Applied Investment Management (AIM) Program

AIM Class of 2011 Equity Fund Reports
Spring 2011

Date: March 11, 2011

Location: Cortina Asset Management

Student Presenter	Company Name	Ticker	Price	Page No.
Luke Darkow	Redwood Trust	RWT	$16.10	2
Ben Hariri	Tesco Corporation	TESO	$18.56	5
Aaron Socker	Ancestry.com	ACOM	$31.33	8
David Zakutansky	American Railcar Industries	ARII	$19.40	11
Mike Muratore / Tom Molosky	World Wrestling Entertainment	WWE	$13.19	14
Mark Rutherford	Quaker Chemical Corporation	KWR	$38.53	17
Jose Munoz	Nu Skin Enterprises	NUS	$31.00	20

Thank you for taking the time today and participating in the AIM 'road show' at Cortina Asset 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 Cortina.

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

Redwood Trust (RWT)
March 11, 2011

Luke Darkow — Financial Services

Redwood Trust (RWT) is a mortgage finance real estate investment trust with a concentration in U.S. residential loans and securities representing approximately 29% and 70% of revenue respectively. The company has traditionally invested in non-agency below investment grade MBS, but to take advantage of the current dislocation in the residential real estate market environment, RWT has focused on acquiring senior mortgage securities at discounted prices. RWT holds a diverse portfolio of held-to-maturity securities (Sequoia portfolio and loans) and available-for-sale securities (Redwood MBS and Redwood Opportunity Fund) representing approximately 25% and 65% respectively of RWT's total mortgage portfolio. RWT's remaining portfolio consists of investments in other consolidated entities relating to CMBS and cash on hand. Founded in 1994, RWT is headquartered in Mill Valley California.

Banking/Financial Services							
Price ($): (3/30/10)	16.1	Beta:	1.30	FY Aug	2009A	2010E	2011E
Price Target ($):	20.5	WACC	11.3%	Net Interest (Mil)	145.39	149.77	181.17
52WK H-L ($):	13.5-17.6	L-Term Rev. Gr Rate Est:	11%	% Growth	-6.70%	3.01%	20.97%
Market Cap (mil):	1.26B	L-Term EPS Gr Rate Est:	21%	Operating Margin	46.50%	60.00%	70.00%
Float (mil):	77.01	Financial Leverage	4.8x	EPS (Cal)	0.84	1.13	1.61
Short Interest (%):	5.7%	ROA:	2.1%	Dividend	1.00	1.01	1.45
Avg. Daily Vol (mil):	0.596	ROE:	10.2%	BVPS	13.76	14.79	16.26
Dividend ($):	1.00			P/B	1.53	1.42	1.29
Yield (%):	6.21%						

Recommendation

2007 and 2008 were disastrous years in the U.S. housing market with prices plummeting over 30% nationally and the RMBS and CMBS securitization markets freezing. RWT was able to weather this storm as a result of management's extensive experience in the non-agency mortgage market, a clean balance sheet without exposure to risky short term repurchase debt, and a healthy cash balance. This allowed RWT to deploy funds to take advantage of historic MBS discounts at approximately 60 cents on the dollar. Despite a depressed dividend of $1.00 per share, representing a payout ratio of 73%, RWT currently provides a dividend yield of approximately 6.2%. As RWT's payout ratio expands to its historical 80-90% range and with EPS projected to grow at a CAGR of 21%, dividends per share should be positively impacted. Dividends per share are projected to increase to $1.95 per share by 2015 - growing at a CAGR of 14%. This growth story is supported by a moderate rebound in housing prices positively impacting RWT's RMBS portfolio and an expected conforming loan limit decline from $729,750 to $625,500 by the end of September 2011 with further reductions expected. This decrease in conforming loan limits will increase RMBS securitization activity into 2012 along with CMBS securitization. As the U.S. housing and securitization markets recover, RWT's strong dividend and undervalued share price offer investors an upside return of 27% at a target price of $20.50.

Investment Thesis

- **Market Dislocation Providing Attractive Upside.** RWT has shifted its focus from buying lower rated mortgage debt to purchasing senior mortgage debt with management guiding toward a 10-20% return. In 4Q 2008, RWT purchased prime AAA rated MBS at 65 cents on the dollar with a 12% credit enhancement and no short-term refinancing risk. As the residential real estate market approaches a bottom during 2011 and recovers into 2012, returns on RWT's residential loan and MBS portfolios should be positively impacted with a projected net interest income CAGR of approximately 7.6%. With continued dislocation in the housing market, opportunities for buying RMBS at attractive discounts will continue.

- **Long-Term Financing Reduces Balance Sheet Risk.** RWT funds investments with predominantly permanent capital including common equity, trust preferred securities and long term subordinated debt - instead of short term repurchase agreements. Consequently, RWT avoids margin call risk brought on by mark to market accounting rules. As a result, RWT's business model is less risky than its peers and RWT resembles an operating company as much as an investment company.
- **Return of Jumbo Mortgage Securitization Market.** Many jumbo mortgage originators no longer exist or are operating under different forms. Currently, RWT has origination deals with only a few lenders, but the company is actively pursuing discussion and potential origination deals with other large lenders. In April of 2010, RWT closed the first private RMBS deal since 2008 worth $238 million and followed this up with another sizable securitization of $290 million in February of 2011, illustrating RWT's dominance in the market. The firm should benefit from continued increases in RMBS securitization activity.

Valuation

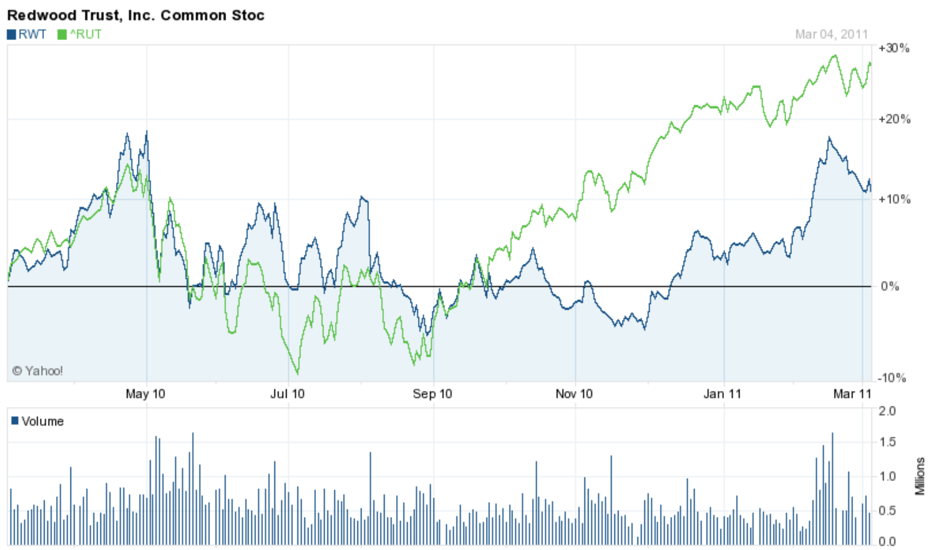
To derive an intrinsic value for RWT, a variety of valuation techniques were utilized. A dividend discount valuation analysis was performed, which yielded a base case intrinsic value of $20.98 with a computed discount rate of 11.3% and a terminal growth rate of 3.0%. A relative valuation technique was utilized as well, taking a weighted average of RWT's historical P/BVPS ratio (excluding 2003 and 2004) of 1.26x and a peer average P/BVPS of 1.11x. Applying the calculated P/BVPS of 1.23x to a blended 2011 and 2012 BVPS of $15.53, yielded an intrinsic value of $19.15. Taking both valuation techniques into consideration, a target price of $20.50 was established for RWT - representing a 30% upside. Currently, RWT pays a yearly dividend of $1.00 per share yielding 6.2%.

