Applied Investment Management (AIM) Program

AIM Class of 2013 Equity Fund Reports
Spring 2013

Date: February 15th | ***Time:*** 3-5 p.m. | ***Location: AIM Research Room (488)***

Join us in person, or considering joining us live

Connect to the LIVE meeting; follow this link to Blackboard web-based conferencing tool

Student Presenter	Company Name	Ticker	Price	Page No.
Taylor Nordmark	Arctic Cat, Inc.	ACAT	$37.50	2
Atena Liu	Avago Technologies	AVGO	$36.26	5
Eric Gomach	Endesa-Chile (EOC)	EOC	$52.80	8
Steve Demogerontas	Green Dot Corporation	GDOT	$13.44	11
Max Michelson	MannKind Corporation	MNKD	$2.41	14
Kobe Park	Sumitomo Mitsui	SMFG	$8.16	17
Tim Maturo	Titan International	TWI	$24.87	20

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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Arctic Cat, Inc. (ACAT)
February 15, 2012
Taylor Nordmark Consumer Discretionary

Arctic Cat, Inc. designs, engineers, manufactures, and markets snowmobiles and all-terrain vehicles (ATV's) under the Arctic Cat® brand name as well as related parts, garments, and accessories (PG&A). The company markets its products through a network of over 1,500 independent dealers located in the U.S., Canada, and Europe and through distributors representing dealers in Europe, the EMEA, South America, and Asia. For FY12, the sales mix was $250M from snowmobiles (43%), $227M from ATV's (39%), and $108M from PG&A (18%). ACAT is a well-recognized brand in the Power Sports industry and is frequently acknowledged by independent publications as having best-in-class products in both the ATV and snowmobile segments. While recreational riding is the most common product usage, ACAT's products are also widely used for farming, ranching, fishing, and hunting. Arctic Cat, Inc. was incorporated in 1982 and maintains its headquarters in Plymouth, MN.

Price ($) (2/7/2013):	$ 37.50	Beta:	1.48	FY January	2012A	2013E	2014E
Price Target ($):	$ 49.41	WACC:	13.86%	Revenue ($Mil)	$ 585.27	$ 675.00	$ 776.25
52WK H-L ($):	31.41-47.46	Debt/Equity:	0.0%	% Growth	25.96%	15.33%	15.00%
Market Cap (mil):	$ 494.27	2012 ROE:	18.6%	Gross Margin (%):	22.92%	23.32%	23.82%
Float (mil):	12.9	2012 ROA:	11.3%	Operating Margin (%):	7.84%	8.92%	10.32%
Short Interest (%):	7.0%	Mid-Term Rev Gr Rate Est	15%	EPS	$ 1.62	$ 2.33	$ 3.02
Avg. Vol (3 month):	187,161	Mid-Term EPS Gr. Rate	11%	EPS % Growth	151%	31%	31%
Yield (%)	N/A	P/EBITDA	7.7	P/E (Cal)	23.21	16.39	14.79

Recommendation

Although Arctic Cat Inc.'s 3Q12 results fell short of expectations (revenue $218M vs. $240 and EPS $1.30 vs. $1.33), the company is well-positioned to return to pre-recession sales volume in the next fiscal year. U.S. snowmobile sales (-2% QoQ), as well as garments and accessories designed for snowmobiling, took a hit due to the remarkable lack of snowfall over the last two winters and the still weakened economy; it should be noted that this was an industry-wide trend as opposed to a mere lack of execution by ACAT. Yet despite the unfavorable weather, snowmobile sales were up 5% for the first 9 months of FY13 - and if precipitation continues to pick up in the back half of winter, sales should benefit considerably. The ATV section upped revenues by nearly 30% QoQ driven largely by the global popularity of the recently released Wildcat line of side-by-side ROV's. PG&A sales were down (-2% for the first nine months). The drop in PG&A is attributed primarily to the mild winter as reduced use of products leads to diminished need for maintenance. After weathering the worst financial crisis and economic contraction in its history, ACAT has come out a stronger company with a robust balance sheet as well as a renewed focus on developing innovative products and bolstering margins (gross margin up 50% since 2009). As economic fundamentals, most notably consumer confidence, continue to recover, Arctic Cat, Inc. is poised to benefit greatly in the years ahead.

Investment Thesis

- **Increased Acceptance of Wildcat and Potential for Cross-selling.** Side-by-side recreational off-highway vehicles (ROV's) have been a source of growth for the industry in recent years. Since launching their first side-by-side in 2006 ROV's come in various models intended for recreational, commercial, and military uses. In 2006, ACAT launched its first heavy duty utility side-by-side vehicle, the Prowler HDX. Also, the emergence of the Wildcat and Prowler introduces an opportunity to sell additional SKU's in the PG&A segment. The ROV's are highly customizable and PG&A offers healthier margins than their vehicles (40% vs. 17% FY12). ROV's are more frequently used for activities other than recreation, including military operations, short distance cargo transport, and various farming and ranching jobs. As a result, the demand is less sensitive to the economic and weather conditions than typical discretionary purchases. Management has expressed interest in expanding sales to the military by $200,000 in 2014.

Historically garment sales have been much stronger in the snowmobile segment but ACAT has committed to developing and marketing additional garment selections for ATV and ROV users.

- **Renewed Focus on Research and Development.** Since 2012, R&D expense has increased at an average annual rate of 17.5%; for FY13, ACAT management has guided a 15% increase and through December was on track to meet this target. Through December, operating margin was up 100 bps despite the increase in R&D expense. Their commitment to R&D has allowed them to introduce 23 new models of snowmobile, 2 new models of ROV, and 5 new ATV models this year. In 2012 80% of their sales came from models or model variations not available three years earlier, which speaks to the fact that innovation is critical to growth in the Power Sports industry.

Valuation

To find the intrinsic value of ACAT, a five-year DCF using a computed WACC of 13.86% was performed to yield an intrinsic value of $42.40. Additionally, an industry average EV/EBIT multiple of 10x was applied to FY13 EBIT forecast equaling a value of $57.88; a multiple of 10x was obtained by computing the average EV/EBIT multiple of its five most similar competitors. Finally, a sensitivity analysis was applied with the WACC and terminal growth rate varying 11-15% and 1-3% respectively to yield $46.49. The three approaches were then blended to obtain an intrinsic value of approximately $50, offering an upside of approximately 30%. Though the company does not currently pay a dividend, it did pay a quarterly dividend of $0.08/share up until 2009; given their strong cash reserves (~$100M or $7 per share on balance sheet at the end of Q3), there is a reasonable possibility that ACAT will reinstitute a dividend in the coming years.

Risks

- **Effects of Weather.** The winter of 2012 was one of the mildest winters the United States has recorded in years. The National Climatic Data Center reports that from Dec. ’11 to Feb. ’12, only five states registered temperatures considered near normal and 27 states registered temperatures considered “much above normal” and 16 states registered precipitation ranks below normal. Mild winters such as 2011-2012 cause lower demand for snowmobiles; additionally because owners of snowmobiles aren’t able to get out and use them as frequently, replacement parts sales are affected as well.
- **Industry’s Sensitivity to Economy.** Although ACAT’s vehicles are widely used for farming, ranching, and commercial purposes, recreational riding remains the majority of usage (31% for ROV’s & 48% ATV’s). Leisure activity products, especially big ticket items with maintenance costs, are sensitive to underlying economic fundamentals. And though the economy is slowly recovering, ACAT is particularly sensitive to unforeseen economic events that erode consumer confidence.

