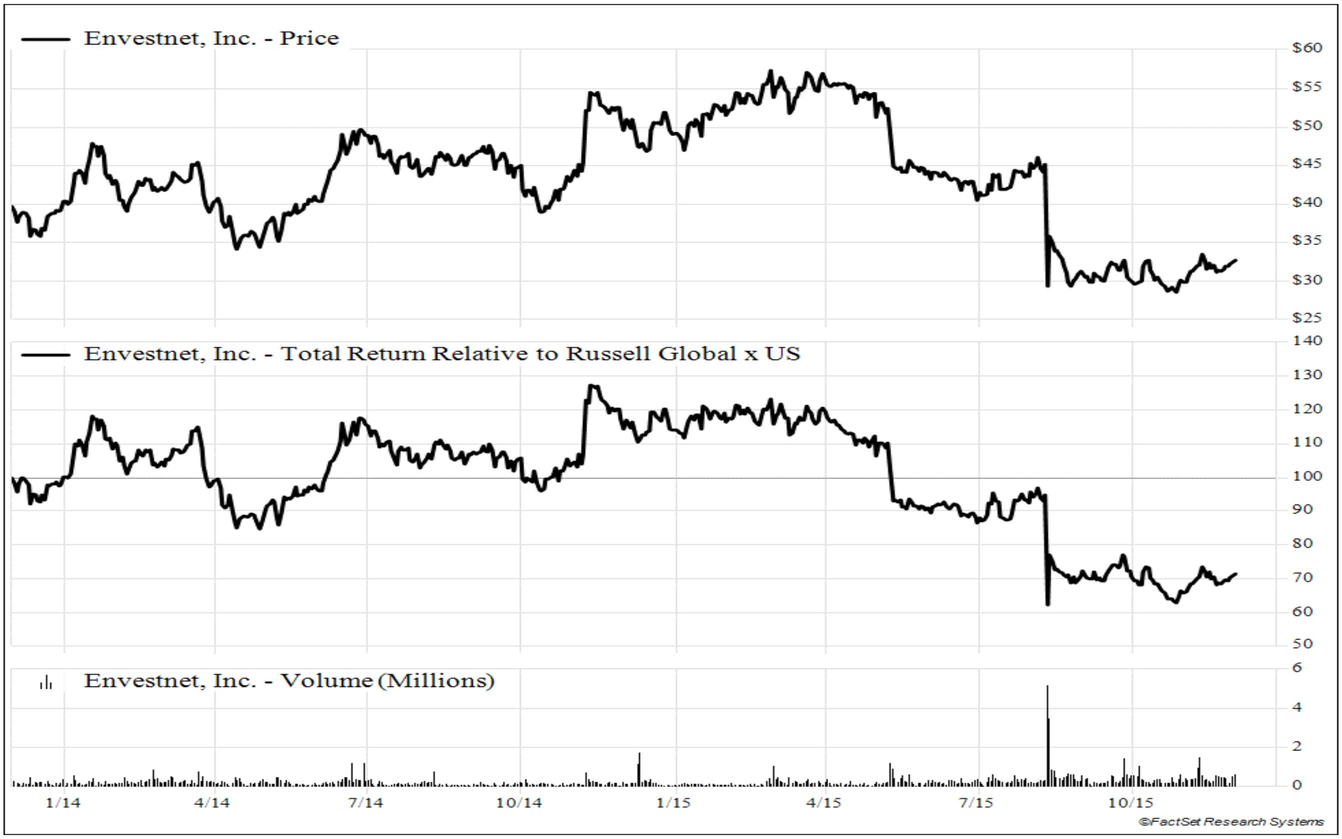
To find the intrinsic value of Envestnet a five year DCF valuation approach was utilized with a 2.5% terminal growth rate and a 10.8% WACC. A sensitivity analysis of the terminal growth rate and WACC yielded a range of $37.02-$53.51. Additionally, a price to book multiple model approach was utilized. A current P/B of 4.8X, a 5 year historical P/B of 8.42X and a peer average of 4.13X yielded a price target of $40.03. Weighting these two approaches equally a price target of $41.90 was reached representing a 28.04% upside. ENV has no plans to issue a dividend in the near term.

Risks

- **Rapid Revenue Growth.** Over the past several years ENV has experienced substantial revenue growth which may be difficult to sustain. Since 2012 revenues have grown at a CAGR of 49% and it is expected to continue at about this pace which could put additional demands on ENV's resources and increase expenses
- **Debt.** Envestnet has a significant amount of debt and servicing this debt requires a significant amount of cash, and they may not have sufficient cash flow from operations to make payments. As of December 31, 2014 they $127.5M in outstanding debt related to their 1.75% convertible notes due in 2019.

Management

Mr. Judson Bergman is Chairman and CEO and is responsible for leading the Envestnet organization. Prior to founding ENV Mr. Bergman was the managing director for Nuveen Mutual Funds. Bergman earned his MBA in finance from the University of Columbia.