Risks

- **Credit Risk.** If mortgages underlying the non-agency MBS in which RWT has invested are downgraded or default and create losses in amounts greater than reflected in the prices at which RWT has purchased (65%), RWT earnings and resulting dividend payout projections will be negatively impacted. Rating agencies such as S&P and Moody's have been playing catch up in downgrading securities and though RWT is not a ratings-sensitive investor, forced selling by other market participants could drive market values down further requiring additional write downs.
- **Continued Depressed Securitization Activity.** RWT's main source of creating earning assets is through the purchase of RMBS through the securitization market from issuers and servicers such as Wells Fargo and Bank of America. If securitization activity remains depressed or are only available at unfavorable terms (i.e. higher borrowing costs), RWT earnings could be negatively impacted. Mortgage servicers are still under considerable pressure due to the high volume of delinquencies, modifications, foreclosures and litigation dealing with "robo-signings."
- **Prepayment Risk** If interest rates and mortgage rates increase substantially, mortgages underlying RWT's non-agency RMBS would potentially prepay at slower speeds than reflected in the price for which RWT paid, reducing the likelihood of achieving projected returns.

Management

Martin Hughes has served as President since January 2009, CEO since May 2010, and joined the firm in 1998 as CFO. Brett Nicholas, CIO since May 2010, formerly held the position of COO since 2007. Mr. Nicholas joined the firm in 1996 as vice president. Mr. Hughes has over 18 years of senior management experience in the financial service industry and 13 years of experience with RWT directing the firm through numerous business cycles and the subprime mortgage crisis of 2007 and 2008.



Ownership

% of Shares Held by All Insider and 5% Owners:	1%
% of Shares Held by Institutional & Mutual Fund Owners:	91%

Top 5 Shareholders

Holder	Shares	% Out
Weitz (Wallace) R. & Company	6,463,274	8.28
Perkins Investment Management.	5,672,351	7.27
Wellington Management Company	2,913,373	3.73
Vanguard Group	2,820,729	3.61
T. Rowe Price Associates	2,797,400	3.58

Tesco Corporation (TESO)
March 11, 2010

Ben Hariri — Domestic Energy

Tesco Corporation (NASDAQ: TESO) is engaged in the design, manufacture, and service related to the sale and rental of drilling equipment and accessories to the upstream energy industry. TESO provides products and services to major and independent international and national oil and natural gas exploration and production companies, contract drilling companies, and other service providers. TESO has three profit generating business segments: Top Drives, Tubular Services, and Casing Drilling (representing 64%, 50%, and 11% of annual revenues, respectively). The company has a significant operational presence internationally with subsidiaries present in 29 countries other than the United States. TESO was founded in 1986 and is headquartered in Houston, Texas.

				FY: Dec	2010A	2011E	2012E
Price ($): (3/4/11)	18.56	Beta:	1.05				
Price Target ($):	23	WACC	14.27%	Revenue ($Mil)	378.7	521.0	615.5
52WK H-L ($):	19-9	3-5 yr. Rev. Gr Rate Est:	18-12%	% Growth	6.23%	37.57%	18.13%
Market Cap (mil):	706.4	3-5 yr. EPS Gr Rate Est:	23-28%	Gross Margin	18.91%	20.88%	24.71%
Float (mil):	30.9	Debt/Equity:	0.0%	Operating Margin	4.06%	10.12%	14.15%
Short Interest (%):	11.8%	ROA:	1.6%	EPS ($Cal)	0.19A	0.94E	1.56E
Avg. Daily Vol (mil):	0.129	ROE:	1.9%	FCF/Share	$0.19	$0.20	$1.27
Dividend ($):	0.00			EV/EBITDA	10.57x	10.04x	9.54x
Yield (%):	0.0%			P/E	63.5x	21.4x	16.3x

Recommendation

TESO is an industry leader in the development and distribution of oil and natural gas drilling equipment. They are the largest supplier of rental top drive drilling systems and they are the recognized leader in the commercialization of their patented Casing Drilling technology. Major competitors include National Oilwell Varco, Nabors Industries, Weatherford International, and Franks International. Major customers include Shell Offshore, Chevron, BP, and Petroleo Brasiliero (Petrobras). Since the beginning of the global economic downturn in 2008, many oil and gas operations companies cut back their drilling activities. The Deepwater Horizon explosion and subsequent BP Macondo oil spill that occurred in the Gulf of Mexico in April 2010 forced companies that operate in these waters to cut back drilling even further. The combination of these issues has negatively impacted TESO's businesses over the past year. Despite this, TESO managed to increase their 2010 revenues YoY from $356.8 million in 2009 to $378.7 in 2010. The firm was also able to increase their EPS YoY from -$0.14 in 2009 to $0.19 in 2010. TESO has been able to differentiate themselves by offering innovative products and specialized services that add value to customers by reducing the costs associated with drilling and production, as well as increasing safety. Therefore, it is recommended that TESO be added to the AIM Equity Portfolio at a target price of $23, an upside return potential of 24%. The firm does not pay a dividend.

Investment Thesis

- **Further Market Penetration.** According to rig count data provided by BHI, MI, Schlumberger, and TESO, approximately 95% of the world's 700 offshore rigs have top drives. On the other hand, there is only 60% top drive penetration of the 5,000 onshore rigs. Because top drives increase efficiency and decrease the amount of manual labor and hazards typically associated with rotating the drill string and bit, companies engaged in drilling are highly incentivized to use them. With regards to tubular services, TESO estimates that there is a market of about $2 billion and TESO currently has only 5% penetration of their proprietary services. Lastly, TESO believes the potential market for their Casing Drilling segment is measured in billions of dollars, while the current market volume is only about $50 million.

