Applied Investment Management (AIM) Program

AIM Class of 2018 Equity Fund Reports
Fall 2017

Date**:* Friday, December 8th | ***Time: *2:30 – 3:30* p.m. | ***Location: AIM Research Room 488***

Student Presenter	Company Name	Ticker	Sector	Page
Joseph Amoroso	Paycom, Inc	PAYC	Technology	2
Matthew Holland	SORL Auto Parts, Inc	SORL	International Industrials	5
Michael Dennison	Pernod Ricard SA ADR	PDRDY	International Consumer Staples	8

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

Paycom, Inc. (PAYC)
December 8, 2017

Joseph Amoroso Domestic Technology

Paycom, Inc. (NYSE:PAYC), is a SaaS company offering a comprehensive suite of human capital management solutions through a cloud-based platform. PAYC provides solutions to small-medium sized businesses to be able to manage the entire employment lifecycle from talent acquisition to retirement in a single, easy-to-use platform. PAYC replaces point solution providers and home-grown internal systems on an entirely proprietary software platform that has the capacity and functionality to handle all human capital management needs. The Paycom application suite is made up of five product categories: Talent Acquisition, Time and Labor Management, Payroll, Talent Management, and HR Management. PAYC derives 100% of its revenue from the United States. The company was founded in 1998 and is headquartered in Oklahoma City, OK.

Price ($):	77.05
Price Target ($):	100.00
52WK H-L ($):	86.1 - 42.52
Market Cap (mil):	4,489
Insider Holdings	18.3%
Short Interest	15.2
Avg. Daily Vol (mil):	0.5
Yield (%):	0.0
ESG Rating	BBB

Beta:	1.62
M-Term Rev. Gr Rate Est:	26.3%
M-Term EPS Gr Rate Est:	23.1%
Debt/Equity:	25.59
Debt/EBITDA (ttm):	0.42
WACC	12.8%
ROA (%):	6.59
ROE (%):	43.24
ROIC (%):	35.56

FY: Dec. 31	12/31/2016	12/31/2017	12/31/2018	12/31/2019
Revenue (Mil)	329.14	433.18	541.47	676.84
% Growth	31.6%	25.0%	25.0%	25.0%
Recurring Rev (Mil)	323.55	426.01	532.43	665.64
Oper Inc	57.97	74.29	92.16	108.58
% Growth	68.3%	28.2%	24.1%	17.8%
Op Margin	21.8%	21.6%	21.3%	20.3%
EPS*	$0.74	$1.18	$1.22	$1.44
EV/EBITDA	37.04x	28.38x	22.98x	19.32x

*Adj. for Stock-based Compensation Source: FactSet

Recommendation

Paycom launched its flagship payroll product in 1999; which was in addition to their Payroll Tax Management product. Since then, PAYC has organically built out a suite of products which now includes four additional product segments; Talent Acquisition, Time and Labor Management, Talent Management, and HR Management. In all, the company presently has 29 differentiated products under the umbrella of its product categories. While the HCM software market is highly competitive, PAYC has several key differentiating factors. The company organically built its suite from scratch on a core system which maintains records in a single database for all its HCM applications. In contrast, most other competitors tend to partner with third-party providers and acquire point solutions to build out a complete suite. However, this process often results in unnatural integration and redundancies in data collection and management – such as requiring a simple change of address to be unnecessarily changed across each individual HCM unit. PAYC's organic architecture, core system and single database negates redundancies which the company estimates make up 80% of the information contained within competitors' array of proprietary and third-party systems. Additionally, the company is constantly spending on R&D to continue the introduction of new products. PAYC's revenue is generated on a per employee per billing period basis, with the majority coming from its payroll processing product since all customer are required to use this core function before expanding to use the company's 28 additional products. Customers can use as many or as few as they choose and PAYC has continued to roll out additional products to meet the changing needs of HRM. PAYC combines a differentiated and proprietary product platform with a unique go-to market sales strategy, all in a best-in-class margin business. For these reasons, it is recommended that Paycom, Inc. be added to the AIM Equity Fund with a price target of $100.00, which represents a 29.79% upside. PAYC does not pay a dividend.

