Applied Investment Management (AIM) Program

AIM Class of 2018 and Class of 2019 Equity Fund Reports
Spring 2018

Date**: Friday, February 2nd* | ***Time:** See Schedule Below* | ***Location: AIM Research Room 488

9:00 AM Presenter	Company Name	Ticker	Sector	Page
Alec Jensen	NN, Inc.	NNBR	Industrial	2
Michael Healy	Banco Latinoamericano de Comercio Exterior SA	BLX	International Financial	5
Arsh Salwan	Tencent Holdings Limited	TCEHY	International Technology	8
3:00 PM Presenter	**Company Name**	**Ticker**	**Sector**	**Page**
William Reckamp	U.S. Silica Holdings	SLCA	Energy	11
Tim Milani	SolarEdge Technologies Inc.	SEDG	International Technology	14
Nathaniel D'Amato	First Internet Bancorp	INBK	Financial	17
William McMahon	Constellium NV Class A	CSTM	International Industrial	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.

David S. Krause, PhD
Director, Applied Investment Management Program
Marquette University
College of Business Administration, Department of Finance
436 Straz Hall, PO Box 1881
Milwaukee, WI 53201-1881

mailto: AIM@marquette.edu

Website: MarquetteBuz/AIM AIM Blog: AIM Program Blog
Twitter: Marquette AIM Facebook: Marquette AIM

NN, Inc. (NNBR)
February 2, 2018

Alec Jensen Domestic Industrials

NN, Inc. (NASDAQ: NNBR) is a global, diversified industrial manufacturer of high-precision metal and plastic components and assemblies. As of this year, NN, Inc. created a new organizational structure, whose business divisions are Mobile Solutions, Power Solutions, and Life Sciences. These divisions currently represent 52%, 28%, and 20% of their revenues. Within these divisions are five end markets (Aerospace & Defense, Automotive, Electrical, Medical, and General Industrial) that NN, Inc. provides their products. The company has a unique operating system that is specifically tailored to enhance their success in the end markets. NN, Inc. creates value for customers through their integrated solutions, operating out of 36 manufacturing facilities around the globe. The majority of these facilities are located on the East Coast and Midwest of the United States. NN, Inc. has been in business since 1980 and is headquartered in Charlotte, North Carolina.

Price ($):	29.15	Beta:	1.49	FY: Dec	12/31/2015	12/31/2016	12/31/2017	12/31/2018
Price Target ($):	36.43	M-Term Rev. Gr Rate Est:	-22.0%	Revenue (Mil)	667.28	833.49	619.20	669.97
52WK H-L ($):	32.9 - 18.6	M-Term EPS Gr Rate Est:	15.0%	% Growth	36.57	24.91	-25.71%	8.20%
Market Cap (mil):	804	Debt/Equity:	184.7	Oper Inc	52.73	69.71	66.16	83.70
Insider Holdings	268%	Debt/EBITDA (ttm):	7.98	% Growth	39.46	32.20	-5.09	26.51
Avg. Daily Vol (mil):	0.1	WACC	8.60	Op Margin	7.90%	8.36%	10.68%	12.49%
Yield (%):	1.0	ROA (%):	-1.72	EPS*	-$0.25	$0.94	-$0.61	$0.88
ESG Rating	B	ROE (%):	-6.50	P/E (Cal)	-	65.7	-	40.90
		ROIC (%):	-2.11	EV/EBITDA	11.8	9.9	9.78	9.20

Recommendation

As companies look for reliable and crucial components for their products, they turn to Original Equipment Manufacturers (OEMs) for help. For almost 40 years, companies have relied on NN to provide them with the inputs that their business needs. NN, Inc. has continuously satisfied their customers with the highest quality, most advanced products through their effective use of state-of-the-art technology and dedication to precision. Since its inception as a ball and roller bearing manufacturer, the company has continued to expand within that area and beyond into new industries. Having evolved from their ball bearing origin, NN has turned into a global industrial company with a wealth of exposure to new opportunities throughout the world. They no longer are reliant on the Precision Bearing Components segment for support and are focused on transforming their business instead of waiting for sales to fall off. Their five end markets that they have entered over the past few years have greatly diversified the company. NN's strategy is higher growth and margins, which they firmly believe moving into these markets will produce. In addition, management has a very focused plan for the future and is active in implementing it. They have experience in acquiring companies that are aligned with their goals of precision and growth. Due to this experience, it is promising that they will find the next company to acquire that will catapult their business to new levels. With an aggressive strategic growth plan, ability to enter growing end markets, and precision products that are built on quality, NN, Inc. is ready to succeed. After constructing a seven-year DCF model and an EV/EBITDA multiple valuation, it is recommended that NN, Inc. be added to the AIM Equity Fund with a price target of $36.43, representing a 25.19% upside. NN, Inc. pays a $0.07 quarterly dividend offering a yield of 1.0%.

Investment Thesis

- **Management's Strategic Growth and Acquisition Plans.** One of the largest drivers for NN, Inc. is management's ability to acquire the right companies and place NN in the proper industries for growth. Since Richard Holder took over as CEO in 2014, he has completely transformed the company from a ball and roller manufacturer to a diverse industrial company. Instead of staying in the ball and roller industry, management was proactive in positioning themselves for future success. NN diversified into a company with exposure to five end markets. Management's swift and effective decision-making provide NN a key edge in a business environment where progress and staying ahead of competitors is so important.

- **Growth in End Markets.** NN, Inc. is currently in markets that are poised for growth. The Mobile Solutions division, NN's largest revenue earner at 52%, covers the industrial and automotive end markets. The company expects to grow 4%-6% in each of those markets. The Life Sciences division, who recently added another company to their portfolio, operates in the medical end market. They are expecting to see 7%-9% growth in their respective area. NN has positioned themselves for the future by expanding their stake in higher-growth and higher-margin end markets.
- **Portfolio Management/Cyclical Mix.** Management has been able to develop NN from a one-dimensional company to a truly diversified industrial manufacturer. Since NN is exposed to so many markets, they are better able to avoid any major impact on their overall business. Also, the company does not have to rely on one big quarter to generate the bulk of their revenue. Company leadership is constantly looking forward to diversifying the business and lessening their exposure to a single market. NN, Inc. is set on having a very balanced business going forward.

Valuation

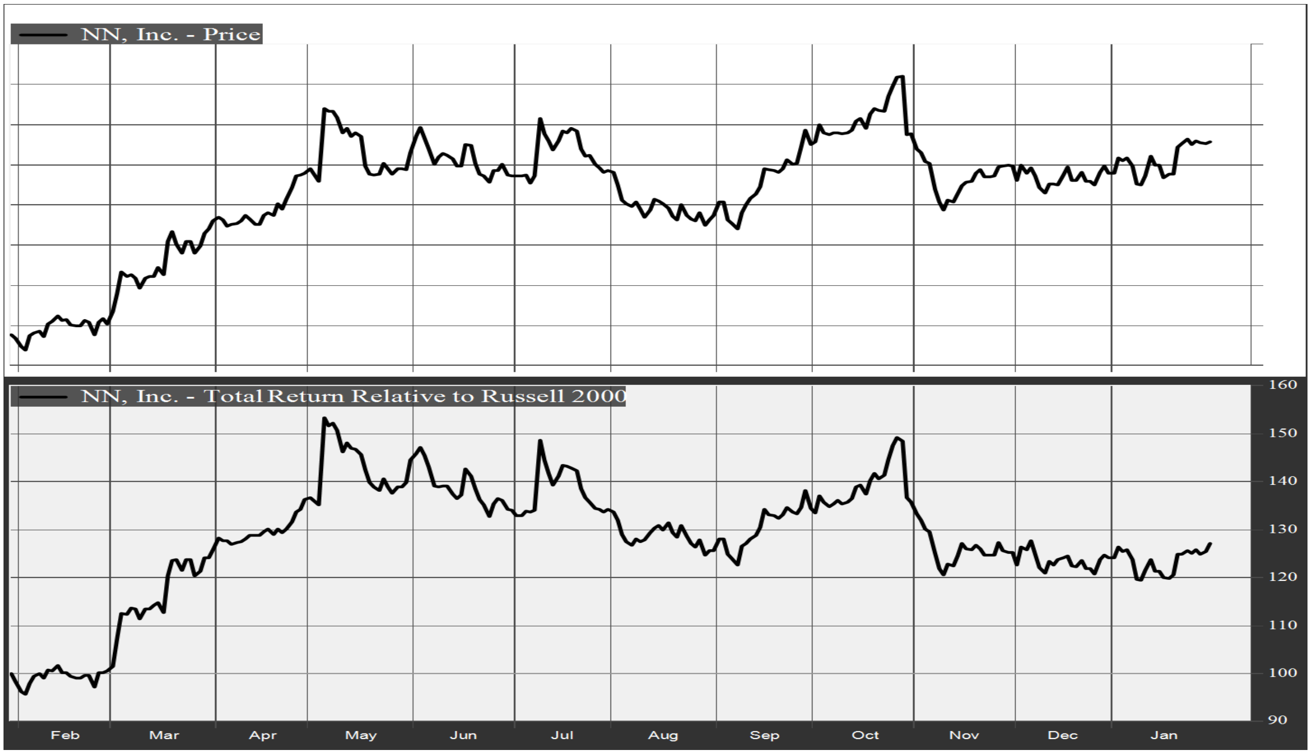
In order to reach an intrinsic value for NN, Inc., a seven year DCF model was constructed. Using a terminal growth rate of 3.00% and a WACC of 8.60%, an intrinsic value of $36.43 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $23.94-$67.92. Additionally, an EV/EBITDA multiple valuation was calculated. Using a five year historical average of 10.40x and NTM EBITDA of $153M, the multiple resulted in a valuation of $41.30. By weighting the two valuations 80/20, a price target of $36.43 was reached, which yields an upside of 25.19%. NN, Inc. pays a regular quarterly dividend of $0.07 per common share.

Risks

- **Quality of New Acquisitions.** NN, Inc. management made an unprecedented decision to sell off one of their main business segments in the third quarter of 2017. With such a decision comes pressure to find another company that will help increase margins and positively impact the current and future health of the company. If management cannot find a company or companies that will fill the void from selling off their main ball and roller segment, NN could experience a challenging next year.
- **Debt Repayment while Expanding.** Since NN, Inc. is reshaping for the future, a question arises as to how they will de-lever and expand at the same time. While they did just sell off their main business segment for $375 million in cash, NN still has a decent amount of debt outstanding that needs to be repaid within the next few years. They recently redeemed $281.6 million in Senior Notes from a $300 million Incremental Term Loan they issued that is due in 2021, having refinanced at a lower rate. Growing how they want to and paying off debt could be a struggle depending on their acquisition plans.
- **Transformation into a New Company.** The company is in unchartered waters after their recent divestiture. There is always the risk that management made too quick of a decision in becoming a leaner, higher margin company by getting rid of what line of business they relied on since the creation of NN.

