Applied Investment Management (AIM) Program

AIM Class of 2012 Equity Fund Reports
Spring 2012

Date: Friday, February Time: 3:00 p.m. to 4:30 p.m.
Road Show Location: Robert W. Baird

Student Presenter	Company Name	Ticker	Price	Page No.
Nick Hiller	Microsemi Corporation	MSCC	$21.60	2
Jonathan Schwerin	West Marine Inc.	WMAR	$13.34	5
Katherine Curiel	Willis Group Holdings	WSH	$39.31	8
Dan Leibforth	WD 40 Company	WDFC	$43.99	11
Ted Linn	Triangle Capital Corporation	TCAP	$18.97	14

Thank you for taking the time today and participating in the AIM 'road show' at RW Baird. 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. Today, each student will spend about 5-7 minutes presenting their formal recommendation, which is then followed by about 8-10 minutes of Q & A. Again, thank you for allowing us the opportunity to present at Baird.

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Microsemi, Corp. (MSCC)
February 17, 2012

Nicholas Hiller Information Technology

Microsemi, Corp. (MSCC) specializes in the design, manufacture, and sale of high reliability (HiRel) analog semiconductors and systems-on-a-chip (SoCs). Primarily, Microsemi competes for design wins within mission critical applications. These HiRel (65% of revenues) analog products typically offer high visibility, are non-cyclical, and carry a high margin. The company sells revenue into four key end-markets: defense & security (33%), aerospace (24%), industrial, medical, & alternative energy (21%), and enterprise & communications (21%). Within the defense & security segment, target applications for Microsemi's products include full-body airport scanners, unmanned aerial vehicles, and other "intelligent warfare" applications. Sales into the aerospace end-market derive 1/3 of revenues from commercial aerospace and 2/3 of revenues from the satellite sector. Key applications for sales into the industrial, medical, and alternative energy segment include embedded cardiac devices, MRI machines, semiconductor capital equipment, LED lighting, and solar inverters. Power-over-ethernet and wireless local area network (WLAN) power amplifiers are key target applications for the enterprise & communications segment. During fiscal 2011 Microsemi completed two large acquisitions: Actel (satellite) and Zarlink Semiconductor (enterprise & communications). Microsemi was founded in 1960 and is headquartered in Aliso Viejo, California.

				FY: September	2011A	2012E	2013E
Price ($): (3/30/10)	21.60	Beta:	1.36	FY: September	2011A	2012E	2013E
Price Target ($):	34.00	WACC	11.14%	Revenue (Mil)	835.9	1,010.4	1,097.3
52WK H-L ($):	14.49 - 23.81	M-Term Rev. Gr Rate Est	8%	% Growth	61.3%	20.9%	8.6%
Market Cap (mil):	1,863	M-Term EPS Gr Rate Est	30%	Gross Margin	56.1%	56.1%	59.2%
Enterprise Value (mil)	2,572	Debt/Equity:	82.8%	Operating Margin	25.4%	24.3%	29.3%
Float (mil):	84.2	Pro Forma ROA:	8.3%	EPS (FY)	$ 1.83	$ 1.99	$ 2.61
Short Interest (%):	3.7%	Pro Forma ROE:	18.3%	FCF/Share	$ 2.82	$ 3.09	$ 4.14
Avg. Daily Vol (mil):	0.560	Interest Coverage	6.0	P/E (FY)	11.8x	10.9x	8.3x
Dividend ($):	$0.00	Net Debt/EBITDA	2.3	EV/EBITDA	8.4x	6.9x	5.7x

Recommendation

Microsemi occupies a very defensible niche within the market for highly reliable analog semiconductors used in mission critical applications – prohibitively long qualification periods (3+ years) and the tendency for customers to sole-source components within these applications present a significant barrier to entry. Investors tend to focus on the company's large exposure to the U.S. Department of Defense (DoD) in light of projected spending cuts. It should be noted, however, that the majority of budget cuts requested so far center on headcount reductions and consolidation of agencies. Additionally, the DoD has signaled its intention to increase spending in areas of "intelligent warfare" that could drive savings over the long-term (UAVs, GPS-enabled mortars, etc). In addition to the defense business, Microsemi is exposed to several growth markets like commercial aerospace, full-body scanners, and analog chips enabling "Power-over-Ethernet" (PoE). In light of Microsemi's well below-peer valuation, defensible niche, and robust top and bottom-line growth potential, it is recommended that MSCC be added to the AIM Equity Fund with a target price of $34.00, representing upside of nearly 60%.

Investment Thesis

- **Undervalued Relative to Analog Peers.** MSCC is currently valued at 11x 2012 EPS, representing a hefty 50% discount to the median forward P/E multiple of its peer group. This discount is unwarranted – 65% of revenues derive from visible and defensible end-markets, management has proven its ability to execute on plan and manage investor expectations, and OCF is expected to be 25% of sales in 2012.

- **End Market Growth.** Full body scanners using millimeter wave technology generated less than $10 million in revenue during FY2011. With 12,000 security lanes worldwide and $20,000 in content per scanner, this represents a very large opportunity for MSCC over the next few years. Another promising target application is Power-over-ethernet. Microsemi commands 40% market share in this market, which is estimated to be only 20% penetrated at the end of 2011. A partnership with Cisco – which controls over half of worldwide PoE ports – should enable Microsemi to maintain its current market share as the technology increases in penetration (TVs, displays, PCs).
- **Long-Term Target Operating Model.** Microsemi's management team has a long-term goal of growing revenue 15-20% (10-12% organic growth) and expanding gross and operating margins to 60% and 30%, respectively. Management has already brought gross margins from a mid-40% range in 2009 to a peak of 57% in Q4 2011. Although negatively impacted by temporary headwinds in Q1 2012 (Thailand flooding, Zarlink acquisition) it is expected that management will continue driving efficiencies within the business model through expansion into only +60% gross margin markets, cost synergies related to the Zarlink acquisition, and consolidation of current operating facilities. Once this target model is achieved, it is estimated that MSCC could potentially generate up to $3.00 in earnings power.

