# Applied Investment Management (AIM) Program

## AIM Class of 2017 Equity Fund Reports
## Spring 2017

***Date***: Friday, February 24th | ***Time:*** *2:30 – 3:45* p.m. | ***Location: 1492 Capital Management***

| Student Presenter | Company Name | Ticker | Sector | Page |
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| Jack O'Connor | CryoLife, Inc. | CRY | Healthcare | 2 |
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These student presentations are an important element of the applied learning experience in the AIM program. The students conduct fundamental equity research and present their recommendations in written and oral format – with the goal of adding their stock to the AIM Equity Fund. Your comments and advice add considerably to their educational experience and is greatly appreciated. Each student will spend about 5-7 minutes presenting their formal recommendation, which is then followed by about 8-10 minutes of Q & A.

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**CryoLife, Inc. (CRY)**
February 24, 2017

John O'Connor Domestic Healthcare

*CryoLife, Inc. (NYSE: CRY) is a medical devices company which develops and commercializes implantable mechanical devices, as well as provides human tissues for use in cardiac and vascular surgeries. CryoLife operates through two segments: Medical Devices (63% of total revenue) and Preservation Services (37%). The Medical Devices segment is comprised of BioGlue and BioFoam (surgical adhesives), PerClot and PhotoFix. CryoLife added mechanical aortic and mitral heart valves to its medical devices segment with the recent acquisition of On-X. The Preservation Services segment offers external services revenues from the cryogenic preservation of cardiac and vascular tissues. CryoLife earns a majority of its revenue in the United States (79% of total revenue), while China is its second largest market with 4% of total revenues. The company was founded by Steven G. Anderson in 1984 and is headquartered in Kennesaw, Georgia.*

| | | | | FY: Dec | 12/31/2016A | 12/31/2017E | 12/31/2018E | 12/31/2019E |
|---|---|---|---|---|---|---|---|---|
| Price ($): | 16.3 | Beta: | 1.07 | | | | | |
| Price Target ($): | 23.32 | WACC | 9.01% | Revenue (Mil) | 180 | 190 | 200 | 221 |
| 52WK H-L ($): | 9.57 - 20.15 | M-Term Rev. Gr Rate Est: | 7.0% | % Growth | 23.59% | 5% | 5% | 10% |
| Market Cap (mil): | 569 | M-Term EPS Gr Rate Est: | 19.2% | Gross Margin | 64.1% | 67.2% | 68.1% | 69.4% |
| Float (mil): | 85.9 | Debt/Equity (LTM): | 34.99 | EBITDA Margin | 16.2% | 15% | 17% | 18% |
| Short Interest (%): | 2.3 | Debt/EBITDA (LTM): | 2.09 | EPS (Cal) | 0.31 | 0.38 | 0.47 | 0.58 |
| Avg. Daily Vol (mil): | 161,156.0 | ROA (%): | 4.33 | FCF/Share | 0.40 | 0.66 | 0.77 | 0.90 |
| Dividend ($): | 0.12 | ROE (%): | 5.92 | P/E (Cal) | 33.82x | 45.4x | 36.5x | 29.6x |
| Yield (%): | 0.0 | ROIC (%): | 4.83 | EV/Sales | 3.2x | 3.03x | 2.87x | 2.58x |

## Recommendation

CryoLife strategically operates in the smaller med-tech market segment within the healthcare industry that focuses on cardiovascular offerings. While there are larger players in cardiovascular technologies (i.e. Medtronic and St. Jude Medical), CryoLife benefits from its differentiated products and services. The firm's unique offerings allow CRY to focus primarily on segments of the market that do not garner much attention from the larger players. CRY's most notable and important product is its On-X mechanical valves. CryoLife acquired On-X Life Technologies early in 2016 for $130MM and has since successfully transitioned the On-X valves into its own portfolio. On-X helps CryoLife tap into the $220MM mechanical valve market due to its uniqueness from the other mechanical valves already on the market. On-X is the only mechanical valve that is approved by the FDA to be used as a replacement in patients that are using lower levels of blood thinner medication. Prior to the acquisition, On-X mechanical valves had been used in over 200,000 patients and sales grew at a 4 year CAGR of 13%. CryoLife management expects similar growth levels to continue through 2020. In addition to driving revenue growth, On-X sales will also expand overall margins as the product mix begins to shift more towards the 90% gross margins generated from On-X valves. Their sales force has nearly doubled as a result of the acquisition which allows them to aggressively expand internationally. This global expansion should help drive topline growth at a high single digit rate through 2020. Lastly, there is a proposed bill with strong support from Congress and President Trump to repeal the 2.3% tax medical devices tax imposed under the Affordable Care Act. Naturally this would have a positive impact on CryoLife's results moving forward. Taking the aforementioned points into consideration, it is recommended that CryoLife be added to the portfolio given its strong growth prospects, margin expansion, and 43% upside to the current price of $16.30.

## Investment Thesis

- **Margin Expansion Driven by High Margin Medical Devices** – In January 2016, CryoLife completed the strategic acquisition of the mechanical heart valve company, On-X Life Technologies. Prior to this acquisition the only product offerings that CryoLife had were surgical adhesives (BioGlue and BioFoam) and PerClot and PhotoFix, which have gross margins of ~73%. The introduction of the On-X mechanic valves, which has margins near 90%, will subsequently lead to improved product mix and higher margins. Given that On-X is the only mechanical valve that is FDA approved and clinically proven to be safer with less Warfarin in addition to the prevalence of aortic valve replacement surgeries, CryoLife should experience not only higher revenue growth but significant margin expansion as well. Gross margins are projected to expand from the mid-60% range for FY16 to a 69-71% range by FY21E.

- **Consolidation of Sales Force and International Expansion** – After the acquisition of On-X Life Technologies, management elected to make changes to the structure of their sales force. The old model was comprised of three separated teams: tissue services, medical products, and On-X sales. This prevented CryoLife from benefitting from cross-selling across the different segments. The new sales force consolidation strategy consists of 51 sales reps that will engage in the cross-selling of the firm's tissue services and product offerings in the cardiovascular technology space. CryoLife also announced plans to implement a 25-person sales force to sell directly in six market outside the US. This direct penetration reduces the dependency on a middle man and in turn should generate margin improvement. Revenue growth should also come from CryoLife's larger emphasis on international expansion, particularly into China (currently only 4% of revenue).
- **Expansion of Product Portfolio Via M&A** – Despite recently acquiring On-X Life Technologies, CryoLife still maintains a strong balance sheet with ample cash ($57MM), providing them with the resources to make another strategic acquisition moving forward. Management has proven their keen ability to make necessary changes to the company, be it the On-X acquisition or the divestitures of the low ~50% margin HeRO Graft and ProCol products. While there is uncertainty surrounding future M&A activity, the conditions are prime for CryoLife to make another synergistic acquisition that could either broaden its product portfolio, increase margins, or both.