Management

Richard Holder is currently the President, CEO, and Director of the company. Thomas Burwell resides as CFO and Senior VP, having been with the company for 13 years. Additionally, the Executive VP's are Chris Qualters, Warren Veltman, and Robbie Atkinson.



Source: FactSet

Peer Fundamentals

Name	Ticker	Revenues	ROE	ROA	Debt/ Equity	Est 5 yr NI growth
NN, Inc.	NNBR	805	5.17	1.19	184.70	-1.69
Nordson Corporation	NDSN	8,573	29.48	10.14	138.25	7.11
Crane Co.	CR	5,570	10.14	3.89	54.09	6.17
Curtiss-Wright Corporatior	CW	5,844	15.77	6.99	65.43	16.83
Standex International Corp	SXI	1,296	11.58	5.98	48.28	2.49
Peer Averages		5,321	16.74	6.75	76.51	8.15

Source: FactSet

Peer Valuation

Name	Ticker	Market Cap (mil)	P/S	P/E	EV/EBITDA	P/B
NN, Inc.	NNBR	802	1.00	40.65	9.78	1.82
Nordson Corporation	NDSN	8,367	4.08	28.06	17.84	7.23
Parker-Hannifin Corporation	PH	27,932	2.20	24.59	16.49	4.93
Crane Co.	CR	5,580	2.10	21.41	11.88	4.17
Curtiss-Wright Corporation	CW	5,852	2.66	27.50	14.78	3.97
Standex International Corporation	SXI	1,304	1.57	22.28	13.66	3.04
Peer Averages		9,807	2.52	24.77	14.93	4.67

Source: Bloomberg

Banco Latinoamericano de Comercio Exterior SA (BLX)
February 2, 2018

Michael Healy International Financial Services

Banco Latinoamericano de Comercio Exterior SA (NYSE: BLX) is a regional bank engaged in trade finance in Latin America. BLX serves the capitalization needs of other banks and does not offer retail banking services to the general public. It operates in three segments: Financial Intermediation, Syndication and Structuring, and Treasury. The Financial Intermediation business offers foreign trade products and structured credit and lending facilities for short-to-medium term financing. The Syndication and Structuring Business provides access to structured funding for financial institutions and companies in the region. The Treasury segment engages in treasury services and includes debt capital market and deposit products. Banco Latinoamericano de Comercio Exterior SA is headquartered in Panama City, Panama.

Price ($): (1/30/18)	29.75
Price Target ($):	35.18
52Wk H-L ($):	(25.51 - 30.50)
Market Cap (mil):	1,155.90
Float	98%
Short Int. % Float	1.89%
Avg. Daily Vol:	113,932
Dividend ($):	1.56
Yield	5.16%

Beta:	1.35
WACC	6.97%
M-Term Rev. Gr Rate Est:	7.60%
M-Term EPS Gr Rate Est:	7.32%
Debt/Equity	5.98
ROA:	1.10%
ROE:	7.22%
Tier 1 Capital Ratio	20.30%
Credit Provisions/Loans	?

FY: Dec	12/31/16	12/31/17	12/31/18	13/31/19
Interest Income (mil)	245.90	231.73	245.63	260.35
% Growth	11.61	-4.56	6.00%	9.00%
Net Interest Margin	2.08%	1.89%	1.89%	1.89%
Pretax Margin	33.83%	32.25%	39.34	39.34
EPS	2.22	2.10	2.46	2.67
P/E	13.2	12.8	12.1	10.2
BVPS	27.8	26.4	27.4	28.4
P/B	1.06	1.13	1.10	1.1

Recommendation

Much has changed since the first ship passed through the Panama Canal in 1914 – which at the time was one of the first steps toward globalization. Fast forward a century and trade represents 56.3% of the world's GDP, calculated as the sum of imports and exports as measured as a share of global GDP. Ten years ago, before the American recession, this number was above 60%. For Banco Latinoamericano de Comercio Exterior, continued globalization and trade growth is the key to their future. Recently, the International Monetary Fund revised the global growth forecast up 0.2% to 3.9% for 2018 and 2019. BLX's strategic positioning in Latin America will be advantageous as the region begins to turn around from recent recessions. Of particular importance to BLX are Brazil, Mexico, and Colombia who account for 18%, 16%, and 12% of the bank's commercial portfolio respectively. Brazil seems to finally be leaving a recession in the rearview mirror, while the IMF and World Bank have projected GDP growth for Mexico and Colombia above the Latin American average of 2%. Furthermore, China and other Asian countries are ramping up foreign investment and trade. One Chinese initiative, One Belt, One Road, is spending $150 billion annually for countries along trade routes reaching Europe. Recently, China extended invitations to Latin America and the Caribbean to receive some of this infrastructure investment. Additionally, Chinese investment in Brazil reached a seven-year high in 2017. Trade between Latin America and Asia appears to be trending upwards. With over 37 years of trade finance history in the region, BLX has established a solid reputation for growing economies and their businesses seeking loans, trade related products, and other financial solutions. For these reasons, it is recommended that BLX be added to the AIM International Equity Fund with a target price of $34.04, which offers a potential upside of 14.43% along with the company's 5.16% dividend yield.

Investment Thesis

- **Favorable Trade Opportunities in Panama.** Since 1903, Panama has tied its local currency, the "Balboa", to the American dollar at an exchange rate of 1:1. This has made Panamanian business a convenient and relatively attractive investment opportunity. The recent trend of weakening the dollar through Trump administration policies is advantageous to Panamanian trade. In 2016, Panama exported $9.9 billion and imported $9.1 billion in goods and services, establishing a positive trade balance of $801 million. A weaker dollar makes exported goods more competitive overseas. In addition, on June 26, 2016, the Panama Canal finished an expansion project increasing the capacity of Canal. The largest ship to ever cross the canal carried 13,345 twenty-foot equivalent units (TEU) on May 2, 2017. With this, Panama will see increasing shipments through the canal with more goods than ever, benefitting the local economy. When considering the current dollar weight, these two factors make trading with and through Panama favorable in the upcoming years.

- **Latin American Resurgence.** Brazil, BLX's largest commercial portfolio representative and Latin America's most populous country, has now posted three straight months of economic growth, an indication that it will dig itself out of recession. Argentina is also beginning to look optimistic after recent economic decline. At Davos, President Mauricio Macri stated, "Argentina is now entering a new phase and we are now in the position to play a significant role on the international stage," after what the President described as "decades of isolation". Argentina accounts for 6% of BLX's commercial portfolio.
- **New Management.** Recent management changes will leverage their extensive experience from inside the company and related industries as BLX transitions leadership. New CEO Gabriel Tolchinsky had been brought up in the company since 2014, reaching a position the bank referred to as "alternate to the CEO", so the switchover this year is not a surprise. New CFO Méndez and CEO Tolchinsky combined offer over 30 years' experience at BLX, with Tolchinsky adding another 25 years' experience in the trade finance industry.

Valuation

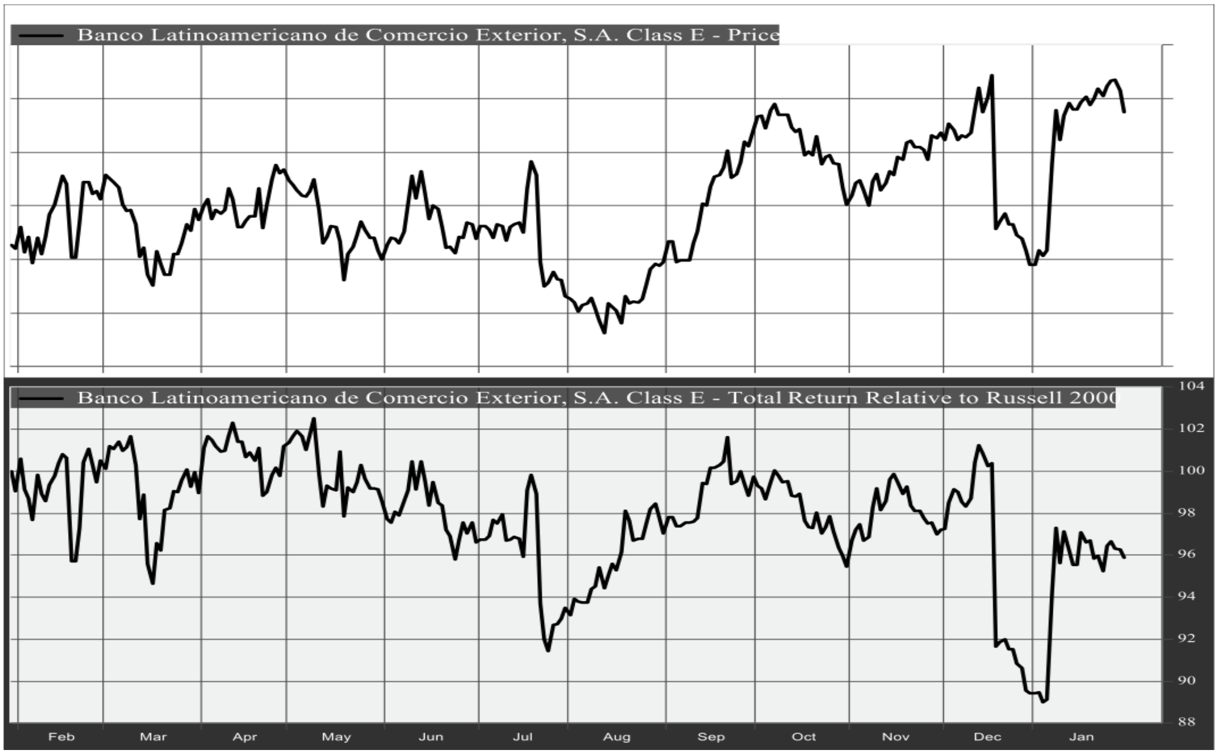
In order to reach an intrinsic value for BLX, a five year discount dividend model and a P/B valuation were used. Using a terminal growth rate of 3.00% and a WACC of 6.97%, an intrinsic value of $31.58 was reached. To compare BLX with its peers, a P/B valuation model was constructed. Using a peer average P/B of 1.67 and an estimated 2018 BVPS of $27.35, a value of $34.61 was reached, producing an upside of 16.3%. Weighing the DDM and P/B valuations at 50/50 resulted in an intrinsic value of $34.04, yielding an upside of 14.43%.

