Applied Investment Management (AIM) Program

AIM Class of 2016 Equity Fund Reports
Spring 2016

Date: Friday, February 5th | ***Time:*** *3:00 – 4:30* 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.

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Vodafone Group Plc ADR (VOD)

February 5, 2016

Jack Kitzinger International Telecom

Vodafone Group Plc ADR. (NYSE: VOD) is an international telecommunications provider. VOD provides voice, messaging, data, and fixes communications to individual customers and businesses. VOD provides service in Europe, Africa, India, and Oceania. The major country exposures are Germany (20.3%), United Kingdom (15.4%), Italy (11.1%), South Africa (10.4%), India (10.4%), and other (32.4%). VOD was founded in 1984 and is headquartered in Newbury, United Kingdom.

Price ($): (1/29/16)	32.2
Price Target ($):	41.13
52WK H-L ($):	29-39
Market Cap (mil):	133,383
Float (mil):	N/A
Short Interest (%):	1.60%
Avg. Daily Vol (mil):	3.96
Dividend ($):	1.68
Yield (%):	5.20%

Beta:	0.89
WACC	7.0%
M-Term Rev. Gr Rate Est:	3.0%
M-Term EPS Gr Rate Est:	23.0%
Debt/Equity:	0.33
Debt/EBITDA (ttm):	2.73
ROA:	4.8%
ROE:	8,49%
ROIC:	6.4%

FY: Dec	2014	2015	2016E	2017E
Revenue (Mil)	61,234	67,878	60,471	61,680
% Growth	-12.81%	10.85%	-10.91%	2.00%
Operating Margin	9.24%	5.45%	6.95%	8.00%
EPS (Cal)	$ 3.41	$ 0.22	$ 0.68	$ 0.70
FCF/Share	$3.24	$1.45	$0.17	$0.54
EBITDA Margin	29.0%	28.1%	29.7%	30.0%
EV/EBITDA	6.95	6.55	7.43	7.21
CapEx (bil)	14.00	17.00	11.49	10.49

Recommendation

For decades, telecommunications has been approaching commodity status. It did not matter what service you had, there was downward pressure on prices. While there is still downward pricing pressure, the impact of mobile internet and 3G/4G coverage has allowed premium providers to emerge. Individuals have less problem paying for a higher quality, higher speed service for browsing the internet and using mobile data. Vodafone fits this new reality. Instead of providing a service for a low price, VOD attempts to maintain customers by providing the best service. To do this, they have increased their capital expenditures to $17 million this year. The past two years have been a part of an initiative called "Project Spring" where VOD increased their CapEx to 20% of revenues compared to 13% which they will return to after this year. By increasing capital expenditures, VOD has continued to provide high quality service throughout Europe, Africa, and India. The mobile contract base has increased by a CAGR of 8.4% over the last two years. On top of this increase, more users have been using 4G in Europe (17 million more in the last year), and 3G in India (10 million). This is where VOD differentiates themselves as a provider. By providing a better service through project spring, decreasing churn, increasing customer base, and VOD's substantial dividend, it is recommended that Vodafone Group Plc should be added to the International AIM portfolio with a price target of $39.55 representing a 22.84% upside. VOD pays a dividend representing a 5.2% yield.

Investment Thesis

- **Project Spring:** VOD has been building up their 3G and 4G infrastructure. In Europe, they have increased their 4G coverage from 32% to 80% in the past two years. South Africa is now 98% 3G covered and they also have 47% of 4G coverage. Finally, India has 94% 3G coverage and will be rolling out 4G beginning this year. By continuing to invest in higher generation equipment, VOD has an edge in many of their markets. In 2017, the major capital expenditures will be done, and it will return to 13-14% of sales.
- **Decreasing Churn.** Churn is an important topic relating to how many customers change services every month or quarter. The ability to retain customers is extremely important for telecom providers as this is their greatest source of revenue. In the past, churn rates were very because telecom carriers provided a commodity service. You could change one provider for another and not lose much so there was always downward pressure on prices. While there is still this downward pressure, having a quality network has become more important. This is where VOD has an edge over many of their competitors. VOD can charge a premium for their service because their network is better. The effect is different in different countries, but in Spain their postpaid

contracts are 7 Euros a month more than Orange's contracts. It can be shown in churn rates decreasing from 19% to 17% in Europe from 2013 to 2015. Similarly, the churn rates in Africa have stabilized around 7%. These lower churn rates have helped increase the customer base from 386 million at the end of 2013 to 454 million at the end of 2015.

- **Increasing Indian Penetration.** Vodafone delivers high performance in 3G in India. This performance has led to increase 3G penetration from 13.6 million individuals to 23.8 (which is a CAGR of 75%). There are 1 billion mobile customers in India. As the Indian middle class continues to grow, the smartphone penetration will increase to over the 23% of the population. As Vodafone is one of 3 (soon to be 4) nationwide providers, VOD will be in strong position to continue to pick up customers
- **Increase in Postpaid Contracts.** Long term churn rates are lower for customers who have postpaid contracts instead of prepaid ones. It is especially prevelent in emerging markets for prepaid contracts to be used. India has increased its postpaid contracts from 6.2% to 7% of total contracts in the past two years. In Europe, postpaid contracts have increased from 45% to 50% over that same time. This increase will help continue to lower churn.

Valuation

In order to reach an intrinsic value for VOD, a five year DCF model was constructed. Using a terminal growth rate of 1.75%, WACC of 6.97%, an intrinsic value of $38.60 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $36.85-$40.97. Additionally, a EV/EBITDA multiple valuation was conducted using a comparables and historical average of 7.21 which resulted in a valuation of $36.46. Finally, a three stage Dividend Discount Model was constructed. Using estimated 2016 dividend of $1.70 and a long term dividend growth rate of 3%, an intrisnic value of $48.07 was reached. By weighting the three valuation models 50/30/20, a price target of $39.55 was reached, yielding a 22.84% upside. VOD pays a dividend with yield of 5.2%.

Risks

- **Reliance Jio Impending Market Entrance.** Reliance has decided to enter the Indian market. It will enter as a nationwide competitor; however, the market is large enough to support 4 nationwide players.
- **Downward Pricing Pressure.** While the market has become less commoditized, there is still downward pressure on pricing, especially in developing countries.
- **Foreign Exchange Rates.** While VOD does some hedging, they have both revenues and expenses in many different currencies. This has caused revenue decreases in the past year, even with stable pricing and an increasing customer base.

