Applied Investment Management (AIM) Program

AIM Class of 2019 Equity Fund Reports
Spring 2018

Date**: Friday, April 13th | **Time:** 2:45 – 4:00 p.m. | **Location: AIM Research Room 488

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These student presentations are an important element of the applied learning experience in the AIM program. The students conduct fundamental equity research and present their recommendations in written and oral format – with the goal of adding their stock to the AIM Equity Fund. Your comments and advice add considerably to their educational experience and is greatly appreciated. Each student will spend about 5-7 minutes presenting their formal recommendation, which is then followed by about 8-10 minutes of Q & A.

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Moelis & Co. Class A (MC)

April 13, 2018

John Wagner Domestic Financials

Moelis & Co. (NYSE:MC) is a leading global independent investment bank that offers strategic and financial advisory to a diverse client base. This advisory includes areas involving mergers and acquisitions, capital market transactions, recapitalization and restructurings and other corporate finance matters. Their services are offered across all major industry sectors to clients such as governments, individual entrepreneurs, financial sponsors, and corporations. The company currently operates from 19 global offices with revenue exposure to the Americas (79%), Europe (16%), Asia (3.5%), and others (1.5%). Moelis & Co. was founded by Kenneth Moelis in July 2007 and went public in April 2014. The firm is headquartered in New York, New York.

Price ($):	50.95	Beta:	1.11	FY: Dec	12/31/2016	12/31/2017	12/31/2018	12/31/2019
Price Target ($):	58.51	M-Term Rev. Gr Rate Est:	9.35%	Revenue (Mil)	613.37	684.62	825.79	909.97
52WK H-L ($):	54.6 - 34.6	M-Term EPS Gr Rate Est:	6.70%	% Growth	11.15%	11.6%	20.6%	10.2%
Market Cap (mil):	3,740.00	WACC	8.24%	Oper Inc	161.10	168.64	212.21	240.79
Float (%)	99.70	ROA (%):	4.53	% Growth	17.1%	1.4%	25.8%	13.5%
Avg. Daily Vol (mil):	0.45	ROE (%):	10.95	Op Margin	26.3%	24.6%	25.7%	26.5%
Yield (%):	7%	Asset Turnover	1.12	Diluted EPS	1.80	2.29	2.72	2.89
ESG Rating	B	Efficiency Ratio	75.70	P/E	21.46	22.5	18.7	17.6
		Compensation Ratio	58.50	Efficiency Ratio	73.7%	75.4%	74.3%	73.5%

Recommendation

After finishing 2017 on a positive note by beating earnings by $0.10 per share compared to consensus estimates of $0.42, the third consecutive beat, momentum is carrying Moelis into a strong 2018 year. MC is generating more than 80% of its revenues from strategic advising, ranking them the purest play in our current M&A environment. Advisory fee growth was up 12% in 2017, also ranking them among the highest percentage of their peers. While they have had strong historical financials, the future continues to look bright for the firm. Market conditions remain favorable as disruptive technology drives an elongated M&A cycle, forcing businesses to adapt to the growing competitive business environment. Additionally, the new tax reform provides clarity and capital for businesses and is expected to drop MC's tax rate to 19%, including stock-based compensation for 2018. The M&A market provides a positive outlook for 2018 as well. Based on global surveys, 35% of corporations with revenue more than $1B are expecting to pick up the pace with acquisitions in 2018, with smaller corporations expecting 22% increase in acquisition divesture. Among private equity firms, 29% of those investing more than $1B are expecting deal flow to increase by over 20%, with smaller companies expecting an increase of 12%. With buyer interest on the rise, valuation is also increasing as 64% of buyers believe that enterprise value of deal transactions will be greater in the next 12 months, with 34% noting they will be constant. MC continues to grow its business, both in the North America and the EMEA to capitalize on these opportunities. If MC can carry its momentum and uphold its deal flow, given the current environment, 2018 should be another strong year. Given the M&A environment, MC's continued advisory growth and its position as a pure play, it is recommended that MC be added to the AIM Domestic Equity Fund with a price target of $58.26, representing a 13.68% potential upside.

