Applied Investment Management (AIM) Program

AIM Class of 2013 Equity Fund Reports
Spring 2013

Date: February 1st | ***Time:*** 3-5 p.m. | ***Location: AIM Research Room (488)***

Join us in person, or considering joining us live at:
Connect to the LIVE meeting via Blackboard web-based conferencing tool

Student Presenter	Company Name	Ticker	Price	Page No.
David Maio	Hawaiian Telecom Holding Co.	HCOM	$19.69	2
Jeff Johnson	Acuity Brands	AYI	$68.58	5
Jillian Morrissey	Medifast, Inc.	MED	$27.85	8
Catie Collins	Teva Pharmaceutical Industries	TEVA	$38.00	11
Mark McCanna	Genworth Financial	GNW	$9.42	14
Patrick Maag	Lumber Liquidators	LL	$58.60	17

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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Hawaiian Telecom Holdco, Inc. (HCOM)

February 1, 2013

David Maio Telecommunication Services

Hawaiian Telecom Holdco, Inc. (NASDAQ:HCOM) provides communications services and products to residential and business customers in the islands of Hawaii. The company began as the incumbent local exchange provider in the late 1800s but recently has diversified their offerings. HCOM now offers a full range of services including voice, video, internet, data, wireless, and advanced communication and network services supported by the reach and reliability of their state of the art network. As of June 30, 2012, HCOM served 402,700 local access lines, 206,800 long distance lines, 105,100 high speed internet lines, which served 86,000 retail residential lines and 18,000 retail business lines, and 59,400 video lines. Revenues for 3rd quarter were primarily made up of 36.5% local voice services, 33.2% network access services, 9.4% high speed internet, and 1.6% of the new video business line. The revenue for 3rd quarter was spread across business (44%), wholesale (19%), and consumer (37%) channels. The company was founded in 1883 and is headquartered in Honolulu, Hawaii.

Price ($): (01/25/13)	$19.69		Beta:	0.8		FY: Jan	2011A	2012E	2013E
Price Target ($):	$26.00		WACC:	8.50%		Revenue (mil):	395.16	385.21	404.47
52WK H-L ($):	$13.31-$20.88		M-Term Rev. Gr Rate Est:	4.16%		% Growth	-1.57%	-2.52%	5.00%
Market Cap (mil):	201.48		M-Term EPS Gr Rate Est:	4.44%		Gross Margin	59.55%	57.98%	57.18%
Float (mil):	6.83		Debt/Equity:	220%		Operating Margin	12.94%	11.41%	12.39%
Short Interest (%):	3.70%		ROA:	4.00%		EPS (Cal)	$2.41	$1.58	$1.77
Avg. Daily Vol:	20,278		ROE:	16.61%		FCF/Share	$0.11	$0.17	$0.39
Dividend ($):	$0.00					P/E (Cal)	5.68	12.65	14.69
Yield (%):	0.00%					EV/EBITDA	3.3x	4.0x	4.5x

Recommendation

The new management team at HCOM has transformed the company and is in a nice position for continued growth in the years to come. The company was in disarray in late 2008 when current CEO, Eric Yeaman, took over and retooled the broken business model that was reliant on the incumbent voice lines. Instead, the company has focused on increasing their high speed internet by strategically building out their fiber network and recognizing the opportunity of entering the video space in Hawaii. The acquisition of Wavecom last year and the continued CapEx have displayed HCOM's serious commitment towards building out their high speed internet network. This commitment has shown results as high speed internet bundles sold have increased between 4%-6% QoQ over the past 4 quarters and now 60% of the business bundles being sold are signing up for HCOM's high speed internet services. Additionally, HCOM saw an opportunity in the video market of Hawaii because of a limited number of providers and took advantage. Their entrance into the consumer video market last year has already shown some impressive results to date, increasing their video subscribers from 470 in 3Q11 up to 8,444 subscribers in 3Q12. To date, HCOM only owns 6% of the consumer TV market in Hawaii, so there is immense market share to still be had. HCOM has a strong growth potential and is recommended as an addition to the AIM Equity Fund at a target price of $26, representing an upside of 32%. The firm does not pay a dividend.

Investment Thesis

- **Hawaiian Telecom TV:** Video represents HCOM's greatest opportunity to grow the business. While it is currently a small portion of HCOM's revenue pie (1.6% of total revenue in 3Q11), they have experienced some decent growth since their entrance into the market in 4Q11. The revenue has grown from $200k in 4Q11 to $1.5M in 3QQ12. Considering their entrance into the video market was so recent, HCOM has immense potential to gain market share. Right now, HCOM only has 6% of the total video market in Hawaii and only 14% subscriber penetration of the homes that are video enabled. In addition, ARPU saw a 2% uptick QOQ in 3Q12 ($68.84) which can be expected to trend upward as HCOM has recently added new HD content, as well as adding HBO GO in the last year.

- **Acquisition of Wavecom Solutions:** HCOM completed its acquisition of Wavecom Solutions Corporation, an information and communications technology company headquartered in Honolulu, on December 31, 2012. This was a strategic acquisition to integrate Wavecom's fiber network with HCOM's own network to enhance their ability to serve the growing customer demand for high speed internet bandwidth and advanced communication services. Beyond acquiring the attractive customer base of Wavecom, the company is now better position to deliver next generation internet solutions to customers throughout Hawaii and eat into some of the competitor's 73% market share of Hawaiian broadband subscribers.
- **Hawaiian Economy:** The Hawaiian economy appears to be outpacing the general United States economy in its recovery. Tourism posted a record year last year in Hawaii, with visitor spending up 20% and arrivals up 10% form the year before. In addition employment data continues to improve, with unemployment down to 5.7%, which is well below the national average of 6.8%. Finally, GDP has rebounded from a flat year in 2011 to post 2% growth in 2012 and is forecasted to grow by 3% the next couple of years.

Valuation

Using a 5-year DCF with a computed WACC of 8.5% and a terminal growth rate of 1%, an intrinsic value of $30 was obtained for HCOM. Using a sensitivity analysis that adjusts for both the long term growth rate (-1%-3%) and WACC (7.5%-9.5%) generates a price range of $25-$40. Additionally, a peer generated EV/EBITDA multiple of 5.8x was applied to estimated 2013 earnings to yield an intrinsic value of $22. Applying an equal weighting to the DCF and EV/EBITDA valuation methods provides a price target of $26. With the stock currently trading at $19.69, the price target would yield a 32% return. HCOM does not pay a dividend.

