Applied Investment Management (AIM) Program

AIM Class of 2011 Equity Fund Reports
Fall 2010

Date: **December 3, 2010**
Time: **2:00 – 3:30 PM**
Location: **Geneva Capital Management**

Student Presenter	Company Name	Ticker	Price	Page No.
April Qi	Intercontinental Hotels Group	IHG	$18.00	2
Mike Muratore	Casey's General Store	CASY	$39.65	5
Jose Manuel Munoz	J&J Snack Foods Corp.	JJSF	$43.00	8
Andrew Freedman	Cirrus Logic	CRUS	$15.54	11
Tom Molosky	Beacon Roofing Supply	BECN	$17.17	14

Thank you for taking the time today and participating in the AIM 'road show' at Geneva Capital Management. 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 Geneva.

For more information about AIM please contact:

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
or visit www.busadm.mu.edu/aim

Intercontinental Hotels Group (IHG)

December 3, 2010

April Qi International Business Services

Founded in 1967, Intercontinental Hotels Group (NYSE: IHG) is a leading global hotel franchiser, manager and owner. It operates hotels under various brands, including InterContinental, Crowne Plaza, Candlewood, Holiday Inn and Hotel Indigo, with 8% market share of branded hotels worldwide. IHG currently owns the largest number of hotel rooms than any other company in the world - about 650,000 rooms in over 4400 hotels in over 100 countries, throughout the Americas (50% of revenues), Europe (26%), Asia (16%) and the Middle East (8%). The Group also manages the world's largest premium hotel loyalty program, Priority Club Rewards. IHG is headquartered in Denham, United Kingdom.

				FY Sep	2011A	2012E	2013 E
Price ($): (11/30/10)	$18.00	Beta	1.6	Revenue (mil)	1646	1760	1884
Price Target ($)	$25	WACC	8.65%	% Growth	7.0%	7.0%	7.0%
52WK H-L ($)	$13.62-$20.09	3-5 Yr Rev.Gr.Rate Est.	7.0%	Gross Margin	50%	50%	50%
Market Cap (mil)	5.27B	3-5 Yr EPS.Gr.Rate Est.	6.5%	Operating Margin	22%	22%	22%
Float (mil)	280	Financial leverage	276x	EPS (Cal)	1.22	1.30	1.38
Short Interest (%)	4.40%	ROA	8.38%	FCF/Share	0.82	0.97	1.10
Avg. Daily Vol (mil)	244,730	ROE	327.00%	P/E (Cal)	21x	20x	18x
Dividend ($)	$0.13			EV/EBITDA	12.08x	11.14x	10.28x
Yield (%)	1.40%						

Recommendation

IHG has weathered the economic storm in fiscal 2009 when their revenues declined by 19% due to sharp global decline of revenues and bookings. IHG has achieved an impressive turnaround since 2010 by growing its revenues and profit by 13% and 19% through Q3 YTD, respectively. The improvement has been achieved through effective cost reduction measures, the roll out of new Holiday Inn hotels, and strategic expansion in scale markets and key getaway cities. IHG has continued to operate a strong cash generating business and has doubled cash in 2010 to $167M - with a highly leveraged ROE of 327%. Global hotel occupancy rose by nearly double-digit levels in many regions in 2010. Incremental tourism revenue has gradually recovered from -5% in 2009 to 4% in 2010, and is expected to grow by over 5% in 2011. Considering these factors, IHG has the capacity to support higher revenue growth in the future. Further, IHG has managed to obtain significant cost savings of $95M and improve its margin by 1% through its powerful economies of scale. IHG has managed to reduce debt by $358M to $801M by Q3 2010. Valuation of IHG is projected to be $25 per share, offering a more than 30% upside. The company paid $0.13 dividend in 2009 and has announced a 5% dividend increase.

Investment Thesis

- **Superior Business Model.** IHG will continue to achieve impressive growth and strong ROE through franchising and managing hotels, rather than owning them. IHG currently has 641,000 (99%) rooms as franchised or managed, and only 5,800 (1%) owned. Franchising and managing hotels allows IHG to expand at an accelerated pace, adding about 27,000 rooms and 439 hotels in fiscal 2010 (up 6% YoY) with relatively low capital expenditure of $136M. This fee-based business model will also reduce income stream volatility.
- **Expansion in Emerging Markets.** IHG is set to more than double its size in emerging countries, including China, India and Middle East in the next few years. Those key regions have seen near double-digit increase of room occupancy rates and have led the recovery of global tourism. The volume of China's outbound travel alone is expected to grow from 30 million to 130 million in the next few years and IHG is determined to capitalize on the increase in affluence of middle class and freedom of travel in these emerging countries.

- **Attractive Brand.** Intercontinental leads the global pipeline of newly build hotels with a 17% of overall market share. The industry trend looks favorable as global tourism has returned to pre-global recession level and has seen 7% gains in 2010. IHG's brands, with 48 million loyal reward program members and six million new enrollers in 2009, will continue to attract customers by delivering quality services and satisfaction.

Valuation:

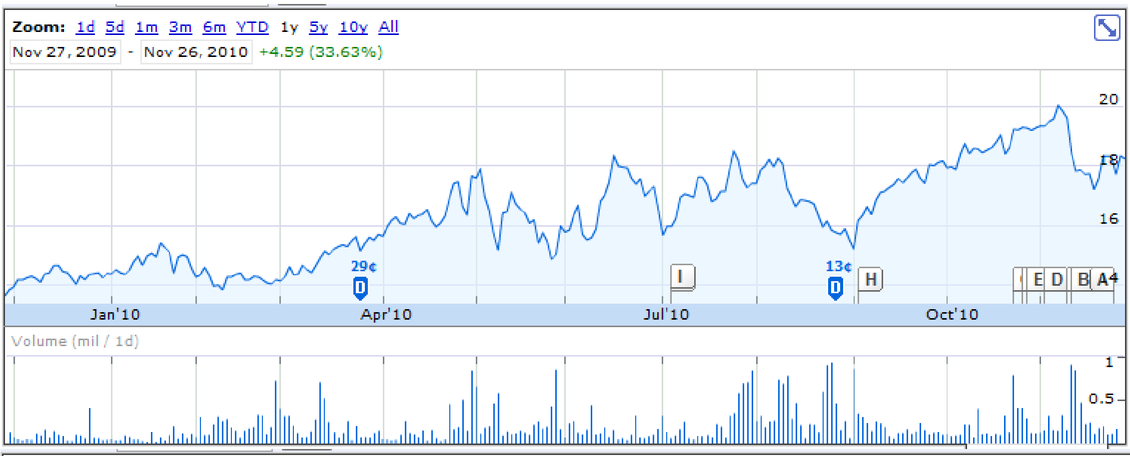
Using a 5-year DCF model with a computed WACC of 8.65% and a long-term growth rate of 2%, an intrinsic value of $27 was determined for IHG. The DCF model grew revenue in the near term at a constant 7%. Applying a 21x multiple on estimated 2010 EPS of $1.22 and 20x on estimated 2011 EPS of $1.30 yielded an intrinsic value of $25.80. Taking these valuation methods into account, a conservative price target of $25 was established, offering a more than 30% upside above its current market price of $18.