Investment Thesis

- **Strong M&A Activity Runway.** Given the current M&A activity levels, Moelis will benefit as more than 80% of its revenues come strictly from strategic advisory. The recent tax reform will not only increase earnings and cash flow for financial firepower, but more than $2 trillion in cash is expected to be repatriated. Private equity firms have reported $1 trillion in dry capital with 60% of them seeking acquisition to build scale in the coming year. Lastly, disruptive technologies continue to create a competitive business environment driving M&A activity levels and causing businesses to adapt.

- **Recruiting Pipeline and MD Growth.** Moelis has added 17 Managing Directors in 2017 and 5 in 2018 already, bringing the total count to 124 with 30% of them being promoted internally. 65% of the MDs were placed in technology, consumer, and healthcare industries, with each industry having an increased investment EV/EBITDA multiple of 5%, 22%, and 22%, respectively. The stronger the relationship in these areas, the more complex and higher valued the deals will be. Total banker headcount has also grown by 15% in 2017 with focus on EMEA regions, as well as management noting they are flat-out busy; a positive indicator for future revenues.
- **FCF Discipline.** Despite being in a highly competitive business environment, Moelis has grown revenues and headcount while maintaining a compensation ratio at around 58%. Management forecasts this to be stagnant in the distant future and non-comp expenses at around 13% in 2018 v. 17.4% in 2017. Due to margin discipline, the tax reform and increased top line growth should allow for bottom line growth by about 20% in the coming year. Management has increased quarterly dividend by 27% this year as well as issued two special dividends TTM. With increased FCF and bottom line growth, quarterly and special dividends are expected to increase in the future.