Risks

- **Loss of Voice Lines:** Since HCOM was the incumbent in carrying local voice services, the addition of Time Warner Oceanic has eaten away at some of their voice revenue. The overall revenue has eroded 9% over the past two years as Time Warner has been able to entice customers to convert with "bundle" packages. HCOM has minimized their access line loss over the past three years, but the control of line loss moving forward could be a good indicator of their ability to compete with Time Warner in the long run, now that they have their own "bundle" packages.
- **Intense Competition:** As is the case across the telecommunication industry, competition is intense within HCOM's markets. Management has noted in earnings calls they are seeing pricing pressure, especially in the video market. The fact HCOM was actually able to increase their ARPU in Q3 was a good sign, but the pricing of new contracts moving forward will be a point of emphasis to find a balance between adding customers without greatly diminishing ARPU.
- **Limited Long-Term Expansion Opportunities:** There is a long-term growth cap on this company, as there are currently only 1.36M people in Hawaii and expanding geographically from this location would be very tough logistically.

Management

Eric Yeaman joined HCOM as the President and CEO of the company in 2008. He has successfully stepped into a company that was in Chapter 11 Reorganization and led HCOM to a return to profitability and stabilization of the business. Yeaman has been the pioneer behind the company's growth strategy with focus on the TV and high-speed internet lines of business. He was named Hawaii Business Magazine's CEO of the year for 2011.

Source: Bloomberg

Ownership

% of Shares Held by All Insider and 5% Owners:	29%
% of Shares Held by Institutional & Mutual Fund Owners:	89%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Loomis Sayles & Co	816,128	7.93
Sunrise Partners Limited Partnership	774,193	7.52
Tannenbaum Capital Partners LLC	724,159	7.04
Rebeco Investment Management, Inc.	508,584	4.94
Nokomis Capital, LLC	502,757	4.89

Source: Yahoo! Finance

Acuity Brands (AYI)
February 1, 2013

Jeff Johnson — Industrials

Acuity Brands (AYI) is one of the world's leading providers, manufacturers and producers of a broad array of lighting solutions and services for commercial, industrial, infrastructure, and residential applications for markets throughout the United States and abroad. Sales in North America accounted for 89% of FY 2012 net sales. The company sells its products to electrical distributors, retail home improvement centers, electric utilities, lighting showrooms, and energy service companies. It utilizes a sales force of 250 company-employed salespeople, a network of approximately 200 independent agencies, and distribution centers to sell products. The company operates 20 manufacturing facilities including 11 in the United States and 6 in Mexico. AYI has 500,000 product offerings under such brands as Holophane, Gotham, Lithonia, ROAM, Sensor Switch, and Tersen. Acuity Brands was founded in 2001. Its parent company Acuity Brands Lighting owns AYI and other subsidiaries. The company is based out of Atlanta, GA.

				FY: Dec	2012A	2013E	201E
Market Price	$68.58	Beta:	1.02	Revenue (Mil)	$1,947	$2,093	$2,260
Price Target ($):	$80.00	WACC	10.50%	% Growth	8.00%	7.50%	9.00%
52WK H-L ($):	$48.11-$71.59	M-Term Rev. Gr Rate Est:	6.2%	Gross Margin	40.75%	40.00%	41.00%
Market Cap (mil):	$2,980.00	M-Term EPS Gr Rate Est:	7.1%	Operating Margin	9.26%	10.00%	10.50%
Float (mil):	41.8	Debt/Equity:	42.0%	EPS (Cal)	$2.63	$2.80	$3.12
Short Interest (%):	4.00%	ROA:	8.32%	FCF/Share	0.08	0.33	0.60
Avg. Daily Vol (mil):	2.245	ROE:	13.79%	P/E (Cal)	23.1	25.0	26.7
Dividend ($):	$0.52			EV/EBITDA	11.0	11.4	11.8
Yield (%):	0.80%						

Recommendation

A strong balance sheet, along with consistent cash flows, gives AYI the ability to persevere through periods of economic uncertainty. AYI is a leading provider to the North American lighting market, an almost $12B market in 2012. The United States market represents 75% of AYI's overall business. The company compiled $1.9B in sales in the overall North American market, which is estimated to be approximately $12B in size. In the Commercial ($4.2B), Outdoor ($1.9B), Industrial ($1.3B), and Emergency ($0.6B) sectors, AYI is the market share leader. The firm is also in the top four in terms of market share for the Residential and Lighting Controls sectors. Overall it boasts an almost 21% market share of the addressable North American lighting industry, which is expected to grow to $18B by 2017 - an almost 8.5% CAGR. The move to energy efficient lighting and the legislation that supports and subsidizes this have been major factors influencing the growth and development within the industry. A major source of demand will be the renovation and retrofitting of lighting systems in existing buildings. AYI estimates that the potential market size of non-residential lightings to be $200B based on the estimated square footage of existing non-residential buildings. Because of favorable long-term prospects, it is recommended that AYI be added to the AIM Domestic Equity Fund at a price target of $80 providing an 18% upside; in addition to a dividend yield of .80%.

Investment Thesis

- **Organic Growth and Lean Manufacturing.** Over the past 4 years the company has added over 400 products and increased its available SKUs over 50%. It has also reduced its production development cycle over 50%. The movement to lean manufacturing has helped the company cut costs and continue to grow. The firm has also expanded into LED, OLED, and conventional lighting sources. Over the last 10 years the company has seen operating profit margins improve 640 bps while the market has decreased by 33%.

- **Financial Strength.** The firm's ability to perform consistently is valuable in the midst of the current period of economic uncertainty. The firm has a 5 year average ROE of 15.5% and hit a low in 2010 of 11.65%. AYI has generated consistent returns for shareholders and has good liquidity as well. They have $267.5M in cash accounting for almost 9.5% of their current market capitalization.
- **Construction and Building Markets.** The U.S. construction trends are improving after the amount put-in-place is down from its $1,100B high in 2007 almost 40%. At $750B the market is expected to improve and grow to $950B by 2017, a 36% increase. The amount of nonresidential buildings is also forecasted to improve to $250B from its $150B level, with a majority of the growth coming from green buildings.