Management

Vittorio Amedeo Colao is CEO & Executive Director and is also on the Board of Directors at Unilever and Cellco Partnership. Nicholas J. Reed is CFO at Vodafone and is on the Board of Directors at The GSM Association. Gerard Johannes Kleisterlee is the Chairman at Vodafone. He is also on the boards of IBEX Global Solutions and Royal Dutch Shell among others.

Source: FactSet

Ownership

% of Shares Held by All Insider Owners:	1.50%
% of Shares Held by Institutional & Mutual Fund Owners:	69.50%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
BlackRock Investment Management	882,865	3.3%
Legal & General Investment Management	880,175	3.3%
The Vanguard Group	615,962	2.3%
Norges Bank Investment Management	552,766	2.1%
Schroder Investment Management	408,106	1.5%

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	Debt/Equity	Dividend Yield	EV/EBITDA
Vodafone Group plc	VOD	133,383	64,418	33.9	5.2%	6.55
Deutsche Telekom	DTE	147,075	78,980	175.0	3.1%	7.35
Orange	ORA	81,969	47,275	99.7	4.9%	6.25
BT Group	BT.A	78,348	27,437	973.0	2.7%	8.38
Telefonica	TEF	123,694	55,068	224.8	6.2%	8.09
Telecom Italia	TIT	57,500	23,687	166.8	0.0%	6.65
Peer Averages		107,772	52,190	368.1	4.2%	7.5

Inogen, Inc. (INGN)
February 5, 2016

William Pink Healthcare

Inogen, Inc. (NSDQ: INGN) develops, markets, and manufactures portable and stationary oxygen concentrators used to provide long-term oxygen therapy to patients. The company offers an Inogen One series of products such as their G2 and G3 models that concentrate air around patients to offer a single source of oxygen. Majority of revenue comes from the United States (78%), but the company has international exposure in China (4%), Japan (2%), Germany (1%) and France (1%). INGN was incorporated in 2001 and is headquartered in Goleta, CA.

Price ($):	34.26	Beta:	0.81	FY: Dec	12/31/2014	12/31/2015	12/31/2016	12/31/2017
Price Target ($):	44.47	WACC	7.91	Revenue (Mil)	112.54	153.43	181.28	215.00
52WK H-L ($):	55.98 - 29.06	M-Term Rev. Gr Rate Est:	36.6%	% Growth	49.17	36.33	18.15	18.78
Market Cap (mil):	673	M-Term EPS Gr Rate Est:	26.5%	Gross Margin	49.33	47.39	46.32	47.00
Float (mil):	15.7	Debt/Equity:	0.3	EBITDA Margin	20.18	20.00	19.37	19.00
Short Interest (%):	13.6	Debt/EBITDA (ttm):	0.01	EPS (Cal)	$0.30	$0.47	$0.54	$0.58
Avg. Daily Vol (mil):	0.2	ROA (%):	6.28	FCF/Share	($0.02)	$1.23	$1.32	$1.35
Dividend ($):	0.00	ROE (%):	7.58	P/E (Cal)	104.6	73.5	62.9	62.9
Yield (%):	0.0	ROIC (%):	7.57	EV/EBITDA	22.4	19.3	16.6	16.6

Recommendation

Inogen, Inc. has experienced rapid growth in the past two years as revenues have grown by 31% and net income has increased by 28%. The U.S. market for oxygen therapy products totaled $3.5B in 2015 and it is estimated that the patient population will grow 6%-8% per year increasing demand for oxygen concentrators. As of 2015, stationary concentrators and portable oxygen concentrators accounted for only about 40% of the market. Industry trends depict that ambulatory non-portable concentrators are losing share to the portable oxygen concentrators. More patients are beginning to shift away from the hefty tanks that must be refilled often to smaller and lighter portable oxygen concentrators that can be easily swung around ones shoulder or back. By having a lighter and more efficient portable oxygen concentrator, patients can keep up active lifestyles while saving money and time. The company will release their newest Inogen One G4 model in the Q2 2016 which will further their position in the increasing portable oxygen concentrator market. INGN is changing its process of sales, shying away from rentals into more business-to-business and direct to consumer sales. In 2015 direct to consumer sales revenue increased 41% while business-to-business revenue grew 77%, due to the increase in number of sales reps and support teams. With a direct to consumer sales team it will enable INGN to have greater exposure to the customer and will allow for more innovation for this new market. Due to the rising exposure of INGN products worldwide and the shift of market trends to portable oxygen concentrators it is recommended that Cynosure, Inc. be added to the AIM Equity Fund with a target price of $44.47, representing a 29.81% upside. The company does not pay a dividend.

Investment Thesis

- **Innovation of Products.** INGN's two main Inogen One products, G2 and G3, have been upgraded within the past year. The G2 model is suitable for casual and stationary use by their patients whereas the G3 model, just upgraded in Q4 2015, is used for portable and mobile use. Portable Oxygen Concentrators (POCS) are the smallest segment (6.9%) in the oxygen market but are the fastest growing need by patients. The latest upgrade for the G3 model will make the battery life longer, as well as making the product quitter for easier portable use by consumers. Also, INGN is planning to introduce the G4 series in Q2 2016, which is going to be a smaller and lighter product to further penetrate the POC market.
- **Increasing Oxygen Market.** The addressable oxygen therapy market represents a roughly $3.5B market and the U.S. alone has 3M patients while there are 5M patients worldwide. With oxygen therapy patients' population expected to increase 6-8% per year until 2021, the addressable U.S. oxygen market size is estimated to grow to $4M. The majority of INGN patients suffer from

chronic respiratory diseases and over the past two years there has been an increasing emphasis to diagnose respiratory diseases earlier after a study showed that roughly half of respiratory diseases in the U.S. are undiagnosed. Due to the increasing global market and increase in patients suffering from respiratory diseases, INGN products should be in higher demand.

