Applied Investment Management (AIM) Program

AIM Class of 2016 Equity Fund Reports
Spring 2016

Date**:* Friday, February 12th | ***Time:** 3:00 – 4:30* p.m. | ***Location: AIM Research Room 488

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

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Home Bancshares (HOMB)
February 12, 2016

Ryan Johnston — Financial Services

Home Bancshares (NASDAQ: HOMB) operates as a community bank under the alias of Centennial Bank. The firm's portfolio of products includes checking accounts, savings accounts, time deposits, personal loans, consumer loans and business loans. HOMB's $6.5 billion outstanding loan portfolio consists of Commercial Real Estate (46%), Residential Real Estate (25%), Construction/Land Development (13%), Industrial (13%) and Consumer/Other loans (2%). The company has a strong deposit base of almost $6.5 billion. HOMB was founded in 1998 by an investor group led by John W. Allison (Chairman) and has approximately 1,400 employees. The firm is headquartered in Conway, Arkansas with 83 branches in Arkansas, 66 in Florida, seven in Southern Alabama, and one loan office in New York.

				FY: Dec	2015A	2016E	2017E	2018E
Price ($) (2/9/16):	39.09	Beta:	1.01	Revenue (Mil)	377.44	411.90	444.30	467.34
Price Target ($):	46.04	WACC	7.3%	% Growth	12.37%	9.13%	7.86%	5.19%
52Wk H-L ($):	48 - 31	M-Term Rev. Gr Rate Est:	4.2%	NIM	4.98%	5.01%	4.98%	4.95%
Market Cap (mil):	2,717	M-Term EPS Gr Rate Est:	4.4%	Pretax Margin	57.89%	57.00%	56.55%	56.02%
Float (mil):	60,163	Debt/Total Assets	15.8%	EPS (Cal)	$2.05	$2.03	$2.10	$2.10
Short Interest (%):	3.7	ROA:	1.7%	P/E (Cal)	20.1	21.2	22.4	23.8
Avg. Daily Vol (00(	352	ROE:	12.5%	BVPS	$17.11	$18.79	$19.39	$20.20
Dividend ($):	0.55	Dividend Coverage Ratio:	8.5x	P/B	2.4	2.3	2.4	2.5
Yield (%):	1.5	Tier 1 Capital Ratio:	13.0%					

Recommendation

Home Bancshares is considered an industry leading, growth oriented bank. The firm focuses on lowering expenses and expanding their net interest margin (NIM) to be one of the most profitable regional banks in its peer group. The results can be seen with the firm's revenue growing at a 5-year revenue CAGR of 17%. The firm has also been growing assets at a 5-year CAGR of 18%, primarily being driven by acquisitions. HOMB's NIM is well above the industry average of 3.63% at 4.98%, partially because of a lower cost of funds, which is 0.31% versus 0.40%. Another major driver of the firm's high NIM is derived from their low compensation expenses, compensation consumes only 21% of the firms total revenues compared to the industry average of 34%. As for their overall expenses HOMB's efficiency ratio is 40%, which is almost 20% less than the firm's peers. Subsequently, HOMB has superior cost saving initiatives and a sound growth plan, which translates to the firm being able to grow at an abnormal rate. It is also worth noting the firm has no exposure to oil. As a result of HOMB's strong financial position, acquisition driven growth strategy, commercial loan underwriting initiative, probable interest rate tailwind, and a favorable valuation it is recommended that HOMB be added to the AIM Equity Fund with a price target of $46.04, representing a potential upside of 18%. The firm also pays a dividend, yielding 1.5%.

Investment Thesis

- **Acquisition King.** Since HOMB is well capitalized with about $100 million in excess capital, and it is expected that the firm will continue to selectively explore additional M&A opportunities. Over the past five years the firm has acquired 14 other banks, of which only one deal was greater than $1 billion and the average deal size was about $300 million. Generally, Home has acquired these banks for a large multiple, typically at 1.4x revenue. Seven other acquisitions were FDIC assisted, meaning the HOMB obtained them for less than book value because the target bank failed. Leaving aside the six transactions in 2010, the firm has averaged two acquisitions per year, and going forward it is reasonable to expect one each year only as good deals arise. Each transaction helps HOMB grow their revenues by about 10%, depending on size, because of increased assets and locations.
- **The Big Apple.** Home has taken a bold but smart move to capitalize on growing demand for commercial real estate loans in New York City. While it is a small risk, the firm was quick to

follow in the footsteps of Bank of the Ozarks who made a similar effort and has reaped large profits. HOMB embarked on this endeavor after acquiring Doral Bank in 2Q 2015. Currently Chris Poulton, who previously worked at GE Capital managing a portfolio of roughly $3 billion, leads the team. This group has underwritten approximately $550 million in loans to date and is expected to grow to almost to $1 billion. Loan size is expected to be about $20 million, with an average duration of 2 years and yields of ~6%.