Valuation

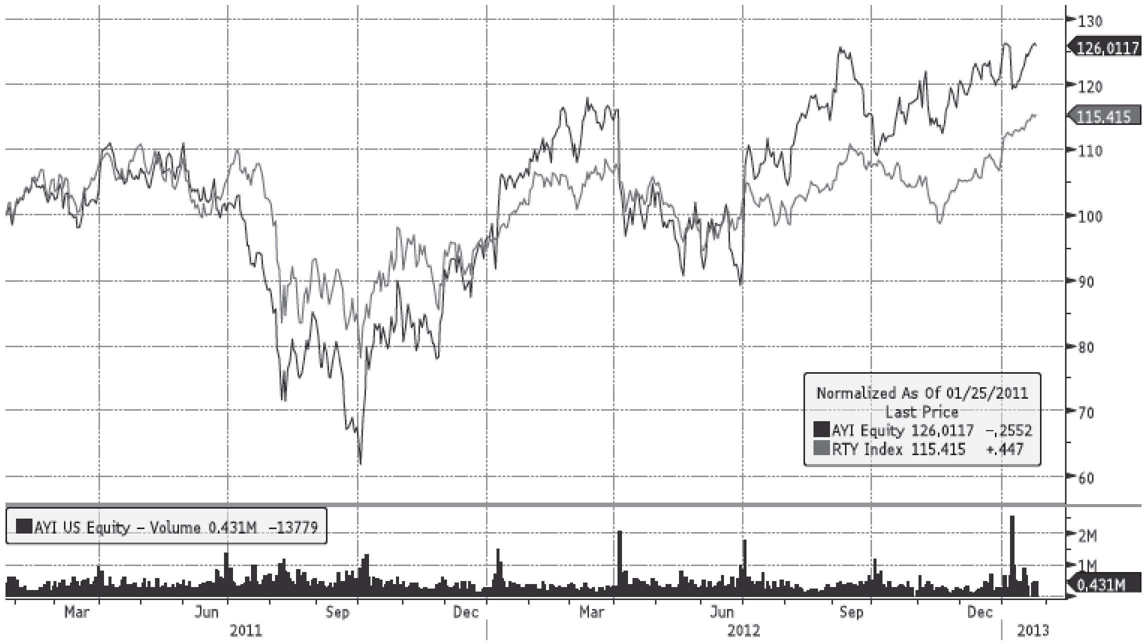
To find the intrinsic value of AYI, both ten-year DCF and EV/EBITDA multiple approaches were used. Based on a calculated WACC of 10.5% and 2.5% terminal growth rate, the DCF analysis produced an intrinsic value of $77. A sensitivity analysis was performed on the DCF by altering the terminal growth rate and WACC which produced a range of $73-80. Since there are close competitors, so a blended EV/EBITDA multiple approach was also used. With a projected EBITDA of $270M, this method produced a price target of $82. Weighting the DCF 60% and the multiple approaches 40%, respectively, a final price target of $80 was obtained representing an 18% upside. The firm does pays a dividend that has a .80% yield.

Risks

- **Input Prices.** The devices manufactured by the company require raw materials including steel, aluminum, electrical components, plastics and petroleum based materials. In fiscal year 2012, the company purchased approximately 90,000 tons of steel and aluminum. The company does take significant actions to hedge commodities. Failure to pass rising input prices to the consumer could impact profitability.
- **Concentration.** 89% of nets sales and 95% of operating profit were derived from the United States. The company has operations in three other countries including Europe, Mexico, and Asia. While the company sources a good about of its material nearly half of the production is based in the United States. In addition the company is reliant on Home Depot as a customer who historically accounts for approximately 10% of sales.
- **Technology Change.** The company competes in an industry where technology and innovation are major parts of the competitive landscape. The development of LED, OLED, lighting control systems by new and existing supplies will play a large role in the continued success of the AYI. The company has increased spending on R&D with $34.7 M (1.8% of sales) in 2012, $31.3 M in 2011 (1.73%), and $26.6 M (1.63%) in 2010.

Management

Vernon J. Nagel is the Chairman, President, and CEO of Acuity Brands and has been with the company since inception in 2001. A former principal with Jepson Associates, Mr. Nagel is a CPA. Ricky Reece is the Vice President and CFO and joined the management team in 2005. He was formerly a CFO of a publicly held wire and cable manufacturer, and is also a CPA. There are 9 members that make up the board of directors, 2 or which are non-independent directors.



Ownership

% of Shares Held by All Insider and 5% Owners:	1%
% of Shares Held by Institutional & Mutual Fund Owners:	97%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
T. Rowe Price Associates, Inc.	6,272,347	14.66
Eaton Vance Management	3,117,034	7.28
BlackRock Inst. Trust Company	2,838,537	6.63
Columbia Wanger Asset Management LLC	2,314,000	5.41
Standard Life Investments	2,323,278	5.40

Source: Thomson One

Medifast, Inc. (MED)

February 1, 2013

Jillian Morrissey | Consumer Staples

Medifast, Inc (MED) engages in the production, distribution and sale of weight management and disease management products. MED makes soy-based medical meal replacement products used by qualified medical practitioners and their patients. These products are sold under the Medifast Direct name brand and are used in high-protein diet products. In addition, MED has a personal health coaching division called Take Shape For Life. Led by MED's co-founder, contracted health coaches give clients the encouragement and mentoring to assist them to not only a healthy weight but healthy lifestyle. Headquartered in Owings Mills, Maryland, MED employs 860 people.

Price ($) (1/24/13):	27.85	Beta:	1.36	FY: Jan	2011A	2012 E	2013 E
Price Target ($):	37.01	WACC:	12.70%	Revenue ($mil)	298.19	356.25	395.5
52 WK H-L ($):	14.86-33.29	Mid Term Rev Gr. Rate Est:	10%	% Growth	15.78%	19.47%	11.02%
Market Cap (mil):	432.4M	Mid Term EPS Gr. Rate Est:	10%	Gross Margin	75.29%	75.03%	75.20%
Float (mil):	12.25M	Debt/Equity:	5.14%	Operating Margin	9.18%	9.25%	9.47%
Short Interest (%):	8.50%	ROA:	18.57%	EPS (Cal)	$1.33	$1.35	$1.83
Avg Daily Vol (K):	238.7K	ROE:	25.51%	FCF/Share	$1.45	$2.29	$3.05
Dividen ($):	$0.00			P/E (Cal)	10.47	19.15	15.88
Yield (%):	0.00%						