- **Expansion of Sales Force.** Over the past three years, Inogen has been significantly increasing their sales force. In 2013, the company had 108 direct sales reps and ended 2015 with 166 direct sales reps (a 54% increase). INGN sales rep normally take four to six month training programs until they become fully productive, which will be reflected in 1H 2016 revenues. The expansion of sales reps within the business should correlate with sales potential through online resellers and private lbabel partnerships and allow INGN product sales to increase.
- **Strong Balance Sheet.** In the 2014 fiscal year, INGN placed emphasis on strengthening their financial standing by increasing cash to $57M and erasing their long-term debt. Being in a highly competitive market with high barriers to entry, it is a positive sign for INGN to have a significant amount of cash for acquisition possibilities of smaller oxygen therapy firms.

Valuation

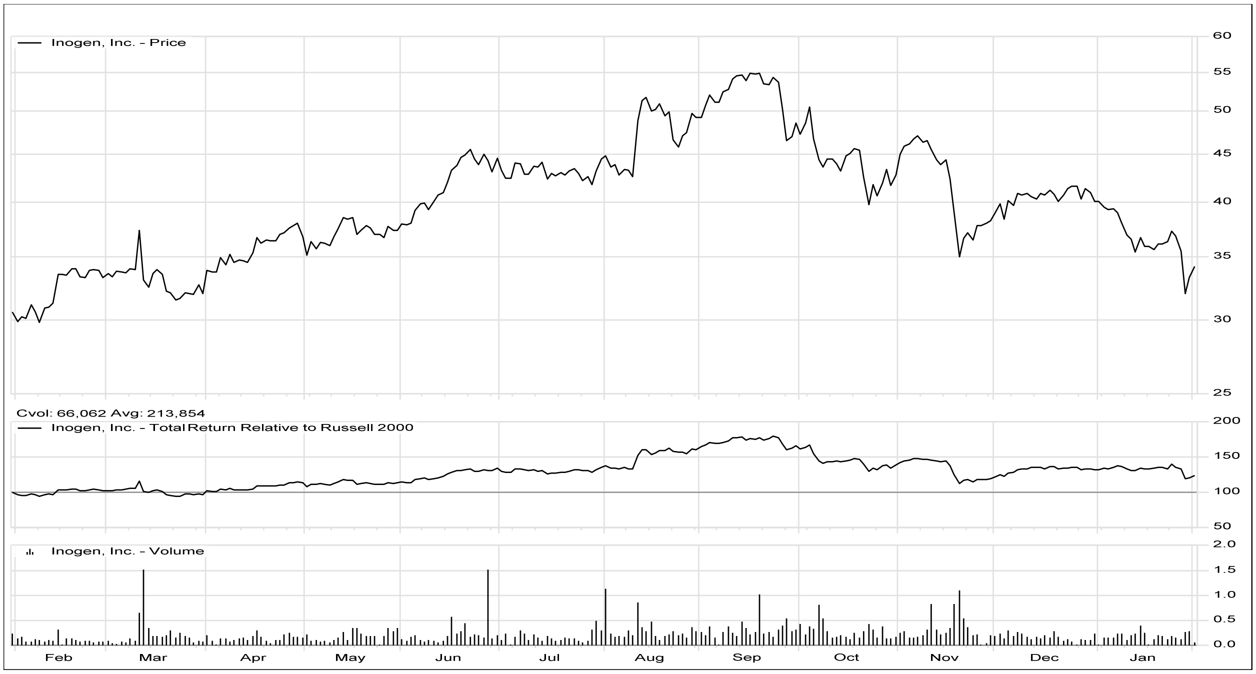
In order to reach an intrinsic value for INGN, a five year DCF model was constructed. Using a terminal growth rate of 3.5%, WACC of 7.91%, an intrinsic value of $46.52 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $31.70-$64.43. Additionally, P/Sales multiple valuation was conducted using INGN P/Sales of 4.9 and a comparables average P/Sales of 5.08x, which resulted in a valuation of $39.70. By weighting the the two valuation models 70/30 in favor of the five year DCF model, an intrinsic value of $44.47 was found resulting in a potential upside of 29.81%. The firm has no plans to pay a dividend.

Risks

- **Medicare Programs.** The majority of INGN customers, roughly 60%, are covered under Medicare coverage. In 2013 and 2014 the company collected 26.5% and 29.4% respectively from Medicare's program or beneficiaries. If there are current or future cuts in reimbursement rates set forth by the government, product revenue and operating results could be adversely affected.
- **Unable To Enhance Products.** In a highly competitive market, it is imperative for INGN to keep up with industry trends and to satisfy the needs and preferences of their customers. The company has continued to invest more in research and development but this does not automatically lead to product innovation. If the company is not able to enhance current products and introduce new products they will lose market share and the business will suffer.
- **Competition.** The oxygen therapy market is a highly competitive industry that has numerous manufacturers and distributors that carry similar products to INGN. Oxygen therapy providers compete on the basis of products and their features since Medicare establishes reimbursement levels. However, many providers were excluded from contracts with Medicare reimbursement leading to a more consolidated industry.
- **Foreign Currency Exposure.** By having international exposure in over 44 countries and having substantial revenue outside of the U.S., INGN faces currency risks. Fluctuations in exchange rates between the currencies in which revenues and costs are incurred can have a material adverse effect on results of operation.

Management

Ray Huggenberger is the CEO and has been with the company since 2002. Prior to Inogen, Inc. he worked at Sunrise Medical Inc., for ten years. Scott Wilkinson is the President and Chief Operating Officer and has twenty five years of leadership including launching an oxygen product line segment at previous company Invacare. Ali Bauerlein is the co-founder of Inogen and is currently the Chief Financial Officer. She was responsible for raising $91 million in Venture Capitalist funding and facilitating the sale of over 5.6 million shares. Other Executive Vice-Presidents include Matt Scribner, Brenton Taylor, Byron Myers, and Jim Runchey.



