Applied Investment Management (AIM) Program

AIM Class of 2017 Equity Fund Reports
Spring 2016

Date: Friday, April 1st | ***Time:*** *2:30 – 4:30* p.m. | ***Location: AIM Research Room 488***

Student Presenter	Company Name	Ticker	Sector	Page
Daniel Drew	Halyard Health	HYH	Healthcare	2
Ken Lavelle	XL Catlin	XL	International Financials	5
Martha Wong	Nautilus, Inc.	NLS	Consumer Discretionary	8
Andy Krueger	Multi-Color Corporation	LABL	Materials	11
Brendan Hopkins	Pzena Investment Management, Inc.	PZN	Financial Services	14
Patrick Cashner	Kone Oyj	KNYJY	International Industrials	17
Andy Reed	NIC, Inc	EGOV	Technology	20

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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Halyard Health, Inc. (HYH)
April 1, 2016

Daniel Drew Domestic Healthcare

Halyard Health, Inc. (NYSE: HYH), formerly part of Kimberly Clark, seeks to advance health and healthcare by preventing infection, eliminating pain and speeding recovery. HYH has two business segments: Surgical and Infection Prevention (S&IP) and Medical Devices. The company's S&IP (67% of FY15 revenues) business provides healthcare supplies and solutions that target the prevention of healthcare associated infections. S&IP's product portfolio includes sterilization wrap, surgical drapes and gowns, facial protection, protective apparel and medical exam gloves. The Medical Devices segment (33%) provides a portfolio of product offerings, including post-operative pain management solutions, minimally invasive interventional (or chronic) pain therapies, closed airway suction systems and enteral feeding tubes, focused on pain management and respiratory and digestive health. HYH markets its products directly to hospitals and other healthcare providers, as well as through third-party distribution channels. The company was incorporated in 2014 and is headquartered in Alpharetta, Georgia.

Price ($): (3/28/16)	27.86
Price Target ($):	37.78
52WK H-L ($):	23-51
Market Cap (mil):	1,299
Float (mil):	46.3
Short Interest (%):	8.70%
Avg. Daily Vol (mil):	0.46
Dividend ($):	N/A
Yield (%):	N/A

Beta:	1.27
WACC	8.6%
M-Term Rev. Gr Rate Est:	4.2%
M-Term EPS Gr Rate Est:	26.4%
Debt/Equity:	54.8%
Debt/EBITDA (ttm):	2.04
ROA:	-18.8%
ROE:	-33.5%
ROIC:	-22.7%

FY: Dec	2015	2016E	2017E	2018E
Revenue (Mil)	1,574.40	1,524.05	1,616.93	1,715.47
% Growth	-5.84%	-3.2%	6.1%	6.1%
Gross Margin	33.77%	34.36%	34.36%	34.36%
Operating Margin	-23.99%	8.01%	7.66%	7.36%
EPS (Cal)	($9.15)	$2.62	$2.58	$2.65
FCF/Share	$0.58	$1.42	$1.45	$1.49
P/E (Cal)	--	10.6x	10.8x	10.5x
EV/EBITDA	9.1x	9.5x	9.3x	9.0x

Recommendation

Since HYH was spun off from Kimberly-Clark in 2014, the journey has been rocky thus far. After rallying to a high of $50 last April, the stock has been cut nearly in half. With shares trading at a $27, HYH merits consideration. HYH has leading market positions; and intends to defend its share by introducing new products. HYH's goal is to mitigate and prevent infections, reduce pain and speed-up recovery. A large market opportunity exists to help reduce narcotic-based pain control – with pain management being a $4B market in North America. Reducing the reliance on narcotics to handle patient suffering is a major concern for the industry and HYH is working to solve the problem. HYH's medical device segment has built a solid portfolio of market-leading devices. HYH reported Q4 growth of 6% YoY, which was the third consecutive quarter of 5% or more growth. For FY15, adjusting for currencies, division sales rose 3% and management is looking for 3% to 5% growth in FY16. Sales of respiratory and digestive-health devices have been strong. HYH's largest product, the ON-Q disposable pain pump, recorded its third consecutive quarter of growth, and stands to benefit from the trend toward reduced narcotic-based pain relief after surgery. As a stand-alone, HYH is poised to benefit from a renewed focus on growth. Management is bulking up its R&D spending and plans to launch ten product-line extensions across its business this year. In 2017, HYH will also enjoy a bump, as the costs related to the spinoff come to an end. Given these factors, it is recommended that HYH be added to the AIM Portfolio with a price target of $37.78, representing a 36% upside.

Investment Thesis

- **Transitioning product portfolio to higher margin medical devices.** High margin medical devices are the fastest growing part of their business. The Medical Devices segment has operating margins of 26% compared to ~10% for the S&IP segment. Management stated at a recent Raymond James Institutional Investors Conference that over time the FY15-FY19 period they will double R&D investment. The Business Development Team is working to find good strategic businesses in order to grow through M&A activities with the first acquisition in 2016. The goal for FY16-17 is to fuel the pipeline by: investing in growth programs and aggressively move into category adjacencies to expand medical devices product portfolio; rounding out the portfolio, employing a disciplined approach to opportunistic acquisitions and portfolio optimization.

- **The most influential demographic factor for this industry is the increasing age of the population.** The elderly population has grown significantly as "baby boomers" have shifted into their sixties. Not only is the average life span increasing, but people are also remaining much more active later in life. This has increased demand for many products provided by this industry ranging from medical devices for serious conditions that typically affect the older population (pacemakers and stents) to devices and surgeries that help improve the quality of life (joint replacements and laser eye surgery).
- **Healthcare spending in the U.S. exceeds $2 trillion per year.** Healthcare spending will likely grow due to the passage of the Affordable Care Act, which includes an individual mandate to have health insurance that will reshape the industry in the coming decade. In the years through 2024, spending growth is expected to average 5.8%, according to a report from actuaries at the Centers for Medicare and Medicaid Services. The individual mandate for healthcare insurance creates a solid base of customers for the healthcare industry. This should build a steady growth rate for the industry in the intermediate future. In March 2015, U.S. Department of Health & Human Services estimated that 16.4M uninsured people had gained health insurance coverage as several of the ACA's coverage provisions took effect. Using updated data, they now estimates that 17.6M uninsured people have gained health insurance coverage.

Valuation

To reach an intrinsic value for HYH, a five year DCF model was constructed. Using a terminal growth rate of 4.5% and a WACC of 8.6%, an intrinsic values of $34.72 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $75.11-$20.31. Additionally, a P/E multiple valuation was constructed using forecasted 2016 earnings and a peer comparable multiple of 19.11x, resulting in a valuation of $50. By weighting the DCF (80%) and the P/E (20%), a price target of $37.78, resulting in a 36% upside.

Risks

- **Government Regulations.** HYH's products, R&D activities and manufacturing processes have to comply with various local, state, federal, foreign and transnational laws and regulations. In the US, the FDA regulates the introduction of new medical products, besides manufacturing, labeling and record keeping procedures for such products. Obtainment of marketing approval for new medical devices from the US FDA is time consuming and expensive.
- **Competitive landscape**. Larger competitors have access to significantly greater financial and marketing resources than HYH. Competitive factors include price, alternative clinical practices, innovation, quality and reputation. Big competitors Cardinal Health and Medline Industries have used the lower costs to get more aggressive on price, which has hit HYH's volumes.
- **Exposed to price fluctuations of key commodities,** which may negatively impact HYH results of operations. HYH relies on product inputs, such as polypropylene and nitrile, as well as other commodities, in the manufacture of their products. Prices of oil and gas affect distribution and transportation costs. Prices of these commodities are volatile and have fluctuated significantly in recent years, which has contributed to fluctuations in their operations.

Management

Robert E. Abernathy has been the CEO and Chairman of HYH since the spin-off from Kimberly-Clark in, 2014. He served as President Global Health Care of Kimberly-Clark from June 2014 until the spin-off from Kimberly-Clark. Prior to that he was the president of its health-care division from 1997 to 2004. Chris Lowery serves as SVP and COO. Mr. Lowery, was an executive in the division beginning in 2010. Prior, he held senior roles at Covidien.

