Applied Investment Management (AIM) Program

AIM Class of 2016 Equity Fund Reports
Spring 2016

Date: Friday, February 26th | ***Time:*** *2:00 – 3:30* p.m. | ***Location: AIM Research Room 488***

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

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

Grupo Televisa S.A.B. (TV)
February 26, 2016

Daniel E. Fernandez Guerra International Telecommunications

Grupo Televisa, S.A.B. (NYSE: TV) is the world's largest media company in the Spanish-speaking population based on its market capitalization. It is a major participant in the international entertainment business. The company operates in four business segments: Content (42% of Revenues), Telecommunications (26%), Sky (22%), and Other Businesses (10%). The Content segment includes advertising, network subscription revenue and licensing and syndication. The Cable & Telecom segment operates a cable television system that provides telephone and internet subscription, pay-per-view programming, and television subscription. The Sky segment includes direct-to-home satellite services. The Other Business segment handles the promotion of sports and special events, distribution of feature films, gaming, radio, advertising in its magazines, and publishing distribution. The company was founded in 1930 and is headquartered in Mexico City.

Price ($):	24.59
Price Target ($):	35.04
52WK H-L ($):	40.05 - 23.25
Market Cap (mil):	12,437
Float (mil):	514.1
Short Interest (%):	0.60%
Avg. Daily Vol (mil):	2.20
Dividend ($):	0.10
Yield (%):	0.40%

Beta:	1.05
WACC	11.07
M-Term Rev. Gr Rate Est:	-9.5%
M-Term EPS Gr Rate Est:	24.7%
Debt/Equity:	113.7
Debt/EBITDA (ttm):	2.51
ROA (%):	4.99%
ROE (%):	14.55%
ROIC (%):	7.14%

FY: Dec	03/31/2014	03/31/2015	03/31/2016	03/31/2017
Revenue (Mil)	5,739	5,999	5,663	5,998
% Growth	4.20%	4.53%	-5.60%	5.92%
Gross Margin	46.44%	44.92%	45.55%	45.72%
EBITDA Margin	39.10%	38.22%	35.41%	38.41%
EPS (Cal)	$1.05	$0.70	$1.13	$0.96
FCF/Share	$0.64	$0.91	$0.45	$0.44
P/E (Cal)	28.8	48.7	21.4	25.1
EV/EBITDA	8.8	9.5	8.0	7.7

Recommendation

Grupo Televisa one of the major players in the entertainment business worldwide. It operates four broadcast channels in Mexico City and has affiliated stations throughout Mexico which garners around 70% of the total day free-to-air mexican audience.It produces pay-television channels with national and international feeds, throughout Latin America, United States, Canada, Europe and Asia Pacific. TV's programming helps the channels dominate ratings as the firm produces over 100,000 hours of content such as telenovelas, news, sports events, reality shows, and other programming. The company also holds the broadcasting rights for a number of sporting events including the rights to broadcast home matches for eight Liga MX teams including Club América (owed by Televisa). In addition to sharing the rights to broadcast the Mexican national soccer team matches, the Televisa also owns the team's official national stadium, Estadio Azteca. Televisa has the resources and capital to satisfy any macroeconomic changes, which will always put the company above all of its competitors. Televisa's programming in the U.S is through Univision, Netflix, and other networks. The firm permitted around ~90,000 hours of programming in over 80 countries. The firm receives an 11.91% fee on all audiovisual revenue generated by Univision and this rate will increase to 16.22% in December 2017. TV faces a small competition as it controls about 70% of the Mexican audience and has a market-leader position across all of their business segments. The firm's major competitors include TV Azteca, América Movil, Grupo Radio Centro, and Corporación Interamericana de Entretenimiento. Due to the projections that Televisa will continue to dominate telecommunications market and ability to penetrate new markets, it is recommended that Grupo Televisa be added to the AIM International Equity Fund with a target price of $31.43, representing a 27.92% upside. TV also pays an annual dividend yield of 0.40%.

Investment Thesis

- **Growing Hispanic Demographics in the US**: Hispanics in the United States are TV's second most important demographic, only after Mexico. Based on US Census immigration projections, this ethnic group is expected to expand at 2.1% CAGR during 2014-2034, versus only 0.4% for the rest of the US population. In a decade, the Hispanic population is expected to be 25% larger than today, while non-Hispanic should be up only 5%. Hispanics should capture an increasing share of the US labor force, representing ~25% in 2034, vs 16% in 2014. This market has become a key component of Televisa's long- term strategy.

- **Positive Outlook for Cable and High Speed Data (HSD):** Cable has been the fastest growth driver in the past decade, increasing its contribution to consolidated revenues from 12% in 2008 to 25% in 2015. It is expected to reach 33% of Televisa revenues by 2016. This proggress can be attributable to strategic M&A (Cablecom and Telecable), Pay-TV subscriber growth (50% in the last 6 years, organically), and the Adoption of HSD. The demand for Televisa's HSD in Mexico has been strong, jumping to 24% of broadband subscribers in 2Q15, from 10% in 1Q14. Televisa is very well positioned to take advantage of this trend, as it has 50% of Mexican cable subs, and cable networks in the country are mostly non-overlapping.
- **Business Alliances:** Televisa has established, over the years, various national and international strategic alliances to penetrate a market or to operate other businesses. Among the most important include, Univision; Televisa provides 70% of prime time programming of this chain, the largest audience among the Latino audience in the United States. CNN y "CNN en Español", Telemundo, and numerous worlwide companies have reach an agreement to transmit Televisa's telenovelas. Popular telenovelas are proven hits in Mexico and in other markets like the U.S., China, and Brazil.