Recommendation

MED's unique 5-to-1 weight loss plan is the only weight loss plan on the market that is proven effective and healthy according to research conducted at John Hopkin's University. Not only have MED's diet plans proven to work on the overweight population, but MED is also the number one recommended diet plan for consumers with diabetes and other diseases. According to the U.S. Census Data, the U.S. weight loss market is estimated to be a $65B per year industry. To match this, MED has made the goal to have over $1B in sales over the next five years. In order to make this happen, MED will increase and expand coverage in new and existing markets, improve infrastructure and process discipline to create "One Medifast" and employee development and talent acquisition to support future growth. With increase capitalization and increase demand, MED looks to move into foreign markets with a goal of diversifying 15% of revenues to stream from international markets. Lastly, MED has been able to maintain strong free cash flow with 2011 seeing free cash flow of $20.6M and 2012 $30M. In addition to this robust growth, MED is pushing their mobile "on-the-go" business. Customers involved in the *Take Shape For Life* program, for example, will be able to video-chat with personal health coaches in supplement or in place of meeting face to face. For these reasons it is recommended that MED be added to the AIM Domestic Equity Fund at a target price of $37, which offers a 36% upside.

Investment Thesis

- **Consumer Shift to Healthier Lifestyle -** Over the past few years there has been an overall market trend to live a healthier lifestyle. MED has capitalized and will continue to further capitalize, on this trend. In 2012 Americans spent $2.7B on weight loss services and this is estimated to increase by over 4% in 2013 alone. Combine this with the rising costs of health care there is going to even more incentive for consumers to live healthy as the cost of being unhealthy becomes greater and greater. MED's unique, scientifically proven diet and weight management programs are one of the only diet programs approved for customers with diabetes. According to the Center for Disease Control the U.S Diabetes rate has climbed over 11% and looks to hit 15% by 2015. In addition over 80% of people with Type 2 diabetes are overweight and therefore can seek MED's weight loss services to help protect their life. MED will be able to capitalize on this consumer trend and will be become the preferred weight loss management program.
- **Rising Cost of Health Care –** The price of health care is becoming greater and greater to consumers as well as businesses. For December 2012 the health care inflation rate was 3.21% but

has a projected growth rate of 8.3% by 2014. In 2003, Americans spent $117B in health care costs due to being overweight. In 2009 this increased to $159B and is projected to reach $319B in 2020. In order to help combat some of these costs, companies are adding incentives to join weight loss programs. For example some companies offer health insurance rate deduction to employees enrolled in MED. In addition to incentives, businesses are hiring MED to come into the company and lead health initiatives. For 2011 these business programs composed less than 10% of revenue, however looking to the future the demand for these programs is increasing rapidly. Going forward more and more businesses are going to be adding the monetary incentives to employees as well as hosting more and more in house weight loss management and maintenance programs.

- **Increased Demand for Holists Methods -** MED's *Take Shape For Life* program offers a much more holistic style to weight loss management. Health Coaches guide the customers to a healthy lifestyle in all areas of life such as weight, fitness, and spirituality. This type of weight-loss and weight maintenance programs fit right in with the recent trends of more holists measures in regards to weight loss and therefore going forward with more consumers having more discretionary income an increase demand for this program is to be expected.

Valuation

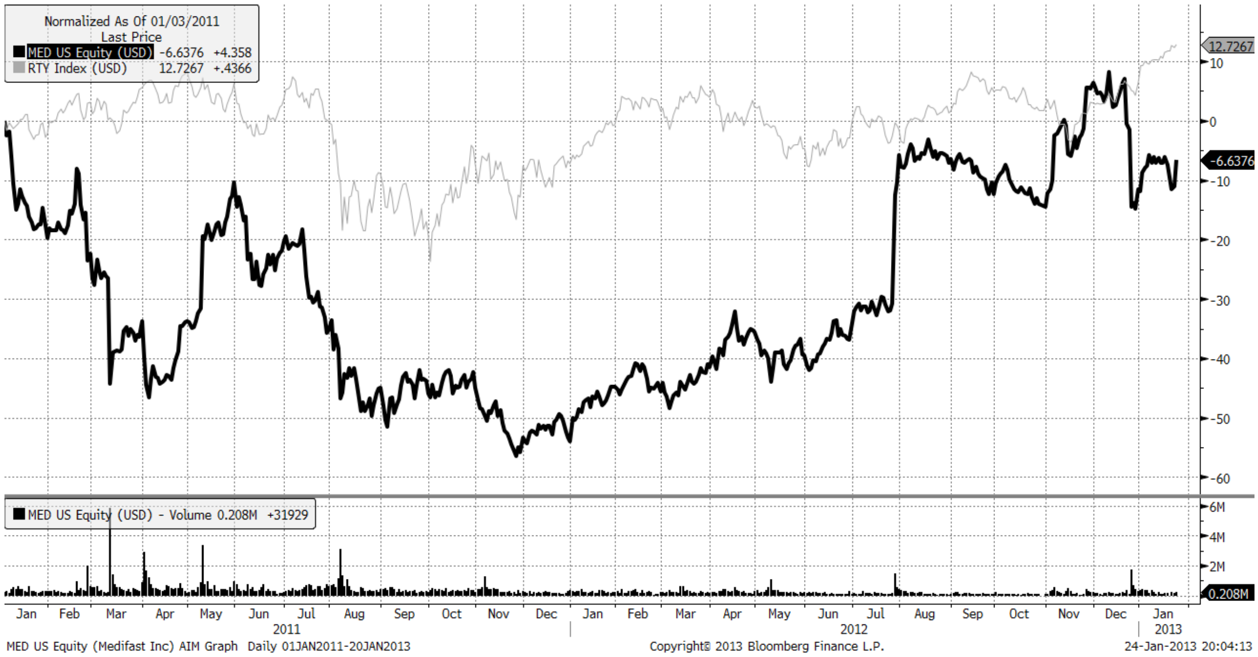
MED was valued using a ten-year DCF model. Based on a calculated WACC of 12.7% and perpetual growth rate of 2.50%, the DCF analysis yielded an intrinsic value of $35.24. A sensitivity analysis was also conducted on the DCF adjusting the WACC from 10% to 15%, the long-term growth rate from 0% to 4% and next year's cash flow from $15M to $35M. From this a target price range of $25 to $45 was obtained. An EV/EBITDA multiples approach was also conducted using a multiple of 1.75X. The approach yielded an intrinsic value of $38.95. Weighting the DCF at 50% and the EV/Sales at 50% and intrinsic value of $37.10 was found which offering a 36.07% upside. The company does not pay a dividend.