Ownership

% of Shares Held by All Insider and 5% Owners:	0.78%
% of Shares Held by Institutional & Mutual Fund Owners:	90.65%

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
T. Rowe Price Associates, Inc.	5,679,000	12.20
Shapiro Capital Management LLC	5,029,000	10.80
BlackRock Fund Advisors	3,650,000	7.80
The Vanguard Group, Inc.	3,201,000	6.90
Westwood Management Corp. (Texas)	1,983,000	4.30

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Net Income (mil)	D/E	P/E	EV/ EBITDA
Halyard Health, Inc.	HYH	1,299	-426	0.5	N/A	7.9
Owens & Minor	OMI	2,467	103	0.5	23.79	10.2
Patterson Company	PDCO	4,440	223	0.5	27.37	12.8
Pacira Pharmaceuticals	PCRX	1,740	2	0.5	1174.25*	80.6*
Teleflex	TFX	6,456	236	0.5	30.41	15.9
Peer Averages		3,776	141	0.5	27.19	13.0

**Removed For Relative Valuation Analysis*

Source: FactSet

XL Catlin (XL)

April 1, 2016

Ken Lavelle International Financials

XL Catlin (NYSE: XL) operates as a global insurance and reinsurance company through its main brand and related subsidiaries. In January 2015, the company, then XL Group plc, acquired Catlin Group for $4.1 billion and now operates as XL Catlin. The company specializes in providing property, casualty, and specialty products to industrial, commercial and professional firms, insurance companies and other enterprises. The firm functions through two main segments: Insurance (69% of total revenues) and Reinsurance (31%). The insurance segment focuses on minimizing risks while covering property, casualty, professional and environmental liabilities, financial lines and specialty insurance products globally. The reinsurance segment provides casualty, property risk and catastrophe, marine, aviation, and other special reinsurance globally. XL has over 7000 employees and has offices in more than 30 countries, serving clients in more than 200 countries. The company was founded in 1986 and is headquartered in Dublin, Ireland.

Price ($) (3/29/16):	36.87
Price Target ($):	42.58
52WK H-L ($):	40.48 - 25.56
Market Cap (mil):	$10,756
Float (mil):	292.4
Short Interest (%):	2.4
Avg. Daily Vol (mil)	2.4
Dividend ($):	0.72
Yield (%):	1.95

Beta:	0.87
WACC:	5.6%
M-Term Rev. Gr Rate Est:	4.5%
M-Term EPS Gr Rate Est:	9.3%
Financial Leverage:	3.3x
ROA:	2.33%
ROE:	11.12%
ROIC:	9.28%
Dividend Coverage Ratio	5.74x

FY: Dec	2014A	2015A	2016E	2017E
Revenue (million)	6,867	9,332	10,880	11,220
% Growth	-7.45%	35.90%	16.59%	3.13%
Net Operating Margin (%)	14.30%	14.70%	15.25%	14.85%
Pretax Profit Margin (%)	5.33%	13.87%	8.56%	9.34%
EPS (Cal)	$0.69	$4.15	$3.10	$3.94
P/E (Cal)	49.81x	9.44x	11.87x	9.35x
BVPS	$39.32	$39.62	$41.54	$44.77
P/B	0.87x	0.99x	0.89x	0.82x

Recommendation

XL Catlin has experienced respectable growth, especially since the merger with Catlin Group last year. As a result of the acquisition and other strategic initiatives, 2015 sales increased nearly 36% YoY and reached sale levels not seen since prior to the recession. Additionally, their ROIC showed steady growth, increasing at a 27% rate in 2015. These growth rates are expected to continue through 2016, are likely to stabilize at more typical growth rates of about 4.5% as the Catlin Group becomes fully integrated to the company. XL plans to keep their growth rates strong by entering newer cyber, political, environmental, and other complex markets with lower competition. To penetrate these markets, the company has added new divisions and increased their assets in preparation. As of December 2015, XL Catlin has over $58 billion of diverse assets, up over $13 billion, an increase of over 30% from 2014, although this is mainly due to the acquisition of Catlin Group. Regardless of these asset increases, the company still provides strong positive free cash flows, producing $615.6 million in 2015. Liabilities grew an alarming $11.4 billion in 2015, however this was due to various one-time charges as a result of acquisitions, policy changes, and restructuring. XL also pays a dividend, showing double digit growth every year since 2012 - and is expected to continue. In 2015 the firm paid a dividend of $0.72 per share yielding 1.95%. Based on the firm's strategic growth strategies and future expected dividend growth, it is recommended that XL Catlin be added to the AIM International Fund with a target price of $42.58, representing a potential upside of 15.49%.

Investment Thesis

- **Future Thinking.** XL Catlin understands the changing business and is constantly planning on minimizing risks that may not even exist yet. However, these risks offer an opportunity to enter newer markets through specialized services. These specialties include preparing for newer risks such as cyber risks and political risks in emerging markets. These newer markets have less competition due to their complexity, but offer higher returns if secured correctly. While working with these newer risks could hurt the company's margins in the short-term, it will prove to increase the company's future market share and sales. This has the potential to create a virtually limitless market that XL Catlin could conquer. One way the firm prepares for these risks is through XL Innovate, an XL sponsored venture capital initiative created in April 2015. This division focuses on investing in companies that have a strategic focus on developing new capabilities in the insurance sector. XL Innovate seeks to invest in companies that strive to find ways to underwrite currently uninsured risks.

- **Growing Dividends and Share Buyback.** Like many other companies within the industry, XL suffered hard times as a result of the Great Recession. Prior to the 2007-08 Financial Crisis, the company was paying annual dividends of $2.00 per share, but dropped the payout to $0.40 in 2009. Dividends have steadily been increasing since to the $0.72 experienced in 2015. After recovering from the recession and saving the cash to acquire Catlin Group, XL will soon return to the higher dividend returns previously experienced. The company also has plans to continue repurchasing shares. In August 2015, the company announced a $1 billion share buyback plan. In the most recent quarter's ending, the firm repurchased 4.7 million shares for $177 million and has $703 million still to continue buying shares.
- **Acquisition of Catlin Group.** Catlin Group will prove to be a strategic merger for a number of reasons. Unlike many of their competitors, Catlin Group appeared to be recession proof and thrived during the Great Recession. Sales were growing at a 10 year average of nearly 18% and the company was paying a dividend of $0.54 at the time of the acquisition. The merger so far has been successful with XL losing less than 1% of premiums and recently raising the cost saving synergy target to $300 million, up from the $200 million announced at the merger.

Valuation

To find the intrinsic value of XL, a Dividend Discount Model (DDM), a P/B multiple, and a P/E multiple were conducted. For the DDM, a WACC of 5.6% and a terminal growth rate of 3% were used, yielding a value of $40.37. To find a P/B multiple, a blend of the company's current multiple, their five biggest competitors, and the industry average resulted in a multiple of 1.07x was found, generating an intrinsic value of $42.56. In a similar manner, a P/E multiple of 10.8x was used creating an intrinsic value of $44.81. Weighing each equally, a target price of $42.58 was determined, representing a 15.49% upside.

Risks

- **Newer Risks.** Risks that companies face are mutating, multiplying, and becoming more complex in nature. These include cyber security, terrorist threats, environmental threats, regulations, and supply chain risks as the world continues to become more interdependent. These risks require different and more specific training, which prove to be costly and difficult to minimize.
- **Nature of the Industry.** Especially at the international level, there is a high level of competition in the industry. Switching between insurance companies is also relatively challenging for firms so it is difficult to obtain new customers. International companies also face higher political risks and experience difficulties due to tightened regulatory environments and trouble with emerging economies.
- **Lower Future Margins.** Dealing with these future risks and increased competition, it could become difficult for XL to maintain their margins. It is difficult to know how much the firm's costs will increase, but it may prove to be challenging to keep their current margins. This will not immediately affect the stock price, but could hinder growth in the long term.

Management

Michael McGavick has been the CEO Officer since 2008. He has an incredible amount of industry experience. Prior to XL, he was the CEO of both CNA Financial Corporation and Safeco Corporation, both large insurance companies. Mr. McGavick also holds a number of honors, including the 2014 Insurance Leader of the Year by St. John's University of Risk Management, a top 100 Game Changer in the last hundred years of the insurance, and a number of other high honors.

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	Net Margin	P/B	Dividend Yield
XL Group Plc	XL	10,779	9,332	12.94%	0.99	1.84
American International Group, Inc.	AIG	61,748	58,330	3.76%	0.83	1.31
Allianz SE	ALV	66,425	104,290	6.34%	1.18	4.46
QBE Insurance Group Limited	QBE	14,700	17,157	3.52%	1.19	4.70
Allied World Assurance Company Holdings, AG	AWH	3,237	2,553	3.29%	0.96	2.70
Arch Capital Group Ltd.	ACGL	8,607	4,177	12.87%	1.45	-
Peer Averages		30,943	37,301	5.96%	1.12	3.29

Source: FactSet

Ownership

% of Shares Held by All Insider Owners:	0.80%
% of Shares Held by Institutional & Mutual Fund Owners:	>90%

Source: FactSet

Top 5 Shareholders

Holder	Shares		% Out
T. Rowe Price Associates, Inc.	28,094,232	▲	9.53
The Vanguard Group, Inc.	24,516,005	▲	8.32
Franklin Mutual Advisers LLC	23,245,743	▼	7.89
Wellington Management Co. LLP	14,971,937	▲	5.08
SSgA Funds Management, Inc.	13,642,417	▼	4.63

Source: FactSet

Nautilus, Inc. (NLS)
April 1, 2016

Martha Wong Domestic Consumer Discretionary

Nautilus, Inc. (NYSE: NLS) is a consumer fitness products company participating in two distinct segments: Direct (67.2% of net sales, 82.2% of gross profit) and Retail (31.6%, 15.5%). Royalty income accounts for a small portion of net sales (1.2%). The company designs, develops, sources, and markets high-quality cardio and strength fitness products under the brand names Bowflex, Nautilus, Octane Fitness, Schwinn, and Universal for use primarily in the United States and Canada. Target customers range from fitness enthusiasts to individuals just beginning to incorporate exercise into their daily lives. The acquisition of Octane Fitness, LLC, an industry leader in zero-impact training equipment, closed December 31, 2015, and is expected to diversify Nautilus's already strong portfolio of offerings as well as catalyze growth in new markets and distribution channels. Nautilus, Inc. was incorporated in 1993 and is headquartered in Vancouver, Washington.