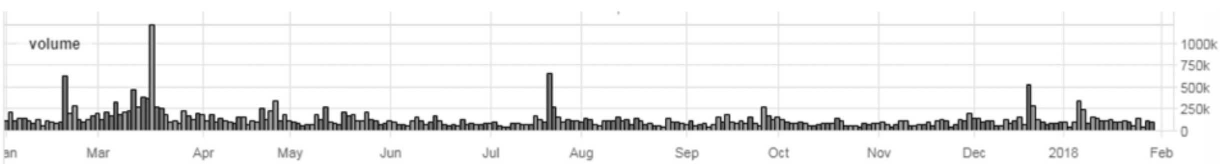
Risks

- **Management Changes.** In a matter of two days in December, both the CFO and the CEO resigned from their positions. The stock's price was immediately impacted but surged back quickly. The CEO and CFO positions were filled by internal candidates; however, new management brings risks that should be accounted for when considering this company.
- **Political Uncertainty in the Region.** Latin America has many significant elections in 2018 that could shift economic policies for certain countries. Brazil, Venezuela, Colombia, and Mexico hold key elections in 2018. Ahead in the polls in Brazil is former President Lula da Silva, who plans on continuing his bid despite corruption and money laundering charges.
- **Increasing Competition.** Many international competitors of BLX are European, North American or Asian financial institutions, many of which have greater resources than BLX, and potentially better credit ratings. This could ultimately limit BLX's ability to grow

Management

On December 19, 2017 CEO Rubens V. Amaral Jr. announced his resignation effective April 30, 2018. The day prior CFO Mr. Christopher Schech also resigned "to pursue other opportunities." Schech's replacement is Mrs. Ana Graciela de Méndez, who was formerly the Senior Vice President of Finance of BLX. Mrs. Ana Graciela de Méndez has been with the bank since 1990 and was SVP of Finance for 3 years. Mr. Amaral Jr. will be replaced by Gabriel Tolchinsky, currently the bank´s Chief Operating Officer. Tolchinsky has 25 years of experience working with international markets.





Ownership

% of Shares Held by All Insider and Owners	1.64%
% of Shares Held by Institutional & Mutual Fund Owners	39.65%

Source: Factset

Top 5 Shareholders

Holder	Shares	% Out
Brandes Investment Partners LP	3,081,000	10.19%
Principal Global Investors LLC	2,383,000	7.88%
Paradise Investment Management LLC	1,913,000	6.33%
LSV Asset Management	1,909,000	6.31%
Lee, Danner, and Bass INC	687,000	2.27%

Source: Factset

Peer Analysis

Name	Ticker	Market Cap (mil)	Net Income (mil)	Div. Yld. %	P/B	P/E
Banco Latinoamericano de C	BLX	1,155.9	74.74	5.16	1.08	12.8
Banco ABC Brasil SA	ABCB4	3,725.7	129.90	2.70	1.14	7.6
Banco Santander SA	SAN	97,727.9	6,984.00	2.88	1.02	12.2
Bancolombia SA	BCOLOMBIA	31,144.0	906.00	2.49	1.38	12.2
BBVA Banco Frances SA	BFR	5,205.3	186.50	0.98	3.65	21
Credicorp Ltd.	BAP	18,772.5	1,190.14	1.60	2.77	14.1
Peer Averages		31,315.1	1,879.31	2.13	1.99	13.42

Source: Factset

Tencent Holdings Limited (TCEHY)

February 2, 2018

Arsh Salwan International Technology

Tencent Holdings Limited (OTC: TCEHY) is a multinational investment holding company that delivers e-commerce transaction services, online advertising services and internet/mobile value-added services to users. Tencent operates primarily in three segments: Value-Added Services (71% of 2016 revenue), Online Advertising (18%) and Others (11%). Their Value-Added Services (VAS) segment contains online games and various online social network platforms including Weicin/WeChat and QQ. The Online Advertising segment represents their revenue received from advertising in their various applications. Their Others segment includes cloud and payment related services which has grown 522% from 2014-2016. Tencent operates in Mainland China. Tencent Holdings Limited was founded in 1998 and is headquartered in Shenzhen, China.

Price ($) (1/22/18):	59.04
Price Target ($):	75.06
52WK H-L ($):	$60.85-$25.50
Market Cap (B):	570
Insider Holdings:	42.12%
Avg. Daily Vol (mil):	2.96
Div Yield (%):	0.10
ESG Rating:	BBB

Beta:	0.76
M-Term Rev. Gr Rate Est:	29.2%
M-Term EPS Gr Rate Est:	30.3%
Debt/Equity:	62.7
Debt/EBITDA:	1.67
WACC:	8.74%
ROE (%):	28.37
ROA (%):	11.87
ROIC (%):	19.09

FY: Dec.	2016A	2017E	2018E	2019E
Revenue (Mil)	22,870	36,405	51,898	67,571
% Growth	39.7%	59.2%	42.6%	30.2%
Operating Income:	7,512	12,100	15,998	20,597
Operating Margin:	32.8%	33.2%	30.8%	30.5%
FCF/Share	$0.93	$1.55	$2.19	$3.16
EPS	$0.65	$1.04	$1.43	$1.83
P/E (Cal)	37.09	48.90	41.42	32.29
EV/EBITDA	24.4	36.07	25.38	22.43

Recommendation

Tencent Holdings Limited has shown growth by establishing itself as not only an internet technology leader in China, but also throughout the world. Tencent has experienced a 5-year sales CAGR of 38.9% while maintaining an operating margin of 28%-35% within the last 5 years. TCEHY has specifically shown a dominance in online games for several years with acquisitions of Riot Games, Inc. (2011), Epic Games, Inc. (2012), and Supercell Oy (2016) which are known for their online games: League of Legends, Fortnite, and Clash of Clans, respectively. The online games sub-segment has experienced an 8-year sales CAGR of 38% and is expected to continue to grow with a focus on e-sports and subscription-based games. The company has also established a spider web-like influence in China regarding internet services. Some services that Tencent offers include Weixin/WeChat, QQ, QZone, Tenpay, QQ Music, Tencent Classroom, Tencent News, Tencent Maps, and Tencent Video. TCEHY is putting a focus on Tencent Video, the largest video application in China based on mobile video views today. TCEHY's most popular service, Weixin or WeChat (Outside of China), reported 980 million monthly active users in Q3 2017, indicating a 15.8% YoY growth. WeChat is not only a messaging app but also serves as a social media and gaming tool providing a breathtaking experience for users. TCEHY has made over 50 acquisitions or investments in US companies in the last 5 years; some popular investments include having a 10% stake in Snap Inc. (2017), 5% in Tesla, Inc. (2017), and owning 25% of Activision Blizzard, Inc. (2013) - known for their video games, Call of Duty and World of Warcraft. Cloud services, artificial intelligence and e-finance are growing areas where TCEHY has entered and has shown success. The Others segment, which contains cloud services and e-finance has shown 244% growth from 2015-2016 FY. Due to the progress and growth of Tencent and its continuous plans to innovate in different areas of business, it is recommended that Tencent Holdings Limited be added to the AIM International Fund with a price target of $71.17 representing a potential upside of 20.55%.

Investment Thesis

- **Adopting New Technology.** To move ahead in the Artificial Intelligence (A.I.) area, Tencent announced in May 2017 that it would be opening an A.I. lab in Seattle, WA. This lab will focus on speech processing and speaker identification in which the company has started to implement into various parts of the business. Including Tencent's main A.I. lab in Shenzhen, China, they employ about 300 research engineers and 70 A.I. researchers to pursue this effort. Along with

A.I., there has been a big push in developing expertise cloud technology. As of 3Q17, the Tencent Cloud now operates in 36 availability zones around the world, providing end to end solutions for the financial and eCommerce clients. The cloud works hand in hand with the payment related services that Tencent provides; Tenpay, QQ Wallet, and WeChat Pay- which allows customers to scan QR codes in public transportation and pay offline if needed. These all provide means to pay electronically and belong to the Others segment which had 143% YoY growth in 3Q17.

- **Smartphone Mini-Games.** WeChat reported about 980 million monthly active users in 3Q17, representing a 15.8% YoY increase. To keep these users, Tencent must continue to evolve and match the users' needs. On December 28, 2017, Tencent launched the Mini-Game ability to WeChat which allows users to play games within WeChat. The success of a Mini-Program named Jump-Jump gained over 100 Million daily active users within 2 weeks after its launch which is promising for future in-chat mini-games. The increased popularity of mini-games results in an increase of in-app purchases. On January 14, 2018, Tencent also announced a strategic partnership with Ubisoft Entertainment to bring a selection of Ketchapp games to Tencent's mini-game application with plans of developing more mid- to hard- core games.
- **More Ads, More Money.** Online Advertising represented 18% of Tencent's overall revenue. The Media Advertising sub segment saw 62% YoY revenue growth in 2Q17 because of implementation of A.I. along with the addition of licensed TV Dramas to Tencent Video. TCEHY will be increasing the number of game ads within the Mini-Games and other apps.