Ownership

% of Shares Held by All Insider Owners:	8.54%
% of Shares Held by Institutional & Mutual Fund Owners:	111.20%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
Wells Capital Management, Inc.	5,433,771 ▲	15.14
Wasatch Advisors, Inc.	2,896,152 ▲	8.07
Janus Capital Management LLC	2,689,305 ▲	7.50
Wellington Management Co. LLP	2,558,594 ▼	7.13
The Vanguard Group, Inc.	2,412,330 ▲	6.72

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	Net Margin	P/B	Dividend Yield
Envestnet, Inc.	env	1,189	399	4.06%	4.80	0.00
Morningstar	MORN	3,659	784	10.30%	5.38	1.08
Genworth Financial, Inc. Class A	GNW	2,283	8,953	-12.85%	0.17	0.00
Finanical Engines	GNW	2,283	8,953	-12.85%	4.45	0.00
Cohen & Steers	FNGN	1,786	306	13.11%	5.87	0.66
Noah Holdings	NOAH	1,758	247	27.90%	4.79	0.00
Peer Averages		2,354	3,848	0.1	4.13	0.3

Controladora Vuela Compañía de Aviación S.A.B de C.V. (VLRS)
December 11, 2015

Patrick Sanchez International Industrials

Controladora Vuela Compañía de Aviación S.A.B de C.V., doing business as Volaris (NYSE:VLRS) is a Mexican low-cost airline that operates in Mexico and internationally. VLRS engages in the provision of air transportation services for passengers, cargo, and mail. Its products include more baggage, extra bags, carry-on, select your seat, web check-in, fly with an infant, and pet on board. The firm currently serves 58 cities throughout Mexico and the United States and operates up to 235 daily segments on routes that connect 38 cities in Mexico. Volaris was founded in October 2005 and is headquartered in Mexico City, Mexico.

Price ($):	$ 18.15
Price Target ($):	23.12
52WK H-L ($):	19.12 - 7.69
Market Cap (mil):	1,563
Float (mil):	73.8
Short Interest (%):	0.9
Avg. Daily Vol (mil):	0.3
Dividend ($):	0.00
Yield (%):	0.0

Beta:	0.82
WACC	9.8%
M-Term Rev. Gr Rate Est:	8.7%
M-Term EPS Gr Rate Est:	7.6%
Debt/Equity:	23.4
Debt/EBITDA (ttm):	0.51
ROA (%):	23.06
ROE (%):	51.58
ROIC (%):	46.94

FY: Dec	12/31/2013	12/31/2014	12/31/2015	12/31/2016
Revenue (Mil)	1,011	1,051.07	1,129.00	1,298.35
% Growth	13.66	3.93	7%	15%
Gross Margin	8.88	9.20	15%	12.5%
EBITDA Margin	4.22	3.74	18.59	14.83
EPS (Cal)	$0.24	$0.45	$1.36	$1.22
FCF/Share	($1.03)	($0.94)	($0.82)	($0.65)
P/E (Cal)	56.1	20.1	13.2	14.8
EV/EBITDA	24.1	20.4	6.9	6.8

Recommendation

Volaris is Mexico's second largest airline with a growing market share of over 23% of domestic traffic. VLRS continues to significantly outperform its peers in the Mexican low-cost airline market. It has displayed above industry average ROE (51.58% vs. 32.82%) and strong YoY sales growth (30.66% vs. 13.18%). Volaris has taken advantage of the consolidation of the traditional legacy network airline industry by implementing solutions aimed to reduce their cost structure. VLRS has improved workforce flexibility and reduced costs while simultaneously improving product offerings. VLRS has created a reputation as the lowest cost carrier based on Cost per Available Seat Mile (CASM) compared to the average of Latin American publicly traded airlines ($0.79 FY14 vs. $1.37 FY14). It has also outperformed its U.S. based publicly traded target market competitors, which had an average CASM of $1.44 in 2014. Volaris has introduced the Ultra-Low Cost Carrier (ULCC) business model in Mexico, which has allowed for significantly growth while maintaining a low CASM over the last five years. Due to Volaris' efficient and uniform fleet, high asset utilization, and emphasis on direct sales and distribution it is recommended VLRS be added to the AIM International Fund with a target price of $23.12, representing a 27.40% upside. VLRS does not pay a dividend.

Investment Thesis

- **Developing Industry.** The Mexican aviation market is currently underpenetrated, as evidenced by the number of trips per capita. On a global basis the World Bank estimates that there is an average of 0.38 annual trips per capita, whereas in Mexico the number is roughly 0.10. Further, the Mexican aviation industry has undergone a significant transformation due to the emergence of low-cost carriers. Domestic passenger volumes have grown in Mexico by a CAGR of 5.0% and international volumes have grown by a CAGR of 2.6% from 2006 to 2014.
- **Current Commodity Enviroment.** The airline industry is heavily impacted by the price and availability of fuel. Consensus estimates a continued low commodity environment which will continue to positively impact results.
- **Market Leading Efficiency.** Volaris is one of the most efficient airline carriers in Latin America. In 2014, VLRS achieved an average passenger load factor of 82.2% and an average aircraft utilization rate of 12.4 block hours per day with a standard turnaround time between flights of approximately 45 minutes. For its fleet type, VLRS has an average aircraft utilization rate of 9.3

flight hours per day - among the highest worldwide - 11.9% higher than the industry average of 8.3. In addition, VLRS strives for market-leading operational performance, with an 86.4% on-time performance rate, and a 99.5% flight completion rate.