Valuation

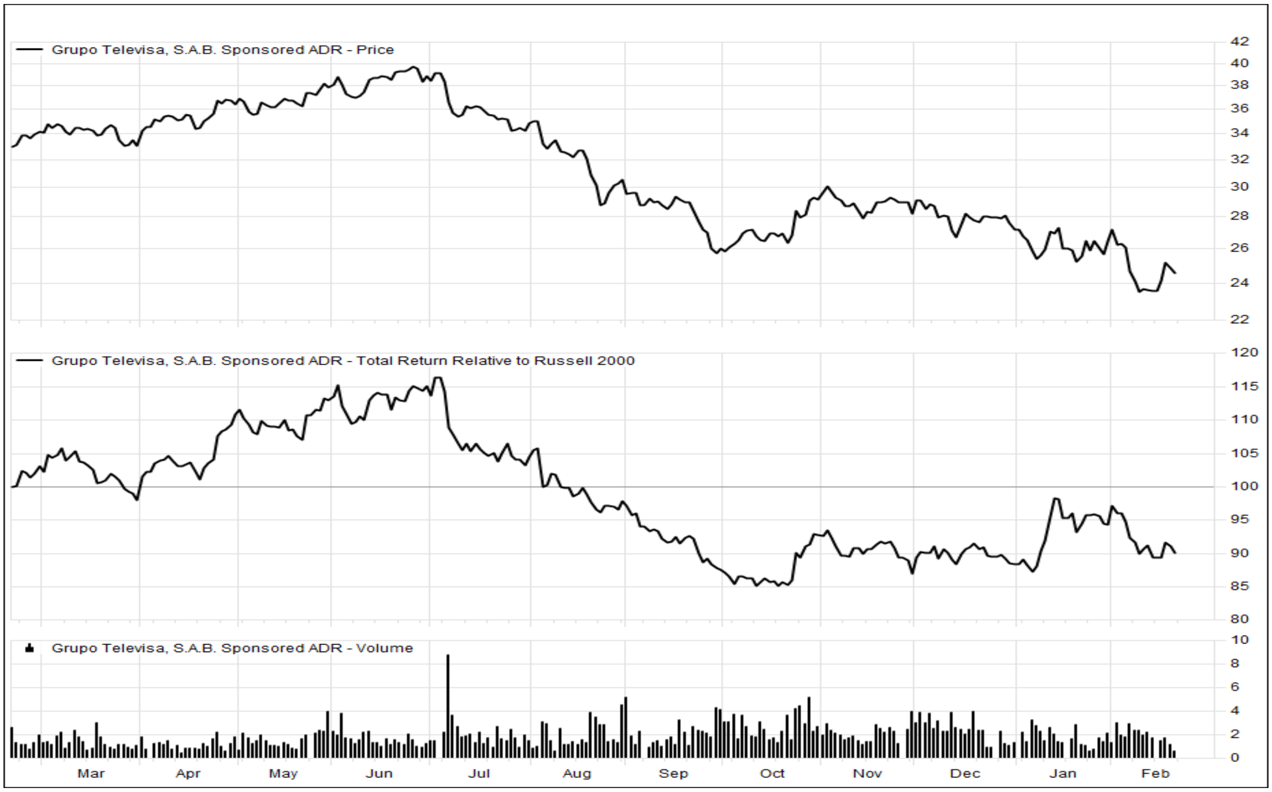
In order to reach an intrinsic value for Televisa, a five year DCF model was constructed. Using a terminal growth rate of 3% and a WACC of 11.07%, an intrinsic value of $33.02 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $32.33-$37.02. Additionally, a P/E multiple valuation was conducted, a comparable average P/E of 24.1x and Telvisa's 5-year historical average P/E of 26.2x which resulted in a valuation of $31.43. By weighting the three valuation models 60/20/20, a price target of $33.05 was reached, which offers an upside of 34.40%. The company's dividend yield is 0.40%.

Risks

- **Growing OTT Service:** Over-the-Top content (OTT) delivers audio, video, and other media over the Internet without the involvement of a multiple-system operator in the control or distribution of the content. OTT content is growing fast thanks in part to the rapid development of the Internet and digital technology in emerging markets. OTT video is projected to grow to 6.4 percent of emerging market households by the end of 2019 (vs 1.3% in 2014).
- **Currency Risk Exposure:** Televisa's revenues are derived principally from Mexico (~84%). The Mexican Peso has depreciated over 30% in the past six months which has caused estimate revenues for future years to decline.
- **Political and Regulatory Changes:** In 2014, the telecommunications reform was approved by the Mexican Federal Institute of Telecommunications which obliges companies with a market share higher than 50% to share their passive infrastructure (non-electronic items such as towers, poles, facilities, or land) to its competitors, as well as its content and advertising in order to encourage competition and abolish monopolies. This regulations affect all of its peers.

Management

Mr. Emilio Azcárraga Jean has been the Chairman, President, and Chief Executive Officer since 1997, after his father's death. Mr. Azcárraga attended Universidad Iberoamericana and got his MBA in the Business Institute of Madrid. He is one of the wealthiest entrepreneurs in Latin-America with an estimated fortune of $2.3 billion. Salvi R. Folch Viadero was named Chief Financial Officer on January 2014. Prior to this, he held various Executive positions at Grupo Televisa, and was the CEO/CFO at Comercio Mas SA de CV.



Source: Factset

Ownership

% of Shares Held by All Insider Owners:	0.13%
% of Shares Held by Institutional & Mutual Fund Owners:	87.60%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
First Eagle Investment Management LLC	33,722,914 ▲	6.55
Dodge & Cox	27,616,992 ▲	5.37
OppenheimerFunds, Inc.	18,864,352 ▲	3.67
Artisan Partners LP	18,197,298 ▼	3.54
Bill & Melinda Gates Foundation Trust (Investment Management)	16,879,103 ▲	3.28

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA	Dividend Yield	EV/ EBITDA
Grupo Televisa S.A.B Sponsorec	TV	12,947	5,757	2221.6	0.40	9.51
TV Azteca SAB de CV UNIT	AZTECACPO	4,261	12,562	2347.8	0.13	8.37
Corporacion Interamericana de I	CIEB	7,432	12,562	858.4	0.00	9.45
Grupo Radio Centro SAB de CV	RCENTROA	2,001	1,141	404.2	0.00	24.40
America Movil SAB de CV	AMXL	10,861	14,890	7541.0	0.00	12.45
Entravision Communications Cor	EVC	4,431	1,343	623.0	0.00	20.54
Peer Averages		6,139	10,289	2787.9	0.03	13.7

Bank of the Internet

February 26, 2016

Brendan Duffy — Financial Services

Bank of the Internet Holding, Inc. (NASDAQ: BOFI) is the holding company for BOFI Federal Bank. BOFI provides consumer and business products through its branchless, low cost distribution channels and affinity partners. The bank has deposit and loan customers nationwide including customer and business checking, savings and time deposits accounts and financing for single family and multi-family residential properties, small-to-medium size businesses in target sectors, and selected specialty finance receivables. BOFI is headquartered in San Diego, California and was founded on July 6, 1999.

