Applied Investment Management (AIM) Program

AIM Class of 2018 and Class of 2019 Equity Fund Reports
Spring 2018

Date**: Friday, March 2nd | **Time:** See Schedule Below | **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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Agnico Eagle Mines Limited, Inc. (AEM)
March 2, 2018

Connor Darrow International Materials

Agnico Eagle Mines Limited, Inc. (NYSE: AEM) is a publicly traded mining company with mining operations and exploration activities in Canada, Mexico, Finland, Sweden, and the US. Agnico operates primarily in four segments: Gold (95.87% of 2017 revenue), Silver (3.98%), Copper (.09%), and Zinc (.07%). Agnico engages in the exploration, development, and production of gold mineral properties. AEM is the largest publicly traded gold mining operation in Canada operating 8 mines across the country, serving over 53,000 customers while employing 8377 employees. Agnico Eagle Mines Limited, Inc. was founded in 1957 and is headquartered in Toronto, Canada.

Price ($):	40.56	Beta:	0.49	FY: Dec	12/31/2016	12/31/2017	12/31/2018	12/31/2019
Price Target ($):	47.30	M-Term Rev. Gr Rate Est:	4.89%	Revenue (Mil)	2,833.00	2,921.20	2,999.68	3,239.66
52WK H-L ($):	51.86 - 39.3	M-Term EPS Gr Rate Est:	3.15%	% Growth	3.11%	3.11%	2.69%	8.00%
Market Cap (mil):	9,393.78	Debt/Equity:	27.97	Oper Inc	239.36	485.93	480.73	518.35
Insider Holdings	27.09%	Debt/EBITDA (ttm):	1.48	% Growth	39.00%	103.01%	-1.07%	7.82%
Float (mil):	231.57	WACC	8.35%	Op Margin	8.45	16.63	16.03	16.00
Avg. Daily Vol (mil):	0.94	ROA (%):	3.71%	EPS	$1.16	$1.54	1.30	1.47
Yield (%):	1.08%	ROE (%):	5.95%	P/E (Cal)	59.29	32.90	60.40	42.10
ESG Rating	AA	ROIC (%):	4.72%	EV/EBITDA	11.82	10.61	11.60	9.90

Recommendation

Agnico Eagle Mines completed their IPO in 1980 and has since developed into a financially stable mining force within the materials industry. Since their inception AEM has held stable mining assets in low risk political environments that have generated a constant cash flow. Over the past four decades, Agnico has experienced a 5-year sales CAGR of 9.46% and has managed to keep their net debt to equity level well below 30%. This revenue growth has led to sustainable success and with an estimated 54% of the Canadian gold ore mining market share with gold reserves presently estimated at 19.9 million ounces. AEM has been able to maximize their gold-related net profit by 6.5% since mid-December and they recognized an increase of 13.5% during 2017. Over the last five years the firm has incurred $4,269 million worth of net debt to finance 20 deals targeted at acquiring new mining operations - including the acquisition of Osisko Mining in 2014 for $3.7 billion. The company has been efficient and has produced a return on assets of 4% over the last five years. The demand for gold has consistently grown since 1970 as many investors have added gold to their portfolios as an inflation and safety hedge. Another potential benefit of gold that it is unlikely to face the same volatility threat that most sovereign and cryptocurrencies encounter. In addition, the company is at the forefront of technological change as the company changed its mining methods in 2014 and now employs long-hole mining as a way to increase employee safety and decrease the amount of manual labor. This new method has increased their gold recovery rate to an estimated 96%. Lastly, the company recently acquired a 15% ownership in GoldQuest Mining Corporation in order to gain access to the Romero project, which includes mine reserves in the mostly unexplored areas in the Dominican Republic. Given Agnico's limited risk profile, constant, growth, and predictable results, it is recommended that Agnico Eagle Mines Limited, Inc. be added to the AIM Equity Fund with a price target of $47.30, representing a potential upside of over 16.5%. They pay a modest dividend that yields 1.08%.

Investment Thesis

Increasing Gold Production. Agnico generated a company record producing 1,713,018 ounces of gold in 2017, representing a 10% increase from 2016 and well above expectations. Agnico expects gold production to increase to two million ounces by 2020, representing a total increase of 16.75% over the next three years - which is above their average annual growth rate of gold production over the last five years. Thus, the company's gold production is expected to increase as production and costs have been better than expected for six consecutive years.

- **Low Debt Compared to Competition.** Agnico has one of the lowest amounts of debt in the mining industry as its total debt in 2016 was $1,215 million with a net debt of $769 million. Its debt to equity ratio was 27.03% and its net debt to equity ratio was 12.76%, a substantial decline of net debt from the year previous. The reason their total debt had been so low was because the company wasn't acquiring many new companies or taking on many new projects; however, the company recently started increasing debt in 2009 when debt increased from $274 million to 785 million, an increase of 186.5%. The company's debt has since reached $1,718 million because the interest rate environment improved, and the company has begun to expand.
- **Consistent Store of Value.** Gold is an effective hedge against financial shocks. Agnico has demonstrated this by growing in good and bad times. Gold's tendency to increase in bad economic times would help diversify our portfolio. For example, during the Great Recession the S & P 500 went down over -40% while gold returned over 40%. It is important to note gold's correlatoion to stocks has been -.06 since 1984. Thus, interaction between investment and consumption results and gold's lower correlation to other financial assets makes gold an effective diversfier.

Valuation

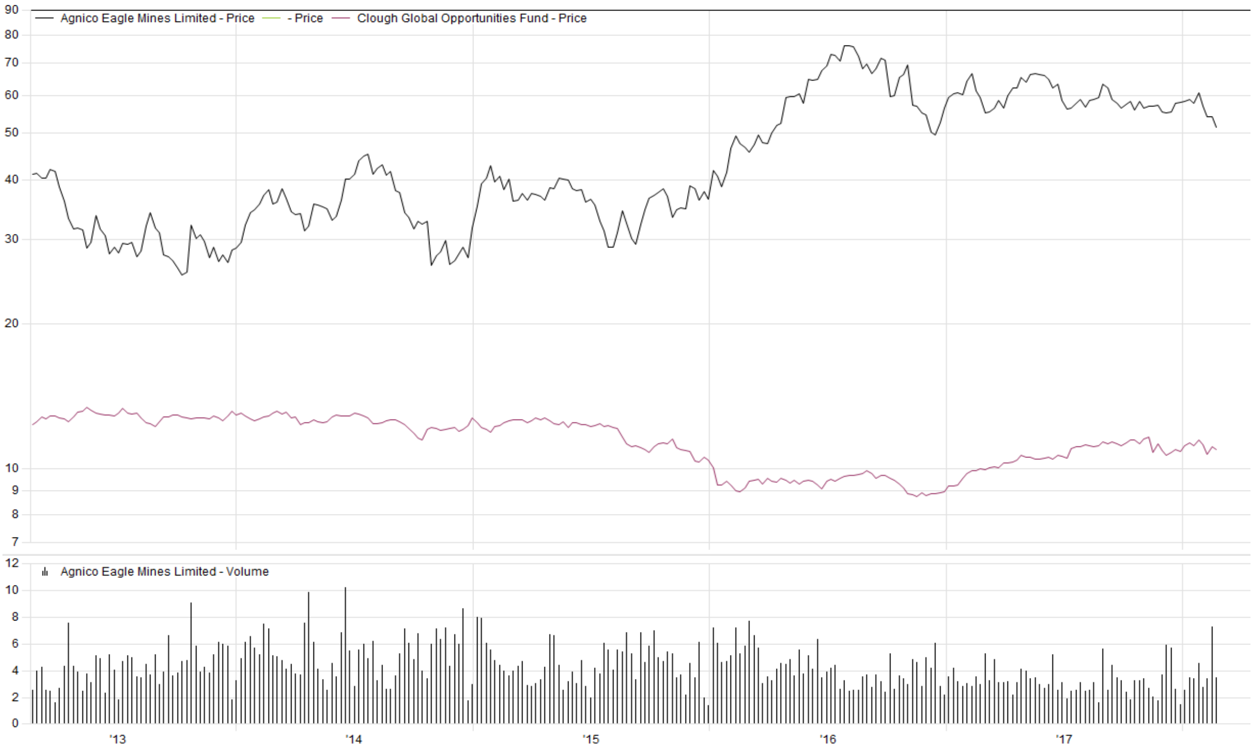
In order to reach an intrinsic value for AEM, a five year DCF model was constructed. Using a terminal growth rate of 3.00% and a WACC of 8.35%, an intrinsic value of $50.97 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $46.28-$57.99. Additionally, a P/E multiple valuation was calculated. Using a 2016E EPS of $1.54 and a blended average P/E multiple of 26.82x, in an intrinsic value of $41.30 was reached. Finally, an EV/EBITDA multiple valuation was conducted using a blended average EV/EBITDA multiple of 8.45x, resulting in an intrinsic value of $42.47. By weighing the three models 50/20/20, a price target of $47.30 was reached, resulting in a 16.61% potential upside. The dividend yield is slightly above 1%.

Risks

- **Gold Volatility.** Agnico makes 95.87% of its revenue due to gold, thus, the company is heavily reliant upon the price of gold. If prices of gold were to suddenly decrease the company's stock price would be depressed given their reliance on the commodity, and gold prices have remained rather volatile in the last ten years. Although, the price of gold has stabilized in the last year around $1,200-1350 per ounce - an increase of 6.5% since December.
- **Currency Exchange.** As an international company that trades all around the world the company is at risk to currency fluctuations. In the cost of equity, a country risk factor was utilized by assigning a 6% risk free rate. If the currency factor were to change, the company could potentially lose a large portion of cash.
- **Lack of Diversification.** The company only has 8 mines and if anyone of their holdings was to become unproductive or close due to regulatory concerns, the company would be hard pressed to recover those revenues.