- **Elusive Interest Rate Increases.** Looking out over the next year, a rate hike on the Fed's part is being called into question. When forecasting over a three to five year time horizon, it is understood the Fed will raise interest rates. Any sort of interest rate increase will positively affect the company's earnings because of the increase yields on cash. All else equal, a 25bps increase will effectively increase HOMB's NIM to approximately 5.1%. In general, the last time rates were increased in 2006, banks only passed along 20% increased rates to depositors.

Valuation

Utilizing a Dividend Discount Model (DDM), a blended historical and peer price-to-earnings (P/E) and price-to-book average yielded an intrinsic value of $46.04. For the DDM, a cost of equity of 7.30% and a terminal growth rate of 3% yielded a value of $49. A sensitivity analysis of the cost of equity and terminal growth rate produced a range of $42 – 57. When switching methods to a current and historic blend of the company's five peers, a P/E multiple of 24.9x was achieved leading to a valuation of $51. A blended P/B multiple of 3x led to a value of $41. Weighing the DDM 50% and multiples 50%, a price target of ~$46 was established representing an 18% upside. HOMB also paid a 55 cent annual dividend in 2015, yielding 1.5%.

Risks

- **Commercial Real Estate.** A large differentiator of HOMB is its large commercial real estate portfolio. While this does not violate any regulations, it could potentially be a cause for concern if the economy were to begin to tighten, specifically GDP contracting. This could drag loan originations lower along with heightened loan default risks. Therefore, this part of the portfolio is a large driver of performance, but it also does carry some risk to the firm's revenues.
- **Interest Rate Uncertainty.** At the heart of any bank, is the margin it makes between deposits and loans. When the Fed increases rates, it positively affects bank's bottom line by enabling them to make more revenue. With an arguably stagnating economy, the Fed is becoming increasingly wary of raising rates. This is part of the reason banks have been battered over the past few weeks. The odds of a Fed rate hike are near zero percent for the next quarter, and are increasingly being called into question for the next year. Because of this uncertainty, banks may not see the lift in revenues as they once expected.
- **Continuously Changing Regulations.** Like any bank, regulation is the largest threat to their operations. Since Dodd-Frank, compliance costs have skyrocketed. A survey conducted by the American Bankers Association highlighted that nearly 50% of small banks have had to reduce their product offerings due to higher compliance costs, smaller staffs and budgets. Any increase in regulations could negatively affect the firm's top-line and bottom-line growth.

Management

John "Johnny" Allison is currently Chairman of HOMB and Centennial Bank. In the 1980's and 90's, while a Director at First Commercial Corp, he led a team specializing in acquiring banks in Texas following the energy bust. He then founded HOMB in 1998 and served as CEO until 2009, when he stepped down to take the role of Chairman. Randall "Randy" Sims took on the CEO role after Mr. Allison's retirement. Mr. Sims has been with the firm since its inception, starting as Director of HOMB. Before Home, he served has an Executive Vice President at First National Bank of Conway. He earned a Bachelor of Arts in accounting and business administration from University of Arkansas. Later he went on to attend graduate school at the University of Wisconsin. Mr. Sims is a Trustee at the University of Central Arkansas and Chairman of Conway Christian School Board.

Peer Analysis

Name	Ticker	Market Cap (mil)	P/E	ROE	NIM
Home Bancshares	HOMB	2,717	20.5	13%	5.0%
Bank of the Ozarks	OZRK	3,822	21.6	15%	5.1%
First Horizon National	FHN	2,941	36.3	4%	2.9%
Capital Bank Financial	CBF	1,249	25.9	5%	3.8%
Union BankShares	UNB	124	15.8	15%	4.2%
Peer Averages		2,171	24.0	10%	4.5%

Source: FactSet

Ownership

% of Shares Held by All Insiders:	14.2%	▲
% of Shares Held by Institutional & Mutual Fund Owners:	56.6%	▼

Source: FactSet

Top 5 Shareholders

Holder		% Out
T. Rowe Price Associates	▼	7.4%
BlackRock Fund Advisors	▲	7.0%
John W. Allison	▲	6.3%
Vanguard Group Inc.	▲	6.0%
Richard H. Ashley	▼	3.3%

Source: FactSet

Swatch Group AG (SWGAY)

February 12, 2015

Brendan Fanning International Consumer Discretionary

The Swatch Group AG (SWGAY) operates as a holding company, which engages in the manufacture and sale of watches and accessories. It operates through the following segments: Watches & Jewelry (97% of revenue), Electronic Systems (3%), and Corporate. The company manages a portfolio of 20 brands, including ultraluxury Breguet, Omega, Longines, midrange Tissot, and entry-level Flik Flak. SWGAY is represented worldwide through its subsidiaries and distributors, notably Tourbillion and Hour Passion, and operates Swiss production plants in Boncourt, Grenchen and Villeret. SWGAY was founded by Nicolas George Hayek in 1983 and is headquartered in Biel, Switzerland.