Valuation

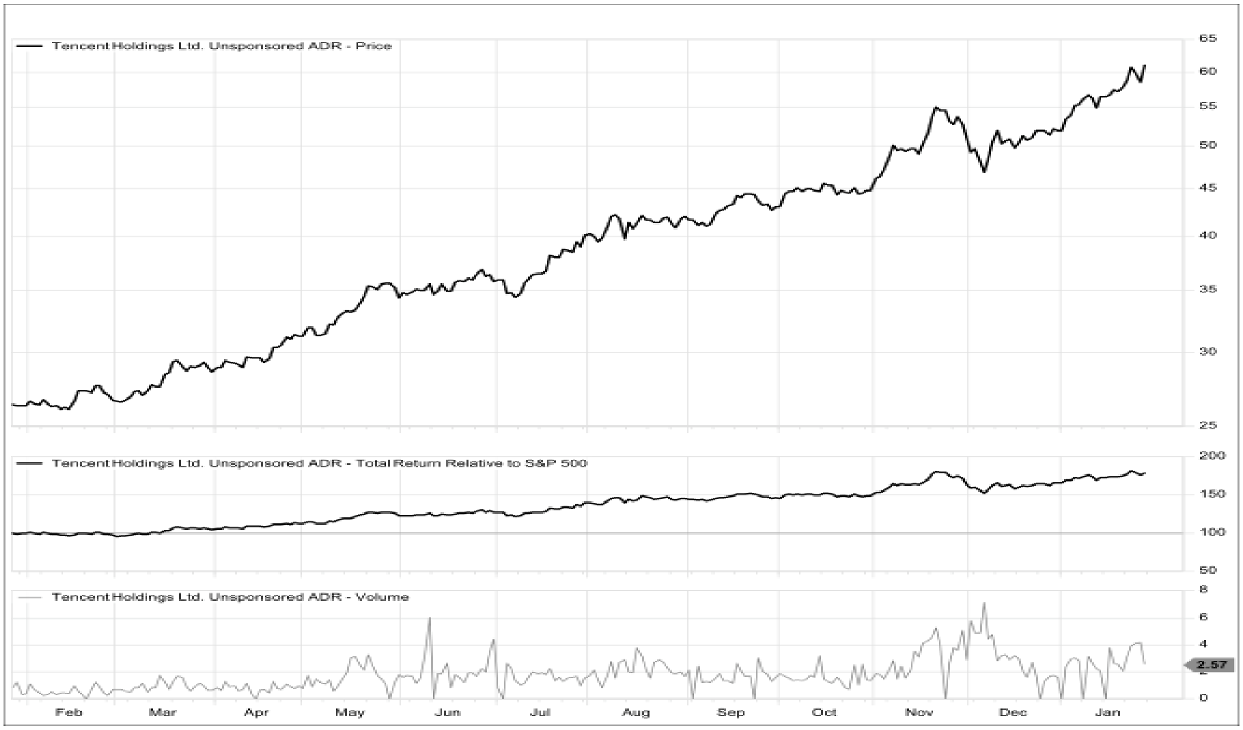
In order to reach an intrinsic value for TCEHY, a five year DCF model was constructed. Using a terminal growth rate of 2.00% and a WACC of 8.74%, an intrinsic value of $76.60 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $66.90-$89.60. Additionally, a P/E multiple valuation was calculated using a 2018E EPS of $1.35 and utilizing a blended average P/E multiple of 49.54x, resulted in an intrinsic value of $66.88. Finally, an EV/EBITDA multiple valuation was conducted using a blended average EV/EBITDA multiple of 27.43x, resulting in an intrinsic value of $64.60. By weighing the three models 50/25/25, a price target of $71.17 was reached, resulting in a 20.55% potential upside. TCHEY pays an annual dividend yielding 0.10%.

Risks

- **Chinese Government & E-Finance.** E-Finance is regulated by the Chinese Government and as Tencent continues to provide innovative ways to pay, government regulation could become a possibility. In 2014, the Central Bank of China canceled bar-code scanning and virtual credit cards, later resuming in 2015. Any plans to increase regulations by the Chinese government on E-Finance could hurt Tencent.
- **Bothersome Ads.** Tencent's plans to increase ads in applications such as Tencent Video and in WeChat Mini-Games could be dangerous and consumers may get annoyed. If this occurs, Tencent would be negatively impacted.
- **Competition in New Areas.** As Tencent operates in many different areas, there are several companies that are waiting for a slip-up that they could capitalize on. Tencent has also moved into cloud services and internet finance which are heavily competitive areas. If competition intensifies, Tencent could face some troubles.

Management

Ma Huateng, also known as Pony Ma, has been the CEO and Chairperson of TCEHY since it was founded in 1998. Mr. Huateng was on the Forbes annual list of most powerful people in 2016, ranked 45 and the richest person in Asia as of August 2017. Chi Ping (Martin) Lau has been the President and Executive Director since 2007 and prior to that, he was the CIO at Tencent. Mr. Lau earned his master's degree at Stanford along with his MBA at the Kellogg School of Management.



Peer Valuation

Name	Ticker	Market Cap (mil)	P/S	P/E	EV/ EBITDA
Tencent Holdings Limited	TCEHY	570,000	18.2	56.6	39.4
Weibo Corp.	WB	28,112	29.1	108.5	39.5
Facebook, Inc.	FB	552,100	15.4	36.8	25.3
Baidu, Inc.	BIDU	90,365	7.8	33.5	25.4
SINA Corp.	SINA	8,738	6.5	66.4	19.5
Peer Averages		169,829	15	61	27

Source: FactSet

Peer Fundamentals

Name	Ticker	Revenues	ROE	ROIC	Debt/ Equity	Est. 5 yr NI Growth
Tencent Holdings Limited	TCEHY	22,870	28.37	19.09	62.70	31.30
Weibo Corp.	WB	654	15.68	15.68	0.00	-
Facebook, Inc.	FB	27,638	19.70	17.80	0.00	72.40
Baidu, Inc.	BIDU	10,619	13.00	6.80	55.60	10.10
SINA Corp.	SINA	1,031	8.60	5.20	-63.38	-
Peer Averages		9,986	14	11	-2	41

Source: FactSet

U.S. Silica Holdings Inc. (SLCA)
February 2, 2018

William Reckamp | Domestic Energy

U.S. Silica Holdings, Inc. (NYSE: SLCA) engages in the production of industrial minerals, including sand proppants, whole grain silica, ground silica, fine ground silica and aplite clay. It operates through the Oil & Gas Proppants (83% of 3Q17 Revenue) and Industrial & Specialty Products (17% of 3Q17) segments. The Oil & Gas Proppants segment serves the oil and gas recovery market providing fracturing sand which is pumped down oil and natural gas wells to prop open rock fissures and increase the flow rate of natural gas and oil from the wells. The industrial & specialty products segment consists of products and materials used in a variety of industries including, container glass, fiberglass, specialty glass, flat glass, building products, fillers and extenders, foundry products, chemicals, recreation products and filtration products. SLCA also provides last-mile fracturing sand logistics delivery solutions, through its subsidiary Sandbox, to the oil and gas industry. The company was founded on November 14, 2008 and is headquartered in Frederick, MD.

Price ($): 1/31/2018	$33.29	Beta:	1.61	FY: Dec	2016	2017E	2018E	2019E
Price Target ($):	$45.46	WACC	12.54%	Revenue	559,625,000	1,258,797,804	1,924,530,624	2,665,655,945
Upisde	31.39%	M-Term Rev. Gr Rate Est:	38.87%	% Growth	-13.0%	124.9%	52.9%	38.5%
52WK H-L ($):	$61.49-24.26	M-Term EBIT Gr Rate Est:	18.05%	Oil and Gas Proppants	6,442,000	12,200,400	19,278,900	26,990,459
Market Cap (mil):	2,902	Debt/Assets (ttm)	25%	% Growth	6%	89%	58%	40%
Avg. Daily Vol (Thou):	1,352	Yield (%):	0.72%	Industrial and Speciality Products	$3,433,000	$3,656,400	$4,409,775	$5,291,730
Short Ratio	11%	ROA (%):	3.39%	% Growth	-13%	7%	21%	20%
Insider Ownership	0.20%	ROE (%):	5.10%	Operating Margin Growth	-301%	453%	91%	22%
ESG Rating	BB	ROIC (%):	5.61%	EPS (GAAP)	-0.63	1.49	2.79	3.36

Recommendation

West Texas Intermediate Crude is near a 3-year high with the price hovering around the $65 per barrel range. Exploration and Production (E&P) companies have increased their capital expenditure forecasts to 15-20% (Barclays). With rising prices, producers will continue to boost their production levels and drive up the demand for frac sand. A decade ago, the average length of a lateral was 2,000 ft. but with the popularity of fracturing, it has increased to around 8,000 ft. The emergence of pad drilling, which allows for multiple laterals in one well, helped spur the demand for the length increase. The boost in oil prices and leg increases has rapidly stimulated the demand for frac sand. U.S. Silica is in a prime position to take advantage of this demand as they have around $464 million of cash for lucrative acquisitions. Competitors do not have this luxury as SLCA has $63 million in cash and $413 million in net debt. After making several mine acquisitions in the Permian Basin, they are expected to supply 24% of the frac sand market by 2019. Additionally, management believes that 45% of the U.S. market will be supplied by the Texas Basin by 2018 year-end. One of the key differentiators in this commodity market is efficiency as transporting this sand represents around 50% of delivered cost. In response, SLCA has purchased a last-mile logistics company that is located in the Permian Basin along with many other oil regions. More recently, they strategically bought a frac mine that has access not only to trans loads, but to Class I railroads and barges. The acquisitions have strengthened their national supply chain and logistics presence by creating a low-cost transportation model. With a supportive commodity and pad drilling landscape, flexible balance sheet, and being a premier supplier with a low-cost logistical model, it is recommended that U.S. Silica Holdings be added to the AIM Equity Fund with a price target of $45.28 which represents a 30.86% upside. The firm pays a .72% annual dividend.

Investment Thesis

- **New Permian Presence.** During the 2Q17, SLCA announced the construction of a new frac sand facility in the Permian Basin. This mine will add approximately 4 million tons per year and is part of an initiative to add approximately 8-10 million tons surging demand. At the end of 3Q17, SLCA began the creation of a second plant in West Texas which will add another 2.6 million tons per year. The two acquisitions will boost production levels an anticipated 34% and will contribute around 35% of additional revenue per year. Both of these plants are strategically planted equidistant to both Delaware and Midland basins providing short drive times to customers. 45% of industry demand is anticipated to come from the Permian Basin by the end of 2018.

- **Last-Mile Logistics Growth-** In early 2017, SLCA bought Sandbox, which is a last-mile logistics company. Last-mile logistics is the final step of the delivery process from a facility to the customer and at this point the sand is placed in carrier containers via truck and shipped directly to the user. Sandbox currently has operations in 7 of the 10 largest shale regions in the U.S. When purchased, Sandbox had 23 crews which are expected to increase approximately 250% by year end 2018. Management states this is the beginning of its development and wants to grow this business by 300% by 2019.
- **Mississippi Sand Acquisition.** SLCA purchased Mississippi Sand in August of 2017, a provider of high quality silica (sand) that focus on logistics operations. This acquisition is capable of producing up 1.6 million ton per year and has more than 30 million tons of high-quality frac sand reserves. Its strong distribution network is comprised 3 rail terminals along with 5 barge loading areas. The distribution outlets allow SLCA to serve 7 of the 10 largest basins.