Valuation

Microsemi was valued using peer forward P/E multiples, discounted cash flow valuation, and an estimation of the business's earnings power at the long-term 60/30 target model. Applying a 15.0x (still a 25% discount to peer group) multiple to fiscal 2012 EPS (non-GAAP, excluding stock options) of $1.99 values MSCC at $29.78. Constructing a discounted cash flow valuation using a WACC of 11.14% and a terminal growth rate of 2.5% generates an intrinsic value of $41.78. It is estimated that on a revenue base of $1.2 billion several years in the future, at the company's 60/30 target model, MSCC could generate $3.00 per share in earnings power. By applying a 15x target multiple and discounting the target price back at WACC, a target price of $34.57 is calculated. A weighted average of target prices (50% peer multiple, 25% earnings power, 25% DCF) yields a target price of $34 or an upside of nearly 60%.

Risks

- **Defense Budget Cuts.** Large cuts to defense spending focusing not only on headcount and operational efficiency but also curtailing next-generation weapon systems could impair the company's ability to grow at its own target rate in the short-term, and would significantly impact sales and EPS estimates.
- **Commercial Aerospace Slowdown.** A slowdown in the demand for new and refurbished commercial aircraft or within the satellite sector would adversely impact sales, margins, and earnings.
- **Failure to Execute 60/30 Model.** Failure by management to reach the 60/30 model by the last half of fiscal 2013 would negatively impact forward estimates. A permanent inability of management to reach the 60/30 model would materially lower the target price of MSCC.

Management

James Peterson has served as the CEO and President of Microsemi since 2000, when he joined Microsemi through the company's acquisition of LinFinity Microelectronics, Inc. Prior to joining LinFinity Mr. Peterson also served at Texas Instruments Storage Products Group and he also served as a Director at STEC from 2003 to 2009. Microsemi's CFO, John Hohener, joined the company in 2006 and began serving his current role in 2008. Mr. Hohener and Mr. Peterson have executed an impressive revitalization of the company through accretive acquisitions, gross margin expansion, and the consolidation of production facilities.

Ownership

% of Shares Held by All Insider and 5% Owners:	1%
% of Shares Held by Institutional & Mutual Fund Owners:	>90%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Wellington Management Company, LLP	7,070,864	8.11
Invesco Ltd.	5,662,555	6.49
Federated Investors, Inc.	4,619,361	5.30
Vanguard Group, Inc.	4,614,722	5.29
Columbia Wanger Asset Management, L.P.	4,237,000	4.86

Source: Yahoo! Finance

West Marine Inc. (WMAR)
February 17, 2012

Jonathan Schwerin — Consumer Cyclical

West Marine Inc. (NASDAQ: WMAR) is the largest boating supply retailer in the world with 2010 net revenues of $622.8 million. Their business strategy is to offer a broad assortment of that meets the needs of individual boaters and boating businesses, provides great customer experiences, and offers the convenience of multi-channel shopping. WMAR has three reportable segments consisting of: stores, direct sales, and port supply which represent 90%, 6%, and 4% of 2010 revenues respectively. WMAR had 327 company-operated stores at the end of 2010 located in 38 states, Puerto Rico, and Canada. WMAR was incorporated in Delaware in September 1993 as the holding company for West Marine Products, Inc., which was incorporated in California in 1976.

Price ($): (2/8/12)	13.34	Beta:	1.34
Price Target ($):	16.31	WACC:	10.30%
52 WK H-L ($):	6.97-13.41	M-Term Rev. Gr Rate Est:	6.50%
Market Cap (mil):	304.34	M-Term EPS GR Rate Est:	4.37%
Float (mil):	13.5	Debt/Equity:	0.00%
Short Interest (%):	3.70%	ROA:	4.40%
Avg. Daily Vol:	41,348	ROE:	6.21%
Dividend ($):	N/A		
Yield (%):	N/A		

FY: Sept	2010A	2011E	2012E
Revenue (Mil)	$ 622.80	$ 645.22	$ 677.48
% Growth	5.84%	3.60%	5.00%
Gross Margin	28.20%	28.55%	28.65%
Operating Margin	2.42%	3.10%	3.25%
EPS (Cal)	$ 0.57	$ 1.12	$ 0.90
FCF/Share	$ 0.48	$ 0.44	$ 0.61
P/E (Cal)	13.75	11.89	14.81

Recommendation

Given where the US economy resides in the current economic recovery it may take some time before customers start purchasing new boats; however, it is likely that they are ready to accessorize the boats they currently own. WMAR appears to be well-positioned for this phase of the cyclical economic recovery. WMAR's strategic plans involve focusing on operating fewer, but larger stores. This enables them to have a more extensive inventory to accommodate those consumers desiring to add accessories to their boats instead of buying a new one. In support of this strategy WMAR, during Q3 2011, recorded increased sales of electronics, typically discretionary items, as well as higher sales in anchor and docking products. This plan seems to have generated success as same stores sales increased to 6.3% in fiscal 2010, which is the first increase since 2007. Additionally, TTM net revenues as of the end of September 2011 increased 2.8% YoY, largely due to an increase in comparable store sales of $8M. As of Q3 2011, WMAR plans to open five new "flagship" stores, which should improve the firm's retail space by 136,000 square feet. WMAR will also benefit from their Direct E-Commerce channel, which continued its double-digit growth in Q3 2011. Management believes that a big opportunity exists to significantly increase sales through this channel. The E-Commerce segment only compromises 5% of total company sales and the firm is devoting more resources in order to help facilitate the growth process. With improving economic conditions and a plan in place to optimize the customer's experience through more attractive store layouts and E-Commerce distribution, it is recommended that WMAR be added to the AIM Domestic Equity Fund with a price target of $16.30, offering a potential upside of 22.26%.