				FY: Dec	2014A	2015E	2016E	2017E
Price ($): (2/10/16)	16.87	Beta:	1.18					
Price Target ($):	22.78	WACC	12.5%	Revenue (Mil)	9,489.24	8,530.83	8,812.34	9,182.46
52WK H-L ($):	23.03 - 15.67	M-Term Rev. Gr Rat	-5.43%	% Growth	3.7%	-10.1%	3.3%	4.2%
Market Cap (mil):	19	M-Term EPS Gr Rat	4.72%	Gross Margin	48.4%	29.7%	29.8%	29.8%
Float (mil):	0.0%	Debt/Equity:	0.42	EBITDA Margin	24.2%	22.0%	22.6%	23.3%
Short Interest (%):	N/A	LT Debt/EBITDA:	0.02	EPS	$1.28	$1.03	$1.14	$1.25
Avg. Daily Vol (mil):	1.6	ROA (%):	8.66	CF/Share	$1.71	$1.32	$1.46	$1.55
Dividend ($):	0.23	ROE (%):	10.83	P/E (Cal)	17.4	17.0	15.0	13.7
Yield (%):	1.30%	ROIC (%):	10.34	EV/EBITDA	9.3	9.4	8.5	7.7

Recommendation

Swatch Group is the world's largest and most diverse manufacturer, marketer, and distributor of timepieces, managing a portfolio of Swiss watch brands and supplying components to the Swiss watch industry. Omega, its core brand, holds a leading position in the all-important Chinese market. The company features a vertically integrated structure, controlling each aspect of the design, procurement, manufacture, and assembly of its products. Management stresses continuous improvement throughout its portfolio of 20 brands and cites innovation, engineering, and fashion as tenants the firm's culture. Despite a strong business model and operating history, SWGAY's stock price has been under pressure due to growing risks of the smartwatch category, concerns of Chinese consumer spending, and Swiss foreign exchange headwinds. However, there is reason to believe these concerns are largely short term in nature and the market has over emphasized the risks facing SWGAY during this volatile trading environment. With a longer-term view, it is clear that SWGAY features several key competitive advantages including a considerable leg-up in manufacturing. The company supplies components and innovative watch parts to an estimated 60% of the Swiss watch industry with a precision in engineering difficult for others to replicate at the same price. SWGAY management is confident that the company can maintain long-term pricing power, high barriers to entry, and the ability to leverage their heritage to exercise control over supply chains and distribution. In addition, a strong balance sheet, impressive acquisition track record, strong cash flow generation, and the timeless nature of its products makes SWGAY an attractive investment choice for exposure to luxury goods and global consumers. As a result, it is recommended that SWGAY be added to the AIM International Equity Fund with a price target of $22.78 representing a 35% upside.

Investment Thesis

- **Over-Emphasized Apple Watch Threat.** The threat to Swatch from the first generation Apple Watch seems to have been overestimated by the market as the product has not been compelling enough for its price. The key risk for Swatch is whether the second generation can change consumer perceptions. Regarding this threat, UBS surveyed smartphone users across the US, UK, Germany, China, and Japan, and over 60% of respondents stated that they are unlikely to buy a smartwatch or Apple Watch in the next 12 months. The most cited reason (49% of respondents) for not purchasing the Apple Watch is that the consumer does not need one, suggesting the redundancy of owning both a smartphone and smartwatch. In fact, among those surveyed planning to purchase a smartwatch, the majority does not see the product as a replacement to a traditional wristwatch. As a result, 74% see the Apple Watch as more of a technology gadget than a watch.

- **Chinese Consumer Spending.** Harsh stock market and currency volatility since summer 2015 and a significant outflow of capital has damaged investor confidence in the Chinese economy. Consequently, SWGAY's stock price has been adversely affected as more than 50% of company sales take place in China. Despite a plethora of bad economic news, retail sales continue to show considerable resilience, with nominal retail sales up 10.6% in the first 11 months of 2015 compared to 2014. In fact, the pace of real retail sales growth is forecast to grow 7.7% per year over the 2016 to 2020 period. In aggregate, the size of China's consumer economy has grown tremendously over the last decade, and currently accounts for an estimated 9% of world consumption in 2015, compared to just 3% in 2005 according to IHS Global Insight's Asia-Pacific chief economist. With a firmly positioned product portfolio, commanding premium prices, and few true substitutes, Swatch is primed to weather short-term volatility and benefit from the ongoing rebalancing within the Chinese economy.
- **Pay Feature in China.** In October 2015, SWGAY's management unveiled a new watch designed to execute mobile payments in China. The Swatch Bellamy, which isn't a full-featured smartwatch, contains an NFC chip hidden under the dial for making payments. Swatch partnered with China UnionPay and Bank of Communications to allow payments through the chip, rather than connecting to the Internet or a mobile device. The watch will launch in January for $91, and eventually arrive in Switzerland and the U.S. This advancement displays Swatch's adaptive nature while still maintaining the classic integrity of the products.
- **Favorable Partnerships on a Global Stage.** Management has verified that the Omega brand has been named the official timekeeper of the Olympic Games in Rio de Janeiro, Brazil, this coming August. This is sure to give an already powerful brand an additional boost. Similarly, Tissot, through its long-standing partnership with the NBA, has become the official timekeeper for the NBA, WNBA, and the NBA Development League. This partnership is expected to generate substantially increased sales for the brand, in both North American and worldwide markets.

