Applied Investment Management (AIM) Program

AIM Class of 2013 Equity Fund Reports
Fall 2012

Date: Friday, December 7th Time: 2:30 – 4:00 p.m.
Location: AIM Research Room (DS 488)

Not able to join us in person, considering joining us live at:
Join the LIVE meeting via Blackboard web-based conferencing tool

Student Presenter	Company Name	Ticker	Price	Page No.
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Brent Adams	Main Street Capital Corp.	MAIN	$30.65	8
Elizabeth Buckton	STAAR Surgical Company	STAA	$5.78	11
Tim Maturo	Chart Industries	GTLS	$60.48	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.

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Woori Financial Group (WF)
Dec 7, 2012

Kobe Park — International Financial Services

Woori Financial Holdings Co., Ltd. (NYSE: WF), is the largest financial holding company by assets in South Korea. Through its 11 subsidiaries and affiliated companies, WF is engaged in various businesses, including banking, securities, commercial banking, life insurance, credit card, and consumer financing. Woori Financial Holdings was formed in 2001 from the forced merger of four predecessor commercial banks and an investment bank after they failed to meet the Basel I standard. WF derives most of its revenue from South Korea and employees 15,000 people.

Price ($) : (11/30/12)	28.30	Beta (vs. KOSPI Index):	1.4	FY: Sep	2012E	2013E	2014E
Price target ($) :	35.50	WACC (%)	10.31	Interest Revenue (Mil)	15,507	16,205	16,934
52 WK H-L ($) :	36 - 23	L-Term Rev. Gr Rate est (%):	3.50	% Growth	3.07%	4.50%	4.50%
Market Cap (mil):	7,575	Mid-Term Rev. Gr Rate est (%):	4.50	NIM (%)	2.32	2.35	2.37
Float (mil):	305	Tier 1 Capital Ratio (%):	8.91	Cost Income Ratio (%):	45.00	45.58	45.97
Short Interest (%) :	N/A	Financial Leverage	18.18	EPS (Cal) ($)	6.49	8.56	9.34
Avg. Daily Vol (mil) :	9246	ROA (%):	0.71	P/E (Cal)	4.36	3.31	3.03
Dividend ($) :	0.66	ROE (%):	12.86	BVPS ($)	67.50	73.39	82.26
Yield (%) :	2.46%	Net Interest Margin (%):	2.32	P/B (Cal)	0.42	0.39	0.34

Recommendation

The many Korean banks are currently undervalued as many Korean corporations suffered from 2011 and 2012 global slowdown. WF and its peers are being traded at the average P/E ratio of 5.44x and P/B ratio of .59, at their historical troughs. However, as the global market and Korean market turns around, these undervalued banks can become very attractive as they rebound. Among the Korean banks, Woori Financial Group seems to be the best fit. It has a very well diversified loan portfolios and a strong market share while keeping its Tier 1 capital ratio high. Most of all, it is significantly undervalued as traded at the P/B ratio of .42, which is significantly lower than its historical or peer ratio. For such reasons, it is recommended that Woori Financial Group be added to the AIM International Equity Fund with a target price of $35.50, which offers a potential upside of 25% with a 2.46% current dividend yield.

Investment Thesis

- **Well diversified business operations and strong market share.** Woori is the market leader in the Korean banking sector. **WF's** total deposits of 200 trillion KRW and 1245 branches make it the largest bank in Korea. For 2011, WF reported net interest income of 7.26 trillion KRW, an increase of 13% YoY. The increase was mainly driven by a 7% increase in interest income. The group also reported an improvement in its net fees and commission income in 2011, increasing from 1,116 million KRW to 1195 million KRW. In 3Q 2012, operating income increased by 20% YoY. The diversified loan portfolio includes 35% retail, 40% small and medium size business, and 20% large corporations. The corporate loan portfolio is well diversified across various sectors. The three biggest sectors include manufacturing, construction, and real estate at 37%, 7%, and 21%, respectively.
- **Rebounding South Korean economy and strong Won.** Since July, the iShares MSCI South Korean Index has increased by 15% as the expectation for the South Korean economy rebounding in 2013 has grown. The monetary stimulus taking place for the two main customers of Korea, China and the United States, should help the export, which is over 50% of the country's GDP. The central bank reported that economic indicators related to production, consumption and investment have turned into positive growth in September. The U.S. QE3 has been driving the Dollar weaker, making Korean Won relatively strong against Dollar - the Korean Won has strengthened 10% since July. The currency is expected to rise further and stay

strong throughout 2013. This might hurt South Korean exporters, but can boost up the ADR price to offset arbitrage opportunity.

- **Strong asset quality and profitability.** Woori reported significant improvement in its asset quality over the past year. For 2011, WF reported total non-performing loans and other impaired loans of KRW 4,018 billion, reflecting a decrease of 43% in 2010. This improvement was mainly driven by the significant decrease in commercial and industrial non-performing loans. WF's non-performing loans as a percentage of total loans and total assets declined to 1.78% and 1.21% and from 3.25% and 2.25% in 2010. For 3Q 2012, the market expected net profit of WF to fell as the overall Korean market suffered and Woori entered the court receivership after the local conglomerate Woongjin Group went bankrupt. However, net profit for 3Q ($462 million) rose 3.77% YoY, beating the market expectation of 23% fall. A main driver for increase came from decrease in impairment on credit loss. Credit improvement among borrowers and previous conservative impairment earlier in the year helped WF stay strong. WF also has been increasing its BIS ratio and Tier 1 ratio. They were 13.73% and 10.43% each in 4Q 2011. In 3Q 2012, they were 14.36% and 11.0% each.