Price ($):	17.93	Beta:	1.09	FY: Dec	06/30/2014	06/30/2015	06/30/2016	06/30/2017
Price Target ($):	30.40	WACC	7.75	Revenue (Mil)	199.48	276.20	328.16	384.16
52Wk H-L ($):	35.98 - 13.47	M-Term Rev. Gr Rate Est:		% Growth	20.01	38.46	18.81	17.06
Market Cap (mil):	1,158	M-Term EPS Gr Rate Est:	10.0%	Net Interest Margin	3.95	3.92	3.95	3.95
Float (mil):	55.6	Financial Leverage	130.13	Pretax Margin	47.26	51.00	63.205	62.20
Short Interest (%):	43.1	ROA (%):	1.67	EPS (Cal)	$0.96	$1.34	$1.89	$2.14
Avg. Daily Vol (mil):	1.3	ROE (%):	18.64	P/E (Cal)	15.9	9.3	9.0	8.6
Dividend ($):	0.00	Tier 1 Capital Ratio (%)	14.98	BVPS	6.3	8.5	10.7	12.9
Yield (%):	0.0	Credit Provisions/Loans (%	11.2	P/B	3.6	2.8	2.2	1.4

Recommendation

Bank of the Internet is coming off of a strong financial year when it announced its net income of $28M, which was up 10.4% from last year. The company beat earnings estimates by $0.03 with EPS reported at $0.44. Margins expanded by 8 basis points and loan balances rose by 8% YoY. Over the past year the company has grown assets by 28.2% and deposits have increased by 29.8%. YoY net income and diluted EPS is up 45.3% and 37.5%, respectively. EPS growth at BOFI has been expanded at a 30% 5-year CAGR and the bank has averaged 17.2% return on equity over that period. The company also has a healthy pipeline with $64 million in single family mortgages, $565 million in single family jumbos, and $113 million in income properties. The bank is also seeing favorable development in its recently launched auto-lending business. BOFI's deposit and lending products include; multiple national online banking brands with tailored products targeted to specific consumer segments; a business banking division focused on providing deposit products and loans to specific nationwide industry verticals; a commission based sales force that operates from home offices focusing primarily on the origination of single family and multiple family mortgage loans; and an inside sales team. 46% of BOFI's current income come from mortgage banking, 18% from structured settlements, 21% from deposit/service fees, and 14% from prepayment fees. Their current business plan includes the following objectives: maintain an annualized return on common stockholders' equity of 15% or more; annually grow average interest earning assets by 15% or more and maintain annualized efficiency ratio level of 35% or lower. Because of BOFI has future plans of enhancing their digital marketing, products and technology integration to target to specific industry groups and creating a differentiated consumer and business platforms, it is recommended to be added to the AIM Equity Fund. The company does not pay a dividend.

Investment Thesis

- **Strategic partnership with H&R Block**. As of 2014 BOFI bought the banking-related business unit of H&R block. The acquisition brought about several strategic benefits including: exclusive cross-sell opportunities for mortgages, IRAs, 257,000 new deposit accounts with cross market opportunities, and significant brand recognition opportunities. The future financial benefits include; up to $34 million in projected annual revenue and $16 million in after-tax revenue; $419 million in IRA and Emerald card deposits; and significantly accretive ROE and efficiency ratios.
- **Internet banking's is the future.** According to the *IUP Journal of Bank Management* there is empirical evidence that internet banking is the way of the future. The study measures four

dimensions of internet banking including; optimism, innovativeness, discomfort, and insecurity. The study shows that, "…the bank employees are largely optimistic and innovative with regard to technology use." Overall, the study concluded that, "…the speed and success of the adoption of this technology by a broader market segment will be impacted by the technology readiness of the among the next adopter group of customers."

Valuation

To find the intrinsic value of BOFI a price to sales and price to earnings analysis was conducted. A current P/S of 2.9X, a 5 year historical P/S of 2.72X and a peer average of 3.8X yielded a price target of $17.00. A current P/E of 9.28X, 5 year average of 10.07X, and a peer average of 16.75X was used yielding a price target of $26.15. Weighting these two approaches 25%/75% a price target of $23.84 was reached representing a 33% upside. At the present the firm pays no dividend.

Risks

- **Economic Down Turn.** A significant economic downturn could result in their level of non-performing loans and reduce demand for BOFI's products and services, which could have an adverse effect on results of operations.
- **Monetary Policy.** Increasing interest rates due to monetary policies or other market forces can adversely affect the banks operational performance, particularly as their net asset income as liabilities reprice quicker than assets. This could cause an increase in delinquencies and non-performing loans in BofI's adjustable-rate loans
- **Other Financial Institutions.** BofI has exposure to the European Banking system as a result of trading, clearing, and other relationships. They have various relationships to including; brokers/dealers, commercial banks, investment banks, mutual and hedge funds.

Management

Theodore Allrich has served as Chairman of the Board of Directors since 2009 and served as Vice Chairman of the Board from 1999 until 2009. Mr. Allrich's career includes 20 years on Wall Street where he worked in investment banking, fixed income securities sales, management, and specialized in mortgage backed securities, and institutional equity sales and trading. Gregory Garrabrants is President and CEO of BofI Federal Bank and has served in this position since 2007. Prior to joining BofI Mr. Garrabrants Senior Vice President and head of business development at the nation's seventh largest thrift. Mr. Garrabrants graduated from Northwestern with both his JD and MBA with honors.

Ownership

% of Shares Held by All Insider Owners:	11.79%
% of Shares Held by Institutional & Mutual Fund Owners:	141.00%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
BlackRock Fund Advisors	5,169,700 ▲	8.20
Victory Capital Management, Inc.	3,658,668 ▲	5.80
The Vanguard Group, Inc.	3,602,927 ▲	5.72
Fidelity Management & Research Co.	3,594,700 ▼	5.70
Michigan Department of Treasury (Investment Management)	2,892,000 ▲	4.59

Name	Ticker	Market Cap (mil)	Sales (mil)	Net Margin	P/B	Dividend Yield
BofI HOLDING, INC.	bofi	1,158	323	29.94%	2.80	0.00
Provident Bancorp, Inc.	pvbc	124	29	13.07%	1.22	0.00
Brookline Bancorp, Inc.	brkl	727	244	20.43%	1.22	3.09
Capitol Federal Financial, Inc.	cffn	1,716	318	24.48%	1.17	2.72
Peer Averages		856	197	0.2	1.20	1.9

Cracker Barrel Old Country Store, Inc. (NYSE:CBRL)

February 26, 2016

Mark Lakowske Consumer Staples

Cracker Barrel Old Country Store, Inc. (referred to as CBRL or Cracker Barrel) engages in the operation and development of restaurant and retail concepts. The company operates restaurants under the Cracker Barrel name. The firm offers breakfast, lunch & dinner menus, kid's menu, dessert menu, daily specials, and meals to-go-carry-out. From a revenue standpoint, 80% of total revenue is derived from restaurant sales and the remaining 20% of revenue is from retail sales. As of end of fiscal year 2015, there were a total of 637 stores across 42 states with expansion plans in the south. Cracker Barrel does not have any presence outside of the continental United States. Cracker Barrel was founded by Dan W. Evins on September 19, 1969 and is headquartered in Lebanon, TN.