- **Attractive Acquisition Target.** As larger oil service companies seek ways to quickly accelerate growth and expand their international presence, it is expected that there will be further consolidation within the sector. There has recently been a great deal of activity within the space, including the buyout of Smith International by Schlumberger, Allis-Chalmers Energy by Seawell, and T-3 Energy Services by Robbins & Myers. TESO is particularly attractive due to their innovative and specialized proprietary technologies and sizable R&D department. Furthermore, TESO completed paying off their credit facility in early 2010 and currently has no long-term debt. A larger company could be in an enhanced position to fund TESO's expansion.
- **Improving Drilling Environment.** The first deepwater drilling permit since the BP Macondo oil spill has just been approved by the Obama administration for Noble Energy. The U.S. Department of the Interior has further indicated that a significant number of permits are on their way. More specific to TESO, they have been able to increase their top drive backlog of 25 units as of December 2010 to 30 as of its earnings announcement in February. Rental economics also continue to improve, as fleet size increased to 125 from 123 in the previous quarter and utilized days per unit increased from 50 to 55.

Valuation

Based on a 5 year DCF analysis with a computed WACC of 14.27% and a terminal growth rate of 3%, an intrinsic value of $21.69 was obtained for TESO. A sensitivity analysis that adjusts both the long-term growth rate (2-4%) and the WACC (11.27-17.27%) generates a price range of $20.23-34.98. An EV/EBITDA multiple approach was also used with a multiple of 16.0x, yielding an intrinsic value of $23.28. Taking these into account, a price target of $23 was established. With the stock currently trading around $19, the $23 price target would yield a 24% return.

Risks

- **Political Instability in MENA Region.** The political instability in the Middle East and North Africa region, specifically in countries such as Egypt, Tunisia, Libya, Bahrain, and Iran, has the potential of threatening oil supply and drilling activity in the region. Many of the aforementioned countries are major oil producing countries or countries that are essential to the transport of oil. Furthermore, the threat of the political strife spreading to other neighboring countries is possible. In 2010, approximately 6% of TESO's revenues were earned in Europe, Africa, and the Middle East.
- **New Regulations in Gulf of Mexico and Elsewhere.** TESO's business has been affected by the aftermath of the Deepwater Horizon explosion, BP Macondo oil spill, and the resulting deepwater offshore drilling moratorium in the Gulf of Mexico. Although the moratorium has since been lifted, it is impossible to determine with full certainty when deepwater drilling within the Gulf of Mexico will reach the pre-incident level. The enactment of new rules and regulations in the United States, as well as in the other countries around the world in which TESO operates, could adversely affect drilling activity and TESO's financial condition. TESO may also be subject itself to comply with new rules and regulations, which could be extremely costly to implement.

Management

Norman W. Robertson is Chairman of the Board. He has served on the company's Board since August 1996 and as the Chairman since 2005. Julio M. Quintana is President, CEO, and Director. Mr. Quintana has served on the company's Board since 2004 and as the company's President and CEO since 2005. Previously, he has held the roles of President, Executive VP, and COO of the Corporation. Prior to September 2004, Mr. Quintana was the VP & General Manager, Integrated Project Management and VP, Exploitation for Schlumberger Technology Corp.

Ownership

% of Shares Held by All Insider and 5% Owners:	18%
% of Shares Held by Institutional & Mutual Fund Owners:	78%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Lime Rock Management, L.P.	6,877,799	18.07
Royce & Associates, L.L.C.	5,104,180	13.41
Columbia Wagner Asset Management, L.P.	2,526,076	6.64
Eagle Asset Management, Inc.	2,402,736	6.31
Granahan Investment Management, Inc.	1,586,722	4.17

Source: Bloomberg

Ancestry.com, Inc. (ACOM)
March 11, 2011

Aaron Socker — Telecomm

Ancestry.com, Inc. (Nasdaq: ACOM) is the world's largest online family history resource - with over 5B historical records, 22M family trees and more than 1.3M paying subscribers around the world as of FY 2010. ACOM has been a leader in the family history market for over 20 years and is a pioneer for online family history research with a domestic and international footprint (77% and 23% of revenues, respectively). Its subscribers use their proprietary online platform, digital historical record collection and technology to research their family histories, build family trees, collaborate with other subscribers, upload records, and publish stories about their families. The company was formerly known as The Generations Network. and changed its name to Ancestry.com, Inc. in July 2009. ACOM was founded in 1987 and is headquartered in White Plains, New York.

Price($): (3/01/11)	31.33	Beta:	1.08	FY: Dec	2010A	2011E	2012E
Price Target ($):	41.00	WACC:	12.0%	Revenue (Mil)	300	371	433
52 WK H-L ($):	15.23-38.69	M-Term Rev Gr Rate Est:	3.50%	% Growth	33.81%	23.66%	16.71%
Market Cap (mil):	1,470	M-Term EPS Gr Rate Est:	5.50%	Gross Margin	82.66%	83.91%	85.10%
Float (mil):	27.61	Debt/Equity:	0%	Operating Margin	20.33%	23.55%	26.72%
Short Interest (%):	5.80%	ROA:	7.25%	EPS ($ Cal)	0.76	1.01	1.31
Avg. Daily Vol. (mil):	.609	ROE:	11.19%	FCF/Share ($)	1.22	1.49	1.72
Dividend ($):	0			P/E (Cal)	41.22x	31.01x	23.91x
Yield (%):	0			EV/EBITDA	16.1x	12.4x	10.2x

Recommendation

Ancestry.com (ACOM), the world's largest online genealogy resource, is seeing signs that its business is moving beyond a lucrative niche and into the main stream. Since going public in September 2009, ACOM has experienced substantial revenue and subscriber growth (revenues grew at a 4-year CAGR of 22% to 1.4M subscribers as of December 2010 with 25% growth expected for 2011). While significantly increasing its subscriber base, total revenues were up over 30% for FY 2010. Subscriber growth has had a direct effect on EBITDA margins expanding from 16% in FY 2006 to nearly 34% last year as economic scale was realized due to the high fixed cost structure (37% EBITDA margin expected by 2012).

In FY 2010 the average monthly revenue per customer was $17.78 vs. $16.67 for the previous year (+6.6% YoY) due to a shift into monthly subscriber plans and higher priced premium packages. ACOM also completed an acquisition in Q4 2010 of i-archives, a leader in transforming microfilm and other print content into searchable, digitized, online databases. The $27M acquisition was paid for with 1M shares and cash (a $25M buyback program initiated to avoid dilution). The acquisition should result in $10M of annual cost savings for the company, while improving digitizing capabilities and image viewing - which should enhance consumer engagement and stickiness. Also, the second season of ACOM's branded show "Who do You Think You Are" began airing in Q1 2011 on NBC. Viewership is up 9% from last year to nearly 6.6M viewers and management believes the show will continue to serve as a "catalyst for subscriber growth" as Ancestry's brand reaches a larger market audience. With its rapidly growing subscriber base, increasing strong brand awareness, and economies of scale being realized it is recommended that ACOM be added to the AIM Domestic Equity Portfolio with a price target of $41.00. With the company currently trading at $31.33, ACOM represents a potential 31% upside return.