Valuation

To find the intrinsic value of WF, the P/E method, P/B method, and discounted dividend model were used. Based on its peers and its historical record, P/E ratio of 4.30x and P/B ratio of .53 were used. P/E method by using estimated 2013 EPS of $8.56 generated the target price of $36.81. P/B method by using estimated 2013 BVPS of $73.39 generated the intrinsic value of $38.15. Dividend discount model with the terminal growth rate of 3.5% and the discount rate of 10.3% generated the target price of $31.90. By weighing them 35%, 30%, and 35% each, a price target of $35.50 was found, providing 25% upside from the current price. The company pays 2.50% dividend yield.

Risks

- **Low Interest Rate Environment.** Expansion of monetary policies across various economies influenced interest rates. In October, The South Korea's central bank cut its key rate to 2.75% from 3% in a bid to spur growth. Since interest rates are driven by monetary policies, political, and economic conditions. Lower interest will mainly hurt by flatting the yield curve, which causes the margins to decline.
- **Revenue concentration.** The loans are well diversified in terms of both business augment and industry; however, its heavy focus on Korea can hurt if Korean economy starts to slow down. In 2011 total revenue, only 2.5% came from oversea. 96% of total loan portfolio comes from South Korea. In 2011, Korean GDP grew by 3.6%, down from 6.3% in 2010.
- **Government ownership**. After the 1998 Asian financial crisis, the Korean government and IMF together nationalized or restructured many weak companies. As a result of the bank merge in 2001, the government became the primary investor through the government entity Korean Deposit Insurance Corporation. From 100% government owned initially in 2001, by usage of convertibles and block sale offerings, the government has slowly decreased its ownership. Most recently, in July 2012, the government tried to sell its holdings and the rumor had it that KB Financial Group, one of the largest banks in Korea, is likely to acquire a big portion. The stock price went up when the news came out but dropped after the government announced that the government decided not to sell mainly for its unfavorable bid price.

Management

Soonwoo Lee has been the president and the CEO of Woori Financial Holdings since March 2011. Having business and law background from college, he started as an entry level banker in Sangup Bank in 1977 then eventually moved up all the way to CEO. Prior to him, Woori bank had been hiring CEOs from a pool outside experts. He has been known well for his exceptional sales skills.

Ownership

% of Shares Held by All Insider and 5% Owners:	68.24%
% of Shares Held by Institutional & Mutual Fund Owners:	81%

Source: Bloomberg

Top 5 Shareholders

Shareholder	Shares	% Out
Korea Deposit Insurance Corp	459,198,609	56.97
Mirae Asset Global Investment	49,967,187	6.20
National Pension Service	40,876,917	5.07
Capital Research Global Investor	20,047,350	2.49
Vanguard Group Inc	16,021,404	1.99

Source: Bloomberg

Winnebago Industries (WGO)
December 7, 2012

Kevin Kroeger Consumer Cyclical

Winnebago Industries, Inc. (WGO) is a United States manufacturer of recreation vehicles (RVs) used primarily in leisure travel and outdoor recreation activities. The Company sells Class A, B, and C motor homes (83% of sales) through independent dealers under the Winnebago, Itasca and Era brands names. Class A motor homes (priced between $100,000 and $366,000) account for 56% of unit sales, Class B ($94,000) has 7%, and Class C ($75,000 and $94,000) fills the remainder. Winnebago also expanded into towables (now 10% of revenue with price ranges $16,000-$48,000) in December 2010 with the acquisition of SunnyBrook for $4.7 million. The typical RV owner is married and has a household income of $62,000. The company is headquartered in Forest City, Iowa and has been producing RV's since 1958.

Price ($) (11/30/12):	$14.22	Beta:	1.48	FY: December	**2012A**	**2013E**	**2014E**
Price Target ($):	$ 21.92	WACC	10.00%	Revenue ($Mil)	581,679.00	837,181.39	1,013,311.19
52WK H-L ($):	6.21 - 14.49	MT Rev. Gr Rate Est (3-5 yr):	8.70%	% Growth	43.9%	21.0%	15.8%
Market Cap (mil):	402.98M	MT EPS Gr Rate Est (3-5 yr):	7.22%	Gross Margin	11.0%	12.0%	12.0%
Float (mil):	29.15M	LT Debt/Total Assets	28.1%	Operating Margin	5.3%	6.1%	7.2%
Short Interest (%):	7.6%	Cash/Assets	42.0%	EPS ($Cal)	$1.54	$1.22	$1.54
Avg. Vol (10 day)	172,729	EBITDA 1-yr Growth	28.2%	FCF/Share	$ 0.97	$ 1.56	$ 2.44
Current Ratio	3.07	2012A ROA:	15.7%	P/E (Cal)	9.23	11.66	9.23
Dividend Yield	0.0%	2012A ROIC:	30.2%	P/S (Cal)	0.71	0.50	0.41