- **Demographics.** The Mexican airline industry has strong potential for growth, given the country's young demographics of growing middle class, which will likely facilitate organic expansion of the airline sector. As of 2010, approximately 39% of the Mexican population was under 20 years of age, which will benefit Volaris by providing a strong base of young, potential passengers in the future. This contrasts favorably with more mature aviation markets like the United States, where approximately 27% of the population is currently under 20 years of age.

Valuation

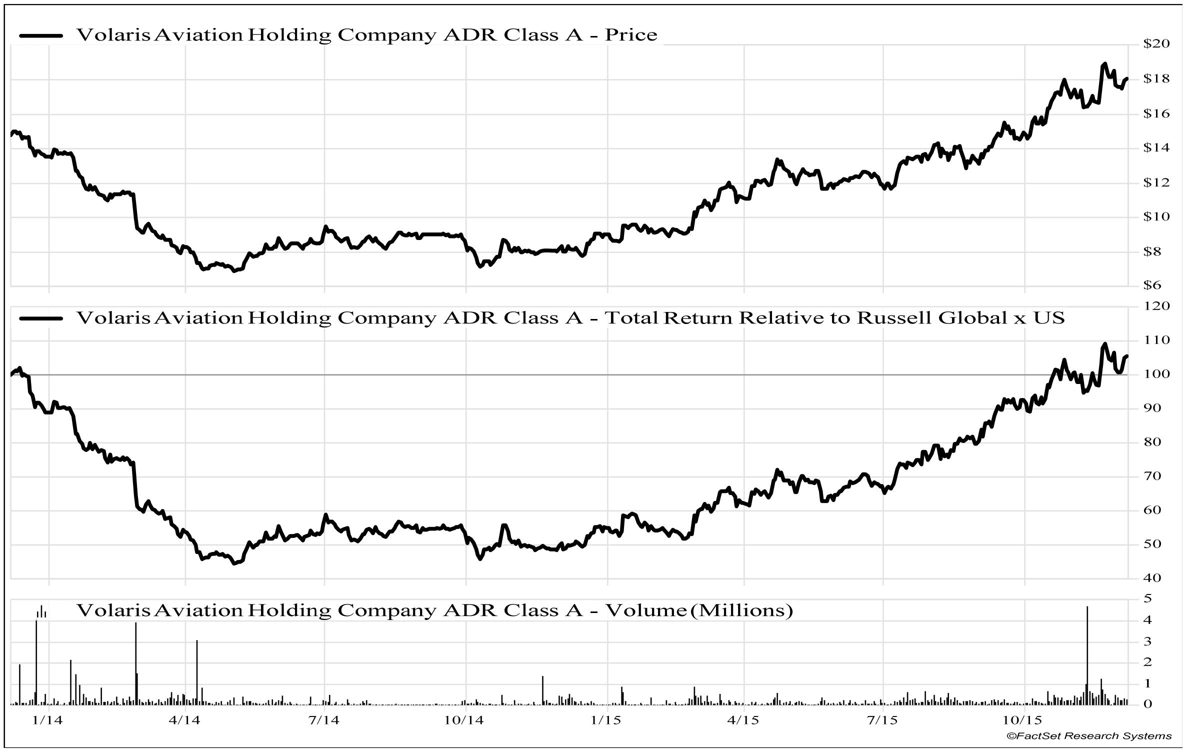
In order to reach an intrinsic value for Volaris, a five year DCF model was constructed. Using a terminal growth rate of 2.50%, WACC of 9.75%, an intrinsic value of $22.88 was reached. A sensitivity analysis on the terminal growth rate and discount rate ranged from $21.44 to $27.41. Additionally, a P/E multiple valuation was also calculated. Using a historical average P/E of 19.01x and Comps of 14x , the multiple resulted in a valuation of $23.49. By weighting the DCF model 60% and the P/E multiple 40% a price target of $23.12 was achieved. Volaris does not pay a dividend.

Risks

- **Foreign Currency Exchange.** The value of the peso has been subject to significant fluctiations with respect to the U.S. dollar in the past and may be subject to significant fluctiations in the future. Foregin currency exchange gains or losses included in Volaris' total financing cost result primarily from the impact of changes in the U.S. dollar-denominated monetary liabilities and assets.
- **Violence in Mexico.** Mexico has recently expereienced violence related to drug trafficking, which has lead to an adverse impact on the Mexican economy. In addition, violent crimes affect the airports in which Volaris operates and increase insurance and security costs.
- **Price and Availability of Fuel.** Fuel is a major cost component for airlines and is our largest operating expense (aprox. 40%). The availability and price of fuel are subject to economic and political factors.