Risks

- **Health Related Lawsuits –** Customers that suffer health problems may allege that Medifast program contributed to the ailment. Although the company is not currently the subject of any such claims, these claims could reduce brand image and customer loyalty as well as adversely affect results of operations.
- **Highly Competitive Markets –** The weight loss industry is highly subjective and influenced by many different factors. Another new diet could sweep the nation or consumer preferences could change. Failure to adopt quickly or respond to change could negatively impact MED. In addition pharmaceutical companies are always trying to develop safe yet effective drugs that could lead to weight loss. If successful many dieters could turn to this industry.
- **Economic Conditions –**Although it seems that the United States economy is on the rise, MED operations are highly dependent on product sales and program fees. An economic downturn could result in consumers cutting back and thus could adversely impact profitability.

Management

Michael C. MacDonald joined MED's Executive Committee of the Board of Directors in 1998 and has been CEO since February 2012. Mr. MacDonald holds a Bachelor of Arts degree in political science and an MBA degree as well as has attended premier executive educational courses in leadership and management at Harvard and Columbia University. On January 18th MED named Timothy G. Robinson as the company's new CFO. Mostly recently Mr. Robinson was vice president of business operations for Canon Business Solutions. Robison replaces Joseph Kelleman who has been serving as the interim CFO since December and will continue his role as the company's director of finance, supply chain.



Source: Bloomberg

Ownership

% of Shares Held by All Insider and 5% Owners:	2.74%
% of Shares Held by Institutional & Mutual Fund Owners:	97.26%

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
Blackrock	1,136,927	7.32
Kennedy Capital Management	675,411	5.86
Vanguard Group Inc	578,420	5.51
Thompson Siegel & Walmsley LLC	523,368	4.27
Allianz Asset Management	425,326	3.73

Source: Bloomberg

Teva Pharmaceutical Industries Limited (TEVA)
February 1, 2013

Catie Collins International Healthcare

Teva Pharmaceutical Industries Limited (NYSE:TEVA) develops, produces, and markets a range of generic and branded pharmaceuticals, biogenerics, and active pharmaceutical ingredients (APIs) worldwide. TEVA manufactures a broad portfolio of generic pharmaceutical products in various dosage forms, including over 73 billion tablets annually. The company is a specialty pharmaceuticals innovator as well focusing on branded leading products, such as Copaxone for multiple sclerosis and Azilect for the treatment of Parkinson's disease. Alongside these blockbuster drugs, TEVA offers treatment for autoimmune diseases, cancer, women's health and respiratory products. TEVA operates with diversified geographical sales throughout the USA (48%), Europe (31%), Rest of the World (18%), and Israel (3%). TEVA was founded in 1901 and is headquartered in Petach Tikva, Israel, directly operating in 60 countries, 61 pharmaceutical manufacturing sites in 19 countries, and 28 R&D centers. They have over 45,000 worldwide employees.

Price (1/23/12) ($):	38.00	Beta:	0.88	FY: Jan 31	2012A	2013E	2014E
Price Target ($):	52.59	WACC	12.41%	Revenue ($, M)	$18,312	$18,798	$19,595
52WK H-L ($):	46.65-36.63	M-Term Rev. Gr Rate Est:	15.0%	% Growth	14%	14%	15%
Market Cap ($, B):	32.98	M-Term EPS Gr Rate Est:	14.7%	Gross Margin	51.96%	51.00%	51.00%
Float (M):	929.04	Debt/Equity:	57.47%	Operating Margin	21.90%	24.00%	24.00%
Short Interest:	0.42%	ROA:	6.25%	EPS (Cal)	$4.10	$4.29	$4.92
Avg. Daily Vol (3M)	4,729,680	ROE:	12.50%	FCF/Share	5.46	5.32	5.64
Dividend:	$1.03	Financial Leverage	2.00x	P/E (Cal)	9.30	7.00	7.13
Yield:	2.71%			EV/EBITDA	6.49	7.19	7.16

Recommendation:
Through aggressive acquisition and product development, TEVA has successfully branded themselves as a global pharmaceutical industry leader. TEVA currently holds 69 branded pipeline products across multiple therapy areas and 36 products in clinical trial phase II and III, capitalizing on long term growth through low cost manufacturing and strong global presence. With 2012 being a year of outstanding financial performance, debt obligations are well covered by cash flow. TEVA reported $1B in cash flow from operations in 3Q12 and free cash flow of $577M compared to $482M and $2M in 3Q11. Alongside financial performance, TEVA upholds a strong position within the healthcare industry compared to major competitors. This can be attributed to a current EPS of $4.10 and P/E of 9.30x, while that of closest competitor Pfizer stands at $1.29 and 20.6x, respectively. Multiple companies within the industry are also currently suffering the implications from recent health care reform legislation. TEVA will capture the downside of this risk, achieving market expansion from the new coverage provided to up to 32 million currently uninsured Americans starting 2014. With over 1.5M prescriptions written every day, TEVA provides up to 1,052 prescriptions/minute to patients across the world. As a result of this significant global presence, it is recommended that TEVA be added to the AIM International Equity Fund with a price target of $52, providing a 38% upside. Additionally, the company offers a 2.71% dividend yield.

Investment Thesis:

- **Blockbuster MS Drug.** Within the branded specialty pharma sector, TEVA primarily focuses on Copaxone, a once a day injection for patients with Relapsing-Remitting Multiple Sclerosis. With sales up 13% in 3Q12, Copaxone presently holds a 40% market share. TEVA will maintain this position through the current global MS market that is expected to grow from 12.3B to 17.3B in 2016. TEVA will combat patent expiration for Copaxone with the release of a 3x/week formulation that will be filed in late 1Q13, potentially having it on the market by 1Q14 with a new patent protection until 2030.