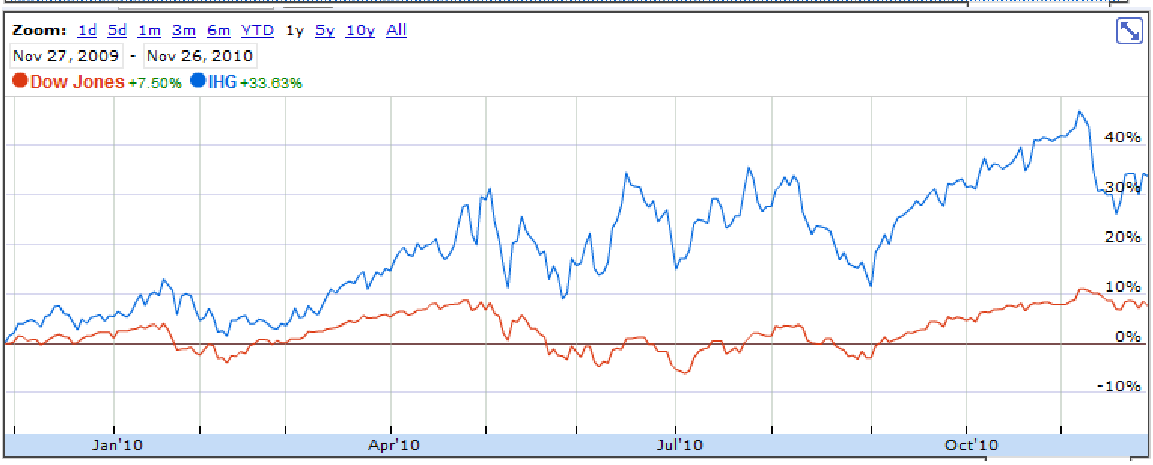
Risks:

- **Cyclical Business Environment.** The cyclical nature of the hotel industry may induce weak demand and further room rate pressure. Failure to respond quickly to the market environment and make planning assumptions accordingly would likely to adversely impact IHG's profit.
- **Fragmented and Competitive Market.** The hotel industry remains highly fragmented with a mix of large, small, and independent owned hotels. IHG together with other five major players dominates less than 50% of the overall market. This requires IHG to work harder to demonstrate leadership position and gain customer base in many new regions.

Management

Mr. Andrew Cosslett has been the Chief Executive of the company since 2005. Mr. Cosslett is on the Executive Committee of the World Travel & Tourism Council. Prior to join IHG, he had various senior roles with Cadbury Schweppes. Mr. James R. Abrahamson is responsible for the Americas operations. He is very active in industry and community affairs including AH&LA, US Travel Association, Real Estate Roundtable, the Atlanta Chamber of Commerce.





Source: Google Finance

Ownership

% of shares held by insiders and owners	5.01%
% of shares by institutional and mutual fund owners	3.79%

Top 5 Institutional Holders

Holder	Shares	% Out
FMR LLC	2.2M	0.77%
RENAISSANCE GROUP, LLC	922.3K	0.32%
SOUTHEASTERN ASSET MANAGEMENT, INC.	918.4K	0.32%
GOLDMAN SACHS GROUP INC	595.8K	0.21%
CENTURY CAPITAL MANAGEMENT, INC.	515.0K	0.18%

Source: MSN Finance

Casey's General Store (CASY)
December 3, 2010

Michael Muratore   Consumer Services

Casey's General Stores, Inc. (CASY) operates convenience stores in ten Midwestern states, primarily Iowa, Missouri, and Illinois. The stores carry a broad selection of food (including freshly prepared foods such as pizza, donuts, and sandwiches), beverages, tobacco products, health and beauty aids, automotive products, and other nonfood items. Additionally, all stores offer gasoline for sale on a self-service basis. Gasoline accounts for 71% of total revenue and non-gas items account for the other 29% of revenues. As of April 30th 2010, there were 1,531 Casey's General Stores in operation. The company is headquartered in Ankeny, Iowa and founded in 1959.

Price ($): (11/29/10)	$39.65	Beta:	0.76	FY: Apr	2010A	2011E	2012E
Price Target ($):	$55.00	WACC:	7.48%	Revenue	4,637,087	4,776,200	4,919,486
52WK H-L ($):	$29.03 - $44.68	LT Rev Growth Rate Est:	4%	% Growth	3.00%	3.00%	2.00%
Market Cap (mil):	1.50B	LT EPS Growth Rate Est:	6%	Gross Margin	20.61%	19.59%	19.59%
Float (mil):	37.7	Debt/Equity:	11.42%	Operating Margin	5.74%	5.86%	5.86%
Short Interest (%):	4.8	ROA:	8.02%	EPS (Cal)	$2.29	$3.14	$3.23
Avg. Daily Vol. (mil):	0.698	ROE:	15.14%	FCF/Share	0.31	-0.14	-0.40
Dividend ($):	0.54			P/E Cal	16.9	$14.01	$14.84
Yield (%):	1.40						

Recommendation

Casey's operates gas stations and convenience stores that cater to the needs of small-town Americans in the Midwest. The company continues to expand through opening new stores and via acquisitions to bring the Casey's brand to more communities. Casey's has carved a unique niche in rural small towns, where very few national gas station and convenience store chains have bothered to enter. Casey's further distinguishes themselves from other national chains through some of their homemade specialties including pizza and donuts. Revenues have grown at an annual average of 7.6% over the past 5 years. Additionally, gross and operating margins have been steadily growing at rates of 4.25% and 6.22%, respectively, over the past five years. Their ROE and ROA numbers of 15.14% and 8.02%, respectively, are significantly better than their peer average of 7.28% and -0.49%, respectively. In FY 2010, same store sales for gas, grocery and other merchandise, and prepared foods were -0.1%, 3.3%, and 4.2%, respectively. October's same store sales numbers were 4.0%, 13.4%, and 10.5%, which is an improvement over previous months, and have been steadily increasing since January of this year. Lastly, Casey's has a consistent history of paying a dividend to shareholders, with a 5-year dividend growth rate of 18%. The Casey's brand is entrenched in the rural Midwest and generations have grown up going to Casey's for their gas and other basic needs. The experienced management team is well positioned to continue Casey's growth and make it the principal gas and convenience store option in the rural Midwest. Because of these reasons and a favorable valuation, it is recommended that CASY be added to the AIM Equity Fund with a target price of $56.00, which offers a potential upside of 40%.