Valuation

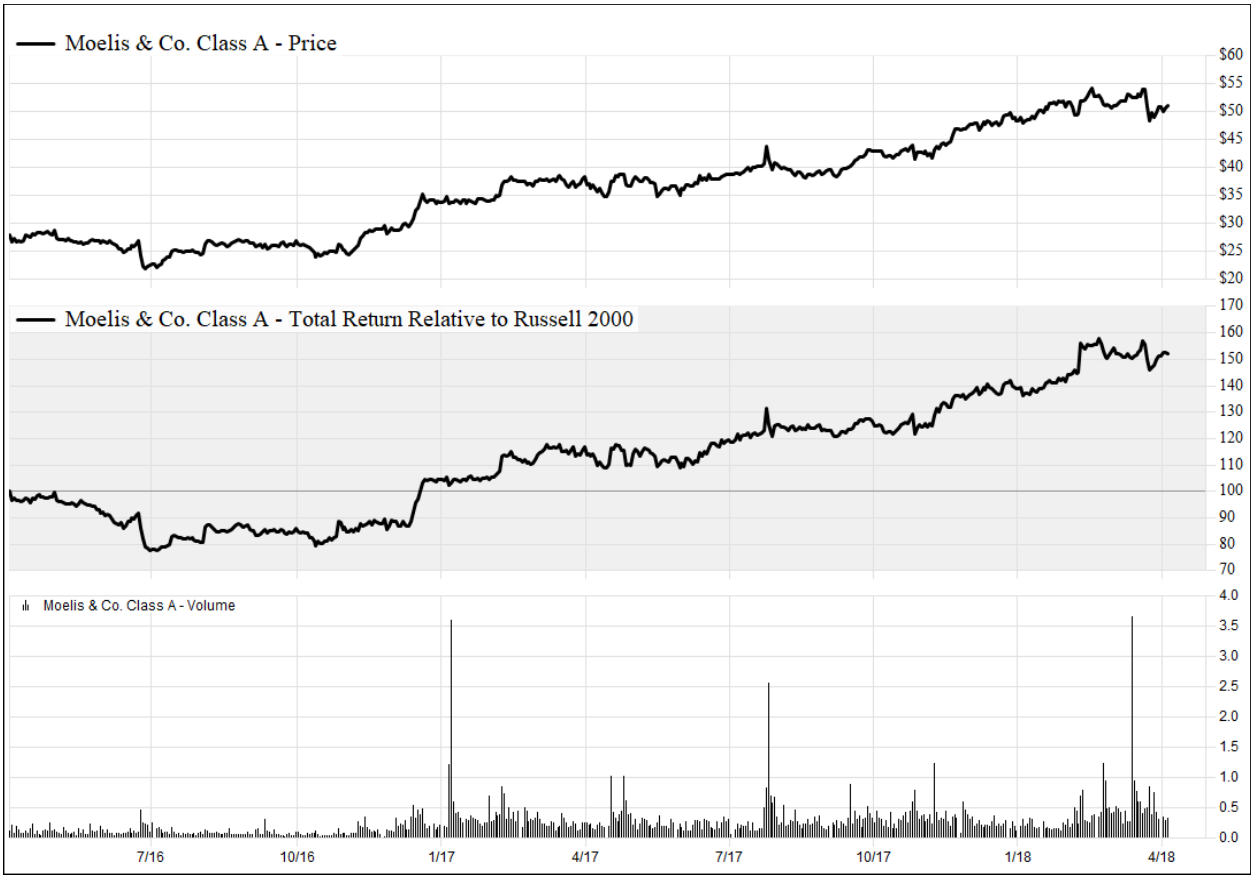
In order to reach an intrinsic value for MC, a discounted cash flow model was constructed. Using a terminal growth rate of 2.5% and a WACC of 8.24%, an intrinsic value of $54.91 was reached. A sensitivity analysis of ±1% the WACC and ±0.50% perpetual growth rate resulted in a price range of $44.91-73.88. Additionally, a peer average P/E multiple valuation was calculated with a weighted average approach, using a 2018E EPS of $2.72 and a P/E multiple of 21.47x an intrinsic value of $58.34 was calculated. Finally, a EV/EBITDA multiple approach was used with a peer average multiple of 18.8x, an intrinsic value of $61.64 was reached. By weighing these 34/33/33, respectively, a price target of $58.26 was reached, resulting in a 13.68% potential upside. MC pays an annual dividend of $1.88, with frequent special dividends, currently yielding 6.6%.

Risks

- **M&A Market Deterioration.** Because a large portion of MC's revenues are directly related to the volume and value of their M&A transactions, a deterioration in activity may cause a decrease in demand for their M&A advisory services as well as an increase in competition. As a result, both revenues and share price could be adversely affected.
- **Inability to Maintain A Strong Recruiting Pipeline.** Moelis is currently expanding their business with individuals, teams, and offices. If they continue to expend time and resources but are unable to retain profitable professionals to fill these roles, financial results could be adversely affected.
- **Fluctuation in Foreign Currency.** MC currently generates 21.7% of their revenues from areas outside of the United States. Because their financial statements are denominated in U.S. dollars, they are exposed to fluctuation in foreign currencies. Increased volatility in these exchange rates could adversely affect their financial results.

Management

Kenneth D. Moelis is currently Chairman, Chief Executive Officer and Founder at Moelis & Co. Prior to co-founding MC in 2007, Mr. Moelis was President of UBS Investment Bank for two years. Jeff Raich and Navid Mahmoodzadegan are both Founding Partners and Managing Directors. Mr. Raich and Mr. Mahmoodzadegan were both previously at UBS Investment Bank before partnering with Mr. Moelis to found Moelis & Co. in 2007.