**Valuation**

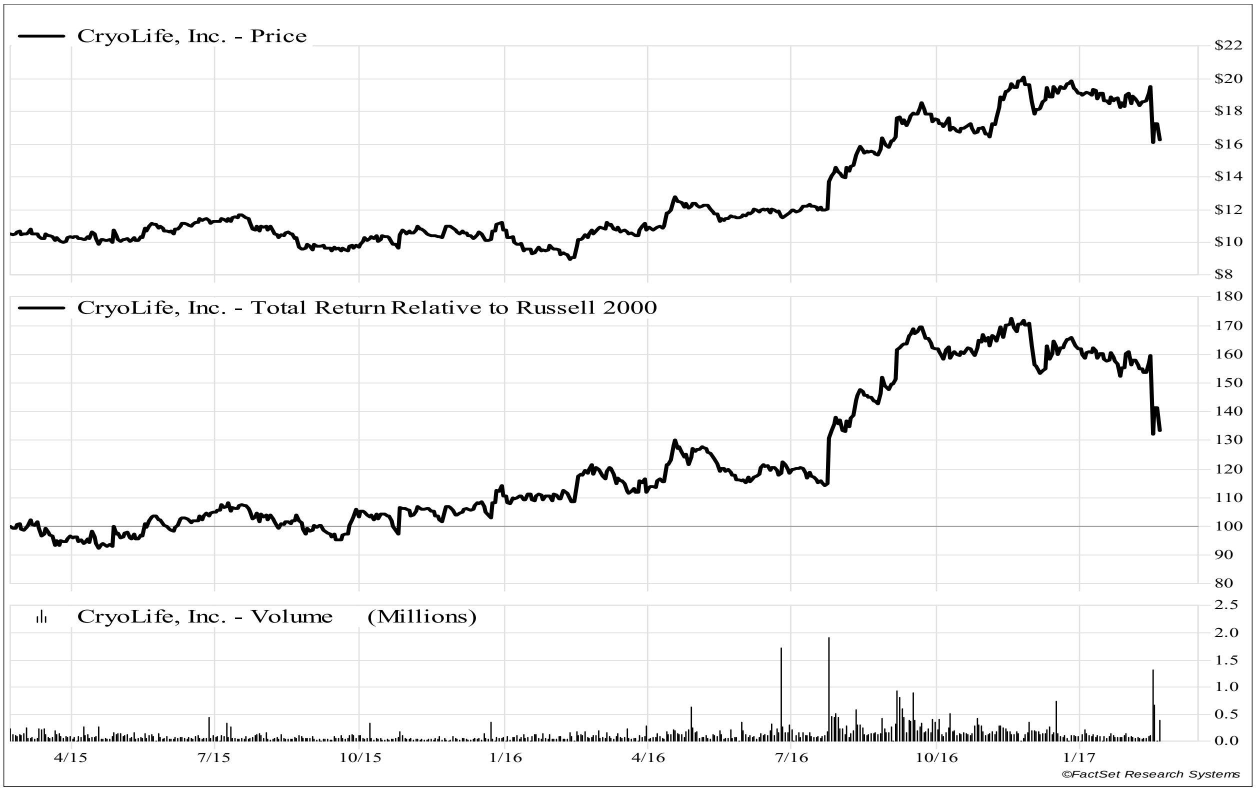
To reach an intrinsic value for CRY, a five-year discounted cash flow model was constructed. Using a WACC of 9.01% and a terminal growth rate of 2.5% resulted in an intrinsic value of $20.72, yielding an upside of 20.1%. In addition to using a five year DCF, an EV/Sales model was utilized. Using a peer EV/Sales multiple of 4.36x, an intrinsic value of $26.45 was reached. The DCF model was weighted 50% while the EV/Sales model was also weighted 50%, and a blended price of $23.32 was reached. This represents a 43.1% upside on the current stock price of $16.30. The firm pays a modest dividend of $0.12 per share.

**Risks**

- **Regulatory Risk –** Certain FDA approvals for new CRY product lines are mandatory in order for them reach the commercialization stage. Not only does the FDA have control over the commercialization of such products, but it also has influence over the manufacturing and marketing processes of said products. This in turn can lead to costly delays and legal expenses for CRY. In addition, there remains uncertainty surrounding the repeal of the ACA and its 2.3% medical devices tax.
- **Competitive Risk –** CryoLife is a small player in the cardiovascular medtech space, relative to much larger, more established firms such as Medtronic and Boston Scientific. With that said, provided that CRY remains a strategic player in a small and focused market such as the mechanical valves market, these larger firms should not pose much of a threat.

**Management**

J. Patrick Mackin is the president and CEO of CryoLife and joined the firm in September 2014. Prior to joining the firm Mr. Mackin served for 7 years President of Cardiac Rhythm Disease Management, which is the largest operating division of Medtronic, Inc. Chief Operating Officer and Chief Financial Officer is D. Ashley Lee, CPA. Mr. Lee has been with CRY since 1994 and has served in several roles within the firm, beginning as the controller in December of 1994. He was formerly employed as a public accountant by Ernst & Young, LLP from 1987 to 1993.




**Ownership**

| | |
|---|---|
| % of Shares Held by All Insider Owners: | 14.06% |
| % of Shares Held by Institutional & Mutual Fund Owners: | 68.73% |

Source: FactSet

**Top 5 Shareholders**

| Holder | Shares | % Out |
|---|---|---|
| BlackRock Fund Advisors | 3,149,456 ▼ | 9.59 |
| Capital Research & Management Co. (Global Investors) | 2,831,429 ▲ | 8.62 |
| Dimensional Fund Advisors LP | 1,749,123 ▲ | 5.32 |
| Morgan Stanley Smith Barney LLC (Private Banking) | 1,718,176 ▲ | 5.23 |
| The Vanguard Group, Inc. | 1,512,894 ▼ | 4.61 |

**Peer Analysis**

| Name | Ticker | Market Cap (mil) | Sales (mil) | EBITDA | P/E | EV/ Sales |
|---|---|---|---|---|---|---|
| CryoLife | CRY | 538 | 180 | 30 | 32 | 3.19x |
| AtriCure | ATRC | 584 | 129 | (18) | N/A | 3.30x |
| Edwards Lifesciences | EW | 19,692 | 2,964 | 261 | 24.07x | 5.10x |
| Novadaq Technologies | NDQ | 510 | 81,640 | (37,342) | N/A | 7.30x |
| Angiodynamics | ANGO | 607 | 351 | 43 | N/A | 1.88x |
| Spectranetics Corporation | SPNC | 1,169 | 242 | (15) | N/A | 4.20x |
| Peer Averages | | 4,512 | 17,065 | (7,414) | 24.07x | 4.36x |

**Hackett Group, Inc. (HCKT)**
February 24, 2017

Nick Dykema Domestic Technology

*Hackett Group, Inc. (NASDAQ: HCKT) is an intellectual property (IP) based consulting firm with expertise in business strategy, operations, finance, human capital management, strategic sourcing, procurement, and information technology. In addition to HCKT's valuable consulting services, the company is well-known for its benchmarking and performance measurements. Hackett has completed more than 12,000 benchmarking and performance evaluations for over 5,000 global companies – 93% of the Dow Jones Industrials, 86% of the Fortune 100, 87% of the DAX 30, and 52% of the FTSE 100. The majority of Hackett's revenue (83.8%) are derived from domestic companies. The Hackett Group has been trading publicly since 1998 and is headquartered in Miami, Florida.*

| | |
|---|---|
| Price ($): | 19.69 |
| Price Target ($): | 22.25 |
| 52WK H-L ($): | 12.76 - 19.86 |
| Market Cap (mil): | 562 |
| Float (mil): | 28.6 |
| Short Interest (%): | 0.6 |
| Avg. Daily Vol (mil): | 0.27 |
| Dividend ($): | 0.26 |
| Yield (%): | 1.3 |

| | |
|---|---|
| Beta: | 0.90 |
| WACC | 8.4% |
| M-Term Rev. Gr Rate Est: | 9.8% |
| M-Term EPS Gr Rate Est: | 14.7% |
| Debt / Equity (%): | 2.6 |
| Total Debt / EBITDA: | 0.00 |
| ROA (%): | 8.62 |
| ROE (%): | 14.39 |
| ROIC (%): | 13.14 |

| FY: Dec. | 2015 | 2016 | 2017E | 2018E |
|---|---|---|---|---|
| Revenue (Mil) | 260.9 | 288.6 | 321.7 | 350.7 |
| % Growth | 10.2% | 10.6% | 11.0% | 10.0% |
| Gross Margin | 31.7% | 33.5% | 33.8% | 34.0% |
| EBITDA Margin | 10.2% | 13.2% | 14.4% | 14.8% |
| EPS (Cal) | $0.75 | $0.94 | $0.98 | $1.10 |
| FCF / Share | $1.04 | $1.03 | $1.15 | $1.28 |
| P / E (Cal) | 23.7 | 21.0 | 18.2 | 16.2 |
| EV / EBITDA | 17.7 | 12.4 | 10.2 | 9.1 |