Investment Thesis

- **Strong Business Model.** PAYC operates a profitable business, uncommon among many of the young next-gen SaaS companies, with +25% revenue growth, 91% customer retention, 98% recurring revenues, +80% gross margins, and +20% operating margins. Their business model provides significant forward-looking revenue clarity given that nearly all revenue is monthly recurring. With rapid growth driven by client gains and strong market opportunities ahead, PAYC looks poised to continue its rapid growth and maintain its strong business model for the foreseeable future.

- **Long Growth Runway**. PAYC operates in a large and competitive industry; however, PAYC specializes in businesses with 50-2,500 employees. Of this market, PAYC currently serves over 15,000 clients with employees totaling more than 2,100,000. This market still provides enormous growth potential with a total of 200,000 companies comprised of almost 36,000,000 employees. Half of Paycom's new clients were former clients of ADP (with an annual client revenue churn of ~9%), that represents a $1B new market share opportunity each year. With a large TAM of about $25B, PAYC looks set to continue rapidly take market share from its competitors.
- **Tax and Regulation Changes.** With the tax reform bill expected to be signed by President Trump in December, PAYC who is a US domiciled company, currently pays a 35% marginal tax rate, and derives all its revenue from the US, is set to have a 22% tax break by year end. Separately, regulations representing one-time tailwinds for PAYC exist, as employers are forced to move HR processes to more sophisticated systems to remain in legal and regulatory reporting compliance. This was the case for the ACA and while there is the possibility that the acts could be repealed, the likelihood that it could be changed could result in another rash of client gains. In addition to Federal regulatory changes, state regulation represents a driver of customer gains.

Valuation

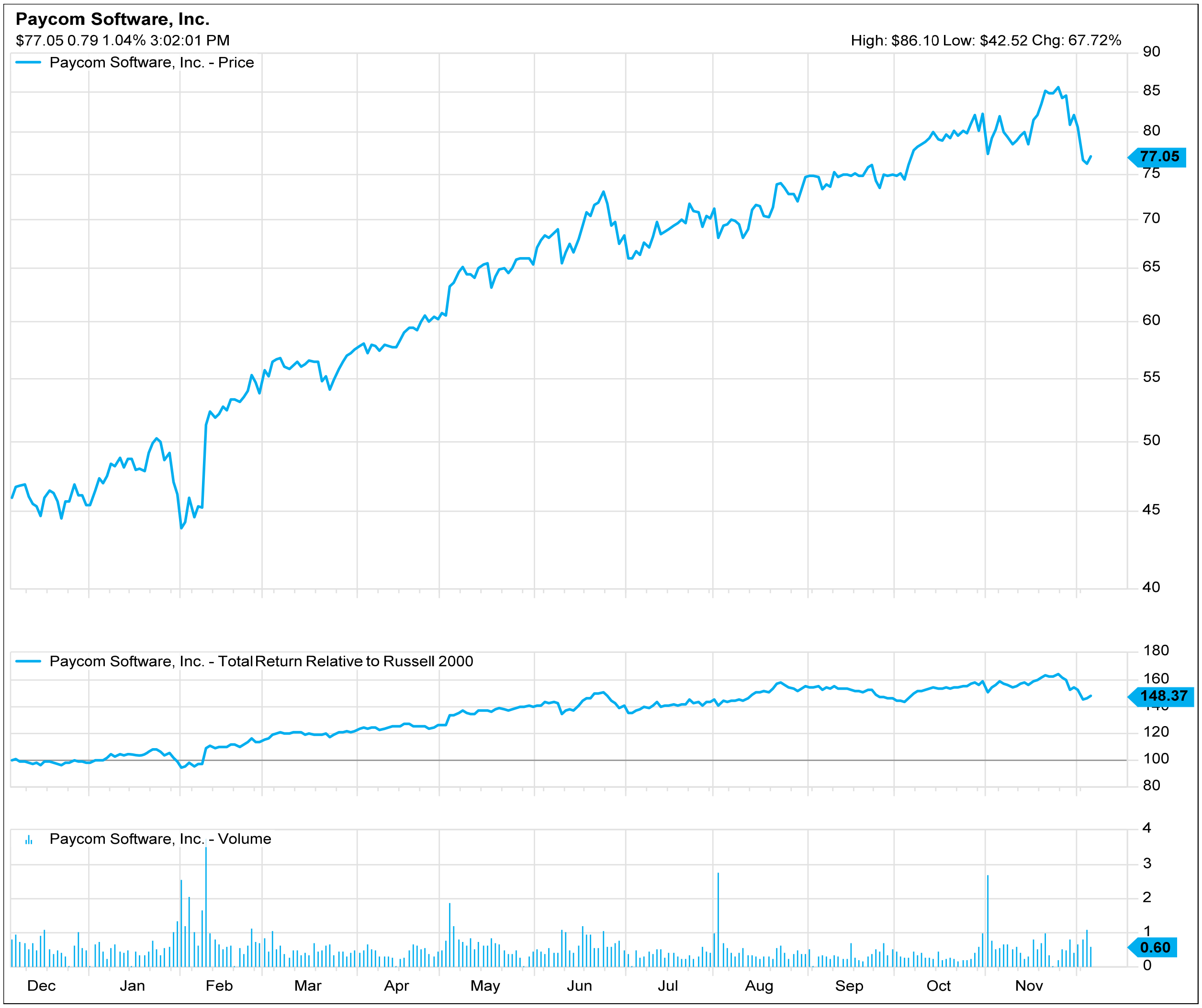
PAYC currently trades at a P/S multiple of 11.65, above the company's peer average of 8.63. This is justified by the companys 25% growth rate and 98% recurring revenues providing a unique combination of growth and visibility. PAYC's curent valuation was compared to that of ULTI, its closest peer, at the end of 2013 and through 2014 given that the company's size at that point in time mirrors the current size of PAYC. At the end of 2013, ULTI traded at a P/Sales multipe of 11.35. If PAYC follows a similar valuation to ULTI in 2014 and trades between 9-13x P/S multiple in 2018, the stock will likley trade between $85-$120. Therefore, a more conservative estimate of 10.8x FY18 sales yields an approximate price target of $100.00, which represents a 29.79% upside.