Management

Enrique Beltranena has been CEO Officer since 2006. Mr. Beltranena has been responsible for negotiating pre-delivery payment financing, purchase and leaseback transactions and direct leases for all of the company's aircrafts. Other key executives include Fernando Suárez (CFO), Holger Blankenstein (CCO), and Jose Suarez (COO).



Ownership

% of Shares Held by All Insider Owners:	15.88%
% of Shares Held by Institutional & Mutual Fund Owners:	30.58%

Source: FactSet

Top 5 Shareholders

Holder	Shares		% Out
Deutsche Asset & Wealth Management Investment GmbH	2,970,016	▲	3.38
Frontier Capital Management Co. LLC	2,672,635	▲	3.05
Morgan Stanley & Co. International Plc	2,513,564	▲	2.86
Hodges Capital Management, Inc.	1,111,765	▼	1.27
PAR Capital Management, Inc.	1,102,487	▲	1.26

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA	Dividend Yield	EV/ EBITDA
Volaris Aviation Holding Company ADR	VLRS	1,563	1,119	167.755654	#N/A	20.42
Grupo Aeromexico SA de CV	B3WBBZ	27,303	45,972	5279.1	0.00	7.09
Avianca Taca Holdings S.A Pfd	B45JBR	582,269	12,501,142	1243596.1	5.72	9.61
Copa Holdings, S.A. Class A	CPA	1,672	2,372	461.1	3.71	7.78
GOL Linhas Aereas Inteligentes SA Pfd	B01NTS	710	9,856	467.8	0.00	9.29
Peer Averages		152,988	3,139,835	312451.0	2.36	8.4

**Removed For Relative Valuation Analysis*

Lending Tree (TREE)
December 11, 2015

Dylan Harkness | Financial Services

LendingTree, Inc. (NASDAQ: TREE) operates the nation's leading online loan marketplace and provides consumers with an array of online tools and information to help them find the best loan for their needs. LendingTree's online marketplace connects consumers with multiple lenders that compete for their business, empowering consumers as they comparison-shop across a full suite of loan and credit-based offerings. Since its inception, LendingTree has facilitated more than 55 million loan requests. The firm provides access to lenders offering home loans, home equity loans/lines of credit, personal loans, business loans, auto loans, and more. LendingTree, Inc. is headquartered in Charlotte, N.C. and maintains operations solely in the United States.

Price ($): (12/8/15)	95.73
Price Target ($):	151.80
52Wk H-L ($):	139.59-38.85
Market Cap (bil):	1.2
Float:	7.0
Short Interest (%):	14.96%
Avg. Daily Vol (mil):	371,127.1

Beta:	1.08
WACC	9.5%
M-Term Rev. Gr Rate Est:	11.0%
M-Term EPS Gr Rate Est:	8.0%
Total Debt/Total Assets	0.0%
ROA:	10.4%
ROE:	13.6%

FY: Sep	2013A	2014A	2015E	2016E
Revenue (Mil)	139.20	167.40	246.30	319.40
% Growth	79.8%	20.3%	47.1%	29.7%
Gross Margin	92.7%	93.3%	95.0%	95.2%
Pretax Margin	5.8%	6.6%	15.8%	16.1%
EPS (Cal)	$0.38	$0.84	$1.99	$2.72
EPS Non GAAP	$1.26	$1.59	$2.27	$2.96
P/E (Cal)	-	57.55	42.40	32.60
P/B	4.25	5.71	6.10	5.40

Recommendation

Lending Tree has established itself as one of the leading online marketplaces connecting consumers and lenders across a broad array of loan types (mortgages, personal, auto, credit cards, student, etc.). TREE facilitates over $17B in annual loan originations, has 400 plus lenders on its network, and has built up a 2MM plus consumer subscriber base on the My Lending Tree platform due to its strong brand recognition. TREE adds value by focusing on two issues most consumers have while "shopping" for a loan – saving money and saving time. Additionally, TREE's platform offers lenders a reliable marketplace to access millions of consumers that meet the credit criteria and specifications for the loans they are looking to service. From a financial standpoint, TREE is seeing accelerating topline performance driven by continued solid execution in its mortgage segment and rapid growth in its non-mortgage segment. TREE plans to continue increasing the number of matches it delivers to lenders while also driving higher loan execution rates. This will result in TREE being able to increase its price per lead. TREE has had a 33% revenue CAGR since 2012 with consistent mid-teens EBITDA margins. TREE has also seen a consistent record of mortgage industry outperformance - in 9 of the past 11 quarters, TREE has outperformed the mortgage industry when it comes to revenue growth. With accelerating topline performance, TREE's operating leverage has helped margins. Since 2013, it has been able to increase pre-tax margins to 16%. In the company's 2015 analyst presentation, the firm expressed that long-term EBITDA margins will be in the range of 20-25%. Currently TREE is in the process of transitioning its business model from a transactional single product segment company to a relationship driven model through its My Lending Tree platform. They want to leverage its market share and enable all consumer credit transactions. By accomplishing this TREE hopes that customers will think of their platform as the place to shop for money rather than only a site to get a mortgage. Given the consistent financial track record and the large target addressable market, it is recommended that TREE being added to the AIM domestic equity fund with a price target of $152, which offers a potential upside of roughly 55%.