Recommendation

Steadily improving housing starts, five-year highs in consumer confidence, and favorable financing conditions help support what has emerged as a bullish recovery cycle for RV's and motor homes. After 15 consecutive years of 50,000+ annual shipments from 1992-2007 (including a 2004 peak of 70,000), motor home unit sales plummeted to 11,000 in 2009. WGO, however, did not have to participate in the bankruptcy proceedings and general consolidation plaguing the rest of the industry because of its brand power, debt-free balance sheet, and strong liquidity (42% of assets in cash). In addition, despite the severe cyclicality of motorhomes (ASP ~$100,000), WGO has only once produced losses and negative free cash flows in the past decade. During mid-cycle, the company generates ROIC's around 30%, which is far superior to public competitors (Thor Industries, Drew Industries, and Pool Corp). WGO's steady market share (~18-20%), cash-rich balance sheet and relative exposure to premium Class A diesel models makes them the best way to play the steady recovery in motor home sales. WGO has an 18.1% share of total motor homes, but a 23% of Class A-diesels (average price ~$190,000) and 21% of Class A-gas models ($115,000). For these reasons, it is recommended WGO be added to the AIM portfolio with a price target of $21.94.

Investment Thesis

- **Continued industry recovery cycle leads to more trade-ups.** Assuming year-end motor home shipments align with the Recreational Vehicle Industry Association's (RVIA) estimate of 26,000; this still only represents 40% of peak sales. A steady rebound in sales derived from correlations with housing starts, consumer confidence, and personal savings rate would also leverage the company's margins, as WGO's facilities are only 40% utilized. At year-end 8/12, the company released an impressive backlog of 1473 units, or $163.7M in revenue, representing a 116% YoY increase. The company's near term competitive position is also better fortified as consumers are now willing to trade-up to newer, more fuel-efficient Class A diesel models (12-15 mpg) after years of saving and spending hibernation. Supporting the trend towards premium RV's is the company's Class A backlog

being up 33% at year–end. Also, sales of cheaper towables, where competitors dominate the market, have reached 80% of peak levels.

- **Demographic Sweet Spot.** According to RVIA, the appeal of RV living to Americans has never been higher, despite rising fuel prices. The typical 30-60% cost savings realized by vacationing via motor home has driven 2011 ownership to 2.1% from a 2005 level of 1.9%. Further, historically, 85% of RV purchases are made by people 55 year olds and up. As baby boomers retire and weigh the costs of future vacations, WGO should see a bounce. Also, though the typical trade-in cycle is 5-7 years, management thinks this particular cycle was lengthened due to the abnormal plunge in consumer confidence during 2008-2009. This suggests peak sales are imminent in the next 2-3 years.
- **Brand Strength and Liquidity.** Winnebago is the only motor home maker to win the leading RV dealer quality award every year since the award's inception in 1996. A 2011 survey performed by the director of consumer research at the University of Michigan found that 70% of current RV owners plan to buy another one at some point. This stickiness will continue to favor WGO as the go-to provider for premium motor homes. The degree of cyclicality and uncertainty surrounding the industry serves as a nice barrier to entry. The company has navigated business cycles for 54 years and has no plans to add debt.

Valuation

A five year DCF was used to value WGO's shares. Forward revenue projections conservatively assumed peak industry sales/market share of 30,000/22%. A WACC of 10% and a terminal growth of 2.50% were applied to free cash flow estimates, producing a price of $18.43. Stressing the WACC and terminal growth rate 1% and .50% respectively in both directions yielded a price range of $14.62-$22.51. Additionally, a P/E multiple of 20.71 and a P/S of .98 was applied to 2013E, yielding intrinsic values of $25.31 and $28.37. A weighted average of DCF (60%), P/E (20%), and P/S (20%) approaches generates a price target of $21.94, which is 54% higher than its 11/30/12 market price of $14.22.

Risks

- **Leaner models.** If the trend towards smaller, more efficient models continues, Winnebago's competitive position could be negatively impacted. WGO has a history of innovation, though, with the most recent example being the first to offer Class A diesel product, which achieves a MPG of 15+ compared to gas engines (~8-12). Nevertheless, a secular environment of trade downs may force the company to restructure its existing operational capabilities.
- **Change in mortgage interest deduction laws.** Outside of buying a home, WGO's products could not be more discretionary. If the company's customer base (married, white, 55+, median income of $62,000) is no longer able to deduct mortgage interest on a second home, they may elect to trade-down. Consumer confidence is at a five year high (though still well below pre-recession levels), so any plunge resulting from spending cuts geared towards WGO's demographic could materially impact the company.
- **Supply chain Concentrations.** WGO outsources the production of chassis, engines, generators, and appliances. Three suppliers account for 52% of inputs WGO purchases. In addition, one dealership, FreedomRoads accounts for 25% of revenues and covers 62 of 235 total locations.

Management

Mr. Randy Potts (53) has been the Chairman, Chief Executive Officer and President of Winnebago Industries Inc., 2012, 6/11 and 1/11 respectively. Mr. Potts served as a Senior Vice President of Strategic Planning at Winnebago Industries Inc. from November 3, 2009 to November 18, 2011. He has been with the company serving various engineering and management roles since 1983.