Investment Thesis

- **Takeover Candidate.** During the past 9 months, CASY has received two separate takeover offers from competing firms in the gas station and convenience store industry. These companies saw Casey's as an attractive addition to their current businesses, particularly because of Casey's exposure to the rural Midwest market, where other national chains have not yet penetrated. The first offer was by Canadian convenience store chain operator, Couche-Tard. This offer was a hostile takeover, but Casey's shareholders rejected these efforts. Couche-Tard was offering shareholders a buyout price of $38.50, but the offer officially expired in September. The second takeover offer was by 7-Eleven, for a price of $43 per share. That offer expired in early November. As Casey's continues to grow, while maintaining the same standards their Midwestern customers have known to trust, they will continue to be an attractive takeover candidate for other firms.

- **Regional Growth Potential.** Casey's continues to grow store units by acquiring smaller regional convenience stores and transforming those stores to fit the Casey's brand model. Last year they acquired 37 stores and built 18 new stores. Management has aggressive expansion plans for fiscal 2011 to increase the number of stores between 4% and 6%, but because of their recent acquisitions, management is well on pace to surpass that goal. CASY recently purchased the 44 gas station and convenience store chain, Kabredlo, located primarily in NE and KS. Other recent acquisitions include the Short Stop and On The Way stores which were announced in October 2010. Management likes acquisitions as opposed to new store construction because most acquisitions are accretive immediately for Casey's. Their strong balance sheet has allowed them to fund most of their recent acquisitions from cash.
- **Distinctive Niche**. Casey's stores sell gasoline and other essentials to rural small town residents in the rural Midwest. 61% of stores are located in towns with populations of less than 5,000, where consumers do not have many other gas and convenience store options, especially those that are national chains. Casey's has succeeded in operating in small towns by offering a broader selection of products than the typical convenience store at competitive prices. Where there is no competing store, a Casey's store can operate profitably on a highway in a town with a population as small as 400. Casey's prepared items also differentiate them from other convenience stores. Most all stores offer homemade pizza every day and fry their own donuts in the morning - this niche has given Casey's a loyal customer base.

Valuation

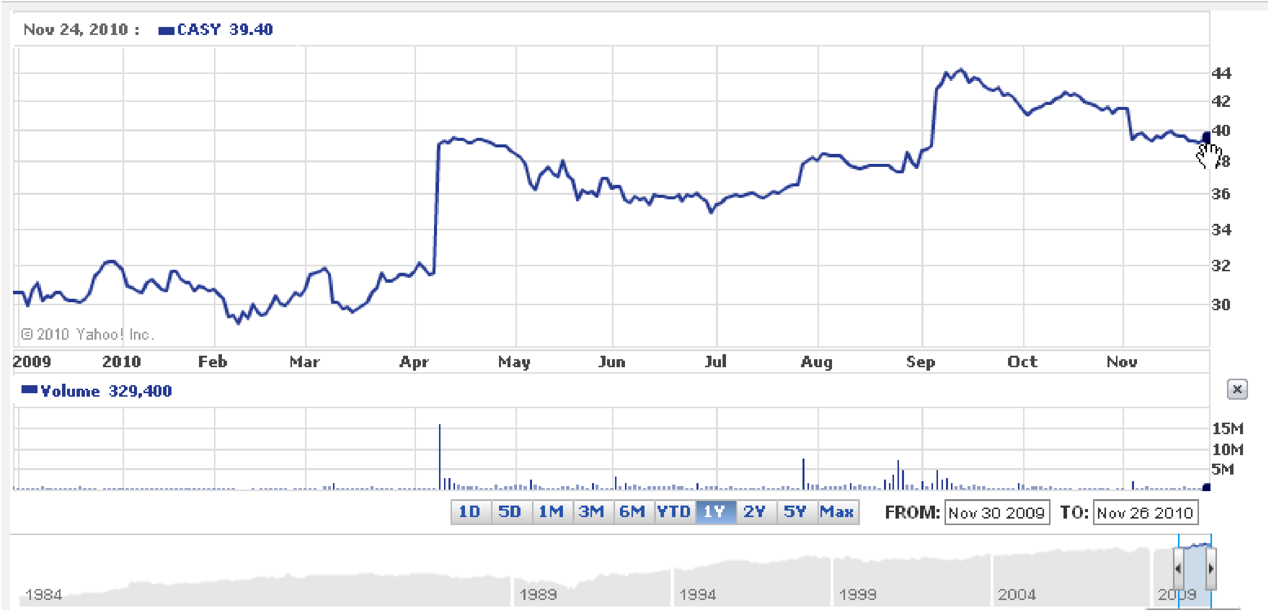
To find the intrinsic value of CASY, a five year DCF analysis was conducted. Revenue growth rates were forecasted out conservatively between 2% and 3% for the next five years, taking into account management projections and historical growth rates which had an average of about 7.6% annually over the past five years. The WACC for Casey's was computed to be 7.48%. A sensitivity analysis was also performed varying the WACC and the long-term growth rate. An intrinsic value of $55.41 was obtained. Along with Casey's 1.40% dividend, a price target of $56 was obtained, providing a 40% upside.