- **Cost Restructuring Savings.** Proceeding recent changes in management, an innovative cost saving strategy has been implemented to accelerate the discovery of new therapies by complementing existing internal capabilities. This includes a $1.5-2B slash in spending costs to be employed through centralizing global purchasing power and shifting small facilities to larger manufacturing locations. 70% of savings are expected to be achieved by year 3 (2015), allowing TEVA to target a $1-2B/year increase in shareholder return and debt servicing. Additionally, TEVA will divest non-core assets, including the current veterinary medicine unit that was recently acquired by Bayer HealthCare LLC on January 3, 2013.
- **Global Generics Sector.** The prominence of generic medicine is perpetually rising as a direct result of limited resources, aging population, and a continuous reduction in healthcare expenditures. 78% of prescriptions in the world today are generics, and in the last decade savings to the nation's healthcare system amounted to $931B due to generic products. TEVA is currently the world's largest generic pharmaceutical leader with a line of over 400 products, in more than 1,300 dosage strengths and packaging sizes. TEVA is well positioned to maintain this title with the largest generic pipeline of products seeking FDA approval, alongside the current 1/6 of the 2.6B generic prescriptions in the US that are currently filled with TEVA products.

Valuation

TEVA was valued via a five-year DCF analysis in combination with an EV/EBITDA multiple. Based on a calculated WACC of 12.41% and a terminal growth rate of 2.5%, the DCF analysis yielded an intrinsic value of $54.66. In addition, a 6x EV/EBITDA multiple approach was used, generating an intrinsic value of $46.38. Weighting the DCF (75%) and EV/EBITDA (25%), a final price target of $52 was obtained-representing in a potential upside of 38%.

Risks:

- **Patent Expiration and Development Costs.** The success of TEVA's innovative products depends substantially on the ability to obtain patents and defend intellectual property rights. With major drugs such as Copaxone and Treanda experiencing patent expirations in 2015, regulatory exclusivity on these or other innovative products could materially impact operations, financial conditions, and prospects.
- **Operations in Countries of Political or Economic Turmoil.** Although over 78% of TEVA sales are in North America and Western Europe, expected sales and future growth is anticipated from regions such as Latin America and Central and Eastern Europe. These areas may be more susceptible to political or economic stability, alongside TEVA's less developed markets that rely heavily on third-party distributors. Many of the executive offices and manufacturing capabilities are located in Israel as well. These operations could be materially and adversely affected by acts of terrorism or if major hostilities occur were to occur in the Middle East.
- **Loss of Suitable Acquisition Targets.** TEVA maintains a core strategy to grow through acquisitions. Examples of this strategy include the acquisition of Cephalon, Inc. in October 2011 and Taiyo in July 2011. These acquisitions are predicted to uphold particular cost synergies. Achieving these synergies may not be attainable in the time frame that TEVA currently anticipates due to increasing competition and existing business operations.

Management

Very recently, Dr. Jeremy M. Levin was appointed President and CEO of TEVA on May 9, 2012 after formally serving as Senior Vice President at Bristol-Myers Squibb. Eyal Desheh serves as CFO for TEVA and has been fulfilling this role since 2008.

Ownership

% of Shares Held by All Insider and 5% Owners:	N/A
% of Shares Held by Institutional & Mutual Fund Owners:	N/A

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
Wellington Management Company, LLP	54,882,297	6.32
Capital Research Global Investments	28,572,800	3.29
Thornburg Investment Management Inc.	23,966,527	2.76
Mondrian Investment Partners LTD	14,927,570	1.72
Invesco Ltd.	12,234,292	1.41

Source: Bloomberg

Genworth Financial (GNW)

February 1, 2013

Mark McCanna Financial Institutions

Genworth Financial Inc. (NYSE: GNW) is a financial services company that has five dominant operating segments: U.S. Life Insurance (65% revenue), International Protection Insurance (8%), Wealth Management (3%), International Mortgage Insurance (14%), and U.S. Mortgage Insurance (6%). Their largest operating segments focus on life insurance, long-term care insurance, and mortgage guarantee insurance on residential mortgage loans. Genworth has assets totaling over $114B, but has a market capitalization of only $4.6B. The reason for this low valuation is because the housing crisis, which caused massive losses in their U.S. mortgage insurance segment. The company was not large enough to receive TARP funds, which has hurt their recovery since the 2008 recession, and has caused Genworth to trade at a significant discount to its book value. A recovering housing market and a fresh CEO are an opportunity for Genworth to drastically increase their profitability and their value. Genworth is headquartered in Richmond Virginia, and their primary markets of activity are the United States, Canada, and Australia.

Price: (1/22/13)	$9.42	WACC	5.60%	FY: January	2012E	2013E	2014E
Price Target:	$19.74	Dividend ($):	-	Revenue (mil):	$10,343	$10,654	$11,032
52 WK H-L ($):	4.06-9.68	Yield:	-	% Growth	-0.01%	3.01%	3.55%
Market Cap (mil):	$4,620.00			EPS	0.41	1.19	2.43
Float (mil):	491.83	Financial Leverage	7.04	EPS Growth (%):	65.07%	188.41%	103.75%
Short Interest:	2.31%	ROA:	0.23%	P/E	14.00	15.00	16.00
Avg. Daily Vol (mil):	10.890	ROE:	1.61%	BVPS	33.80	34.99	37.42
Beta:	1.67	Total Debt/EBIT	9.87	P/B	0.30	17.85	38.80

Recommendation

GNW's stock has been beaten down over the past few years by their mortgage insurance business, but as the economy recovers along with the housing market, the mortgage business is expected to return to profitability. The recovery can drastically increase Genworth's market value to more traditional levels. Compared to its peers by market capitalization, Genworth has a massive asset base that it can use to drive revenue. On January 16th, Genworth announced plans to create a new parent company, that does not alter ownership of the company or operations, which allows Genworth to work around existing debt covenants. Under the plan, additional trouble in their mortgage insurance operation cannot trigger a default on their debt. After the announcement, Genworth's stock shot up 9.4%, while the costs of insuring their debt using CDS also fell. Genworth will allow the AIM portfolio to invest in a company that has a small cap value with the asset base of a mid to large cap company. For these reasons, it is recommended that Genworth be added to the AIM portfolio with a target price of $19.74, representing an upside 109.4%. The firm does not pay a dividend.

Investment Thesis

Recovering Housing Market. Last year Genworth posted a $507MM loss in their mortgage insurance business, and management expects the segment to return to profitability sometime during 2013, as the housing market continues to improve. Without Genworth's U.S. mortgage insurance segment, GNW had net income of $906MM in 2011. This means that if the company sees no growth in any other operating segments, and the mortgage segment breaks even, Genworth's net income would double. With interest rates at all-time lows, and projected to rise on marginally over the next year, home ownership is incredibly attractive to most consumers. As their demand increases housing prices, Genworth stands to benefit greatly.