Investment Thesis

- **Strong Customer Growth and Forward Guidance.** Substantial subscriber growth will continue to fuel ACOM's top and bottom line expansion. As of Q4 2010, ACOM's subscriber base was roughly 1,395,000 compared to 622,500 in 2007 (124% increase); leading to revenue increases from $127M to $300M over the same time period (136% increase). With increasing word of mouth marketing and advertising campaigns there is no sign of subscriber growth slowing over the next 3-5 years. Management has guided for a 25% YoY growth for 2011 to 1.7M subscribers. ACOM is inherently a network effect business meaning as more subscribers join and upload content, the service becomes more useful to others as the database of information grows. Additionally, with product scalability and economies of scale, margin expansion is likely.

- **Technology Investments.** ACOM is actively making technology and development investments during 2011 in an attempt to penetrate the mobile device and tablet markets which are both compelling opportunities. Investing capital into creating genealogy apps that leverage the overall mobile device shift in our economy should increase subscriber conversion and improve retention.
- **Barriers to Entry.** Acquiring, organizing, and servicing the massive amounts of data required to offer a competitive genealogy service offers a significant competitive advantage for ACOM. Ancestry.com has digitized billions of profiles, photographs and records expanding their data base. New competitors have tried to enter the market, but have had virtually no impact on Ancestry's growth as their data bases and user friendliness are obsolete in comparison.

Valuation

Based on a 10 year DCF analysis with a computed WACC of 12% and a terminal growth rate of 3.50%, an intrinsic value of $40.22 was obtained for ACOM. A sensitivity analysis that adjusts for both the long term growth rate (2.5%-4.5%) and WACC (10%-14%) generates a price range of $32.50-$49.20. Also, ACOM is currently trading at a forward P/E of 24x 2012 EPS of $1.31. Applying an e-commerce industry average multiple of 35x to a 2012 EPS estimate of $1.31 suggests a fair value of $45.85. Additionally, a price to sales approach was utilized resulting in a price of $42.57. Using these three approaches, a price target of $41 has been established. With the stock currently trading at $31.33, the $41 price target presents a 31% upside return potential. The firm does not pay a dividend.

Risks

- **Exchange Rate Fluctuations.** Roughly 23% of Ancestry's total revenue and 12% of total expenses were received and paid in currencies other than the U.S. dollar. With an increasing international exposure the company is at risk for exchange rate fluctuations which could negatively affect financial results.
- **Excessive Subscriber Churn.** Substantially all of Ancestry's revenue is derived from subscriptions to their service. If consumers do not perceive their services to be reliable, valuable and high quality, retaining existing customers and attracting new subscribers will be difficult. ACOM is heavily dependent on marketing and advertising to retain existing subscribers and attract new subscribers; therefore, excessive subscriber churn could negatively affect their business model and financial condition.
- **Third Party Licenses.** ACOM owns most of the images in their database; however, in some cases they acquire a portion of the content through ongoing license agreements. Some of these agreements have finite terms and ACOM may not be able to renew the agreements on terms that are financially advantages. Also, agreements are generally terminable by either party for agreement breaches (such as content from the United Kingdom National Archives).

Management

Timothy Sullivan has served as President, Chief Executive Officer and director since September 2005. Prior to joining Ancestry.com, Mr. Sullivan was Chief Operating Officer and then President and Chief Executive Officer of Match.com from January 2001 to September 2004. From May 1999 to January 2001, Mr. Sullivan served as Vice President of E-commerce for Ticketmaster Online-Citysearch, Inc. He holds an M.B.A. from Harvard Business School and was a Morehead Scholar at the University of North Carolina at Chapel Hill.

Ownership

% of Shares Held by All Insider and 5% Owners:	54%
% of Shares Held by Institutional & Mutual Fund Owners:	44%

Source: Yahoo!Finance

Top 5 Shareholders

Holder	Shares	% Out
Crosslink Capital, Inc.	1,746,315	3.92
Wells Fargo & Company	1,705,613	3.83
Vanguard Group, Inc.	1,102,495	2.48
Wellington Management Company, LLP	927,540	2.08
Lord Abbett & Co.	893,979	2.01

Source: Yahoo!Finance

American Railcar Industries, Inc. (ARII)

March 11, 2011

David Zakutansky — Domestic Business Services

American Railcar Industries (ARII) designs and manufactures hopper and tank railcars in North America. In addition, ARII leases, repairs, and refurbishes railcars through its fleet management division as well as manufactures certain railcar and industrial components. The company operates in two reporting segments consisting of manufacturing operations (86% of revenues) and railcar services (14%). ARII complements railcar manufacturing and services by providing steel and aluminum casting, machining, welding, and fabrication to non-rail industries. ARII operates two Arkansas manufacturing facilities that make covered hoppers for grains, cement, and other dry bulk and tank cars for liquid and gas commodities. In an attempt to vertically integrate, ARII has entered into three joint ventures to expand markets, technology, and manufacturing capabilities. The company is headquartered in St. Charles, MO and was founded in 1988.

Price ($): (03/01/2011)	19.40	Beta:	1.41
Price Target ($):	24.00	WACC	12.39%
52WK H-L ($):	9.38-23	M-Term Rev. Gr Rate Est:	10%
Market Cap (mil):	413.54	M-Term EPS Gr Rate Est:	17%
Float (mil):	9.71	Debt/Equity:	89.4%
Short Interest (%):	5.0%	ROA:	-4.1%
Avg. Daily Vol:	53,830	ROE:	-8.8%
Dividend ($):	0.00		
Yield (%):	0.0%		

FY: Dec	2010A	2011E	2012E
Revenue ($mil)	273.56	451.38	577.77
% Growth	-35.39%	65.00%	28.00%
Gross Margin	3.27%	8.00%	9.90%
Operating Margin	-6.09%	3.00%	8.50%
EPS ($Cal)	-1.27A	-.14E	1.23E
FCF/Share	$0.14	$0.12	$2.46
P/E (Cal)	n/a	n/a	15.72
EV/EBITDA	61.53x	8.71x	5.65x

Recommendation

ARII boasts a strong platform and is strategically positioned to take advantage of the growing number of companies and institutions looking to replenish their railcar needs. ARII's platform of both manufacturing and repair services situates the company to benefit from a steep recovery in the covered hopper and tank railcar market following the recession of 2008-09. With new orders of over 1,000 railcars and increased demand for specialized railcars, including specialty components and pressurized tankers, American Railcar stands to benefit from the projected 270,000 new industry railcar deliveries over the next 4 years. Furthermore, ARII and its dedicated management and operation teams are in a prime position for expanding market share with their Class I railroad clients. The introduction of a leasing service last quarter provides an example of management's innovative approach. ARII will grow its 13.5% market share as new orders flow into the market. Gross and net margins are 3.3% and -9.9%, respectively, and are expected to jump significantly in the coming years to historical levels in the 9-14% and 5-10% ranges. The margin improvement can be attributed to ARII's movement into more specialized railcars tailored to specific client requirements, the reality that specialized railcars can decrease an organization's unload time between 5% and 20%, and the development of an industry looking to replenish its railcar fleet. Therefore, because of strong industry recovery and new order growth prospects, it is recommended that ARII be added to the Domestic AIM Equity Fund with a $24 target price and a 23% potential upside.