Management

Claude Jordan has been CEO and President of Arctic Cat, Inc. since January 1, 2011; prior to that he served as COO for the company. He has 15+ years of experience in various management positions at Arctic Cat, Home Depot, and GE. In November, ACAT brought on manufacturing veteran Joe Puishys. Mr. Puishys has 30+ years of experience and comes from Honeywell’s Environmental and Combustion controls.

Ownership

% of Shares Held by All Insider and 5% Owners:	2%
% of Shares Held by Institutional & Mutual Fund Owners:	>90%

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
BLACROCK INSTITUTIONAL TRUST CO.	973,616	7.39
DIMENSIONAL FUND ADVISORS, LP	877,332	6.62
VANGUARD GROUP, INC.	839,705	6.34
JP MORGAN ASSET MANAGEMENT	578,842	4.39
BMO ASSET MANAGEMENT U.S.	508,120	3.84

Source: Bloomberg

Avago Technologies (AVGO)
February 15, 2013

Atena Liu International Information Technology

Avago Technologies (NASDAQ: AVGO) designs, develops, and supplies a broad range of analog semiconductor devices to over 40,000 end customers worldwide. They focus on III-V based semiconductors. These materials tend to perform better than conventional silicon in applications such as radio frequency (RF) and optoelectronics, which are the major components in the wireless communication segment. The product portfolio includes around 7,000 products in four primary target markets: wireless communications (42% of total sales), wired infrastructure (28%), industrial and automotive electronics (22%), and consumer and computing peripherals (5%). These semiconductor devices are applied on cellular phones, storage and Ethernet products, and industrial and automotive related products. Some of their major end customers include Samsung, Huawei, Siemens, IBM, LG, among others. The products are mainly sold through AVGO's direct sales force, manufacturers' representatives, and distributors. Avago operated as a subsidiary of Agilent Technology, which was a part of HP, since around the 1960s. It was acquired by KKR and Silver Lake Partners in 2005 and went public in 2009 priced at $15 per share. Currently Avago has joint headquarters in Singapore, Singapore and San Jose, California.

				FY: December	2012A	2013E	2013E
Price ($) (02/01/2013)	36.26	Beta:	0.99	FY: December	2012A	2013E	2013E
Price Taget ($):	46.12	WACC	10.4%	Revenue (Mil)	2,364	2,476	2,665
52WK Range ($):	29.7-39.22	M-Term Rev. Gr Rate Est:	4.2%	% Growth	1.20%	4.72%	7.66%
Market Cap:	8.9B	M-Term EPS Gr Rate Est:	6.0%	Gross Margin	48.31%	49.74%	49.90%
Float	243.30M	Total Debt/Equity	0.1%	Operating Margin	24.62%	26.74%	26.49%
SI/% of Float (%):	1.1M/0.46%	ROA:	21.2%	EPS (Dil)	$2.25A	$2.54E	$2.71E
Avg. Daily Vol (3m):	2.8M	ROE:	25.5%	FCF/Share	1.84	2.31	2.64
Dividend ($):	$ 0.68			P/E	16.1x	14.3x	15.6x
Yield (%):	1.88%						

Recommendation

With revenues growing at a 10.5% CAGR for the past five years, Avago is highly leveraged to exploit smartphone growth and the market moving toward LTE. As of FY2012, 51.9% of AVGO's revenues come from Asia with China being the major contributor. 15.7% of revenues are generated in the US, and 24.6% are from the rest of the world. The company dedicates a large sales force focused on supporting big OEMs such as Cisco, HP, IBM, etc. Technically, the company is not fabless – it maintains a small compound semiconductor foundry in their locations in Colorado, Singapore, and Malaysia. AVGO, however, receives the majority of its finished wafer supply from foundries, just as a fabless company does. AVGO does so to minimize CapEx by focusing internal manufacturing capacity on innovating products and protecting intellectual property. The company is confident in the popularity and above-average margins in its newest product, FBAR, filters that enable smartphones to function more efficiently. In April 2012, AVGO announced a share buyback program to repurchase up to 15M of its ordinary shares. The company also pays an annualized dividend of $0.68, 52.5% higher than the year before. In the past five years, AVGO has improved its gross margin from 38.6% to 48.3%. The Singaporean government also provides a tax-break benefit to the company. Due to the above-mentioned reasons, AVGO is recommended to be added to the AIM International Equity portfolio with a target price of $42, presenting an upside of 16%.

Investment Thesis

- **Exposure to growth in Asia:** Although AVGO's presence in Asia five years ago was only in Singapore, today Asia accounts for more than 50% of their revenues, with China accounting for 41.5%. The revenue CAGR in China for the past five years has been 30.5%. AVGO presents a nice opportunity to increase exposure in the rapidly growing Asian market without the inherent risks of investing in an ADR.

- **Growth in smartphones and LTE:** AVGO's Wireless Communication focuses on designing products in the area of Radio Frequency (RF) and optoelectronics (e.g. optical finger navigation). This segment is mostly dedicated to handsets, especially smartphones which currently account for 42% of the growth. According to Displaybank, global touch panel shipments, mainly smartphones and tablet computers, are expected to grow more than 30% for 2013, and that the shipments will top 2.75 billion units from 2012's 1.35 billion. This growth will benefit AVGO by boosting industry demand for their Wireless Communication section, while avoiding the risk of betting the winner of smartphone vendors.
- **Leader in the analog semiconductor market:** With fifty years of experience in the RF and optoelectronic industry, AVGO has accumulated expertise in understanding clients' needs, such as system-level knowledge and timely distribution. With a focus on the research and development of innovation, AVGO developed a portfolio of over 7,000 products. Currently, no competitor covers the wide variety of areas that AVGO serves. They have also established a strong relationship with leading OEM customers across multiple markets. These customers have had AVGO as a vendor for numerous products in multiple years. Such strong relationships have allowed AVGO to serve their target market more effectively.

Valuation

To find the intrinsic value of AVGO, a ten-year DCF was conducted. Terminal rate for FCF is set to grow at 2.5%. Revenue growth rate is set to decline gradually due to the penetration of smartphones and the LTE market. A WACC of 10.35% was used using S&P ADR as the benchmark. The DCF method generated an intrinsic value of $46.12 per share. A forward EV/EBIT multiples approach was also used - with a peer multiple of 12x; an intrinsic value of $36.10 was generated. Weighing the two values at 60/40, a price target of $42.11 was established, representing a 16% upside. The dividend yield is 1.88%.

Risks

- **Reliance on a small number of customers.** As of FY2012, AVGO's top ten customers account for 62% of the total revenues. Headwinds for any of these customers can also greatly impact AVGO's sales. AVGO is expected to continue to experience significant customer concentration in future period.
- **Industry risk:** Semiconductor industry is known for its inherent volatility, cyclicality, the rapid technological changes, and price erosion. Any type of news related to the slowdown of key verticals can significantly impact the stock price. Industry consolidation will also intensify the competition in this area, posing a threat to AVGO's profitability

Management

Hock E. Tan has been the CEO of the company as well as President on the Board since March, 2006. Mr. Tan has extensive leadership experience in the semiconductor industry. Between 2005 and 2008, he also served as the chairman for Integrated Device Technology, a US-based semiconductor company with a focus on integrated circuits. Prior to IDT, he served as CEO and President at Integrated Circuit Systems from 1999 to 2005. He also held the position of VP of Finance with Commodore International, as well as senior management positions with Pepsi Co. and GM. Doug Bettinger serves as Senior VP and CFO since August, 2008. Prior to AVGO, he held the position of CFO at 24/7 Customer for three years, followed by serving as the VP of Finance for a year at Xilinx, a company that provides programmable logic devices.