**Recommendation**

The technology consulting and strategic business advisory market is highly competitive. In order to operate with maximum efficiency, large corporations must stay up-to-date with constantly changing trends in Information Technology (IT). Over the past several years Hackett group has emerged as a leader in the industry and has a proven track record with many of the largest global companies. In an industry focused on collaboratively working with clients, long-term relationships are extremely valuable. Having established connections with the majority of the largest global companies exemplifies HCKT's successful strategy. In addition to long-term business relationships, Hackett will continue to seek advantageous alliances with software companies in order to diversify their portfolio of IP-centric offerings. For example, joining forces with software and data processing powers Oracle and ADP, bodes well for Hackett's ability to attract globally recognized companies for future joint offerings. In the coming year, an expected increase of 2.9% in IT spending will positively impact the Hackett Group. In other words, a greater number of companies will demand improvements in their firm's current software, which will increase the demand for technology advisory and consulting services. As a result of Hackett's strategic alliances, newer companies will likely become attracted to Hackett – and these new clients will open the door for recurring revenue sources. In essence, the company will offer its world-class performance metrics and benchmarking services (16% of revenue) to these customers and generate higher margins. Recently, Hackett released its FY'16 financial statements, which were highlighted by its highest gross margin (33.5%) since FY'10 and first double-digit operating margin (12%) since FY'08. Also, HCKT reported a fourth consecutive year of net income and earnings per share growth. Due to a positive outlook for strategic alliances, increased IT spending, and a growing demand for Hackett's benchmarking services, it is recommended that HCKT be added to the AIM Equity Fund with a price target of $22.25, which represents a 13% upside (note: the stock rose 15% after its earnings release on February 22).

**Investment Thesis**

- **Information Technology Environment.** The world's leading IT research and advisory company, Gartner Inc., projects an increase of 2.9% in U.S. IT spending for 2017. The growth will be driven by significant spending increases in software (7.2%) and IT Services (4.8%). Also, devices and communications services spending are expected to experience positive growth in 2017 despite decreases in 2016. At the moment, cloud-based infrastructure, virtual business and technology networks, and business analytics are impacting the way companies improve their businesses. As technology continues to evolve in the coming years, companies in all industries will be required to stay current with new technology. With increased demand for IT spending, large companies that seek expert consultancy will contact the Hackett Group.

- **Benchmarking Services.** The purpose of benchmarks is for a company to establish priorities, generate organizational consensus, and create performance based compensation. Benchmarking services provide the Hackett Group with potential for growth. The company earns higher margins on performance metrics and benchmarking, since the services are low-cost forms of recurring revenue. Over the years, HCKT has positioned itself as the premiere source for best practice performance metrics and strategies. The company has serviced over 5,000 clients during the last 22 years and has developed long-term relationships with many of the Global 2000 firms.
- **Strategic Alliances.** During FY'15, The Hackett Group engaged in new strategic alliances with ADP, the Chartered Institute of Management Accountants (CIMA), and Oracle. The company is leveraging its intellectual property-centric offerings to help its new partners sell their products. Hackett's Best Practices advisory program was paired with ADP's Vantage HCM solution, which is a cloud-based human capital management solution that helps find, develop, and retain valuable employees. The company's partnership with CIMA was formed to develop a talent management and professional development program for global business services and shared services professionals. Lastly, Hackett and Oracle agreed to package HCKT's Performance Exchange with ORCL's new Business Intelligence (BI) Cloud Service in the coming year. Moving forward, strategic alliances with established IT suppliers will be a valuable source of revenue for Hackett.

**Valuation**

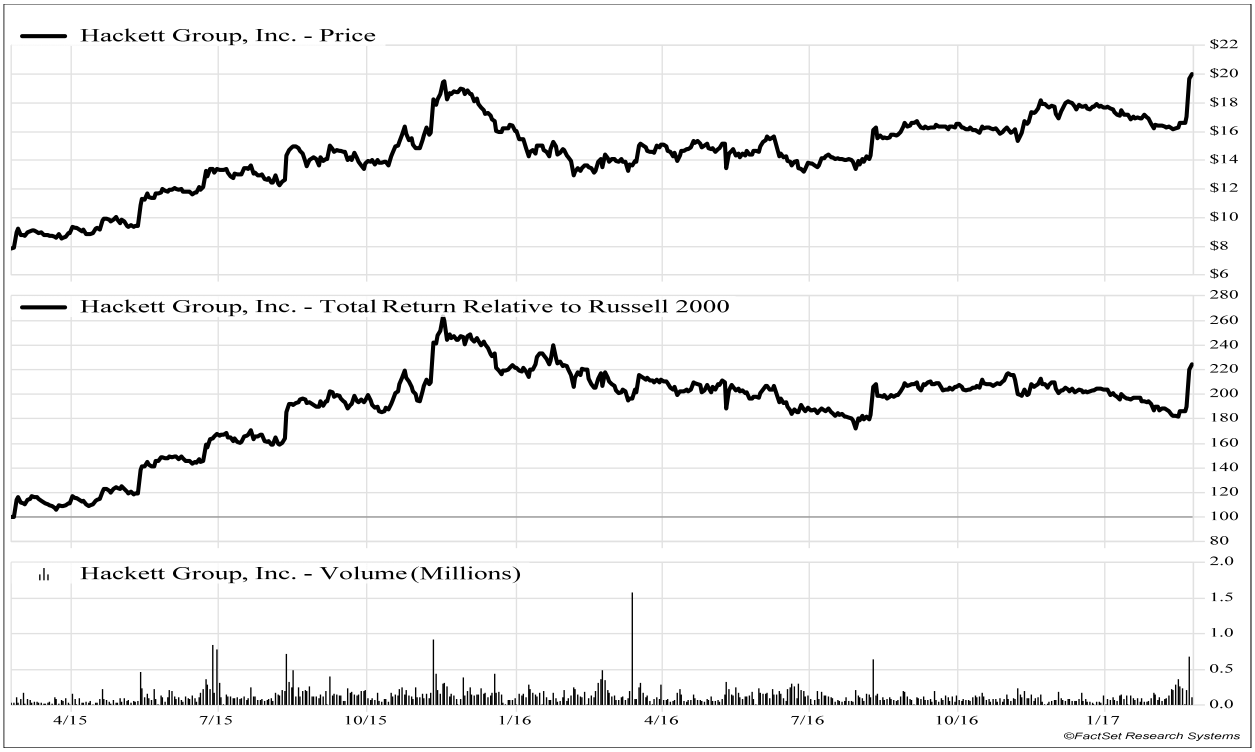
To find HCKT's intrinsic value, a five year DCF model was constructed. A terminal growth rate of 2% and a WACC of 8.4% were used to find a price target of $22.57. A sensitivity analysis of the terminal growth rate and WACC ranged from $17.66 to $31.90. In addition, a price-to-earnings (P/E) multiple valuation was conducted using a peer comparable of 20.6x to value HCKT at $21.29. By weighing the DCF model 75% and the P/E multiple valuation 13%, an intrinsic value of $22.25 was reached, representing a 13% upside. The company has paid a dividend each of the last five years. In FY'16, HCKT paid a dividend of $0.26 – 1.3% annual yield.

**Risks**

- **Economic Downturn.** Many of Hackett's clients are impacted by poor global and regional economic conditions. A prolonged economic downturn could reduce the demand for Hackett's consulting services.
- **Client Retention Rates.** Hackett earns its highest marginal revenue on Benchmarking and Best Practice IP offerings, which are provided to recurring customers. Achieving high client retention rates is essential to earning revenue at higher margins.
- **Employee Turnover.** Hackett has experienced lower than usual employee turnover during the last couple years. If the company continues to hire consultants at the same rate and employee turnover remains low, gross margins could be negatively impacted.