Valuation

In order to reach an intrinsic value for SWGAY, a five year DCF model was constructed. Using a terminal growth rate of 2%, and a WACC of 12.5%, an intrinsic value of $24.24 was reached. A sensitivity analysis on the WACC and terminal growth rate ranged from $22.48-$30.61. Additionally, an EV/EBITDA multiple valuation was conducted. Using five comparable firms, an average EV/EBITDA of 8.19x was used with SWGAY's current multiple of 9.28x and a 2015E EBITDA of 2,219M produced an intrinsic value of $18.92. Weighting the DCF 75% and the EV/EBITDA model 25%, a target price of $22.78 was reached, representing a 35% upside. SWGAY pays a dividend yieleding 1.3%.

Risks

- **Inventory Oversupply in China.** Inventory levels at third-party retailers in Greater China remain relatively high, which may delay recovery in sell-in rates.
- **Popularity of Second Generation Apple Watch.** Traditional watch sales are suspectable to cannibalization if smart watches gain traction with consumers. If so, analysts estimate a 6-8% downside risk in to Swatch's EBIT.
- **Foreign Exchange Risk.** In the event that the Swiss Franc continues to appreciate relative to other majors, company revenue denominated in foreign currencies will be adversely effected.

Management

Nayla Hayek became chair of the board of directors in 2011, succeeding her late father, Nicolas Hayek. Ms. Hayek has been a member of the board of directors since 1995 and ran the operational leadership of the Tiffany watch business before that license was terminated. Nick Hayek, Nicolas Hayek's son, is CEO, and also a board member (since 2010), and is the face of the company to investors and the press.

Ownership

% of Shares Held by All Insider Owners:	n/a
% of Shares Held by Institutional & Mutual Fund Owners:	0.09%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
Motley Fool Wealth Management LLC	273,649 ▲	0.04
Segall, Bryant & Hamill LLC	86,131 ▲	0.01
Fisher Asset Management LLC	22,596 ▲	0.00
USAA Asset Management Co.	18,000 ▼	0.00
WCM Investment Management	12,851 ▲	0.00

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA	P/E (LTM)	EV/ EBITDA
Swatch Group ADR	SWGAY	19,442	9,322	2,125	17.0x	8.9x
Citizen	7762-JP	2,027	2,907	390	12.2x	4.8x
Cie Financiere Richemont	CFR-CH	36,952	12,268	3,426	21.8x	9.2x
Seiko	8050-JP	942	2,577	216	6.5x	7.7x
Fossil Group	FOSL-US	1,638	3,301	541	5.6x	4.0x
Movado Group	MOV-US	575	586	83	12.7x	5.2x
Peer Averages		8,427	4,328	931	11.8x	6.2x

Source: Factset

Korn/Ferry International (KFY)
February 12, 2016

Eric Christopherson — Domestic Producer Durables

Korn/Ferry International (NYSE: KFY) is global provider of talent management solutions that helps their clients attract, engage, develop and retain talent. KFY provides executive recruitment, leadership development, enterprise learning, succession planning and recruitment process outsourcing. The business segments of KFY include Executive Recruitment, Leadership and Talent Consulting (LTC), and Professional Search and Recruitment Process Outsourcing (Futurestep). Its executive recruitment services segment are used to fill executive-level positions from board directors to CEOs. Strategic management assessment and executive coaching and developing services are consolidated in the LTC segment. Futurestep, a subsidiary of KFY, offers talent acquisitions solutions including recruitment process outsourcing and talent communications. KFY operates in 37 countries including Japan, Australia and the UK. Korn/Ferry International was founded in 1969, went public on the New York Stock Exchange in 1999 and is headquartered in Los Angeles, California.

Price ($):	27.62
Price Target ($):	35.21
52WK H-L ($):	27.00-38.93
Market Cap (mil):	1,417
Float (mil):	87.2
Short Interest (%):	1.4
Avg. Daily Vol (mil):	298,253.0
Dividend ($):	0.10
Yield (%):	1.5

Beta:	1.13
WACC	10.35
M-Term Rev. Gr Rate Est:	12.2%
M-Term EPS Gr Rate Est:	8.4%
Debt/Equity:	N/A
Debt/EBITDA (ttm):	N/A
ROA (%):	7.22
ROE (%):	11.00
ROIC (%):	11.00

FY: Apr	FY2014	FY2015E	FY2016E	FY2017E
Revenue (Mil)	1,028	1,315.00	1,680.00	1,850.00
% Growth	7.00	27.90	27.70	10.20
Gross Margin	32.70	32.60	32.30	31.10
EBITDA Margin	14.80	15.20	14.90	14.80
EPS (Cal)	$1.90	$2.05	$2.45	$2.40
FCF/Share	$1.81	$1.96	$2.02	$1.95
P/E (Cal)	16.6	13.4	11.1	12.2
EV/EBITDA	7.2	4.9	3.2	3.6