Risks

- **Competition.** This is a fiercely competitive industry with many large incumbents such as ADP and many challengers such as Ultimate and Paylocity. If PAYC cannot continue to effectively differentiate itself from its peers, it will not be able to succeed in the competitive environment of the HRM software industry.
- **Macro Economy.** The products and services that PAYC provides is directly tied to the employment numbers of its clients. PAYC's recurring revenue is earned on a per employee per billing period basis. While we are at a record low unemployment rate of 4.1%, if unemployment rates were to increase due to macroeconomic factors this would have a direct and immediate effect on the financial condition of PAYC.
- **Repeal and Replace.** The Trump administration has made repealing and replacing the Affordable Care Act (ACA), otherwise known as Obamacare, a key tenant of the administrations agenda. The removal of all ACA related billing to clients would result in a ~3% decline in revenues. If the Trump Administration makes true on its promise to repeal Obamacare or other regulations, PAYC could see an outflow of clients and a loss of revenues stemming from clients dropping the firms "Enhanced ACA" application under their HR Management application segment.

Management

Chad Richison currently serves President, CEO and Chairman of the Board. Mr. Richison began his career in sales at ADP before transitioning to work at a smaller regional payroll provider. He then went on to found Paycom in 1998 and has remained in his role ever since. Mr. Richison is the company's largest shareholder.



Source: FactSet

Name	Ticker	Market Cap (mil)	P/S	P/E	EV/S	EV/EBITDA
Paycom Software, Inc.	PAYC	4,692	11.65	8.15	8.06	37.04
Paylocity Holding Corp.	PCTY	2,395	7.87	8.14	7.80	82.58
Cornerstone Ondemand, Inc.	CSOD	2,131	4.62	5.56	5.41	-
Workday, Inc. Class A	WDAY	13,470	10.54	10.50	9.57	-
Ultimate Software Group, Inc.	ULTI	6,212	7.11	7.10	7.00	79.46
Peer Averages		6,052	8	8	7	81

Source: FactSet

Name	Ticker	Revenues	ROE	ROA	Debt/Equity	Est 5 yr NI growth
Paycom Software, Inc.	PAYC	329	40.50	4.45	25.59	105.2%
Paylocity Holding Corp.	PCTY	231	5.03	0.53	0.00	-
Ultimate Software Group, Inc.	ULTI	781	7.90	2.31	2.09	-4.4%
Workday, Inc. Class A	WDAY	1,162	-35.52	-13.85	45.96	-
ServiceNow, Inc.	NOW	1,391	-94.74	-23.53	131.23	-
Peer Averages		891	-29.33	-8.63	44.82	-4.4%