Price ($): (3/29/16)	19.25	Beta:	2.37	FY: Dec	2014A	2015A	2016E	2017E
Price Target ($):	30.55	WACC	8.7%	Revenue (Mil)	274.45	335.76	419.71	465.87
52WK H-L ($):	22.95-13.82	M-Term Rev. Gr Rate Est:	12.0%	% Growth	25.4%	22.3%	25.0%	11.0%
Market Cap (mil):	597	M-Term EPS Gr Rate Est:	15.0%	Gross Margin	51.2%	52.3%	52.0%	52.0%
Float (mil):	28.8	Debt/Equity:	63.0%	Operating Margin	11.0%	12.9%	14.0%	14.5%
Short Interest (%):	3.80%	Debt/EBITDA:	1.66x	EPS (Cal)	$0.60	$0.86	$1.11	$1.29
Avg. Daily Vol (k):	374.93	ROA:	10.9%	FCF/Share	$1.21	$0.97	$1.73	$1.91
Dividend ($):	N/A	ROE:	22.5%	P/E (Cal)	30.5x	21.4x	16.5x	14.2x
Yield (%):	N/A	ROIC:	17.8%	EV/EBITDA	11.8x	11.5x	9.0x	7.9x

Recommendation

The physical fitness equipment industry has seen growth driven by heightened consumer spending paired with a demographic trending towards health and well-being. The market size is expected to reach $14.8B by 2018. Fitness junkies and overweight adults looking to shed excess pounds allow the industry to attract a wide consumer base. NLS has been able to capitalize on the favorable market conditions and grow revenue at a 6-year CAGR of 15% by providing top of the line products focused on helping users reach their fitness goals. The strong and steady revenue growth has been coupled with increasing net margins (7.2% FY13, 11.0% FY14, and 12.0% FY15). Although NLS faces competition, the firm differentiates itself through brand recognition and heavy R&D spending (3-year CAGR of 21.2%) allowing for a regular cadence of innovative product offerings precursed by in-depth consumer research followed by rigorous equipment and fitness results validation to ensure consumer satisfaction. NLS has largely relied on organic growth, but the December 31, 2015, acquisition of Octane introduces a new era of opportunity and helps affirm management's belief that the firm is still in the early stages of growth. The $115M investment is expected to be highly beneficial to NLS due to the exploitation of cross-selling opportunities, savings potential in sourcing and distribution, as well as access to Octane's strong presence in the international, specialty, and commercial markets, which account for 23%, 62%, and 38% of Octane's sales, respectively. Additionally, Octane has demonstrated standalone strength via its EBITDA growth at a 3-year CAGR of 17%. The acquisition was funded with cash on hand plus $80 million of term debt. Prior to the transaction, NLS carried no term debt and grew cash at a 6-year CAGR of 73%, which allows for further investment opportunities. Due to the successful delivery of strong revenue and margin growth along with significant future earnings potential from the recent Octane acquisition, NLS is poised to be a strong addition to the AIM Equity Fund with a target price of $30.38, representing 59% upside.

Investment Thesis

- **International market penetration.** Only 2% of the NLS's FY15 sales were outside North America, but the addition of Octane's sales could result in 6% of international sales in the future.

Management expressed interest in expanding internationally due to the higher margins and believes international sales levels could reach 25%. The MAX Trainer and Nautilus cardio machines are now internationally compliant allowing for a rollout of products. The global market size of the EMEA, Asia Pacific, and Latin America are $3.0B, $1.1B, and $0.4B, respectively.

- **Consumer satisfaction with new product innovation.** The company's success hinges on its ability to provide innovative equipment that attracts a broad market. The refreshed TreadClimber product line, which accounts for a significant level of cardio product sales, was released in November 2015 and has seen encouraging early sales low return rates, which enhances the prior rate of decline in the TreadClimber business. Management has a 3-year roadmap for new products and plans to keep a steady cadence of refreshed offerings.
- **Expanding distribution channels.** With the acquisition of Octane, NLS is ready to grow its presence in the $0.3B U.S. specialty market and work its way back into the $1.3B commercial market. NLS recently released the Schwinn Airdyne bike to the specialty market and is hoping to accelerate growth by leveraging Octane's customer relationships. In the commercial market space, David Lloyd Leisure, a premier health club in Europe with over 90 clubs, announced the XT-One cross trainer would be added to its clubs. With UK gym memberships soaring by 44% between 2014 and 2015, leveraging Octane's club quality products could prove to be a key growth driver. In addition, U.S. fitness centers saw in increase in 6.4% since 2013 allowing for the possibility of NLS to penetrate the growing demand of members looking for innovative equipment focused on real-time coaching, tracking, and motivation.

Valuation

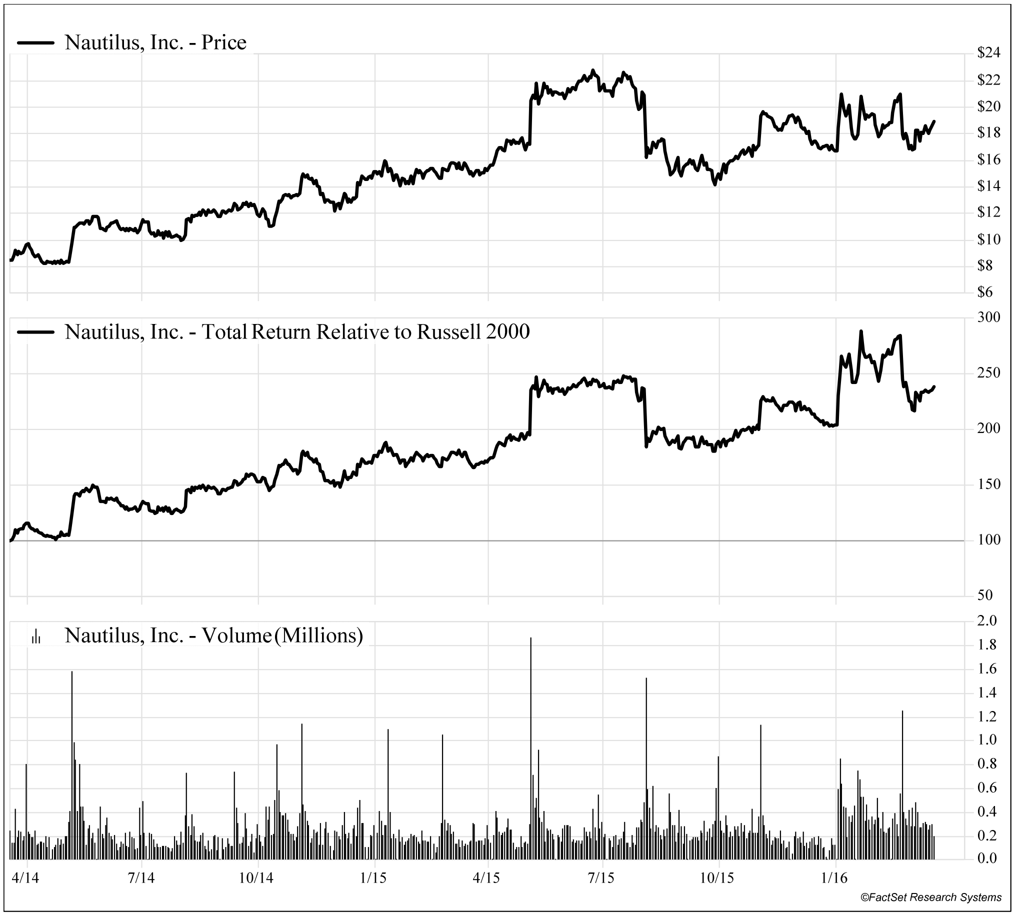
In order to reach an intrinsic value for NLS, a five-year DCF model was constructed. Using a terminal growth rate of 2.0% and WACC of 8.72%, an intrinsic value of $34.67 was reached. A sensitivity analysis of the terminal growth rate and WACC ranged from $27.91 to $50.24. Additionally, a P/E multiple valuation was conducted using 2017 EPS of $1.29 and a predicted forward multiple of 15.83x, resulting in a valuation of $20.37. By weighting the valuation models 70/30, a price target of $30.38 was reached, which yields a 59% upside. NLS does not pay a dividend.

Risks

- **Unrecognized synergies with Octane.** Management spent over a year evaluating nearly 100 target companies and saw the greatest potential with Octane due to the strong strategic and cultural alignments, but only time will tell if the expected synergies of the $115 million investment will come to fruition.
- **Dependence on few manufacturers.** All equipment is produced by third-party manufacturers primarily located in Asia. Due to the two to three month timeframe it takes from order to receipt of goods, inventory replenishment is highly dependent on sales forecasts. Overestimating sales could result in high inventory carrying costs, while underestimating sales could result in lost business from customers unwilling to wait for delivery.
- **Decreased consumer spending.** Weakness in the economy results in decreased discretionary income for consumers to spend on goods in the fitness industry. Unfavorable economic conditions have the potential to adversely impact NLS's financial position.