Source: Factset

Ownership

% of Shares Held by All Insider Owners:	20.33%
% of Shares Held by Institutional & Mutual Fund Owners:	118.66%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
BlackRock Fund Advisors	1,305,283 ▲	6.64
TimesSquare Capital Management LLC	790,000 ▲	4.02
William Blair & Co. LLC (Investment Management)	729,100 ▲	3.71
Allianz Global Investors U.S. LLC	661,220 ▼	3.37
The Vanguard Group, Inc.	640,970 ▲	3.26

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA	Dividend Yield	EV/ EBITDA
Inogen, Inc.	INGN	673	153	26.9	0.00	23.85
Invacare Corporation	IVC	471	413	93.9	0.33	16.09
ResMed	RMD	8,100	1,679	482.0	2.03	15.56
Allied Healthcare Products	AHPI	7	1	-1.0	0.00	0.00
Fisher & Paykel Corporation	FPH	4,869	644	168.0	2.48	21.97
Peer Averages		3,362	684	185.7	1.21	13.4

Source: FactSet

Belmond Ltd. (BEL)
February 5, 2016

Clare McNamara International Consumer Discretionary

Belmond Ltd. (NYSE: BEL) is a luxury hotel company and adventure travel operator. It offers a diverse range of travel and leisure opportunities through its 35 individual deluxe hotels, 6 tourist trains, 3 river cruises businesses and 1 standalone restaurant. Their 45 properties operate in approximately 22 countries through several segments including fully or partially-owned/managed hotels, and fully or partially-owned/managed trains and cruises. BEL's revenues are generated through diverse geographies including Europe (52% of revenue), the Americas (39.8%), and Asia/Pacific (6.5%). As a luxury hotel company and sophisticated adventure travel operator, the company seeks to deliver memorable experiences that are the ultimate expression of each destination's authentic culture. Properties include hotels, such as Belmond Hotel Cipriani, trains, such as Belmond Royal Scotsman, and cruises, such as Belmond Afloat in France. Belmond was founded in 1976 and is headquartered in Hamilton, Bermuda.

Price ($): (2/2/16)	$8.02
Price Target ($):	$12.67
52WK H-L ($):	13-7
Market Cap (mil):	1,017
Float (mil):	76.7
Short Interest (%):	3.2%
Avg. Daily Vol (mil):	1.13
Dividend ($):	0.00
Yield (%):	0.00%

Beta:	1.70
WACC	7.1%
M-Term Rev. Gr Rate Est:	2.4%
M-Term EPS Gr Rate Est:	38.5%
Debt/Equity:	81.2%
Debt/EBITDA (ttm):	5.97
ROA:	N/A
ROE:	N/A
ROIC:	N/A

FY: Dec 31	2014A	2015E	2016E	2017E
Revenue (Mil)	585.72	562.29	589.00	608.14
% Growth	-1.41%	-4.00%	4.75%	3.25%
Gross Margin	46.29%	43.07%	43.07%	44.32%
Operating Margin	8.80%	6.15%	8.07%	11.32%
EPS (Cal)	$ 0.08	$ 0.11	$ 0.23	$ 0.40
FCF/Share	$ (0.11)	$ (0.09)	$0.24	$0.46
EV/EBITDA	20.4x	29.7x	25.0x	20.2x
P/E	N/A	64.1x	30.7x	17.4x

Recommendation

Belmond Ltd. has been able to establish its positive worldwide reputation through the use of diverse product lines targeting high-end global customer bases. The firm stands to benefit from the growing worldwide travel industry, which the World Travel and Tourism Council forecasted growth of 3.7% in 2015. The travel industry has recorded strong economic growth in 19 of the past 20 years and is expected to maintain this into the foreseeable future. BEL is set to draw from the growing market of baby boomers in North America (accounting for 43% of revenue), since approximately 91% of the firm's revenue in 2014 came from leisure travelers. China was their fastest growing market for 3Q 2015, attributing to high occupancy rates at Belmond Napasi. Demand for Belmond hotels in Italy has recently spiked, with 3Q revenue up 15% and EBITDA up 21% from last year, allowing BEL to increase rates and improving their RevPAR. Belmond has been able to distinguish itself from competitors in a variety of ways through their diverse lines that focus on giving customers a luxurious, authentic experience at locations uncharted by other brands. Part-ownership and management of hotels, trains and river cruises has been a way for BEL to expand its brand while offering customers more exotic locations, like their most recent joint venture PeruRail. This rail offering saw substantial growth in both YoY ticket sales and average ticket price in 2014, helping grow revenue from trains and cruises by 5%. BEL also has notable recognition for its high-end customer service and luxurious accommodations, receiving recognition from Travel + Leisure, Condé Nast Traveler, and The Sunday Times (UK). New management is set to improve the balance sheet, with total debt already decreasing total by $28M, to $600M, over the first 3 quarters of 2015. BEL has regained focus on growth in revenues and profit margins, improving EBITDA retention in 3Q 2015 to 59%. As a result of a fresh vision from new management, growth initiatives and favorable valuation, it is recommended that BEL be added to the AIM International Equity Fund with an upside of 33.24%.

Investment Thesis

- **Retiring baby boomers.** The average age for a river cruise and train customer is 55. This means some of Belmond's most common and frequent customers are retirees who although affected by the financial crisis of 2008, still have retirement savings to spend. It is estimated that by 2029 more than 20% of the U.S. population will be over the age of 65. The baby boomer generation is the most active generation in history and BEL is able to cater to any of their travel needs with options ranging from river cruises to train trips to luxury hotels.

- **New management.** H. Roeland Vos joined BEL as CEO in September of 2015 and has made several strides with the company already. With more than 30 years of industry experience, Vos comes from the luxury giant, Starwood Hotels. There he was President of Europe, Africa & Middle East division. He has sited that his top priorities for Belmond are growing near term EBITDA and the bottom line in both the near and long term. He also intends to improve the balance sheet by paying down debt ($600M in 3Q 2015), while maintaining cash for future ventures. The growing RevPAR in several locations is something Vos seeks to capitalize on, which will help enhance operating margins. Belmond has recently done some trimming to regain focus, selling its 50% stake in Hotel Ritz by Belmond in Madrid earlier in 2015. Through Vos's new vision, BEL will cater to today's luxury traveler utilizing their unique locations and diverse range of products. Philippe Cassis also joined BEL in August 2015 as new COO, and has previously worked with Vos at Starwood for 28 years.
- **Brand expansion and development.** Since rebranding itself as Belmond in 2014 from Orient-Express, the firm is still set for growth and amplification as a brand. Vos sited this as one of the biggest projects for BEL within the coming years, and something that could drive top line growth. BEL will be taking a small team to focus on new market expansion, and also look for new possible joint ventures like the new and highly successful PeruRail. This $15M brand expansion project began in 2014 after the company was re-branded, and Vos wishes to continue it, while also looking into more digital and direct marketing.