Source: FactSet

SORL Auto Parts, Inc. (SORL)
December 8, 2017

Matthew Holland International Industrials

SORL Auto Parts, Inc., (NASDAQ: SORL) is a Sino-foreign joint venture with Ruili Group Ruian Auto Parts Co. The firm develops, manufactures, and distributes automotive brake systems and other corresponding safety auto parts to automotive original equipment manufacturers (OEMs). The company's main products are predominantly used in commercial motor vehicles such as trucks and buses. SORL's primary customers include OEMs in China, aftermarket distributors in China, and international aftermarket and OEM customers. SORL's primary business is in China, but also has international sales centers in the United Arab Emirates, the United States, and Europe. SORL generates most of its revenues from Asia (75.7% of revenue), with the remaining coming from the Americas (8.6%), Europe (6.5%), and Africa and the Middle East (2.1%). SORL was founded in 1982 and is headquartered in Rui'an, Wenzhou, China.

Price ($): 11/30/2017	$ 7.03
Price Target ($):	$ 11.97
52WK H-L ($):	9.74-2.68
Market Cap (mil):	142
Float (mil):	8.0
Short Interest (%):	21.0
Avg. Daily Vol (mil):	0.6
Dividend ($):	0.00
Yield (%):	0.0

Beta:	1.86
WACC	9.15%
M-Term Rev. Gr Rate Est:	6.0%
M-Term EBIT Gr Rate Est:	2.7%
Debt/Equity:	19.7%
Debt/EBITDA (ttm):	1.01
ROA (%):	8.70
ROE (%):	19.99
ROIC (%):	19.99

FY: Jun	2015	2016	2017E	2018E
Revenue (Mil)	218.7	272.1	372.8	410.1
% Growth	-8.0%	24.5%	37.0%	10.0%
Gross Margin	27%	27%	26%	27%
Operating Margin	7.0%	7.7%	10.4%	11.1%
EPS (Cal)	$ 0.69	$ 1.00	$ 1.82	$ 2.15
FCF/Share	$ 1.88	$ (0.54)	$ 0.09	$ 0.77
P/E (Cal)	3.73x	2.99x	1.64x	1.38x
EV/ EBITDA	0.3x	3.5x	5.1x	4.3x

Recommendation

According to the China Association of Automobile Manufacturers, China is still the world's largest automotive market, and both automobile output and sales volume reached record high levels of $28.12 million and 28.03 million units, respectively, in 2016. As the leading commercial vehicle air brake systems manufacturer in China, SORL has capitalized on this lucrative market. SORL has set themselves apart from competitors by establishing long-term business relationships with many of the major automotive manufacturers in China, such as FAW Group, Dongfeng Motors Group, and Beiqi Foton Motor Co. Ltd, amongst others. SORL has followed up a strong 2016 with an even better 2017, narrowly missing last year's sales total of $272.1 million by just $6.7 million through three quarters. This recent success can partially be credited to market recovery and robust growth in the Chinese OEM market. SORL's continued market penetration through high quality, low cost products and impressive 90% capacity utilization also deserve credit. SORL is expecting to build upon this success with multiple intriguing opportunities on the horizon. Recently won contracts with Shanghai's Municipal Transportation System will look to add to SORL's already dominant position in the bus market. A new partnership with High Speed Rail Research Institute in China should expand on SORL's small yet rapidly growing business in high speed rails. Strong barriers to entry and a lengthy certification process should limit growth opposition from competitors in this field. Lastly, SORL can continue to take advantage of their price promotion strategies. As a larger, more efficient company, few competitors will be able to compete with SORL's low prices without sacrificing quality in the process. For these reasons, it is recommended that SORL be added to the AIM International Equity Fund with a price target of $11.97, representing an upside of 70.24%. SORL does not currently pay a dividend.

Investment Thesis

- **Supply Contract Win.** There are currently over 2,000 public buses in Shanghai's Municipal Transportation System using electric air compressors made by SORL. In November, SORL announced they had won major supply contracts with the Shanghai Municipal Transportation Commission, increasing SORL's 50% ownership in the Chinese bus market. SORL will supply electric air compressors for the buses as a part of this deal. Revenues from this contract can be expected as early as 2018.