Investment Thesis

- **Large TAM.** Although the internet is present almost everywhere in the U.S., only 50% of consumer interactions with financial service companies take place online. Taking this into consideration, TREE has the opportunity to be a major disruptive player in the online consumer loan industry. The firm estimates that online marketplace loan originations will grow 21%

annually over the next five years to reach $220B by 2020 and believes the number of U.S. mobile financial services users will reach nearly 90MM by 2017 – allowing for more matching and closing fees.

- **Growing and Diverse Portfolio.** Looking into the near future, the mortgage segment will continue to represent approximately two-thirds of revenue in 2015 and 2016. Although the non-mortgage segment is a large and rewarding growth opportunity, the product verticals within non-mortgage, personal loans and credit cards are the fastest growing and account for roughly 80% of the growth in non-mortgage revenues last quarter. Non-mortgage revenue growth is significantly outpacing the mortgage segment and accounted for roughly 60% of the total growth in revenue over the LTM.
- **My Lending Tree Opportunity.** The My Lending Tree platform attracts customers by delivering a credit score, report, and monitoring free of charge. With the consumer's data, TREE uses its proprietary technology to deliver real time, proactive savings alerts in order to cross-sell product offerings to existing customers. The My Lending Tree platform has seen phenomenal growth, growing from 200K users in 2014 to more than 2MM as of Q3 2015. The platform has also been adding real value to customers – so far identifying ~$500MM in potential savings opportunities.

Valuation

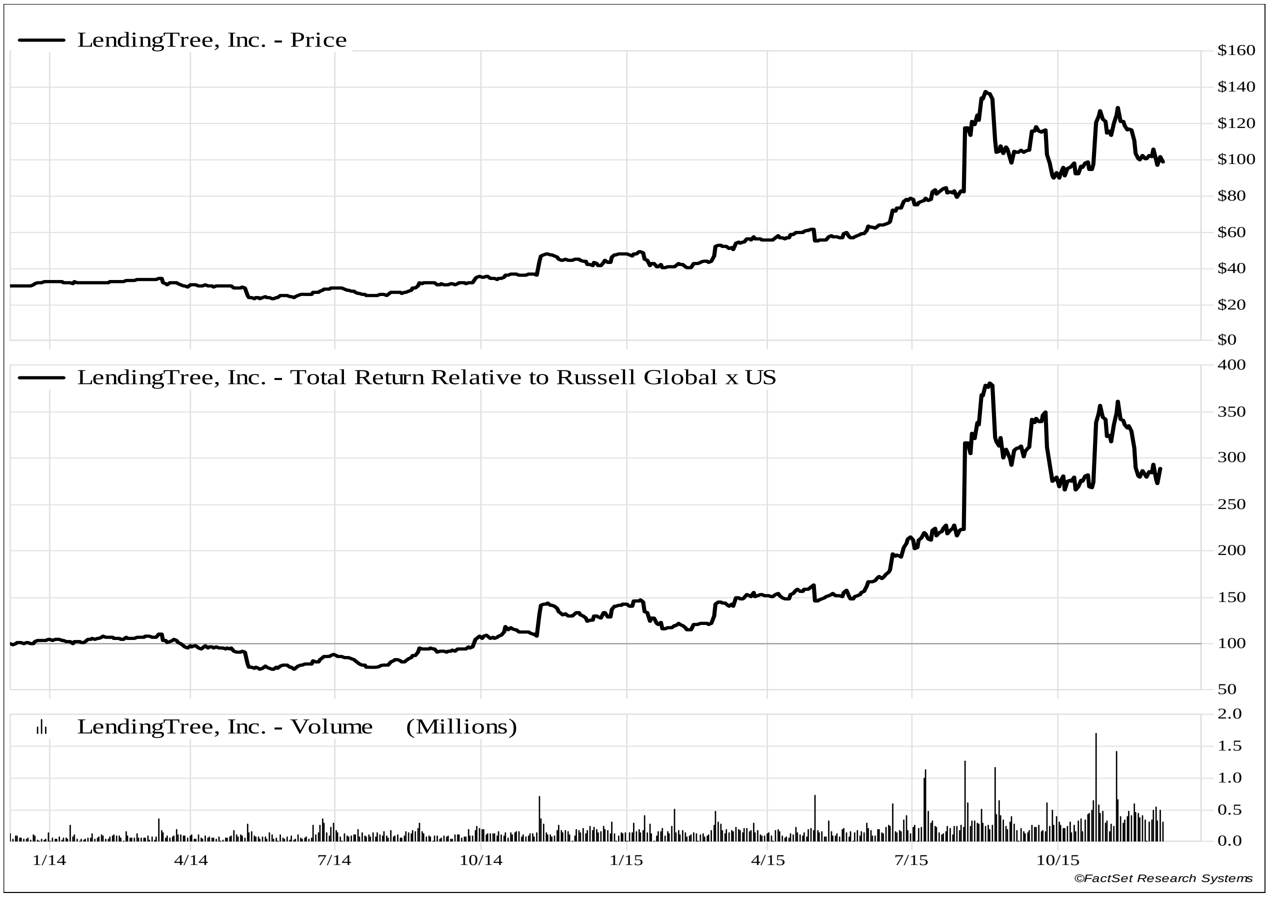
To find the intrinsic value of TREE, a forward enterprise value to EBITDA multiple was used as well as a five year Discounted Cash Flow. In order to do this, the current enterprise value of TREE was calculated using a current share price of $102 and current diluted shares outstanding of 12,267,000. By multiplying these two values together a market cap of $1.253 B was reached. Taking the current market cap, less cash and equivalents, plus debt, an enterprise value of $1.148 B was reached. By using a 2017 estimated EBITDA of $67 MM and an average target multiple of 24x, a new enterprise value of $1.625 B was reached. Taking the new enterprise value, a 2017 equity market cap of $1.854 B was computed resulting in an implied stock price of $152. The DCF was computed using a WACC of 9.5% and resulted in a present value of the future cash flows of $152 per share. By weighing the DCF and EV/EBITDA valuations 50/50, an intrinsic value of $152 was reached - representing a 55% upside. TREE does not presently pay a dividend.