Increasing Return on Assets. At 0.23%, Genworth currently has the lowest return on assets among its ten closest peers by market capitalization, but it also has more than 3x times the total assets of its nearest competitor by market capitalization. This asset base can be leveraged by Genworth to drastically increase their profitability to a return on assets of 1.18%, which is the average of their ten closest peers by revenue. This increased return would drastically increase their valuation and increase their price to book ratio from the miniscule 0.28x that it currently trades at, closer to 0.78x, which is the average of its peers. In 2011, Genworth's total net income was $453MM, but since their mortgage insurance segment is expected to break even during the next year, their 2012 net income for 2013 could possibly double, going a long way to increasing the company's return on assets, and driving their stock price higher.

Valuation

A price to earnings and price to book ratio approach was used to find the intrinsic value of GNW. The price to book ratio was weighted 60%, while the price to earnings ratio was weighted 40%. The 2013 Price to earnings multiple used was 14, which is what GNW currently trades at despite their relatively low return on assets. As their profitability increases, it is expected that their price to earnings will rise to a projected 16 in 2014. The book value per share of GNW is currently $33.80 and their price to book ratio is the lowest of its peers at 0.28x, as GNW increases their profitability, their price to book ratio is expected to rise to a projected 0.8x, which is slightly higher than the average among its peers. The price to earnings multiple yielded an intrinsic price of $17.85, while the price to book multiple yielded an intrinsic price of $21.00. Blended together, the 2013 target price of GNW is $19.74, an upside 109.4%.

Risks

Debt Approval. Genworth's plan to start a new parent company does not need approval from senior debt holders, but they do require approval from regulators and customers. They have already gotten approval from their main regulator (the North Carolina Department of Insurance), and their two main customers (Fannie Mae and Freddie Mac), but they do require other regulatory approval which are expected in the second quarter of this year. If Genworth gets the required approval there will likely be a short term jump in the stock, but if they do not, there could be a downgrade of the company's debt, and a large drop in their share price.

Low Interest Rates. The Federal Reserve's massive Quantitative Easing program has pushed interest rates to record lows. During periods of declining interest rates Genworth receives less income on variable interest rate investments, and is forced to invest their returns on lower yielding investments. Therefore, any interest revenue that Genworth receives can be suppressed in the current low interest rate environment.

Management

The CEO of Genworth, Thomas J. McInerney, just joined Genworth in January, 2013. Prior to joining Genworth he was a senior advisor at Boston Consulting for insurance and financial service companies. Before Boston Consulting Group he spent 30 years working at ING Group as an executive in roles such as: Chief Operating Officer for ING insurance and investment worldwide management business, Chairman and Chief Executive Officer of ING Americas, and Chief Executive Officer of ING U.S. Financial Services.

Ownership

% of Shares Held by All Insiders and 5% Owners:	24.37%
% of Shares Held by Institutional and Mutual Fund Owners:	79.00%

Top 5 Shareholders

Holder	Shares	% Out
Dodge & Cox	36,776,196	7.48%
Blackrock	29,077,043	5.91%
Vanguard Group	27,489,448	5.59%
HighFields Capital Management	26,518,040	5.39%
State Street	20,910,102	4.25%

Lumber Liquidators (LL)
February 1, 2013

Patrick Maag Consumer Discretionary

Lumber Liquidators (NASDAQ: LL) is the nations largest specialty retailer of hardwood flooring with over 256 stores in 46 states and 7 in Canada. The company offers value to customers through a broad selection of high-quality flooring products and superior service. Direct relationships with the mills help LL pass savings to the customer. Hardwood floors drive the largest portion of sales (50%) while laminates (24%) and moldings and accessories (15%) follow. The company sells proprietary products mainly through store-fronts but takes orders online and through a call center. Financing and delivery options are available to customers as well as installation services provided through The Home Services Store, Inc. The company was founded in 1994 and is headquartered in Toano, VI.

Price ($): (1/25/13)	58.60
Price Target ($):	60.80
52WK H-L ($):	58.60-18.65
Market Cap (bil):	1.59
Float (mil)	26.0
Short Interest (%):	19.44%
Avg. Daily Vol (mil):	0.486
Dividend ($):	0.00
Yield (%):	0.0%

Beta:	1.59
WACC:	10.5%
5yr Avg. Rev. Gr Rate Est:	13.5%
5yr Avg. EPS Gr Rate Est:	13.7%
Debt/Equity:	0.0%
2012 ROA:	14.6%
2012 ROE:	19.5%

FY: Dec	2011A	2012E	2013E
Revenue (Mil)	681.6	804.3	916.9
% Growth	9.90%	17.50%	14.00%
Gross Margin	35.3%	38.0%	38.5%
Operating Margin	6.8%	10.5%	11.0%
EPS (Cal)	$0.95	$1.91	$2.32
FCF/Share	$2.49	$3.27	$3.91
P/E (Cal)	61.68	30.72	25.28
EV/EBITDA	29.55	14.50	12.43

Recommendation

After the collapse of the housing market, Lumber Liquidators chose select initiatives to regain financial footing and drive consistent organic growth. Over the past five years, LL has grown revenue 13.5% annually while also growing EPS 18.9% annually. The company has made effective investments that have yielded an ROE of 19.5% TTM. Through the uncertainty in recent years management decided to trim growth estimates and grow the store base without leverage. The clean balance sheet and strong growth through selective new locations has helped comp store sales growth average 10.8% in the past three quarters. This calculated growth is sustainable for LL and indicates that opportunities for expansion still exist. The housing market has come off its bottom and home prices have started to make gains with interest rates remaining at all time lows. The combination of these factors has allowed spending on construction to grow 8.8% annually since its low in February 2011 with expected growth of greater than 10% in 2013. LL has experienced the changing landscape of the flooring market and has focused on expanding its product line with laminates and engineered products as well as tools and accessories. Our consumer discretionary holdings have no exposure to construction or housing, making LL a good fit for the AIM portfolio. Considering the company's effective implementation of these initiatives and strong sustainable growth, I recommend that LL be added to the AIM Equity Portfolio with a target price of $60.05, representing a 3% upside.

Investment Thesis

- **Revived housing market.** Recent data has shown that housing prices and construction are coming out of depressed levels over the past several years. Construction spending is up over 6% YoY and has made a turn since early 2011. With more economic certainty, construction and bigger ticket discretionary spending is returning to high levels. The housing market is also starting to gain momentum after the collapse in 2007. Prices are starting to rise and low interest rates have made it easier for people to sell, buy and make improvements on housing. LL's offerings are important to people making home improvements, which makes the rise in existing home sales a tailwind for the company. Average ticket prices are reaching their former peaks of 2008 levels, indicating more consumer confidence.