- **New Partnership.** SORL recently teamed up with High Speed Rail Research Institute in China to supply them with various high speed rail related products – primarily air compressors. This industry has high barriers to entry and a long certification process, so SORL's existing position is promising. This area has seen strong growth recently, growing at a rate of over 100% last quarter to reach \$3 million. Albeit a small scale right now, SORL sees this growth as a promising sign. This market represents high growth potential for SORL going forward.
- **Success with Price Promotion.** Facing downward pricing pressures, SORL has found success with price promotion. Since implementing this strategy in the fourth quarter of 2016, SORL has been able to become a more competitive player in the market. They have been able to take sales away from some smaller competitors who cannot match SORL's prices, expanding upon their market share as a result. While this change has coincided with slight decreases in margins, much of this decrease can be credited to the increase in commodity prices as a result of regulatory changes. With a focus on improving efficiency in 2018, this price promotion can expect to further increase market share with minimal effect on margins.

Valuation

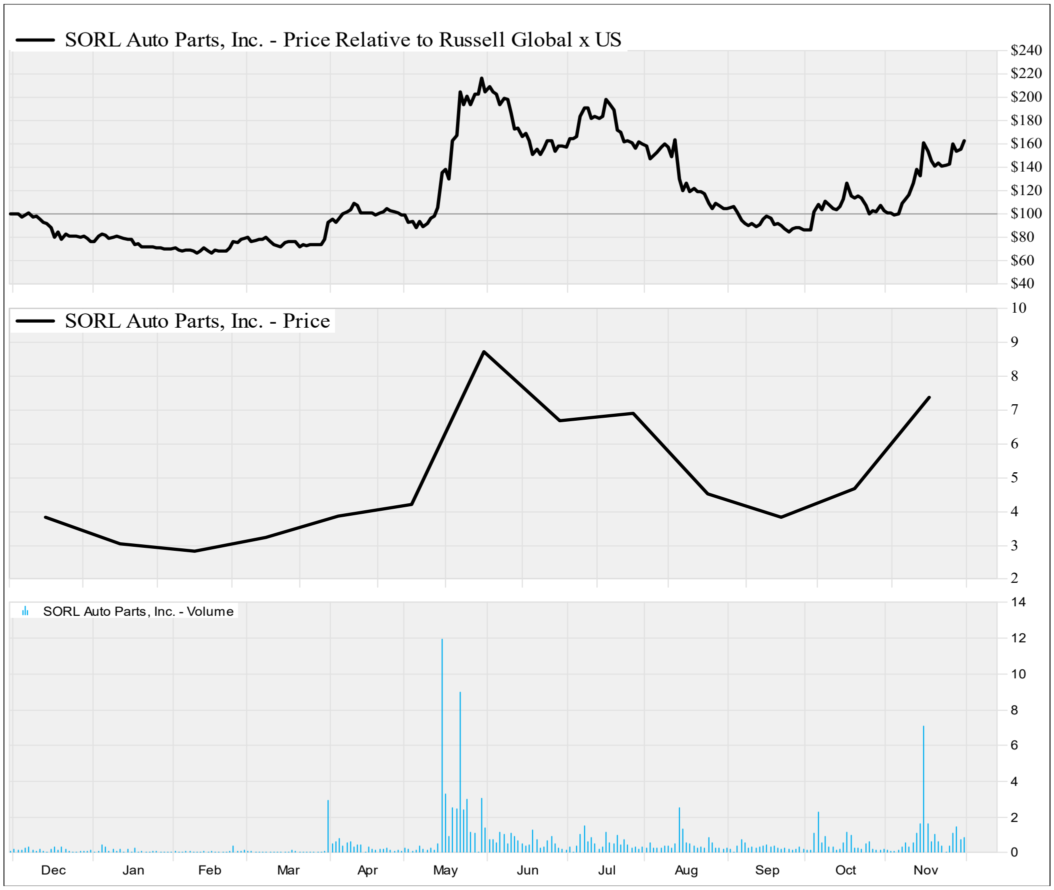
To reach an intrinsic value for SORL, a 5-year DCF model was constructed. Using a terminal growth rate of 2.00% and a WACC of 9.15%, an intrinisc value of \$10.83 was reached. A ± 0.5% sensitivity analysis on the terminal growth rate and WACC resulted in a price range of \$8.95-\$13.31. A P/E relative valuation was conducted using 2018 expected EPS of \$2.15 and a peer multiple of 8.62x, resulting in a valuation of \$18.54. An EV/EBITDA relative valuation was conducted using 2018 expected EBITDA of \$56 million and a peer multiple of 7.26x, resulting in a valuation of \$14.48. The three models were weighted 80-10-10 and a price target of \$11.97 was reached, representing an upside of 70.24%.