Management

Bruce Cazenave has been CEO and a Director of Nautilus, Inc. since May 2011. Prior to joining the company, he served as President of the Garden Décor Group. He brings over 20 years of experience running divisions of premier global consumer products companies focused on profitable growth. Sidharth Nayer has served as CFO since February 2014, and Bill McMahon has served as Chief Operating Officer since August 2011.



Source: FactSet

Ownership

% of Shares Held by All Insiders:	6.90%	▲
% of Shares Held by Institutional & Mutual Fund Owners:	84.70%	▲

Source: FactSet

Top 5 Shareholders

Holder	Shares		% Out
Copper Rock Capital Partners, LLC	220,135,500	▼	7.10
BlackRock Fund Advisors	167,427,000	▲	5.40
Royce & Associates, LLC	133,321,500	▼	4.30
Dimensional Fund Advisors, L.P.	130,221,000	▲	4.20
Headlands Capital Management, LLC	117,819,000	—	3.80

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Operating Income Margin	D/E	P/E	EV/ EBITDA
Nautilus, Inc.	NLS	568	12.9	0.63	21.4	12.6
Johnson Health Tech Co LTD	1736	511	3.9	0.81	28.8	18.4
Escalade, Incorporated	ESCA	170	8.2	0.24	14.6	10.6
Brunswick Corporation	BC	4,258	8.0	0.35	19.3	9.7
Amer Sports Oyj	AMEAS	3,288	7.9	0.83	24.1	13.6
Peer Averages		2,057	7.0	0.56	21.7	13.1

Source: FactSet

Multi-Color Corporation (LABL)

April 1, 2016

Andy Krueger | Materials

Multi-Color Corporation (NASDAQ:LABL) is a global provider of labeling solutions for home & personal care, food & beverage, and branded consumer products. The company derives the majority of their revenues in North America (60%), compared to EMEA (22%), APAC (13%), and Latin America (5%). LABL offers a multitude of label technologies, such as, pressure-sensitive, glue-applied, in-mold, shrink sleeve, heat transfer, and labels with thermochromics, holographics, and metalized films. To allow customers flexibility, LABL manufactures printing cylinders & plates, and offers rapid turnaround for promotions such as, scratch-off coupons, static-clings, shelf-talkers, and tags. The company's revenue mix consists of Wine & Sprit (39%), Home & Personal Care (33%), Food & Beverage (16%), Specialty (9%), and Healthcare (3%). LABL had its IPO in 1987 and is headquartered in Batavia, OH.

Price ($) (3/23/16):	$51.37
Price Target ($):	$63.73
52WK H-L ($):	80.24 - 40.16
Market Cap (mil):	891
Float (mil):	13.1
Short Interest (%):	4.7%
Avg. Daily Vol (mil):	0.2
Dividend ($):	$0.20
Yield (%):	0.4%

Beta:	1.06
WACC	8.01
M-Term Rev. Gr Rate Est:	3.8%
M-Term EPS Gr Rate Est:	12.0%
Debt/Equity:	164.0
Debt/EBITDA (ttm):	3.55
ROA (%):	5.23
ROE (%):	16.64
ROIC (%):	6.48

FY: Dec	2014	2015	2016E	2017E
Revenue (Mil)	706	810.77	868.93	922.05
% Growth	7.07	14.77	7.17	6.11
Gross Margin	17.33	21.37	20.83	21.24
EBITDA Margin	16.49	18.18	17.03	17.50
EPS (Cal)	$1.70	$2.71	$3.30	$3.55
FCF/Share	$3.03	$4.61	$0.44	$3.71
P/E (Cal)	20.6	25.6	16.1	15.0
EV/EBITDA	9.0	10.9	9.2	8.1

Recommendation

The global label producing industry is highly competitive with most companies competing on a regional basis. In the current industry structure, pricing power is limited for all competitors with gross margins averaging about 20%. Due to the size of regional competitors, there is a large window of opportunity for M&A activity. LABL has taken steps towards increasing their global position within the industry with several acquisitions in order to realize the synergies that will come with serving a global customer base. Synergies realized in transportation and purchasing costs will improve margins by decreasing the cost per unit. LABL's gross margin growth from 17% in 2014 to 21% in 2015 illustrates the firm's the improving financial results. Also attributing to the increase in LABL's gross margins was the decision to move away from producing labels for mass produced beer to focus on specialty labels for the growing craft beer market. Prior to the growth of LABL, the company was forced to choose between a year focused on M&A activity and a year focused on consolidation. Going forward, management has stated that LABL will now be able to improve operations while maintaining strategic M&A growth. Finally, consumer spending has grown on average 0.67% every three months over the last two years; an attractive trend for future LABL sales figures. Food & beverages, home & personal care, and wine & spirits make up 78% of LABL's current sales, and the increase in consumer spending has aided in increasing sales from $276.8MM in 2011 to $810.8MM in 2015. As U.S. consumer spending remains well above the historical average of $5,175.20 billion, sales for LABL are expected to continue to increase due to LABL's 60% sales exposure to North America. Due to the improving market position within the global label producing industry and above average consumer spending rates in the U.S., it is recommended that LABL be added to the AIM Equity Fund with a price target of $61.42, representing a 24.6% upside. The firm pays a $0.20 quarterly dividend.

Investment Thesis

- **Proven Management.** LABL's management, who has an average tenure of 6 years, has effectively executed strategic M&A activities while maintaining solid organic growth of 2% YoY since FY13. In 2016, management's focus will be on increasing organic growth rates for revenue and earnings further through finalizing the integration of the recent acquisitions in Europe and Australia and continued investments in more productive capacity throughout the business. LABL management has proven they can execute on these claims as highlighted through revenue growth from $48.6MM in FY10 to $173.3MM in FY15. LABL has also proven capable of integrating new acquisitions as illustrated by FY14, a year focused on expansion which caused inefficiencies, only to be followed by over 50% earnings growth in FY15 due mainly to consolidation.

- **Increased Consumer Spending.** LABL performance, due to 60% of sales coming from North America, follows the trend in U.S. consumer spending. With the U.S. unemployment rate continuing to decrease, reaching 4.9% for February 2016, and the U.S. full time employment reaching a historical high of 121,760 thousand people for February 2016 (U.S. Bureau of Labor Statistics), there is a large portion of the population who are now financially stable and purchasing more products. As a result, according to the U.S. Bureau of Economic Analysis, consumer spending continues to increase, and should continue to grow for the remainder of the year. Customers of LABL will increase production to keep up with consumer spending habits, and LABL sales will benefit as a result. Increased sales, combined with gross margins reaching 21% in 2015 will benefit LABL.
- **Market Consolidation Opportunities.** Of the top competitors in the label producing industry (CCL Industries Inc., Multi packaging Solutions International Ltd.), no firm owns more than a 3% share of the overall market leaving room for significant consolidation. Recently, there has been a move away from regional operations, and a push towards creating global operations amongst the top firms in the industry, but the initiative is only in its infancy. LABL has made note of this opportunity and is actively pursuing strategic growth of their market share to produce synergies for the company. Revenues from 2014 to 2015 grew 13% from acquisitions, and LABL management has stated publically that consolidation efforts are just beginning, with many synergies yet to be realized, which will improve gross margins compared to competitors.