Price ($): (2/22/16)	$ 141.26	Beta:	0.60
Price Target ($):	206.70	WACC	8.2%
52WK H-L ($):	$159-117	M-Term Rev. Gr Rate Est:	2.3%
Market Cap (mil):	3,367	M-Term EPS Gr Rate Est:	9.0%
Float (mil):	23.7	Debt/Equity:	74.3%
Short Interest (%):	18.54%	Debt/EBITDA (ttm):	0.41
Avg. Daily Vol (mil):	0.387	ROA:	10.9%
Dividend ($):	4.40	ROE:	30.7%
Yield (%):	3.29%	ROIC:	18.1%

FY: Dec	2014	2015	*2016E*	*2017E*
Revenue (Mil)	2,684.00	2,842.00	*2,913.05*	*3,000.44*
% Growth	1.47%	5.89%	*2.50%*	*3.00%*
Gross Margin	13.03%	12.56%	*13.05%*	*13.45%*
Operating Margin	6.85%	6.87%	*6.95%*	*7.00%*
EPS (Cal)	$5.51	$6.82	*$7.35*	*$8.20*
FCF/Share	$7.41	$13.89	*$10.51*	*$12.58*
P/E (Cal)	17.5	22.3	*17.9*	*19.0*
EV/EBITDA	9.36	11.40	*12.16*	*13.43*

Source: Factset

Recommendation

The Cracker Barrel story is simple—affordable comfort food in a family friendly environment. Cracker Barrel’s current and previous management teams understand the niche market they are positioned in and work to adjust small parts of the business model to retain high profitability. In order to continue to grow company margins, Cracker Barrel announced a three step plan for each restaurant to follow that includes: dish room management, efficient shift scheduling, and installation of cost efficient LED lights. Along with the restaurant management plan, Cracker Barrel has continued to improve on its progressive menu pricing system by being able to adjust the prices of each menu option based upon location. One of the key indicators for restaurant performance is the number of new stores open. In fiscal year 2015, Cracker Barrel opened six new storefronts. Along with the opening of these stores, Cracker Barrel is attempting to broaden its client base by appealing to younger generations with its release of a fast-casual restaurant. These new restaurants resemble a similar business model to Chipotle Mexican Grill and Panera Bread and are expected to open in July 2016. In the latter half of 2015, Cracker Barrel’s stock slid roughly 16% as result of general market volatility. The company’s fundamentals and earnings remained true, which positions CBRL as a great value buy. Even through the shaky start of 2016, CBRL is up 10% while the Russell 2000 is down 11%. Company insiders and a variety of financial institutions from mutual funds to hedge funds have been bullish on Cracker Barrel recently. Over the past six months, company executives have purchased 22,000 shares and financial institutions have gobbled up 1.3 million shares. Overall, Cracker Barrel has shown strong growth momentum in the past year and with consistent earnings and margins, the company will be able to see a profitable future. It is recommended that Cracker Barrel be added to the AIM Equity Fund with a price target of $206.70, yielding a 46.32% upside. CBRL pays a regular quarterly dividend of $4.40, yielding 3.29%.

Investment Thesis

- **Low Prices at the Pump.** With oil being at decade-low prices, consumers have the freedom to travel more frequently without the costly repercussions of gas prices. Since the peak oil prices in 2013, oil has dropped 76% due to an oversupply in the market and less dependency on oil as a source of energy. This bodes well for Cracker Barrel since many of the company’s storefronts are located near major interstate highways. According to Federal Highway Administration, interstate traffic has increased 3.5% in 2015 or 96.8 billion vehicle miles.

- **Economic Moat and Differentiated Business Model.** Cracker Barrel has many competitors in the affordable dining industry, but no competitors with a similar business model. Restaurants such as Denny's and IHOP also derive much of their revenues from interstate vehicle traffic. Cracker Barrel sets itself in a unique market by offering a full breakfast, lunch, and dinner menu options. The typical Cracker Barrel menu is split evenly among the three main meals. Along with all-day meal options, Cracker Barrel derives a sizeable portion of its revenues from its high-margin storefront where they sell an array of affordable gifts from candy to rocking chairs.
- **New Concept 'Fast Casual' Restaurants.** Cracker Barrel's management understands the push away from fully functioning sit down restaurants and has released their fast casual restaurant concept. It is expected that these new restaurants will include many items from their healthy 'Wholesome Fixin's' menu, which offer full meal options for under 500 calories. According to research conducted by Technomic, the fast casual restaurant segment grew 11% in 2014—compared to the restaurant industry growth rate of 3.8%.

Valuation

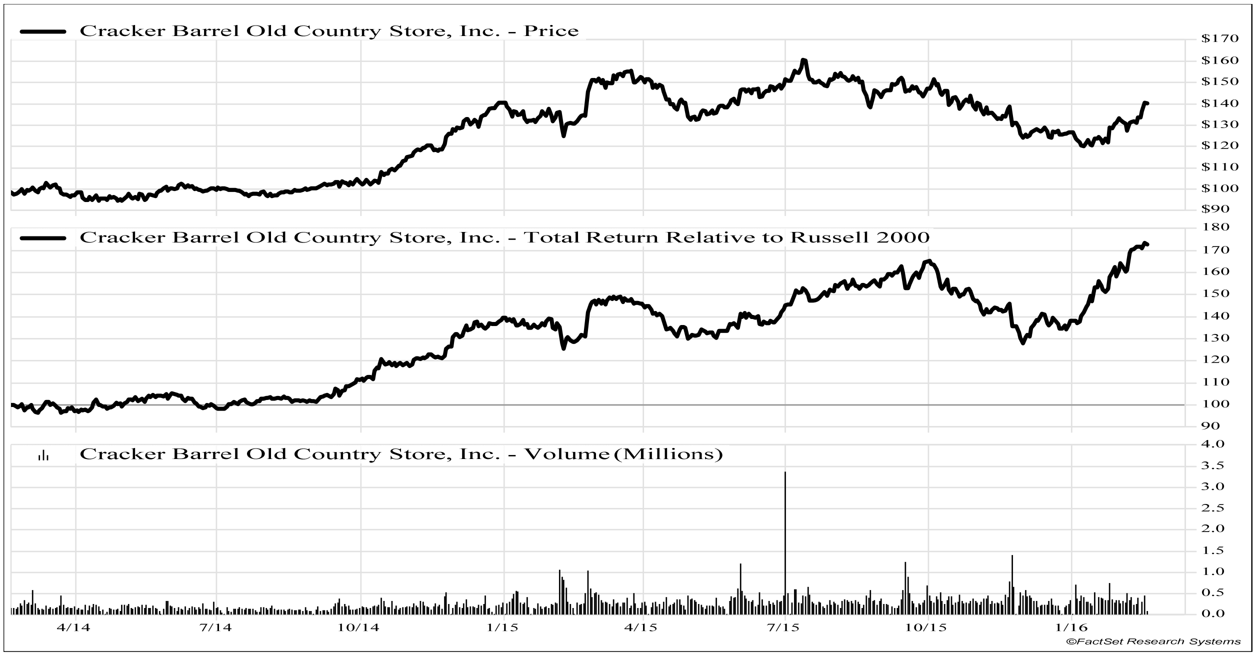
In order to reach an intrinsic value for CBRL, a five year DCF model was constructed. Using a terminal growth rate of 2.25%, WACC of 8.20%, an intrinsic value of $208.26 was reached Additionally, a P/E multiple valuation was conducted using NTM EPS of $7.35, a comparables average P/E of 37.30x, and CBRL's 5-year historical average P/E which resulted in a valuation of $205.14. By weighting the two valuation models 50/50, a price target of $205.13 was reached, which offers a 46.32% upside. Cracker Barrel pays a regular quartely dividend of $4.40, yielding 3.29%.