**Management**

Ted A. Fernandez has served as Chairman and Chief Executive Officer of The Hackett Group since co-founding the company in 1997. Mr. Fernandez worked in several client service and executive positions at KPMG between 1979 and 1997. Most notably, Mr. Fernandez served as National Managing Partner with KPMG's Strategic Services Consulting team between 1994 and 1997. In 1998, Robert A. Ramirez joined the Hackett Group following his role as Director and SG&A Controller of Burger King Corporation. Mr. Ramirez held a variety of finance and accounting positions with HCKT prior to his appointment as Chief Financial Officer and Executive Vice President of Finance in August 2007.




**Peer Analysis**

| Name | Ticker | Market Cap (mil) | Sales (mil) | EBITDA | P/E | EV / EBITDA |
|---|---|---|---|---|---|---|
| Hackett Group, Inc. | HCKT | 562 | 289 | 35 | 17.6 | 13.1 |
| Booz Allen Hamilton | BAH | 5,116 | 5,647 | 518 | 19.8 | 12.2 |
| Computer Sciences | CSC | 9,928 | 7,525 | 962 | 25.2 | 12.5 |
| Edgewater Technology | EDGW | 85 | 125 | 10 | 93.9* | 7.8 |
| Information Services | III | 117 | 216 | 16 | - | 10.1 |
| Perficient | PRFT | 650 | 501 | 315 | 16.7 | 2.1 |
| Peer Averages | | 3,179 | 2,803 | 376 | 20.6 | 8.9 |

** EDGW was not included in P/E valuation*

Source: FactSet

**Ownership**

| | |
|---|---|
| % of Shares Held by All Insider Owners: | 18.50% |
| % of Shares Held by Institutional & Mutual Fund Owners: | 78.21% |

Source: FactSet

**Top 5 Shareholders**

| Holder | Shares | | % Out |
|---|---|---|---|
| BlackRock Fund Advisors | 1,774,051 | ▲ | 6.21 |
| Dimensional Fund Advisors LP | 1,703,916 | ▼ | 5.97 |
| The Vanguard Group, Inc. | 1,487,494 | ▲ | 5.21 |
| Copper Rock Capital Partners LLC | 1,395,119 | ▼ | 4.89 |
| Hosking Partners LLP | 1,023,045 | ▲ | 3.58 |

Source: FactSet

**Orange SA (ORAN)**
February 24, 2017

Anthony DiSanto — International Telecommunications

*Orange SA (NYSE: ORAN-ADR) provides a wide range of services including mobile telecommunications, fixed telephony, data transmission, and other value added services throughout Europe. Revenues are divided among France (45.7% of total revenues), Spain (10.5%), Poland (7.0%), rest of Europe (7.1%), Africa & Middle East (11.4%), Enterprise (15%), and IC & SS (3.3%). The Enterprise division offers business solutions in the Information and Communication sector, while the IC & SS offers international and long distance, internet, convergence, anti-fraud, and submarine cable services. The firm was founded in 1999 and is headquartered in Paris, France.*

| | |
|---|---|
| Price ($): (2/19/17) | $15.37 |
| Price Target ($): | $24.45 |
| 52WK H-L ($): | $13.98-$18.33 |
| Market Cap (mil): | 40,702 |
| Float (mil): | 1940.0 |
| Short Interest (%): | - |
| Avg. Daily Vol (mil): | 5.80 |
| Dividend ($): | 0.43 |
| Yield (%): | 2.80% |

| | |
|---|---|
| Beta: | 0.61 |
| WACC | 5.1% |
| M-Term Rev. Gr Rate Est: | 1.3% |
| M-Term EPS Gr Rate Est: | 13.0% |
| Debt/Equity: | 110.2% |
| Debt/EBITDA (ttm): | 2.41 |
| ROA: | 2.1% |
| ROE: | 6.4% |
| ROIC: | 3.3% |

| FY: Dec | 2015A | 2016E | 2017E | 2018E |
|---|---|---|---|---|
| Revenue (mil) | 44,407 | 44,851 | 45,465 | 46,147 |
| % Growth | -14.80% | 0.99% | 1.35% | 1.48% |
| Gross Margin | 16.81% | 17.22% | 17.10% | 17.00% |
| Operating Margin | 12.38% | 12.88% | 12.79% | 12.75% |
| EPS (Cal) | $1.05 | $1.00 | $1.01 | $1.02 |
| FCF/Share | $1.85 | $0.68 | $0.75 | $0.77 |
| P/E (Cal) | 23.3 | 24.4 | 24.3 | 23.9 |
| EV/EBITDA | 6.10 | 7.0 | 6.9 | 6.7 |

**Recommendation**

The European telecommunication market has suffered over the past several years due to regulations, over-the-top service providers, and pricing pressure. The industry has experienced negative growth since 2010, with a -0.2% rate observed in 2015. According to management, it appears as if the market is beginning to stabilize, after suffering with a CAGR of -5.6% over the past five years. In response to the EU's addition of more regulations to promote unification, players in the telecom space have been consolidating and converging their services to combat pricing pressures. For instance, ORAN acquired Jazztel, a major Spanish broadband provider, and converged their services – which has resulted in reduced churn and new customers. Following this acquisition, a 3.9% growth rate was reported in 3Q2016. As broadband continues to be viewed as the backbone of the digital transformation that is taking place in Europe, future growth should be positive. France has made it their priority to have high-speed broadband servicing everyone by 2020. Additionally, Orange is utilizing the digital transformation to reduce costs and enter new spaces. Beginning 2017, they are rolling out Orange Bank in France, the first fully mobile bank. Also, as they continue to retire a large portion of their workforce, they plan to utilize digitalization and virtualization to simplify their customer interactions. ORAN is also focusing more on their African and Middle East operations where there is only a 20% smartphone penetration and lots of room for further growth. Thus, with a focus on convergence, new revenue streams, cost reductions, and market potential in the Middle East and Africa, it is recommended that Orange SA be added to the International AIM Fund with a price target of $24.45 representing a 37.1% upside.

**Investment Thesis**

- **Convergence and Broadband/Fiber.** At the core of ORAN's strategy is convergence. As ORAN continues to grow their high-speed broadband and offer higher quality convergence packages, they are significantly reducing churn – a measure that has decreased from an average of 15.45% in 2014 to a 12.7%, average over the past three quarters. Their broadband services have also seen stronger growth, reporting a 5.8% rate for 3Q2016. Their target customer acquisitions remain below forecasts; however, this leaves significant room for future revenue growth.

- **Orange Bank.** After prior success with mobile financial services, they plan to release a 100% mobile bank. Their recent 65% acquisition of Groupama will be renamed Orange Bank and has been released at the beginning of 2017. Groupama has provided them with a base of 513,000 users that they plan to grow to 2 million customers before expanding their services. Additionally, they foresee this new service generating €400 million by 2018.
- **Reduction in Costs.** After their prior success in reducing costs by €3 billion in their Chrysalid plan, an additional €3 billion in cost reductions are planned. This will be done through digitalization, virtualization, simplification and green efficiency. At the end of 2015, ORAN had already experienced savings of €953 million.
- **Africa & the Middle East.** Experiencing the most growth in ICT and Telecom, they have acquired a number of firms and are still seeking opportunities to further expand. With only 20% smartphone penetration in the market as of 3Q2016, research suggests mobile user growth will be 5% yearly until 2020. ORAN's continuation to roll out 4G is driving substantial data revenue growth – 34% year over year in 3Q2016. Orange Money has also grown aggressively, 48% yearly, with 20 million active users. The company plans to grow this to 30 million by 2018, only ~26.5% of their current customer base.