Peer Valuation

Name	Ticker	Market Cap	P/E	P/B	EV/EBITDA	Div Yld
Moelis & Co. Class A	MC	2,070	23.80	6.26	7.79	6.67
Greenhill & Co., Inc.	GHL	515	17.00	2.45	58.30	1.07
PJT Partners, Inc. Class A	PJT	1,870	54.33	2.23	76.49	0.40
Cullen/Frost Bankers, Inc.	CFR	6,747	19.30	2.13	15.40	2.20
Houlihan Lokey, Inc. Class A	HLI	3,080	18.14	3.53	9.67	1.80
Evercore Inc Class A	EVR	3,670	13.50	6.39	8.00	2.20
Peer Averages		3,176	24.5	3.35	33.57	1.5

Source: Bloomberg

Peer Fundamentals

Name	Ticker	Net Margin	ROE	ROA	ROIC	Eff. Ratio
Moelis & Co. Class A	MC	4.05	10.95	4.53	10.95	75.4
Greenhill & Co., Inc.	GHL	(11.14)	-10.94	-4.99	-6.48	97.1
PJT Partners, Inc. Class A	PJT	(6.54)	NA	-5.64	NA	82.6
Cullen/Frost Bankers, Inc.	CFR	29.53	11.33	1.17	10.70	54.9
Houlihan Lokey, Inc. Class A	HLI	17.24	21.70	8.44	15.10	80.3
Evercore Inc Class A	EVR	7.24	22.73	7.68	17.53	72
Peer Averages		7	11.21	1.33	9.21	77.4

Source: FactSet

Ichor Holdings, Ltd. (ICHR)
April 13, 2018

Matt Tully — Domestic Technology

Ichor Holdings, Ltd. (NASDAQ: ICHR) designs, engineers, and manufactures fluid delivery subsystems and components for semiconductor capital equipment. ICHR's product offerings mainly consist of gas and chemical delivery subsystems, which are critical elements used in semiconductor manufacturing processes such as dry etch, chemical vapor deposition (CVD), electroplating, and chemical-mechanical planarization (CMP). Ichor also offers weldments to support the delivery of fluids through the process tool and precision machining to supply customers with components used in the gas delivery systems. ICHR has 12 facilities located in the United States, Singapore, Malaysia, and the United Kingdom. The company was founded in January 2012 and is headquartered in Fremont, California.

Price ($): (4/10/2018)	$24.89
Price Target ($):	$34.95
52WK H-L ($):	35.51 - 16.82
Market Cap (mil):	653.49
Insider Holdings	2.32%
Avg. Daily Vol (mil):	1.5
Yield (%):	0.0
Short Interest (%):	25.4
ESG Rating	N/A

Beta:	2.58
M-Term Rev. Gr Rate Est:	88.2%
M-Term EPS Gr Rate Est:	24.5%
Debt/Equity:	86%
Debt/EBITDA (ttm):	3.01
WACC (%):	13.53
ROA (%):	13.55
ROE (%):	31.76
ROIC (%):	19.74

FY: Dec	2016A	2017A	2018E	2019E
Revenue (Mil)	405.7	655.9	987.5	1,093
% Growth	39.6%	61.7%	50.6%	10.7%
Oper Inc	23.88	46.18	88.38	102.74
% Growth	89.4%	93.4%	91.4%	16.2%
Op Margin	5.9%	7.0%	9.0%	9.4%
EPS	$0.70	$2.15	$2.76	$3.22
P/E (Cal)	35.5	11.6	9.0	7.7
EV/EBITDA	7.3	12.4	7.2	6.2