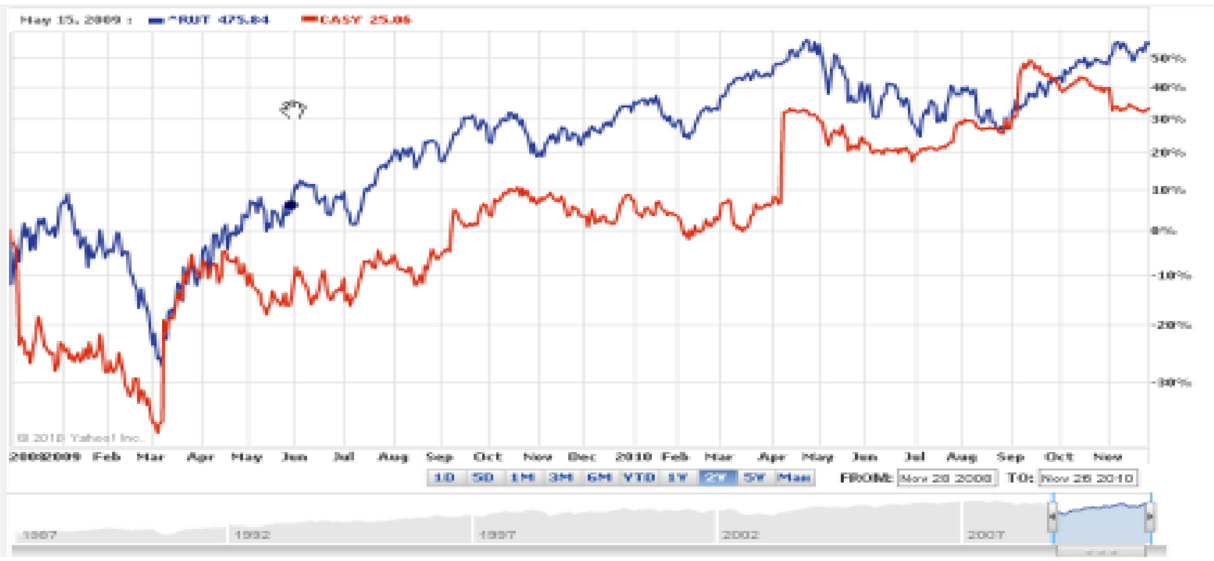
Risks

- **Volatility of wholesale petroleum costs.** Since 71% of revenues are derived from the sale of gasoline, petroleum costs are an important factor in the profitability of CASY. These prices are subject to fluctuations due to various political risks in the Middle East and South America. Significant increases and volatility in wholesale petroleum costs could result in significant increases in the retail price of petroleum products and in lower gasoline average margin per gallon. Increases in the retail price of petroleum products could adversely affect consumer demand for gasoline. Volatility makes it difficult to predict the impact that future wholesale cost fluctuations will have on our operating results and financial condition. These factors could adversely affect gasoline gallon volume, gasoline gross profit, and overall customer traffic, which in turn would affect our sales of grocery and general merchandise and prepared food products.
- **Weather risk.** Because Casey's stores are located in the Midwest, the risk of severe flooding and tornadoes is real. If a natural disaster did occur, people would travel less and those in affected areas would be unable to go Casey's stores, putting a strain on revenues for stores in those areas. Damages to stores from a severe storm would also negatively impact revenues.

Management

Robert J. Myers is the CEO of Casey's General Store. He has been with the company since 1988 in various roles including Vice President and Chief operating officer, until becoming CEO in 2006. William Walljasper is the CFO, and has been with the company since 1990.





Ownership

% of Shares Held by All Insider and 5% Owners:	7%
% of Shares Held by Institutional & Mutual Fund Owners:	81%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Allianz Global Advisors of America, L.P.	1,979,500	5.23
Vanguard	1,964,034	5.19
Advisory Research, Inc.	1.893,623	5.00
S.A.C. Capital Advisors, LLC	1,809,645	4.78
BlackRock Fund Advisors	1,607,982	4.25

Source: Yahoo! Finance

J&J SNACK FOODS CORP (JJSF)
December 3, 2010

Jose Manuel Munoz Consumer Goods

J&J Snack Foods Corp. (NASDAQ: JJSF) manufactures, markets, and distributes a variety of snack foods and beverages. The Company's products include soft pretzels, frozen carbonated beverages, frozen juice bars and desserts, churros, funnel cakes, cookies, and bakery products. The company operates in four different segments. The Food Services segment (63% of total revenue) accounts for sales made to food services customers; including snack bar and food stand locations, malls and shopping center, fast food outlets stadiums and sport arenas, leisure and theme parks, movie theatres, independent retailers and schools and colleges. The Retail Supermarkets segment accounts for 11% of total revenue. The Restaurant Group segment (less than 1% of total revenue) operates Bavarian Pretzel Bakery and Pretzel Gourmet. The Frozen Beverage segment (26% of total revenue) sells product under the names Icee, Slush Puppie and Arctic Blast. The company was founded in 1971 and is headquartered in Pennsauken, NJ.

Price ($): (11/24/10)	43	Beta:	0.69	FY: Dec	2010A	2011E	2012E
Price Target ($):	60	WACC	8.51%	Revenue (Mil)	696.70	742.03	786.55
52WK H-L ($):	35.19 - 48.51	3-5yr Rev. Gr Rate Est	5%	% Growth	6.70%	6.50%	6.00%
Market Cap (mil):	819.51	L-Term EPS Gr Rate Est:	5%	Gross Margin	32.70%	31.20%	32.00%
Float (mil):	14.21	Debt/Equity:	0%	Operating Margin	11.10%	10.20%	11.00%
Short Interest (%):	8.20%	ROA:	10.48%	EPS (Cal)	2.54A	2.49E	2.85E
Avg. Daily Vol (mil):	0.02	ROE:	13.4%	FCF/Share	2.01A	2.04E	2.6E
Dividend ($):	0.43			P/E (Cal)	16.9	17.2	15.04
Yield (%):	1.0%			EV/EBITDA	6.4x	6.5	5.6

Recommendation

JJSF has a history of consistent profitability; in the last ten years JJSF has experienced an increase in sales, operating income and stockholders' equity (with the exception of operating income in 2008) at a 10 year CAGR of 8.7%, 15.5% and 11.2%, respectively. JJSF has experienced 39 consecutive years of sales increases and 156 straight QoQ sales increases. The company has positioned itself to manage continued future growth with its 128 company managed warehouses and distribution facilities in 44 states, Mexico and Canada. Another big contributor to this growth is the company's network of 200 food brokers and over 1,000 independent sales distributors. Excluding sales from the acquisition of Parrot-Ice in February 2010 and California Churros in June of 2010, sales increased a healthy 8% in Q4 and 6% in FY 2010. JJSF has a healthy balance sheet with no outstanding long-term debt, while cash has increased at a 5 year CAGR of 43.5%; finishing FY2010 with over $75M in cash. JJSF's EBITDA and EPS have grown at a 5 year CAGR of 113% and 130%, respectively. Because of these reasons and a favorable valuation, it is recommended that JJSF be added to the AIM Fund with a target price of $60, a possible 40% upside.