Risks

- **Competitive Landscape.** TREE competes with several other internet based lead generation companies. Given the TAM of the industry, it is expected that competition from existing players and new potential entrants to increase. The company also faces a risk that the amount of lenders that directly source loan originations will begin to grow.
- **Network Security.** Any breach of network security or misuse of personal consumer information maintained by TREE or its third-party marketing partners may result in the disruption of business operations and lead to increased costs, litigation, and other liabilities. Rumors pertaining to network security could also result in the previously mentioned.
- **Seasonality.** TREE's revenue in its lending business is subject to cyclical and seasonal of the U.S. housing and mortgage markets. Home sales usually rise in the spring and summer months and then decline during the fall and winter months, while refinancing and home equity activity is primarily driven by mortgage interest rates and real estate values. With interest rates expected to rise, it will be more difficult for lenders to close loans.

Management

Doug Lebda founded Lending Tree in 1996. After launching nationally in July 1998, he led TREE through a successful IPO in 2000, through the dot-com meltdown of 2001, and a sale to IAC in 2003. From 2005 to 2008, Lebda served as IAC's President and COO, and in 2008, joined TREE once again when it spun out from IAC as a separate public company. Gabe Dalporto joined TREE in 2011 as CMO, and was named President of the Mortgage Division in 2013. In 2015, he assumed the role of CFO. Dalporto brings 18 years of primarily marketing and financial services experience to his role at TREE.



Ownership

% of Shares Held by All Insider and 10% Owners:	37.90%
% of Shares Held by Institutional & Mutual Fund Owners:	68.90%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
BlackRock Fund Advisors	549,000	4.50
The Vanguard Group, Inc.	523,000	4.30
Emerald Advisers, Inc.	520,000	4.20
Dimensional Fund Advisors LP	393,000	3.20
G2 Investmen Partners Management LLC	393,000	3.20

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Net Income (mil)	Div. Yld. %	P/B	D/E
Lending Tree, Inc.	TREE	1,253	21.34	-	5.71	0
Bankrate, Inc.	RATE	1,437	-22.36	-	1.53	0.36
LendingClub Corp.	LC	4,863	-18.6	-	9.66	0
Costar Group	GSGP	1,845	-12.53	-	3.92	0.25
Peer Averages		2,715	-18	-	5.0	0.2

**Removed For Relative Valuation Analysis*

Source: FactSet

KB Financial Group (KB)
December 11, 2015

Travis Mantel — International Financial Services

KB Financial Group, Inc. (NYSE: KB) is a holding company that engages in financial services activities through its subsidiaries. KB operates out of five segments: banking business (75.1% of revenue), credit cards (17.8%), investment and securities (2.0%), life insurance (1.5%), and others (3.7%). Their banking segment provides services that range from corporate needs to retail needs. KB does most of their business in South Korea (98.8%) but they also have exposure to China (.6%), United States (.2%), United Kingdom (.1%), New Zealand (.1%), and Cambodia (.1%). KB Financial Group, Inc. was founded in 2001 and is headquartered in Seoul, South Korea.