**Valuation**

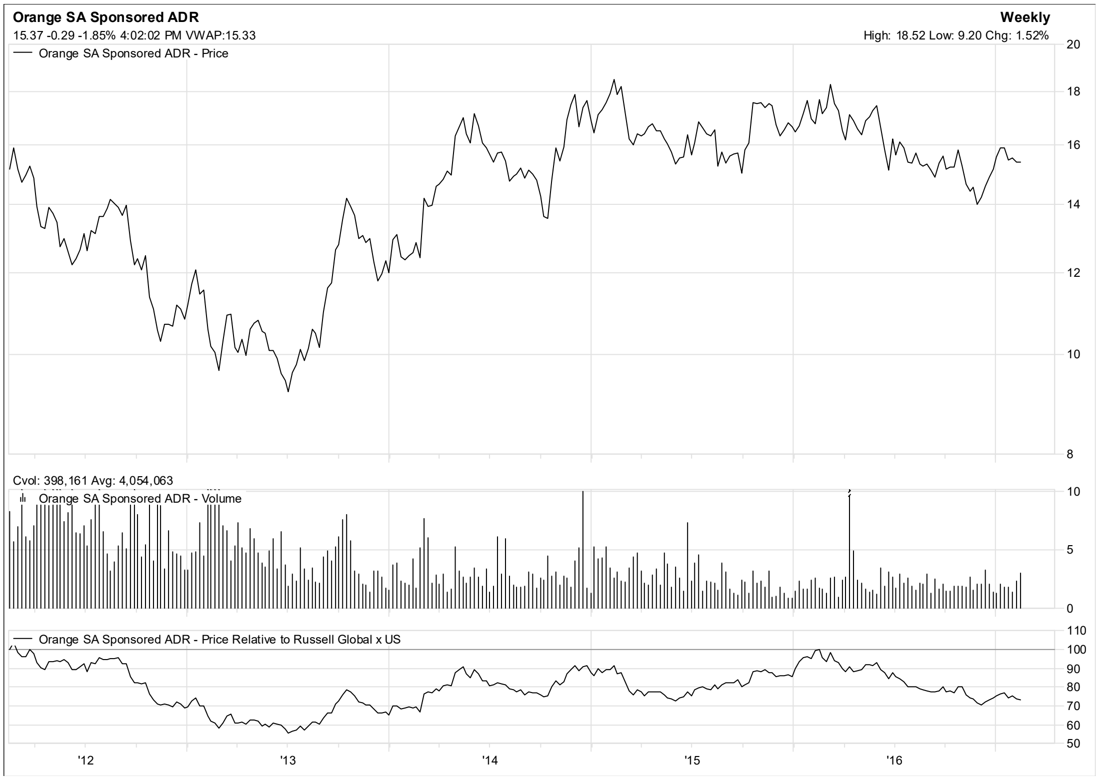
A five year DCF model was constructed to reach ORRAN's intrinsic value. Using a terminal growth rate of 1.50%, WACC of 5.12%, an intrinsic value of $22.94 was reached. A sensitivity analysis ranged from $22.05 to $24.97. Additionally, an EV/EBITDA multiple variation was conducted using comparables and a historical average of 5.49 which resulted in a valuation of $27.26. By weighting the models 65/35 a price target of $24.45, representing a 37.1% upside, was reached. ORAN pays a dividend representing a 2.80% yield.

**Risks**

- **European Single Market for Telecommunications.** The European Parliament, Council, and Commision have come to an agreement to end roaming charges. Over the next five years they will slowly decrease the cost of telecommunication services for Europeans when they travel between EU countries.
- **Consolidation.** When the EU telecom industry begna to stagnate, the players turned to M&A. This led to intense competition and pricing pressure that is still occuring.
- **Frexit.** Continued uncertainty grips the European Union as populism continues to be a driving force in politics as of late. This could bring many changes to ORAN's financial statements and non-France segments.

**Management**

Mr. Stéphane Richard has been Chairman and CEO since March 1, 2011. Prior, he served as a Director at Orange from 2003 to 2007 and Deputy CEO of French Operations from September 2009 to March 2011. Mr. Ramon Fernandez has been CFO and Strategy Officer since September 1, 2014. Since January 1, 2016, he has also been appointed as the CEO Delegate. Prior to his role at Orange, he held high ranking positions at the French Treasury, World Bank, and the IMF.




Source: FactSet

### Ownership

| | |
|---|---|
| % of Shares Held by All Insider and 5% Owners: | 26.84% |
| % of Shares Held by Institutional & Mutual Fund Owners: | 41.66% |

Source: FactSet

### Top 5 Shareholders

| Holder | Shares | % Out |
|---|---|---|
| Government of France | 356,194,000 | 13.39% |
| Bpifrance Participations | 254,220,000 | 9.56% |
| Caisse Des Depots & Consignations | 44,764,000 | 1.68% |
| The Vanguard Group, Inc. | 41,219,000 | 1.55% |
| Norges Bank Investment Management | 39,854,000 | 1.50% |

Source: FactSet

### Peer Analysis

| Name | Ticker | Market Cap (mil) | Sales (mil) | Debt/Equity | Div. Yld. | EV/ EBITDA |
|---|---|---|---|---|---|---|
| Orange SA | ORAN | 40,702 | 45,061 | 110.2% | 2.8% | 6.1 |
| Bouygues | EN | 13,221 | 34,886 | 79% | 4.6% | 7.4 |
| Vivendi | VIV | 21,842 | 10,859 | 9.9% | 17.7% | 15.3 |
| BT Group | BT | 39,138 | 32,180 | 137.5% | 4.6% | 5.2 |
| Vodafone Group | VOD | 65,521 | 60,858 | 68.8% | 6.0% | 6.6 |
| Peer Averages | | 34,930 | 34,696 | 73.8% | 8.2% | 8.6 |

Source: FactSet

**Control4, Corporation (CTRL)**

February 24, 2017

Ryan Thern — Domestic Technology

*Control4 Corporation, (NASDAQ:CTRL) is a domestic technology firm, founded in 2003, that engages in the provision of automation and control solutions for connected household technologies, which is the only segment of the firm's business. CTRL provides consumers with the resources to integrate music, video, lighting, temperature, security, communications and other functionalities into a unified and automated home. The particular software the firm specializes in includes: controller products, cloud services, and user-interface products. CTRL also sells third-party connected devices through independent dealer channels and online store available on dealer websites. The company was founded by W. Eric Smith, William B. West and Mark J. Morgan on March 27, 2003 and is headquartered in Salt Lake City, UT.*

| | |
|---|---|
| Price ($): | 15.1 |
| Price Target ($): | 19.57 |
| 52WK H-L ($): | 15.81 - 7.01 |
| Market Cap (mil): | 361.39 |
| Float (%): | 6.50 |
| Short Interest (%): | 2.30 |
| Avg. Daily Vol (mil): | 2.30 |
| Dividend ($): | 0.00 |
| Yield (%): | 0.00 |

| | |
|---|---|
| Beta: | 1.30 |
| WACC | 9.67% |
| M-Term Rev. Gr Rate Est: | 13.80% |
| M-Term EPS Gr Rate Est: | 18.30% |
| Debt/Equity: | 0.0x |
| Debt/EBITDA (ttm): | 0.0x |
| ROA (%): | 8.44% |
| ROE (%): | 10.27% |
| ROIC (%): | 10.26% |

| FY: Dec | 2016A | 2017E | 2018E | 2019E |
|---|---|---|---|---|
| Revenue (Thousands) | 208,802 | 247,020 | 288,527 | 328,353 |
| % Growth | 27.96% | 18.30% | 16.80% | 13.80% |
| Gross Margin | 50.6% | 52.1% | 52.3% | 52.5% |
| EBITDA Margin | 6.79% | 6.46% | 6.43% | 6.41% |
| EPS (Cal) ($) | 0.59 | 0.52 | 0.63 | 0.73 |
| FCF/Share ($) | 0.34 | 0.62 | 0.66 | 0.78 |
| P/E (Cal) | 25.5x | 29.2x | 24.1x | 20.7x |
| EV/EBITDA | 25.2x | 22.4x | 19.2x | 17.0x |