Investment Thesis

- **Material Margin Improvement Opportunity.** Freight car storage in North America has declined from over 500,000 cars (32% of total fleet) in the summer of 2009 to 300,000 cars (20% of total fleet) in February 2011. Considering the fact that almost a third of railcars in current storage need scrapping, companies will be back in the new railcar market with force in the next three years. With expected railcar orders returning to 2006/2007 levels, net margins will rebound back to the historical

5+% range from the current -9% to 3.7% range. Eased pricing pressure will assist companies like ARII in recovering at a reasonable pace.

- **Railcar Order Acceleration.** Just as 2010 saw a massive 224% increase in railcar orders from the previous year, 2011 orders are expected to be even stronger. In the first two months of this year alone, ARII booked over 1,000 new railcar orders. Industry analysts expect new railcar orders and deliveries in 2011-2014 to set new records, with total industry deliveries at over 270,000. These new orders are in addition to the over $90 million backlog for the firm. Furthermore, with tank and hopper railcars representing over 50% of the North American fleet, ARII is positioned well since the company specializes in these two types of cars.
- **Rail Gaining Significant Market Share among Largest Shippers.** A significant modal shift is being made to cheaper means of transportation for companies across North America. In a survey of about 500 large shippers conducted by Morgan Stanley research, over 50% of respondents believed they will be shifting at least some volume from truck to rail. In addition, fewer than 25% responded they plan to shift volume from rail to truck. With shippers in North America expecting strong volume growth in 2011 and 2012, Class I railroads will need to be updating and repairing older fleets (average age of 23 years) to support this excess volume.

Valuation

Based on a 5-year DCF analysis with a computed WACC of 12.39% and a terminal growth rate of 3%, an intrinsic value of $25.07 was obtained for ARII. A sensitivity analysis that adjusts both the long-term growth rate (2.5-3.5%) and the WACC (11.89-12.89%) generates a price range of $22.74-27.95. Applying a 15x multiple on my 2013 EPS estimate of $1.46 yields an intrinsic value of $21.92. Due to the immediate near-term positive trends in the industry, a conservative price target of $24 was established. With the stock currently trading at $19.40, a $24 price target would yield a 23% return.

Risks

- **Ownership Concentration.** Icahn Enterprises LP (IELP) controls 54% of ARII's outstanding common stock. Mr. Icahn realistically has control over all matters requiring action by shareholders. A change of control within the company would not be passed without his agreement. To account for this risk, a stockowner concentration premium of 2% was added to ARII's WACC. In addition, an affiliate of IELP accounted for roughly 35%, 28%, and 25% of consolidated revenues for 2010, 2009, and 2008, respectively.
- **Customer Concentration.** Roughly 76% of revenues were derived from the company's ten largest clients, and 58% of revenues were derived from the top three clients in 2010. The loss of one or more of the company's major clients could adversely affect operation results.
- **Industry Cyclicality and Economic Headwinds.** ARII's domestic exposure could have an unfavorable effect on revenues and profitability in light of the recession and more slowly growing economies. Over the last three years, the company has experienced a decrease in demand combined with an increase in pricing pressures. Railcar orders have fluctuated from over 2,500 in 2007 to 280 in 2008 to 0 in 2009. It should be noted that new railcar orders for the firm in 2010, at almost 2,600, exceeded 2007 levels and orders for the first two months of this years are over 1,000 new railcars.

Management

James Cowan has served as CEO since April 2009 and has served as either executive vice president or COO since December 2005. Mr. Cowan is a 26-year veteran in the manufacturing and engineering industries and held a board position at Amtek Railcar, the Indian railcar manufacturer in which ARII has a 50% joint interest. Mr. Carl Icahn has served as chairman of the board and director since 1994. He brings significant industry experience to the firm as well as important business relationships and business partners.

Ownership

% of Shares Held by All Insider and 5% Owners:	0.1%
% of Shares Held by Institutional & Mutual Fund Owners:	96%

Source: Yahoo Finance

Top 5 Shareholders

Holder	Shares	% Out
Icahn Associates Corp	11,564,145	54.16
Advisory Research, Inc.	2,621,364	12.28
Dimensional Fund Advisors	1,729,882	8.10
F&C Asset Management	520,491	2.44
Vanguard Group, Inc.	431,624	2.02

Source: Bloomberg

World Wrestling Entertainment (WWE)
March 11, 2011

Tom Molosky & Mike Muratore — Consumer Services

World Wrestling Entertainment (NYSE: WWE), an integrated media and entertainment company, has been a major force in the sports entertainment industry for over 25 years. Throughout that period, WWE developed into one of the most well-known brands in global entertainment. The company develops unique and creative content highlighted by the WWE Superstars that is presented in both their live and televised events. WWE's revenue consists of four segments: Live and Televised Entertainment (70%), Consumer Products (21%), Digital Media (7%), and WWE Studios (2%). WWE has 585 employees providing a global presence with their televised programming available in 145 countries in over 30 languages, along with international tours in Europe, South America, and Australia. WWE was founded in 1980, and is headquartered in Stamford, Connecticut with offices in New York, Los Angeles, London, Tokyo, Toronto, and Shanghai.

Price ($): (3/7/11)	13.24	Beta:	0.82	FY: Aug	2009A	2010E	2011E
Price Target ($):	19.00	WACC	10.35%	Revenue (Mil)	475.16	465.66	512.22
52WK H-L ($):	18.95-11.50	Mid-Term Rev. Gr Rate Est	6.00%	% Growth	-9.74%	-2.00%	10.00%
Market Cap (mil):	992.43	Mid-Term EPS Gr Rate Est	1.44%	Gross Margin	46.16%	47.00%	46.50%
Float (mil):	27.05	Debt/Equity:	0.88%	Operating Margin	19.27%	22.77%	22.27%
Short Interest (%):	10.30%	ROA:	12.01%	EPS (Cal)	0.68	0.99	1.04
Avg. Daily Vol (T):	374,076	ROE:	16.35%	FCF/Share	$1.20	$1.34	$1.47
Dividend ($):	1.44			P/E (Cal)	19.34	16.23	18.24
Yield (%):	11.30%			EV/EBITDA	8.78	7.59	7.05