Source: Bloomberg

Ownership

% of Shares Held by Insiders:	0.48%
% of Shares Held by Institutional & Mutual Fund Owners:	95.16%

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
Capital Group Companies	42,346,520	17.25%
Fidelity Management	17,198,081	7.01%
Black Rock	13,386,170	5.45%
Jennison Associates	12,708,323	5.18%
Vanguard Group	11,336,064	4.62%

Source: Bloomberg

Endesa-Chile – ADR (EOC)
February 15, 2013

Eric Gomach International Utilities

Empresa Nacional de Electricidad S.A. (Endesa-Chile) (NYSE: EOC) is a Chilean-based electricity producer with production and distribution facilities across South America. Through its operations, EOC produces electricity from hydro-electric (58% of installed capacity), thermal (41%) and wind (1%) based assets with installed production capacity of 14,185 MW. EOC is Chile's largest producer of electricity with 35% of the nation's installed capacity, representing 42% of the firm's total installed capacity. Operating in the regulated, unregulated and spot rate markets throughout Chile, Argentina, Columbia and Peru, EOC has diversified its asset base across a variety of generation sources and jurisdictions. The firm also has equity investments in a Brazilian based electricity company.

				FY:	2012A	2013E	2014E
Price ($): (2/8/13)	52.80	Beta vs SPADR:	0.81	Revenue (mil)	4,874	5,191	5,477
PriceTarget ($):	59.95	WACC:	8.85%	% Year Growth	-1.41%	6.50%	5.50%
52 WK H-L ($):	55.96-44.53	Discount Rate:	10.35%	Gross Margin	43.92%	49.75%	50.25%
Market Cap (mil):	14,435	M-Term Rev. Gr Rate Est:	4.56%	Operating Margin	26.68%	32.75%	33.25%
Float (mil):	273.4	M-Term EPS Gr Rate Est:	8.71%	EPS (Cal)	$0.06	$0.10	$0.11
Short Interest (%):	N.A.	Debt/Equity:	56.45%	FCF/Share	$0.12	$0.11	$0.12
Avg. Daily Vol (mil):	0.124	ROA:	3.59%	P/E (Cal)	27.2x	20.5x	18.6x
Dividend per ADR ($):	1.28	ROE:	9.19%	EV/EBITDA	10.8x	9.3x	8.6x
Yield:	2.62%						

Recommendation

Despite lower revenue and profitability in 2012, EOC offers investors an attractive opportunity going forward. In 2012, EOC reported its lowest profitability in five years with gross profit margin dropping to 43% from a five-year average of 50%, attributable to unfavorable electricity costs. Over the past three years, Chile has witnessed the driest La Niña cycle in the last sixty years. This abnormally long cycle translated into record high operating costs for EOC over the past three years. Historically low water levels have forced the company to shift its low cost hydro-operations to less profitable natural gas and coal fired thermal producing plants. Once weather conditions return to normalized levels, the firm's costs are expected to return to 2010 levels as hydro generating assets fully ramp up. A return to hydro based assets will diminish the need of EOC to purchase costly power in the spot market to fulfill its contractual obligations. Despite prolonged unfavorable weather conditions, EOC's geographic and operational diversity has mitigated some of the financial effects pure Chilean hydro companies have realized over the same cycle. One such instance of geographic diversification comes from EOC's Colombian operations, with 85% of production attributable to Hydro and 15% to thermal. EOC's Colombian operations are its most profitable segment, 2012 EBITDA of $771mm, primarily due to a greater mix of unregulated contracts and spot market sales. An additional hydro-plant currently under construction in Colombia will increase EOC's Colombian installed capacity by 14% after the plant is complete in 2014. While the recent dependence on thermal power plants has negatively affected EOC, the risk moving forward may now be mitigated due to the worldwide boom in LNG. EOC previously paid $17 per MMBTU for natural gas, but a recent contract renewal has substantially lowered the firm's cost to $8 per BTU, a driver the market may be overlooking. Through a diverse mix of production assets, EOC has created a profitable operational structure which limits investor downside in unfavorable markets and is recommended as an addition to the AIM International Equity Portfolio with a price target of $59.95, offering a 14% upside from its current trading price. Additionally, the company offers a 2.62% dividend yield.

Investment Thesis

- **Economic Moat:** The electricity generation market benefits from high barriers to entry due to large capital costs and market regulation. At a capital expenditure cost of ~$800Bn per hydro-electric plant, only the largest firms can compete in the South American utility market. Additionally, EOC's hydro-electric power plant network offers the company profitability advantages over its thermal dependent peers.

- **Diverse Revenue Streams:** While regulated utilities may be unfavorable due to a ceiling on prices companies can charge, the structure also offers a consistent inflation indexed cash flow. Nearly 66% of EOC's Chilean EBITDA is derived from regulated contracts with the remaining attributable to the unregulated and spot markets. On the other hand, EOC's expanding Colombian operations consists of only 53% regulated contracts, offering more favorable pricing conditions. A diversified pool of revenue streams across multiple jurisdictions continues to provide the firm with stable cash flows through unpredictable operating cycles.
- **Sustainable Dividends:** Despite poor operating conditions over the past two years, EOC has been able to maintain its 50% dividend payout. With strong free cash flow generation, EOC's dividends have been produced by internally generated funds, without the need to raise capital to maintain its payout. At $1.28 per ADR, EOC's dividend decreased YoY, but is expected to climb in 2013 as operational activities are expected to improve.