Risks

- **Capital Structure Risk.** Cracker Barrel currently has $400MM of debt outstanding—representing 67.25% of total capital structure. 100% of the $400MM debt outstanding is long-term debt due in 2020. The majority of debt is from lease agreements for new and existing storefronts. Relatively speaking, Cracker Barrel's debt levels are substantially lower than those of its competition where debt levels vastly overshadow equity in the company.
- **Minimum Wage Exposure.** Cracker Barrel proudly employs 72,000 employees throughout its whole operation—many of which are part-time employees paid hourly. Currently, the Federal Minimum Wage sits at $7.25/hour. As of year-end 2015, 29 states have minimum wages higher than the federal level, 14 states have minimum wage levels on par with the federal government, and only two states offer wages less than the federal government. If a Democratic presidential candidate were to be elected to the White House, it could be reasonably assumed there would be upward pressure on minimum wage levels. Democratic Presidential Candidate, Hillary Clinton, was recently quoted as saying she wishes to raise the federal minimum wage level to $12/hour.
- **Sharp Increase in Oil Prices.** Although the price of oil is currently trading at decade-low prices, the price of oil is always at risk for rapid movements due to supply cuts or increases from OPEC. According to the oil futures market at the CME, traders are placing bets that the price of oil will essentially double by year 2019. Even at that price, the price of oil per barrel is significantly below the all-time high of $130.

Management

Sandra B. Cochran serves are the current President and Chief Executive Officer with a total compensation of $7,539,210 and has been with the company since 2009. Prior to Cracker Barrel, Ms. Cochran was President at Books-A-Million, Inc. Lawrence E. Hyatt is the current Senior Vice President and Chief Financial Officer with a total compensation of $2,526,480. Mr. Hyatt has had over twenty years' experience as a CFO around the industry. Nicholas V. Flanagan serves as the Senior Vice President of Operations with a total compensation of $1,532,342. Edward A. Greene serves as the Senior Vice President of Strategic Initiatives with a total compensation of $1,164,952.



Source: FactSet

Ownership

% of Shares Held by All Insider and 5% Owners:	1.40%	▲
% of Shares Held by Institutional & Mutual Fund Owners:	91.80%	▲

Source: Factset

Top 5 Shareholders

Holder	Shares		% Out
Boglari Capital LLC	4,738,000	▲	19.80
The Vanguard Group, Inc.	2,221,000	▲	9.30
Blackrock Fund Advisors	1,781,000	▼	7.40
Neuberger Berman, LLC.	775,000	▼	3.20
SSgA Fund Management, Inc.	711,000	▲	3.00

Source: Factset

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	D/E	P/E	EV/ EBITDA
Cracker Barrel	CBRL	3,367	2,842	74.3	22.30	11.40
Denny's Corporation	DENN	774	491	10000.0	27.86	11.71
Jack In The Box, Inc.	JACK	2,667	1,543	4316.3	27.97	11.46
Bob Evans Farms, Inc.	BOBE	857	1,349	118.6	38.8	12.31
Dine Equity, Inc.	DIN	1,571	674.2	516.2	54.55	12.96
Peer Averages		1,467	1,014	3,738	37.30	12.11

**Removed For Relative Valuation Analysis*

Source: Bloomberg

Lazard Ltd. (NYSE: LAZ)

February 26, 2016

Wenting (Mavis) Peng International Financials

Lazard Ltd. (NYSE: LAZ) is a financial advisory and asset management company. Through its subsidiary Lazard Group, the company provides its products and services in two major business segments: Financial Advisory (52% of revenue) and Asset Management (48%). The Financial Advisory business segment offers corporate, partnership, institutional, government, sovereign and individual clients a range of financial advisory services regarding mergers and acquisitions (M&A) and other strategic matters, restructurings, capital structure, capital raising and various other financial matters. The firm's Asset Management segment provides a wide range of global investment solutions and investment management services. Lazard primarily operates from 43 cities in business and financial centers across 27 countries in North America, Europe, Asia, Australia, the Middle East, and Central and South America. The company was founded in 1848 and is headquartered in Hamilton, Bermuda.

Price ($):(2/21/2016)	31.47
Price Target ($):	48.43
52Wk H-L ($):	59.82-30.31
Market Cap (mil):	4,084
Float (mil):	128.9
Short Interest (%):	1.14
Avg. Daily Vol (mil):	1.10
Dividend ($):	1.4
Yield (%):	4.4

Beta:	1.33
WACC	0.09
M-Term Rev. Gr Rate Est:	4%
M-Term EPS Gr Rate Est:	7.5%
Financial Leverage	29%
ROA (%):	25.23
ROE (%):	67.50
Tier 1 Capital Ratio (%)	-
Credit Provisions/Loans (%)	-

FY: Dec	12/31/2014	12/31/2015	12/31/2016	12/31/2017
Revenue (Mil)	2,300	2,354	2,494	2,661
% Growth	3.80%	2.35%	3.70%	6.70%
Net dividend yield	2.4%	4.6%	7.9%	5%
Pretax Margin	22%	23%	25%	27%
EPS (Cal)	$3.49	$7.87	$3.45	$3.71
P/E (Cal)	14.1	6.4	9.1	8.5
BVPS	5.78	10.45	11.30	13.37
P/B	8.6	4.8	3.0	2.6

Source:Factset

Recommendation

LAZ is presently in a strong financial position. The company achieved record net income of $3.2 per diluted share in FY2014, representing an increase of 59% YoY. LAZ also delivered a high average shareholder return of 67.5% in FY2014, which was an improvement over the 47.5% return the company achieved in FY2013. LAZ's advisory business segment has achieved revenue of $1,280M in FY2015, ranking in the Global Top 5 firms. Moreover, LAZ announced 10 large M&A transactions in 2015. The operating revenue of LAZ totaled $2,354M during FY2015, which represents an increase of 75% from the $1,358M in operating revenue at the company over the past ten years. Although many of the deals in the pipeline are large and complex, LAZ generated an annual operating revenue that surpassed $1B through M&A and other advisory services. The average assets under management reached a record level of $200B. Additionally, the BVPS of LAZ has grown at a CAGR of 7% and sales at a 7.2% CAGR for the prior five years and its net income has grown at a 34.6% 3-year CAGR, which shows LAZ's potential to successfully build on solid foundations and momentum for profitable growth. With its strong relative financial position, leading global positioning, great sales performance, and strong growth momentum, it is recommended that LAZ be added to the AIM International Equity Fund with a price target of $48.43, offering a potential upside of 53.9%. LAZ also pays a dividend of $1.4, yielding impressively 4.4%.