Investment Thesis

- **Strong Growth Through Acquisitions.** JJSF's growth model via acquisitions has succeeded by targeting companies they can acquire for low multiples, successfully integrating them, and then adding value through top and bottom line through organic growth. JJSF's management has been careful and effective when making these acquisitions - and they typically have been able to benefit from the synergies within a few quarters. In 2005, JJSF acquired Snackworks LLC, a manufacturer of soft pretzels for $14.8 M; in FY2010 soft pretzels sales reached over $130M. The synergies created between JJSF's existing pretzel production and this acquisition captured an 85% share of the soft pretzel market. JJSF paid $18M to acquire ICEE Co. in 2006, in FY2010 ICEE's sales reached $128M. Radar Fig and Bar was acquired almost 4 years ago when sales were $15M - in FY2010 sales reached close to $40M. These acquisitions have made JJSF a niche player in the $25B snack food industry. Going forward according to management, JJSF is likely to use the $75M it has in cash to keep growing through strategic acquisitions.

- **Leverage Existing Products.** JJSF's large base of products has allowed them to leverage costs when launching or acquiring new brands and products. The Company made $12.7M in funnel cake fries sales to Burger King in FY2010 with virtually no additional fixed costs, as the firm was able to leverage costs from its already existent funnel cake product division. The Company is also using this strategy to sell its products to the dollar channel business. This opens two whole new revenue streams for JJSF; more dollar businesses and food chain stores such as McDonalds, Jack in the Box and IHOP are looking to potentially carry some of the company's products.
- **Product Diversification.** JJSF through its various business segments and 34 brands sells over 100 products. JJSF product diversification brings balance and offsets seasonality and risk of relying heavily on a single line of product; this can be seen with the low correlation between soft pretzels and bakery products with frozen beverages products. Generally speaking, during hot weather months, frozen beverages perform better than soft pretzels and bakery items sell better during the cold weather months.

Valuation

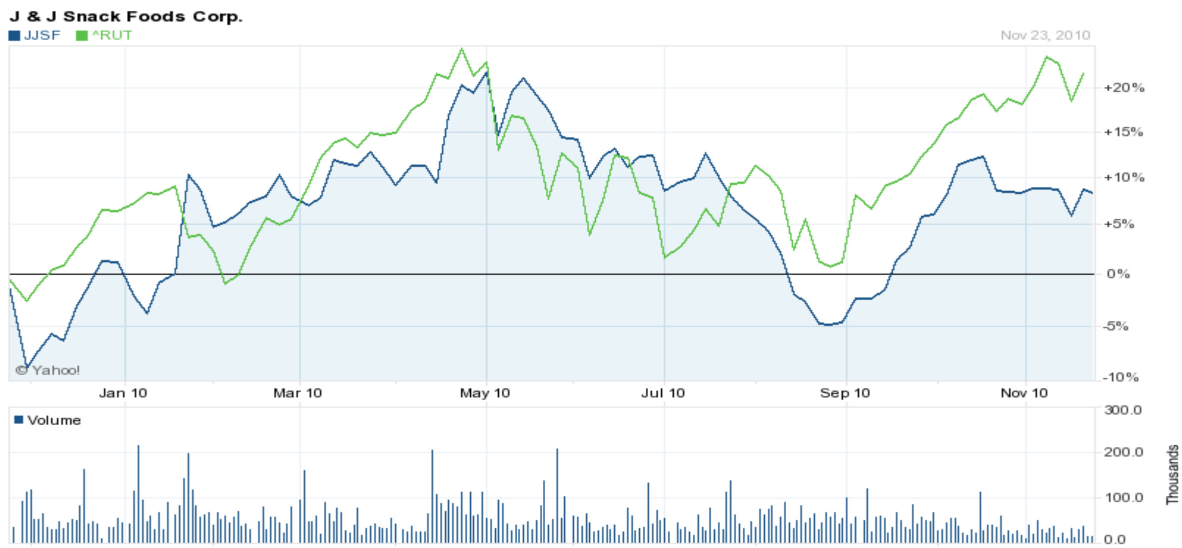
To find the intrinsic value of JJSF, a five-year DCF was conducted. A sensitivity analysis was also conducted with variations in the long term growth (2 - 4%) and WACC (7.5 - 10%), providing a price range between $46.12 and $79.20. A sensitivity analysis accounting for variations in the long term growth (2 - 4%) and gross (30 - 34%) and operating margins (9 - 13%) was also conducted, yielding a price range between $54.52 and $70.77. A conservative WACC of 8.51% and a 3% long term growth rate were used and yielded an intrinsic value of $56.30. An EV/EBITDA multiple approach was used; a conservative 9.5x EBITDA yielded an intrinsic value of $54. Taking these into account, a price target of $60 was established, representing an upside of 40%. The firm's dividend yield is 1%.

Risks

- **Increase in Commodity Prices.** JJSF's commodity prices are an important component of its cost of revenue. The last commodity spike, in late 2007 and 2008, brought about four quarters of weaker earnings for JJSF, as price increases lagged higher input costs. Commodity prices today are experiencing an increase. Nevertheless, management is confident that it will be able to raise prices to offset commodity inflation and avoid a negative impact on margins. Also, JJSF is now engaging in forward purchasing.
- **Highly Dependent on Large Customers.** JJSF has several large customers that account for a significant portion of their sales. Their top ten customers account for 42% of their total revenue. The company's largest customer accounts for 9% of their sales. (Three of the ten customers are food distributors who sell the company's products to many end users). The loss of one or more of these large customers could adversely affect the company's results of operations.

Management

Mr. Gerald B. Shreiber is the founder of J&J Snack Foods Corp. and has served as its Chairman of the Board, President, and Chief Executive Officer since its inception in 1971. Mr. Shreiber is the key component and mastermind behind this success story; he bought J&J out of bankruptcy and transformed it into what it has become today. Mr. Shreiber owns 21% of JJSF's shares outstanding. Mr. Dennis G. Moore is Chief Financial Officer, Senior Vice President, Secretary, Treasurer and Director of JJSF. He joined the company in 1984 and has served in various capacities since that time. He was named CFO in 1992 and was elected to the Board of Directors in 1995.