Valuation

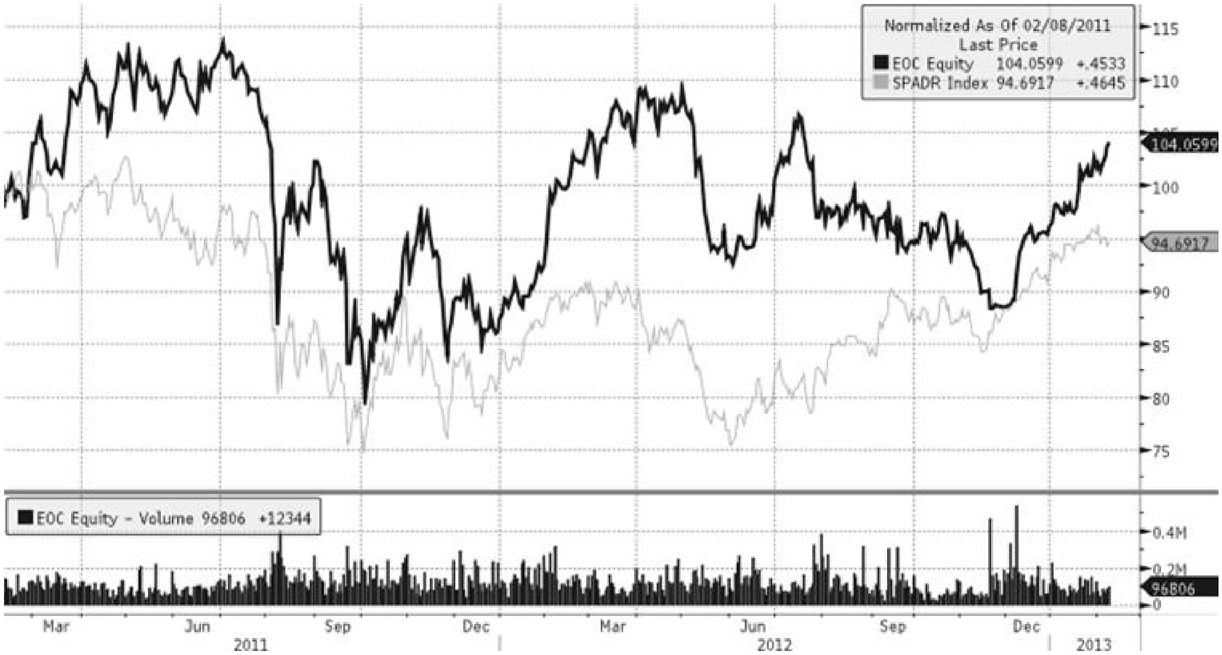
Three valuation techniques were utilized to derive an intrinsic value for EOC. A discounted cash flow (DCF) valuation with a discount rate of 10.35% and a TV growth rate of 3% was conducted to project the firm's future cash flow generation. Additionally, a peer average EV/EBIT multiple of 12.5x was applied to FY 2013E EBIT to value the firm on a relative basis. Finally, a dividend discount model (DDM) was used to value capital outflows to shareholders. Intrinsic values of $61.22, $62.87 and $51.59 were derived from each valuation technique, respectively. After applying a 40% weight to both the DCF and comparable valuations and a 20% weight to the DDM, a price target of $59.95 was obtained, representing a potential upside of 14%. EOC also paid dividends totaling $1.28 per ADR in 2012, a 2.62% yield.

Risks

- **Control Structure:** EOC is part of a complicated capital structure in which it is 60% owned by its parent company, Enersis. Enersis, a company engaged in electricity generation across similar jurisdictions, is also 60% owned by its parent company, Endesa Spain, one of the largest Spanish electricity producing companies. Finally, Endesa Spain is 92.1% owned by Enel, making the company the ultimate controlling body of EOC. Due to 60% of EOC's outstanding stock owned by Enersis and another 32% owned by Chilean funds and foreign investors, ADR shares represent only 4.77% of the outstanding equity, with the remaining 3.8% attributable to minority shareholders.
- **Hydrological Conditions:** The majority of EOC's electricity production assets depend on favorable hydrological conditions, opening the firm to substantial unpreventable weather risk. If electricity contracts cannot be fulfilled by hydro-electricity, due to low water tables and reserves, EOC may be forced to purchase electricity in the open market at the spot price to fulfill its contractual obligations. Contracted sales may be less than the cost of the purchased electricity.
- **Foreign Currency:** EOC is exposed to currency risk due to the firm's operations across several South American jurisdictions. While some of the firm's risk is internally hedged due to debt denominated in the currency which its subsidiaries operate, no such hedge exists between the firm's USD denominated debt. Derivatives are used to partially hedge the USD debt.

Management

Joaqin Galindo Velez has served as CEO of EOC since November 2009. Prior to serving as CEO, Velez held numerous board positions within the Endesa subsidiary framework, including that of Endesa Europe. Velez holds degrees in both electrical engineering and economics along with a business administration M.B.A.



Ownership - ADR Shares

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

Top 5 Shareholders - ADR Shares

Holder	Shares	%Out
Blackrock	3,197,895	1.17%
Vanguard Group Inc	1,874,977	0.69%
State Street	603,072	0.22%
Credit Suisse AG	414,105	0.15%
Dimensional Fund Advisors LP	413,869	0.15%

Green Dot Corporation (GDOT)
February, 15 2013

Stavros Demogerontas — Financial Services

Green Dot Corporation (NYSE: GDOT) is a leading financial services company providing simple, low-cost and convenient money management solutions to a broad base of U.S. consumers. GDOT sells cards and offers reload services nationwide at approximately 60,000 retail store locations, including those of major national mass merchandisers, national and regional drug and convenience store chains, and national and regional supermarket chains. The company's products include Green Dot MasterCard, Visa branded prepaid debit cards, and various co-branded reloadable prepaid card programs. It is Green Dot's Network that enables consumers to use cash to reload its prepaid debits cards or to transfer cash to any of the company's Green Dot Network acceptance members. In 2012, revenues derived from products and services sold at the store locations of Wal-Mart and the company's three other largest retail distributors were approximately 61% and 20%, respectively.

Price ($): (2/3/13)	$13.44		Beta:	1.01	FY:Dec	2012A	2013E	2014E
Price Target ($):	$ 20.89		Discount Rate:	10.49%	Revenue (mil):	533	717	897
52WK L-H($):	9.05-32.49		M-Term Rev. Gr Rate Est:	10.00%	% Growth:	16.88%	34.57%	25.00%
Market Cap (mil):	481.20		M-Term EPS Gr Rate Est:	12.63%	Operating Margin:	20.10%	25.36%	25.51%
Float (mil):	23.1		Financial Leverage:	1.71	EPS ($):	1.07	1.33	1.48
Short Interest (%):	9.54		ROA:	14.64%	P/E ($):	13.81	12.34	11.97
Avg. Daily Vol (mil):	0.473		ROE:	24.63%	BVPS ($):	9.10	9.87	10.94
Annual Dividend ($):	0		Debt/Equity	0.00%	P/B:	1.57	1.51	1.43

Recommendation:

GDOT is the largest player in the general purpose reloadable space (GPR). With over two times the number of active cards as the next biggest competitor, Green Dot has seen significant growth over the past two years. GDOT has a bright outlook for 2013, as the company plans to roll out GoBank in the first half of the year, launch the RushCard product in over 30,000 Green Dot retailors, and enter new retail locations that should help increase profitability and acquire new prepaid customers. Dollar Tree will be GDOT's largest new retailor, which will help GDOT provide its products in 4,300 stores. This is expected to generate $23MM-30MM of incremental revenue for the company. GDOT saw strong improvements in its key usage metrics in 2012. Total revenue per active card increased 8% in Q4 to $31.68 per card. Also, spend per active card increased 9% (YoY), which was the main driver for the 16% increase in interchange revenue. Cash transfers per active card increased 14% (YoY), which helped drive cash transfer revenue growth of 21%. To complement these strong usage metrics, the prepaid card industry is one of the fastest growing segments in the retail financial services today. Moreover, GDOT has been a bank holding company since the end of 2011, and therefore saves on the costs that many other prepaid card managers incur because they lack the ability to issue cards themselves. With GDOT's, position to take advantage of these drivers and continue to lead the U.S. prepaid debit card industry with management's positive attitude going forward, it is recommended that GDOT be added to the AIM Equity Portfolio with a price target of $20.89. The firm does not pay a dividend.

Investment Thesis:

- **Attractive Prepaid Debit Card Industry.** Prepaid debit cards are the fastest growing form of electronic payment in the nation. These cards are geared toward individuals with little or no credit history, or those who have difficulty obtaining traditional credit cards. More than 34MM Americans are either unbanked or under banked, so the addressable market is huge. People who are under banked were estimated to have spent $36BN annually on check cashing, pay lending, and prepaid cards, and that number is expected to grow this year. According to Mercator Advisory Group, GPR prepaid volume is expected to grow by approximately 56%, to $354BN, during the next two years, and has grown 20% between 2006 and 2009. Lastly, the Social Security Administration ("SSA") announced last month that it will eliminate the issuance of most paper checks beginning next month. Recipients will be sent either a debit card with the payment preloaded method, or they can set up a direct deposit.