Investment Thesis

- **Optimistic M&A Outlook.** By the year-end of 2015, $4.7 trillion of global M&A deals were signed, up 41%, to the highest level for LAZ since the financial crisis. Looking forward, M&A activities will remain an important growth strategy for companies in 2016. M&A activities are an appealing strategic approach for firms in today's environment, because S&P 500 earnings per share projections have continued to weaken and the confidence for significant organic growth is softer; therefore, more companies will be motivated by a desire to enter new business lines, expand their customer base, and extend their geographic presences. Companies are expected to increase their deal volume and LAZ expects to generate growth with its strong market share of M&A deals (28%)

- **Global Asset Management Provider.** The company diversifies its business through geographic expansions and a diverse product mix. The firm's global footprint is already well established in the developed countries and LAZ expects its business in developing countries will continue to expand. Moreover, LAZ has recently extended the global footprint of its asset management business by opening new office in Zurich, Singapore, Dubai, and Dublin. Given the globally diversified platform and ability to provide investment solutions for a global mix of clients, LAZ is positioned to benefit from growth that may occur in asset management industry.
- **World-Class Franchise.** The global scale and breadth of LAZ's financial advisory business allows it to advise on large, complex cross-border transactions across a wide range of industries. In 2015, LAZ ranked the 9^{th} on the cross border announced deals. LAZ has an unrivaled global network of relationships with decision-makers in business, government, and investing institutions. Meanwhile, the firm has a high concentration of senior advisory and investment professionals.

Valuation

To find the intrinsic value, a 5-year DDM model, P/B and P/E multiples were conducted. The Discounted Dividend Model was conducted with a terminal growth rate of 2.0% and a cost of equity of 8.59%, resulting in an intrinsic value of $45.66. A sensitivity analysis on both cost of equity and terminal growth rate produced a range of $41.31-$51.11. Applying a conservatively weighted LAZ historical and peer multiple of 1.73x to LAZ 2016E BVPS, an intrinsic value of $46.97 was generated. A weighted historical and peer P/E multiple of 17.8x was used against LAZ 2016E EPS of $3.45, reaching a value of $57.56. Weighting three valuations at 50:25:25, a price target of $48.43 was established, representing a 53.9% upside.

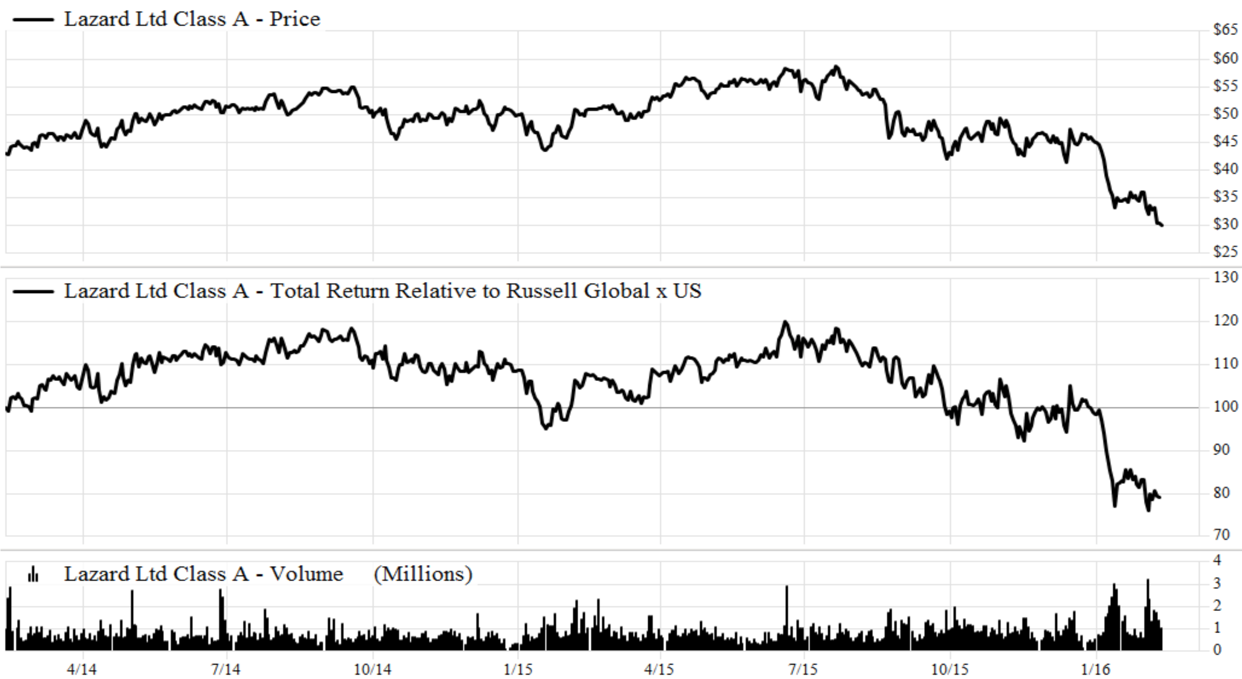
Risks

- **Uncertainty of Global Financial Market and Economic Condition.** As a financial services firm, LAZ is materially affected by conditions in the financial market and global economic conditions. The financial environment in emerging markets has been volatile in recent years, which will likely to adversely affect LAZ's financial performance in both the Financial Advisory and Asset Management segment. For example, the revenue from Financial Advisory business is directly related to the volume and value of the transactions that LAZ is involved; therefore, in the period of unfavorable economic conditions, the demand of M&A transaction will decrease, in turn reducing the profit generated from advisory division and increasing the cost of competitions.
- **The Credit Risk from the Third Parties.** With the firm's advisory business format, clients are the most important assets, and the ability to retain its key producers is crucial. For instance, within the asset management segment, LAZ may suffer unexpected declines in revenues and profitability because the clients can remove the managed assets on short notice. Moreover, LAZ has exposures to many different industries, institutions, products, and counter-parties and usually cooperates with counter-parties in the financial services industry such as brokers, dealers, commercial banks, and investment banks. The default of clients and counter-parties can bring credit risks to LAZ.