Valuation

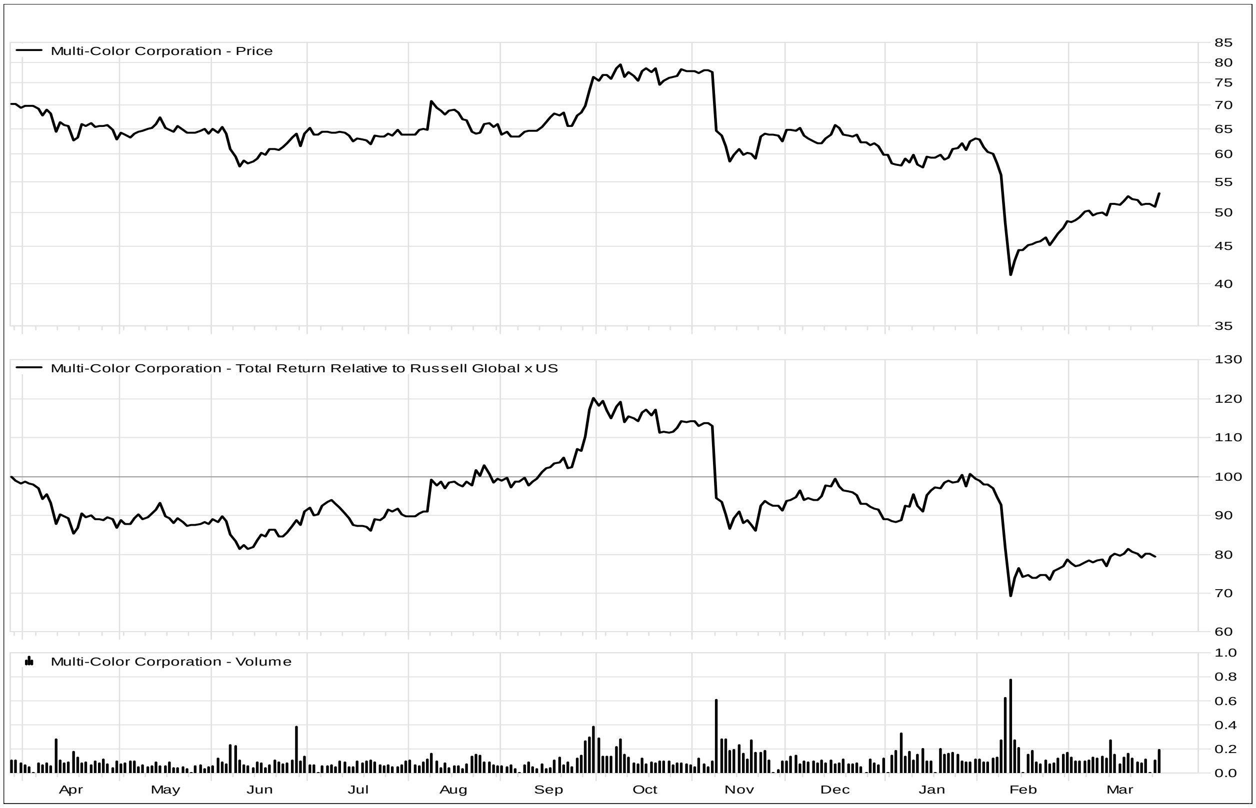
To reach an intrinsic value for LABL, a five year DCF model was created. Using a terminal growth rate of 3.0% and a WACC of 8.01%, an intrinsic value of $67.30 resulted. A ± .5% sensativity analysis on the terminal growth rate and WACC ranged from $53.06-89.09. Additionally, an EV/EBITDA multiple valuation was conducted using 2016 EBITDA of $145.9MM and peer comparable multiple of 10.6x, resulting in a valuation of $58.89. Finally, a P/E multiple was created using a P/E (ttm) of 17.2x and comparable multiple of 22.9x, resulting in a valuation of $61.42. By weighting the three valuation models 50/25/25, a price target of $63.73 was reached, resulting in a 24.05% upside.

Risks

- **Competitive Industry.** The global label producing market is highly competitive with the largest company only owning 3% of the market share. Many of the competitors operate only regional businesses, causing there to be minimal pricing power in the industry.
- **Raw Material Volatility.** Raw material makes up roughly 50% of COGS with transportation representing another 10%. Most contracts have pass-through agreements structured within; there is still residual risk on nearly 50% of the sales base. Also, during periods when raw material costs rise rapidly; it may be difficult to pass costs through due to the competitive landscape.
- **Concentrated Ownership.** The private-equity firm Diamond Castle owns roughly 14% of LABL following the acquisition of York Label Group. It is possible that Diamond Castle will eventually want to sell off a portion of their investment, resulting in a downward pressure on LABL shares.

Management

Nigel A. Vinecombe was appointed director of Multi-Color in 2008. He began serving as President and CEO in 2010, and now presently serves as the Executive Chairman. Vadis A. Rodato serves as the President and CEO as of 2016. Mr. Rodato served as the global COO for the Wine & Spirits operations from 2014 to 2015. Sharon E. Birkett has served as Vice President, CFO, and Secretary since 2010. Prior to her current position, Ms. Birkett served as the Chief Accounting Officer for LABL.



Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA	Dividend Yield	EV/ EBITDA
Multi-Color Corporation	LABL	860	849	145.166	0.29	10.93
CCL Industries Inc. Class B	CCL.B	8,363	3,039	608.4	0.67	13.97
Graphic Packaging Holding Com	GPK	4,186	4,160	735.3	1.56	8.25
Sealed Air Corporation	SEE	9,357	7,032	1158.9	1.17	11.61
Avery Dennison Corporation	AVY	6,373	5,967	717.6	2.33	9.34
Bemis Company, Inc.	BMS	4,931	4,071	567.4	2.51	10.06
Peer Averages		7,070	5,049	805.1	1.43	10.8

Ownership

% of Shares Held by All Insider Owners:	22.13%
% of Shares Held by Institutional & Mutual Fund Owners:	>90%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
Diamond Castle	2,352,280	14.00
FIAM LLC	1,532,038	9.12
T. Rowe Price Associates, Inc.	1,481,176	8.82
Fidelity Management & Research Co.	684,861	4.08
Dimensional Fund Advisors LP	684,639	4.08

Source: FactSet

Pzena Investment Management Inc. (PZN)

April 1, 2016

Brendan Hopkins Financial Services

Pzena Investment Management, Inc. Class A (NYSE: PZN) is an investment management firm that manages assets across a wide variety of markets both in the United States and Internationally. PZN employs a classic value based investment approach and offers products through two different account types: Institutional (55% of AUM) and Retail (45%). Through these accounts, PZN invests in U.S. Value strategies (73.8% of AUM) and Global & Non-U.S. Value strategies (26.3%). The company manages separate accounts on behalf of institutions and acts as a sub-investment adviser for a variety of mutual funds. As of February 29, 2016, the firm had $24 billion in Assets Under Management. The firm has approximately 88 employees, of which 24 are research analysts, and 38 employees own 60% of the firm. Pzena Investment Management, Inc. was founded in 1996 by Richard Pzena and began being publicly traded in 2007. The company is headquartered in New York, NY with offices in London and Melbourne.

Price ($): (3/29/16)	7.50	Beta:	0.94	FY: Dec	2015A	2016E	2017E	2018E
Price Target ($):	8.74	WACC	9.5%	Revenue (Mil)	116,607	118,939	123,697	132,355
52Wk H-L ($):	12.25 - 5.91	M-Term Rev. Gr Rate Est:	6.0%	% Growth	3.64%	2.00%	4.00%	7.00%
Market Cap (mil):	502	M-Term EPS Gr Rate Est:	7.0%	Operating Margin	46.35%	45.70%	45.41%	46.80%
Float (mil):	53.9	Operating Margin	46.35%	Pretax Margin	46.01%	43.08%	44.20%	47.57%
Short Interest (%):	2.90%	ROA:	6.8%	EPS (Cal)	$0.50	$0.79	$1.39	$2.25
Avg. Daily Vol (000):	52.99	ROE:	41.7%	P/E (Cal)	17.2	16.9	16.6	15.1
Dividend ($):	0.12	Dividend Payout Ratio	24.0%	BVPS	1.21	1.17	1.23	1.42
Yield (%):	1.40%	Divident Coverage Ratio	12.25X	P/B	7.10	7.41	8.11	9.87

Recommendation

Utilizing a classic value approach to their investments, Pzena Investment Management, Inc. has established a sound portfolio investment process that has been consistent and unwavering even in these difficult times for value and active managers. Within the past couple of years, AUM has been on the decline, yet the firm's revenues have continued to grow steadily at a strong rate (2014-15 YoY: 4%, 2013-14 YoY: 17%). This continuance of growth within revenues represents the strength and experience of their investment teams and their ability to effectively utilize a value approach. As for the firm's flagship product, Large Cap Focused Value (37.5% of AUM) has been an excellent performer and has consistently beaten the index in three of the last four years and more recently by 7.1% in 2015. With this strong performance within this strategy, the firm only charges .5%, on average, so it is an attractive investment for both institutional and retail accounts. Operating and pretax margins have steadily been rising by 10% over the past 5 years to 55% (excluding a nonrecurring expense). As a result of PZN's dependability, effective value approach, their bullish investments in the Financial Sector, and favorable valuation it is recommended that PZN be added to the AIM Equity Fund with a price target of $8.74, representing an upside of 16.5%. The firm also pays a dividend, yielding 1.40%

Investment Thesis

- **Growth Cycle Coming to a Close.** Historically within the stock market, value stocks have outperformed growth stocks for longer periods of time. However, for nearly the past 5 years growth has strongly outperformed value and this was extremely evident during 2015 as growth outperformed by almost 9%. During times of instability, investors tend to utilize value stocks rather than growth because of their consistency with strong financial performance. Currently, the global economy is on a downward trend and appears to be heading towards another recessionary period with the sovereign debt crisis in Europe, a declining Chinese economy, and instability in emerging markets. Coupled with U.S. stagnation, this appears to be creating a very rich environment for value managers. When this cycle change occurs, PZN will enjoy the benefits as their portfolios are founded upon the basic approach of value investing.