Valuation

A five-year DCF model was constructed in order to reach an intrinsic value for BEL. Using a terminal growth rate of 3%, WACC of 7.1%, an intrinsic value of $13.98 per share was reached. Additionally, a P/S multiple valuation was conducted using a comparables average P/S of 1.87x, and a 5-year historical average P/S which resulted in a valuation of $9.04. Finally, a P/B multiple valuation was calculated using a comparables average P/B of 4.5x, and a 5-year historical average P/S, resulting in a valuation of $13.70. By weighting the three valuation models 50%, 25%, and 25% respectively, a price target of $12.67 was reached, which yields a 36.71% upside. BEL does not pay a dividend.

Risks

- **Terrorism and epidemics.** Demand for trains, cruises, or travel is expected to continue to be affected by the public's opinion towards travel safety and security. Factors including past acts of terrorism and threats of additional attacks have had a significant adverse impact on demand and pricing in the travel and vacation industry in the past and may have an adverse impact in the future. Health epidemics, like the Zika virus, have affected the travel to certain regions in the past and may in the future as well. BEL operates 7 hotels and 1 train in South America.
- **Oil rebounds.** Oil is a major cost for BEL, especially for the river cruise segment. Increases in prices would adversely affect operations, financial condition, and liquidity. Oil rebounding would also make flying more expensive and leave the consumer with less discretionary income to spend.
- **Economic downturn and foreign currency.** Being in the consumer sector, BEL depends on a good economy with increasing discretionary spending. An economic downturn would decrease BEL's revenues. Foreign currency is also a risk, which BEL does not hedge against.

Management

H. Roeland Vos has been President and CEO for BEL since September 21, 2015. He received his BA from Hotelschool The Hague in the Netherlands. Martin O'Grady is CFO and has been with BEL for 7 years and received his undergraduate degree from the University of Strathclyde. The COO is Philippe Carl Joseph Cassis, he has been with BEL since August 2015 and was previously CEO at Sun Resorts Ltd.

Ownership

% of Shares Held by All Insider and 5% Owners:	6.82%
% of Shares Held by Institutional & Mutual Fund Owners:	82.40%

Source: Factset

Top 5 Shareholders

Holder	Shares	% Out
Dimensional Fund Advisors LP	7,927	7.80
The Vanguard Group, Inc.	5,797	5.70
BlackRock Fund Advisors	4,726	4.60
Pinnacle Associates Ltd.	3,824	3.70
Capital Research & Management Co. (Global Investors)	3,593	3.50

Peer Analysis

Name	Ticker	Market Cap (mil)	Net Income (mil)	D/E	P/E	EV/ EBITDA
Belmond Ltd	BEL	1,017.0	1.9	0.0	—	17.1
Starwood Hotels	HOT	16,060.3	208.4	21.1	19.6	13.7
PENN National Gaming	PENN	1,126.6	-59.3	0.0	—	8.39
Hyatt Hotels	H	5,367.0	1,048	25.7	21.4	14.44
Hilton Worldwide Holdings	HLT	18,040.7	1,262	45.4	24.1	15.9
Peer Averages		10,148.6	614.7	23.0	21.7	13.1

HCI Group, Inc. (HCI)

February 5, 2016

Dylan Harkness — Financial Services

HCI Group, Inc. (NASDAQ:HCI) is a property and casualty insurance holding company. The firm, through its subsidiaries, provides property and casualty homeowners insurance and condominium-owners and tenants insurance to Florida property owners. It operates through two segments: Insurance Operations and Other Operations. The Insurance Operations segment includes property and casualty insurance and reinsurance services. The Other Operations segment includes real estate and information technology services. HCI was formerly known as Homeowners Choice, Inc. The company was founded by Paresh Patel, Gregory Politis and Martin A. Traber in 2006 and is headquartered in Tampa, FL.

Price ($): (2/3/16)	31.91	Beta:	0.88	FY: Sep	2013A	2014A	2015E	2016E
Price Target ($):	42.30	WACC	6.6%	Revenue (Mil)	241.00	266.00	291.00	276.00
52Wk H-L ($):	50.38-29.30	M-Term Rev. Gr Rate Est:	3.8%	% Growth	27.0%	10.4%	9.4%	-5.2%
Market Cap (mil):	362	M-Term EPS Gr Rate Est:	5.2%	Pretax Margin	44%	38%	37%	30%
Float:	8.9	Total Debt/Total Assets	22%	EPS (Cal)	$5.63	$5.36	$6.23	$4.68
Short Interest (%):	24%	ROA:	8.9%	P/E (Cal)	9.5	8.1	5.6	7.1
Avg. Daily Vol (mil):	135	ROE:	28%	BVPS	14.7	17.9	23.2	26.6
Dividend ($):	1.18			P/B	3.7	2.4	1.5	1.3
Yield (%):	3.60%							

Recommendation

HCI should help decrease volatility in the overall portfolio and provide more stability than adding another regional bank or investment company. HCI, an insurance holding company, has a beta of a .88 and offers a dividend yield of 3.6%. Therefore, this security should benefit the portfolio by lowering the level of market risk and adding an attractive dividend (while offering solid capital gain returns as well). HCI's subsidiaries are engaged in various business activities, with the principal operating subsidiary being Homeowners Choice property and casualty insurance, which provides homeowner's insurance solely in Florida. The other three operating platforms include: Claddaugh, the company's reinsurance division; Greenleaf Capital, which manages the real estate portfolio; and Exzeo, the company's information technology platform. HCI is currently the 4th largest homeowner's writer in Florida based on premiums and the 8th largest based on exposure (4.2% of market). The company's near term goal is to obtain a 5% share of the market. Management believes this can be accomplished by acquisitions, based on the fragmented property and casualty insurance market in Florida. Roughly 59% of HCI's investment portfolio is held in cash, being so, the company has recently began a share repurchase program to buy back shares worth up to $20 million. This shows the company's focus on enhancing shareholder value while maintaining reasonable liquidity for its business strategies. The company has adequate liquidity to support its capital deployment decisions without harming its financial stability or credit rating. The peer group of Florida-based homeowner's insurance companies now has an average P/E of 10.13x and an average P/B of 2.05x. HCI currently trades at a significant discount to both of those multiples, trading at a P/E of 5.6x and a P/B of 1.4x. Moving forward, the company will need to capitalize on flood insurance in the short run. The company will need to perfect its stand-alone flood insurance product in Florida and then move into more coastal states, from Texas to Maine. Given the innovativeness of the company among its peers, the opportunities from tech developments, the flood initiative, and the upside from real estate sales, it is recommended that HCI being added to the AIM domestic equity fund with a price target of $42.30, which offers a potential upside of roughly ~32%.