Valuation

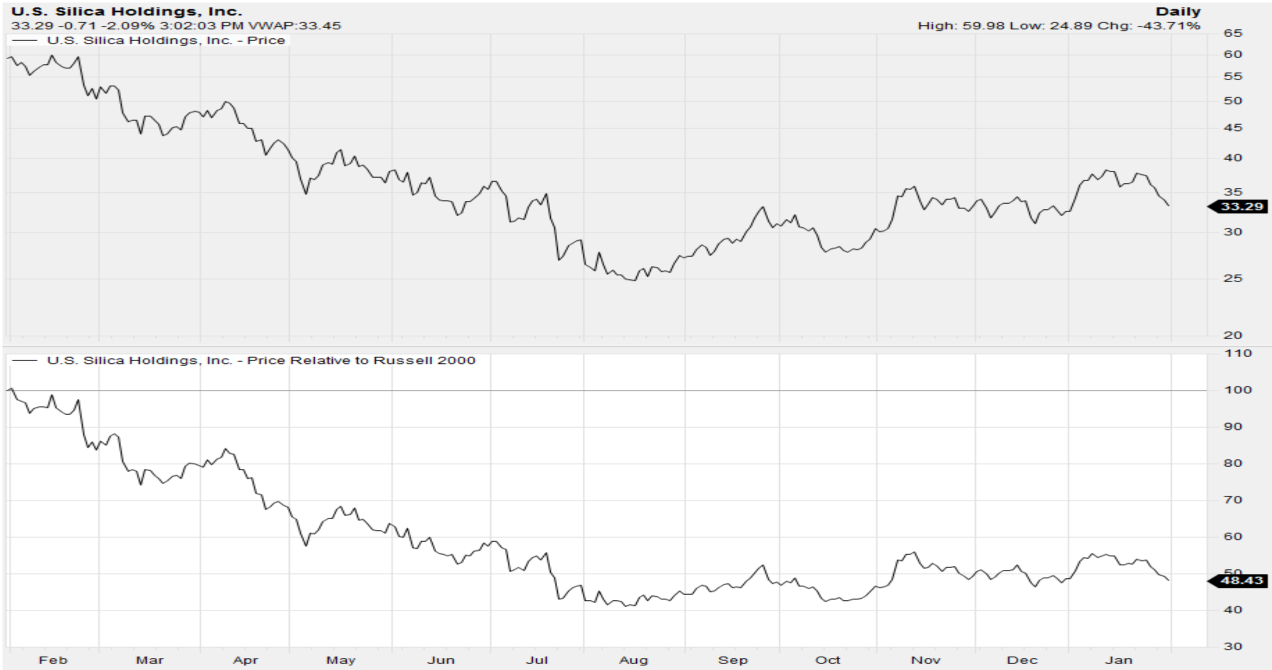
To reach an intrinsic value for SLCA, a five year DCF model and comparable multiple approach models were used. Using a terminal growth rate of 2.0% and a WACC of 12.67%, a DCF intrinsic value of $52.79 was reached. A sensitivity analysis of the WACC (11.67-13.67%) and perpetutity rate (1.5-2.5%) produced a range of $45.18-61.86. An EV/EBITDA and P/S multiple valuation was used with the following 2016 peer averages, 9.50x and 1.79x respectively. In order to calculate the EV/EBITDA intrinsic value, SLCA's 2017 E EBITDA of $285 million was muliplied by the peer average (9.50x) to arrive at an intrinsic value of $34.91. The P/S value was calculated by multiplying the 2017 estimated revenue per share of $23.53 by the 1.79x peer average to reach a $42.06 valuation. Weighting the DCF, EV/EBITDA, and P/FCF 50/30/20% respectively, a final value of $45.28 was reached representing a 30.86% upside.

Risks

- **Regulatory Environment and Litigation.** Fracturing has a large environmental impact and is subjected to large regulatory measures. Operating mines discharge fill material into water and is thus is highly monitored and requires numerous permits. A failure to obtain the necessary permits will seize operations. Additionally, SLCA is liable if an employee contracts silicosis, a lung disease caused by exposure to frac dust. 74 active cases of silicosis have been filed against SLCA.
- **Operating Concentration.** Currently 51% of sales are derived from four plants in Illinois, Oklahoma, and Wisconsin. If a problematic situation arises and alters the production of these plants, then this will have an adverse effect on the company's financial performance.
- **Cyclical Nature of Customer Business.** SLCA relies heavily on customers that operate in many different industries. Demand for commercial silica is not only reliant on E&P capital expenditures but also the construction and automobile industry. If any of these industries are under stress, a decrease in frac sand demand and oversupply may occur.

Management

Bryan Shinn was appointed CEO and member of the board of directors since 2012. Previously he was the senior vice president of sales and marketing from October 2009 to February 2011. Before working at U.S. Silica, Bryan worked at E. I. du Pont de Nemours and Company from 1983-2009. Mr. Shinn earned a Bachelor of Science degree in mechanical engineering from the University of Delaware.



Source: FactSet

Peer Fundamentals

Name	Ticker	ROA (%)	ROIC (%)	Debt/Assets (%)	5 yr Average Profit Margin (%)
U.S. Silica Holdings	SLCA	3.39	5.61	25%	5.69
HI-CRUSH Partners LP	HCLP	2.99	5.58	37%	-0.08
Fairmont Santrol Holdings	FMSA	1.09	4.71	66%	-8.38
Smart Sand Inc	SND	7.32	13.31	1%	10.81
Ciner Resources LP	CINR	14.32	4.52	33%	9.62
Compass Minerals International Inc	CMP	7.07	6.36	54%	12.34
Peer Averages		6.56	6.90	38%	4.86

Source: FactSet

Peer Valuation

Name	Ticker	Revenue (mil)	Market Cap (mil)	EV/EBITDA	P/E	P/S
U.S. Silica Holdings	SLCA	560.00	2,902	12.11	37.3	1.54
HI-CRUSH Partners LP	HCLP	204	1,238	12.34	43.03	2.10
Fairmont Santrol Holdings	FMSA	535	1,286	10.78	278.94	1.74
Smart Sand Inc	SND	59	396	6.75	54.02	1.82
Ciner Resources LP	CINR	475	548.4	6.44	43.16	1.25
Compass Minerals International Inc	CMP	1138	2,523	11.89	16.58	1.63
Peer Weighted Averages		482.24	1,198	10	87	1.79

Source: FactSet

SolarEdge Technologies Inc. (SEDG)
February 2, 2018

Tim Milani — International Technology

SolarEdge Technologies Inc. (NASDAQ: SEDG) is a global leader in the direct current (DC) power optimization market that provides module level electronics for solar power harvesting and monitoring systems for residential, commercial and utility-scale photovoltaic (PV) instillations. Products are sold across the Residential, Commercial and Utility Segments for which they provide Intelligent Inverter Solutions. SEDG does business globally across 120 countries with the majority of revenue originating from the US and Europe (68.2% and 22.6% respectively). SEDG was founded in 2006 and is headquartered in HaSharon, Israel.

Price ($):	$ 35.85
Price Target ($):	$ 47.32
52WK H-L ($):	12.25-39.90
Market Cap (mil):	1,542
Insider Holdings	16.55%
Avg. Daily Vol (mil):	0.756
Yield (%):	0.00%
ESG Rating	BBB

Beta:	0.80
M-Term Rev. Gr Rate Est:	27.58%
M-Term EPS Gr Rate Est:	19.50%
Debt/Equity:	0.00%
Debt/EBITDA (ttm):	0.00%
WACC	8.86%
ROA (%):	21.19%
ROE (%):	31.16%
ROIC (%):	31.16%

FY: Dec	2016A	2017A	2018E	2019E
Revenue (Mil)	480.0	598.4	820.5	996.7
% Growth	47.7%	24.7%	37.1%	21.5%
Oper Inc	67.08	100.57	116.09	139.62
% Growth	133.17%	49.93%	15.44%	20.27%
Op Margin	13.97%	16.81%	14.15%	14.01%
EPS*	$1.74	$2.05	$2.46	$2.97
P/E (Cal)	20.6x	17.5x	19.23	15.9x
EV/EBITDA	16.7x	11.9x	12.0x	12.2x

Recommendation

SEDG is a leading player in the global module power electronics market as they are the third largest competitor in industry behind only German-based SMA and Chinese-based Huawei. The mission of SEDG is to become the number one provider of inverter solutions across all solar PV market segments and to broaden the widespread availability of clean renewable solar energy. SEDG has shipped a total of over 15.4 million power optimizers and 633,000 inverters since beginning commercial shipments of its products in 2010. Many of these are continuously monitored by SEDG as the inverters are connected to a cloud-based platform which enables SEDG to provide the best possible service to these clients. This platform also enables SEDG to interact with their indirect customers as indicated by 214,340 being registered users on it. SEDG technologies are also cutting edge as they enable superb power harvesting by deploying a power optimizer in each PV module; however, SEDG is also able to keep system costs competitive by alternating current inversion and grid interaction using a DC-AC inverter. Additionally, as a solar energy company SEDG has a strong commitment to its environmental sustainability policy that focuses on the satisfaction of customer and relevant legal regulations while preventing pollution through limiting waste, promoting recycling and initiating energy saving activities. The long-term goal of this policy is to lessen the company's environmental impact and to continually make improvements to its products through consistent review. SEDG also has several advantages over many of its competitors in the semiconductor and solar energy industries. With zero total debt and $304.7million in cash up from $206.7million at the same time last year they have a very strong balance sheet. The inverters that SEDG uses in its products also produce up to 25% more energy than competitors due to their module level power optimization process. SEDG products work at maximum efficiency when used in conjunction with other products from their line but they are also compatible with third party inverters allowing for potential customers to easily integrate them into their existing ecosystem of devices. Therefore, it is recommended that SEDG be added to the AIM International Equity Fund with a price target of $47.32 per share, representing a 32.00% upside to the current market price of the stock.

Investment Thesis

- **Solar Industry Growth in the US:** Solar instillations in the US have recently reached 1.6 million up from near 1 million in 2016. The number of these instillations is expected to continue to grow to beyond 2 million in 2018 and be at over 4 million by 2022. Total US electrical generation from solar has also grown to 1.4% today from 0.1% in 2010. This percentage is projected to surpass 5% by 2022. The cost to install solar has also dropped by 70% since 2010 which has and will continue to lead the industry's expansion into new markets.