Ownership

% of Shares Held by All Insider and 5% Owners:	22%
% of Shares Held by Institutional & Mutual Fund Owners:	67%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
ROYCE & ASSOCIATES, LLC	1,667,838	9.02
NEUBERGER BERMAN GROUP, LLC	1,542,429	8.34
VANGUARD GROUP, INC. (THE)	677,965	3.67
BLACKROCK FUND ADVISORS	576,804	3.12
River Road Asset Management, LLC	572,092	3.09

Source: Yahoo! Finance

Cirrus Logic Inc. (CRUS)
December 3, 2010

Andrew Freedman | Domestic Hardware

Cirrus Logic, Inc. (CRUS) develops high-precision, analog and mixed-signal integrated circuits for a range of audio and energy markets. Building on its diverse analog mixed-signal portfolio, Cirrus Logic delivers products for consumer and commercial audio, automotive entertainment, and targeted industrial and energy-related applications. It develops ICs, board-level modules and hybrids for high-power amplifier applications branded as the Apex Precision Power line of products. Cirrus Logic sells audio converters, audio interface devices, audio processors and audio amplification products for these markets, as well as hybrids and modules for high-power applications. Its audio and energy product lines comprised the firm's two segments: Audio Products (70% of revenue) and Energy Products (30%). The company was founded in 1985 and is headquartered in Austin, Texas.

Price ($): (11/26/10)	15.54	Beta:	1.29
Price Target ($):	21.15	WACC	9.54%
52WK H-L ($):	5.10-21.20	3-5 Yr Rev. Gr Rate Est:	8.00%
Market Cap (mil):	915.9	3-5 Yr EPS Gr Rate Est:	5.00%
Float (mil):	653.3	Debt/Equity:	0.00%
Short Interest (%):	17.4	ROA:	15.7%
Avg. Daily Vol (tho):	6,743.20	ROE:	15.7%
Dividend ($):	0.00		

FY: March	2010A	2011E	2012E
Revenue ($tho)	220,989	368,290	478,617
% Growth	26.54%	66.66%	29.96%
Gross Margin	53.73%	56.50%	56.13%
Operating Margin	9.68%	23.23%	23.00%
Pro-Forma EPS ($Cal)	0.52	1.28	1.45
FCF/Share ($Cal)	0.08	0.66	1.25
P/E (Cal)	29.66	12.12	10.71

Recommendation

Cirrus Logic is the leading innovator in audio mixed signal integrated circuits that are an essential component in portable audio devices as well in home and auto applications. CRUS has a total market share of 7%. Cirrus Logic has been in many different product lines during its 25 year history; however, since divesting its memory segment in 2004, it has maintained focus on its Audio and Energy segments. During this time Cirrus has amassed an impressive patent portfolio with more than 1,100 patents. Cirrus has become the niche supplier to the industry, working closely with its tier-1 customer base (Apple, Ford, Bose) to develop customized and unique audio codec and amplifier solutions. While revenues derived from the company's energy segment remains unchanged since 2004, its audio segment has grown by a CAGR of 6.5%. This growth trend within the audio segment is expected to be the main top-line contributor, with the energy segment beginning to play a more dominant role starting in the 2H12. As of CY 3Q10, CRUS sits atop $128 million in cash with this figure expected to grow north of $175 million by fiscal year end. This falls in line with management's goals of achieving superior flexibility and intentions of returning value to shareholders. This being said, board members recently approved an $80 million share-repurchase program, piggybacking on the $20 million program that was recently completed during the 2Q FY11. Cirrus Logic has a diverse product portfolio with a strong history of order execution and product development. For the aforementioned reasons, it is recommended that Cirrus Logic be added to the AIM Equity fund with a target price of $21.15, yielding a potential return of 36%.

Investment Thesis

- **Growth in Portable Audio.** The fastest growing segment within the portable audio space is that of smartphones. According to iSuppli, the market for smartphones is expected to grow at a CAGR of 22% between 2010 to 2014 which equates to annual shipments of 247Mu and 497Mu, respectively. This being said, Cirrus focuses primarily in this high-end market where there products can be a meaningful differentiator and margins more favorable (GM 55-60%). CRUS recently released the 3G of their audio codec and amp that is both 30% smaller and consumes 40% less power without sacrificing audio quality. However, growth opportunities are not just limited to smartphones, with much potential to be seen in tablets, Bluetooth headsets and media players. AAPL currently incorporates Cirrus's audio codec and amplifiers across their entire portable audio portfolio.

- **Growth in Home and Automotive Audio.** The rollout of soundbars as a high-quality audio alternative to television speakers is the most compelling area for home audio growth. Major OEMs and ODMs such as LG, Vizio, Panasonic and Phillips are beginning to ramp up production to meet end-market demand. This is a high content opportunity for CRUS, characterized by gross margins between 58-62% and roughly $5 of revenue per soundbar. CRUS is in a unique position within the auto industry due to its 25 year existence. This is because the industry requires that suppliers sign up to deliver the product for an average of ten years. Ford is currently using CRUS as one their providers of audio codecs for the use in their Ford Sync telematic system.
- **Digital Power Factor Correction (PFC).** CRUS is the first developer of an all-digital Power Factor Correction chip. The PFC market is currently a 1.2B unit a year or $250 million market that is expected to grow by a CAGR of 12.5% through 2013 to $450 million, according to IMS Power ICs**.** More importantly is that CRUS is bringing to market is a fairly disruptive digital technology that has traditionally been an analog based technology. Historically, the adoption of digital technology over analog has been extremely successful for many firms within the industry.