Investment Thesis

- **Store Optimization.** WMAR completed its second year of what they currently expect to be a five year effort to re-design their stores. WMAR's end goal is to have fewer, but larger and more competitive stores in an effort to improve margins. In 2010, the average size of the stores they closed was roughly 8,000 square feet. To contrast, the average size of the stores WMAR opened in 2010 were 15,000 square feet. WMAR plans to take out the smaller sized stores and build their bigger "flagship" stores at a 2 to 1 ratio. Even though WMAR is decreasing the number of stores that they operate, selling square footage increased by 0.3% from Q3 2010 to Q3 2011.

- **Merchandise Expansion.** As WMAR expands the size of their stores, they have the opportunity to expand the categories of merchandise they offer. WMAR's focus has been on West Marine brand and private label merchandise, which have higher gross margins than comparable branded products, performance, casual, and technical apparel, saltwater fishing gear, and engine parts. This should help improve their revenues as bigger ticket sales have not yet hit their pre-recession levels. WMAR purchased merchandise from more than 800 vendors during 2010, of which no single vendor accounted for more than 11% of merchandise purchases.
- **Port Supply Growth.** WMAR's wholesale business continues to be a key part of their strategy, and they will continue to operate this channel out of their distribution centers and to serve these customers through their stores. In a few of their larger stores, they have expanded wholesale specific assortments, dedicated port supply staff, and operate local/regional van delivery services to create wholesale customer focused centers. As WMAR opens more port supply centers within their larger stores, they hope to provide wholesale customers with unmatched assortment and supply chain advantages. This should allow the company to leverage their fixed store occupancy expenses. In the Q3 2011 this helped WMAR improve their gross margin by 0.5%. Revenue from the Port Supply segment in Q3 of 2011 increased 4.8% QoQ, representing one of their largest growth segments.

Valuation

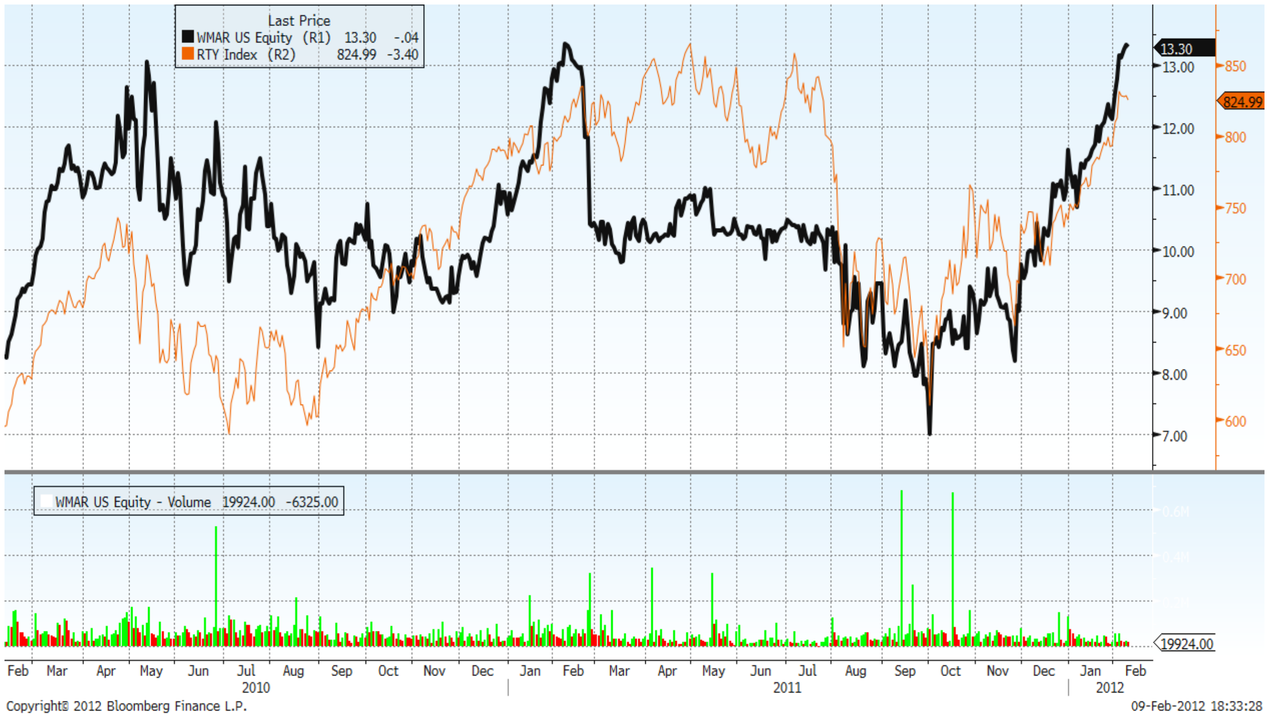
In the past five years WMAR has traded anywhere from 6.2x to 25.1x EV/EBITDA and it is currently trading at 7.2x. Applying a 7.5x EV/EBITDA multiple to the estimated 2011 EBITDA of $35M generates a price of $16.06 per share. Based on a five-year DCF analysis with a computed WACC of 10.3% and a terminal growth rate of 2.5%, an intrinsic value of $16.39 was obtained. A sensitivity analysis that adjusts both the long-term growth rate (1.5-3.5%) and the WACC (1.3-11.3%) generates a price range of $13.51-$21.24. After weighting the EBITDA multiple 25% and the DCF analysis 75%, a target price of $16.31 was established offering an upside of 22.25%.