Investment Thesis

- **Flood Insurance.** HCI began writing flood coverage in 2014 in a response to the demand for an alternative to the Federal National Flood Insurance Program (NFIP) for Florida homeowners. As the NFIP raises its rates over the next few years, homeowners will look for alternatives - and HCI is one of the few firms offering coverage of this type. Starting this year, the company will begin writing stand-alone flood coverage in order to tap into the NFIP's 1.8 million policies in Florida, with hopes of expanding into other states in the future.

- **Technology Developments.** While not at the forefront of the business, management has been working on a direct to consumer interface that has the potential to be a significant revenue generator in the future. The interface works to ramp up the speed of the insurance buying process by having all necessary information on record so that the consumer only has to provide their name; the necessary tools to bind and quote HCI as well as competitor policies; and the ability to remarket policies each year as the choice for renewal approaches.
- **Flexibility for Future Capital Management.** Roughly 59% of HCI's investment portfolio is held in cash. This could provide flexibility for future capital decisions such as buybacks, dividends, and appropriate M&A.

Valuation

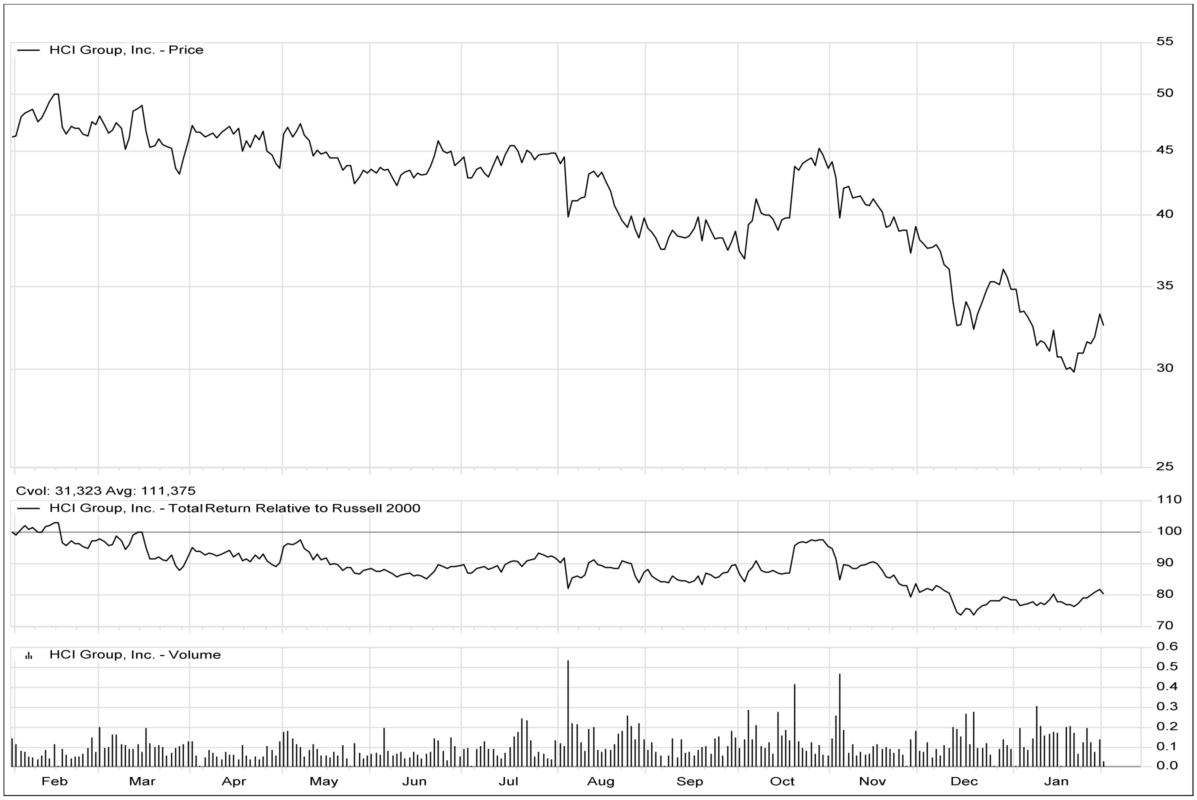
To find the intrinsic value of HCI, a dividend discount model was used, as well as a price to book and a price to earnings multiple. The price to book and price to earnings multiple was derived from taking the average P/E and P/B multiple of HCI's peers and industry, as well as HCI's ttm P/E and P/B multiple. By doing this a predicted P/E and P/B multiple of 11.81x and 1.70x respectively was calculated. These predicted multiples were then multiplied by HCI's EPS ($5.37) and BV per share ($17.92) to reach an intrinsic value of $63.41 for P/E and $30.46 for BV. Weighing these multiples 50/50 an intrinsic value of $46.94 was reached. The dividend discount model approach using a WACC of 6.6% and a long-term growth rate of 3.0% resulted in an intrinsic value of $37.66. Weighting these valuations 50/50, the final estimated intrinsic value of HCI is $42.30, which provides an upside of ~32%. The current dividend yield is 3.6%.

Risks

- **Catastrophe Risk.** Operating solely in Florida, a single catastrophic event, destructive weather patterns, negative economic trends, or regulatory changes could significantly impact HCI's financial conditions, operations, and the overall business. Although HCI does manage its exposure to adverse events through its underwriting process and the purchase of reinsurance, operating in Florida subjects it to increased exposure to hurricanes and tropical storms.
- **Reasonably Priced Reinsurance.** Currently the homeowner's model is heavily reliant on reinsurance, with roughly 30-40% of gross written premiums being passed along to reinsurers for catastrophe protection. A series of significant catastrophe events or a similar industry capital event could result in reinsurance prices increasing.
- **Declining Rates Due to Competitiveness in Florida.** As the competition in the Florida market increases in order to keep retention rates high. Management announced that effective January 1, 2016, the company is reducing rates for a number of products. This includes: Home (-5%), Renters (-8%), and Condo (-2%). It is appropriate to note that this is generally consistent with the total Florida market.