Management

Sean Boyd has been the Vice Chairman and CEO of Agnico Eagle Mines Limited since. Prior to beginning his work for Agnico, Mr. Boyd worked as an accountant for Ernst & Young. David Smith has been the Senior VP-Finance and CFO of Agnico since 2005. Prior to joining Agnico, Mr. Smith was a mining analyst for more than 5 years and held a variety of mining engineering positions, both in Canada and abroad.



Source: FactSet

Peer Fundamentals

Name	Ticker	Revenues	ROE	ROA	Debt/Equity	Net Margin
Agnico Eagle Mines	AEM	2,854.80	5.90	3.70	27.90	12.50
Eldorado Gold	EGO	531.10	-0.20	-0.20	16.20	-2.10
Alamos Gold	ALG	704.60	0.50	0.40	0.20	2.00
Detour Gold	DGC-CA	898.00	3.10	2.30	31.60	8.40
Yamana Gold	AUY	2,341.40	-4.40	-2.20	43.10	-10.80
Goldcorp	GG	4,443.10	4.80	3.00	19.20	19.20
		1,783.64	0.76	0.66	22.06	3.34

Source: Factset

Peer Valuation

Name	Ticker	Market Cap (mil)	P/S	P/E	EV/EBITDA	P/B
Agnico Eagle Mines	AEM	9,343	4.21	32.90	10.61	1.94
Eldorado Gold	EGO	845	2.04	6.30	8.06	0.24
Alamos Gold	ALG	4,521	1.11	55.22	4.98	0.93
Detour Gold	DGC-CA	2,205	2.70	29.27	6.76	1.69
Yamana Gold	AUY	2,481	1.68	-	5.18	0.79
Goldcorp	GG	11,046	3.32	16.49	11.63	0.87
		2512.91	2.17	26.82	7.32	0.90

Source: Factset

US Ecology, Inc. (ECOL)
March 2, 2018

Charlie Maleki Domestic Industrials

US Ecology, Inc. (NASDAQ: ECOL) is a radioactive and hazardous waste materials company. They provide industrial waste management and recycling services to government and commercial entities. US Ecology operates in two primary segments: Environmental Services (73% of 2017 revenue) and Field and Industrial Services (27%). The Environmental Services segment provides a broad range of hazardous material management services at company-owned landfill, wastewater, and other treatment facilities. The Field and Industrial Services segment provides packaging and collection of hazardous waste and total waste management solutions at a variety of sites as well as specialty services to industrial and commercial facilities and to government facilities. US Ecology has 45 facilities across states in North America as well as two provinces in Canada and Mexico. US Ecology, Inc. was founded in 1952 and is headquartered in Boise, ID.

Price ($):	53.6
Price Target ($):	63.26
52WK H-L ($):	59.7 - 44.5
Market Cap (mil):	1,173
Insider Holdings	104%
Avg. Daily Vol (mil):	0.1
Yield (%):	1.3
ESG Rating	B

Beta:	0.72
M-Term Rev. Gr Rate Est:	5.8%
M-Term EPS Gr Rate Est:	16.2%
Debt/Equity:	85.5
Debt/EBITDA (ttm):	2.52
WACC	7.44
ROA (%):	6.17
ROE (%):	16.34
ROIC (%):	8.54

FY: Dec	12/31/2016	12/31/2017	12/31/2018	12/31/2019
Revenue (Mil)	477.67	504.04	544.37	571.59
% Growth	-15.17	5.52	8.00	5.00
Oper Inc	70.03	68.66	84.38	88.60
% Growth	-11.95	-1.95	22.89	5.00
Op Margin	14.7	13.6	15.50	15.50
EPS*	$1.79	$2.04	$2.25	$2.43
P/E (Cal)	31.3	22.7	23.82	22.06
P/EBITDA	9.7	11.1	9.07	8.73

Recommendation

US Ecology is one of the leading providers in the treatment and storage of hazardous and non-hazardous waste across the United States. The recent growth of the industrial sector has created a tailwind that will likely lead to higher margins for ECOL moving forward. ECOL has positioned themselves effectively with a coast to coast disposal network consisting of hazardous and non-hazardous landfills, treatment and recycling facilities, and field service and retail centers giving the firm the opportunity to grab a stronghold on the disposal market. The specialized packages that ECOL provides gives them the ability to attract customers looking for specific options that provide full waste management coverage. The firm's Environment Services segment saw top-line growth of 11.2% throughout 2017 which can be further segmented into 3% growth in base business and 40% growth in event business. ECOL's goal moving forward is to reach a point where their base business accounts cover their fixed overhead expenses so that their event business accounts can be recognized as profits. Treatment and disposal revenue grew 9% and transportation revenue grew 8% due to increased efficiency throughout the transportation networks amongst ECOL's treatment facilities. The tax rate within the industry was 37% in 2017, but will drop to 27% in 2018 providing ECOL with increased capital to further pursue expansion and increased efficiency opportunities. Q4 2017 top-line growth saw 14.11% increase from the same period in the prior year and this positive trend looks to carry out into the entirety of the years to come. Unusual events throughout 2017 led to increased expenses. These events are not expected to reach into 2018 and beyond. Overall, their environmental services segment which represents a large majority of their revenue generated the full amount of the growth for 2017 growing at greater than 8.4%. If their proposals to improve their field and industrial services sector prove to be successful, the firm should experience rapid growth into the future. Following constant growth throughout 2017 and a record Q4, it is recommended that ECOL be added to the AIM Equity Fund with a target price of $63.25, representing an upside of 18.01%, ECOL pays a dividend yielding 1.3%.

Investment Thesis

- **Positive Macro Trends.** The industrial waste market and the industrial production market are positively correlated. The U.S. and Canadian production markets have been strong recently and this growth is expected to continue. Higher volume and prices are a likely outcome. Investors should expect higher revenues and higher margins.
- **Coast to Coast Facilities Coverage.** US Ecology, Inc. has always put an emphasis on broadening their reach of customers. This is shown in the dispersion of their high-class facilities throughout the continental United States. ECOL has a major facility in every region of the US which covers a total of 22 states. This makes it possible for them to take full advantage of new customer opportunities regardless of where in the country they pop up. ECOL has also put a lot of effort into making their transportation systems more efficient and practical which allows them to get their materials and waste from point A to point B as quickly and as smoothly as possible. Their physical positioning throughout the country has placed them in a great position to continue their stronghold on the industry moving forward.
- **High Incremental Profitability.** Analyzing Q4 2016 and Q4 2017, revenue grew by $15.53 mil and operating income grew by $9.08 mil. This means for every dollar of top-line growth, ECOL recognizes $0.59 in operating income growth. This margin is high compared to their absolute operating margin which currently sits at 13.62%

Valuation

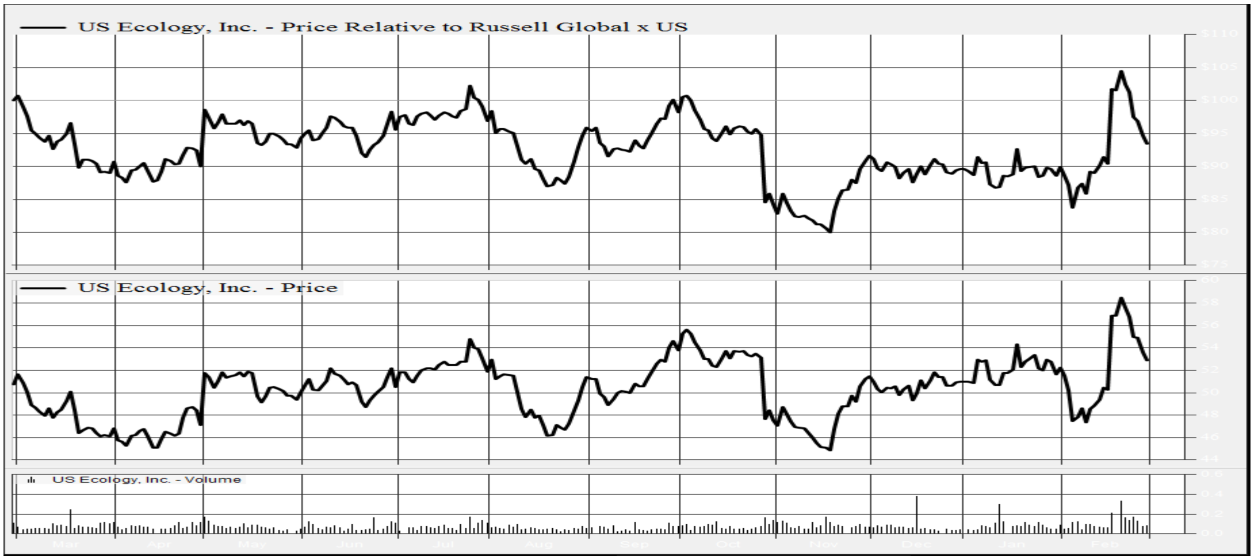
In order to reach an intrinsic value for ECOL, a five year DCF model was constructed. Using a terminal growth rate of 3.0% and a WACC of 7.44%, an intrinsic value of $63.25 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $45.41-$108.70. Additionally, a P/E multiple valuation was calculated. Using a 2017 EPS of $2.25 and utilizing a blended average peer P/E mutiple of 32.27x, resulted in an intrinsic value of $72.60. Finally, an EV/EBITDA multiple valuation was conducted using a blended average EV/EBITDA multiple of 13.49x resulted in an intrinsic value of $55.06. By weighing the two models 60/20/20, a price target of $63.26 was reached, resulting in a 18.01% potential upside. ECOL pays a dividend yielding 1.3%.