Risks

- **High Fuel Costs.** Consumers often consider boats, boat accessories, and boating to be luxuries, higher energy and fuel costs could potentially have an adverse effect on WMAR's results. Higher fuel prices may have an adverse effect on boating usage and, consequently, demand for marine retail products. Additionally, WMAR may experience increases in operating expenses due to increases in WMAR's facilities costs and in the cost of shipping products to their distribution centers and to their customers.
- **Founder Owns 32% of Common Stock.** WMAR's founder and Chairman, Randolph K. Repass, beneficially owns approximately 32% of WMAR's common stock. As a result, Mr. Repass has substantial influence in the election of directors of West Marine and, in general, the outcome of any matter submitted to a vote of their stockholders, including mergers, consolidations or the sale of all or substantially all of their assets. Due to his significant ownership position, Mr. Repass may be able, in concert with others, to prevent or to cause a change in control of WMAR.

Management

Mr. Eisenberg, 57, has served as a Director of West Marine since 1977 and was appointed its CEO and President in December 2007. Mr. Eisenberg also served West Marine in numerous senior executive positions from 1976 until 1994, giving him a well-rounded and in-depth view of the many facets of the business. Thomas Moran, 49, was hired as WMAR's CFO, Senior Vice President and Assistant Secretary on January 8, 2007. Previously, he served as the CFO of the Wearguard-Crest Division of ARAMARK Corporation, ARAMARK's work apparel and uniform division, from June 2004 until January 2007.



Ownership

% of Shares Held by All Insider and 5% Owners:	35%
% of Shares Held by Institutional & Mutual Fund Owners:	56%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Randolph K. Repass	4,800,813	20.81
Dimensional Fund Advisors LP	1,792,507	7.86
Select Equity Group, Inc.	1,567,747	6.87
Franklin Templeton	1,235,180	5.41
Royce & Associates, LLC	1,223,711	5.36

Source: Yahoo! Finance

Willis Group Holdings (WSH)
February 17, 2011

Katherine Curiel — International Financial Services

Willis Group Holdings (NYSE: WSH) is the number 3 global insurance broker, competing with Aon and Marsh & Mclennan. WSH delivers professional insurance, reinsurance, risk management, financial and human resource consulting and actuarial services to corporations around the world. With a global team of 17,000 it operates in more than 190 countries with presence in the US (46%), the UK (27%), and other (27%). The company became public in 2001 and is headquartered in London, UK.

Price ($) (02/09/12)	39.31	Beta:	0.80
Price Target ($):	47.61	WACC	9.86%
52WK Range ($):	33.04-42.42	M-Term Rev. Gr Rate Est:	3.8%
Market Cap:	6,855.33M	M-Term EPS Gr Rate Est:	4.6%
Float	169.88M	Debt/Equity	82.71%
Short Interest (%):	0.70%	ROA:	2.87%
Avg. Daily Vol:	885,363	ROE:	10.62%
Dividend ($):	1.04		
Yield (%):	2.63%		

FY: Dec	2011*	2012E	2013E
Total Revenue (Mil)	3,476.90	3,622.93	3,775.09
% Total Rev Growth	4.13%	4.20%	4.20%
Operating Margin	18.89%	19.83%	21.52%
EPS (Cal)	$2.24E	$2.51E	$2.84E
FCF/Share	1.38	2.51	2.98
EV/EBITDA	11.3x	10.5x	9.4x

Recommendation

WSH is positioned for a favorable move in FY2012 with their well-diversified business mix and a 9.3% market share in the $40.8B global insurance brokerage industry. An improved global sales platform, combined with market momentum in key segments, is expected to translate into increasingly positive earnings performance over the next two years. They have been able to retain existing clients with a retention rate of 92% in 3Q11 as well as attract new business (+2%). WSH has also been able to consistently generate higher operating margins than its peers with 19% in 3Q11 compared to a 12% industry average. The ability to operate at higher margins than its peers has given them more flexibility in pricing. Consequently, as others attempted to reach competitive margins through strategic acquisitions, WSH's main focus has been via organic growth. In an environment where growth was flat, if not negative, WSH reported growth of 4% in commissions and fees to a total of $755MM while organic growth was 2% for 3Q11 YoY. They have achieved a significant increase in critical markets, such as Brazil, China and the U.S. WSH has also made significant investments in the areas of technology and strategic initiatives in order to attract new business and better serve existing customers. For instance, WSH has introduced programs, such as WillPLACE, Sales 2.0, and Global Solutions to generate stronger organic growth. In FY2011, the firm also implemented an operational efficiency program consisting of headcount reduction and function relocation to lower costs that has already generated savings of $160MM – with the benefits expected to continue into FY2012 (estimated savings of $115MM). WSH had an ROE of 10.7% 3Q11 compared to an 8% industry average. Based on these factors, it is recommended that WSH to be added to the international fund portfolio with an upside potential of 21% and a target price of $47.60. WSH pays a consistent dividend with an annual yield of 2.63%.