## Recommendation

Over the past 13 years Control4 Corporation has developed its product lines and proprietary solutions for integrated technologies for the consumer home. CTRL offers specialized technologies such as comfort products, security products, communication, lighting products, etc. to consumers and third-party sellers. The firm has extensive relationships with leading technology providers, exhibiting collaborations with Cisco Systems, Inc., AT&T, Inc., HP, Inc., NETGEAR, Inc. and 40 others. In addition to these key partners, CTRL sells to companies like Sirius XM Holdings, Inc. CTRL is competing with large corporations like Apple and Microsoft, however the firm operates exclusively in a niche space that allows it to provide service and proprietary solutions that the larger firms cannot. Additionally, operating in only automation and control solutions enables CTRL to appropriately allocate R&D costs, which have historically accounted have been 19.31% of total revenues YoY. The automation and control solutions sub-sector is projected to grow at a CAGR of ~15.10% from 2014-2019, which pairs closely to the projected CAGR of 13.50%, calculated for CTRL from 2017-2021. CTRL has posted an average operating margin of 3.66% over the past 4 years, however margins are likely to increase as the firm grows to capture economies of scale, so it is important for margins to remain stable while revenues continue to grow at these projected rates. As a result of CTRL's continued innovation, proprietary software and hardware integration, and the increased market demand for its products, it is recommended that CTRL be added to the AIM Equity Fund with a price target of $19.57, representing a potential upside of 29.59%.

## Investment Thesis

- **Demand Growth.** The Chinese marketplace has become increasingly important to CTRL as the revenues in China jumped over 200% from 2015-2016 and currently account for 13.2% of total revenues. Additionally, sales in Canada increased by 27.9% from 2015-2016, representing 7.70% of total revenues for 2016. Besides the international markets, highly integrative technologies have become popular in the United States. Most consumers are currently utilizing integrated software that links their laptops, phones, and watches, however CTRL has the ability to fill the gap between these devices and the software in homes, cars and other appliances. This movement towards total integration is starting to catch traction in the marketplace and allows CTRL to be a front runner in the group of technologies firms that are capable of supplying the correct software and hardware.

- **Integration with Amazon Devices.** In 2016, CTRL announced its ability to integrate with Amazon Alexa, the popular voice service that powers Amazon Echo and other Alexa-enabled devices, including Echo Dot, Amazon Tap, and Amazon Fire TV. CTRL's new "Smart Home Skill" provides homeowners with the convenience of entire-home automation through simple and intuitive voice commands that can activate smart home scenes and control individual devices. Additionally, the firm recently released BakPak 4.1, which is an intelligent cloud-based management system for dealers that enables them to rapidly resolve consumer connectivity issues and actively manage controlled devices.
- **Global Smart Grid Industry Tailwinds.** The global home automation system market is expected to reach $78.27 Billion by 2022, at a CAGR of 12.46% between 2016 and 2022. This niche segment of the technology sector has experienced excellent growth in post-recession years. Business Wire, a Berkshire Hathaway Company, lists "key vendors" as CTRL, Cisco Systems, GE Energy, Silver Spring Networks, and Tendril Networks. Of this group, CTRL is the leader in providing integrative solutions for consumers' homes.

**Valuation**

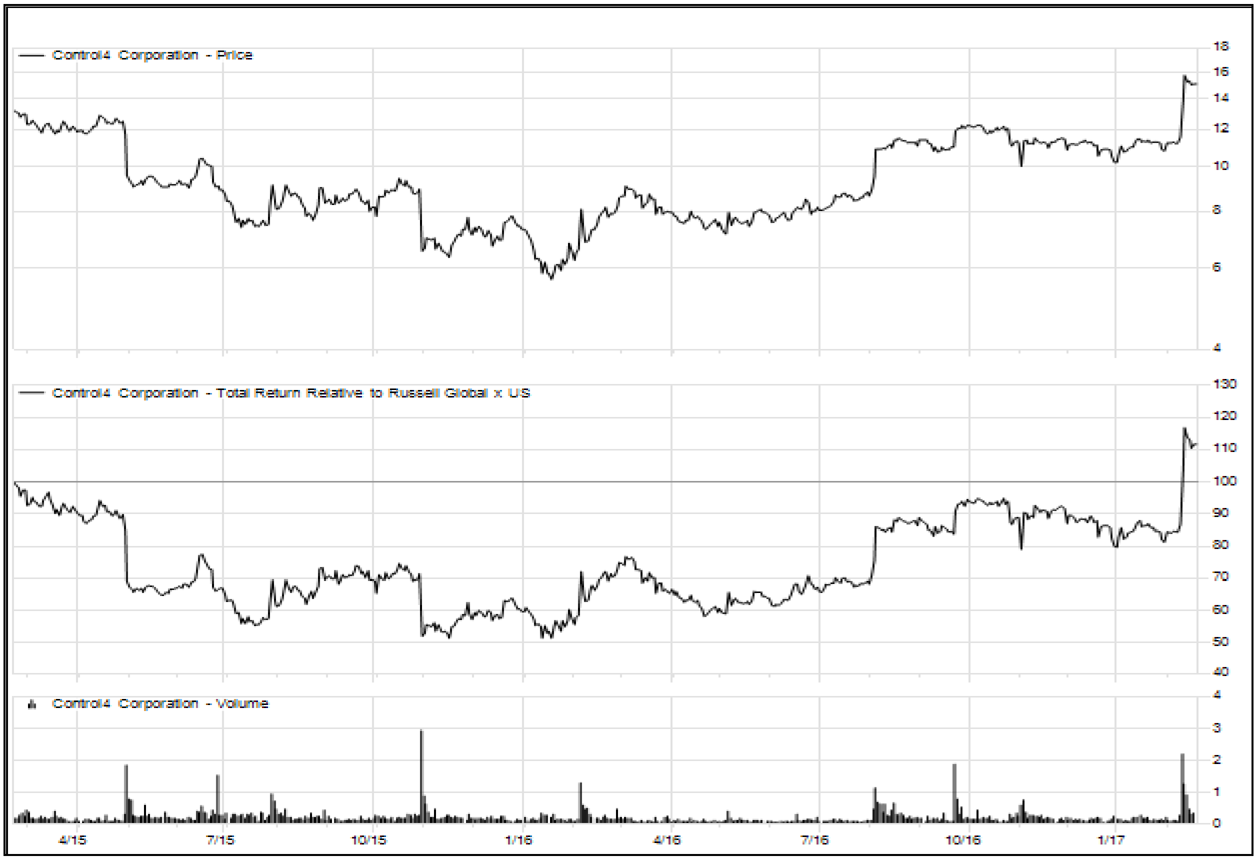
To find the intrinsic value of CTRL, a comparable peer model using EV/Sales as well as a five-year discounted cash flow model were constructed. CTRL trades at an EV/Sales multiple of 1.71x while its peers trade at an average of 2.28x. Using a 2017 estimate sales resulted in a price target of $22.41. A WACC of 9.67% was calculated and using a terminal growth rate of 3.00% derived an intrinsic value of $16.73. The DCF target price and EV/Sales valutaion were weighted 50.00% each, which produced a blended target price of $19.57, representing an upside of 29.59%. The firm does not pay a dividend.

**Risks**

- **Economies of Scale.** While CTRL conducts business in a niche space of the technology sector, its competition increasingly encompasses larger corporations such as Apple, Inc., Alphabet, Inc., Microsoft, etc. These conglomerates continue to not only focus on core products, but also further research integration of product lines with consumers' everyday activities. For example, Apple has recently released "Apple HomeKit" with smart outlets that allows users to implement some aspects of home automation. In addition, service providers such as Comcast's Xfinity, offers residential security, energy and automation services for an additional monthly subscription based fee. Vivint has also made a significant effort to market its smart home services recently. All of the fore mentioned corporations have a breadth of product manufacturing or service providing infrastructure that CTRL is currently lacking.
- **Demand Shift to "Point Products".** Many vendors have emerged, and may continue to emerge, to provide point products with advanced functionality for use in the home, such as a thermostat or alarm system that can be controlled by an application on a smartphone. Management expects more consumer electronic and consumer appliance products to be network-aware and connected, each very likely to have its own smart device (phone or tablet) application. These options, while less robust or versatile, are a cheaper option for consumers looking for efficiencies with their product integration at home.