Risks

- **Convertibility of RMB.** RMB is not a freely convertible currency. China imposes restrictions on currency exchanges, which may limit SORL's ability to use revenues generated in RMB to finance activities outside of China. Additionally, while SORL does not currently pay a dividend, these restrictions may limit SORL's ability to pay dividends in the future. That being said, a micro-cap company was unlikely to pay a dividend in the near future regardless of currency convertibility.
- **RMB Fluctuations.** The majority of SORL's revenue is denominated in RMB, but SORL reports their financial statements in U.S. dollars. Any depreciation of the RMB against the U.S. dollar could have adverse effects on earnings and balance sheet accounts.
- **Common Stock Control.** A large percentage of SORL's common stock is owned by a small number of investors. Specifically, 58.9% of outstanding common stock is owned by board members, Xiao Ping Zhang, Shu Ping Chi, and Xiao Feng Zhang. If these members were to sell a large portion of their stock, the market could negatively react to this news.

Management

Xiao Ping Zhang has served as the Chief Executive Officer and chairman of the board since the beginning. He founded the Ruili Group Corporation in 1987, which specializes in the manufacturing of various automotive parts. Mr. Zhang currently serves as the chairman of Ruili Group. In addition, in 2003 he was chosen to be President of the Wenzhou Auto Parts Association, the largest Chinese automotive parts trade association. Jin Rui Yu has served as the Chief Operating Officer since March 2012 and has more than 15 years of experience in the automotive parts industry.



Peer Fundamentals

Name	Ticker	Revenues	ROE	ROA	Debt/Equity	Est 5 yr NI growth
SORL Auto Parts Inc.	SORL	356	19.9%	8.7%	19.7%	151.1%
China Automotive Systems Inc.	CAAS	513	8.1%	4.0%	40.1%	43.1%
China XD Plastics Co.	CXDC	1,259	8.8%	3.2%	115.1%	4.1%
Meritor Inc.	MTOR	3,347	-	-	-	-
Dana Inc.	DAN	6,819	71.1%	13.5%	143.8%	146.3%
Tenneco Inc.	TEN	9,038	26.8%	3.7%	246.3%	-36.8%
Peer Averages		4,195	28.7%	6.1%	136.3%	39.2%

Source: FactSet

Peer Valuation

Name	Ticker	Market Cap (mil)	P/S	P/E	EV/EBITDA	P/B
SORL Auto Parts Inc.	SORL	142	0.35	4.23	3.54	0.81
China Automotive Systems Inc.	CAAS	155	0.30	5.60	5.59	0.47
China XD Plastics Co.	CXDC	236	-	-	4.79	0.33
Meritor Inc.	MTOR	2,210	0.57	9.71	10.06	-
Dana Inc.	DAN	4,765	0.61	11.46	8.61	3.88
Tenneco Inc.	TEN	3,043	0.30	7.70	7.27	4.54
Peer Averages		2,082	0.45	8.62	7.26	2.31

Source: FactSet

Pernod Ricard SA ADR (PDRDY)

December 8, 2017

Michael Dennison International Consumer Staples

Pernod Ricard SA ADR (OTC: PDRDY) is a global manufacturer of alcoholic beverages. The company is the world's second largest distiller of spirits by volume. It operates 96 production facilities around the globe and specializes in the manufacturing of premium spirits and wines. PDRDY's brands include Jacob's Creek Wine, Jameson Irish Whiskey, Malibu Rum, Avión Tequila, and Absolut Vodka. The firm segments its brands into four distinct categories: Top 14 Spirits & Champagne (63% of revenue in FY 17), Priority Premium Wines (6%), 18 Key Local Brands (19%), and Other (12%). Further, the company lists diversification as a key attribute to its recent success. PDRDY collects revenue from three segments: Americas (30% of revenue in FY 16/17), Europe (30%), and Asia/Rest of World (40%). The company was founded in 1975, is located in Paris, France, and is led by CEO Alexandre Ricard.