Investment Thesis

- **Strategic Initiatives to Spur Long-term Global Growth.** WSH has launched initiatives to capture market share and strengthened its existing partnerships. WSH is following its largest competitors in introducing a sophisticated data mining system, WillPLACE. This tool will be utilized in 14 countries and is designed to set benchmarks, capture trends and match carrier offerings with client risk preference and goals. Currently 70% of the $40B in premiums is tracked by WillPLACE. WSH's largest clients appear to be willing to pay for the added value of the data mining tool, while its middle-market core will gradually be incorporated. Other revenue generating systems include the North American launch of Sales 2.0, a system that will streamline and facilitate their delivery of industry-specific expertise to all clients, as well as Global Solutions, a platform devoted to answering the unique needs of the world's largest companies and responsible to match WSH's expertise with these organizations to deliver value. As of FY2011, these initiatives have reduced the total expenses/total revenue ratio to 77% (from 82% in FY2008), thereby improving margins substantially.

- **Positive Outlook for Global Insurance Brokerage.** By FY2015, the industry is forecasted to have a value of $59.4B (a 45.6% increase from FY2010) of which the Americas account for 52.3% and the emerging markets 27% (up from 15% in 2010). With a market share of 9% and a retention rate of 92%, WSH is in a position to benefit from this trend. Non-life (currently $243B) and life insurance premiums ($361B) in the emerging markets are expected to grow at a 21% CAGR until 2015. The rapid per capita income growth and strong economic performance of emerging markets will drive this demand. WSH grew its stake in China and expanded into Kazakhstan and Malta in FY2011—all areas benefiting from lower capital and costs. Performance in such markets is already strong. In fact, over the past few years, WSH has achieved double-digit organic growth in commissions and fees in Latin America (+11%), Asia (+17%) and Eastern Europe (13%).
- **Organic Growth.** Despite of weakness in Europe and the U.S., WSH has been able to generate organic growth in FY2010 (+4%) and through 3Q11 (+2%). Management expects further organic growth in all its segments in 2012. WSH's Global segment (25% of revenue) driven by substantial rate improvements and a pipeline in capital markets, should give at minimum 7% growth in 2012. The North America segment (40%) will be positively impacted (+3% in 2012) by improving rates and stabilizing exposures. In the International segment (32%) the double-digit growth in emerging markets will more than offset Europe's weakness.

Valuation

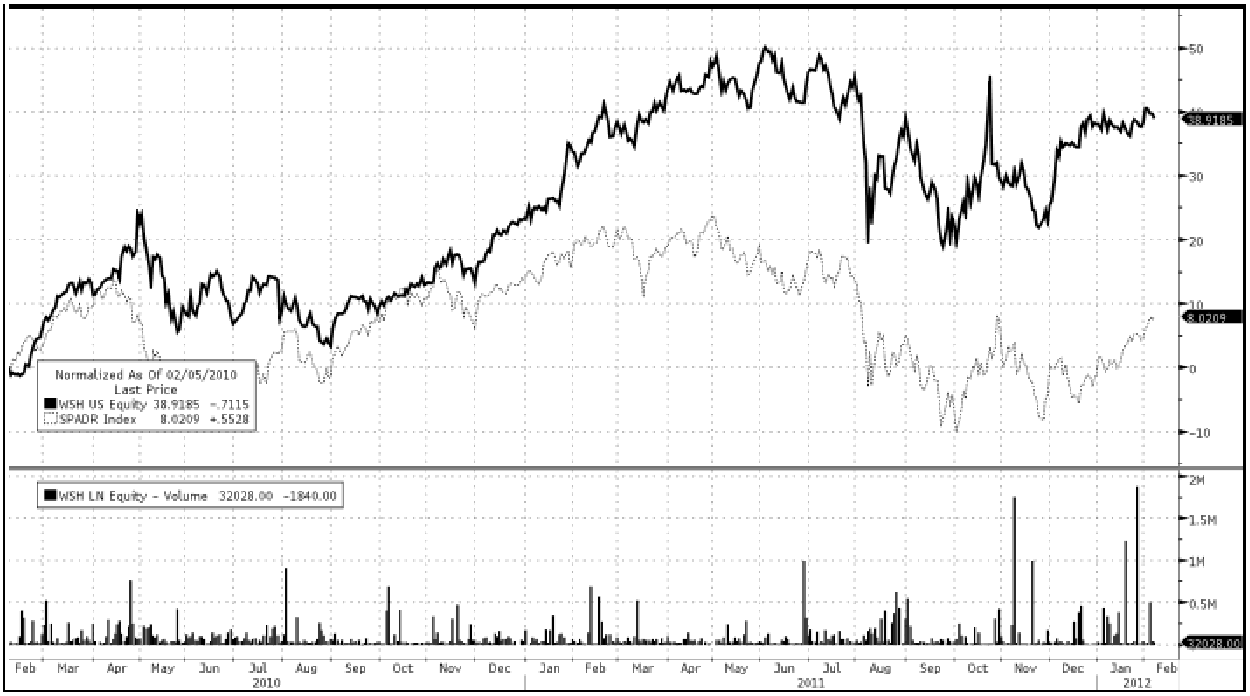
Using a 5-year DCF with a computed WACC of 9.86% and terminal growth rate of 2.0%, an intrinsic value of $48 was obtained for WSH. Using a sensitivity analysis that adjusts for both the terminal growth rate (1.0%-3.0%) and WACC (8.9%-10.9%) generates a price range of $42.5-$58.3. A 5-year historical average P/B multiple of 3.1x was applied to estimate 2012 book value per share to yield an intrinsic value of $46.5. Weighting these techniques equally, a target price of $47.61 was determined. With the stock currently trading at $39.10, the price target yields a 21% return – in addition to offering a 2.6% dividend.