- **Acquisition of GoBank.** GoBank is an entirely mobile-focused bank, unlike the smartphone applications that many bricks-and-mortar banks have created. The absence of a traditional bank infrastructure will benefit GDOT by not incurring many of the costs associated with typical banks today. GoBank's target customers are the consumers who have previously banked, under banked, or never banked. Unlike traditional checking accounts that come with a lot of fees, GoBank will charge just four fees. This strategy should be appealing to the 18-to-34 year old demographic group. Lastly, GoBank was also designed to be fast, allowing users to access their account balances in two seconds versus an average of over 30 seconds in other mobile bank applications.
- **New Retailor Relationships.** During 2012, GDOT entered in new distribution deals with Sallie Mae, RushCard, and Dollar Tree. These deals are open and give GDOT new opportunities to leverage its vast distribution network with new partnerships. GDOT will manage Sallie Mae's financial aid distributor GPR card program in 2013. Sallie Mae currently serves over 1,000 schools in the U.S., and the majority of those schools currently buy Sallie Mae's "My FlexCard" financial aid disbursement card, which GDOT will start managing in 2013.

Valuation:

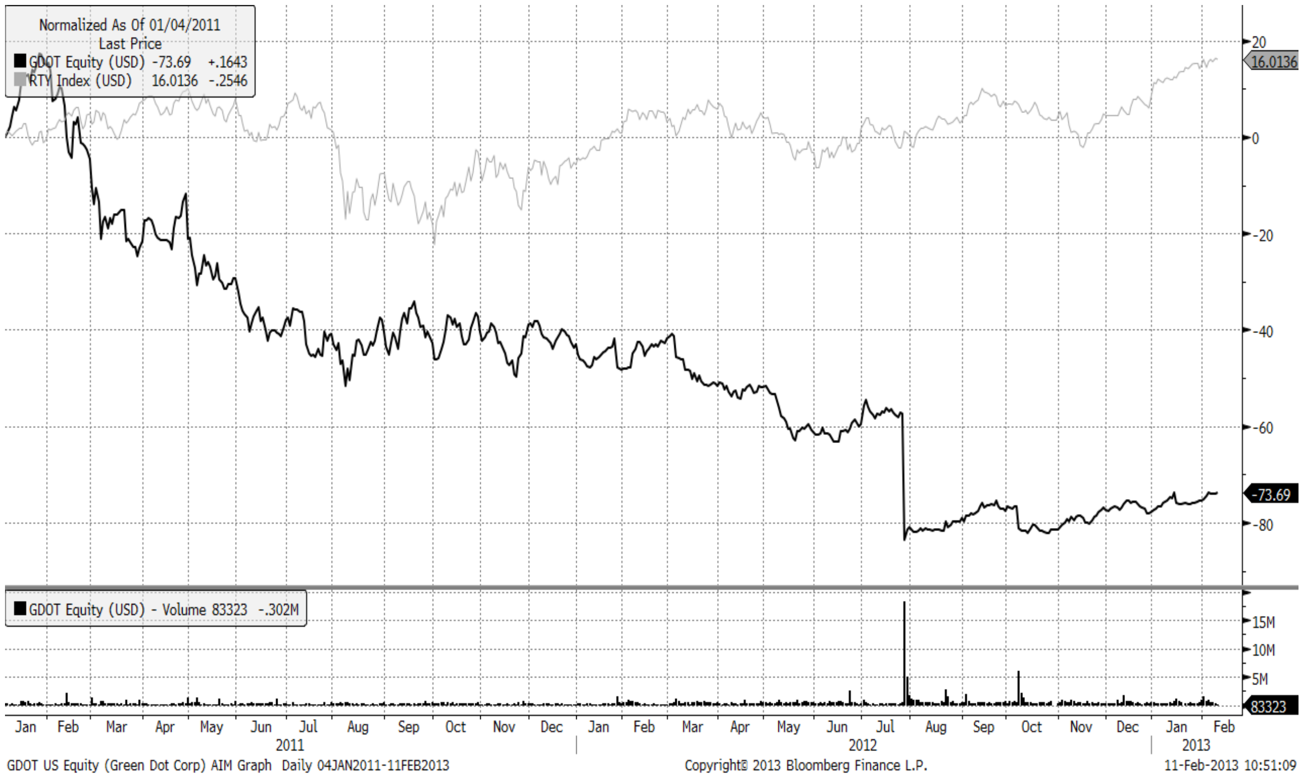
GDOT was valued using a five year DCF analysis in combination with a P/B multiple approach. Based on a calculated WACC of 10.49% and a terminal growth rate of 2%, the DCF analysis yielded an intrinsic value of $21.13. A sensitivity analyses was conducted on the terminal value and WACC to find a valuation range between $17.69 and $31.15. In addition, a 1.96x P/B multiple approach was used, generating an intrinsic value of $20.65. Weighting the DCF (50%) and P/B multiple (50%), a final price target of $20.89 was established, providing a potential upside of 55%. The firm does not pay a dividend.

Risks:

- **Retailer Distribution Relationships.** Over 80% of GDOT's revenue comes from the company's four largest retailers. If GDOT loses their relationship with one of the large retail distributors it can have significant impact on GDOT's operating revenues. In addition, any publicity associated with the loss of any of these retail distributors could harm the firm's reputation, making it more difficult to attract and retain customers and other retail distributors.
- **Rules and Standards Set By Payment Networks.** Banks that issue GDOT's cards are subject to association rules that could expose the firm to a variety of fines and penalties that may be levied by the card associations and networks for acts or omissions by businesses that GDOT works with. Also, the company's operating expenses can increase and reduce their profit margin if card associations increase the organization and/or processing fees.

Management

Steven W. Streit is the founder, and has served as the President and Director since October 1999, CEO since January 2001, and Chairman since February 2010. Mr. Streit also served as the Treasurer from October 1999 to 2004. John L. Keatley has served as the CFO since October 2006. From August 2004 to May 2005, Mr. Keatley served as the Director of Financial Planning & Analysis. Prior to joining GDOT, Mr. Keatley served various positions at McKinsey & Company, a management consulting firm, from 2001 to 2004.



Source: Bloomberg

Ownership

% of Shares Held by All Insider and 5% Owners:	24%
% of Shares Held by Institutional & Mutual Fund Owners:	84%

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	%Out
SCFF Management LLC	2,827,749	9.03
FMR LLC	2,433,137	7.77
Wellcome Trust Limited as Trustee of the Wellcome Trust	2,000,000	6.39
Opus Capital Group, LLC	1,731,256	5.53
Price (T.Rowe) Associates	1,653,712	3.24

Source: Bloomberg

MannKind Corporation (MNKD)

February 15, 2013

Max Michelson Healthcare

MannKind Corporation (NASDAQ:MNKD) MannKind Corporation is a biopharmaceutical company focused on the discovery, development and commercialization of therapeutic products for diseases such as diabetes and cancer. Its lead product candidate, AFREZZA is an ultra rapid-acting insulin that is in late stage clinical investigation for the treatment of adults with type 1 or 2 diabetes for the control of hyperglycemia. The insulin is delivered in a powered form by inhalation through the company's Dreamboat system. MNKD is currently working with the FDA to supplement a complete response letter which requires more data for an approval to be reached. Current schedules have a FDA approval in early 2014. AFREZZA has been tested on over 5000 candidates successfully. Currently looking for a partnership, AFREZZA will change the way diabetics receive insulin. MannKind Corporation was founded in 1991 and is headquarter in Valencia, CA.