Price ($): (12/8/15)	28.75
Price Target ($):	36.58
52Wk H-L ($):	28-39
Market Cap (mil):	11,277
Float (mil):	386.3
Short Interest (%):	1.98%
Avg. Daily Vol (mil):	0.17
Dividend ($):	0.53
Yield (%):	1.95%

Beta:	1.07
WACC	7.2%
M-Term Rev. Gr Rate Est:	3.1%
M-Term EPS Gr Rate Est:	2.3%
Financial Leverage	1.7x%
ROA:	0.5%
ROE:	5.4%
Tier 1 Capital Ratio	13.3%
Loans/Deposits	107%

FY: Dec	2013A	2014A	2015E	2016E
Revenue (Mil)	11,353.0	11,128.0	11,380.0	11,850.0
% Growth	-10.77%	-1.98%	2.26%	4.13%
Pretax Margin	11.69%	11.52%	11.63%	11.64%
Net Margin	7.31%	8.55%	8.63%	8.66%
EPS (Cal)	$3.24	$3.77	$3.85	$3.90
P/E (Cal)	13.6	9.5	11.3	11.3
BVPS	62.9	64.3	64.9	65.0
P/B	0.6	0.5	0.6	0.7

Recommendation

KB Financial Group has seen a decline in income over the past year because of the struggling economic conditions in South Korea. They have withheld the economic slower times and are positioned well to prosper in the coming years (continued below). KB has a Tier 1 Capital ratio of 13.29% meaning they are well-capitalized and not taking on too much risk. With a loan loss provision margin of 18.91 in 2014 they are well positioned to deal with losses on loans higher than anticipated. KB has been risk averse in recent years after the recession in 2008. Furthermore, they are making a good spread on their loans with a current net interest margin of 2.30% compared to their competitors who are making 2.15% (Industrial Bank of Korea) and 1.72% (DBSDY). The loan/deposit ratio is also a big ratio to look at to assess the bank's liquidity. While KB was a little more aggressive in 2011 and 2012 with loan/deposit ratios hovering around 110%, they have trimmed this ratio down to 107.1%. KB has been playing it very safely and not taking too many risks. Most of their competitors have ratios hovering around 125% which leaves them susceptible to large loses during economic downtimes. Lastly, management has taken initiative to lower costs and become more efficient because their efficiency ratio was high compared to competitors. They have cut expenses by 10.5% YoY for the past two years as well which is expanding their margins. With a high tier 1 ratio, reduction of expenses, expanding margins, and a conservative loan/deposit ratio, it is recommend that KB Financial Group be added to the AIM International Equity Fund with a target price of $36.58, representing an upside of 27.2%. KB Financial Group also pays a dividend that yields 1.95%

Investment Thesis

- **Fintech Hub Center.** KB is establishing a "KB Fintech Hub Center" in order to partner with fintech businesses. The center gives assistance to these startups. This assistance ranges from extending loans to the startups they see fit to business model advice to partnerships. The center furthermore plans to invest in startups that have unique technologies and big growth potential but lack capital. Essentially this center is a much more efficient channel to startup tech companies in South Korea.
- **Strengthening Future Growth.** KB is enhancing their competencies for entry into overseas market. By 2022 management has voiced that they want to predominate the Asian Financial

market. KB is the third largest bank in South Korea and currently does 98.8% of their business there. KB plans on penetrating surrounding countries to steal market share from their competitors. The growth potential with expanding to other countries is much higher than staying exclusively in Korea. However, management also plans to enhance their competitiveness in retail banking in South Korea. KB will regain and consolidate their leadership over the financial market in Korea by 2019. They plan on doing this by regaining their customers' trust after the recession.

- **Risk Management.** KB has made an effort to better their risk management. Their new risk management enforcement will protect them on the downside. Management has improved the credit risk management system recently and they have secured the highest competency for arrears management among credit card companies. These new precautions set them up to be much more profitable in the future by not taking as many losses due to loan.
- **Strengthening South Korean Economy.** South Korea experienced a hiccup in 2015 with 2.6% growth down 21% from 2014. South Korea is estimated to have an increase of GDP by 19% to approximately 3.1% in 2016. The trade balance is estimated to increase 4.4% in 2016 to $87 billion. Lastly, inflation is projected to normalize resulting in a CPI of 1.7%. The economy is estimated to pick back up in 2016 which is great for the financial sector.