Recommendation

Ichor Holdings, Ltd. completed their IPO in December 2016 and has since established themselves as an industry leader in fluid delivery subsystems and components for semiconductor capital equipment. Since 2014, ICHR reported a 3-year sales CAGR of 38% and a 3-year net income CAGR of 77%. In addition to impressive sales and net income growth, ICHR has spent relatively little on capital expenditures. ICHR has grown sales by implementing new product offerings and by acquiring new businesses. In 3Q17, Ichor announced that they were awarded their first purchase order to produce chemical subsystems for one of their largest customers (LAM Research or Applied Materials). Management expects significant contribution to revenue and an increase in gross margins as a result of this new product offering in 2018. In July 2017, Ichor acquired Cal-Weld, a leader in the design of industrial components, subsystems, and systems, for $56.9 million. Cal-Weld was accretive to earnings due to its ~20% gross margins and has exceeded revenue expectations. At the time of the acquisition, Cal-Weld was estimated to make $65-80 million in FY2018. That estimate has been increased due to Cal-Weld accounting for $50 million in revenue the last five months of 2017. ICHR has already started to expand capacity due to the early success from the acquisition. Talon, a leader in design and manufacturing of high precision machine parts, was acquired in December 2017 for $137 million. This acquisition has been accretive to gross and operating margins because of Talon's estimated gross margin of 30%. Both acquired companies are currently suppliers for either LAM Research or Applied Materials (not listed). This presents a great revenue opportunity if ICHR is able to cross-sell products to the customer that is not being supplied by Cal-Weld and Talon. With process tools spending still on the rise, a second surge of semiconductor demand, and more accretive acquisitions on the horizon, it is recommended that Ichor Holdings, Ltd. be added to the AIM Equity Fund with a price target of $34.95, representing an upside of 40%.

Investment Thesis

- **Strategic Business Model.** ICHR has implemented a business strategy to minimize fixed manufacturing overhead and operating expenses. This approach reduces gross margin (15.4% in 2017), but it enables ICHR to grow net income at a higher rate than sales during periods of growth. In addition, the low fixed cost business approach allows ICHR to minimize the impact of cyclical downturns on their net income. Management is acquiring businesses with higher gross margins (20% and 30%) to hedge against the negative effects of the low fixed cost strategy.

- **Process Tools and WFE Growth.** According to Gartner research, process tools spending for Dry Etch (Gas Delivery), CVD (Gas Delivery), and CMP (Chemical Delivery) have all grown at a five-year CAGR above 25%. This is because new capabilities in semiconductors such as FinFET and 3D NAND require complex process tools to manufacture them. ICHR subsystems are crucial to these process tools because they are now requiring more fluid delivery. On the other hand, consensus analyst estimates for total wafer fab equipment (WFE) spending has grown at a five-year CAGR of 13%. ICHR is in a great position to grow revenue faster than the WFE growth trends because of the strong spending environment providing tailwinds for ICHR's business. If WFE spending rises above $50 billion, ICHR management estimates it will reach $1B in sales for 2018.
- **Acquisition Pipeline.** After two acquisitions last year, ICHR is still seeking additional targets. This February, Ichor refinanced their $175 million term loan and $40 million credit facility to a new $175 million term loan and a $125 million credit facility. This allows the company to borrow more money for future M&A deals. Because the two acquisitions from last year are already exceeding expectations, management is actively looking for another opportunity to expand capabilities and open up new markets.