Recommendation

WWE offers a unique type of sports entertainment to fans of all ages across the globe. WWE fans are extremely passionate and enjoy viewing both live and televised events. Each year over 7,500 original hours of WWE programming is produced. WWE enjoys huge success in the U.S., specifically on Friday nights when WWE Smackdown is the top rated program among males ages 12-54. These fans are likely to continue demanding WWE's entertainment services and products for years to come. Most WWE fans grew up watching wrestling and many will remain fans for their entire lives with over 75% of viewers are over 18 years old. This specific type of sports entertainment currently has no close substitutes. Also, WWE is well positioned to grow internationally over the next few years. Currently, international revenues account for 27% of total revenues. With $167M in cash and no debt, management has an array of options to consider as they expand internationally with a heavy emphasis on China and Brazil. Other growth opportunities include the potential creation of a WWE Network and continued production of full-length films featuring WWE superstars (currently three major motion pictures are planned for 2011). Additionally, WWE is an attractive investment compared to its peers in the entertainment industry. With a ttm P/E of 19x, WWE trades at a significant discount to the peer average of 25x. Management's effectiveness can be seen in the ttm ROE of 16.35%, ROA of 12.01%, and ROIC of 15.22% - all of which are stronger than the peer averages of -7.94%, 4.17%, and 14.83%, respectively. Lastly, WWE's dividend is among the highest in the sector with at a yield of 11.3%. Management remains committed to the sustainability of this dividend, after increasing it from 24 cents per share to 36 cents per share in 2008. Because of these reasons and with a favorable valuation, it is recommended that WWE be added to the AIM Equity Fund with a target price of $19, offering a potential upside of 43%.

Investment Thesis

- **Niche Entertainment Market.** WWE has managed to become the principle brand in the market of professional wrestling within the sports entertainment segment. WWE is the only avenue by which fans can watch professional wrestling on television. The strength of the WWE brand can be seen in the fan loyalty of both televised and live events. WWE produces 7 hours of original television programming, 52 weeks per year. In 2009, WWE held 268 live events in North America entertaining over 1 million fans at an average ticket price of $37.68 and 74 live events internationally, reaching approximately 600,000 fans at an average ticket price of $66.08. Wrestlemania is the equivalent to the Super Bowl for wrestling fans. In 2009, Wrestlemania XXV was held in front of sold out crowds in Reliant Stadium in Houston, TX. Millions also watched at home on pay-per-view at a cost of $54.95, generating over $22 million in pay-per-view revenues. When Wrestlemania XXIV came out on DVD, over 320,000 copies were sold.

- **International Growth Opportunities.** While the U.S. is still the major source of revenue, there is a growing demand for WWE's events and products across the globe. $127M (27%) of the company's revenue in 2009 was generated from international sources compared to $63M (17%) in 2004. International events have significantly higher attendance (+30%) and average ticket price (~2x) than domestic events. Both of these points have helped WWE grow at a CAGR of 18% from 2003 - 2008. International growth will be the focus of WWE going forward and they are specifically looking to expand in Latin America, where revenue grew by 92% from $6.5M to $12.5M from 2008 to 2009, and Asia where WWE hosted its first event in China in 2010.

Valuation

To find the intrinsic value of WWE, a five-year DCF analysis was conducted. Sales growth rates were 2% and 10% for years 1 and 2, and years 3-5 were decreased by 100 bps a year from year 2 growth levels. Using a WACC of 10.35% and a terminal growth rate of 3.00% yielded an intrinsic value of $19.22. A P/E multiples approach using a 2011 P/E of 18x yielded a value of $19. Implementing a sensitivity analysis, accounting for variations in the WACC (9.35-11.35%) and long-term growth rate (2.25-3.75%) yielded a price target range from $25.49 to $16.30. Given the valuations generated by a DCF sensitivity analysis and P/E approach, a weighted average of these valuations resulted in a price target of $19.85. This price offers, in combination with a dividend yield of 11.3%, a potential return of 61%.

Risks

- **CEO Vince McMahon.** In addition to being CEO, Vince McMahon is responsible for creating the compelling characters and story-lines on a weekly basis. The unexpected loss, retirement, or disability of Mr. McMahon could potentially have an adverse effect on the company. Additionally, the McMahon family controls 88% of the voting power of outstanding shares. While he has shown no indication of abuse of his power, he could potentially have conflicting interests with shareholders.
- **Failure to Maintain Key Television Agreements.** Because a significant portion of WWE's revenues come from weekly television shows and pay-per-view events, the negotiations related to their distribution of these events are important. They would suffer very adverse effects in the event of a loss of key agreements with cable networks that inhibited their ability to broadcast their events.

Management

Vince K. McMahon has been the CEO of WWE since 2002, and also holds the positions of Executive Officer and Chairman of the Board. He has worked for WWE since its founding in 1980. His leadership and actions have made WWE into the strong global brand it is today. His willingness to take risks along with his record for success has made Forbes Magazine refer to him as "the best promoter since P.T. Barnum." Kevin Dunn has been WWE's Executive Vice President of Television Production since 2003, and he became a Director in 2008. Before that, he served as Executive Producer for 11 years. Dunn is responsible for production of all WWE television broadcasts.

Ownership

% of Shares Held by All Insider and 5% Owners:	2%
% of Shares Held by Institutional & Mutual Fund Owners:	68%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Royce and Associates LLC	2,461,946	8.97
Renaissance Technologies LLC	1,924,900	7.01
Clearbridge Advisors LLC	1,180,280	4.30
Neuberger Berman Group LLC	1,099,699	4.01
Vanguard Group Inc.	1,058,738	3.86

Source: Yahoo! Finance

Quaker Chemical Corporation (NYSE: KWR)

March 11, 2011

Mark Rutherford | Industrial Materials

Quaker Chemical Corporation (NYSE: KWR) is a leading supplier of custom process chemicals for heavy industrial and manufacturing operations. Quaker is the global leader in rolling lubricants which are used for hot and cold steel rolling. Metalworking fluids include: lubricants for forming, cutting, finishing, drawing, and grinding, as well as coolants, cleaners, and corrosion preventives. KWR operates three business segments: Metalworking Process Chemicals, Coatings, and Other Chemical Products. Metalworking and Coatings account for 93% and 6% of revenue, respectively. KWR is well diversified with sales in North America (38%), Europe (29%), Asia (21%) and South America (12%). KWR was founded in 1918 and is now headquartered in Conshohocken, Pennsylvania.