Price ($) (2/8/13)	2.41	Beta:	1.05
Price Taget ($):	5.74	WACC	12.57%
52WK Range ($):	3.11- 1.57	CAGR	20.01%
Market Cap:	592.3M	P/S Multiple	4.5x
Float	121.3M	Net Debt	159.90M
Short Interest (%):	23.4%	ROA:	-55.80%
Avg. Daily Vol:	195,679K		
Dividend ($):	N/A		
Yield (%):	N/A		

FY: December	2011A	2012E	2013E
Revenue (Mil)	$0	$0	$15
EBIT	-$140.54	-$148.57	-$97.18
EBITDA	-$124.63	-$139.50	-$76.45
EPS (Cal)	-$1.32A	$0.88E	-$0.43E
FCF/Share	-1.07	-0.73	-0.43
Free Cash Flow	-130.70	-99.80	-43.63

Recommendation

Diabetes is a great and growing health concern to the general public. Currently, in the United States alone roughly 25 million Americans have either type 1 or 2 diabetes. If current trends continue, approximately one in three adults in the US will have diabetes by 2050. MannKind's lead product candidate, AFREZZA possesses a delivery and reaction method unlike any other insulin treatment on the market. The AFREZZA inhalation powder is rapidly absorbed into the bloodstream following inhalation, reaching peak levels within 15 minutes of use. AFREZZA closely replicates the insulin levels of a normal person immediately following the beginning of a meal, which is often volatile for sufferers of diabetes. This method is not only better for insulin level control relative to current treatments; it is also vastly more convenient than taking several insulin shots a day or using a diabetic pump. The firm is currently in talks with several larger pharmaceutical companies to make a partnership for when the product is ready to come to market. It is likely they will secure a partnership by the end of the 2013 calendar year. Since MannKind is developing a product that currently would have no direct competitors, its only competition would be current traditional insulin delivery methods. Growth projections 5 years out have a CAGR of 20.01%. The company currently burns $85 million a year and will most likely need more financing before the product can come to market sometime next year. It currently has a revolving credit facility loan which they can tap another 50 million or proceed to offer more equity in an seasoned equity offer. A partnership would also be a viable method of securing funding till revenues come through. It is recommended that MNKD be added to the AIM Equity Fund with a price target of $5.74, roughly a 138% upside. The firm does not currently have a dividend.

Investment Thesis

- **AFREZZA.** MannKind's flagship drug, AFREZZA, is intending to help diabetic sufferers by offering a better and more convenient alternative to insulin delivery. Pfizer attempted the concept of powered insulin delivery several years ago, which became a market flop. The device was very complicated to use and its formulation resulted in low absorption rates by the lungs leading to respiratory complications. AFREZZA has learned from these mistakes. Its ultra rapid acting formula leaves little residue in the lungs, preventing nearly all side effects. Of the 5000 user trials, there were little side effects with the most common being a productive cough that dissipated shortly after use. Pfizer's failure has become AFREZZA's gain proving that the FDA did see it as a viable method. The more consistent dosing of AFREZZA helps lower the chances that user will experience hyperglycemia after insulin misuse. This product will allow MannKind to tap into the multi-billion dollar insulin market.

- **Diabetes in the US.** Currently there are 25 million Americans living with Diabetes. The most pressing issue relative to diabetes is the future of the disease. Currently there are at 80 million Americans in the pre diabetes stage. This puts them at high risk for diabetes in the future. The unhealthy diets and high caloric foods have contributed to this epidemic. An increase for diabetic products will become a pressing trend in the near future. Together, Diabetes costs the Healthcare industry over 200 billion dollars annually. Mounting pressure has been put on pharmaceutical companies to develop new procedures to treat the growing diabetic population.

Valuation

To find the intrinsic value of MNKD, a five year DCF model was constructed. The sales and royalty revenues were skewed towards the latter half of the 5 year model. A WACC of 12.57% was obtained, and then a 12% to market risk premium was added to achieve a final discount rate of 24.57%. This conservative discount premium was added due to the risk of the completion of CRL. A terminal perpetuity growth rate of 2.5% was inserted. A peer multiple was also applied to the value the firm. A 4.5x price to sales multiple was achieved by averaging companies such as NVO, PFE, and GSK. The multiple was applied to 2018 sales estimates and then discounted back to achieve a price of $5.37. Weighing both methods more heavily towards the multiples method, an intrinsic value of $5.74 was reached, an upside of 138%.

Risks

- **Clinical/Regulatory Risk.** While the recent data from clinical trials from Phase 3 for AFREZZA were strong, MNKD is not yet guaranteed any approval from the FDA. The complete response letter must be completed and any delay or cancelation would adversely affect the outlook of the company as the pipeline for the product would be slowed and or cease. This is the company's second CRL which requires the corporation to supplement more data about its drug in order to attain complete FDA approval.
- **Financial Risk.** Much of the spending internally is to further the testing and to market process of the AFREZZA. MannKind may need external financing before the drug may come to market, in order to continue with the process of commercializing the drug. Current cash flows are sustaining the company's operation through 2013 and into 2014. A corporate partnership would be likely in the later stages of the approval, which would minimize this risk by allowing milestone funding as the approval from the FDA advances.

Management

Alfred E. Mann is well known billionaire entrepreneur, inventor, and philanthropist. Mann is the Founder and CEO of MannKind Corp. Alfred has started numerous semiconductor, aerospace, and healthcare companies during his career. Most of his success came from his medical companies that developed such products such as retinal prosthesis and paralysis therapies. He currently owns roughly 34% of MannKind, which aligns much of his personal wealth in the company. Alfred Mann holds a B.S. and M.S. in physics from University of California, Los Angeles. He also holds several honorary doctorate degrees from prestigious Universities around the world including The Johns Hopkins University and Technion-Israel Institute of Technology.

Ownership

% of Shares Held by All Insider and 5% Owners:	42%
% of Shares Held by Institutional & Mutual Fund Owners:	16%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Mann (Alfred E)	82,813,627	33.69
BlackRock Institutional Trust Company, N.A.	8,099,650	3.30
The Vanguard Group, Inc.	8,070,305	3.28
State Street Global Advisors (US)	1,763,837	.72
Tang Capital Management, LLC	1,551,084	.63

Source: Thomson One

Sumitomo Mitsui Financial Group, Inc. (SMFG)
February 15, 2013
Kobe Park International Financial Services

Sumitomo Mitsui Financial Group, Inc. (NYSE: SMFG) is a holding company established by Sumitomo Mitsui Banking Corporation. Sumitomo Mitsui Card Co., SMBC Leasing Co., and The Japanese Research Institute, Ltd. joined the SMFG in February, 2003. The holding company manages financial operations for its subsidiaries. SMFG provides mainly banking service (90%) through Sumitomo Mitsui Banking Corporation (100% ownership) along with securities, credit card service, research, and leasing through various subsidiaries. SMFG derives most of its income from Japan (86% for 2012). SMFG carries consolidated total assets of 143 trillion JPY ($1.55 trillion) and has a consolidated Tier 1 ratio of 12.28%. It is headquartered in Tokyo, Japan and employs about 65,000 people.