Recommendation

Korn/Ferry International has been posting strong financials over the past few years with revenues increasing YoY by 17.2% and 7% in 2015. For the three months ended October 2015, fee revenue increased by $24.9 million compared to 2014, a 10% increase with all three of the company's segments posting higher revenues. Executive Recruitment fee revenue was up every month of the second quarter of 2015, with October being a record month for the segment. Each of Korn/Ferry's business segments saw adjusted EBITDA growth for the three months ended with Executive Recruitment experiencing the biggest hike with an increase of $8.6 million. New business was strong with Executive Recruitment up 9% YoY and FutureStep up 67% YoY. This points to momentum in the organic growth the company is likely to experience going forward. On top of this, consultant headcount grew 12% YoY in the Executive Recruitment segment and 40% YoY in the leadership consulting business. Most of these consultants are not yet fully productive and could prove to be a major tailwind going into 2016. Management has also stated that the LTC segment's EBITDA margin should return to its target range of 14-18% by early fiscal 2017, sooner than planned. KFY is looking to capitalize on the growing global outsourcing market going forward. One aspect of this market to watch for is the global RPO market, which is poised to grow to $4.4 billion by the end of 2016, with KFY's FutureStep segment is expected to win approximately $111 million of long-term RPO and related service works in 2015 that are expected to recognize revenue over the next three to four years. KFY is looking to sustain growth through the diversification of their services, especially with their move away from relying on the Executive Recruitment segment which accounted for 88% of revenues in 2011, but only 58% in 2015. KFY already has a strong market presence in this industry and will be looking to capitalize on synergies with their acquisition of the Hay Group going forward. With these factors in mind, it is recommended that Korn/Ferry International be added to the AIM domestic equity fund with a price target of $35.21, representing a 27.48% upside. The company pays a dividend of $0.10 with a yield of 1.45%.

Investment Thesis

- **Diversification of Services.** The flagship offering of KFY is their Executive Recruitment segment, but the firm is looking to diversify its services, especially with the fast-growing

FutureStep. FutureStep reported fee revenue of $50.5 million for the three months ended October 2015, an increase of $10.1 million from a year ago with a 26% increase in engagements billed. KFY has also proudly stated that 42% of revenues for 2015 came outside of their Executive Recruitment segment. KFY has a debt-free balance sheet, giving the company ample resources to explore new possibilities going into the future.

- **Market Presence.** The market presence of KFY is strong, especially with favorable hiring trends to come over the next couple of years. The Executive Recruitment segment continues to foster strong demand amongst clients that include 94% of the Fortune 100, with roughly 88% of Korn/Ferry's top-50 clients utilizing at least two of the company's services. With KFY's acquisition of Hay Group and the established offices in 37 countries, this will help KFY achieve upside from markets in the Pacific region and in South America.
- **Acquisition of the Hay Group.** In December 2015, KFY completed its acquisition of Hay Group, a global leader in people strategy and organization performance. The addition of Hay Group will enhance Korn/Ferry's presence in foreign markets, as well as contributing cost synergies that are estimated at a value of $20 million anually, giving margins a much needed improvement. The Hay Group will bolster the talent development at KFY while also increasing exposure to recurring licensing-based revenues, which should help reduce KFY's cyclicality revenues.

Valuation

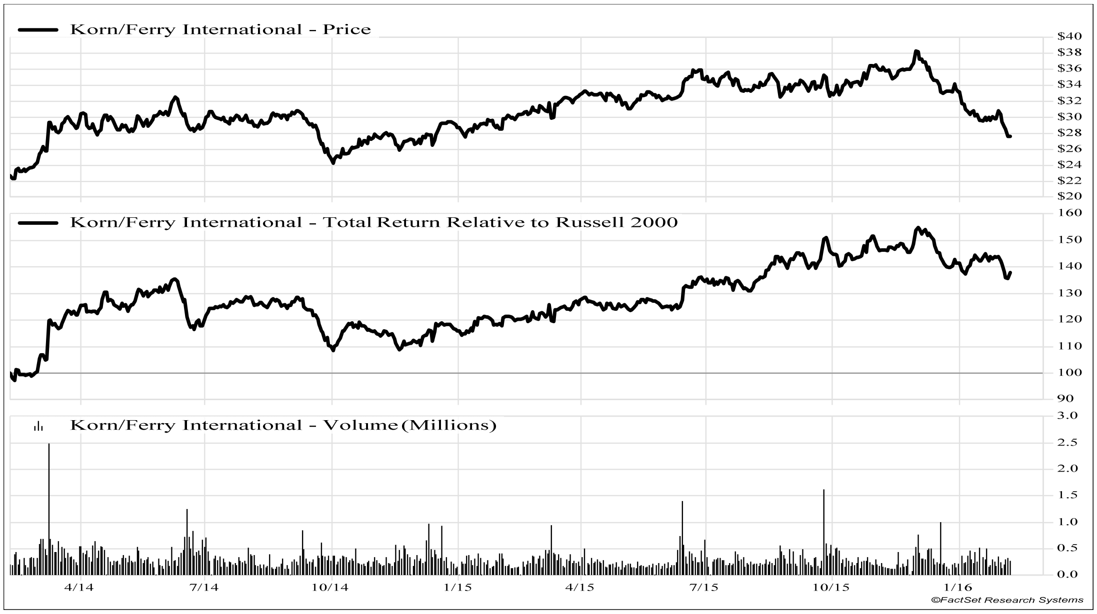
In order to reach an intrinsic value for KFY, a five-year DCF model was constructed. Using a terminal growth rate of 2.5%, a WACC of 10.35%, an intrinsic value of $35.57 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $32.02-$46.46. Additionally, a P/S multiple valuation was conducted using an average multiple for KFY of 1.27 and the forecasted revenues FY 2015 of $1,315 million, which resulted in a value of $31.99. A P/E multiple valuation was conducted using the forecasted 2015 EPS and a comparables P/E multiple of 17.92 which resulted in a valuation of $36.73. By weighing these three models 70/15/15 respectively, a price target of $35.21 was reached, representing a 27.48% upside.