Valuation

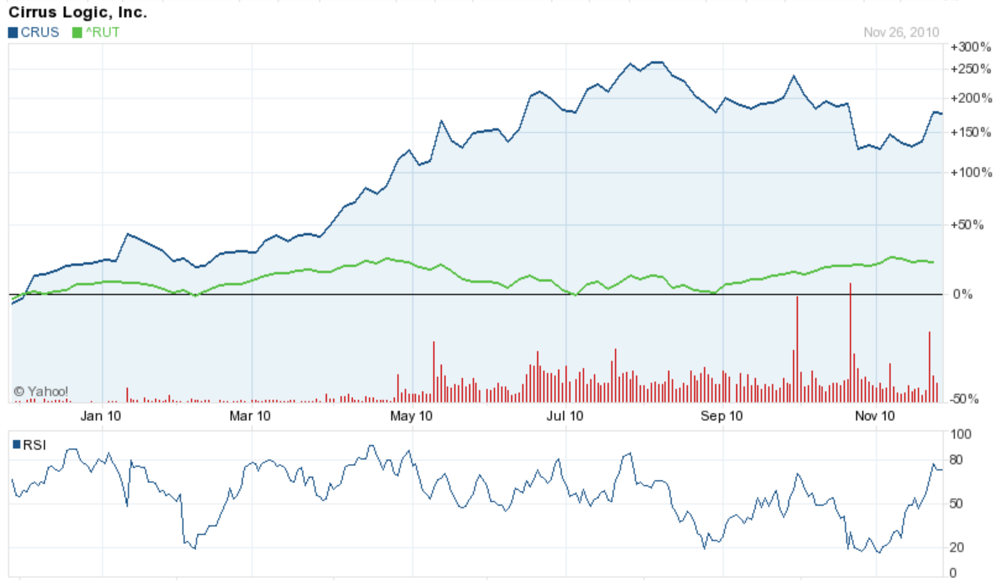
Based on a 5-year DCF analysis with a computed WACC of 9.54% and a terminal growth rate of 3%, an intrinsic value of $20.39 was obtained for CRUS. A sensitivity analysis that adjusts the long-term growth rate (2-4%) and WACC (9-12%) generated a price range of $14.20-$26.19. Additionally, a conservative EV/EBITDA multiple of 4x and 6x were used to calculate a price range of $22.73-$28.92. CRUS is currently trading at 11x TTM EPS of $1.16 which is a discount to the industry average of 15.00x. Applying a 14x multiple to 2012 EPS pro-forma estimates of $1.45 suggests a fair value of $20.34. Applying an equal weighting to all three valuation methods provides a target price of $19.00. With the stock currently trading around $15.50, the $21.15 price target would yield a 36% return.

Risks

- **Dependence on Third-Party Manufacturing.** CRUS operates using the fabless model in which they outsource the manufacturing, assemble, packaging and testing of many of their products. As a result, CRUS is subject to reduced control over delivery schedules and quality, as well as excessive costs and inadequate manufacturing yields. Nevertheless, CRUS has formed strong relationships with their six foundries across the country.
- **Reliance on Major Customers.** For the 2Q FY11, approximately 63% of revenues were derived from the company’s ten largest end customers. Once customer in particular, Apple Inc., represented approximately 44% of the firm’s total sales. Apple Inc. has a history of frequently switching suppliers and if CRUS were to lose Apple Inc. as a customer it would be detrimental to the firm and above estimates. However, management has made it clear that their relationship with Apple Inc. is sound and healthy.

Management

Jason Rhode, Ph.D., was named president and chief executive officer in May 2007. Previously, Dr. Rhode served as vice president and general manager of Cirrus Logic’s Mixed Signal Audio Division, where he oversaw the revitalization of the firm’s strong portfolio of analog and mixed-signal converter ICs for consumer and professional audio markets. Rhode is committed to providing the best work environment for his employees, with the notion that by doing so, they will work harder and be more creative. As a result, Cirrus Logic was named ‘The Best Place to Work’ in all of Texas in both 2009 and 2010. Further, Rhode manages on the side of shareholders, which is vital to investors and rare among small-cap semi-conductor firms. Thurman K. Case, vice president of Finance and treasurer, was appointed chief financial officer in February 2007. Mr. Case joined Cirrus Logic in 2009 and has served in a variety of executive financial management positions. He has more than 23 years of experience in finance at several companies and organizations, including Case Associates Inc. Finally, the Board of Directors have been described as patient, understanding that the R&D process takes time and emphasizing the importance of quality in their products.



Ownership

% of Shares Held by All Insider and 5% Owners:	1.00%
% of Shares Held by Institutional & Mutual Fund Owners:	69.53%

Source: Reuters

Top 5 Institutional Shareholders as of September 30, 20010

Holder	Shares	% Out
FMR LLC	4,525,359	6.68
Royce & Associates, LLC	2,735,466	4.04
Capital Research Global Investors	2,535,268	3.74
Ameriprise Financial, Inc.	2,414,115	4.20
Delaware Management Business Trust	1,851,233	2.73

Source: Reuters

Beacon Roofing Supply Inc. (BECN)
December 3, 2010

Tom Molosky — Consumer Services

Beacon Roofing Supply Inc. (NASDAQ: BECN) distributes residential and non-residential roofing materials in the United States and Canada. It carries a full line of roofing products; as well as, siding, windows, and specialty lumber products. Its' customers include contractors, home builders, building owners, and other resellers. Beacon's revenues are divided into three main sources: complementary building products (15%), residential sales (48%), and non-residential (37%). Over 90% of Beacon's revenues are provided by the re-roofing segment of the roofing industry. BECN has over 2,200 employees and operates 177 branches in 37 states and 3 Canadian provinces serving more than 40,000 customers. BECN was founded in 1928 and is headquartered in Peabody, Massachusetts.

Price ($): (11/29/10)	17.17	Beta:	1.11	FY: Aug	2010A	2011E	2012E
Price Target ($):	20.00	WACC	9.53%	Revenue (Mil)	1,609.97	1,682.42	1,749.71
52WK H-L ($):	23-13	L-Term Rev. Gr Rate Est:	3.00%	% Growth	-7.15%	4.50%	4.00%
Market Cap (mil):	783.78	L-Term EPS Gr Rate Est:	3.00%	Gross Margin	22.37%	22.27%	22.27%
Float (mil):	42.51	Debt/Equity:	77.53%	Operating Margin	4.57%	4.45%	4.45%
Short Interest (%):	8.30%	ROA:	4.67%	EPS (Cal)	0.75	0.90	0.93
Avg. Daily Vol (T):	443,798	ROE:	8.62%	FCF/Share	$1.98	$1.89	$1.95
Dividend ($):	0.00			P/E (Cal)	22.89	19.16	18.42
Yield (%):	0.00%			EV/EBITDA	8.76	8.53	7.15

Recommendation

BECN's twenty-two acquisition have allowed them to become the dominant player in the reroofing space, growing from $127M in sales in '99 to $1.7B in '09. With its centralized processing, BECN is able to offer the same quality goods as smaller local companies at a reduced price. BECN recently released sales data that shows an increase of 10.3% in quarterly income for 3Q10 over 3Q09 and an 8.5% increase from 4Q09 to 4Q10. This uptick suggests that reroofing activity is starting to accelerate in the last half of 2010. Gross margins have increased for BECN from 23.5% in '08 to 23.7% '09 with increased residential reroofing activity picking up. At the same time, BECN has lowered operating expenses from $325M in '08 to $302M in '09, a 7% decrease. Beacon has also become leaner reducing inventory by $41M in '10; a savings of 23%. BECN's low price to book ratio of 1.20 as compared to the peer median of 1.61 also helps strengthen the case that BECN is undervalued because of the market's hesitancy to embrace Beacon's turn around. Because a favorable valuation, on both a DCF and P/E Multiples Approach basis, strategic growth initiatives, and strong management, it is recommended that BECN be added to the AIM Equity Fund with a target price of $22.34, an upside potential of 30%.