Valuation

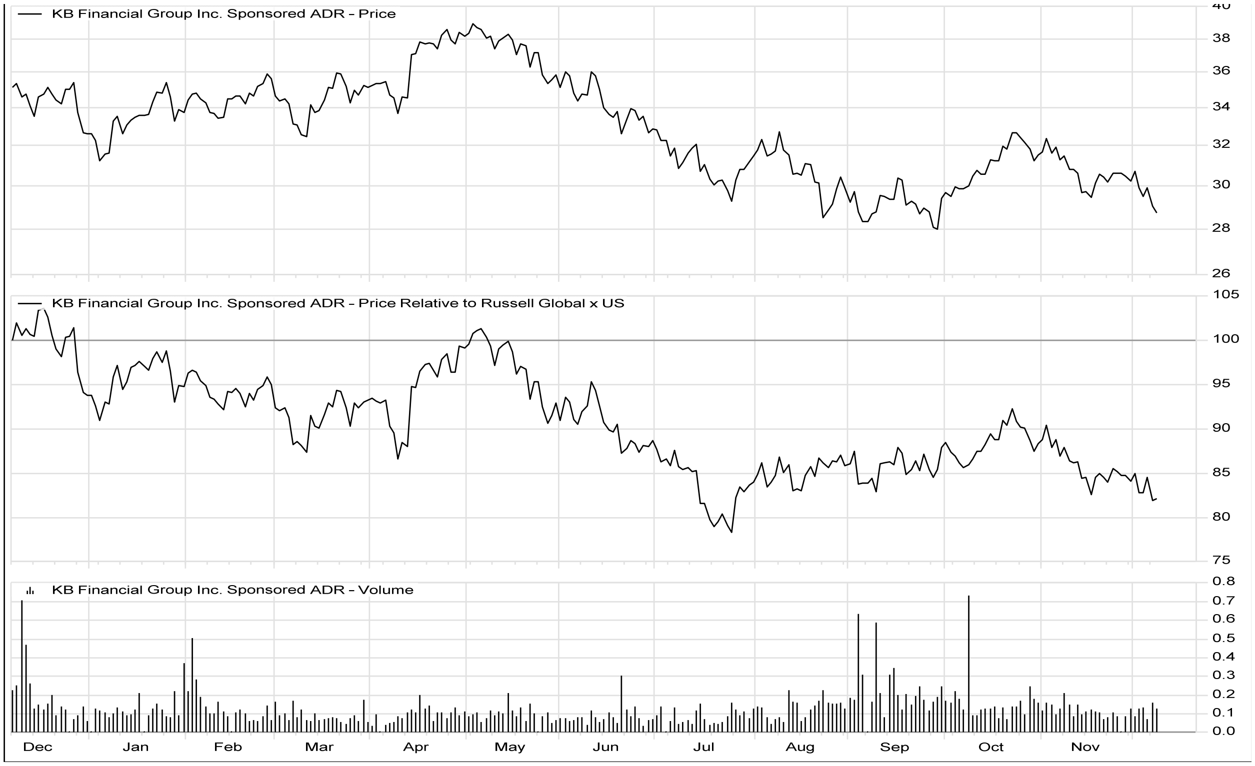
To find the intrinsic value of KB a price to book multiple was used, as well as a dividend discount model. The 5-year average historical price to book for KB was .73x while its peers' 5-year historical average was .75x which lead me to an average P/B multiple of .74x. Using a BVPS of 55.79, the P/B multiple yielded an intrinsic value of $41.01. The discounted dividend model was used with a WACC of 7.24% and a long term growth rate of 2% which resulted in an intrinsic value of $35.10. Weighting these valuations 25/75 respectively, the final estimated intrinsic value of KB is $36.58 which would give KB an upside of approximately 27.2%.

Risks

- **New Competition from Foreign Banks.** Management at KB has touched on the possibility of foreign banks coming into South Korea to compete with them through acquisition or implementing more products in South Korea if they have a presence already. These larger financial institutions have greater experience and resources than KB and could start to steal market share. However, management is aware of this risk and they are not aware of any acquisition in the near future, it is just something they are preparing for.
- **Implementation of fintech center.** Any hiccup with the implementation of the fintech center could lead to a minor stock price decrease. However, with a long-term view, any hiccup with this implementation won't affect the long-term performance of KB.

Management

Dr. Jong Kyoo Yoon was elected as Chairman and CEO of KB Financial Group in 2014. Dr. Yoon has extensive experience and in-depth knowledge of financial industry that he has learned as Deputy President and CFO of KB and as CFO and Senior Executive Vice President of Kookmin Bank. Mr. Jong-Hee Yang is the Deputy President in charge of the financial planning department, investor relations department, and public relations department. Mr. Yang was promoted to his current position in 2015 after successfully managing his departments for multiple years. KB Financial Group is excited about their young management style.



Ownership

% of Shares Held by All Insider and 5% Owners:	5.00%
% of Shares Held by Institutional & Mutual Fund Owners:	47.40%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
National Pension Service of Korea	36,383,000	9.40
Templeton Global Advisors	21,913,000	5.70
Orbis Investment Management	8,798,000	2.30
Dimensional Fund Advisors LP	8,238,000	2.10
Lazard Asset Management	7,716,000	2.00

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Net Income (mil)	Div. Yld. %	P/B	D/E
KB Financial Group	KB	11,397	5,703	1.95	0.47	1.7
Shinhan Financial Group	SHG	16,425	6,259	2.35	0.67	2.2
Industrial Bank of Korea	024110-KR	6,218	4,238	3.30	0.55	7.3
Samsung Life Insurance	032830-KR	17,811	1,271	1.73	0.84	0.0
DBS Group	DBSDY	29,945	5,533	3.59	1.1	1.4
Peer Averages		17,600	4,325	2.74	0.8	2.7

Source: FactSet