Ownership

% of Shares Held by All Insider and 5% Owners:	3%
% of Shares Held by Institutional & Mutual Fund Owners:	80%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Price (T.ROWE) ASSOCIATES INC	2,787,530	9.84%
ROYCE & ASSOCIATES, LLC	2,129,786	7.52%
VANGUARD GROUP, INC. (THE)	1,676,118	5.91%
IRIDIAN ASSET MANAGEMENT LLC	3,030,064	5.15%
BlackRock Fund Advisors	3,005,200	4.92%

Source: Yahoo! Finance

Main Street Capital Corporation (MAIN)

December 7, 2012

Brent Adams | Financial

Main Street Capital Corporation (MAIN) is a principal investment firm that provides long-term debt and equity capital to lower middle market companies and debt capital to middle market companies. MAIN's portfolio investments are typically made to support management buyouts, recapitalizations, growth financings, re-financings and acquisitions of companies that operate in diverse industry sectors. MAIN seeks to partner with entrepreneurs, business owners and management teams to provide "one-stop" financing alternatives within its lower middle market portfolio. MAIN's lower middle market companies generally have annual revenues between $10 million and $150 million and MAIN's middle market debt investments are made in businesses that are slightly larger in size. MAIN invests in established traditional businesses typically based in the Southern, South Central, or Southwestern parts of the United States, rather than speculative companies. MAIN operates as a Business Development Company (BDC) as established in the 1940 Act. MAIN is headquartered in Houston, TX.

Financials/BDCs

Price ($): 12/3/12	30.65	Beta (vs. Russell 2000):	0.69	FY: Dec	2011A	2012E	2013E
Price Target ($):	37.82	WACC (%):	5.3	Revenue (mil)	83.84	88.42	104.56
52WK H-L ($):	30.98-19.00	Debt/Equity:	53.71	% Growth	89.64	5.46	18.25
Market Cap (mil):	970.30	ROA:	10.6	Net Interest Income (mil):	52.72	68.42	80.74
Float (mil):	28.44	ROE:	19.34	Net Interest Margin (%):	9.52	9.76	9.77
Short Interest (%):	6.12	P/B:	1.75	EPS (Cal)	1.77	1.96	2.51
Avg Daily Vol (000s):	287.79	Dividend (TTM) ($):	1.8	P/E (Cal)	12.57	12.21	15.64
		Yield (%):	5.87	Dividend	1.56	1.85	2.31

Recommendation

Currently in the AIM Domestic Equity Portfolio there is an underexposure to investments in Business Development Corporations (BDC) and MAIN provides an attractive opportunity to diversify the portfolio. MAIN's business model provides venture capital like exposure, but with less inherent risk. MAIN operates in a lower middle market niche, allowing it to provide competitive financing offerings while making favorable returns. Additionally, as the U.S. economy strengthens in 2013 and beyond, the quality of MAIN's invested assets will improve, in turn benefiting the company and investors as its net investment income rises. The high dividend yield of 5.87% also supplies a significant return to shareholders and it should continue to rise as performance improves. In addition, MAIN is unique among similar BDCs because it pays its dividend monthly as opposed to quarterly, providing the fund with regular monthly income. Because of these reasons and a favorable valuation, it is recommended that MAIN be added to the AIM Equity Fund with a target price of $38, which offers a potential upside of 23%. In addition to the potential share price appreciation, MAIN pays a yearly dividend of $1.56, representing a 5.87% dividend yield.

Investment Thesis

- **Business Model.** In a couple of ways, a Business Development Corporation is similar to a Real Estate Investment Trust (REIT). For instance, they both receive special tax treatments as long as they pay out on average at least 90% of their earnings as dividends. They also tend to benefit from the low interest rate environment, such as the current situation, as they are able to borrow money at low rates and invest in the particular type of company that they choose. Since it is expected that in 2013 the economy will improve, Main Capital should continue to have success as the business prospects and demand for capital improve. By providing equity capital to lower middle market companies Main Street has focused on businesses with names that are not

commonly recognized; however, these companies are important in providing economic growth and new jobs. In turn, these firms should provide higher income to Main Street Capital as their performance improves, boosting its performance.

- **NAV Accretion.** In 3Q12, MAIN saw fixed income investors moving down the capital structure, with leveraged credit markets witnessing their strongest quarterly issuance since 1Q11 and yields compressing to all-time lows. Middle-market spreads tightened considerably, coming in 100-150 bps over the quarter. As a result, net asset value accretion should help drive growth in value.
- **Niche Market.** MAIN has a primary focus in the lower middle market that has a favorable investment opportunity as fewer lenders have competitive offerings for this sector after the financial crisis. Investments in this space provide a solid net interest margin and the potential for equity-like returns with warrants and stock options often provided to creditors, such as MAIN.