Price ($) : (02/08/12)	8.16	Beta (vs. NIKKEI 225 Index):	1.13	FY: Sep	2012	2013E	2014E
Price target ($) :	9.75	WACC (%)	4.24	Interest Revenue (Mil)	14,580	14,945	15,356
52 WK H-L ($) :	5.55-8.39	L-Term Rev. Gr Rate est (%):	1.75	% Growth	1.80%	2.50%	2.75%
Market Cap (mil):	57,694	Mid-Term Rev. Gr Rate est (%):	2.75	NIM (%)	1.18	1.20	1.22
Float (mil):	7,070	Tier 1 Capital Ratio (%):	12.28	NPL ratio (%)	1.77	1.70	1.65
Short Interest (%) :	0.01	Financial Leverage	26.7	EPS (Cal) ($)	0.80	0.82	0.85
Avg. Daily Vol (mil) :	0.7	ROA (%):	0.39	P/E (Cal)	10.24	9.95	9.58
Dividend ($) :	0.22	ROE (%):	10.37	BVPS ($)	8.38	8.99	9.62
Yield (%) :	3.03%	Net Interest Margin (%):	1.18	P/B (Cal)	0.97	0.91	0.85

Recommendation

Despite a year of prolonged uncertainty due in large part to such factors as instability in Europe, SMFG finished the year 2012 by beating earnings expectation for 3Q and 4Q by 2% and 50% each. On January 31st, SMFG reported cumulative net profit for three quarters (from April 1st 2012 to December 31, 2012) that already surpassed the full-year target (from April 2012 to March 2013) at 101.9%. Ongoing stable low credit costs and improvement in investment income enabled such progress improvement in FY 2012. Although some factors might be one-time events caused by increase from yen-converted overseas income which was boosted by the weak-yen effect, as yen can weaken even further, SMFG might be able to enjoy more economic tailwinds in 2013. Right now is a good entry point for SMFG as it is yet in the transforming stage to become a globally known bank. Since SMFG can soon be traded with a smaller discount rate if it starts to operate globally or the Japanese market gains more momentum, it is recommended that Sumitomo Mitsui Financial Group be added to the AIM International Equity Fund with a target price of $9.75, which offers a potential upside of 20% with a 2.70% current dividend yield.

Investment Thesis

- **Japanese macro tailwind.** Since Shinzo Abe was elected as the prime minister of Japan in December, the Japanese economy has started to move forward. Abe's main solution for the lukewarm deflationary economy in Japan has been monetary easing - and the resulting weakening of the Japanese Yen. Recently, the Bank of Japan introduced a CPI stability target of 2%. During the past four years, the YoY CPI has ranged from -1.7% to -.1%. Since mid-November, the Japanese Yen has depreciated 17% as the government started to pour Yen into the market. This might help the Japanese economy close some trade deficits as many companies can export products more easily with a weaker currency. Among the numbers that came out during the past couple months; there have been reports of lower vacancy rate for office buildings and higher average monthly household income, suggesting that Japan might be finally turning around. Since November, Nikkei index rose about 20%.
- **Organic overseas growth.** Sumitomo has been actively expanding overseas- growing from $ 90B in 2010, in overseas loan balances, to $142B in 2012. To overcome local challenges like

Human Resource, IT infrastructure, or foreign currency funding, SMFG vigorously made changes. SMFG has opened numerous new departments for oversea expansion, such as Global Business Strategy Department and Korea Corporate Banking Department. SMFG also promoted non-Japanese executives/general managers. This oversea expansion can be very profitable as the management aims to expand by exporting banking services and cross-selling its credit card business for non-interest income. Sumitomo has increased its foreign-currency funding to achieve this. For example, the overseas deposit balance increased by $10B QoQ almost entirely driven by growth in deposits. As of November 2012, overseas lending spread was 1.17%, which has been expanding gradually.

- **Strong financial health and profitability.** Strong financial stability of Sumitomo various businesses limits the downside potential. SMFG has deleveraged in the past successfully without eroding profitability. Total debt to total equity ratio that was at around 270% in 2009 came down to below 200% in the last two quarters. SMFG is rated Aa3 by Moody's, along with banks such as HSBC, JPMorgan, or Nordea Bank. While maintaining a sound balance sheet, SMFG keeps higher profitability level compared to its two other mega bank peers. SMFG's NIM of 1.18% and ROE of 10.4% are higher than those of Mitsubishi and Mizuho (average NIM of .86% and ROE of 7.6%. This stems from Sumitomo's ability to borrow at low cost (domestic loan-to-deposit spread of 1.50%, while two competitors have the average spread of 1.16%).

Valuation

To find the intrinsic value of SMFG, the P/E method, P/B method, and discounted dividend model were used. Based on its peers (13.29x and .89x) and its historical record (11.82x and 1.51x), P/E ratio of 12.55x and P/B ratio of 1.08x were used. P/E method by using estimated 2013 EPS of $.82 generated the target price of $10.29. P/B method by using estimated 2013 BVPS of $8.99 generated the intrinsic value of $9.69. Dividend discount model with the terminal growth rate of 1.75% and the discount rate of 4.24% generated the target price of $8.97. By weighing them 35%, 35%, and 30% each, a price target of $9.75 was found, providing 20% upside from the current price. The company pays 2.70% dividend yield.

Risks

- **Intense competition in Japanese banking industry.** The Japanese banking industry is highly competitive. SMFG not only competes with Japanese banks like Mitsubishi, Mizuho, and Nomura, but also with the large global players like Bank of America, Citigroup, and Deutsche Bank. A highly competitive market could erode the market share Sumitomo has achieved.
- **Exposure to PIIGS Countries.** SMFG owns approximately $7.5B worth of PIIGS securities. Two biggest contributions come from Spain and Italy. SMFG holds about $2.5B worth of debts in Spain and $3.3B in Italy, which are issued to large project finance and trade finance.
- **Heavy dependence in Japanese market**. Although it seems like Japan might start rebounding, it might start slowing down again. The newly elected Japanese prime minister has pushed monetary easing policy recently to jump start Japan; however, if new Bank of Japan governor, who has not been elected yet but is to start in April, does not cooperates with him, it might take a while before government can start taking active measures to boost economy.

Management

Mr. Koichi Miyata has been serving as President and Representative Director in Sumitomo Mitsui Financial Group, Inc. since April 1, 2011. He is also serving as Director in a subsidiary, Sumitomo Mitsui Banking Corporation. He used to serve as Senior Managing Executive Officer in the Company and worked for Mitsui Bank.

Ownership

% of Shares Held by All Insider and 5% Owners:	13.46%
% of Shares Held by Institutional & Mutual Fund Owners:	79.33%

Source: Bloomberg

Top 5 Shareholders

Shareholder	Shares	% Out
Japan Trustee Services Bank	113,515,018	8.03
Master Trust Bank of Japan	76,775,800	5.43
Sumitomo Mitsui Banking Corp	56,160,800	3.97
State Street	39,260,784	2.78
Nomura	37,555,108	2.66

Source: Bloomberg

Titan International (TWI)
February 15, 2013

Timothy Maturo — Industrials

Titan International (NYSE:TWI) offers a full line of wheels and tires for a wide variety of off-the-road (OTR) equipment. Titan is divided into three segments: agriculture, earthmoving/construction, and consumer markets. The agriculture segment (63% of sales) provides tires and wheels for agriculture customers, primarily John Deere, Case IH, and CNH. The earthmoving/construction segment (24%) sells a range of tires to construction and mining customers primarily, Caterpillar and Kubota. Finally, the consumer markets segment (13%) manufactures and sells tires for light trucks and ATV's in Brazil. Titan is building a global presence with operations in North America and Latin America. Titan is headquartered in Quincy, Illinois and employs over 3,600 employees world-wide.