Risks

- **Potential of Natural Disasters.** Although it is unlikely, there is the possibility that an event similar to 2017's Hurricane Harvey could occur again in the future which would again affect revenue negatively and increase that years expenses.
- **Highly Regulated Industry.** Regulation within US Ecology's industry is extremely high and rigid. New rules are frequently created and implemented and there is the possibility that new regulation could create additional expenses for ECOL due to forced changes to their business structure.
- **Replacement of Non-Recurring Event Projects.** A good chunk of ECOL's revenue is generated through one-time clean-ups due to unforeseen emergencies or situations. There is no way to predict the volume of these types of events which creates a level of uncertainty for ECOL moving into the future.

Management

Jeff Feeler has been the President and CEO of US Ecology, Inc. since 2012. Prior to his appointment, Mr. Feeler held many executive positions within ECOL including Vice President and Chief Financial Officer. Steve Welling, Simon Bell, and Eric Gerratt hold the Executive Vice President Positions and have held them since 2013, 2014 and 2013, respectively.



Source: FactSet

Peer Valuation Non Bank

Name	Ticker	Market Cap (mil)	P/S	P/E	EV/EBITDA	P/B
US Ecology, Inc.	ECOL	1,259	2.50	25.60	12.44	4.26
Veolia Environnement SA	VEOEF	13,568	0.50	44.37	7.70	1.87
Umicore	BF4446	11,603	0.87	48.55	21.29	5.73
Waste Management, Inc.	WM	36,468	2.57	19.07	11.64	6.05
Waste Connections, Inc.	WCN	18,552	4.01	32.11	15.66	3.19
Republic Services, Inc.	RSG	21,509	2.19	17.23	11.18	2.71
		20,048	2	32.3	13.49491	3.9

Source: Factset

Peer Fundamentals (Non Bank)

Name	Ticker	Revenues	ROE	ROA	Debt/Equity	Net Margin
US Ecology, Inc.	ECOL	504	16	6	85	10
Veolia Environment SA	VEOFF	28,339	6	1	190	2
Waste Management, Inc.	WM	14,485	34	9	158	13
Waste Connections, Inc.	WCN	4,631	10	5	269	12
Republic Services, Inc.	RSG	10,44.3	16	6	103	13
Peer Averages		15,818	17	5.3	180.0199	10.1

Source: Factset

Rush Enterprises, Inc. (RUSHA)
March 2, 2018

Ronnie Terry Jr — Domestic Consumer Discretionary

Rush Enterprises, Inc. (NASDAQ: RUSHA) is a provider of commercial vehicle solutions by way of its network of commercial vehicle dealers. It has an integrated, one-stop approach to the service and sales of new and used heavy- and medium-duty trucks, aftermarket parts, service, a range of financial services, etc. Rush operates in several segments: new and used commercial vehicle sales (63% of 2016 revenue), parts and service sales (32%), lease and rental (5%), and finance and insurance (<1%). With all of these segments, Rush still only reports earnings from the heavy-duty truck segment. Rush operates in over 100 stores 21 states in the United States. Rush serves as the largest dealer group for Peterbilt, Navistar, Hino, and Isuzu. Rush Enterprises, Inc. was founded in 1965, and is headquartered in New Braunfels, TX.

Price ($): (02/27/2018)	42.48
Price Target ($):	66.66
52WK H-L ($):	55.4 - 30.74
Market Cap (mil):	1,630
Insider Holdings	1.12%
Avg. Daily Vol (mil):	0.28
Yield (%):	-
ESG Rating	BBB

Beta:	1.15
M-Term Rev. Gr Rate Est:	25.0%
M-Term EPS Gr Rate Est:	15.0%
Debt/Equity:	141.6
Debt/EBITDA (ttm):	7.41
WACC	7.00
ROA (%):	6.27
ROE (%):	18.09
ROIC (%):	11.56

FY: Dec	12/31/2016	12/31/2017	12/31/2018	12/31/2019
Revenue (Mil)	4,214.61	4,713.88	5,115.00	5,261.00
% Growth	15.36%	11.85%	8.51%	2.85%
Oper Inc	87.97	148.81	168.00	189.00
% Growth	-27.78%	69.16%	12.89%	12.50%
Op Margin	2.1	3.2	2.60	2.80
EPS*	$7.89	$7.80	8.10	8.20
P/E (Cal)	31.9	12.1	15.10	13.10
EV/EBITDA	10.4	17.3	9.40	10.20

Recommendation

Rush Enterprises, Inc. completed their IPO in June 1996 at $12 per share and has since developed into a true leader in the commercial vehicles industry. As indicated by the data, you can see that Rush has had tremendous return on equity. Such return on equity means that Rush is increasing in its ability to generate profit without needing much capital. Rush Enterprises has approximately 6,180 dedicated employees; they were able to produce $4.2 billion in revenue with 30,635 trucks sold in 2016. Rush was able to capitalize on 4.9-5.5% U.S Class 4-8 market share in 2016. A majority of the 100+ locations support all Rush businesses. Rush Enterprises was able to maintain an absorption ratio of 112% in 2016 and reported an absorption ratio of 120.9 in Q3 of 2017. Absorption ratio is a critical metric for dealership efficiency, as it measures less cyclical gross profit compared to controllable expenses. Changes in tax reform have brought the effective tax rate from its historical range of 38-39% to 25-26%. With such savings, RUSHA intends to reinvest a portion to accelerate investments in strategic initiatives. Throughout 2017, Rush repurchased approximately $34 million of stock, and adopted a $40 million stock repurchase plan in November of 2017, showing their commitment to enhancing shareholder value. Considering its history of dealership efficiency and the opportunity for growth, it is recommended that Rush Enterprises, Inc. be added to the AIM Equity Fund with a price target of $66.66, representing a potential upside of over 56%.

Investment Thesis

- **Stability in Dealership Efficiency.** Dealership efficiency is measured by the absorption ratio, which can be calculated by dividing the gross profit from the parts, service and body shop departments of a dealership by the overhead expenses of all of a dealership's departments, excluding the selling expenses of new and used commercial vehicles and the carrying costs of the new and used commercial vehicle inventory. It's common for companies to aim for an absorption ratio of 100%. Having a high absorption ratio (exceeding 100%) gives the dealership an opportunity to sell more vehicles, new and used, at a lower price than competitors; this is the position that RUSHA is currently in.
- **Improving Commercial Vehicle Market.** Economic improvement has positively impacted truck sales and aftermarket services. Some of the contributing factors have been continued growth in housing and construction, a stable general freight environment, and increased activity in the

energy sector. Used truck values have stabilized, so an increase in used truck supply is bound to come about. The increased availability of credit is also a contributing factor.

- **Commitment to Enhancing Shareholder Value** As mentioned briefly in the recommendation, Rush Enterprises initiated a $40 million stock repurchase plan back in November of 2017. In 2017 alone, Rush enterprises had already repurchased about $34 million of stock. In addition to repurchasing shares, Rush also intends to dedicate a portion of their tax savings to accelerate investments in their strategic initiatives.

Valuation

In order to reach an intrinsic value for RUSHA, a five year DCF model was constructed. Using a terminal growth rate of 3.00% and a WACC of 7%, an intrinsic value of $66.95 was reached. A sensitivity analysis with the WACC ranging from 6.5% - 7.5% and a terminal growth range of 2.75%-3.25% gave target prices ranging from $40-$63. A P/S relative valuation was calculated by multiplying the 2018 estimate in sales by the peer average P/S, then dividing this quantity by the outstanding shares to get a target price of $92.19. A P/B relative valuation was also calculated by dividing the book value by the outstanding shares, then multiplying this quantity by the peer average P/B, yielding a price target of $57.33. By weighing the models 34/33/33, a price target of $66.66 was reached, resulting in a 56.91% potential upside. RUSHA does not pay a dividend.

Risks

- **Dependence on PAACR and Peterbilt.** Rush enterprises is dependent upon PAACR for the supply of Peterbilt trucks and parts, as the sales bring in a majority of revenues. Rush has no control over the management or operation of Peterbilt or PAACR, so any variations could have a huge impact on the success of Rush Enterprises.
- **State Dealer Laws.** If state dealer laws are repealed or weakened in any way, Rush dealerships would be more open to termination, nonrenewal, or renegotiation of their dealership agreements. Rush is dependent on its dealership agreements, as they contribute to a great portion of revenues and profitability.
- **Retaining Key Personnel.** Business could be unfavorably affected because of the reliance upon industry knowledge and relationships established by key personnel. The importance of retention is stressed throughout all areas of the business (executive officers, managers, and dealership personnel).

Management

William Rush served as the President of Rush Enterprises, Inc. since 1995, and CEO of the company since 2006. Since being named He has overseen all day-to-day operations of the company since being named COO in 2001. Prior to being named President of the company, he served as Vice President and Executive Vice President of Rush Enterprises, Inc. from 1990–1995. Mr. Rush was appointed Chairman of the Board in May 2013. Steven Keller has served as the CFO and treasurer of the company since April 2011. Mr. Keller has been involved in the company’s finance and accounting functions since 1997.