**Management**

Mr. Martin Plaehn is the current Chairman, President, and CEO; He was hired in 2011 and led CTRL through its IPO in August 2013, considered "the first pure-play home automation IPO ever." Prior to joining CTRL, Plaehn progressed through a 30-year career in the electronics industry. Mr. Mark Novakovich, CPA, is the current CFO of CTRL. Mr. Novakovich was previously employed as a Principal by Coopers & Lybrand LLP and Chief Financial Officer & Controller by Embedix, Inc.




**Ownership**

| | |
|---|---|
| % of Shares Held by All Insider Owners: | 9.68% |
| % of Shares Held by Institutional & Mutual Fund Owners: | 46.64% |

Source: Bloomberg

**Top 5 Shareholders**

| Holder | Shares | % Out |
|---|---|---|
| Systematic Financial Management LP | 2,279 | 9.64 |
| Frazier Technology Management Llc | 2,188 | 9.26 |
| Frontier Capital Management Co. LLC | 1,322 | 5.59 |
| BlackRock Fund Advisors | 1,128 | 4.77 |
| Odey Asset Management LLP | 1,001 | 4.23 |

Source: FactSet

**Peer Analysis**

| Name | Ticker | Market Cap (mil) | Sales (mil) | EBITDA | P/E | EV/Sales | EV/ EBITDA |
|---|---|---|---|---|---|---|---|
| Control4 Corp. | CTRL | 361.39 | 208.80 | 14.18 | 25.50x | 1.71x | 25.16x |
| Logitech | LOGN | 5,075.35 | 2,136.44 | 234.70 | 24.10x | 2.14x | 19.44x |
| Lutronic | 085370-KR | 304.70 | 72.05 | 11.33 | 39.15x | 4.30x | 27.35x |
| ELAN Microelectronics | 2458-TW | 516.88 | 204.01 | 28.23 | 23.91x | 1.75x | 12.61x |
| I Controls | 039570-KR | 195.65 | 147.98 | 11.94 | 12.32x | 0.94x | 11.61x |
| Peer Averages | | 1,523.14 | 640.12 | 71.55 | 24.87x | 2.28x | 17.75x |

**Removed For Relative Valuation Analysis*

**Matrix Services (MTRX)**
February 24, 2016

Casey McClelland — Domestic Energy

*Matrix Services Co. (NASDAQ: MTRX) is an oil & gas capital equipment and services company. The company provides services in four segments; Electrical Infrastructure (29% of revenue), Oil Gas & Chemical (19%), Storage Solutions (43%), and Industrial (11%). The Electrical Infrastructure segment focuses on the construction and maintenance of different types of power generation facilities. Oil Gas & Chemical segment is focused primarily on the service and construction of downstream petroleum industry. The Storage Solutions segment drives their revenue from the construction of aboveground storage tanks (ASTs) for crude and refined products and it also encompasses specialty storage tanks for liquefied natural gas (LNG), liquid nitrogen and liquid oxygen, and liquid petroleum. Finally, the Industrials segment focuses on construction and maintenance work for the mining and minerals industries. The company derives all their revenue from North America in the United States (86% of revenue) and Canada (13.6%). The company was started in 1984 and is currently based in Tulsa, Oklahoma.*

| | | |
|---|---|---|
| Price ($): 2/22/2017 | $ | 16.40 |
| Price Target ($): | $ | 23.39 |
| 52WK H-L ($): | | 23.45-14.07 |
| Market Cap (mil): | | 459 |
| Float (mil): | | 25.7 |
| Short Interest (%): | | 0.6 |
| Avg. Daily Vol (mil): | | 0.2 |
| Dividend ($): | | 0.00 |
| Yield (%): | | 0.0 |

| | |
|---|---|
| Beta: | 1.29 |
| WACC | 8.33% |
| M-Term Rev. Gr Rate Est: | 4.1% |
| M-Term EBIT Gr Rate Est: | 7.9% |
| Debt/Equity: | 22.0% |
| Debt/EBITDA (ttm): | 1.16 |
| ROA (%): | 5.09 |
| ROE (%): | 9.46 |
| ROIC (%): | 9.33 |

| FY: Dec | 2015 | 2016 | 2017E | 2018E |
|---|---|---|---|---|
| Revenue (Mil) | 1,343.1 | 1,311.9 | 1,318.8 | 1,382.4 |
| % Growth | 6.3% | -2.3% | 0.5% | 4.8% |
| EBIT | 8.80 | 40.88 | 40.81 | 53.37 |
| EBITDA Margin | 2.4% | 4.8% | 4.6% | 5.4% |
| EPS (Cal) | $ 0.63 | $ 1.07 | $ 1.00 | $ 1.34 |
| FCF/Share | $ 0.29 | $ 1.23 | $ 1.18 | $ 1.62 |
| EV/S(Cal) | 0.3x | 0.4x | 0.4x | 0.3x |
| EV/ EBITDA | 14.4x | 7.4x | 7.6x | 6.6x |

## Recommendation

For the first time since the 2014 collapse in the commodities market, the energy sector is in a positive state. After months of debating the terms of the deal, OPEC members came together in November 2016 to strike an historic deal to cap the production levels of its member countries. OPEC's production cap agreement has worked better than initial sentiment on the deal with recent reports stating that there is 90% compliance among the member countries on their production outputs. Along with the compliance of the international players in the market, the production in North America has ramped up as rigs continue to be deployed into the domestic shale plays. For instance, the oil rigs count has increased by 184 over the last year and gas rigs have increased by 52 during that same span according to information compiled by Baker Hughes. Due to the positive price affects (~20% increase) that the OPEC agreement has had on oil and gas, the domestic shale producers have put their foot on the gas pedal to take advantage of the favorable current price environment, which is shown by an increase in capital expenditures component in the AIM Fund (Carrizo and RSP Permian). This production race that the domestic shale producers have found themselves within is a great environment for the services companies that aid them in their production process - and should be a driver in the near term success of this sub-sector. MTRX has already seen some of this production increase come to fruition with the first sequential backlog increase in the last five quarters. MTRX aids in multiple facets of the production process and has a strong financial position to take advantage of the current positive sentiment. Due to the increased production in the market and the strategic position that MTRX sits in the market, this stock should be added to the AIM Equity Fund, with a price target of $23.39 which represents a 40% upside. The firm does not pay a dividend.

## Investment Thesis

- **Liquid Natural Gas (LNG) Expansion.** According to BP's Energy Market Outlook, the supply traded globally for LNG has quadrupled in the last twenty years and that feverish pace is set to continue as it is predicted that the current supply will double within the next two decades. Currently, BP estimates that the supply provided is at 31 bcf/d and is expected to grow to 70 bcf/d by 2035. This massive expansion of the LNG marketplace comes from the modest economic growth in Europe and Southeast Asia, adoption of higher efficiency technology, and the use of LNG in alternative power generation sources on small scale grids. MTRX is positioned greatly to benefit from this growth due to their main revenue segment, Storage Solutions (42% of revenue), and the exposure this segment has in their development of specialty storage tanks for LNG. The company is favorably placed strategically due to their acquisition of Kvaerner which now provides them with gas fired power plant construction capabilities.