- **Dependable through Tough Times.** Since the firm's inception, PZN has utilized a classic value investment process in which they attempt to buy sound businesses that are underperforming their demonstrated earnings power. Through this investment philosophy, they have consistently provided strong returns for their shareholders and have been able to grow revenues YoY in this unpleasant environment for value based portfolios. In comparison to similar low price to book strategies, PZN's portfolios have outperformed by 100 to 500 basis points per year over the past 5 years and this stability and perseverance is a true testament to PZN's experienced management team and their determination to stick to their investment philosophy and due diligence.
- **Bullish Sector Bets.** Pzena has recently made interesting investment decisions and has been bullish within the Financial Sector, holding a 40% sector weight compared to the category average of 21%. This decision has extreme upside potential because of the looming hikes in interest rates by the Federal Reserve in the U.S. By increasing their investing heavily in this sector, PZN could benefit from holding banks and their ability to charge higher rates. There is a positive correlation between banks and interest rates historically, when interest rates rise, banks have ability to raise mortgage rates faster than the interest rates they have to pay on deposits. This results in expanding margins and thus more probability and higher payoff for the holding these banks and the financial services that also utilize banks in their portfolio.

Valuation

Utilizing a blended historical and peer price-to-earnings (P/E) average and a dividend discount model (DDM) yielded an intrinsic value of $8.74. For the DDM, a cost of equity of 9.50% and a terminal growth rate of 2% yielded a value of $8.69. A sensitivity analysis of the cost of equity and terminal growth rate produced a range of $8.03 – 8.92. Following this method, a current and historic blend of the company's four peers was used and a P/E multiple of 18.34X was achieved leading to a valuation of $8.79. Weighing the DDM 50% and P/E multiple of 50%, a price target of $8.74 was established representing a 16.5% upside. Pzena also paid a 12 cent dividend in 2015, yielding 1.4%.

Risks

- **Active Manager Underperformance.** PZN utilizes an active management approach in which managers attempt to outperform their benchmarks or peer group average. This approach contains the ability for firms to far exceed or fall short of the market's average return, and it is costly because the higher trading frequency results in more fees and operating expenses. During 2015, active managers underperformed the index in every account other than large and small cap value accounts.
- **Key Personnel.** For every asset management firm, the retention of highly educated and experienced investment personnel is a major concern. Clients and investors value low portfolio manager and analyst turnover because it signifies confidence and stability within the firm and their strategy. Following a decline in revenue growth during the 2015 year, the firm has stated they have little flexibility for reducing costs and that if necessary, they would cut sales compensation and bonuses. If this worse-case-scenario occurs, it will likely result in investment personnel leaving the firm and losing their continuity of investment ideas and client trust.

Management

Richard Pzena has served as Chief Executive Officer, Co-Chief Investment Officer, and Chairman for Pzena since he founded the firm in 1996. Prior to forming Pzena Investment Management LLC, he joined Sanford C. Bernstein & Company in 1986 and later served as the Director of U.S. Equity Investments and Chief Research Officer for the firm. In addition, he worked for Amoco Corporation in various roles and earned a BS and MBA from Wharton School of the University of Pennsylvania in 1979 and 1980.

Ownership

% of Shares Held by All Insider and 5% Owners:	19.90%	▲
% of Shares Held by Institutional & Mutual Fund Owners:	65.70%	▲

Source: FactSet

Top 5 Shareholders

Holder	Shares		% Out
Punch & Associates Investment Management, Inc.	1,443,000	▼	9.50
Epoch Investment Partners, Inc.	1,109,000	▲	7.30
KRISHNA AVULA RAMA	1,050,000	–	6.90
Fidelity Investments Charitable Gift Fund	760,000	–	5.00
Cacti Asset Management LLC	717,000	–	4.70

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Net Income (mil)	Div. Yld. %	P/E	ROE
Pzena Invesment Management, Inc. Class A	PZN	504	7,679	1.40	17.2	41.7
Diamond Hill Invesrment Group	DHIL	593	37,075	0.00	17.14	41.3
Cohen & Steers	CNS	1,773	65	2.70	21.62	28.1
Fifth Street Asset Management, Inc.*	FSAM	18,499	2,408	19.60	7.95	49.4
Westwood Holdings Group	WHG	514	27,105	3.80	15.64	22.2
Peer Averages		846.2	17980.8	2.0	17.9	33.3

**Removed For Relative Valuation Analysis*

Source: Factset

Kone Oyj ADR (KNYJY-US)
April 1, 2016

Patrick Cashner — International Industrials

Kone Oyj engages in the design and manufacture of elevators and escalators. Its business segments are broken down into New Equipment (57%), Maintenance (31%), and Modernization (12%). The company operates globally with over two-thirds of its revenue coming from the Asia-Pacific region. The company was founded on October 27, 1910 and is headquartered in Helsinki, Finland.

Price ($): (3/29/16)	23.75	Beta:	1.04	FY: Dec	2015	2016E	2017E	2018E
Price Target ($):	29.40	WACC	9.2%	Revenue (Mil)	9,543.7	9,448.2	9,637.2	10,022.7
52WK H-L ($):	24.02-18	M-Term Rev. Gr Rate Est:	0.9%	% Growth	-1.52%	-1.00%	2.00%	4.00%
Market Cap (mil):	24,471	M-Term EPS Gr Rate Est:	-2.2%	Gross Margin	21.96%	21.72%	21.67%	21.66%
Float (mil):	315.8	Debt/Equity:	9.4%	Operating Margin	14.16%	13.68%	13.63%	13.62%
Short Interest (%):	0.00%	Debt/EBITDA (ttm):	0.18	EPS (Cal)	$2.17	$1.93	$1.95	$2.01
Avg. Daily Vol:	25,481	ROA:	14.4%	FCF/Share	$2.84	$2.59	$2.61	$2.67
Dividend ($):	680.19	ROE:	43.9%	P/E (Cal)	11.0	12.3	12.2	11.8
Yield (%):	2.84%	ROIC:	43.3%	EV/EBITDA	10.3	10.5	10.2	9.7

Recommendation

As of 2015, 44% of Kone's revenue comes from the Asia-Pacific market and 39% comes from European markets. Kone has four main competitors; Schindler, Mitsubishi Electric, ThyssenKrupp, and United Technologies Corporation. In the Chinese market from 2006-2012, Kone has seen a new equipment orders received CAGR of roughly 44%, compared to 20% by the rest of the industry. While that range is decreasing, in 2015, Kone has still seen a new equipment orders received CAGR of around 5%, compared to below 0% for the rest of the industry. Kone has an industry leading operating margin of 14.2% compared to the industry average of 10% and management has set a target of 15% to be achieved in a few years. The increase in operating margin will be from improvements in installation cost, new installation field management, and structured training and skill assessment program for new technicians. Kone also has a lower debt-to-equity ratio then its peers, 9.37% compared to 96.4%. From 2011-2014, sales growth averaged 10.16% per year and from 2014-2015 sales declined by 1.52% as a result of global slowdown. Due industry leading operating margin and low debt, it is recommended that Kone Oyj be added to the International AIM portfolio with a price target of $29.40, representing an upside of 26%.

Investment Thesis

- **Growth in the Chinese Market.** China is the largest customer for new elevators and escalators, and provides the greatest opportunity for growth. Last year, China accounted for 69% of all new elevators and escalators globally. Since 2001, the China new equipment market has had a CAGR of 24%, compared to an 8% CAGR for the rest of the world. Even with the struggling Chinese economy, construction has started to pick up again. In China, real estate investment and floor space construction have grown 3% and 6% respectively from the prior year. The real estate investment is the first monthly YoY growth since August 2015. Also floor space sold and new floor space started have increased 28% and 14% respectively. The number of work-in-progress buildings under development are .7% higher than the previous year. Once the economic situation in China begins to turn around, the need for elevators and escalators will be in immediate demand for these unfinished buildings. Kone also has the widest coverage in maintenance and elevators across China because they offer both low and high end products. China is the most profitable geographic region and provides strong growth possibilities for Kone moving forward.
- **Industry Leading Innovation.** In 2015, Forbes named Kone as the 48th most innovative company in the world and the only elevator company on the list. Kone has been listed in the 100 most innovative companies for five consecutive years. Kone also received two awards for its

2015 designs, the iF Design Award and the Red Dot Product Design Award (its third time winning the iF design Award). The product that won both awards in 2015 is the Kone Turnstile 100 solution. It is a light-weight glass security turnstile that allows for better people flow than traditional security turnstiles. The turnstiles can be equipped with several of Kone's people flow intelligent solutions. The superior innovation over competitors gives Kone a competitive advantage because they are more capable of meeting customers' demands.

- **Urbanization and Equipment aging in China.** Urbanization is an essential driver for economic growth in China. It is estimated that by 2025, the number of people living in urban areas, within China, will increase from roughly 750 million to 950 million, a 10% increase. With the lack of space and land available, buildings will continue to be built higher. As buildings accompany more people, the need for an elevator or escalator to transport people quickly will be of greater importance. Also, as the number of people increase, so will the usage of a single elevator or escalator. The increased usage will require equipment to be maintained or replaced quicker than those in other areas of the world. By 2018, it is estimated that elevators over 15 years old will increase by 22% each year. Urbanization and aging equipment provides an excellent growth opportunity for Kone in the future years.