Source: FactSet

Peer Valuation

Name	Ticker	Market Cap (mil)	P/S	P/E	EV/EBITDA	P/B
Rush Enterprises, Inc.	RUSHA	1,630	0.44	12.10	36.89	1.94
Paccar Inc.	PCAR	25,185	1.29	14.96	8.81	3.11
Werner Enterprises, Inc.	WERN	2,806	1.32	13.80	7.99	2.36
Lithia Motors, Inc.	LAD	2,659	0.28	11.65	11.93	2.62
Penske Automotive Group, Inc.	PAG	4,121	0.19	6.70	14.18	1.71
Ryder System, Inc.	R	4,031	0.61	5.66	23.69	1.57
Peer Averages		7,760	0.74	10.56	13.32	2.27

Source: Bloomberg

Peer Fundamentals

Name	Ticker	Revenues	ROE	ROA	Debt/Equity	Net Margin
Rush Enterprises, Inc.	RUSHA	4,714	18.09	6.27	141.61	3.65
Paccar Inc.	PCAR	19,469	22.59	7.60	110.30	8.60
Werner Enterprises, Inc.	WERN	2,117	18.62	11.27	8.15	9.58
Lithia Motors, Inc.	LAD	10,087	24.60	5.63	273.85	2.43
Penske Automotive Group, Inc.	PAG	21,387	29.59	6.24	247.37	2.87
Ryder System, Inc.	R	7,330	32.37	7.08	220.43	10.75
Peer Averages		12,078	25.55	7.57	172.02	6.8

Source: FactSet

TechTarget, Inc (TTGT)
March 2, 2018

Michael Vidovic — Domestic Information Technology

TechTarget, Inc. (NASDAQ: TTGT) is a global leader in the purchase-intent driven marketing and services industry, and offers data-driven solutions to enterprise technology vendors. TTGT has 75% of its revenue generated in the US, while the remainder is spread throughout EMEA, APAC, and Latin America. TTGT operates through 2 business segments: core online marketing programs (46%), and IT Deal Alert's data-enabled optimization solutions (54%). TechTarget provides high ROI marketing opportunities to customers through its ability to connect vendors with IT professionals who are ready to buy vendor products. Tech Target, Inc. was founded in 1999 and is headquartered in Newton, MA.

Price ($):	17.28	Beta:	0.87	FY: Dec	2016	2017	2018E	2019E
Price Target ($):	21.15	M-Term Rev. Gr Rate Est:	10%	Revenue (Mil)	106.625	108.556	122.48	139.63
52WK H-L ($):	17.87 - 8.41	M-Term EPS Gr Rate Est:	20%	% Growth	-4.65	1.8%	13%	14%
Market Cap (mil):	474.9	Debt/Equity:	0.27	Oper Inc	6.791	10.41	13.9	15.15
Insider Holdings	27%	Debt/EBITDA (ttm):	2.14	% Growth	-44.35	53%	34%	9%
Avg. Daily Vol (mil):	0.10	WACC	7.69	Op Margin	6.37%	9.59%	11.35%	10.85%
Yield (%):	0	ROA (%):	3.96	EPS*	0.08	0.24	0.35	0.38
ESG Rating	N/A	ROE (%):	5.71	P/E	216.00	72.00	49.37	45.47
		ROIC (%):	4.64	EV/EBITDA	41.22	26.06	25.37	23.00

Recommendation

TechTarget has established itself as the key leader in B2B purchase intent services for IT vendors and professionals through its success in targeted marketing and ability to shorten the arduous 6-12 month buying process. The enterprise IT industry is growing increasingly nuanced and difficult for vendors to find IT professionals willing to buy products and services in a reasonable amount of time. Corporate professionals are now requiring highly specialized and custom-tailored IT solutions, and as the industry has become more specialized it has grown difficult and time-consuming for vendors to understand what solutions end users are both interested in and ready to incorporate. TTGT is able to offer a very high ROI marketing opportunity for these companies, since it is constantly writing editorials about and communicating with these end users. TTGT acts a means to connect professionals and vendors through its 1900+ IT professional network and 150+ websites globally, which also serve to impede competition in the space. Global digital advertising is expected to increase by 4.9%-8.3% annually through 2021, and TTGT is positioned to take advantage of this growth through its growing international exposure. TTGT has a strong financial profile with over 75% gross margins, and has experienced an 89% revenue CAGR in its IT Deal Alert segment since 2013. This segment has seen such tremendous growth because IT vendors are relying more often on third-party end user data for information on which companies they should be prioritizing through their marketing and advertising expenses. Due to the leading position TechTarget holds in the industry paired with their strong growth opportunities, it is recommended that TechTarget, Inc. be added to the AIM Equity Fund with a price target of $22.4, representing a potential upside of over 27%.

Investment Thesis

- **IT Deal Alert:** The IT Deal Alert segment was launched in 2013, and has experienced an 89% CAGR since inception. IT Deal Alert is expected to overtake TechTarget's core online segment in 2018, and has become management's focus for the company going forward. The segment increased its number of customers from 400 to 600 in 2017 with over 57% revenue growth for the year, while IT Deal Alert revenue is still expected to increase 104%-185% in the next 3 to 5 years respectively. The segment addresses the large 6-12 month long decision process for IT professionals by dramatically speeding up the process, while not cannibalizing revenues from its core online sales.

- **Industry Leader:** TechTarget is the dominant company in the industry, and their longevity has allowed the company to develop a network of over 1300 customers with no company representing over 10% of revenue. Growth has been concentrated in smaller and medium sized customers, which contributes to TTGT's increasingly diversified customer base while the company still is able to maintains business with tech giants like Google and Microsoft. TechTarget produces 75,000 pieces of web content each year, and has allowed the company to develop a network of publications in over 150 websites. TTGT's editorial and digital network has allowed the company to gain favorable search engine rankings, with over 18m visits per month, and 935,000 top 10 search results overall.
- **International Opportunity.** TechTarget generates only 32% of their revenues outside of the US, while over half of their TAM remains international. Global digital advertising is expected to increase by 4.9%-8.3% yearly between now and 2021, which a majority of this growth being observed in Argentina, Ireland, India, and APAC. TechTarget has already launched websites targeting Chinese, UK, Latin American, and Indian based users, and is still looking to move further into South America and APAC. The US is many years ahead of the global adoption to digital advertising, and TechTarget is positioned to benefit from this shift.

Valuation

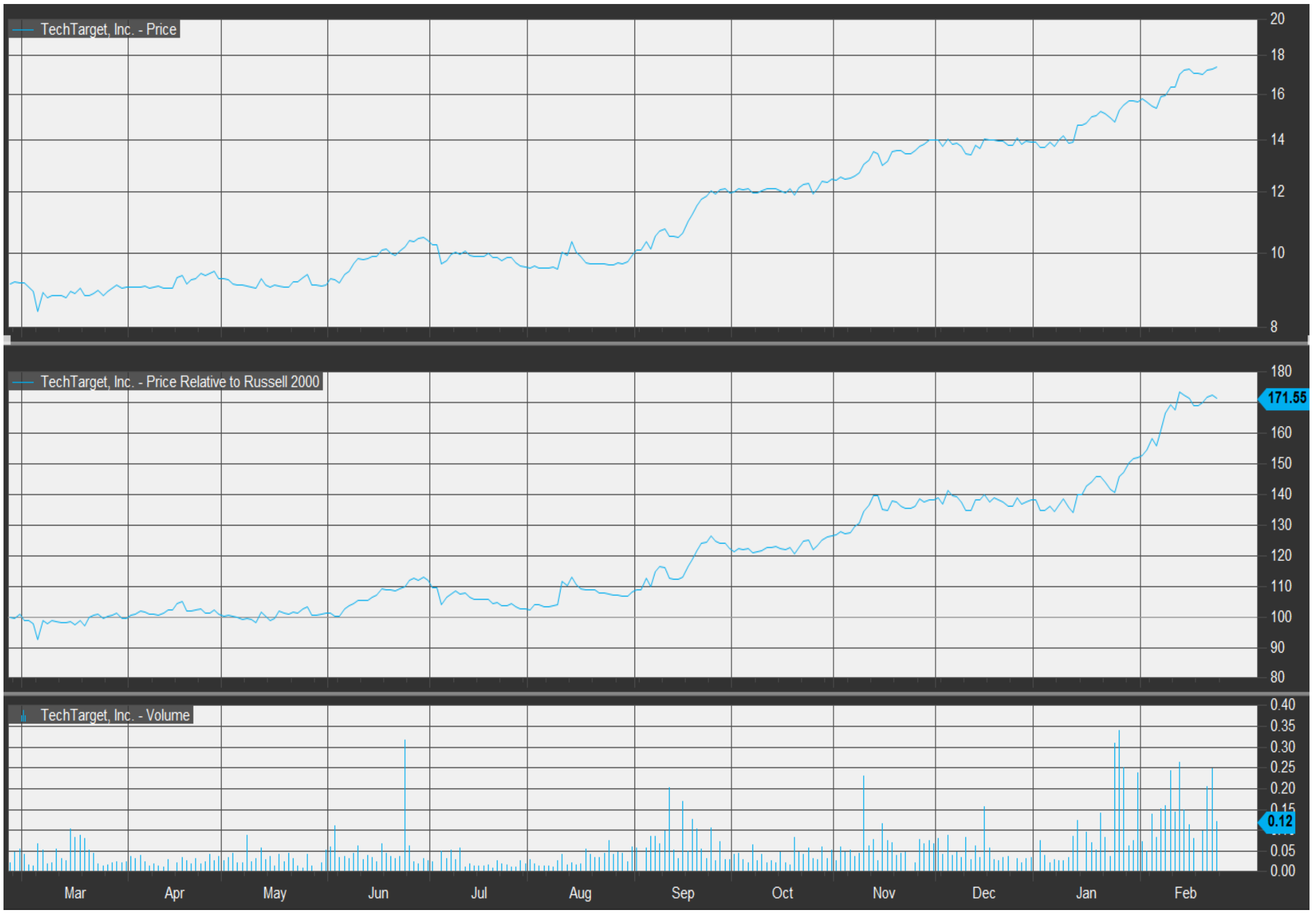
In order to reach an intrinsic value for TTGT, a five year DCF model was constructed. Using a terminal growth rate of 3% and a WACC of 7.69%, a valuation of $24.61 was reached. A sensitivity analysis for the DCF was computed using a ±1.5% WACC and a ±50bps terminal growth rate, resulting in a price range of $17.49 – $42.17. Additionally, an EV/EBITDA relative valuation was calculated using an estimated 2018 EBITDA of $18.98m, and a blended peer average multiple of 23.19x to produce an intrinsic value of $16.24. By weighing the two models 70/30, a price target of $22.10 was reached, resulting in a 27.89% potential upside.