Risks

- **Failure to Attract and Retain Consultants.** KFY competes with other executive recruitment and consulting firms for qualified and experienced consultants. Attracting and retaining key consultants is very important because usually a small number of consultants have the primary responsibility for a client relationship. For example, in 2015, the top ten executive search consultants had the responsibility of generating business equal to 4% of net revenues at KFY.
- **Cyclical Nature of the Industry.** Demand for the services of KFY is highly affected by global economic conditions and the level of economic activity in the regions where KFY operates. When conditions in the global economy, such as credit markets, deteriorate, or economic activity slows, companies will hire less which will have adverse impacts on the business that KFY is able to generate.
- **Risks Associated with International Operations.** KFY operates in 37 countries and FY April 2015, generated 46% of fee revenue from operations outside of the United States. As a result, KFY is exposed to the risk of changes in social, political, legal and economic conditions. Risks that KFY is exposed to include: fluctuations in currency exchange rates, difficulties building a presence in new markets and differences in labor and market conditions.

Management

Gary D. Burnison has held the CEO and President positions of Korn/Ferry International since 2007. Prior to 2007, he was the Executive Vice President and CFO of KFY beginning in 2002. Robert P. Rozek has served as CFO and Executive Vice President since February 2012, previously working for a commercial real estate services firm. Byrne K. Mulrooney has served as the CEO of Futurestep since 2010. Matthew Reilly has held the CEO of Leadership and Talent Consulting since joining the company in 2015.



Source: Factset

Ownership

% of Shares Held by All Insider Owners:	2.03%
% of Shares Held by Institutional & Mutual Fund Owners:	95.02%

Source: FactSet

Top 5 Shareholders

Holder	Shares	%Out
HG Bermuda, Ltd.	5,922,136	11.55
BlackRock Institutional Trust Company, N.A.	4,246,301	8.28
The Vanguard Group, Inc.	4,182,777	8.16
Dimensional Fund Advisors, L.P.	2,814,550	5.49
Jennison Associates LLC	1,928,225	3.76

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA	Dividend Yield	P/E
Korn/Ferry International	KFY	1,416	1,112	151.2	1.45	15.50
Heidrick & Struggles Intl	HSII	422	526	47.9	2.30	25.90
On Assignment Inc.	ASGN	1,667	1,860	185.0	N/A	21.60
ManpowerGroup	MAN	5,316	5,607	775.6	2.20	14.00
Trinity Mirror	TNI-GB	612	569	188.5	3.30	12.50
Trueblue Inc.	TBI	875	2,174	114.0	N/A	12.40
Peer Averages		2,004	2,140	299.3	2.60	18.5

Source: FactSet

Associated British Foods ADR (ASBFY)

February 12, 2016

Joel Kretz | International Consumer Staples

Associated British Foods ADR (ASBFY) is a multinational company in the food, ingredients, retail, and grocery spaces. The company sells its products in more than 45 countries and segments its customers into five regions: Africa and Middle East (4.4% of total revenue); Americas (9.9 %); Asia/Pacific (15.3%); Europe (70.3%); and Region Unspecified (0.0%). More granularly, revenues come from United Kingdom (42.5% of total revenue); United States (7.2%); China (7.0%); Germany (5.9%), France (4.2%); Italy (3.2%); and Other (30.0%). The company also slices its array of products into five key business segments: Retail (41.8% of total revenue); Grocery (24.8%); Sugar (14.2%); Ingredients (9.7%); and Agriculture (9.5%). ASBFY manufactures and sells sugars, meats, specialty proteins, hot beverages, baked goods, cereals, etc. Associated British Foods was founded in 1935 and currently has 124,000 employees. They are headquartered in London, United Kingdom.