- **Successful Expansion into International Markets:** SEDG reported record revenues of $166.3 million in its most recent quarter up 22% from the prior period and 30% YoY. A large portion of this growth has been driven by SEDG's successful expansion into other markets as sales from outside the US increased to 51% of total sales, a record high for the company. Sales in international markets have also been growing at a rate of 50% to 60% YoY throughout the previous year. This combined with various cost reductions has resulted in high gross margins for the company at 34.9%, beating previous analyst estimates by 230bps.
- **High Liquidity for Funding and New Ventures:** SEDG was able to improve its already high levels of liquidity over 2017 which will allow them to fund working capital needs as well as expand the company into new areas. The largest improvements in liquidity included a 6.7% increase in current assets, a 17.4% decrease in current liabilities, and a 20.4% increase in working capital. With current operations sufficiently covered SEDG can focus on expanding into other areas in the power conversion business in which it's founders have substantial experience. Therefore upcoming business plans to expand the company into motor control applications and other industrial opportunities have great potential.

Valuation

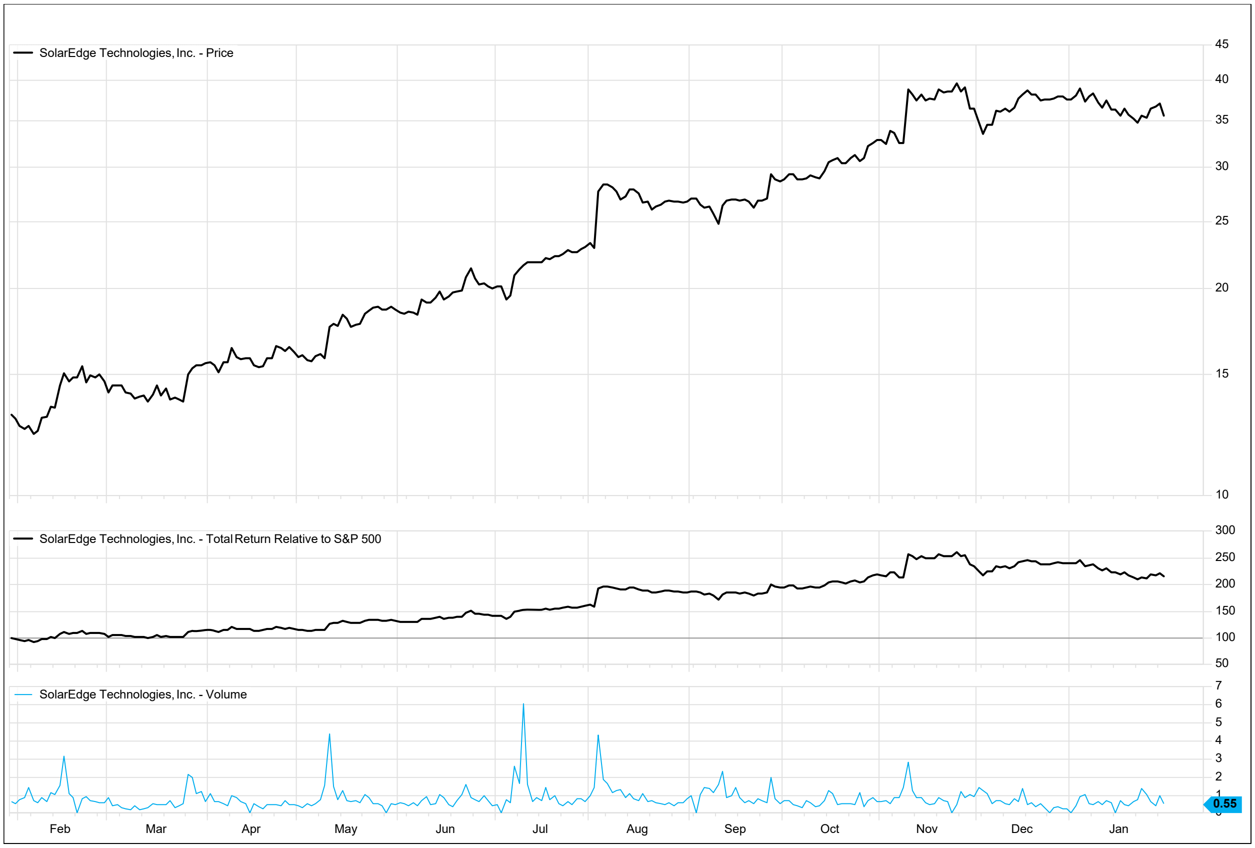
In order to reach an intrinsic value for SEDG, a ten year DCF model was constructed. Using an averaged growth rate of 15.62% depreciating for the first seven years to a terminal growth rate of 2.00% for the remaining three, with a WACC of 8.86, an intrinsic value of $41.80 per share was reached. A sensitivity analysis was conducted using the terminal growth rate (1.50%-2.50%) and the WACC resulting in a range from $59.31-$31.05. Additionally, a P/E multiple valuation using a comparables average P/E of 33.20x, and SEDG's current EPS of $2.05 resulted in a valuation of $68.06. Finally, a EV/EBITDA multiple valuation was calculated using the comparables average of 17.22x and SEDG's EBITDA FY1 of $130.78m resulting in a valuation of $52.35 per share. By weighting the three valuation models 70/15/15, a price target of $47.32 was reached representing a 32.00% upside. SEDG does not pay a dividend.

Risks

- **Competitive Environment.** SEDG's market for solar PV solutions is highly competitive as they compete with traditional inverter manufacturers, micro-inverter manufacturers and emerging technology companies with potential alternative solutions. Consolidation activity in the industry, such as Tesla's recent acquisition of SolarCity Corporation in 2016, further increases competitive risk as it may force SEDG to increase its reliance on a small number of customers for a significant portion of revenue greatly impacting its position in the solar market.
- **Changes to Solar Policies.** SEDG benefits from favorable net metering policies in the US, Canada and Europe that allow a solar PV system owner to pay his or her own local electric utility only for power usage net of production from the PV system. If the value of the credit that potential customers receive for net metering is reduced it could significantly impact interest in the devices and consequently SEDG's profitability. Additionally, the Trump Administration's recent decision to impose a 30% tariff on imported solar cells to promote American manufactured cells could have a negative impact on the solar industry in the short term.

Management

Guy Sella is the Chairman, Co-founder & CEO of SEDG. Sella also was a partner at Star Ventures, a leading venture capital firm, where he led investments in several start-ups prior to his tenure at SEDG. He holds a BS in engineering from Israel's Institute of Technology. Ronen Faier is the CFO oand has been with the company since 2011. Faier is a registered CPA (Israel), has an MBA from Tel Aviv University and was CFO at Msystems, a company acquired by SanDisk Corporation in 2006.



Peer Fundamentals

Name	Ticker	Revenues	ROE	ROA	Debt/ Equity	Est 5 yr NI growth
SolarEdge Technologies	SEDG	519.26	31.16%	21.19%	0.00%	20.00%
ABB	ABBN-CH	33,392.51	14.55%	5.25%	50.39%	10.20%
Advanced Energy Inds	AEIS	627.14	16.18%	10.67%	0.00%	27.40%
Melexis	MELE-BE	549.77	42.44%	30.93%	12.77%	10.80%
SMA Solar Technology	S92-DE	913.84	-3.96%	-2.12%	8.43%	9.30%
Semtech	SMTC	587.26	-0.70%	-0.24%	47.32%	5.00%
Peer Averages		7,214.10	13.70%	8.90%	23.78%	12.54%

Source: FactSet

Peer Valuation

Name	Ticker	Market Cap (mil)	P/S	P/E	EV/ EBITDA	P/B
SolarEdge Technologies	SEDG	1,518	5.66	27.36	11.97	1.77
ABB	ABBN-CH	2,965	3.76	27.54	14.29	3.02
Advanced Energy Inds	AEIS	1,646	4.30	14.21	13.67	3.04
Melexis	MELE-BE	61,688	11.38	36.26	25.52	7.07
SMA Solar Technology	S92-DE	4,407	8.66	85.17	12.24	1.50
Semtech	SMTC	2,472	11.25	54.78	20.37	3.04
		14,636	7.87	43.59	17.22	3.53

Source: FactSet

First Internet Bancorp (INBK)
February 2, 2018

Nathaniel D'Amato | Domestic Financials

First Internet Bancorp (NASDAQ: INBK) is one of the first state-chartered, FDIC insured institutions to operate without any physical branches. First Internet Bancorp also referred to as, First IB, is a complete online bank holding company that obtains deposits through the ACH network, remote and mobile deposit capture, mailed checks, wire transfers, and the ATM network. The bank is headquartered in Fishers, IN, with 192 employees working under the current CEO, David B. Becker, who also founded the bank in 1997. First IB became public on February 22, 1999. The services First IB offers include: Residential Mortgage, Consumer, Commercial Real Estate, and Commerical and Industrial Lending.

Price ($):	37.5
Price Target ($):	43.26
52WK H-L ($):	42.4 - 25.48
Market Cap (mil):	318
Insider Holdings	6%
Avg. Daily Vol (mil):	35,581
Yield (%):	0.600
ESG Rating	
	11.84

Beta:	1.08
M-Term Interest Inc. Gr Rate	40.5%
M-Term EPS Gr Rate Est:	28.0%
WACC	6.74
ROA (%):	0.66
ROE (%):	9.00
Tier 1 Capital Ratio (%)	11.4
Credit Provisions/Loans (%)	24.0

FY: Dec	12/31/2016	12/31/2017	12/31/2018	12/31/2019
Revenues	53.80	64.50	85.13	102.70
% Growth	42.04	30.28	31.90	20.60
Net Interest Income	39.689	53.982	73.20	89.40
%Growth	39.70	54.00	46.00	35.00
Net Interest Margin	2.49%	2.39%	2.40	2.50
Efficiency Ratio	58.5	56.9	54.00	52.00
P/E	13.9	26.6	11.62	11.62
P/B	1.35	1.43	1.30	1.10

Recommendation

First Internet Bancorp has been experiencing significant growth since 2013 - as of December 31, 2017, assets increased by 49% year-over-year resulting in a 5-year historical annual growth rate of 43.2%. The growth of assets in 2017 was primarily driven by a 67% increase in total loans which grew from $1.2 to $2.0 billion. The growth of loans and net interest income is expected to continue in 2018 as the bank continues to expand their loan market into single-tenant-leasing and the healthcare financing space. This effort has resulted in an 8.6% increase in net interest income for the 4th quarter alone. INBK expanded into the healthcare space through a strategic partnership struck in late September 2017 with a healthcare financing company, Lendeavor Inc. The terms of the partnership include a loan-purchasing agreement with a five-year commitment from First Internet Bank of up to $120 million annually to fund prime-quality business loans - with 85% of the healthcare financing loans used to fund dental practices. Additionally, the online platform used by First IB creates an efficient business model for the banking industry. Online banking has already become the norm for many simple bank transactions and it is expected to continue to increase in popularity as the traditional brick-and-mortar banking system becomes an unnecessary expense. INBK's ability to cut overhead costs allows it to achieve an efficiency ratio 1% below the peer group average of 57%, which is down from 77% in 2013. This decline in efficiency ratio is expected to continue considering that mature internet banks with similar business models have an efficiency ratio of 36%. Due to the growing popularity and efficiency of online banking combined with the rapid growth of net loans, it is recommended that First Internet Bancorp is added to the AIM Equity Fund with a price target of $43.26 reflecting a 15.8% upside.