					FY: Dec	2011 A	2012 E	2013 E
Price ($): (2/7/12)	$ 24.87	Beta:	2.79					
Price Target ($):	$ 31.90	WACC	15%		Revenue (Mil)	$ 1,487	$ 1,875	$ 2,624
52WK H-L ($):	16.86-29.95	M-Term Rev. Gr Rate Est:	7%		% Growth	13.5%	26.1%	40.0%
Market Cap (mil):	1,230	Terminal Rev. Gr Rate:	3%		Gross Margin	15.6%	20.0%	19.5%
Float (mil):	45.59	Debt/Equity:	134%		Oper. Margin	9.1%	10.5%	9.5%
Short Interest (%):	26.80%	Debt/EBITDA:	1.22		EPS (Cal)	$ 1.18	$ 2.28	$ 2.90
Avg. Daily Vol:	431,451	ROA:	10.2%		FCF/Share	$ (0.79)	$ 1.87	$ 1.96
Dividend ($):	$ 0.02	ROE:	24.0%		P/E (Cal)	21.08	10.91	8.58
					EV/EBITDA	7.56	5.30	4.61

Recommendation

Titan operates with a strong position in the North American agriculture and construction markets with room to expand into international and mining markets. Titan's chief competitors include Carlisle Companies, GNK Wheels, Bridgestone, and Michelin. Titan is well positioned to capitalize upon substantial growth in the mining equipment market while taking share. In addition, Titan has historically been able to strategically acquire noncore assets from tire manufacturers. From these acquisitions Titan has developed itself into the premier OTR manufacturer. For example, Titan International acquired Goodyear's North American Farm tire business at an EV/Sales multiple of 0.5x. Acquisitions in the past 10 years for Titan have ranged from an EV/Sales ratio from 0.1 – 0.6x. Through acquisitions and organic growth (~$500 million), Titan is targeting annual sales of $4.0 – $4.5 billion by 2015. Titan has demonstrated an innate ability to bring these companies' margins up to the corporate level. Titan currently trades at an incredible value with an EV/EBITDA multiple of 6.35x given its solid cash generation and strong growth profile. Because of a strong product portfolio, acquisition strength, and a favorable valuation, it is recommended that Titan be added to the AIM Equity Fund with a target price of $31.90, which offers a potential upside of 28%. Titan pays a $0.02 dividend.

Investment Thesis

- **Growth in Mining.** In 2008, Titan introduced its first giant 57- and 63-inch mining tires. Titan since then has added sizes for a relatively full line-up in the mining end market. Prices for these giant mining tires are ~$55,000 and are sold directly to mines allowing for higher margin potential. Mining tire manufactures, Bridgestone and Michelin, will be substantially under capacity for the next couple of years allowing for Titan to organically grow this business and gain share. Specifically, Titan will gain this share through solving production difficulties and the implementation of new system in Titan's Bryan, OH plant. With GE entering the mining equipment industry and Caterpillar's move to acquire Bucyrus, the perceived long-term growth of the mining equipment industry remains strong.

- **International Opportunities.** Management has laid-out a well-defined plan utilizing acquisitions to transform Titan into the global OTR tire manufacturer. On October 26, Titan completed its acquisition of Titan Europe for $107.6 million in equity in Titan International and has assumed $130 million in debt. Titan Europe generated $656 million in sales. In addition, Titan has worked with Goodyear in the acquisition of their OTR tire international assets. Titan closed Goodyear's Latin American farm segment for $57 million. This division had sales over $200 million and the number two marketer behind Pirelli. In addition, Titan has been working to close a deal for Goodyear's European farm tire assets which will provide Titan with logistics in South Africa and Russia as well. The announcement of this deal may provide upside for the stock.
- **Robust Agriculture Markets.** Record farmer incomes and high agriculture prices will promote strong spending for agricultural equipment. Demand for grains and oilseeds will be primarily driven by population growth and grain intensity. Growth in GDP/capita in the developing world will cause consumers to move-up the dietary chain demanding more grains/capita. Titan has more than a 40-45% market share in North American farm tires and 80-90% in wheels. Aftermarket tires (35-40% of agriculture sales) provide stability in Titan's agriculture segment in the event demand for equipment dries up.

Valuation

To find the intrinsic value of Titan, a ten-year DCF was conducted. Revenue growth of 7% was used from 2014-2023 with a terminal growth rate of 3%. A WACC of 15% was used and yielded an intrinsic value of $32.50. A sensitivity analysis was conducted to account for variations in WACC (14%-16%) and revenue growth (6% - 8%), which yielded a price range of $28.50 - $37.50. Additionally, a forward EV/Sales valuation was conducted with a multiple of 0.7x which yielded an intrinsic value of $30.50. Combining these three methods with 70% weighting on the DCF, 30% on the EV/Sales, a composite price target of $31.90 was determined representing a 28% upside. Titan pays a $0.02 dividend.

Risks

- **Acquisition Integration Risk.** Titan has acquired and embarked upon restructuring of Goodyear Latin America and Titan Europe. Negative execution in restructuring may negatively impact the company and margins. In addition management has alluded to another large scale acquisition in the pipeline, revenue ~$300 - $600 million (not including Goodyear Europe). Although Titan has been conservative in the past with acquisitions, overspending on future acquisitions may negatively impact Titan's stock.
- **Fluctuations in Commodity Prices.** Rubber and steel make up the majority of Titan's material costs and represent approximately 50% of total costs for the company. Titan does not engage in any hedging for these commodities. Titan may not be able to fully pass on price increases to its customers. As a result a rise in commodity prices may negatively impact Titan's margins. However, many of Titan's contracts with OEM's will reset quarterly based upon input costs, and higher commodity costs benefit the agriculture and mining segments.
- **Concentration of Customers.** Titan's ten largest customers, which are primarily original equipment manufacturers (OEMs), accounted for approximately 55% of Titan's net sales for 2011. Net sales to Deere & Company and CNH Global represented 18% and 11% of 2011 sales respectively. Failure to maintain relationships between any of the leading OEMs would negatively impact Titan. Further OEMs may pressure Titan to lower prices as a result of internal cost cutting initiatives.

Management

Morry "The Grizz" Taylor is the chairman and CEO of Titan International. Taylor has worked in the wheel manufacturing business for 30 years. Taylor led a leveraged buyout of Titan in 1990 serving as CEO from then onward. Taylor has led Titan through multiple company defining acquisitions. He has demonstrated an uncanny ability to efficiently improve nonperforming assets. Taylor ran as a republican candidate for the President of the United States in the 1996 election.

Ownership

% of Shares Held by All Insider and 5% Owners:	0%
% of Shares Held by Institutional & Mutual Fund Owners:	66%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
NFJ Investment Group	3,161,292	6.62
Lord Abbett & Co.	2,752,640	5.77
Allianz Asset Management AG	2,624,700	5.50
Vanguard Group, Inc. (The)	2,411,153	5.05
Rainier Investment Management	2,119,920	4.44

Source: Bloomberg