Investment Thesis

- **Acquisitions.** Since its IPO in 2004 BECN has acquired 18 companies across the country with combined sales of over $700M. Beacon's acquisition strategy of buying and maintaining purchased brands has enabled the company to grow at a CAGR of over 24% and establish itself as either the No. 1 or 2 distributor in nearly every market served. The dedication to acquisitions in new markets, combined with Beacon's strong balance sheet, gives the sense that the acquisition pipeline may be increasing and multiple deals could be announced over the next 12 months which would help to grow BECN's top line despite the current environment.
- **Increased Maintenance.** Seventy percent of the U.S. housing stock is more than 20 years old, with an overall median age of 32 years. With the typical replacement cycle for a residential roof between 15-20 years. There is a substantial market for the reroofing that Beacon specializes in. BECN also has benefited in the non-residential markets from deferred maintenance spending as the industry has moved even higher recently than its historical 80% mix of repair/replacement. This trend has allowed BECN to return to profitability for the first time in five quarters. This

trend will continue into calendar 2011 and the segment should lead BECNs revenue growth going forward.

Valuation

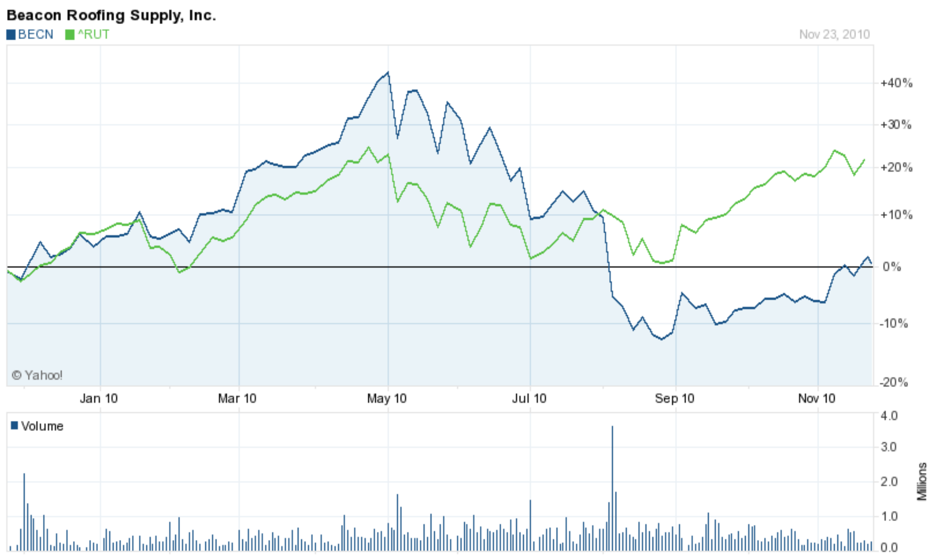
To find the intrinsic value of BECN, a five-year DCF was conducted. Sales growth rates were kept nearly steady in line with management's estimates for years 1, 4.5%, &2, 4%. Years 3-5 were fluctuated to take into account the high volatility that the reroofing industry is seeing. Using a WACC of 9.53% and a terminal growth rate of 3.00% yielded an intrinsic value of $22.37. A P/E multiples approach using a 2012 P/E of 18.42 yielded a value of 21.29. Implementing a sensitivity analysis accounting for variations in the WACC (9-10%) and long-term growth rate (2.25-3.75%) yielded a price target range from $26.86 to $19.47. A weighted average of these valuations in a 12.5/12.5/75 ratio yielded a price target of $22.34; offering a potential return of 30%. The firm does not presently pay a dividend.

Risks

- **Macro Conditions.** The housing industry as a whole has seen a decline the past few years. This decline has weighed on the roofing industry as new projects have dried up, and competition for reroofing has increased. The nonresidential construction industry especially, has seen a significant decline in reroofing projects over the last year, and if this were to continue it would significantly affect BECN's future revenue. Also, weather conditions, such as hurricanes, do play a role in Beacon's revenues, and while they do provide a stimulus for reroofing activities, the variability of these weather patterns causes the revenue from them to be inherently unreliable.
- **Inventory Levels.** Many distributors, including BECN, experienced elevated channel inventory levels in many regions as they bought aggressively earlier this year given both a more optimistic outlook and to beat announced price increases. These price increases never occurred, and there is now a surplus of inventory that needed to be dealt with. A recent survey found that residential roofing volume will be down 35% in 3Q10 primarily due to destocking within the distribution channel. Any price erosion on the part of competitors to move inventory could have a negative impact on BECN's profitability. Going forward, if Beacon cannot better predict these types of pricing changes in the future it will seriously impact BECNs margins decreasing shareholder value.
- **Goodwill.** BECN's growth over the last few years has come mostly from acquisitions. Because of this, goodwill has seen a large increase as a portion of overall assets. It is currently 35% of assets, and 75% of equity. Any material write-down of goodwill would signify that one of the acquisitions has not produced the desired return on investment, and would thus have a materially adverse effect on Beacon's results of operations and stockholders' equity.

Management

Robert Buck joined Beacon as President and Chief Executive Officer in October 2003 and was appointed as Chairman of the Board in March 2007. Prior to joining BECN, he served as President of the Uniform Rental Division of Cintas Corporation from 1997 to 2003. He has a B.A. degree from the University of Cincinnati. The COO and President, Paul Isabella joined BECN in November 2007. Prior to Beacon, he served as Executive Vice President of Cooper Industries from 2005 to 2007. Mr. Isabella has a B.S. degree from State University of New York at Cortland.



Ownership

% of Shares Held by All Insider and 5% Owners:	2%
% of Shares Held by Institutional & Mutual Fund Owners:	>90%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Wellington Management Company, LLP	4,014,190	8.79
Adage Capital Partners GP, L.L.C.	2,190,536	4.80
Riverbridge Partners L.L.C.	1,937,360	4.24
Vanguard Group, Inc.	1,932,997	4.23
Farallon Capital Management L.L.C.	1,869,032	4.09

Source: Yahoo! Finance