Investment Thesis

- **Strong Loan Growth:** Street analysts project risk weighted assets of First Internet to increase substantially for the next 3 years; with estimates of loans increasing by 71% or approximately 1 billion for 2018. These estimates are supported by the momentum built up in the fourth quarter with the expansion of the bank's commercial loan market into single-tenant leasing and healthcare financing.
- **Strategic Partnership with Lendeavor:** The partnership with Lendeavor allows First IB to diversify their asset generation channel into healthcare financing opportunities. The loan-purchase agreement holds First IB responsible for providing up to $120 million in loans annually. This partnership promotes significant growth in net interest income considering that the bank

only has $2.1 billion loans in total. Loans for healthcare financing grew by 155% since the start of the deal in September. The terms of the deal include that David Becker, the CEO of First IB, joins Lendeavor's board of directors to provide oversight that credit quality is maintained throughout the partnership.

- **Efficiency of Online Banking:** First Internet Bancorp will be maximizing profitability by cutting costs associated with brick-and-mortar banking. Also, with the use of an Internet-based technology platform, INBK does not face geographic boundaries that traditional banks must overcome for customer acquisition since customers can access the bank's services through smartphones, tablets and computers. Another benefit of the online banking system is that customers can pay bills and remote deposit capture 24 hours a day, seven days a week, on a real-time basis; unlike many banks that run a "batch system" resulting in a delay for customer services.

Valuation

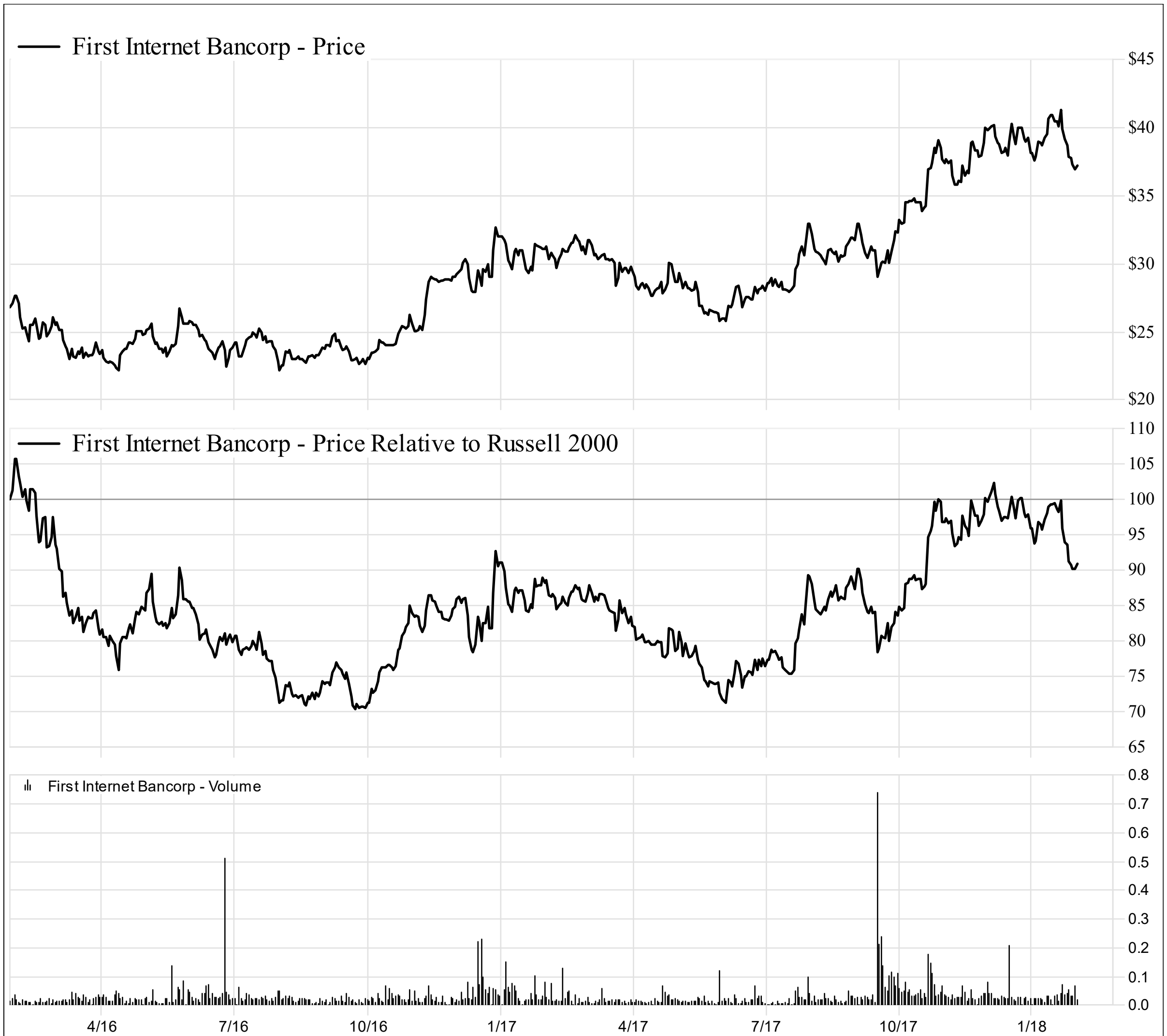
In order to determine the intrinsic value for First Internet Bancorp a 10-Q P/BV model was constructed to determine the BVPS. This was weighted equally against a peer P/E valuation and P/BV valuation, and an excess return model. The BVPS for the NTM was projected to be $29.95, this estimate was then multiped by the P/B competitior average of 1.65x, resulting in a price target of $49.41 for the P/BV valuation. With an estimated EPS of $3.25 the P/E valuation resulted in a price target of $50.13. Finally, an excess return valuation resulted in a $30.24 price target. The equally weighted valuations resulted in a 15.83% upside.

Risks

- **10-Year Treasury Yield:** The biggest risk for First Internet Bancorp is the potential flattening of the yield curve. The 10-yield treasury yield can be a used to predict future net interest margins. If the yield curve flattens significantly, this could signal a decrease in lending profitability.
- **Decline in Mortgage Origination Activity:** First Internet Bancorp non-interest income fell 19% in the fourth quarter. This drop was directly linked to a decrease in mortgage banking revenue. First Internet Bancorp will need to increase their mortgage origination activity soon to prevent falling behind competitors benefiting from rising mortgage rates.
- **Reliance on Information Systems:** First IB relies heavily upon communications and information systems to conduct business. Any failure or interruption of the information systems could adversely affect the Internet-based operations. In addition, the information systems may present security risks and could be susceptible to hacking or other unauthorized access.

Management

The management team and Board of Directors are led by David B. Becker, the founder of First Internet Bank of Indiana. Mr. Becker is a seasoned business executive and entrepreneur with over three decades of management experience in the financial services and financial technology space. Mr. Becker has been the recipient of numerous business awards, including Ernst & Young Entrepreneur of the Year in 2001, and was inducted into the Central Indiana Business Hall of Fame in 2008.



Name	Ticker	NIM	Tier 1 Capital (%)	Efficiency Ratio	Loan 1 Yr % Growth	N.I. 1 Yr % Growth
First Internet Bancorp	INBK	2.39	11.43	56.91	67.46	17.1
Summit Financial Group, Inc.	SMMF	3.67	11.8	56.3	21.9	22.9
Bank First National Corp.	BFNC	3.5	10.7	59.0	7	2.7
First Bancorp, Inc.	FNLC	3.0	14.6	49.7	8	8.8
Farmers Capital Bank Corp.	FFKT	3.7	19.8	68.7	6.6	-29.6
Peer Averages		3.2	13.7	58.1	22.2	4.4

Name	Ticker	Market Cap (M)	P/E	P/B	P/TBV	Div Yld %
First Internet Bancorp	INBK	318	15.91	1.42	1.42	0.63
Summit Financial Group, Inc.	SMMF	321	13.54	1.59	1.84	1.70
Bank First National Corp.	BFNC	309	13.89	1.88	2.16	1.43
First Bancorp, Inc.	FNLC	304	15.04	1.63	1.95	3.49
Famers Capital Bank Corp.	FFKT	298	16.75	1.72	1.72	1.10
Peer Averages		313.138M	15.03	1.65	1.82	1.67

Constellium NV Class A (CSTM)

February 2, 2018

William McMahon — International Industrials

Constellium NV (NYSE: CSTM) is a downstream global producer of semi-products engaged in the design, manufacture, and sale of specialty rolled and extruded aluminum products. CSTM focuses on adding value by converting aluminum into semi-fabricated products for more demanding end markets. The company's product portfolio commands higher margins as compared to less differentiated, more commoditized fabricated aluminum products. Constellium operates through the following three segments: Packaging & Automotive Rolled Products (52.3%), Aerospace & Transportation (27%), and Automotive Structures & Industry (20.7%). Automotive and aerospace end markets are expected to drive long-term growth, while packaging provides stability throughout the cycle. Constellium was founded in 2011 when Rio Tinto sold off Alcan Engineered Products to Apollo Management (51%) and FSI (10%) and is headquartered in Schiphol-Rijk, Noord-Holland, Netherlands.