- **Store count growth.** Management has done a good job of selecting new store sites. While new stores have been added to markets with existing locations, comp store growth has been strong in recent quarters. Q3 2012 comp store growth at 12% and 9% comp store sales growth for locations open 13 to 36 months. Optimizing store space and adding tools and accessories to complement the process of flooring will provide the customer with a complete experience.
- **Initiatives for the future.** The company is implementing initiatives focused on sourcing, people and growth. In Q3 2011 LL acquired Sequoia Floorings a supplier of 1/3 of its products, mostly from Asia and China. This acquisition has strengthened its relationships with its other product sources as well as lowered costs for LL. The company's focus on streamlining the supply chain will help expand margins greatly. Lumber Liquidators University program creates more knowledgeable sales representatives with better selling skills that provide customers with better in-store experience. The growth aspect of the initiatives focuses on a new store layout centered on showrooms that display LL's ability to offer a complete flooring solution at a low price.

Valuation

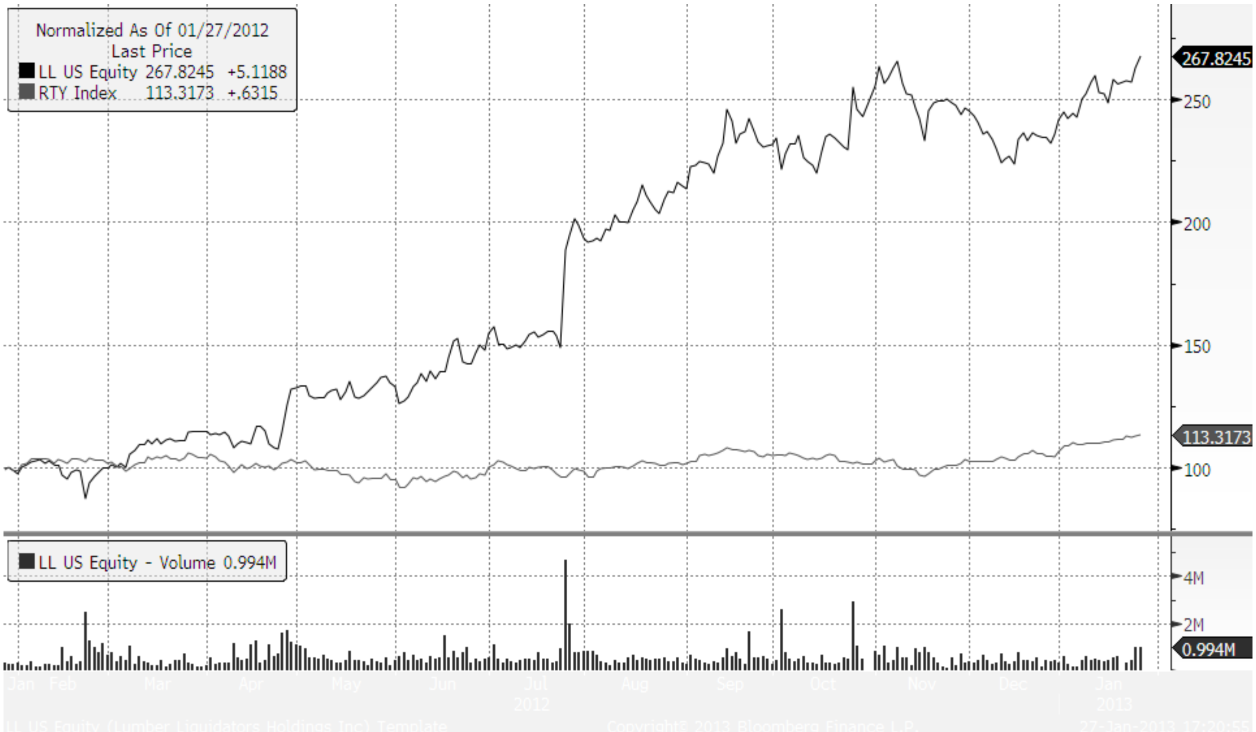
To find the intrinsic value of LL, a 5 year DCF was conducted and weighted 50% of the final value. Revenue growth started at 17.5% in 2012 and trended down to 10% in year 5. The DCF used a WACC of 10.5% and yielded an intrinsic value of $54.92. A historical P/E multiple of 30x 2013E EPS was used to get a valuation of $69.50, weighted at 30%. An EV/EBITDA multiple of 14x was applied to 2013E EBITDA to yield an intrinsic value of $62.35, weighted at 20%. The combination of the three methods results in an intrinsic value of $60.80. The company does not pay a dividend.

Risks

- **Supplier concentration.** LL sources nearly 1/3 of its needs from its subsidiary Sequoia in China. This concentration and the absence of long-term contracts with other suppliers pose a risk to future financial and operational stability. Deterioration of the relationships with mills and brokers could hamper margin expansion.
- **Commodity costs.** The major constraint on margin expansion is transportation costs. Importing costs to the finishing facility in Toano, VI was the only consistent detractor from margins in the last year. The cost of transportation as well as acquiring lumber for product may prevent LL from reaching gross margin goals in the coming years.
- **Inventory levels.** Storefronts carry limited inventory due to wide selection of products. Customers are required to place a deposit and wait for larger orders to be filled. Some competition can provide this selection while carrying inventory on-site. Other lumber companies that can more quickly meet customer needs may take market share.

Management

Current CEO Robert Lynch formerly served LL as COO and worked in operations for Home Depot. Carl Daniels was recently hired as Senior VP of Supply Chain after serving as the Senior VP of Supply Chain and Operations for Harbor Freight Tools and has worked in operations for his entire career. Thomas Sullivan, company founder, serves as chairman of the board after serving as CEO for 5 years after the company went public in 2006.



Source: Bloomberg

Ownership

% of Shares Held by All Insider and 5% Owners:	4.3%
% of Shares Held by Institutional & Mutual Fund Owners:	>90%

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
BAMCO INC.	2,514,400	9.26
State Street Corp.	1,778,088	6.55
Blackrock Fund Advisors	1,706,206	6.29
Vanguard Group, Inc.	1,424,163	5.25
Daruma Capital Management LLC	1,305,389	4.81

Source: Yahoo! Finance