Management

Paresh Patel is a founder of the company and chairman of the Board since 2007 and CEO of the company since 2011. He has been a director of the company since its inception. From 2011 to 2012, he also served as president of HCI's insurance subsidiary, Homeowners Choice Property & Casualty Insurance Company, Inc. Patel has broad experience in technology and finance. He developed and continues to oversee development of the company's policy administration systems. Since 2006, Patel has served as president of Scorpio Systems, Inc., a software development company, and since 2011, has served as chairman of the board of First Home Bancorp, Inc., a bank holding company in Seminole, Florida. He is a founder of NorthStar Bank in Tampa, Florida and from 2006 to 2010 served on the board of directors of its parent company, NorthStar Holding Company. Patel holds a Bachelor's and a Master's degree in Electronic Engineering from the University of Cambridge in The United Kingdom.



Ownership

% of Shares Held by All Insider and 10% Owners:	19.00%
% of Shares Held by Institutional & Mutual Fund Owners:	73.50%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
BlackRock Fund Advisors	802,000	7.40
The Vanguard Group, Inc.	702,000	6.50
NFJ Investment Group LLC	589,000	5.40
Dimensional Fund Advisors LP	510,000	4.70
AJO LP	367,000	3.40

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Net Income (mil)	Div. Yld. %	P/B	D/E
HCI Group, Inc.	HCI	343	65.25	2.54%	1.4	0.71
Universal Insurance	UVE	632	98.3	1.96	2.2	0.15
United Insurance	UIHC	324	24.9	0.73%	1.4	0.07
Federated National	FNHC	335	41.6	0.54%	1.5	0.05
Heritage Insurance	HRTG	570	92	0.00%	1.7	0
Peer Averages		465	64	0.49	1.7	0.1

Source: FactSet

Iberdrola SA (IBDRY)
February 5, 2016

Patrick Sanchez — International Utilities

Iberdrola SA (IBDRY) engages in the generation, transmission, distribution, supply, wholesale, and retail of electricity and natural gas in Spain, the United Kingdom, North America, Brazil, and other countries. It operates through the following segments: Wholesale & Retail (71% of Revenues), Network (23%), Renewable Energy (4%), and Corporation & Other Businesses (2%). The company produces electricity from onshore and offshore wind, marine energy, and other renewable sources; and through hydroelectric, coal, gas, and cogeneration facilities. Its portfolio of projects includes homes, factories, offices, and shopping centers. Iberdrola was founded in 1901 and is headquartered in Bilbao, Spain.

Price ($):	28.17	Beta:	0.85
Price Target ($):	35.01	WACC	7.50
52WK H-L ($):	28.98 - 25	M-Term Rev. Gr Rate Est:	1.8%
Market Cap (mil):	44,713	M-Term EPS Gr Rate Est:	10.3%
Float (mil):	0.0	Debt/Equity:	75.0
Short Interest (%):	-	Debt/EBITDA (ttm):	4.19
Avg. Daily Vol (mil):	0.1	ROA (%):	2.44
Dividend ($):	0.91	ROE (%):	6.34
Yield (%):	3.2	ROIC (%):	3.82

FY: Dec	12/31/2014	12/31/2015	12/31/2016	12/31/2017
Revenue (Mil)	39,897	36,217.00	36,579.17	37,310.00
% Growth	-5.00	-9.00	1.00	2.00
Gross Margin (%)	17.25	16.25	16.80	18.50
EBITDA Margin (%)	20.50	20.10	21.50	22.20
EPS (Cal)	$3.26	$2.35	$2.75	$3.01
FCF/Share	$2.06	$1.60	$1.52	$1.84
P/E (Cal)	14.0	8.5	10.0	11.0
EV/EBITDA	8.5	8.0	8.3	8.5

Recommendation

The electricity sector is presently engaged in a significant process of transition. This change is characterized by a move to reduce the cost of renewable technologies. This involves heavy investment by OECD countries and an improvement in the emission of carbon intensity per unit generated. Iberdrola is strongly positioned for these major changes due to its operational efficiency and focus on renewable energy sources. The firm has displayed a solid 5Yr CAGR of 3.2% compared to 2.1% of the industry average. IBDRY has achieved substantial growth over the last decade by quadrupling its assets, tripling its revenues, and increased shareholder remuneration by 40%, while maintaining its financial strength. IBDRY is set to withstand industry headwinds as it operates a diversified business model—75% of EBITDA comes from regulated businesses, 55% of earnings are generated outside of Spain, and renewables capacity has grown 3.6% annually since FY13. Further, the company has outperformed the industry average in YoY EBITDA margins (21.54% vs. 18.39%). Due to Iberdrola's efficient capacity growth, regulatory environment, and emphasis on emission-free production it is recommended IBDRY be added to the AIM International Fund with a target price of $35.01, representing a 24.3% upside—the firm pays a dividend that yields 3.2%.

Investment Thesis

- **Favorable Regulations.** IBDRY is set to benefit from various ongoing initiatives to drive energy interconnection in Spain and the United Kingdom. In addition, the recent climate framework in the European Union that has been approved is aimed in reducing CO2 emissions by 40%, and targets a 27% increase in renewables. Similarly, the EPA in the United States is taking steps in the same direction, and Mexico's new energy reform is working to end the state monopoly in the electricity sector and reduce electricity costs for end users. These implementation will provide IBDRY with the opportunity to build long-term infrastructure and shift towards low-emission technologies.
- **Rising Capacity.** The firm has experienced strong installed capacity growth of 2.2% YoY, and emission-free production increased by 4.03% YoY. Also, the company's users have grown at a rate of 2.8%. IBDRY's capacity growth is attributable to its ongoing aggressive capex schedule—projects include Deerfield Wind Project (Vermont-2015), Vientos de la Perla & Vientos de Miramar (Costa Rica-2016), and Escobedo CCGT (Mexico-2018). Management estimates an aggressive net investment of $10.4B between 2016-18.