Management

Kenneth Jacobs is the Chairman of the Board and CEO of LAZ. He has served as a Managing Director since 1991 and had been a Deputy Chairman from 2002 until 2009. Mr. Jacobs is very experienced. He initially joined in 1988 and is a member of the Board of Trustees of the University of Chicago and the

Brookings Institution. The CFO is Mr. Matthieu Bucaille. Mr. Bucaille joined in 1989 from the First Boston Corporation in New York.



Source: FactSet

Ownership

% of Shares Held by All Insider Owners:	0.69%
% of Shares Held by Institutional & Mutual Fund Owners:	38.50%

Source: FactSet

Top 5 Shareholders

Holder	Shares		% Out
The Vanguard Group, Inc.	9,953,983	▲	7.67
Standard Life Investments (USA) Ltd.	6,976,173	▲	5.38
WCM Investment Management	5,812,150	▲	4.48
Ariel Investments LLC	5,515,617	▼	4.25
JPMorgan Investment Management, Inc.	3,316,263	▲	2.56

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	P/E	Net Margin	P/B	Dividend Yield%
Lazard Ltd.	LAZ	4,084	3.92	40.80%	4.80	4.4
The Carlyle Group LP	CG	4,177	13.60	0.10%	3.00	1.16
American Capital Ltd.	ACAS	3,330	45.11	25.60%	1.74	0
Legg Mason Inc	LM	2,869	29.93	3.50%	0.62	3
Affiliated Managers Group	AMG	6,723	13.01	21.10%	0.67	0
Blackstone Group LP	BX	15,210	14.57	16.70%	2.61	11.1
Peer Averages		6,462	23	12.58%	2.35	3.1

Source: FactSet

Nutrisystem, Inc. (NTRI)
February 26, 2016

Robert Uhland — Domestic Consumer Discretionary

Nutrisystem, Inc. (NYSE: NTRI) is a pioneering, industry leading weight loss products and services company. NTRI manufactures and distributes low calorie, nutritionally balanced ready-to-go and fresh frozen entrees, deserts, snacks, and shakes-including customized products tailored to individuals with diabetes. The company generates revenue through three distribution channels: Direct-to-Consumer channels (91.0% of Net Revenues in FY14), Retail Channels (7%), and QVC (2%). NTRI's Direct-to-Consumer channel primarily generates revenue through customer starts, reactivation of new customers and the customer ordering preference. The company models its products around innovation and sustainability, working in tandem with digital toolsets to provide the optimal nutrition for its customers. NTRI operates solely in the US, providing over 100+ differentiated products and services, with a major presence online and in retail stores. NTRI was founded in 1971 by Harold Katz and is headquartered in Fort Washington, PA.

Price ($):	22.75
Price Target ($):	31.23
52WK H-L ($):	32.05 - 16.86
Market Cap (mil):	665
Float (mil):	28.6
Short Interest (%):	8.2
Avg. Daily Vol (mil):	0.2
Dividend ($):	0.70
Yield (%):	3.1

Beta:	1.08
WACC	7.67
M-Term Rev. Gr Rate Est:	15.9%
M-Term EPS Gr Rate Est:	17.5%
Debt/Equity:	0.0
Debt/EBITDA (ttm):	0.00
ROA (%):	24.61
ROE (%):	43.82
ROIC (%):	43.82

FY: Dec	2014 A	2015 E	2016 E	2017 E
Revenue (Mil)	403.1	462.21	503.48	544.85
% Growth	12.60	14.70	8.90	8.20
Gross Margin	48.70	49.60	50.20	50.90
EBITDA Margin	9.20	11.20	12.50	13.80
EPS (Cal)	$0.66	$0.96	$1.13	$1.32
FCF/Share	$0.85	$0.79	$0.91	$1.18
P/E (Cal)	29.6	23.7	23.5	22.7
EV/EBITDA	14.4	9.8	11.0	9.7

Recommendation

Nutrisystem, Inc. is poised to see an exceptional turnaround story - and it already begun as seen through its nine consecutive quarters of growth under new management since 2013. As such, NTRI has positioned itself in a market that is set to grow exponentially expanding out to 2020 and beyond with around 2/3 of the American adult population with a BMI classifying them as overweight or obese. NTRI has been able to maintain an edge over its competitors like Weight Watchers, Medifast, and ConAgra Foods in the weight loss industry due to its ability to be an innovative, trend aware business with significant capital put forth into sustainability. NTRI has begun to increase its brand awareness and exposure, emphasizing an evolving brand with over 50% of its products rolled out in Q4 2015 being new or reformulated offerings. Moving forward in 2016, the introduction of the Leaf and Fast 5+ should deliver increased customer confidence and new customer revenue growth. Furthermore, the acquisition of the South Beach Diet brand in December 2015 for $15M harmonizes well with NTRI's intent to continue to launch new offerings in both the direct and retail channels. This position is set to be accretive to earnings in FY 2017 and broadens the company's addressable market. Additionally, expansionary efforts within Walmart to ramp up SKUs, increase store count, and capture more prominent in-store placements should propel retail channel revenue growth moving forward. Likewise, retail revenue saw YoY growth of 56.7%, is projected to increase by 30% in 2015. This should continue the trend moving forward as NTRI launches the aforementioned South Beach Diet program to retailers like Sam's Club this diet season. With robust product offerings, continued innovation to gain market share, and earnings and revenues beating Q3 2015 forecasts, management has elevated FY 2015 guidance on EPS, revenues, and CapEx. Due to the company's exceptional management team, prosperous organic and inorganic growth opportunities, and a robust position in an industry set to grow rapidly moving forward, it is recommended that Nutrisystem be added to the AIM Equity Fund with a price target of $31.23, yielding an upside of 37%. NTRI pays a quarterly dividend of $.175, yielding 3.1%.

Investment Thesis

- **Reactivation Revenue to Lead.** As a significant of chunk (25%) of NTRI's revenues, reactivation revenue grew by over 6% YoY lending itself to significant tailwinds moving into FY 2016. Driven primarily by improved customer retention and conversion rates the reactivation revenue has accelerated and will provide a substantial base moving forward.
- **Brilliant Management.** The current management team has curtailed a six year declining trend in revenues (2008-2013) and a five-year declining EPS (2008-2012) through their relentless efforts put forth to improve brand imaging and sprout growth in multiple channels fortified by substantial investment in a robust information technology platform. With a strong track record of beating earnings, implementing strategic initiatives, and exceptional top and bottom line growth (+26% and +99% respectively) since the 2013 downturn, the newly minted management team at NTRI has taken the company by storm.
- **Propensity towards Obesity.** Obesity rates in the U.S. are currently hovering at around 35.3% overweight, coupled with 27.7% obese, and by 2020 it is projected that 80% of men, 70% of women, and 20% of children will be at the threshold of overweight or obese.
- **Diabetes Niche.** NTRI has a clinically-proven program for those with type 2 diabetes. Currently, in the U.S. there are 79 million pre-adult diabetics-increased healthcare awareness should increase this figure. Management expects this to become more integrated into the company business model in 2016 and on.