- **Financial Flexibility for Acquisitions.** With the current growth momentum in the industry, companies that are presently positioned to capitalize will be rewarded - and MTRX is well-positioned to be aggressive with their capital going forward (their debt to equity is only 22% compared to the industry average of 60%). Along with their low debt balance sheet, the company has been able to finance itself through their operations and are a positive free cash flow generating firm. MTRX has the ability to further their portfolio of service offerings through bolt-on acquisitions while also further funding organic growth. The firm has recently added to their assets by acquiring Houston Interests, a Tulsa based engineering service company. The acquisition is supposed to add revenue synergies in the future through new markets and boost profitability as it adds a higher margin service business. Matrix plans to continue this strategy of bolt-on acquisitions in the future and their financial standing is primed to handle the addition of new companies to its structure.
- **Margin Expansion.** The company operates in a very cyclical industry and with the bottoming out of the commodity markets; they are well situated at present. As the commodities cycle plays out, MTRX should be able to capitalize on the higher service demands within the industry as production continues to come back on line. Analysts have predicted that as the cycle develops in the coming years that Matrix Services should benefit up to 200 bps in margin expansion. This would push their current low 3% operating margins back to near their 2011 and 2012 operating margins of 5%, which was observed during the peak of the growth in the last cycle.

**Valuation**

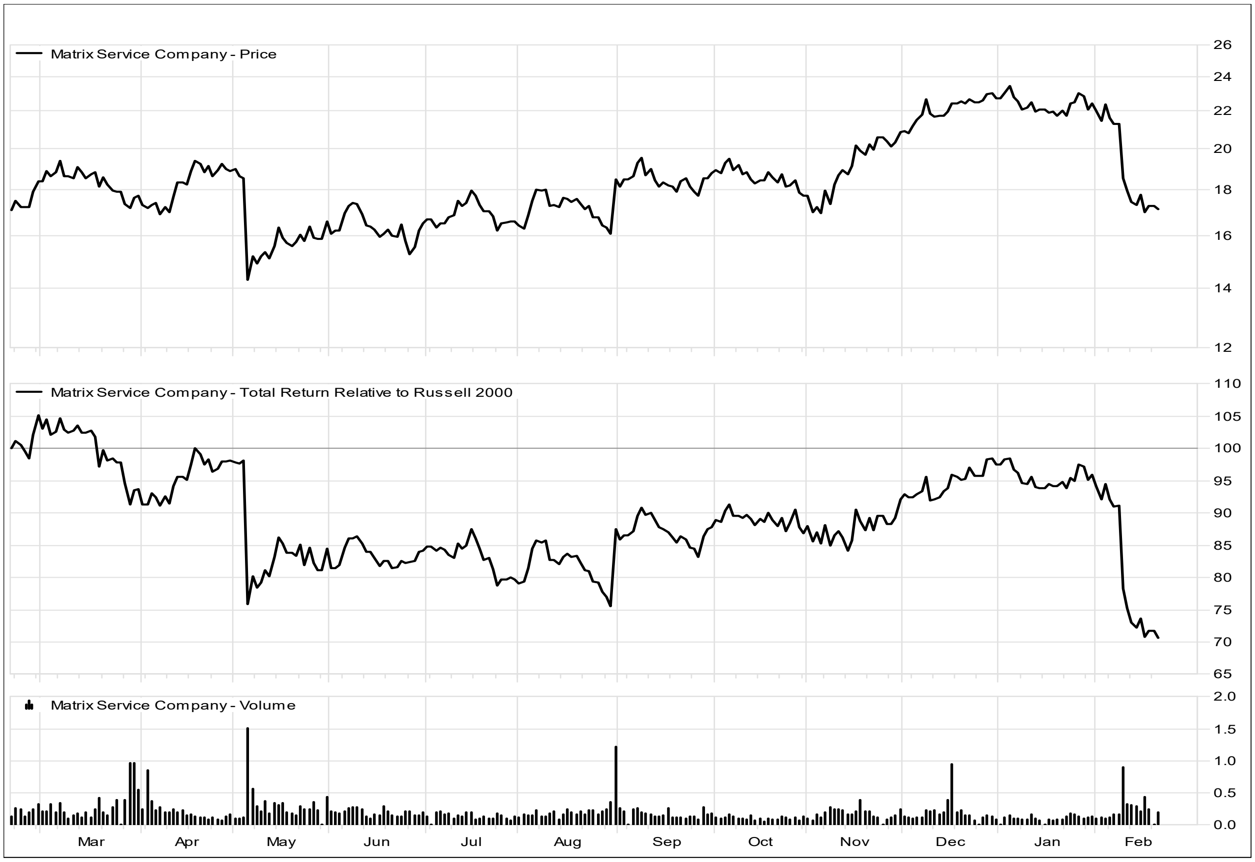
In order to reach an intrinsic value for MTRX, a five year DCF model was constructed. Using a terminal growth rate of 2.5%, WACC of 8.33%, an intrinsic value of $25.49 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $19.51-33.35. Additionally, an EV/EBITDA multiple valuation was conducted using projected 2017 EBITDA of $60.5mm, a comparable average EV/EBITDA of 9.6x which resulted in a valuation of $21.30. By weighting the two valuation models evenly, a price target of $23.39 was reached, which yields a 40% upside. The firm does not pay a dividend.

**Risks**

- **Volatile Commodity Prices.** MTRX is dependent on capital expenditure from E&P companies, therefore volatile pricing and further cratering of oil and gas prices would adversely affect the company. An ending to OPEC production cap could send prices into the volatile price swings that occurred since the drop commodity drop off in 2014.
- **Revenue Recognition.** MTRX’s services are usually handled in long term contracts that can have choppy returns on revenue recognition. Therefore they run the risk of severely underperforming expectations due to their revenue recognition like what occurred in the last quarter.
- **Fixed Price Contracts.** As MTRX has exposed its business to more capital equipment contracts, they now have to deal with the fixed prices that come with these contracts that can have negative and positive effects on the company.

**Management**

John Hewitt is the CEO of MTRX and has been in that role since joining the company in 2011. He was previously a part of the executive team at Aker Solutions. MTRX’s CFO is Kevin Cavanah and he has been in that position since 2010. Kevin Cavanah has been with the company for 14 years in multiple roles. Joseph Montalbano has been the COO of MTRX since 2008 and been with the company in different positions since 2002.




**Peer Analysis**

| Name | Ticker | Market Cap (mil) | Sales (mil) | EBITDA | Debt/ EBITDA | EV/Sales | EV/ EBITDA |
|---|---|---|---|---|---|---|---|
| Matrix Service Company | MTRX | 454.76 | 1,311.92 | 62.32 | 1.16 | 0.35x | 7.38x |
| Quanta Services, Inc. | PWR | 5,565.69 | 7,651.32 | 542.60 | 0.67 | 0.81x | 11.41x |
| Mistras Group, Inc. | MG | 665.48 | 689.63 | 73.12 | 1.43 | 1.09x | 10.25x |
| Jacobs Engineering Group Inc. | JEC | 7,045.12 | 10,667.83 | 650.70 | 0.60 | 0.63x | 10.39x |
| Aegion Corporation | AEGN | 787.26 | 1,230.83 | 116.70 | 3.05 | 0.85x | 9.00x |
| EMCOR Group, Inc. | EME | 4,191.85 | 7,379.39 | 361.30 | 0.88 | 0.57x | 11.65x |
| Peer Averages | | 3,515.89 | 5,059.90 | 345.78 | 1.44 | 0.79x | 10.54x |

**Removed For Relative Valuation Analysis*

Source: FactSet

**Ownership**

| | |
|---|---|
| % of Shares Held by All Insider Owners: | 3.21% |
| % of Shares Held by Institutional & Mutual Fund Owners: | >90% |

Source: FactSet

**Top 5 Shareholders**

| Holder | Shares | % Out |
|---|---|---|
| BlackRock Fund Advisors | 3,075,209 ▲ | 11.59 |
| Royce & Associates LP | 2,008,520 ▼ | 7.57 |
| Dimensional Fund Advisors LP | 1,845,596 ▲ | 6.96 |
| LSV Asset Management | 1,808,750 ▲ | 6.82 |
| The Vanguard Group, Inc. | 1,385,209 ▲ | 5.22 |

Source: FactSet