Valuation

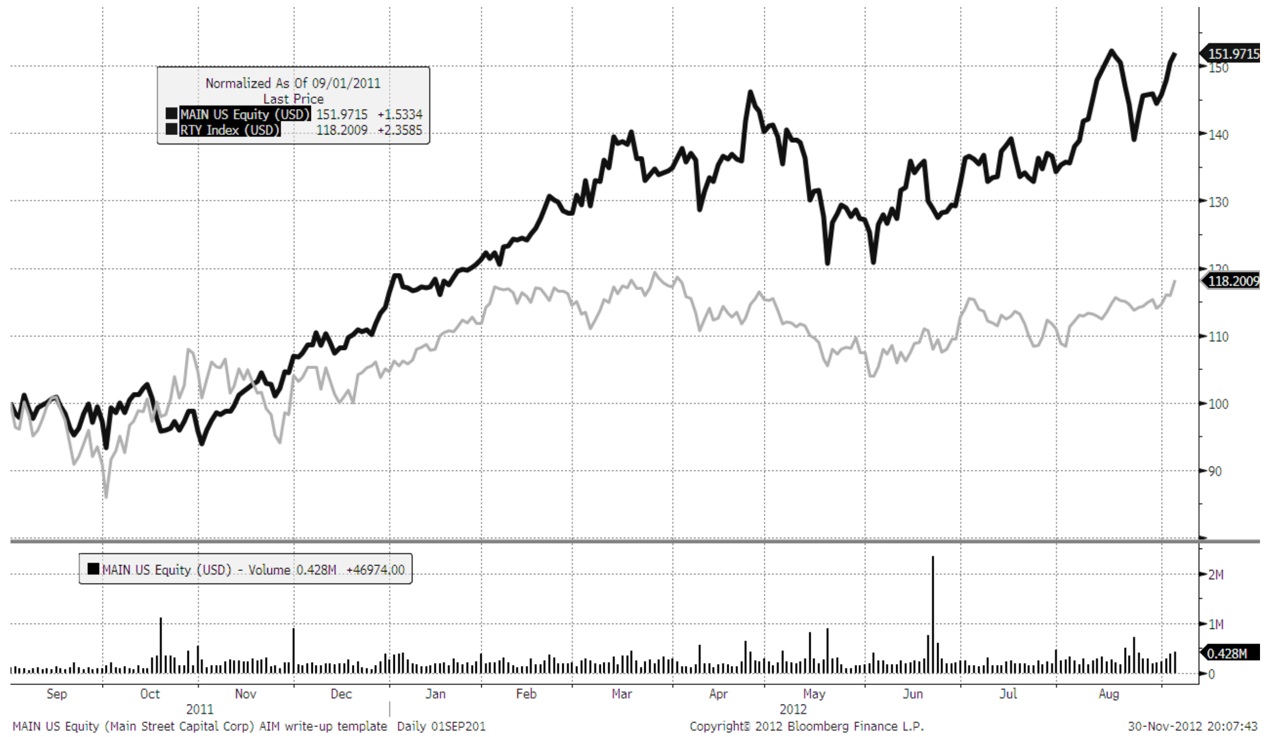
To find the intrinsic value of MAIN, a five-year Dividend Discount Model was conducted. A blended growth rate of 19.48% was applied to account for historical growth, fundamental calculations and analysts' predictions. A cost of equity of 7.60% was used and yielded an intrinsic value of $44.98. The sensitivity analysis accounted for MAIN's ability to reduce or increase its dividend based on changes in net interest income due to interest rate changes. A Price-to-Book multiples approach was also used taking MAIN's forecasted average and a peer average to get a calculated value of 1.75x. Applying the calculated P/B multiple to a projected 2012 book value per share of $17.49 yielded an intrinsic value of $30.65. Weighing the valuations evenly, a price target of $37.82 was derived, offering an upside of 23%. The firm also pays a yearly dividend of $1.80, yielding 5.87%.

Risks

- **Affordable Care Act.** With the re-election of Barack Obama, the Affordable Care Act will be with businesses into the foreseeable future. This may impose significant employee health insurance costs on the small businesses MAIN finances. These small businesses may experience reduced earning and, in some cases, increased risk of bankruptcy. Tax credits and insurance exchanges have the potential to offset these higher costs, but only time will tell; however, most small businesses will find the mandated employee health insurance a significant burden.
- **Lower Middle Market Risk.** While the underserved lower middle market presents a strong investment opportunity for MAIN, it comes with a number of limitations that increase the riskiness of MAIN's portfolio. Smaller companies tend to have shorter operating histories, narrower product lines, less predictable operating results, provide less public information, or can have operations tied to the health of a single individual.

Management

Mr. Vincent D. Foster has served as Chairman of the Board and Chief Executive Officer since 2007 and as President since October 2012. Prior to co-founding Main Street's predecessor in 1997, Mr. Foster worked at Arthur Andersen for 19 years, where he was a partner from 1988-1997. Mr. David L. Magdol has served as Chief Investment Officer and Chairman of the investment committee since 2011.



Ownership

% of Shares Held by All Insider and 5% Owners:	10%
% of Shares Held by Institutional & Mutual Fund Owners:	23%

Source: Yahoo! Finance

Top 5 Institutional Shareholders

Holder	Shares	% Out
Vanguard Group Inc.	1,368,472	4.32
BlackRock Fund Advisors	630,552	1.99
State Street Corp.	414,684	1.31
Northern Trust Corp.	390,047	1.23
BlackRock Institutional Trust Company N.A.	368,347	1.16

Source: Yahoo! Finance

STAAR Surgical Company (STAA)
December 7, 2012

Elizabeth Buckton | Healthcare

STAAR Surgical Company develops, manufactures and markets high margin visual implants that improve a patient's quality of vision. The firm manufactures implantable contact lenses, which are used worldwide to correct refractive disorders such as myopia (nearsightedness). STAAR also manufactures products for cataract surgery and glaucoma surgery. The company's two products, intraocular lens (IOLs) and implantable Collamer lenses (ICLs), are a more effective alternative to LASIK corrections. Internationally, their largest market share resides in Japan and South Korea. Headquartered in Monrovia, California STAA has 297 employees and was founded in 1982.