Price	$38.53	Beta:	1.47
Price Target:	$51	WACC:	9.6%
52 WK H-L $:	45.8 - 19.8	LT Rev. Gr. Rate Est. (3-5 yr):	9.0%
Market Cap (mil):	$435.3	LT EPS Gr. Rate Est. (3-5 yr):	9.5%
Float (mil):	10.8	Debt/Equity	41.4%
Short Interest % of Float:	3.9%	ROA (TTM)	8.3%
Ave. Volume (3 mo.)	84.3k	ROE (TTM)	18.3%
Dividend (2011E)	0.95		
Dividend Yield 2011E	2.5%		

Year	2010A	2011E	2012E
Revenue (mil)	$544.1	$609.3	$670.3
% Growth	20.5%	12.0%	10.0%
Gross Margin	36.9%	37.0%	37.0%
Operating Margin	9.8%	9.5%	9.5%
EPS	$2.78	$3.18	$3.50
FCF/Share	1.48	2.00	2.90
P/E (Cal)	13.9x	12.1x	11.0x
EV/EBITDA	7.4x	6.8x	6.2x

Recommendation

KWR produces a wide variety of chemicals that assist in the production of metal parts, auto bodies, auto parts, aerospace technologies, bearings, as well as tubes and pipes. These diversified end markets have strong long-term fundamentals and should provide consistent cash flow for KWR. In the steel end-market demand remains steady as the U.S. steel capacity utilization rate improved to 75.3% - up from the low of 61.5% in early 2010. If capacity utilization continues to trend toward longer-term averages of 80-85%, this will significantly improve KWR's top line. According to the Department of Transportation only $24B out of $40B in stimulus funds have been spent which should further strengthen demand in the steel end-market. The aerospace end-market is also important to KWR (a 0.64 correlation exists between KWR's stock price and the S&P Aerospace Index over the past ten years). The aerospace index and KWR are both up 17.2% and 19.7%, respectively, since October 2010. Finally, auto sales continue to tick up and have reached 13.4M units on an annualized basis, up from 10.5M as of January of 2010. This should continue to improve KWR's sales to the automotive sector. KWR recently reported full year 2010 results (revenues at $544M were up 20.5% YoY operating margins expanded to 9.8% compared to 6.8% and 4.5% in 2009 and 2008, respectively). Last year also generated $1.48 in FCF per share which was rather low due to a $15M working capital adjustment. Going forward, KWR has the ability to utilize its strong balance sheet to make strategic acquisitions in addition to organic growth driven by the cyclical upturn. Currently debt-to-equity is a conservative 41% which is down from peak levels of 67% in 2006. Overall KWR's is well positioned geographically and their products serve a diversified set of end-markets. It is recommended that KWR be added to the AIM Domestic Equity Fund with a price target of $51, providing a 24% upside in addition to a 2.5% dividend.

Investment Thesis

- **Diversified Customer Base.** KWR has a well-diversified customer base which goes beyond the primary steel and aluminum industries. KWR services aerospace, bearings, automotive, coatings and construction materials, concrete, heavy equipment, and hydraulic industries with chemicals;

industries that provide exposure to both mid- and late-stage cyclical expansion. Their product line diversification, combined with geographic diversification, should allow management to successfully grow the business in emerging and developed markets.

- **Summit Lubricants Acquisition.** In January 2011, KWR announced that it acquired Summit Lubricants, a grease manufacturer for a purchase price of $30M. This small acquisition is expected to be accretive to earnings in 2011. Summit has a broad spectrum of specialty greases which are sold through major distributors and utilized in military applications. This company is in the process of growing its capacity by more than twofold.

- **Price Increases in 2011.** Management has announced that they will be implementing price increases in the first and second quarter of 2011 in order to offset higher raw material costs. Price increases, combined with strong volumes, could be a strong catalyst for KWR in 2011. Q4 2010 gross margins were 33.7% versus 36.1% in Q4 2009, so successful price increases will be integral to maintaining gross margins in 2011 and beyond.

Valuation

KWR is currently trading at 12.1x forward EPS estimates of $3.18. On a TTM basis KWR has averaged a 17.5x P/E multiple, excluding outliers. Applying a conservative 16.5x multiple to a 2011 EPS estimate of $3.18, yields a $52.52 price target. KWR is also trading at 7.4x TTM EV/EBITDA and an 8.5x multiple has been applied to a 2011E EBITDA of $70.7M, yielding a target price of $48.90. Peers currently trade at 9.5x TTM EBITDA and KWR is growing their business faster than its peers (sales grew 20.5% YoY, while competitors only averaged 9.2% YoY growth). Based on a five year DCF analysis with a computed WACC of 9.6% and a terminal growth rate of 3.0%, an intrinsic value of $50.26 was obtained. After considering relative multiples and the DCF analysis, a target price of $50.51 was established offering upside of 24% in addition to a 2.5% dividend.

Risks

- **Customer Base.** A significant portion of KWR's revenues come from the U.S. steel and auto companies which have experienced financial difficulties in the past few years. During 2009, KWR's top five customers accounted for 24% of revenue with the largest being Arcelor-Mittal Group at 9%. Financial distress of large customers could adversely affect revenues and earnings in the future.
- **Macroeconomic Slowdown.** KWR is subject to the same business cycles that impact steel, automobile, aircraft, appliance, and durable goods manufacturers. These cyclical end-markets create additional downside risk which is hard to mitigate.
- **Commodity Price Fluctuation.** Quaker uses over 1,000 raw materials as inputs and three groups (mineral oils, animal fats and vegetable oils) each account for as much as 10% of raw material purchases. If KWR is unable to offset any increases in raw materials by raising selling prices, gross margins could become depressed going forward.

Management

Michael Barry is currently Chairman of the Board, President and CEO. Mr. Barry has been with Quaker since 1998 and became President and CEO in October of 2008. Mr. Barry has strong industry knowledge and hails from The Wharton School of the University of Pennsylvania. The CFO, Mr. Mark Featherstone, joined KWR in 2005 as a Global Controller and has since been promoted to VP, CFO and Treasurer. Management compensation is reasonable as the directors were paid $0.9M on average in 2009. Members of the management team have spent 13 years with KWR and the average tenure on the board of directors is 15 years.

Source: Yahoo! Finance

Ownership

% of Shares Held by All Insiders:	5.2%
% of Shares Held by Institutional & Mutual Fund Owners:	70.7%

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
Royce and Associates	793,600	7.0%
BlackRock Fund Advisors	522,768	4.6%
Eagle Asset Management	475,697	4.2%
Allianz Global	433,134	3.8%
Dimensional Fund Advisors	330,186	2.9%

Source: Bloomberg

Nu Skin Enterprises Inc. (NUS)
March 11, 2011

Jose Manuel Munoz Consumer Goods

Nu Skin Enterprises (NUS) develops and distributes anti-aging personal care products and nutritional supplements worldwide. The company sells its personal care products under the Nu Skin brand (55% of revenue) and nutritional supplements under the Pharmanex brand (40%). Its personal care product line includes core systems, targeted treatments, total care, cosmetic, and botanical-based products. The company's nutritional supplements product line comprises micronutrient supplements, targeted solution supplements, and weight management products. In addition, the company offers other products and services consisting of digital content storage, water purifiers, and other household products. It sells its products primarily through a network of independent distributors in north Asia, the Americas, Greater China, Europe, and the south Asia/Pacific regions. The company also operates retail stores to sell its products in China. The company was founded in 1984 and is headquartered in Provo, Utah.