Risks

- **Industry Consolidation.** With a focus on growth through organic means, WSH has fallen behind in the race for consolidation as both larger and close competitors have increased their size through significant acquisitions. With improving free cash flow generation in FY2011, the company is in a position to consider potential value-added acquisitions in all its markets. Management has mentioned that it is open to M&A activity, although no deals are in process.
- **Volume Pressures from Uncertain Economic Prospects.** Insurance brokerage business volume in developed markets remained under stress in FY2010 due to uncertain economic prospects. Insurable risks decline due to decreasing assets and property values, shipment volumes, payroll and number of active employees. Business volume was also impacted by client cost-driven behavior where clients reduced spending in order to meet budget reductions. Although economic prospects seemed to have improved in FY2011, in comparison to FY2010, spending on insurance brokerage has not reached pre-recession levels.

Management

Joseph Plumeri has been the chairman, CEO, and director of WHS since 2003. He helped WSH regain public ownership and strengthened its position through organic growth and operating margins. Prior to joining, he served as an executive with Citigroup for 32 years in Primerica Financial Services and Travelers Group.



Ownership

% of Shares Held by All Insider and 5% Owners:	2%
% of Shares Held by Institutional & Mutual Fund Owners:	92%

Top 5 Shareholders

Holder	Shares	% Out
Southeastern Asset Management	12,671,200	7.30
ValueAct Capital Management, L.P.	8,578,410	4.94
PGGM Vermogensbeheer B.V.	8,328,811	4.80
T. Rowe Price Associates, Inc.	5,785,900	3.33
Fiduciary Management, Inc.	5,202,373	3.00

Source: Thomson Reuters

WD-40 Company (WDFC)
February 17, 2012

Dan Leibforth Consumer Staples

WD-40 Company is a global consumer products company dedicated to delivering solutions for a range of maintenance needs. As of August 31, 2011, the Company's products included WD-40 Smart Straw, WD-40 Trigger Pro, 3-IN-ONE Professional Garage Door Lube, Spot Shot Pet Clean, which is a non-aerosol Spot Shot trigger product, and a mildew stain remover under the X-14 brand and Blue Works. The Company's three geographical segments are: the Americas, Europe and Asia-Pacific. Each segment contributed 50.5%, 37.3%, and 12.2% of total revenues in fiscal 2011, respectively. As of August 2011, WDFC had two product lines: multi-purpose maintenance products; and homecare & cleaning products. The multi-purpose maintenance line contributed 82.9% of total revenue in fiscal 2011 while homecare & cleaning products produced 17.1% of the total. The Company sells its products primarily through mass retail and home center stores, warehouse club stores, grocery stores, hardware stores, automotive parts outlets and industrial distributors and suppliers. The WD-40 Company was founded in 1953 and is headquartered in San Diego, California.

					FY: Dec	2011A	2012E	2013E
Price ($): (2/9/12)	43.99	Beta:	0.85		Revenue (Mil)	$ 278.76	$ 298.27	$ 322.14
Price Target ($):	53.31	WACC	8.99%		% Growth	4.60%	5.30%	5.90%
52WK H-L ($):	35.37 - 47.97	Mid-Term Rev. Gr Rate Est:	8.2%		Gross Margin	50.00%	50.00%	50.50%
Market Cap (mil):	702.83	Mid-Term EPS Gr Rate Est:	12.0%		Operating Margin	16.10%	17.00%	17.50%
Float (mil):	15.02	Debt/Equity:	4.61%		EPS (Cal)	$ 2.15	$ 2.37	$ 2.55
Short Interest (%):	3.7%	ROA:	12.8%		FCF/Share	$ 2.27	$ 2.64	$ 2.83
Avg. Daily Vol:	56,836	ROE:	18.4%		P/E (Cal)	21.74	25.14	23.37
Dividend ($):	1.08				EV/EBITDA	10.73	10.93	11.24
Yield (%):	2.7%							

Recommendation

Over the last year, WDFC has been troubled by weakening margins which have been caused by increasing raw materials costs for many of WDFC's key inputs including jet kerosene, aerosol cans, and plastic. Aerosol cans (which represents roughly 27% of total cost of goods sold) and petroleum based products negatively impacted gross margin by 230 bps, to roughly 50%, in 2011. WDFC has also seen cost increases in packaging and distribution, specifically in Europe. However, management has recently shifted their distribution to firms who specialize in warehousing and shipping which is expected to reduce packaging and shipping expenses by roughly 20% for WDFC. Even with challenging conditions, WDFC has shown strong top line growth of 10.1% and 4.6% for 2010 and 2011 respectively and a 5% increase in Q1 2012 versus Q1 2011. WDFC has increasingly shifted their distribution heavily towards Asia, reducing their overall exposure to Europe. Management has indicated this strategy will be continued going forward and is expected to relieve pressure on both gross and operating margins. There is not much competition for WDFC as they use their brand name to create somewhat of an economic moat. Operating margin improvement will be the key area of focus with WDFC and any further contraction would constitute a thesis violation. Revenue is forecasted to grow by 5.3% and 5.9% in fiscal 2012 and 2013, respectively as operating margins expand to ~20% in the next 5 years. Due to these factors, it is recommended that WDFC is added to the AIM Equity Fund with a price target of $53.31 representing a 21.2% upside. The company offers a steady dividend yield – currently at 2.7%.