Price ($) (12/7/12)	5.78	Beta:	0.9	FY: December	2011A	2012E	2013E
Price Taget ($):	9.81	WACC	9.6%	Revenue (Mil)	63	66	71
52WK Range ($):	4.96-11.79	M-Term Rev. Gr Rate Est:	6.0%	% Growth	14.21%	5.00%	7.00%
Market Cap:	211M	M-Term EPS Gr Rate Est:	20.0%	Gross Margin	67.50%	75.00%	80.00%
Float	29M	Debt/Equity	0.0%	Operating Margin	6.12%	15.83%	18.00%
Short Interest (%):	5.1%	ROA:	-0.5%	EPS (Cal)	-$0.25A	$0.13E	$0.26E
Avg. Daily Vol:	134K	ROE:	-0.8%	FCF/Share	-0.11	0.28	0.45
Dividend ($):	N/A			P/E (Cal)	(23.40)	43.99	22.22
Yield (%):	N/A			EV/EBITDA	5.83	3.10	3.25

Recommendation

STAA's limited product line has allowed them to focus their efforts on creating excellent corrective lenses for those suffering from myopia and glaucoma. The implantable Collamer lenses market competes directly with LASIK procedures. Still, ICLs are superior to LASIK and therefore can demand a premium that patients are willing to pay (between $1,500-$3,000 versus $499-$2,500). Currently, STAA maintains about 2% of the realized market potential for refractive surgeries and the firm has the ability to penetrate as much as 10% of the U.S. market with the introduction of Toric ICL. The IOL market benefits from the aging global population, since it is estimated that 60.5M people currently have glaucoma, a number that could reach 80M by 2020. STAA's stock is still affected by a negative LASIK Chinese editorial, which was published in Q2. The stock price softness following the article allows for a good buying opportunity. Management's forecasted 10% tax rate from its California plant consolidation will allow it to leverage approximately $128M in accumulated tax losses (NOLs). After these losses are exhausted, STAA will have the ability to leverage alternative strategies, including expansion into additional regions of China and Japan. One such strategy might include relocation to another facility, which could offer other beneficial tax holidays for new business. Additionally, STAA estimates that the impact of the 2013 medical device tax will be negligible because only 20% of sales are in the U.S., and of that, STAA has the ability to pass the charge off to their customers. Superior products and strong management will allow for continued product and margin strength. It is therefore recommended that STAAR Surgical Company be added to the AIM Equity portfolio with a price target of $9.81, representing a 70% upside.

Investment Thesis

Visian ICL: The ICL is a foldable lens which allows for minimally invasive corrective surgery and maintains a $3B global market opportunity of which STAA currently has 2% or less. The main competition within the ICL market is LASIK; however, unlike this procedure, the ICL surgery is efficient, reversible, and does not cause glares, halo effects or persistent dry eyes. These benefits have allowed ICL products to demand a premium price. STAAR Surgical is the leading manufacturer within the ICL market and continues to develop improved products within this space.

Manufacturing Consolidation: Over the past three years, STAA has worked to consolidate their manufacturing facilities in Switzerland and Japan. This consolidation to a California plant will be completed by the end of 2013 and is expected to help decrease the firm's bottom line by

$128M. From a tax perspective, STAA will begin to show their profits in the United States rather than abroad. Once the consolidation process is complete the company's tax rate will decrease from 50% to 10%. Ultimately, this will help the company achieve their goal of 80% gross margin.

IOL Market: IOL products are available for cataract patients. Globally, there is a 22M patient potential. The big three companies, Alcon, Abbott Medical Optics, and Bausch & Lomb, for this product control about 73% of the market, allowing STAA to take advantage of the remaining market share. In order for STAA to be able to compete in this market, they have premium products with premium features and therefore they can demand a higher-than-average price. Gross margins within this product space are attractive and average about 60%.

Valuation

Using a 10-year DCF with a computed WACC of 9.6% and a LT growth rate of 2.5%, an intrinsic value of $10.65 was determined for STAA. The DCF grew revenues in the near term at an average 6% per year and maintained operating margins at around 20%. A 43x P/E multiple was applied to the 2013 EPS forecast of $0.26 and yielded an intrinsic value of $11.44. Additionally, a 4x EV/Revenue was applied to the 2013 revenue per share and yielded an intrinsic value of $7.31. Weighing the DCF, P/E and EV/Revenue evenly, a $9.81 price target was established, representing a 70% upside. The firm does not pay a dividend.