Valuation

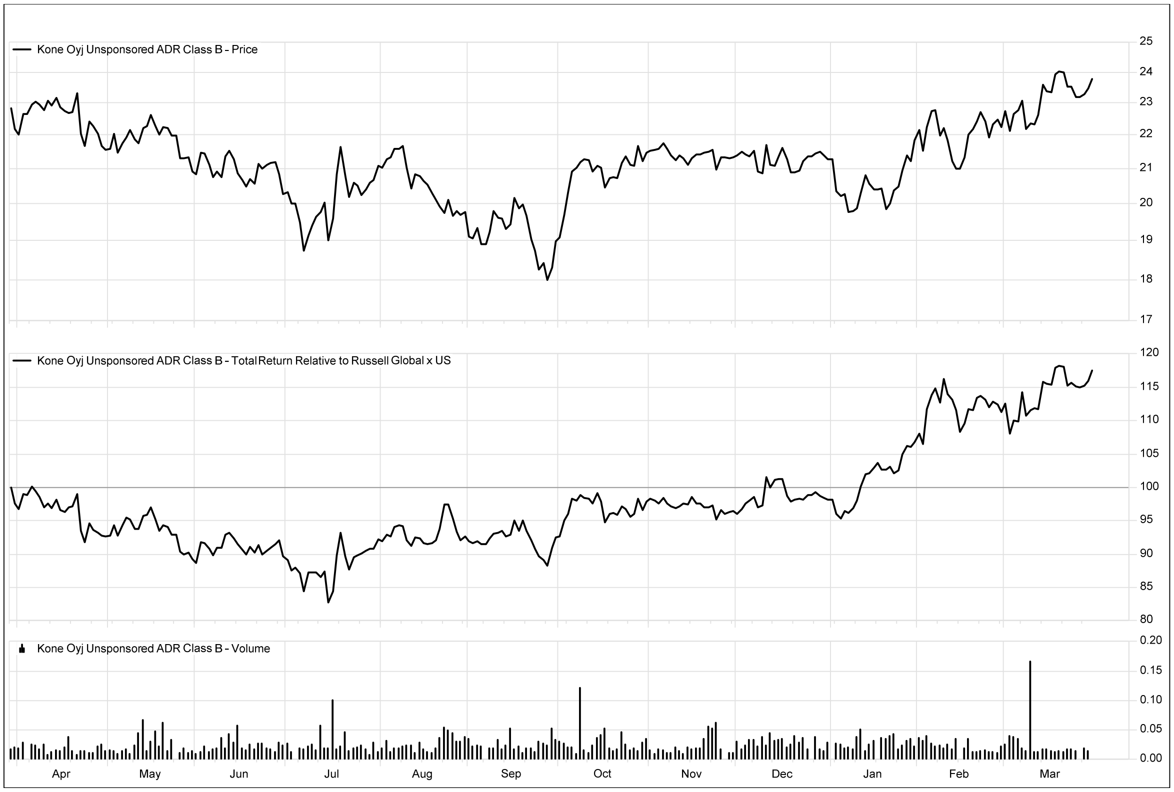
To arive at a price target of $29.40, a 5-year DCF was used with a perpetuity growth rate of 3%. 3% was derived by looking at China's Annual GDP growth, which was 7.1% in 2014, and the annual GDP growth of Europe, which was 1.4%. A WACC of 9.2% was calculated with a country risk premium of 1.5% to reach a discount rate of 10.7%. The DCF arrived at a price target of $33.12 and a sensitivity analysis on perpetuity growth rate was conducted showing that a 1% change in either direction provided a range of $30.26-36.82. In addition to a DCF, a PE valuation was also conducted, which arrived at a price target of $25.69. Weighting both equally, a price target of $29.40 was reached, representing a 26.51% upside. Kone has an annual dividend yield of 2.84%.

Risks

- **Economic slowdown in the Asia-Pacific Region.** The economy in China has continued to suffer over the last 5 years and is expected to continue. GDP growth for 2015 is estimated to be 7%, the lowest in over two decades. GDP growth is especially important for the elevator and escalator industry because new construction will decline until GDP continues to increase. With 44% of Kone's revenue coming from Asia-Pacific, it leaves the company vulnerable to economic slowdowns in the Asia-Pacific region.
- **Regulations and Accidents.** Kone must be able to meet new regulations in every country where business is conducted. Also, Kone's elevators and escalators carries several people daily. In the case of a malfunction of equipment, resulting in death or serious injury, Kone's brand name could be permanently damaged, resulting in a significant loss of market share.
- **Price Competition.** The competition in the new equipment market is high, driving down prices, which could negatively affecting margins.
- **Labor Cost Inflation.** Kone has 49,734 employees; any labor cost increase could reduce operating margins.

Management

The president is Henrik Ehrnrooth and he has been with the company for six years. The CFO is Eriikka Soderstrom and she has been with the company for three years. Both have insignificant amount of shares in the company. The company was founded in 1910 and the founding family has been involved for four generations now. There are currently three family members on the eight-person board, led by Antti Herlin who has been on the board for 25 years. Antti Herlin also owns 9.7% of the shares outstanding, followed by three other family members combining for another 10% of all shares outstanding.



Source: Factset

Ownership

% of Shares Held by All Insider	29.70%
% of Shares Held by Institutional & Mutual Fund Owners:	39.70%

Source: Factset

Top 5 Shareholders

Holder	Shares	% Out
Herlin Antti	43,649 ▲	9.70
Capital Research & Management Co. (World Investors)	26,831 ▼	6.00
Herlin llona	17,472 —	3.90
Herlin llkka	16,350 ▼	3.60
Herlin Niklas	16,000 —	3.60

Source: Factset

Name	Ticker	Market Cap (mil)	Net Income (mil)	D/E	P/E	EV/ EBITDA
Kone Oyj Class B ADR	KNYJY	21,820	1,462	9.37	19.18	11.5
Schindler Hldg PS	SCHP-CH	19,761	689	40.1	26.75	15.2
United Tech. Corp.	UTX	82,761	3,996	74.66	19.96	9.6
Mitsubishi Electric Corp	6503-JP	22,552	2,136	20.74	11.97	5.7
ThyssenKrupp AG ADR	TKAMY	10,720	366	250	27.86	5.0
Peer Averages		33,949	1,797	96.4	21.635	8.9

Source: Factset

NIC, Inc. (EGOV)
April 1, 2016

Andy Reed — Domestic Technology

NIC, Inc. (NASDAQ:EGOV) is a leading provider of federal, state, and local government online services. Headquartered in Olathe, Kansas, the company specializes in the creation and upkeep of enterprise-wide portals on behalf of government agencies. These portals allow businesses and citizens to access government information and to complete secure online transactions, such as obtaining driver history reports, applying for permits, paying fines, and more. NIC's highest volume and most commercially valuable service is Motor Vehicle Driver History Record Retrieval, representing 35% of total revenues. The company operates in the following two segments: Outsourced Portals (96% of revenue) and Software & Services (4% of revenue). The company bids for and establishes long-term contracts with government entities, which are maintained through wholly owned subsidiaries. NIC strives to enhance operational efficiencies for government entities, as well as the businesses and citizens they seek to serve. It currently has partners in 30 states, representing more than 4,500 different agencies. Its largest portal partner is Texas, representing 21% of 2015 revenue.

Price ($): (4/1/16)	17.17
Price Target ($):	22.53
52WK H-L ($):	21-14
Market Cap (mil):	1,131
Float (mil):	61.6
Short Interest (%):	2.00%
Avg. Daily Vol (000)	260.00
Dividend ($):	0.55
Yield (%):	3.20%

Beta:	0.87
WACC	7.2%
M-Term Rev. Gr Rate Est:	6.8%
M-Term EPS Gr Rate Est:	7.9%
Debt/Equity:	0.0%
Debt/EBITDA (ttm):	0.00
ROA:	19.8%
ROE:	37.8%
ROIC:	37.8%

FY: Dec	2015	2016E	2017E	2018E
Revenue (Mil)	292.38	313.65	338.77	355.94
% Growth	7.45%	7.28%	8.01%	5.07%
Gross Margin	37.76%	39.27%	42.24%	41.22%
Operating Margin	23.02%	22.22%	22.14%	22.74%
EPS (Cal)	$ 0.64	$ 0.69	$ 0.74	$ 0.80
FCF/Share	$0.70	$0.73	$0.78	$0.84
P/E (Cal)	31.2x	31.5x	29.4x	27.2x
EV/EBITDA	18.0x	18.5x	16.4x	16.0x

Recommendation

NIC, Inc. operates similarly to a full-blown monopoly. In the past, many government entities have interacted with their constituents in a painfully slow manner. NIC strives to increase operational efficiency and allow governments to collect payments, issue licenses and a full range of services that, in the past, required tedious paperwork and personal visits to an agency. NIC's business model requires that the company pay for the upfront costs of creating the website or mobile application. It then collects a percentage of each transaction, depending on the terms of the individual contracts. In a 2013 University of Utah study in 3 states NIC serves, 1,500 businesses were surveyed. Of these businesses, 95% approved of their government's online presence. Furthermore, 90% of these businesses preferred to conduct their interactions with the government via the web. In addition, the majority of the participants in the survey said that they felt NIC's websites reinforced the perception that their state was pro-business. The company generates operating margins in excess of 20%, compared with a peer average of ~13%. Despite heavy spending in cyber security and federal business development, the company has grown operating margins at a 5-year CAGR of 18%. 74% of NIC's revenues are generated from businesses, such as LexisNexis that resells driver history reports to large insurance firms, compared with 26% coming from individuals paying fines or applying for new forms of identification. NIC generates 38% returns on equity, which significantly outpaces the industry average of 23%. The company's current portfolio of licensees generates 90%+ recurring revenues, and without heavy reliance from outside suppliers, NIC, Inc. offers an opportunity for insulation from cyclicality for the AIM Equity Fund. Given the company's track record of generating organic growth, and the growing acceptance of its services, it is recommended that NIC, Inc. be added to the portfolio with a price target of $22.53, representing a 30% upside to current market value. NIC, Inc. most recently paid a dividend of $.55, a yield of 3.2%.