Price ($) (02/08/16):	$44.12
Price Target ($):	$51.37
52WK H-L ($):	40.49-53.79
Market Cap (Mil):	34,930
Float (Mil):	34,930
Short Interest (%):	0.00%
Avg. Daily Vol:	28,876
Dividend ($):	$0.46
Yield (%):	1.04%

Beta:	0.92
WACC:	7.43%
M-Term Rev. Gr Rate Est:	7.50%
M-Term EPS Gr Rate Est:	19.19%
Debt/Equity:	14.10%
Debt/EBITDA (ttm):	0.60x
ROA:	4.97%
ROE:	8.08%
ROIC:	7.39%

FY: Dec.	2015	2016E	2017E	2018E
Revenue (Mil):	$ 19,852.80	$ 21,093.60	$ 22,464.68	$ 24,149.54
% Growth:	-7.65%	6.25%	6.50%	7.50%
Gross Margin:	23.66%	24.51%	24.73%	24.97%
Operating Margin:	7.73%	9.11%	9.81%	10.65%
Net Margin:	4.16%	5.57%	6.12%	6.79%
EPS (Cal):	$1.04	$1.48	$1.74	$2.07
FCF/Share (Cal):	$1.50	$1.41	$1.54	$1.72
P/E (Cal):	27.14	29.73	25.39	21.30

Recommendation

The AIM International Equity Fund is regionally underweight in Asia and Western Europe relative to the benchmark. Between Asia and Western Europe, it is perceived that Western Europe is a safer investment space. Western Europe is underweight by 1,072 bps and is one the more stable markets outside of the United States to invest and do business. Furthermore, AIM's international consumer staples (ICS) portfolio is underweight in food products and food & staples retailing by 47 bps and 178 bps respectively. ASBFY is the right company to add into the portfolio because it will serve as another anchor and a hedge against other current international consumer staples holdings that benefit from low commodity prices. The company's beta is 0.92, which protects the fund from wide market swings, relatively. ASBFY is not a short term growth play, but given the investment time horizon of the portfolio is long term value in nature, ASBFY will be a stable addition to the portfolio for long term growth and ROI relative to the lesser than normal inherent risk. The stock has achieved average performance during the ongoing low commodity price environment; so it is perceived that there is opportunity for reward with less risk. The company has improved its balance sheet, diversified its revenue stream segmentally and geographically, and is in a position to control its own destiny given its low debt levels relative to peers. After taking the aforementioned factors into account, it is recommended that Associated British Foods be added to the AIM International Equity Fund with a target price of $51.37, which yields a 16.43% upside.

Investment Thesis

- **Reward with less than typical risk.** ASBFY holds less inherent risk than a typical commodity producer or food manufacturer because of the diversity relevant to how it sells its foods and commodities. Sugar prices are down -27.68% over the past three years while ASBFY's stock price is up 58.71%. This makes sense given sugar sales have only generated 16.8% of the company's total sales, on average, over the past three years. The company has made up for falling sugar prices by selling more products through retail and grocery channels. This flexibility gives ASBFY a competitive advantage over its peer and gives the stock relative stability.
- **Investment payoff.** The company made £613M in capital investments in FY15 and reduced its total liabilities by £32M during the same period. This puts ASBFY in a stronger financial position in FY16. The stock price appreciated 11.70% in FY15 and is expected to continue to rise so long

as the company takes advantage of its stronger financial position and earns solid returns on its capital investments. For example, management indicated in its 2015 annual report that margins will benefit from investments to develop its grocery business, restructuring the company's ingredients operations in Europe and China, and building more locations in the United States and France. Expansion in Primark retail locations is expected to provide further diversification in revenue segmentation as well. Management has essentially been building a commodity crisis-proof company for the long run by shifting more revenues towards retail to protect against downturns in its edible commodity product areas.

- **Weaker GBP.** The USD and EUR have strengthened against the GBP 7.10% and 9.15% respectively over the past 6 months. 27.8% of ASBFY's revenues come from non-British Europe and 7.2% come from the United States. 35.0% of the company's revenues are derived from customers who have sizeable enhancements in purchasing power vs. six months ago; so FY16 should reflect higher revenues.