Risk Factors

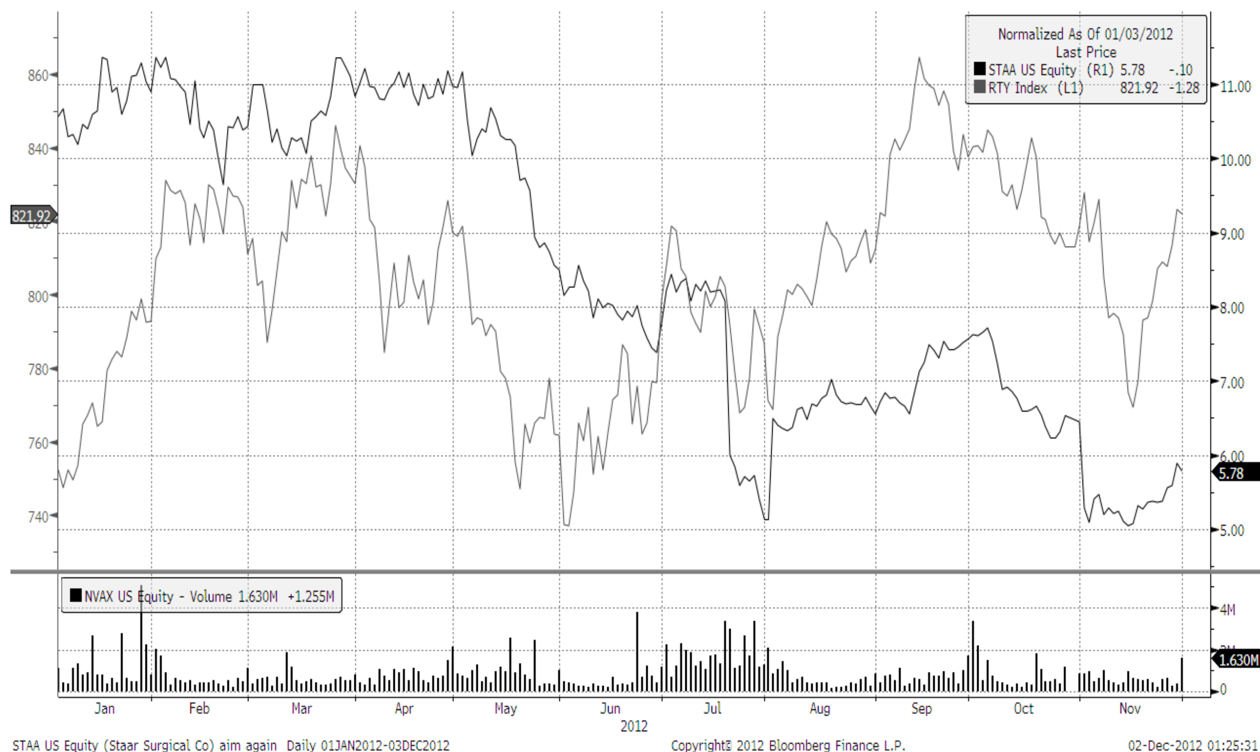
Delayed FDA Approval. An important part of STAAR's Visian ICL portfolio is the Toric ICL, which treats astigmatism and myopia in a single lens, and is currently marketed outside of the United States. In April 2006, STAA submitted a premarket approval, which remains subject to FDA review and a number of pending questions under discussion with the agency. Without the Toric ICL, the Visian product line is not likely to reach its full market potential in the U.S., and STAAR cannot predict when or if the FDA will approve it.

History of Losses. During 2011 STAAR achieved net income from continuing operations after reporting losses for more than ten years. STAAR has just crossed the threshold of profitability, and sustained profitability remains vulnerable. As of September 2012, STAA had an accumulated deficit of $131.M.

Competition. Competitors, including Alcon, Abbott Medical Optics and Bausch & Lomb have much greater financial resources than STAA and some of them have large international markets for a full suite of ophthalmic products. Their greater resources for research, development and marketing, and their greater capacity to offer comprehensive products and equipment to providers, make it difficult for us to compete. The firm has lost significant market share to some of their competitors.

Management

Barry Caldwell has served as STAAR's President and CEO since November 2007, and has had served in various capacities within the ophthalmology industry for the last 33 years. Deborah Andrews has served as CFO since August 2005, and has worked for STAAR since 1995. Don Bailey has served as director and Chairman since April 2005.



Ownership

% of Shares Held by All Insider and 5% Owners:	2.5
% of Shares Held by Institutional & Mutual Fund Owners:	79

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
Broadwood Partners	6,401,639	17.49
Palo Alto Investors, LLC	3,488,227	9.53
Putnam Investment Management, LLC	3,170,625	8.66
Ameriprise Financial Inc.	2,109,172	5.76
Vanguard Group Inc.	1,858,842	5.08

Source: Bloomberg

Chart Industries Inc. (GTLS)
December 7, 2012

Timothy Maturo — Industrials

Chart Industries Inc. (NASDAQ:GTLS) manufactures and supplies highly engineered equipment involved in the production, distribution and storage of petrochemical and industrial gases. Chart is divided into three segments: Energy and Chemicals; Distribution and Storage; and BioMedical. The E&C (29% of sales) division manufactures heat exchanges and vacuum insolated pipes. Heat exchangers are used to rapidly cool natural gas where it becomes stable as a liquid. D&S (49%) provides cryogenic storage and transportation equipment to the energy and industrial industries. Cryogenic storage is needed in both receiving terminals and LNG train facilities. Finally, the BioMedical segment (22%) provides respiratory products used in the treatment of patients. Chart's sales are distributed with 42% in the US, 21% in Asia, and 21% from Europe, and 16% from the rest of the world. Chart's major manufacturing facilities are located in the United States, China, and the Czech Republic. Chart Industries went public in 2006 and is headquartered in Garfield Heights, Ohio. The firm employs over 4,600 employees world-wide.

Price ($): (11/30/12)	$ 60.48	Beta:	1.9	FY: Dec	2011 A	2012 E	2013 E
Price Target ($):	$ 77.83	WACC	14.0%	Revenue (Mil)	$ 794.59	$ 990.29	$1,237.87
52WK H-L ($):	41.46-58.50	M-Term Rev. Gr Rate Est:	18.0%	% Growth	13.5%	24.6%	25.0%
Market Cap (mil):	1,820	Terminal Rev. Gr Rate:	5.0%	Gross Margin	32.1%	31.3%	32.0%
Float (mil):	29.62	Debt/Equity:	95.9%	Oper. Margin	11.3%	12.7%	15.0%
Short Interest (%):	10.90%	Debt/EBITDA:	1.12	EPS (Cal)	$ 1.96	$ 2.40	$ 3.89
Avg. Daily Vol:	431,451	ROA:	4.77%	FCF/Share	$ 2.45	$ 0.19	$ 3.83
Dividend ($):	$ -	ROE:	9.26%	P/E (Cal)	30.87	25.18	15.53
				EV/EBITDA	17.78	12.06	8.51