Investment Thesis

- **Increasing Internet Usage Across Devices:** The Internet continues to be a growing and dominant way for Americans to access information. Because of this, demand for NIC's eGovernment services should continue to expand in the near future. A Pew Research study found in April 2015 that 65% of Americans had interacted with their government via the Internet in the past 12 months. Within this 65%, there is still a significant amount of whitespace for NIC to monetize these interactions. NIC is known for creating portals that are compatible and appeasing across all devices. As governments and government agencies look to create pleasurable user experiences, NIC's technology and support should prove to be a necessity, not a luxury.

- **Execution of New Contracts:** NIC currently has 4,500 federal, state, and local government agencies comprising a total library of more than 11,000 services. With that, the company still has room to grow. Twenty states do not use NIC's services, opting for a less efficient, more fragmented offering for constituents. Management has been adamant about getting these states involved in their services, which would be immediately accretive to top and bottom line growth. For example, simply processing the payment of traffic and parking tickets in Portland, Oregon added $1 million in revenue for FY 2015. The company is also in talks with officials in Washington, D.C. to provide more convenience to users of Federal Government services.
- **Addition of New Services:** During Q4 2015, the company launched The Oregon Recreational Marijuana Licensing Program, which allows recreational users to apply for a license quickly and efficiently on the state's government website. During the first several days of the program, more than 400 applications were received. Additionally, for more than 60 years, Wisconsin's hunting and fishing licenses registrations were filled out in person. Today, thanks to NIC, these licenses are completed exclusively online. As more and more states move to exclusive online services, NIC's revenue and return on investment will continue to grow. The company experienced an 8% increase in same-state revenue in Q4 2015.

Valuation

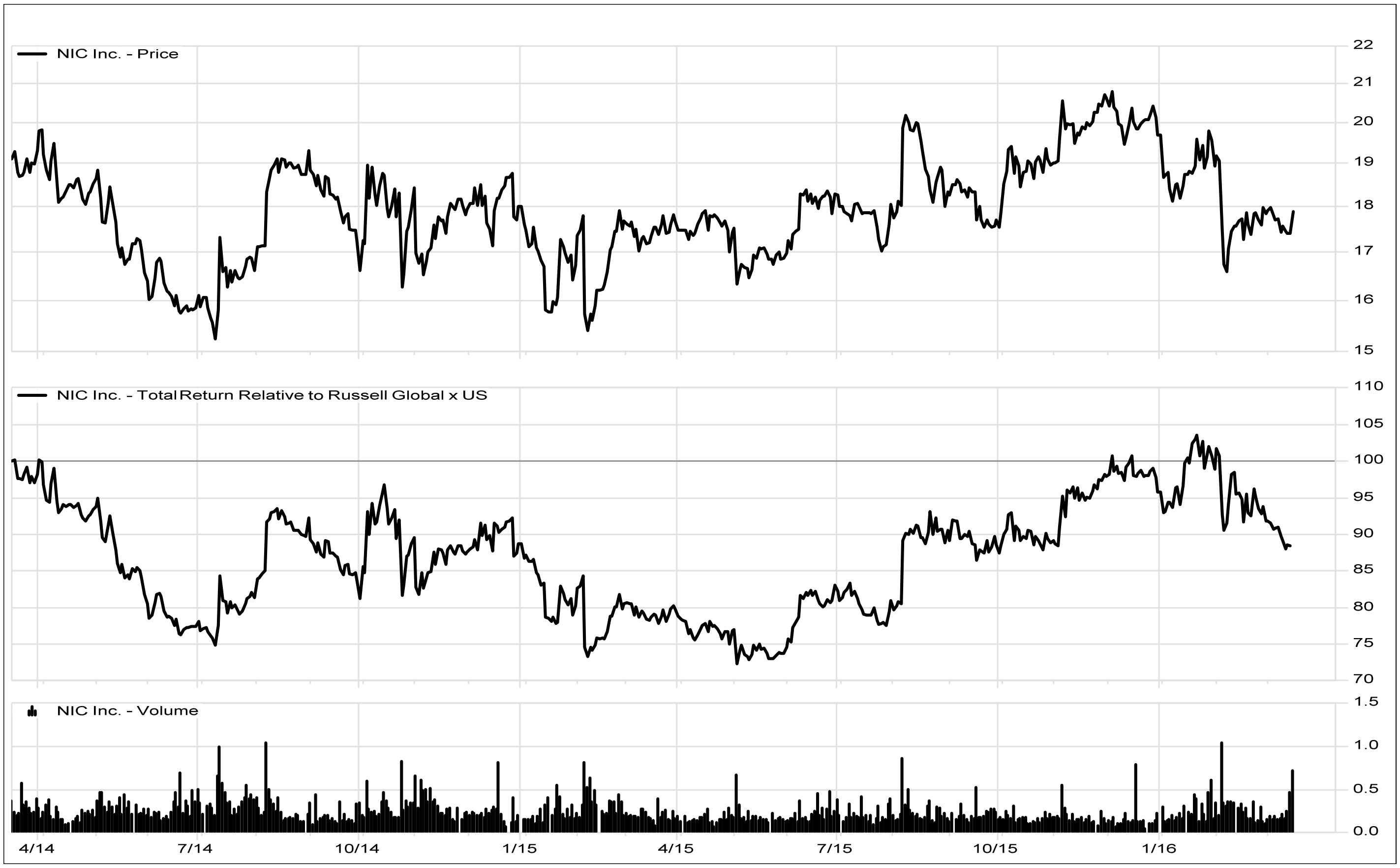
In order to reach an intrinsic value for NIC, Inc., a 10-year DCF model was constructed. Using a WACC of 7.16% and a long-term growth rate of 2.00%, a price target of $19.91 was reached. A sensitivity analysis on the WACC and terminal growth rate ranged from $16.43-26.40. Along with the DCF model, a dividend discount model was constructed. Using a perpetual dividend growth rate of 5%, a price target of $26.74 was reached. Lastly, a blended P/FCF multiple analysis was conducted, weighting a forward multiple and peer multiple equally, a price of $21.91 was reached. Weighting the three methods equally, an intrinsic value of $22.53, or a 30% upside over the current price, was established. The company last paid a dividend of $.55, a dividend yield of 3.2%.

Risks

- **Expiring Contracts:** As of the end of fiscal year 2015, the company had 10 contracts set to expire during 2016. These contracts in aggregate represented 22% of the company's consolidated revenue. While the likelihood of government agencies opting out is quite low, the contracts are structured in a way that makes it favorable for the agencies to look for other options. The most recent experience the company had with these expiring contracts was in 2013, when Arizona's contract was not renewed. That event did not materially affect operations.
- **Political Regime Changes:** With different political regimes coming and going, appropriations for different government sponsored entities are subject to change. Should newly elected officials determine NIC's services are a poor allocation of the taxpayers' funds, revenues would suffer materially.

Management

Harry H. Herington is the current CEO and the Chairman of the Board, and is credited as one of the catalysts that helped turn NIC, Inc. from a small start-up into a nationally recognized company. Stephen M. Kovzan is the CFO, and has been with the company since 1999. The company is ranked #36 on Forbes "100 Best Small Companies in America."



Ownership

% of Shares Held by All Insider and 5% Owners:	6.60%	▲
% of Shares Held by Institutional & Mutual Fund Owners:	90.60%	–

Source: FactSet

Top 5 Shareholders

Holder	Shares		% Out
Brown Capital Management, LLC.	8,736	▲	13.3%
BlackRock Fund Advisors	5,538	▲	8.4%
Vanguard Group, Inc.	4,778	▲	7.3%
Jackson Square Partners, LLC.	4,531	▼	6.9%
Delaware Management Business Trust	3,007	▼	4.6%

Peer Analysis

Name	Ticker	Market Cap (mil)	Net Income (mil)	P/FCF	P/E	EV/ EBITDA
NIC, Inc.	EGOV-US	1,130	42	27.9	31.2	15.3
Accenture	ACN-US	74,210	3,053.0	21.3	24.0	16.3
Maximus	MMS-US	3,200	142.5	60.2	24.0	3.5
Unisys	UIS-US	374	-109.9	-	-	14.3
FIS	FIS-US	17,680	650.8	18.8	28.0	8.0
Peer Averages		23,866	934.1	33.4	25.3	10.5

Source: FactSet