Valuation

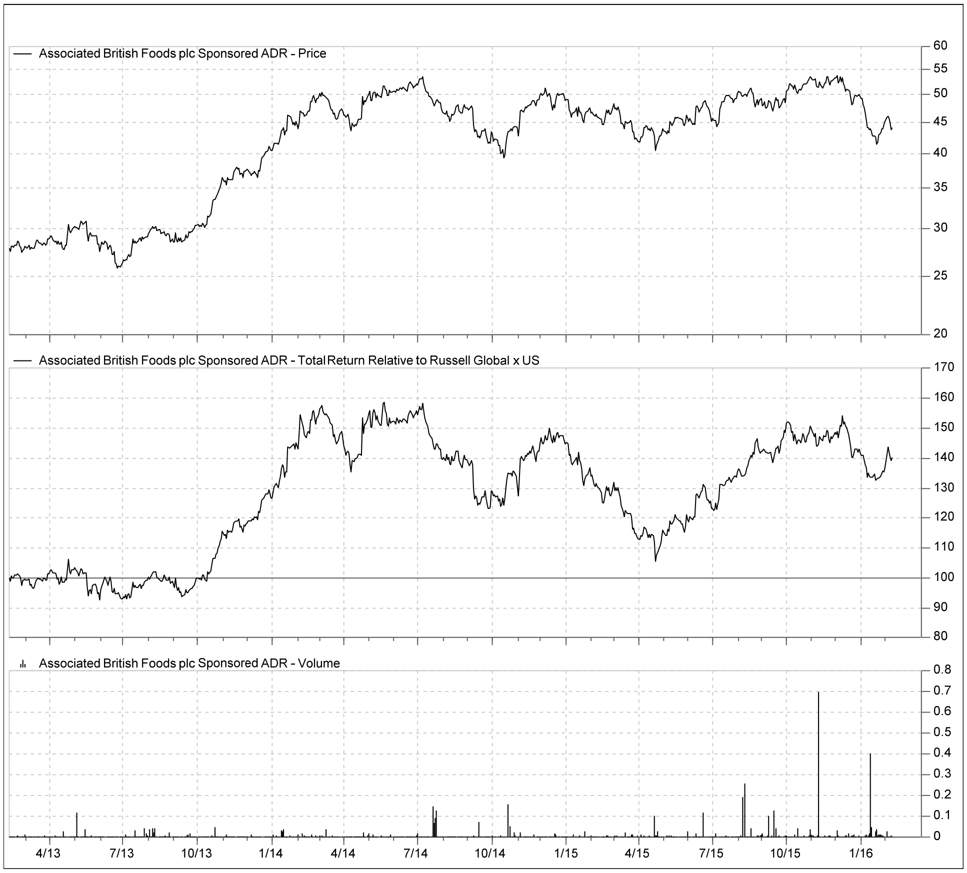
In order to reach an intrinsic value for ASBFY, a five year DCF model was constructed. Using a terminal growth rate of 2.00% and a WACC of 7.40%, an intrinsic value of $49.79 was reached. A sensitivity analysis on the WACC and terminal growth rate ranged from $46.66-$53.18 and $40.85-$65.90 respectively. Additionally, a P/E multiple valuation was used by utilizing ASBFY comparables and 2016 EPS estimate to calculate a valuation of $55.06. By weighting the two valuation models 70/30, a price target of $51.37 was reached, which yields a 16.43% upside. ASBFY pays a dividend and paid an annual dividend of $0.46 in September 2015, yielding 1.03%.

Risks

- **Unexpected regulation**. The food and beverage industry is one of the most scrutinized by government agencies across the globe. Further regulation on packaging or processing would negatively impact the bottom line. At the same time, companies at size of ASBFY and with corresponding clout are typically not surprised with unexpected regulation in the short term given the role they play in food production around the world.
- **British interest rate hike.** The company has decreased its short term debt YoY since September 2011 due, in part, to the ability to refinance its senior unsecured revolving credit lines. A hike in interest rates by the Bank of England may slow the rate at which ASBFY is able to continue decreasing its short term debt. It should be noted, though, that ASBFY's interest rate coverage is 16.50x.
- **EU sugar quota.** European Farm Ministers agreed to abolish the EU's system of sugar production quotas on October 1, 2017. Sugar companies will then be free to increase production, making sugar prices more volatile. At the same time, ASBFY has significant influence over global sugar prices as the world's second largest sugar producer. If necessary, the company could force lower prices to drive their competition that can't withstand further price depreciation out of business; and ASBFY could then take their market share.

Management

The CEO and Finance Director have bought 101,000 and 16,000 shares, respectively, of the stock traded on the London Stock Exchange over the past six months. George Garfield Weston serves as CEO with a 16 year tenure. He is 51 years old and earned a MA from New College, Oxford and a MBA from Harvard Business School. He also sits on the Board of Directors at The Garfield Weston Foundation. Mr. Weston was previously a Managing Director at George Weston Foods, Allied Bakeries, and Westmill Foods. John Bason has served as Finance Director with a 16 year tenure and earned an undergraduate degree from Trinity College. He is a member at the Institute of Chartered Accountants in England and Wales; and he sits on the Board of Directors at Compass Group, ABF Investments, and Voluntary Service Overseas UK. He was previously a Finance Director at Bunzl.



Ownership

% of Shares Held by All Insiders and Owners	0.00%
% of Shares Held by Institutional & Mutual Fund Owners	0.00%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
Columbia Management Investment Advisers LLC	14,000	0.0%
Glenmede Investment Management LP	Unknown	Unknown
Checchi Capital Advisers LLC	Unknown	Unknown
Quadrant Capital Group LLC	Unknown	Unknown
N/A	N/A	N/A

Source: FactSet

** Source listed incomplete data.*

Peer Comparables

Name	Ticker	Market Cap (Mil)	Debt/Equity (%)	P/E (ttm)	EV/EBITDA (ttm)
Associated British Foods	ASBFY	34,930	14.10%	42.97x	15.78
Al Khaleej Sugar	PRIVATE	N/A	N/A	N/A	N/A
Premier Foods	PFD	395	85.80%	27.00x	7.45
McCormick	MKC	11,213	83.60%	28.37x	17.47x
General Mills	GIS	32,854	183.90%	22.88x	11.74
Greencore Group	GNC	2,152	87.30%	23.71x	13.66x
	Peer Averages	11,653	110.15%	24.88x	12.33x

Source: FactSet

** Largest sugar producer in the world based out of Dubai, United Arab Emirates.*