Recommendation

GTLS operates with a strong position in the markets which it operates. In the majority of its product markets Chart has the number one or two market share and competes with highly fragmented competition. In the US, Chart has approximately 80% market share in heat exchangers. Charts chief competitors include for Linde Group, Air Liquide, and Taylor-Wharton. Chart is well positioned to capitalize upon substantial growth in the Liquefied Natural Gas (LNG) market. In addition, Chart's BioMedical segment operates in a stable environment poised to benefit from an aging US population. On July 2011, Chart acquired AirSep Corporation for $180 million. AirSep is a leading manufacturer of oxygen generating systems for medical applications. AirSep is expected to generate $130 million in annual revenues at 40% gross margins. The implied acquisition value was estimated at about a 7-8x EBITDA multiple. Chart currently trades at a favorable EV/EBITDA multiple of 12.06 given its solid cash generation and strong growth profile. Because of a strong product portfolio, impressive near-term growth, and a favorable valuation, it is recommended that Chart be added to the AIM Equity Fund with a target price of $77.83, which offers a potential upside of 28.7%. Chart does not pay a dividend.

Investment Thesis

- **LNG as a Fuel.** Growth in LNG applications will be a significant driver of future revenue growth. The potential growth in heavy-duty natural gas vehicles (HDVs) represents excellent opportunities for Chart. Natural gas vehicles have lower emissions and compelling cost savings. A switch to natural gas based HDVs has a payback period of 3-5 years depending upon miles driven. In addition there are potential opportunities for LNG powered locomotives. For instance, Canadian National Railway Company is exploring natural gas powered locomotives. These locomotives reduce emissions 30-70% (compared to diesel) and have compelling cost benefits.

- **Growth in LNG Trade.** LNG trade has increased over 50% over the past five years. LNG liquefaction capacity is predicted to grow from 350 to 450 billion cubic feet by 2015 as estimated by GlobalData since LNG is poised to benefit from dwindling reserves in importing countries. LNG also provides countries a way to diversify their natural gas supply. For example countries in Europe are increasingly focusing on LNG as a way to diversify from Russia's Gazprom. According to the IEA, China's natural gas consumption is set to double from 2011 to 2017, and much of this needs to come from LNG imports.
- **Leading Market Position.** Chart has a leading product position and strong market share in the products in which they compete. Chart has terrific market position while the industry remains substantially under capacity. As Chart brings more capacity on-line, Chart is ready to meet this growing demand. Chart's leading market position in a growing market makes the company an intriguing take-over target.

Valuation

To find the intrinsic value of Chart, a ten-year DCF was conducted. Revenue growth of 18% was used from 2014-2017 and 12% from 2017-2022 with a terminal growth rate of 5%. A WACC of 14.0% was used and yielded an intrinsic value of $75.34. A sensitivity analysis was conducted to account for variations in WACC (13%-15%) and revenue growth (16% - 22%), which yielded a price range of $62.25 - $98.66. A forward PE ratio of 22x was used, which gave a value of $85.67. Additionally, a forward EV/EBITDA valuation was conducted with a multiple of 11.0x which yielded an intrinsic value of $76.87. Combining these three methods with 60% weighting on the DCF, 20% on the PE, and 20% on the EV/EBITDA, a composite price of $77.83 was determined representing a 28.7% upside. The firm pays no dividend.

Risks

- **Exposure to Energy Prices.** A significant amount of Charts sales are to customers in the energy production and supply industry (48% FYE 2011). Demand for a significant portion of Chart's products depends upon the level of capital expenditures by companies in the oil and gas industry, which depends, in part, on energy prices. Additionally demand for Chart's products depends upon the spread between oil and natural gas. A decline in prices may negatively impact Chart's growth opportunities.
- **Dependence upon Government Subsidies and Taxes.** Substantial growth in natural gas heavy-duty vehicles may depend upon subsidies or government support for substantial build out. The substantial capital investment and uncertain demand may prevent the build out of LNG stations on a national scale. LNG powered trucks on average costs an additional $30,000. Chart's energy products benefit from emission taxes or cap and trade policies (since natural gas burns at more energy efficient levels than diesel fuel).
- **Cyclical Demand.** LNG products are very capital intensive, and as a result the demand for Chart's products is cyclical based upon economic conditions. Chart also operates in the industrial gas segment which is highly cyclical. An economic slowdown may have a dramatic effect on Chart's sales and pressure margins.

Management

Samuel F. Thomas is Chairman of the Board, Chief Executive Officer, President of Chart Industries. Mr. Thomas has been the CEO and President since 2003. Mr. Thomas has extensive executive experience in manufacturing. From 1991-1998 he served as the chief executive of several operating division for T&N Plc.

Ownership

% of Shares Held by All Insider and 5% Owners:	7%
% of Shares Held by Institutional & Mutual Fund Owners:	94%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Artisan Partners Limited Partnership	1,940,350	6.46
Capital World Investors	1,767,171	5.89
Wells Fargo & Co.	1,676,670	5.59
Vanguard Group, Inc. (The)	1,590,217	5.30
Next Century Growth Investors LLC.	848,525	2.83

Source: Yahoo! Finance