Risks

- **Short-Term Contract Based.** Only about 24% of TechTarget's contracts are long-term contracts, so a downturn in the economy would significantly damage TTGT as tech companies decrease their advertising expenses. TTGT has shifted 9% of revenue to long-term contracts in 2017, and expects to achieve 30% in 2018, though the company will need to continue this shift to have enough of a safety net to survive in a downturn.
- **Data Breaches.** TTGT has over 18 million users registered for their services, so the event of a data breach would have very adverse effects on the company. Customer information breaches would damage TTGT's reputation, and leak proprietary information about both vendors and IT professionals that TTGT may not be able to recover from. TGT also continues to expand internationally, further exposing the company to breaches at their additional global offices and country targeted websites.
- **IT Industry Dependence.** TechTarget generates all their revenue from IT industry customers, so the company is heavily affected by the sector's trends. The industry's rapid technological innovation causes uneven sales patterns, and advertising budgets are among the first expense items to be cut when profit expectations aren't met. Moving into additional more stable potential sectors would make these revenue cycles more predictable.

Management

Michael Cotoia is CEO of TechTarget, Inc. since 2016, and has served various roles within the company since 2002. Kevin Beam has been President of TechTarget since 2012, and has worked for the company since 2000. Daniel Noreck has been the CFO and Treasurer of TechTarget since 2016.



Source: FactSet

Peer Valuation

Name	Ticker	Market Cap (mil)	P/S	P/E	EV/EBITDA	P/B
TechTarget, Inc.	TTGT	475	4.37	72.00	26.06	3.93
NetScout Systems, Inc.	NTCT	2317	2.17	27.66	14.93	0.99
QuinStreet, Inc.	QNST	607	1.94	262.60	44.24	4.86
j2 Global, Inc.	JCOM	3583	3.22	25.84	10.55	3.60
Acxiom Corporation	ACXM	2167	2.50	228.08	20.17	2.79
Peer Averages		2,169	2.5	136.0	22.47	3.1

Source: Factset

Peer Fundamentals

Name	Ticker	Revenues	ROE	ROA	Debt/Equity	Coverage
TechTarget, Inc.	TTGT	109	5.71	3.96	0.27	15.02
NetScout Systems, Inc.	NTCT	1,174	1.36	0.93	0.12	7.17
QuinStreet, Inc.	QNST	300	-10.05*	-6.64*	0.00	-23.765*
j2 Global, Inc.	JCOM	1,118	14.41	6.18	0.98	3.63
Acxiom Corporation	ACXM	880	0.57	0.34	0.31	4.43
Peer Averages		868	5.4	2.5	0.4	5.1

*Excluded in Average

Source: Factset

Orix Corporation (IX)
March 2, 2018

Cathy Gong International Financials

ORIX Corp. (NYSE: IX) is a financial services company and engages in the provision of leasing and corporate financial services. It operates through six segments: Corporate Financial Services, Maintenance Leasing, Real Estate, Investment and Operation, Retail, and Overseas Business. The Corporate Financial Services segment offers leasing and loans to small and medium-sized enterprises. The Maintenance Leasing segment consists of automobile leasing and rentals and equipment rental services. The Real Estate segment deals with real estate development and rental, leasing and facilities management. The retail segment consists of life insurance, banking and card loan business. It mainly generates revenues from Japan (82% of the total revenue), the United States (5.3%), and China (3.2%). The company was founded in 1964 and is headquartered in Tokyo, Japan.

Price ($):	91.21
Price Target ($):	115.82
52WK H-L ($):	100.03 - 73.7
Market Cap (mil):	24,043
Insider Holdings	8.9
Avg. Daily Vol (mil):	0.04
Yield (%):	2.5
ESG Rating	BBB

Beta:	1.16
M-Term Rev. Gr Rate Est:	21.5%
M-Term EPS Gr Rate Est:	6.7%
Debt/Equity:	159.3%
Debt/EBITDA (ttm):	6.67
WACC	5.84%
ROA (%):	2.82%
ROE (%):	12.52%
ROIC (%):	4.88%

FY: Mar	03/31/2016	03/31/2017	03/31/2018	03/31/2019
Revenue (Mil)	19,694.90	23,576.50	28,138.23	30,952.05
% Growth	8.96	25.32	19.35	10.00
Net Income	2257.35	2594.26	3443.15	3943.59
% Growth	1.83	16.43	32.72%	14.53%
Net Income Margin	11.46	11.00	12.24	12.74
EPS*	$8.26	$9.19	$10.84	$11.18
P/E (Cal)	8.6	7.7	10.7	10.4
P/B	0.91	0.86	1.00	0.90

Recommendation

Orix completed their IPO in 1970 and has developed into a dominating force in the financial services industry in Japan. Orix is the largest leasing and leading diversified financial services conglomerate with assets in excess of US$69 billion. Orix is also known as the majority owner of the Orix Buffaloes baseball team in Nippon Professional Baseball. Since the last year, Orix has experienced an annualized ROE of 14.3%, a net income YoY growth rate of 17%, and has maintained their operating margins between 10%-11%. According to the Consolidated Financial Results from April 1, 2017 to December 31, 2017, Corporate Financial Services Segment profit has increased 43% during the same period of the previous fiscal year. The significant growth in Corporate Financial Service segment in local market has allowed them to establish a cycle for generating sable earnings while turning over assets. Orix has been able to maintain their growth due to both organic and inorganic contributions. In FY 2018, they will open Japan's first DoubleTree by Hilton in Okinawa. Services income will be potentially increased due to service expansion in the asset management business. It is recommended that Orix Corp. be added to the AIM International Equity Fund with a price target of $115.82, representing a potential upside of over 27%. The company pays a quarterly dividend, yielding 2.5%.

Investment Thesis

- **Inorganic Acquisitions and Investments to Overseas Market.** On February 18th, 2018, Orix USA acquired Houlihan Locky Inc., an independent, advisory-focused global investment bank in the U.S., for nearly $20 billion in stock. Not only will this acquisition increase their net profit margin and revenue, but also expand Orix's geographic footprint to the United States. Moreover, they have funded Innostic, a Chinese medical consumable supply chain management platform, this past January. The Chinese startup plans to use the proceeds from funding to expand its presence in the field of orthopedics, surgery and optometry. These acquisitions and investments have a positive trend of successful integration with both margin and revenue improvement. With a presence in 24 countries in the world, Orix has maintained a strong position in this highly fragmented market to continue their acquisitions and future investments.

- **Future Investment in Energy Infrastructure.** Orix is diversifying its investments in energy investments – moving away from hydro-carbons. Among renewable energy, investment is expanding beyond solar power to wind and geothermal power. Orix has been using the private funds to expand within public facilities management. The investment in the infrastructure of renewable energy will likely to increase the profit margin for Orix in the future. Thus, an increase in revenue in the energy sector will be followed by the entrance of renewable energy to the Japanese market.
- **Potential Organic Growth in Real Estate and Corporate Financial Services Segment.** Japan's first DoubleTree by Hilton resort hotel will be opening in June 2018. Orix Real Estate is outsourcing management to Hilton as well as the newly opened Hyatt Ginza. Services income will be potentially increased due to service expansion in the asset management business. In addition, the Japanese economy on the whole entered a moderate recovery phase. The balance of outstanding loans at financial institutions continues to increase while interest rates on loans remain at low levels. Corporate Financial Services segment revenues increased 14% in the last fiscal year and is believed to continue this trend as the stabilization of domestic small- and medium-sized enterprise customers.

Valuation

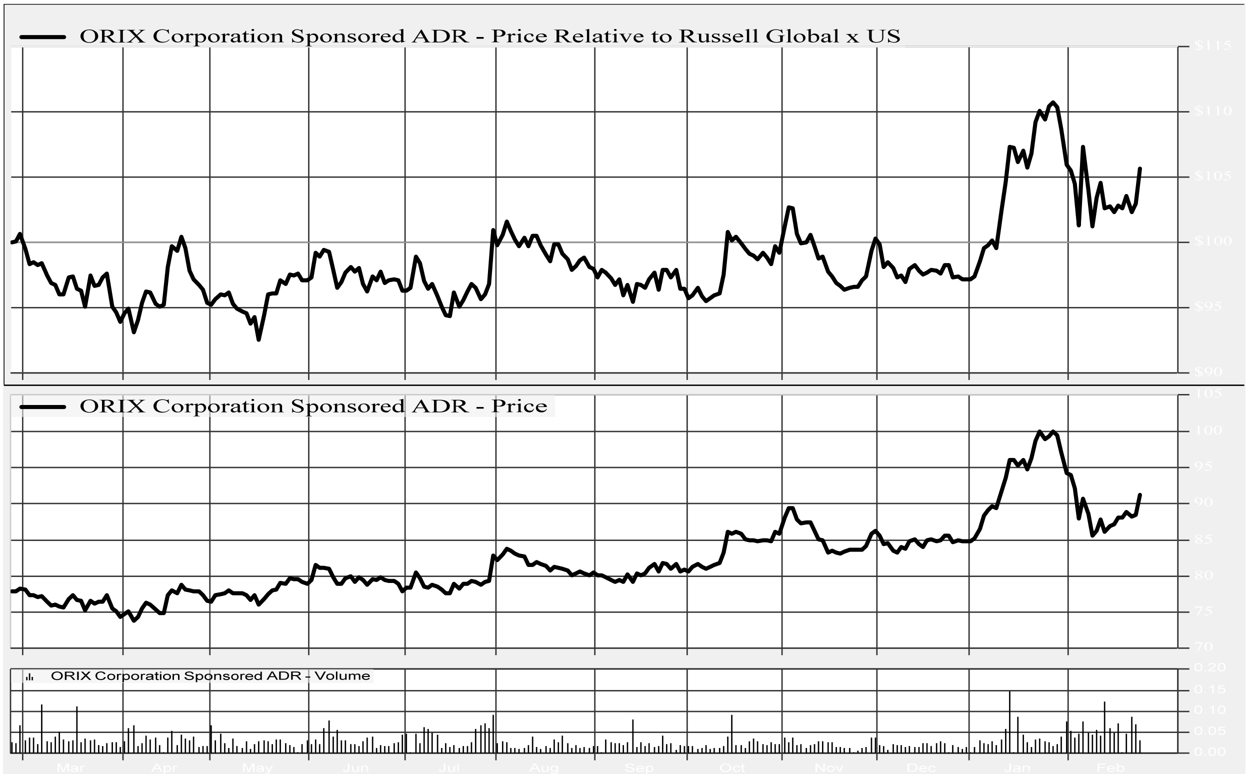
In order to reach an intrinsic value for IX, a Discounted Dividends Model was constructed. Using a terminal growth rate of 2.00% and a WACC of 5.84%, an intrinsic value of $124.92 was reached. Additionally, a P/E and P/B multiple valuation was calculated. Using a 2018E EPS of $13.01 and utilizing a blended average P/E mutplie of 12.2x, resulted in an intrinsic value of $104.87. By weighing the two models 50/50, a price target of $115.82 was reached, resulting in a 26.98% potential upside. IX pays a quarterly dividend, yielding an attractive 2.5% annually.