Valuation

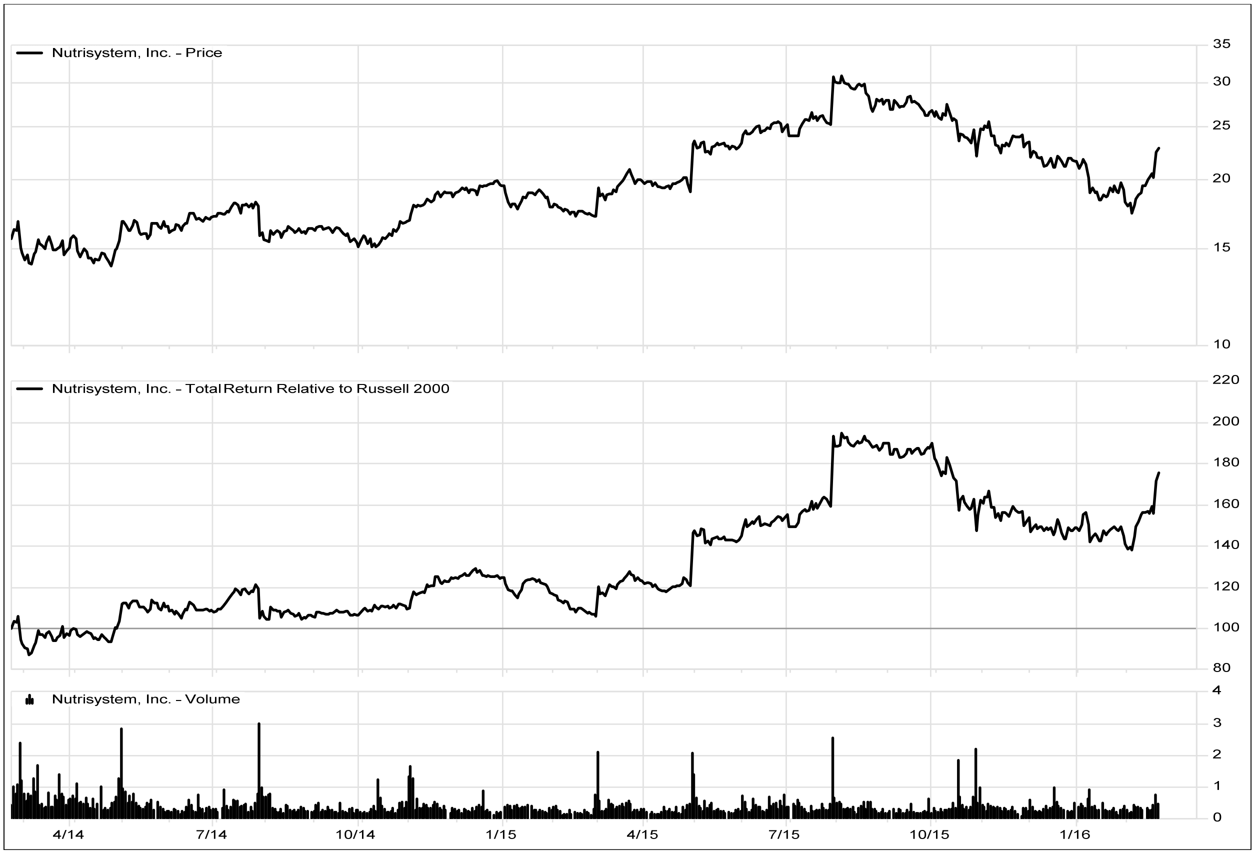
In order to reach an intrinsic value for NTRI, a five year DCF model was constructed. Using a terminal growth rate of 3.0%, and a WACC of 7.67%, an intrinsic value of $31.78 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $27.42-$37.81. Additionally, a P/E multiple valuation was conducted using 2016 E EPS, a comparables average P/E of 23.34x, and OXM's 5-year historical average P/E of 35.46x, which resulted in a valuation of $37.20. Finally, an EV/EBITDA multiple valuation was calculated. Using the peer comparables average of 10.94x, NTRI's EV/EBITDA of 9.80x and 2016 E EBITDA of $62.92M, the multiple resulted in a valuation of $24.70. By weighting the three valuation models evenly, a price target of $31.23 was reached, which yields a 37% upside. The 3.1% diviend yield is also an attractive benefit to owning the stock.

Risks

- **Potential Margin Compression.** NTRI relies heavily on third parties to supply all of the products that they sell. In 2014 around 31% of the inventory purchases were from these two vendors. If the company were to lose one of these vendors it could adversely impact net sales and profitability margins.
- **Unfounded Claims.** As a nutritional and dietary company that provides weight loss products and solutions, NTRI remains subject to litigation and other claims surrounding the nutritional value, health issues, or validity of the programs. If there were to be a study or a multitude of customers that refuted the company's programs this could mar the brand image and adversely impact the company moving forward.

Management

Dawn M. Zier has served as President and CEO of Nutrisystem, Inc. since late 2012. Prior to this she served as President of Reader's Digest Association. Michael P. Monahan has served as Executive VP-Administration and CFO since May 2013. Prior to this he was CFO of PetroChoice Holdings, Inc. and VP-Finance at Nutrisystem from 2006 to 2009. Additionally, Ralph J. Mauro joined Nutrisystem in 2013 and has served as Senior VP, General Counsel and Secretary since. Other executive directors include: Kiera Krausz (CMO).



Source: Factset

Ownership

% of Shares Held by All Insider Owners:	1.90%
% of Shares Held by Institutional & Mutual Fund Owners:	99.50%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
Renaissance Technologies LLC	2,721,000 ▲	9.33
BlackRock Fund Advisors	2,594,972 ▲	8.89
The Vanguard Group, Inc.	2,428,248 ▲	8.32
Eagle Asset Management, Inc.	1,295,340 ▼	4.44
Thrivent Investment Management, Inc.	1,294,850 ▲	4.44

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA	Dividend Yield	EV/ EBITDA
Nutrisystem, Inc.	NTRI	665	451.6	51.2	3.10	9.80
Weight Watchers, Inc.	WTW	877	1,295	299.8	0.00	10.54
Medifast, Inc.	MED	351	255	39.6	3.30	8.00
Hain Celestial Group, Inc.	HAIN	3,744	13,868	2168.5	0.00	12.60
ConAgra Foods, Inc.	CAG	18,199	2,801	369.0	2.40	12.60
Peer Averages		5,793	4,555	719.2	1.43	10.9