Price ($):	31.11
Price Target ($):	37.60
52WK H-L ($):	31.28-20.489
Market Cap (Mil):	40,815.86
Insider Holding (%):	25.07
Avg. Daily Vol:	47,807.93
Dividend ($):	0.38
Yield (%):	1.22
ESG Rating:	AA

Beta:	0.87
WACC (%):	6.54
M-Term Rev. Gr Rate Est (%):	5.00
M-Term EPS Gr Rate Est (%):	7.51
Debt/Equity (%):	0.62
Debt/EBITDA (%):	3.31
ROA (%):	4.46
ROE (%):	10.01
ROIC (%):	6.49

FY: June	2017	2018	2019	2020
Revenue (Mil):	$9,861.72	$10,305.49	$10,769.24	$11,307.70
% Growth:	2.75%	4.50%	4.50%	5.00%
Operating Income:	$2,621.65	$2,877.29	$3,081.05	$3,311.98
Operating Margin:	26.58%	27.92%	28.61%	29.29%
EPS:	$1.15	$1.16	$1.29	$1.44
FCF/Share:	$1.05	$1.29	$1.41	$1.55
P/E:	26.83	26.76	24.05	21.55
EV/EBITDA:	15.18	13.83	13.01	12.19

Recommendation

PDRDY specializes in delivering premium alcoholic brands to consumers all over the globe. As the world's second largest distiller by volume (16% market share globally), PDRDY records sales in over 70 countries while collecting 38% of revenue from emerging markets. The firm believes that fast-growing emerging markets will be the launch pad for future growth and as more people join the middle class – about 140 million per year – demand for its premium brands will continue to grow. With this, PDRDY has a number of avenues to drive growth into the future. The company lists portfolio management, premiumization, innovation, and digital acceleration as the four key pillars that will contribute to its future. The company has been very active in its portfolio management over the past year, having made two strategic acquisitions. CEO Alexandre Ricard states that the company will also be open to new sources of strategic growth in a parallel manner. Over the last decade PDRDY has made it a point to focus on its core brands. According to Bain & Co., sales of luxury goods – high-end alcoholic beverages – will grow 3 to 4% per year through 2020. As a result, the company has been increasing focus on premium and super premium brands while shedding lower margin, lower quality brands such as Wild Turkey. The firm also realizes that consumer tastes are constantly changing. In 2017 PDRDY released three new flavors: Jameson Caskmates, Chivas Regal Extra and Absolut Lime. The company expects innovation to drive a 25% increase in revenue over the next 10 years. PDRDY, aware of the "stay at home" economy, has also expanded its digital presence in order to reach Xbox focused millennials. The company has taken to social media in an effort to collect information, build consumer databases, and determine demand. Given the soaring market for spirits driven by rising demand for premium alcohol options, superior acquisition discipline and performance, as well as an elevated focus on high growth categories and markets, it is recommended that PDRDY be added to the AIM International Equity Fund with a target price of $37.60, representing a 20.85% upside. PDRDY pays a 1.22% annual dividend.

Investment Thesis

- **Soaring Spirits and Winning Wines.** Spirits represent a $470 billion market globally – PDRDY controls a 16% market share. Global spirits is forecasted to grow at a CAGR of 3.1% over the next 5 years. This contrasts to 2.1%, 1.5%, 2.2%, and 2.3% forecasted CAGRs in soft drinks, fruit/vegetable beverages, tea, and beer respectively – according to Bloomberg. Surges in global spirit volumes are led by tequila (5.2% increase in 2016) and gin (3.7%). The firm's premium wines category is also poised for growth, especially in China. The broader global market for wine is expected to grow at a 3.2% CAGR over the same 5 years. Allied Market Research now predicts that premium alcoholic beverages, specifically wine and spirits, will grow from an $800 million market in 2015 to an estimated $1.1 billion market value in 2022 representing a CAGR of 4.8%. PDRDY has punched its ticket to ride this growth train with the premiumization of its product portfolio as well as the acquisitions of strategic luxury brands in wine, tequila, and gin.