Risks

- **Integration of Acquisitions.** Although Orix has a successful history of strong integration among their acquisitions, this trend may not continue to occur going forward. The inability to affectively integrate a newly acquired business may result in lost cost savings or profitability.
- **Strong Competitions in Local Market.** Although Orix has been doing relatively well in the past few years, the competitions for financial leasing and services companies in Japanese market continue to be fierce. As Orix continues to expand in overseas market, the growth in local market will be challenging. Orix competes on the basis of pricing transaction structure and service quality. It is possible that their competitors may seek to compete aggressively on the basis of pricing and other terms through their advantageous funding costs or without regard to their profitability.

Management

Makoto Inoue is the President and CEO at ORIX Corp. Prior to beginning his work for Orix, Mr. Inoue was employed as Chairman by Orix Leasing Pakistan Ltd. He received his graduate degree from Chuo University. Kazuo Kojima is the Representative Executive Vice President and CFO. Mr. Kojima received his undergraduate degree from Keio University.



Source: FactSet

Peer Fundamentals

Name	Ticker	Revenues	ROE	ROA	Debt/Equity	Est 5 yr NI growth
Credit Saison Co.,Ltd.	8253-JP	352,916.00	10	2	413	-5
Mizuho Financial Group, Inc.	8411-JP	5,062,695	7	0	477	-4
AIFUL CORPORATION	8515-JP	176,886	7	1	269	-31
JAPAN POST HOLDINGS Co.,Ltd.	6178-JP	5,809,499	0	0	1,471	406
Mitsubishi UFJ Lease & Finance Con	8593-JP	611,855	8	1	647	11
Peer Averages		2,915,234	6	0.6	715.8732	95.4

Source: FactSet

Peer Valuation

Name	Ticker	Market Cap (JPY)	P/BV Tangible	P/E	P/B	Div Yld
Orix Corporation	8591-JP	2,563,451	0.93	7.70	0.86	2.50%
Credit Saison Co.,Ltd.	8253-JP	353,087	1.16	7.75	0.70	1.96%
Mizuho Financial Group, Inc.	8411-JP	1,445,555	0.60	9.00	0.60	3.67%
AIFUL CORPORATION	8515-JP	180,279	1.58	21.02	1.60	0.00%
JAPAN POST HOLDINGS Co	6178-JP	5,804,998	0.52	*101.88	0.51	3.83%
Mitsubishi UFJ Lease & Finance Co	8593-JP	614,542	1.04	11.12	0.78	2.15%
		1,945,980	0.98	12.2	0.84	2.32%

Source: ThomsonOne

HDFC Bank (HDB)

March 2, 2018

Nicholas Tenuta International Financials

HDFC Bank (NYSE: HBD) is the leading Indian retail bank in rural expansion and technology innovation. HDFC operates its business through three main segments: Retail Banking (76% of 2017 revenue), Wholesale Banking (36.4%) and Treasury Operations (25.1%). The Retail Banking segment of the bank focuses their operations on auto loans, personal, credit card issuances, and small business loans. The Wholesale Banking segment offers many products including working capital and term loans, along with trade, cash management, foreign exchange and investment banking services to their large institutional and government clients. In 2017, the Wholesale Banking segment accounted for 47% of the bank's entire book. The Treasury Operations segment is responsible for compliance with reserve and liquidity requirements. HDFC has 4,715 branches and operates in more than 2,500 cities/towns across India. HDFC Bank was founded in 1994 and is headquartered in Mumbai, India.

Price ($):	$98.33
Price Target ($):	115.50
52WK H-L ($):	70.23-110.77
Market Cap (mil):	74,438
Insider Holdings	0%
Avg. Daily Vol (mil):	605,214.8
Yield (%):	0.5
ESG Rating	N/A

Beta:	0.64
M-Term Rev. Gr Rate Est:	8.5%
M-Term EPS Gr Rate Est:	10.0%
Total Debt/ Total Assets	0.71
WACC	7.47%
ROA (%):	1.84
ROE (%):	17.95
Tier 1 Capital Ratio (%)	15.53
Credit Provisions/Loans (%)	0.6

FY: Mar	2016A	2017A	2018E	2019E
Net Interest Income	9,625.82	10,932.09	12,097.49	13,387.14
%Growth	16.41%	13.57%	10.66%	10.66%
Net Interest Margin	46.06	48.08	47.92%	53.61%
Operating Income	2973.49	3486.38	3782.72	4155.97
% Growth	13.39%	17.25%	8.50%	9.87%
Payout Ratio	17.3	18.4	18.94	19.48
P/E	26.5	28.0	33.52	30.47
EPS	2.30	2.65	2.93	3.23

Source: Factset

Recommendation

HDFC Bank's biggest focus is growing their business by expanding the people and the communities they serve. Since 2013, HDFC experienced a 5-year interest income CAGR of 10.7%, along with a 5-year net interest income CAGR of 12%. In 2016-2017 the bank experienced an 18.5% increase in net revenues and a 20.1% increase in net interest income. Along with income growth, HDFC experienced a 17.8% increase in their total deposits. Also, during this period, the Bank opened 165 new branches and 260 ATMs across India. HDFC has used this growth to focus on innovation in technology. In the 2016-2017 fiscal year 81% of the bank's total transactions took place digitally, which emphasized their focus and commitment on technology. This growth in technology led to the bank's development of an Intelligent Robotic Assistant, also known as a *Humanoid Assistant,* which greets customers and displays the different services they offer. The bank's continuous growth has led to many community-oriented initiatives that has given them an excellent reputation with their customers. One of these programs is called *Promoting Education* in which they provide infrastructure to schools, teacher training, and scholarships to students. This program alone has benefited over 65,000 Indian citizens. Beside the Promoting Education initiative, they have a program that focuses on the development of women and youth, they have planted over 67,000 trees, and they also provided 7,500 households and 900 schools with clean drinking water in rural India that has benefited an additional 50,000 citizens. Due to HDFC Bank's large growth and their commitment to improving their communities, it is recommended that HDFC Bank be added to the AIM International Equity Fund with a price target of $115, representing a potential upside of 17%. HDCF Bank also paid a dividend of $0.49 for the 2016-2017 fiscal year.

Investment Thesis

- **India's GDP Growth.** In the 2016-2017 period, India's economy grew 7.1% when looking at the real gross domestic product. This included a 4.4% increase in agriculture, and a large increase in government capital expenditure. The results of this growth have led to higher consumer demands, and more direct investment into the country. In the next fiscal year GDP growth is most likely to increase to 7.5%. This macroeconomic growth and the increase in consumer spending will increase the amount of deposits and loans made with HDFC in the future.

- **Rural Focus.** Agriculture is India's largest economic sector and over 50% of the population lives in remote, rural areas. The people living in the rural areas often lack the right financial resources to properly run their businesses. HDFC understood and seeks to lead the industry in rural expansion. In the past fiscal year, loans to agriculture activities increased at a rate of 17% through their retail banking segment. The Bank's Kisan Gold Card is now used in over 60,000 villages that originally did not have any financial tool and this number is expected to increase over the next several years. Also, in rural areas, *11 Kisan Dhan Vikas Kendras* were started to provide farmers with information on soil health, commodity prices and other advice which has helped create an excellent relationship with rural citizens. Being dedicated to this untapped region in India has given them the majority of market space in a market that needed financial services the most.
- **Community Commitment.** While not rated with ESG, HDFC Bank's focus on community involvement may help them receive a good ESG rating in the future. This company has many programs that benefit the lower middle class. One of these main programs is the Zero Investment Innovation for Educational Initiatives which is a platform to implement the best education practices in 75,000 schools. The Bank prides themselves on their *Dhanchayat,* which is a financial literacy program on wheels. This program has affected over 400,000 households. Lastly, HDFC Bank is committed to environmental sustainability in which they have made their 12,260 ATMs completely paperless. Their dedication to their people has given them a very good reputation in the eyes of the Indian Citizens, and these initiatives will only continue to benefit more people and attract more customers.

Valuation

In order to reach an intrinsic value for HDB, a five year DDM was constructed using a terminal growth rate of 5% and a WACC of 7.47%, an intrinsic value of $113.10 was reached. A sensitivity analysis was conducted on the terminal growth rate and the WACC ranged from $165.24 to $86.51. Additionally, a P/E multiple valuation was calculated. Using a 2016-2017 EPS of $2.65 and an idustry average P/E multiple of 44.73x resulted in an intrinsic value of $41.72. Lastly, an excess return model was constructed using a COE of 7.83%, an intrinsic value $115.95 was reached representing a 17.9% upside. Weighing the DDM, the ecxess return and the P/E multiple 45%, 45% and 10% respectively, a target price of $115 was reached, resulting in a potential upside of 17%. Over the past 5 years HDFC Bank has paid an averge dividend of 0.49.