Price ($): (03/07/11)	31	Beta:	1.09	FY: Dec	2010A	2011E	2012E
Price Target ($):	38	WACC	10.74%	Revenue (Mil)	1537.26	1721.73	1893.90
52WK H-L ($):	23.12 - 33.99	3-5yr Rev. Gr Rate Est	8%	% Growth	15.49%	12.00%	10.00%
Market Cap (mil):	1,940	L-Term EPS Gr Rate Est:	3%	Gross Margin	82.28%	82.00%	82.00%
Float (mil):	53.4	Debt/Equity:	34.1%	Operating Margin	14.12%	14.50%	14.50%
Short Interest (%):	9.50%	ROA:	16.6%	EPS (Cal)	2.30	2.67	2.93
Avg. Daily Vol (mil):	0.571	ROE:	32.7%	FCF/Share	1.05A	2.0E	2.21E
Dividend ($):	0.54			P/E (Cal)	13.5x	11.6	10.6
Yield (%):	1.7%			EV/EBITDA	7.33x	6.37	5.79

Recommendation

The size of the global anti-aging market is estimated to be about $200B as of the end of 2010 and is expected to experience double digit growth rates for the next decade. Revenues in the beauty-personal care industry have grown at a 6.1% CAGR over the last five years. Additionally, the anti-aging nutrition market is experiencing upward trend in all its segments with expected growth at nearly 50% yearly from 2010 to 2015. The anti-aging nutrition market alone is estimated to be about $20B with more consumers trending towards self-care for health issues. NUS has positioned itself with its unique distribution network to capture the anticipated growth in these markets - being in a position to grow its top line in 2010 by 15% compared to the 7.3% peer average and 12% to peer public direct sellers. NUS posted record revenue of $1.54B in FY10, which represents a 15% improvement over 2009 and earnings experienced a 51% increase over previous year levels. The company's commitment to margin expansion by operating more efficiently and reducing G&A expenses has had a positive impact on margins (operating margins in Q4 increased 90 bps QoQ and 200 bps YoY). The company also expects further margin expansion by at least 30 to 50 bps in FY11. Revenue growth with margin expansion has translated into operating cash flow growth from $134M in 2009 to $205M in 2010. Because of these reasons and a favorable valuation, it is recommended that NUS be added with a target price of $38, which offers a potential upside of 23%.

Investment Thesis

- **Growth in Emerging Markets.** Nu Skin has operations in 51 markets worldwide representing a healthy geographic mix which allows them to offset slower growth rates in more mature markets. The company has been able to capture growth in key markets that has translated in a 5 year CAGR revenue growth of 6.5%. Robust growth is mainly coming from Greater China, Southeast Asia and South Korea with impressive YoY revenue growth of 27%, 52%and 49%, respectively. These and other key markets in Europe and Latin America are in early stages of product penetration which will translate into further top line growth.

- **Strong Distribution Network.** NUS has an extensive global distributor network of 800,000 active independent distributors; which includes 36,000 executive distributors. This network helps the firm introduce products rapidly and penetrate new markets with little upfront promotional expense. The company has developed product subscription and loyalty programs that provide incentives for customers to commit to purchase a specific amount of products on a monthly basis. This has translated in improved customer retention (executive distributors count was up 8.3% YoY in 2010) and has had a stabilizing impact on revenue through strong recurring sales.
- **AgeLOC Anti-Aging Platform**. Under this platform (30% of total revenue in FY10), NUS has successfully introduced products that are designed to positively influence the expression of genes that play a critical role in the aging process. A very significant portion of the revenue growth in 2010 was due to the global rollout of the ageLOC Transformation care system which generated revenues of $220M. The company's next step is to launch Vitality globally, a product that focuses on resetting genes that control detoxification; so far the product sells just in Japan and the U.S and it contributed $23M to Q4 revenue.

Valuation

To find the intrinsic value of NUS, a five-year DCF analysis was conducted. A sensitivity analysis was also conducted with variations in the long term growth (2-4.5%) and WACC (9.5-12%), providing a price range between $29.30 and $48.69. A conservative WACC of 10.74% and a 3% long term growth were used and yielded an intrinsic value of $36.31. A Price/Sales multiple approach was also used; a conservative 1.4x 2011 forecasted sales yielded an intrinsic value of $38.90. An EV/EBITDA approach was also conducted using an 8.5x 2011forecasted EBITDA, yielded an intrinsic value of $39.06. Taking these methods into account, a price target of $38 was established – a potential upside of 23%. The firm pays a 1.7% dividend.

Risks

- **Laws Restricting Direct Sales Model.** Various government agencies throughout the world regulate direct sales practices. Laws and regulations are generally intended to prevent fraudulent or deceptive schemes, often referred to as "pyramid" schemes that compensate participants for recruiting additional participants irrespective of product sales. If NUS fails to comply with these regulations they might be unable to continue business in existing markets or commence operations in new markets which would have a negative impact in the company's operations.
- **Currency Fluctuations**. Non-U.S. operations accounted for approximately 86% of the company's revenue. The most significant exposure coming from Japan, which accounted for 31% of total revenue in FY 2010. Therefore, gains and losses on the conversion of foreign currency denominated expenses into U.S. dollars could cause fluctuations in the results of operations and fluctuating exchange rates could cause significantly reduced revenue and/or gross margins from non-U.S. dollar-denominated international revenue.

Management

Truman Hunt has served as the company's President since January 2003 and as CEO since May 2003. He has also served as a director of NUS since May 2003. Mr. Hunt joined the company in 1994 and has served in various positions, including Vice President and General Counsel from 1996 to January 2003 and Executive Vice President from January 2001 until January 2003. He received a B.S. degree from Brigham Young University and a J.D. degree from the University of Utah. Ritch Wood has served as the CFO since November 2002. Prior to this appointment, Mr. Wood served as Vice President, Finance from July 2002 to November 2002 and Vice President, New Market Development from June 2001 to July 2002. Mr. Wood joined NUS in 1993 and has served in various capacities. Prior to joining the company, he worked for the accounting firm of Grant Thornton LLP. Mr. Wood earned a B.S. and a Master of Accountancy degree from Brigham Young University.

Source: Yahoo! Finance

Ownership

% of Shares Held by All Insider and 5% Owners:	22%
% of Shares Held by Institutional & Mutual Fund Owners:	78%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
FMR LLC	6,164,260	9.92
Vanguard Group, Inc.	2,632,636	4.24
Wellington Management Company, LLP	1,991,135	3.2
Investec Asset Management LTD	1,905,245	3.07
TIIA-CREF Investment Management, LLC	1,835,269	2.95

Source: Yahoo! Finance