- **Acquiring Avión.** Since the company's inception in 1975, PDRDY has a history of making strategic acquisitions ranging from the 1988 addition of Jameson parent, Irish Distillers, to the procurement of Avión parent, Kenwood in 2014, allowing the company entry into the high end wine and tequila markets. In 2016 PDRDY purchased Black Forest Distillers in order to build out its premium brands with Monkey 47, a super-premium gin. It followed the deal with the 2017 procurement of Smooth Ambler which produces the number one selling high-end mescal in the United States. CEO Alexandre Ricard has said that the company will continue to play an active role in managing the portfolio as well as considering non-core brands for sale.
- **Chinese Chivas.** The company is building on fast-growing emerging markets – a category that already represents 38% of total revenue. Asian growth rates for both spirits and wine are expected to outpace that of global growth with 4% and 5% CAGRs respectively. The anti-corruption wave that swept China starting in 2014 negatively impacted sales of luxury goods in the country; however, the tide has started to turn recently led by sales of cognac and scotch. Organic growth in China reached 15% during the 3rd quarter and hit 7% for PDRDY's Asian market as whole. This year, in an effort to further penetrate the high growth Chinese market, PDRDY introduced a Chinese specific whisky, Chivas Extra 12, as well as several new cognac varieties under their brand Martell, the top cognac. PDRDY introduced Martell Distinction, a product meant to encourage new connoisseurs of premium spirits to introduce cognac into their dining experience. The company also saw double digit growth of Prestige Martell XO and Martell Cordon Bleu.

Valuation

In order to reach an intrinsic value for PDRDY, a five year DCF model was constructed. Using a terminal growth rate of 2.5% and a WACC of 6.54%, an intrinsic value of $36.00 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $36.22 to $36.08. Additionally P/E and EV/EBITDA multiple valuations were conducted. The P/E valuation was conducted using a comparables average P/E of 29.53, which resulted in a valuation of $38.20. The EV/EBITDA valuation was carried out by using a peer average EV/EBITDA of 17.62x, which represented a valuation of $42.45. By weighting the three valuation models 60/25/15, a price target of $37.60 was reached, representing a 20.85% upside.

Risks

- **Santa's Scotch.** The holiday season is traditionally PDRDY's favorite time of year – 1/3 of total revenue. The company's inability to capitalize on the holiday season could land PDRDY on the naughty list and severely impact performance for the year. Further, external events such as natural disasters and geopolitical situations could affect the ability of consumers to obtain certain alcoholic Christmas presents, leading to a negative impact on PDRDY's bottom line.
- **Limited Liqueur.** The production and sale of alcoholic beverages is subject to tight regulation. Being one of the largest distillers in the world, the company could be impacted by a stronger regulatory environment in a number of countries, such as India. PDRDY already faces regulatory restrictions on sales, advertising, labelling, tariffs, and distribution. Any further increase in alcoholic regulation could prove detrimental to its bottom line.

Management

Alexandre Ricard, grandson of founder, Paul Ricard is the CEO. After graduating with an MBA from Wharton, Mr. Ricard joined Morgan Stanley's M&A team in London. He later joined full-time in 2003 and eventually rose to the rank of CEO in 2015 shortly after the death of his uncle, Patrick Ricard. Mr. Ricard, age 45, speaks four languages and holds the title of the youngest CEO on France's CAC index.

Ownership

% of Shares Held by All Insiders and Owners	25.07%
% of Shares Held by Institutional & Mutual Fund Owners	43.64%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
Ricard Family	37,686,000	14.20%
Capital Research & Management Co	22,171,000	8.35%
Groupe Bruxelles Lambert SA	15,345,000	5.78%
Massachusetts Financial Services Co	8,242,000	3.11%
MFS International Ltd	6,244,000	2.35%

Source: FactSet

Peer Comparables

Name	Ticker	Market Cap (Mil)	Debt/Equity	P/E	EV/EBITDA
Pernod Ricard SA Unsponsored ADR	PDRDY	$40,815.86	62.34	26.83	15.18
Diageo	DEO	$75,283.20	89.45	25.77	17.66
Brown-Forman	BF.B	$18,174.95	45.95	32.89	20.71
Davide Campari	DVDCY	$5,677.89	73.88	27.10	21.31
Constellation Brands	STZ	$30,532.92	134.06	30.15	19.18
Suntory	STBFY	$12,862.43	59.81	31.72	9.26
Peer Averages		$28,506.28	80.63	29.53	17.62

Source: FactSet