Price ($):	13.15
Price Target ($):	19.04
52WK H-L ($):	13.7 - 5.35
Market Cap (mil):	1,768
Insider Holdings	48%
Avg. Daily Vol (mil):	1.8
Yield (%):	0.0
ESG Rating	A

Beta:	1.30
M-Term Rev. Gr Rate Est:	29.4%
Cash to Market Cap (%):	47.4%
Q Ratio:	0.3
Debt/EBITDA (ttm):	5.36
WACC	7.80
ROA (ttm):	0.44
ROIC (ttm):	0.97
Net Debt/EBITDA Est:	4.35

FY: Dec	2016A	2017E	2018E	2019E
Revenue (Mil)	5,246.69	6,453.43	6,969.71	7,527.28
% Growth	-8.48	23.00	8.00	8.00
Oper Inc	254.43	312.85	357.83	399.44
% Growth	39.05	22.96	14.38	11.63
Op Margin	4.85	4.85	5.13	5.31
EPS*	($1.03)	$0.44	$0.72	$0.92
P/E (Cal)	N/A	29.6	18.32	14.36
EV/EBITDA	6.61	6.87	6.15	5.58

Recommendation

While a key focal point when analyzing Constellium is often their leverage, our class should turn its attention to Constellium's EBITDA growth potential as its net debt to EBITDA is on track to move below 4x in 2019. Poor communication, missed targets, and a high- priced acquisition were the key reasons for Constellium's stock price sell off in 2015-2016, but after a change in management last year, CSTM has exhibited promising revenue visibility and conservative growth estimates. The company has started to successfully execute on its Project 2019 efficiency program and is expecting growth in key areas such as auto body sheet and extrusions. CSTM should expect 12% EBITDA growth in 2017 followed by high-single digit growth in both years to follow. Another important asset to Constellium's growth is its strategically placed manufacturing facilities throughout the United States, Europe, and China, where the company draws 79% of its revenue and should provide a geographically diverse platform to service global OEM's (US – 31.9%, Germany – 22%, France – 10.4%). The company has continued to demonstrate the expansion of these operations through the completion of the Automotive Readiness Program. This program should eliminate $100/mt of shipping costs as substrate is currently being shipped from Neuf-Brisach, France. The majority of CSTM's packaging products are used in carbonated soft drinks, demand for which has been relatively flat over the past two years according to the Can Manufacturer's Institute. Secular growth in automotive sheet and structure remains strong and high incremental margin aerospace shipments could see an all-important inflection point in 2018. CSTM is the global leader in aerospace plate supply, #1 in Europe, and a leading aluminum plate supplier to both Airbus and Boeing. Airbus and Boeing guide to aircraft production CAGR of 5% and 7%, respectively, from 2016 to 2019. These contracts which are typically secured for 5-7 years should help volumes, revenue, and EBITDA to grow. As well, the company holds long-term contracts with German car manufacturers Audi, Mercedes, and BMW, which should help CSTM to capitalize on aluminum content in light vehicles growth at 5% CAGR through 2020. Despite strong relationships in Germany, the company also holds contracts with Ford and will target the NA automotive aluminum flat- rolled market which is expected to deliver 10%+ CAGR in volumes until 2025. Aside from performance vehicles, the introduction of strict auto emissions standards within the United States and Europe will lead to an increased demand for aluminum- based parts and frames which reduce these emissions. Driven by these factors it is recommended that Constellium NV Class A be added to the AIM International Equity Fund with a price target of $19.04, representing a nearly 44% upside. Constellium NV does not pay a dividend.

Investment Thesis

- **Deleveraging Begins. In the announcement of Project 2019 on April 27, 2017,** Constellium's management has provided guidance that the company's equity/debt transactions have closed for this stage of expansion. Through their recapitalization efforts closed on October 31 and November 2 of 2017, net debt/EBITDA should be reduced by at least -0.6x from 5.1x to between 4.3x-4.4x. CSTM has set of goals of continually reducing this heavy debt load aiming for 3.9x and 3.5 in 2018 and 2019, respectively.
- **Capex Flexibility.** CSTM is expected to target $100-$125m in growth capex for 2018, but management has the ability to materially adjust capex, providing greater flexibility to weather a potential market downturn. 2018 capex is expected to be $275m, but Mr. Germain stated that in adverse market conditions, this number could be adjusted to a range of $200-$225m USD. Three years out, capex could be adjusted down to $80m and remain there for 1-2 years.
- **Positive Outlook for Aluminum Globally.** The consensus view for aluminum foresees a steady increase in demand, averaging 2%-3% per year over the next 15 years. This translates into additional consumption of 25.8 mt a year and an estimated tripling of demand by 2025. According to industry reports, the global aluminum conductors market is estimated to grow at a CAGR of 2.63% during the five- year forecast of this model.

Valuation

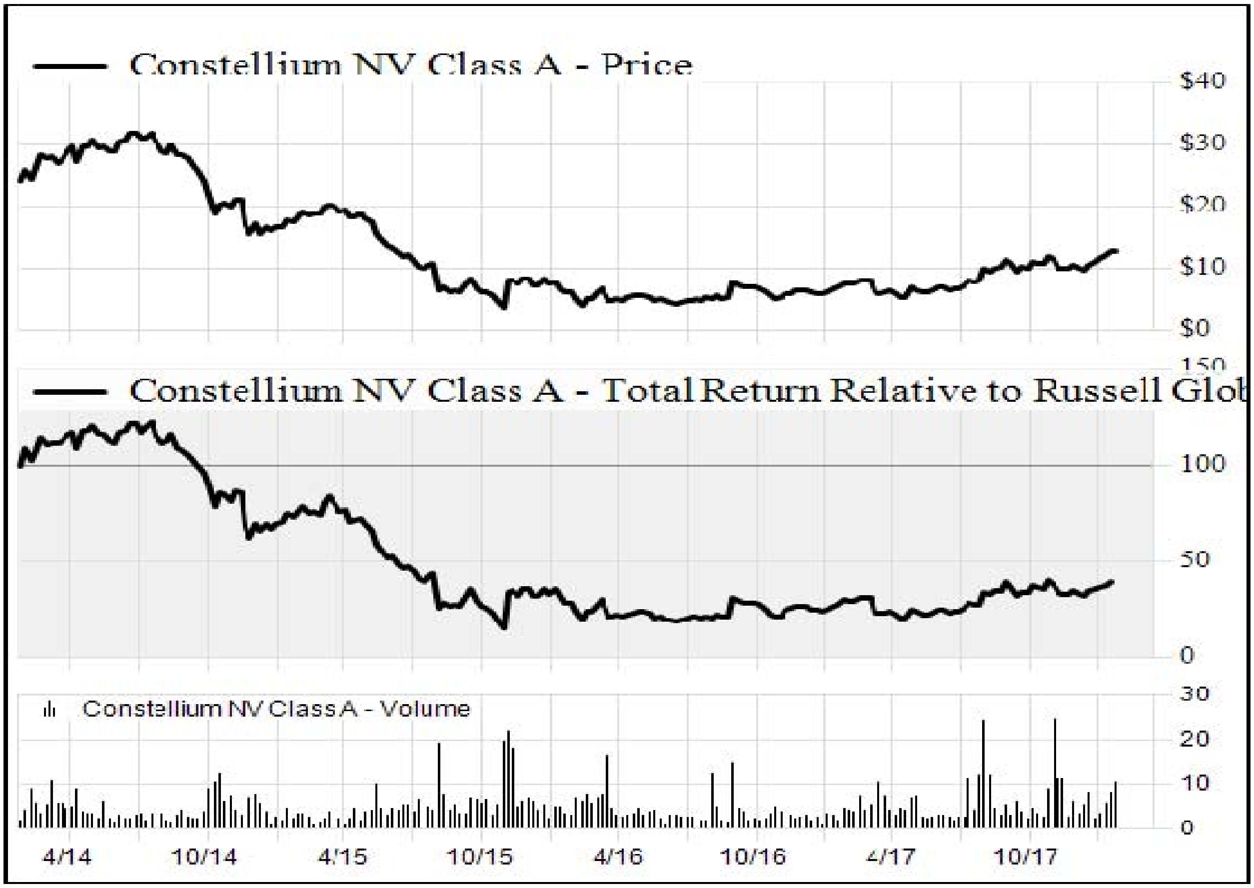
In order to reach an intrinsic value for Constellium, a five year DCF model was constructed. Using a terminal growth rate of 2%, WACC of 7.8%, an instrinsic value of $14.21 was reached, representing a 8% upside. A sensitivity analysis on the terminal growth rate and WACC ranged from $13.53 – $17.33. Additionally, an EV/EBITDA multiple valuation was calculated using a historical average multiple of 6.15x, resulting in a valuation of $29.72. By weighing the valuation models 70/30, a price target of $18.86 was reached, which yields a 44% upside. CSTM does not pay a dividend.

Risks

- **Concentrated Supplier and Customer Base.** CSTM is dependent on a limited number of suppliers for a substantial portion of aluminum and other raw materials (top 10 suppliers – 45% of materials) and on a limited number of customers for a substantial portion of their revenue (top 10 customers – 55% of revenue). Given that the company maintains long-term contracts (5-7 years) for both sides, the ability to maintain and grow these relationships is key to success in the future.
- **Fluctuations in Currency Exchange Rates.** The financial condition and results of its operations are reported in various currencies and then translated to euros at the applicable exchange rate. As a result, the appreciation or depreciation of the Euro or USD would significantly impact reported revenues and operating profit.

Management

Richard B. Evans, has served as the Chairman of the Board of Directors at CSTM since its inception and has managed the company's entire development and expansion process. Jean- Marc Germain, whom has held numerous leadership positions in the aluminum industry including, most recently, President for North American operations with Novelis, was brought in as Executive Director and CEO in 2016. Since his appointment as CEO, the stock has appreciated from $4.99/share to its current price, representing an impressive turnaround play in the last twelve months.



Source: FactSet

Peer Valuation

Name	Ticker	Revenues	ROA	CF ROIC	Current Ratio	EPS
Constellium NV Class A	CSTM - US	5,247	-0.11	5.53	1.36	-0.04
Viohalco SA/NV	VIO - BE	3,443	-0.18	3.88	1.13	-0.03
Cobham plc	COB - GB	2,623	-26.03	6.83	1.26	-0.62
Norsk Hydro ASA	NHY - NO	9,758	5.04	12.26	2.13	0.37
Granges AB	GRNG - SE	842	8.02	14.26	2.16	0.78
Ferroglobe PLC	GSM - US	1,556	-15.16	10.16	1.37	-1.97
Peer Averages		3,644	-5.7	9.5	1.6	-0.3

Source: FactSet

Name	Ticker	Market Cap (mil)	P/S	P/CF	EV/EBITDA	Inventory Turnover
Constellium NV Class A	CSTM - US	1,755	0.12	6.39	8.22	7.73
Viohalco SA/NV	VIO - BE	1,167	0.10	4.35	8.65	3.46
Cobham plc	COB - GB	4,520	1.27	18.31	51.30	4.27
Norsk Hydro ASA	NHY - NO	15,468	1.03	8.43	7.93	5.50
Granges AB	GRNG - SE	809	0.89	9.90	9.39	4.63
Ferroglobe PLC	GSM - US	2,607	1.20	15.16	--	3.91
Peer Averages		4,914	0.90	10.25	19.32	4.35

Source: FactSet