- **Financial Strength.** Iberdrola has strengthened its balance sheet by reducing its net debt by 4.5% FY14. Also, its liquidity position of over $9.7B covers financial needs for more than 30 months, even under stress scenarios. Moving forward, the Company targets EBITDA and net profit growth of 4% in 2016, while maintaining its strong debt coverage.

Valuation

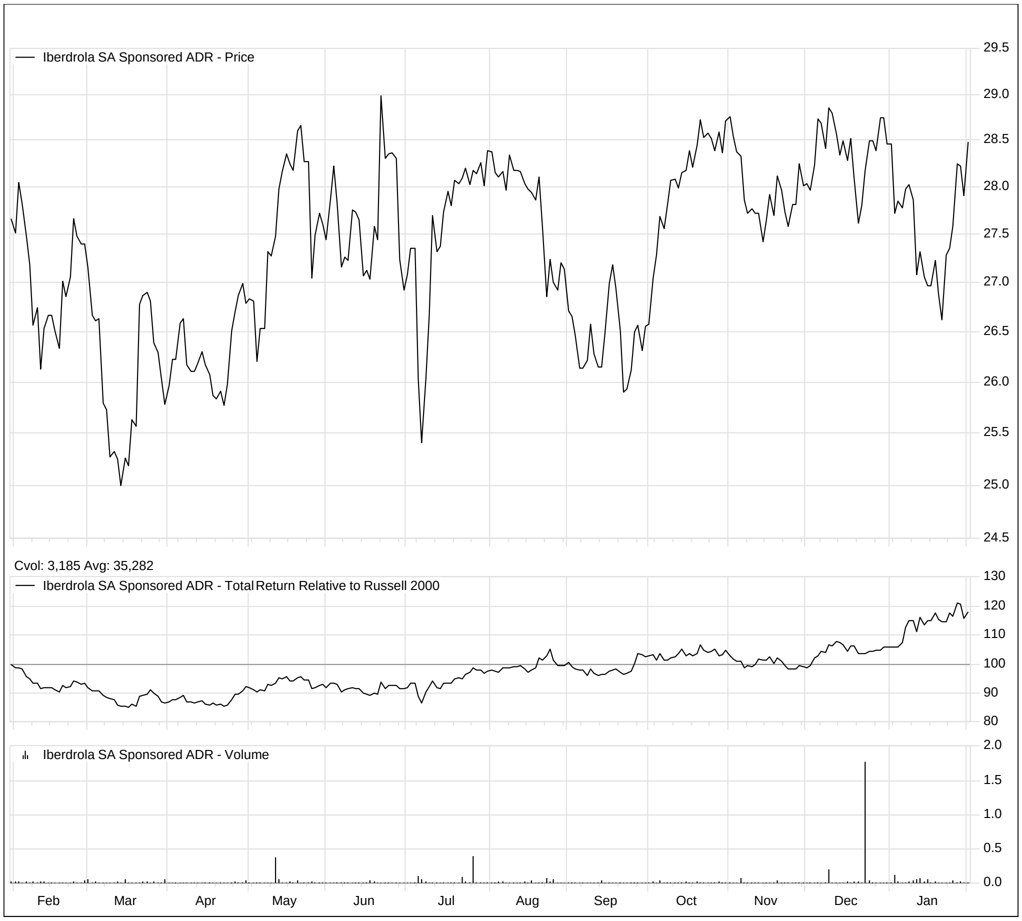
In order to reach an intrinsic value for Iberdrola, a five year DCF model was constructed. Using a terminal growth rate of 1.80%, WACC of 7.50%, an intrinsic value of $35.70 was reached. A sensitivity analysis on the terminal growth rate and discount rate ranged from $33.80 to $37.91. Additionally, a P/E multiple valuation was also calculated. Using a historical average P/E of 16.50x and Comps of 12x , the multiple resulted in a valuation of $33.97. By weighting the DCF model 60% and the P/E multiple 40% a price target of $35.01 was achieved. Iberdrola pays a regular annual dividiend of $0.91, yielding 3.2%.

Risks

- **Foreign Currency Exchange.** Currencies may be subject to significant fluctiations in the future. Currency exchange gains or losses included in Iberdrola's total financing cost result primarily from the impact of changes in the U.S. dollar-denominated monetary liabilities and assets.
- **Variable Changes.** Changes in production and demand for electricity and gas due to the effect of climatological variables (tempreature, hydraulic activity, wind activity) and growth in internal consumption over the long term could affect the profitability of the Company.
- **Regulatory Environment.** Regulations in the countries where it operates could create uncertainties. Changes could drastically affect returns for IBDRY.

Management

Jose Ignacio Sanchez Galan is Chairman and Chief Executive Officer, and has worked at Iberdrola since 2001. Sanchez Galan received his undergraduate degree from Escuela de Organizacion Industrial and from Instituto Catolico de Administracion y Direccion de Empresas. Also, he serves in a number of international boards. Other key executives include Jose Sainz Armada (CFO), Sonlores Rubio Reinoso (CCO), and Francisco Martinez Corcoles (COO).



Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA	Dividend Yield	EV/ EBITDA
Iberdrola SA Sponsored ADR	IBDRY	44,213	36,039	7455.85689	3.53	8.48
Endesa S.A.	527178	18,809	20,420	3366.0	4.65	8.04
Gas Natural SDG, S.A.	565042	18,027	26,561	4633.0	4.42	9.93
PNE WIND AG	B0QCZ2	143	108	16.7	1.83	30.77
AES Corporation	AES	6,392	15,664	3844.0	1.45	7.62
Cia Energetica de Minas Gerais	B1YBRG	7,393	22,235	5954.7	8.18	4.70
Peer Averages		10,843	15,688	2964.9	3.09	14.1

**Removed For Relative Valuation Analysis*

Ownership

% of Shares Held by All Insider Owners:	-
% of Shares Held by Institutional & Mutual Fund Owners:	0.12%

Source: FactSet

Top 5 Shareholders

Holder	Shares		% Out
Hennessy Advisors, Inc. (Investment Advisor)	423,629	▲	0.03
Goldman Sachs Asset Management LP	171,424	▲	0.01
RMB Capital Management LLC	116,281	▲	0.01
Gabelli Funds LLC	103,069	▼	0.01
World Asset Management, Inc.	81,520	▲	0.01

Source: FactSet