Investment Thesis

- **Asia-Pacific Market is Underappreciated.** Management has guided investors that the Asia-Pacific market will be the strongest area of growth for WDFC going forward. With an increased emphasis, Asia-Pacific sales grew 30% (21% operating income growth) in Q1 2012 versus 4% growth in North America and -2% in Europe. The growth was due to base business growth and increased promotional support in China, which was up 55%. Asia has proven to be an unsaturated market for WDFC and will continue going forward.
- **Distribution Improvement/Expansion.** WDFC has now shifted their distribution to more specialized firms, decreasing their total exposure in Europe and focusing more on Asia and North

America. The change distribution will continue going forward, increasing WDFC's position in Asia, while simultaneously decreasing their exposure to Europe. Management has also engaged in fewer long term contracts which will allow for more flexibility going forward.

- **New Product Launch.** The company is introducing a new product line: *WD-40 Specialist Lubricants* which is intended to offer an assortment of specialty problem-solving products for both the trade and DIY customers. Management has indicated that they are optimistic about the new line following the test launch. The product will be shipped in Q2 2012 to Asia and several European nations. Management has a strong track record of product launches which is supported by their strong ROIC of 17% and it is possible that the market has not yet fully factored in the potential impact of this new product. Accompanied with WDFC's distribution expansion and Asia-Pacific growth, this product will provide the company with sustainable growth going forward.

Valuation

To find the intrinsic value of WDFC, a 5-year DCF analysis was conducted. Revenue growth rates were estimated based on management guidance, historical growth and industry growth. A WACC of 8.99% was calculated. A sensitivity analysis was also conducted based on variations in WACC and long term growth. This yielded an intrinsic value of $59.69. An EV/EBITDA multiple of 12x was also used based on historical levels, which yielded an intrinsic value of $46.93. With the DCF and EV/EBITDA weighted equally, a $53.31 price target was established, providing a potential upside of 21.2%. The dividend yield of 2.7% is expected to be maintained.

Risks

- **Increasing Raw Materials Costs.** WDFC has been challenged recently due to raw material costs that have soared for their most important inputs (with aerosol and petroleum based products increasing by 25%). Some of the cost increase has been passed on in product pricing, but management has stated that they have had to incure some of the cost increase themselves. If raw materials do not begin to decline in the near future, WDFC could experience even further margin decline.
- **European Exposure.** Even with management decreasing their overall exposure in Europe, the region still provided 37.3% and 51.4% of total revenue and total operating profits, respectively, for WDFC in fiscal 2011. If the European economy continues to struggle, WDFC could see decreased overall demand leading to lower than expected operating profits.

Management

Garry O. Ridge, 56, joined the company in 1987 and was named President and CEO in 1997. He was also elected to the Board of Directors in 1997 and his knowledge of the company's international markets and industry position provides the Board with valuable insight. Jay W. Rembolt, 61, has been the CFO and Treasurer since April 2008. He has also served as its Principal Accounting Officer since 2001.

Ownership

% of Shares Held by All Insider and 5% Owners	6.0%
% of Shares Held by Institutional and Mutual Fund Owners	72.0%

Source: Bloomberg

Top 5 Shareholders

Shareholder	Shares	% Out
KAYNE ANDERSON RUDNICK INV. MGMT LLC	1,277,857	8.00
PARNASSUS INVESTMENTS	1,260,384	7.89
Vanguard Group Inc.	844,720	5.29
BlackRock Fund Advisors	682,610	4.27
Allianz Global Investors of America L.P.	576,095	3.61

Source: Bloomberg

Triangle Capital Corporation (TCAP)
February 17, 2012

Theodore J. Linn Financial Services

Triangle Capital Corporation (TCAP) is a Business Development Company (BDC) that makes specialty investments in lower middle market companies located throughout the United States. This market consists of those companies having annual revenues between $20 and $100 million. The target portfolio company is generally privately held and consistently earns an annual EBITDA between $3 and $20 million. TCAP seeks a niche by focusing on middle market companies that tend to be underserved and typically have less access to capital through traditional sources such as commercial and investment banks relative to larger companies. TCAP invests primarily in subordinated debt securities secured by second lien security interests, coupled with light equity interests. The company was founded as Triangle Capital Partners, LLC in 2000 by current chairman, president, and CEO Garland S. Tucker III before going public in 2006. Triangle has 17 employees with headquarters presently located in Raleigh, NC.

Price ($): (2/9/12)	18.97	Beta:	0.77	FY: Dec 31	2010A	2011E	2012E
Price Target ($):	23	WACC (%):	8.74	Rev. ($mil):	34.1	69.9	76.1
52 Wk. L-H ($):	13.6-20.2	ROA (%):	11.73	Rev. Growth (%):	210%	105%	8.9%
Mkt. Cap. ($mil):	504	ROE (%):	20.22	Net Interest Income ($mil):	28.6	51.0	60.1
Shs. Out. (mil):	26.4	ttm Div. ($):	1.77	Net Interest Margin (%)	10.9%	11.0%	12.9%
Float (mil):	25.5	ttm Div. Yield (%):	9.33	EPS ($):	1.99	2.88	2.01
Avg. Daily Vol. (3mo):	234,381	P/B:	1.34	P/E (calc):	9.53	6.59	9.42
Short Interest (%):	3.7			Dividend ($):	1.61	1.77	2.00