Risks

- **Demonetization.** In 2016-2017, the India government decided to demonetize India's two largest paper denominations. This resulted in a bad Q3 for the Bank because many citizens pulled their money out of their savings accounts with the Bank. Even though HDFC recovered, there is still a risk of another demonetization.
- **Indian Accounting Standards Board.** As of April, 2018, all public companies must report their earnings under the new rules of the Indian Accounting Standard Board. While this shows little risk to the operational side of the Bank, it does show risk for the compliance side of the business. HDFC will have to incur more non-operating expenses in order to implement these new standards.
- **Non-Performing Assets**. The last fiscal year all of India's financial services companies have felt a sharp pressure from an increase in the NPAs. HDFC did not see a dramatic increase in their NPAs, but there is a risk of an increase in future years.

Management

Aditya Puri has been the CEO of HDFC Bank since inception in 1994. In 2016 he was named a Barron's Top 30 CEO for the 3rd Consecutive year. He was also named Banker of the Year in 2016 by the Business Standard Annual Awards.

Peer Analysis

Name	Ticker	Market Cap (mil)	Net Income (mil)	Div. Yld. %	P/B	P/E	ROA
HDFC Bank Limited Sponso	HDB-US	75,918.30	2,275.75	0.50	2.19	19.58	1.88
Canara Bank	CNRYY-US	2,827.78	13.58	0.30	0.52	10.28	0.32
ICICI Bank Limited	IBN-US	32,005.80	101.88	0.70	1.54	18.20	1.07
State Bank of India	SBKFF-US	35,998.30	0.10	1.00	1.05	15.68	0.01
Bank of Baroda	BBKQY-US	5,171.61	18.15	0.80	0.93	9.79	0.26
Peer Averages		15,661.37	33.43	0.70	1.01	13.49	0.42

Source: Factset

Ownership

% of Shares Held by All Insider and 5% Owners:	0.00% ▲
% of Shares Held by Institutional & Mutual Fund Owners:	17.75% ▲

Source: FactSet

Top 5 Shareholders

Holder	Shares		% Out
Fidelity Management & Research Co.	15,046	▲	1.74
Capital Research & Management Co.	8,510	▼	0.99
WCM Investment Mangement	8,016	▲	0.93
Fisher Asset Management LLC	7,928	▲	0.92
JPMorgan Investment Management, Inc.	6,269	▲	0.73

Barclays PLC (BCS)

March 2, 2018

Mitchell Beine — International Financial Services

Barclays (NYSE: BCS) operates as a bank holding company that engages in the business of providing retail banking, credit cards, corporate and investment banking, and wealth management services. The company operates through two divisions: Barclays UK and Barclays International. The Barclays UK division comprise the U.K. retail banking operations, while the Barclays International division comprises the corporate banking franchises outside of the United Kingdom. BCS operates primarily in two countries, with the U.K. (51.7% of revenue) and United States (32.1%) accounting for most of the firm's business. The bank serves a diversified customer base of over 24 million and has 120,000 employees. Barclays was founded in 1896 with its headquarters located in London, and its roots trace back over 300 years.

Price ($): (2/27/18)	11.72
Price Target ($):	13.15
52Wk H-L ($):	9.29 - 12.02
Market Cap (mil):	50,215
Avg. Daily Vol (mil):	3.62
Dividend ($):	0.15
Yield:	1.28%
ESG Rating:	BBB

Beta:	0.98
WACC:	6.24
M-Term Rev Gr Rate Est:	4.38%
M-Term EPS Gr Rate Est:	N/A
Net Interest Margin:	3.74%
ROA:	-0.11%
ROE:	-2.90%
Tier 1 Capital Ratio:	12.70%
Loans Deposit Ratio	83.60%

FY: Dec	2016	2017	2018E	2019E
Revenue (mil):	29,817	29,296	30,580	31,553
% Growth:	-2.67%	-1.75%	4.38%	3.18%
Interest Income (mil):	14,646	13,685	13,761	14,199
% Growth:	4.21%	-6.26%	1.68%	3.18%
Operating Expenses (mil):	22,710	21,484	21,740	21,837
EPS:	0.10	-0.10	0.04	0.06
P/B:	0.65	0.70	0.70	0.73
P/TB:	0.74	0.81	0.84	0.86

Source: FactSet

Recommendation

Barclays operates in a competitive banking industry primarily in the United Kingdom and United States. While Barclays is by no means a small player, it is somewhat dwarfed by the largest bulge bracket banks in both countries. This allows the firm to operate in a middle-ground space, where it has the size and clout to prevail over smaller regional banks and maintain the flexibility to operate where the largest banks are unable to compete. With its multi-century long history, Barclays has built a solid reputation and a loyalty among its customers that spans generations. While Barclays operates through several segments and offers a variety of services, the company can be divided into two main segments. Barclays International makes up approximately two-thirds of the bank's total revenue, while Barclays UK accounts for most of the remainder. Each segment exceeded expectations in fiscal year 2017, capped off by a solid 4Q17 earnings report. Their most recent quarterly performance may represent an inflection point in the stock's trend, as it has endured a bearish period; however, encouraging tailwinds have been developing. Barclays has recognized its core strengths and expertise lies within specific markets – especially the UK. As a result, the bank has started to sell off several of its risky and unsuccessful operations internationally, such as reducing its shareholding in Barclays Africa Group to a minority interest - and an eventual separation. In addition, the banking industry as a whole stands to capitalize on a period of rising interest rates that should occur in both of its major revenue countries. Despite these tailwinds, BCS carries a favorable valuation to its peers including attractive P/B and P/TB multiples below the industry average, suggesting room for further capital appreciation. This combination of drivers pointing to increased interest income with a discounted valuation make Barclays PLC an appealing stock. As a result, it is recommended that BCS be added to the AIM International Fund with a target price of $13.15 representing 12.2% upside. The company pays a dividend that currently yields 1.3%.

Investment Thesis

- **Potential to Build off a Strong Q417.** While the headline earnings missed in the fourth quarter of 2017, the details in the earnings report are very encouraging for BCS. The majority of the miss can be attributed to non-material causes in the core business: negative income in the typically volatile head office due to a net expense of treasury operations, and litigation largely driven by a provision for FX matters. These are more than offset by the two key segments, Barclays UK & Barclays International, both beating expectations by 1% as well as lower impairments in the UK.

Beyond revenue performance, management is sending a strong signal to the markets – Barclays is not short on capital. As expected, the bank declared its dividend for FY17 at 3p. Looking forward, BCS has set expectations for its 2018 dividend at a healthy 6.5p – more than double the current dividend and a significant raise even above the consensus of 5.2p. When capital printing at 13.3% and an end-target of 13% are considered as well, it is not difficult to foresee capital returned to the shareholders through further dividend increases and share buybacks – something specifically mentioned by the CEO in the annual statement.

- **Rising Interest Rates.** After a prolonged period of low interest rates, there finally appears to be some momentum to the upside. The 10-year U.S. treasury yield has reached its highest levels in over 3 years, while the Bank of England is warning of earlier and larger rate hikes for the UK than initially anticipated. While the rate increase in the UK will not take place in a rapid fashion, a steady rise upwards seems likely especially when considering the country's inflation of 3.1% is well above a 2% target. The banking industry stands to capitalize from this trend, increasing net interest margins that does not appear to be captured in Barclay's current valuation.
- **Favorable Valuation Relative to its Peers.** Barclays has traded at a discount to its peers recently, but this may be coming to an end. The company has shed its less profitable segments and operations in countries outside of its core capabilities, offering increased returns on investment for its shareholders. With Price to Book and Price to Tangible Book Valuations not only significantly below its peers' average, but near the lowest among its competitors there is significant opportunity for Barclays' stock to appreciate through a correction in its discounted valuation as well as its drivers.

Valuation

To find BCS's intrinsic value, a P/B relative valuation and P/TB valuation were used to compare Barclays to its peers. Using a peer average P/B ratio of 0.95x and an estimated 2018 BVPS of $16.01, a value of $13.14 was obtained. This produces an upside of 12.1%. For the P/TB valuation, a peer average ratio of 1.08x and an estimated 2017 TBVPS of $13.89, a value of $13.17 was obtained. This produces an upside of 12.3%. Weighing the P/B and P/TB valuations 50/50, an intrinsic value of $13.15 was found, yielding a 12.24% upside. The annual dividend yield is 1.3%.

Risks

- **Brexit.** When the UK surprisingly voted to leave the EU in June of 2016, many questions arose as to when and how exactly this process would unfold. Closing in on almost two years later, a lot of uncertainty remains on the overall impact this will have on the country. Given Barclay's inherent and substantial exposure to this country, this could have a major impact to the company's performance in the future to either the upside or the downside.
- **Interest Rate Increases Fizzle Out.** While the consensus expectation is for there to be rate hikes in both the US and the UK over the next few years, this is not a certainty. If the macroeconomic conditions were to change, and rates remained stagnant or declined, Barclays would likely suffer to some degree given the correlation between interest rates and the banking industry's profitability.

Management

John McFarlane serves as Chairman for Barclays and is a leading figure in global banking and in the City of London, having spent over 40 years in the sector with over half at the main board level. He is chairman of Barclays PLC as well as TheCityUK. Prior to his time at BCS, he was the CEO of the Australia and New Zealand Banking Group. McFarlane is joined at the head of management by Group Chief Executive Officer Jes Staley. Staley joined Barclays in December of 2015 and has nearly four decades of extensive experience in banking and financial services. He has over 30 years of experience at JPMorgan Chase and holds a BA in Economics from Bowdoin College.