Recommendation

TCAP's position in the high-yield, subordinated debt market provided a meaningful return to shareholders in 2011 in the form of dividends that yielded 9.33%. The high dividend payout rate offers the AIM Fund a strong income-orientated holding with both a low average beta and a smaller market capitalization size. TCAP posted stellar results in Q3 2011 which will likely result in a strong full year for the whole of 2011. These results are not expected to see any significant decline in 2012 as M&A activity picks up. Additionally, as the US economy strengthens TCAP's investment opportunities should expand and spreads on high-yield debt could narrow. The company is also considered a Regulated Investment Company which provides an effect tax rate near zero, provided certain requirements continue to be met. Lastly, TCAP's diversified portfolio of over 50 companies, none representing more than 8% of investment assets, adds a margin of safety through portfolio diversification. For these reasons, it is recommended that TCAP be added to the AIM Equity Portfolio with a price target of $23 – an upside return of more than 20% in addition to the dividend.

Investment Thesis

- **Forward Dividend Yield Near 10%.** The high dividend TCAP offers provides an income-oriented opportunity for investors. Over the past year the dividend has increased twice and management expects no less than a $0.12 increase in the dividend year over year. A calculated dividend of $2.00 in FY 2012 provides returns near 10% based on current valuation. Management believes the dividend is sustainable with the continued growth in investment income. This dividend is important to management as they believe it is the best method telescope strength to investors.
- **Backlogged M&A Activity.** TCAP is experiencing a record amount investment banking backlogs; especially for lower middle market M&A transactions because generational owners looking to sell believe that it is a favorable time to diversify their net worth. These companies are often financed through TCAP which translates to a strong deal flow. The increase in the demand for funding as well tight credit market conditions has translated into a marginal

improvement in terms of pricing and structure for TCAP's investments. The current 15.1% average yield on debt with an average life of 3-4 years is possible because of such conditions. TCAP has an average borrowing rate of 4.8%.

- **Favorable Tax Code.** TCAP has elected to be treated as a Regulated Investment Company (RIC) under Subchapter M of the U.S. Federal Tax Code. This treatment allows the company to avoid all taxes on capital gains, dividends, and interest prepayments as long as the RIC status is maintained. TCAP will satisfy the requirements if it continues to distribute at least 90% of its net ordinary income and short-term capital gains to its shareholders on an annual basis. The company must also generate 90% of its income from distributions, interest, or gains from the sale of stock and similar securities. The RIC status allows investors to avoid "double taxation" and incentivizes the maintenance and growth of the high-yield dividend.

Valuation

A dividend discount model was conducted to find the intrinsic value of TCAP. The future dividends were calculated using a projection of net interest income and trading account income from previous quarters in conjunction with management's forward looking statements and the market estimates. The estimated dividend for FY 2012 is $2.00, representing a 10.5% yield on the current price. The dividends of the following years were modeled to grow at no less than $0.12 per year in line with management guidance. An initial cost of equity of 8.7% and perpetual growth rate of 2.5% yielded an intrinsic value of $23.00. The average number of shares outstanding for future years was also estimated to grow at a rate of 8%, eventually tapering to 3% perpetually. A sensitivity analysis was performed to test the credit exposure's ability to improve or reduce the dividend. Moderate changes in the dividend and WACC resulted in a price range of $20-24. Based upon the dividend discount model and the sensitivity analysis, an intrinsic value of $23 was estimated, representing a potential for 20% upside as well as a near 10% dividend yield.

Risks

- **Reliance on Capital Market Access.** As an RIC, TCAP needs consistent ability to tap the equity markets in order to make new investments. Should necessary capital become unavailable for whatever reason, TCAP would be subject to material adverse effects. The only backstop to a dry-up of capital access would be to reject the RIC status and decrease the payout ratio, something TCAP has no intention of doing at this time.
- **Lower Middle Market Limitations.** Although the underserved nature of the lower middle market offers investment opportunity for TCAP, it comes with a number of limitations that increase the riskiness of TCAP's investments. The smaller companies often have shorter operating histories, narrower product lines, less predictable operating results, provide less public information, or can have operations tied to the health of a single individual.
- **Subordinated Debt Positions.** The composition of the company's investment portfolio at fair value is 88% subordinated debt, unitranche and 2nd lien notes; 1% senior debt; and 8% equity shares, and 3% equity warrants. The 88% represents over $406 million not ranked first in claims on assets should a portfolio company fall into receivership or bankruptcy. Therefore, the vast majority of investment assets are subject to possible impairment.

Management

Garland S. Tucker III, is the Chairman, President, and CEO of TCAP. Before co-founding Triangle Capital Partners, LLC in 2000, Mr. Tucker operated and eventually sold First Travelcorp, a corporate travel services company that he founded in 1991. Prior to travel services, Mr. Tucker served as Group Vice President, Chemical Bank, New York, with responsibility for southeastern corporate finance. He is currently 63 years old. The rest of the senior management team has extensive experience advising, investing in, lending to, and operating companies across changing market cycles.

Ownership

% of Shares Held by All Insider and 5% Owners:	3%
% of Shares Held by Institutional & Mutual Fund Owners:	6%

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
Vanguard Group Inc.	980,791	3.71
Blackrock Fund Advisors	475,577	1.80
State Street Corp.	383,567	1.45
Northern Trust Corporation	284,131	1.08
Blackrock Institutional Trust	269,868	1.02

Source: Bloomberg