Peer Fundamentals					
Name	Ticker	Interest Income (mil)	EPS	Loan Loss Provision	Net Income
Barclays PLC	BCS	29,296	0.56	3,174	2,108
Deutsche Bank AG	DB	28,688	-1.19	1,546	-1,856
HSBC Holdings PLC	HSBC	42,397	0.35	3,341	2,472
Lloyds Banking Group PLC	LYG	22,366	0.16	886	4,049
Royal Bank of Scotland Group PLC	RBS	15,610	-1.61	725	-7,095
UBS Group AG	UBS	13,995	0.3	130	1,184
Peer Averages		24,611	-0.40	1,326	-249

Source: FactSet

Peer Valuation					
Name	Ticker	Market Cap (mil)	P/B	P/TBV	Div Yld
Barclays PLC	BCS	50,019	0.68	0.79	1.35
Deutsche Bank AG	DB	33,793	0.44	0.5	1.23
HSBC Holdings PLC	HSBC	202,105	1.05	1.2	4.97
Lloyds Banking Group PLC	LYG	69,205	1.19	1.35	4.08
Royal Bank of Scotland Group PLC	RBS	44,873	0.69	0.8	0.00
UBS Group AG	UBS	74,434	1.36	1.56	3.88
Peer Averages		84,882	0.95	1.08	2.83

Source: FactSet

Venator Materials Plc (VNTR)
February 28, 2018

Andrew Crossman International Materials

Venator Materials Plc (NYSE: VNTR) manufactures and sells color pigments, additives, and timber and water treatment products. VNTR operates under two distinct product segments titanium dioxide (72.8% FY17 revenues) and performance additives (27.2%). Titanium dioxide is used as a white coating for everyday items, and performance additives produce wood preservatives used in building applications. VNTR derives 74% of revenues internationally. The company was founded in April 2017 and is headquartered in Wynyard, United Kingdom.

Price ($):	$19.55
Price Target ($):	$26.73
52WK H-L ($):	26.90-17.85
Market Cap (bil):	$2.07
Insider Holdings	15.3%
Avg. Daily Vol (thou):	1,300.50
Yield (%):	0.0%
ESG Rating	B

Beta:	0.70
M-Term Rev. Gr Rate Est:	9.6%
M-Term EPS Gr Rate Est:	21.9%
Debt/Equity:	67.2%
Debt/EBITDA (ttm):	2.05
WACC	6.22%
ROA (%):	4.58%
ROE (%):	19.84%
ROIC (%):	8.67%

FY: Dec	2017A	2018E	2019E	2020E
Revenue (Mil)	2,209.00	2,556.00	2,731.00	2,902.00
% Growth	-4.3%	15.7%	6.8%	6.3%
Oper Inc	243.00	286.00	301.00	317.00
% Growth	17.7%	17.7%	5.2%	5.3%
Op Margin	11.0%	11.2%	11.0%	10.9%
EPS*	$1.19	$1.71	$2.05	$2.09
P/E (Cal)	16.4	11.4	9.5	9.3
EV/EBITDA	7.8	6.9	6.5	6.2

Recommendation

Venator is a top provider of titanium dioxide and other additives to chemical and manufacturing producers from around the world. VNTR serves 1,800 customers in over 110 countries including PPG, Sherwin-Williams, and BASF. Differentiation is the driving force behind Venator's ability to stand out in a commoditized industry. Their specialty products are used in applications such as food, cosmetics, medicine, and fibers. VNTR is poised to grow sales through increased production capacity at high margin facilities. Management has strategically positioned to grow along with the titanium dioxide industry (3% 5yr CAGR). Venator is the second largest producer of TiO_2 in the industry (10% of overall sales), just behind DowDupont at (19% of overall sales). Management has emphasized operational efficiency gains, leveraging their best performing operating sites and superior operational network to best supply customers. Revenue has grown at a CAGR of just under 2% for the past 2 years, but in that same time, net income has increased from a net loss of $352M to a gain of $144M. Additionally, this focus on superior operations has proven to generate superior cash flow with free cash flow increasing by $232M over the past year. Management is aiming to strengthen VNTR's balance sheet by reducing debt ($40M net debt reduction in FY17). This commitment is further showcased by Venator's early repayment to Huntsman in order to independently begin to form their own capital structure as well as take advantage of low interest rates. With $238M on their balance sheet, Venator is in an optimal position to increase shareholder value through investment in their most profitable operations. The titanium dioxide industry has strong built in growth driver's as its applications for pigments are numerous and still growing. In addition, color pigments, water treatment facilities, and timber treatment facilities provide a steady stream of revenue to underlie the high potential of the TiO_2 segment. 18 of VNTR's 26 facilities are dedicated to the production of color pigments and water and timber treatments, while the other 8 plants are dedicated to titanium dioxide production. Due to Venator's potential topline growth, innovative product line, and industry tailwinds, it is recommended that VNTR be added to the AIM International Equity Fund with a price target of $26.73, which represents a 37.1% upside. VNTR does not pay a dividend.

Investment Thesis

- **Product Innovations** VNTR owns and operates two different innovation centers in Wynyard, U.K. and Duisburg, Germany that are dedicated to creating solutions addressing emerging problems within the TiO_2 market. In 2017, 7% of titanium dioxide revenues and 20% of specialty products were generated from products launched in the past five years. Customized solutions differentiate Venator from other competitors. A few of their most recent advancements have been in UV absorption technology, chemical catalysts, and refinery materials. Venator's product development efforts will continue to support competitive margins. Venator's specialty products segment is nearly three times the size of the nearest competitors, allowing VNTR to take advantage of economies of scale in their highest EBITDA margin segment.

- **Business Improvement Program** Management implemented a business improvement program in FY17 which had a goal of $60MM in annualized savings that would improve EBITDA. In the first year of the program $23MM was saved as a result of general cost reductions and optimization of a manufacturing network. VNTR closed two color pigment manufacturing plants based out of Missouri and Pennsylvania in an effort to focus on growing higher performing operations. Management has stated that revenue from these plants will be supplemented by growth in TiO_2 operations, and that $30 million in further benefit will be recognized during 2018. Improved cash flows generated through this program are expected to be used to reduce net debt to a $350M target, invest in business operations, and returning capital to shareholders.
- **Improved Titanium Dioxide Price Outlook** VNTR is heavily dependent upon growth through their largest and highest EBITDA producing segment, Titanium Dioxide (22.6% FY17 margin). The overall TiO_2 industry is expected to grow from $13 B to $28.5 B by 2025 (8.9% CAGR). Prices have risen from $1.58/lb to $2.20/lb at the end of 2017, a 39% increase. Economic tailwinds will benefit the commoditized distribution of titanium dioxides which constitute 40% of overall production. The other 60% of production comes from specialty pigments which are customized for the specific needs of suppliers. This product mix allows Venator to take advantage of commodity price increases and maintain steady margins during commodity underperformance. Additionally, with a limited number of suppliers in the market and high barriers to entry price appreciation of outputs is expected to continue supporting projections for the future.

Valuation

To reach an intrinsic value for VNTR, a 5-year DCF model was constructed. Using a terminal growth rate of 2.25% and a WACC of 6.22%, an intrinsic value of $27.29 was reached. A ± .25% sensitivity analysis on the terminal growth rate and WACC ranged from $24.18- $31.30. Additionally, an FY1 EV/EBITDA multiple valuation was conducted in order to reach a valuation of $25.42. The DCF and EV/EBITDA were weighted 70/30 resulting in a price target of $26.73, representing an upside of 37.1%. The firm does not pay a dividend.

Risks

- **Fire at Pori Manufacturing Site** In January 2017 Venator's manufacturing site in Pori, Finland suffered fire damage requiring reconstruction of a majority of the plant. The reconstruction of the specialty products facility is on pace to be completed by the end of FY18. The commoditized titanium dioxide production which represents about 40% of the facility total will be rebuilt at a future date.
- **Commodity Pricing** Venator's revenues are semi-dependent on the market price of titanium dioxide as they are a price taker especially with regards to the commoditized market. Additionally, price fluctuations of production inputs would have a negative effect on margins.
- **New and Unproven** Venator's IPO took place in 2017 when it spun off from Huntsman. The market for titanium dioxide is made up of a few main competitors, and the threat of competitors is high. Venator will need to solidify its business strategy in order to remain competitive.

Management

Simon Turner serves as president and CEO. He previously acted as the Pigments and Additives Divisions' President at Huntsman Corporation prior to the spinoff of Venator. Kurt Ogden serves as the SVP and CFO of Venator. He was previously Vice President of Investor Relations and Finance at Huntsman Corporation.

Source: FactSet

Name	Ticker	Revenues	ROE	ROA	Debt/Equity	Est 3 yr NI growth
Venator	VNTR	2,209	19.8%	4.6%	67.2%	65.8%
Tronox	TROX	1,782	6.6%	1.1%	419.8%	266.7%
Kronos	KRO	1,609	56.7%	22.4%	65.8%	-6.5%
Chemours	CC	6,183	155.4%	11.2%	478.1%	16.8%
Lanxess	LXS	10,185	5.9%	1.5%	121.2%	68.4%
Peer Avg		4,940	56.2%	9.1%	271.2%	86.4%

Source: Factset

Name	Ticker	Market Cap (mil)	P/S	P/E	EV/EBITDA	P/B
Venator	VNTR	2,077	0.94	15.52	4.45	1.89
Tronox	TROX	2,525	1.41	34.29	9.25	3.37
Kronos	KRO	2,796	1.74	8.47	-	3.94
Chemours	CC	9,458	1.51	13.96	6.47	10.87
Lanxess	LXS	7,666	0.75	50.57	6.91	2.76
Peer Avg		5,611	1.35	26.82	7.54	5.24

Source: Factset