Valuation

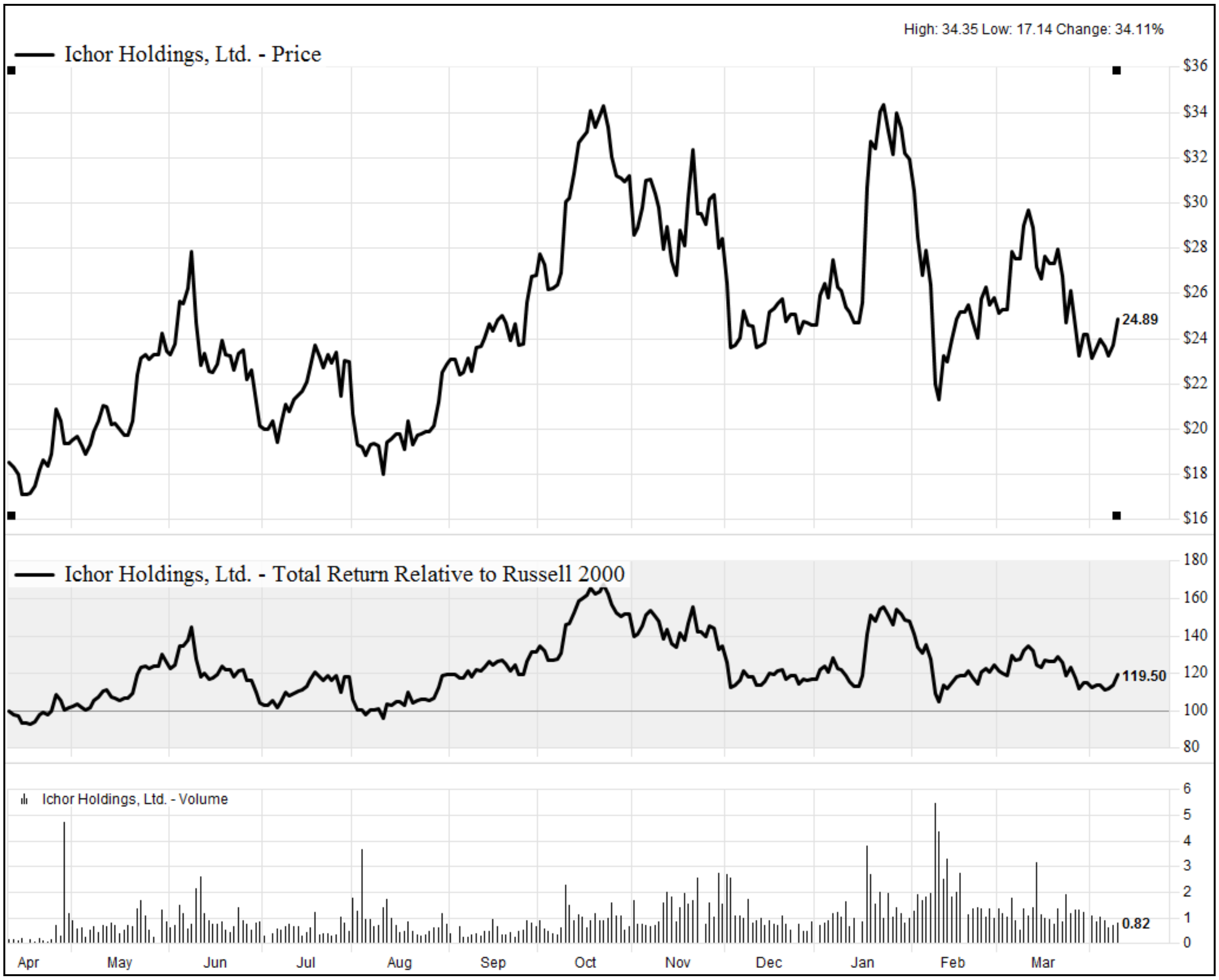
In order to reach an intrinsic value for ICHR, a five year DCF model was constrcuted. Using a terminal growth rate of 2.50% and a WACC of 13.53%, an intrinsic value of $35.69 was reached. A sensitivity analysis on the terminal growth rate (2-3%) and WACC (13.23-13.83%) ranged from $33.35-$38.41. Additionally, a P/E multiple valuation was calculated. Using a peer average P/E multiple of 15.59x and an EPS of $2.15 resulted in an intrinsic value of $33.56. Finally, an EV/EBITDA multiple valuation was conducted using a peer average EV/EBITDA multiple of 10.30x. A 2018E EBITDA value of $101.39 million resulted in an intrinsic value of $34.84. By weighing these three models 50/25/25, a price target of $34.95 was reached, resulting in a 40% upside. ICHR does not pay a dividend.

Risks

- **Customer Concentration.** The semiconductor capital equipment industry is extremely consolidated. So, ICHR relies on a very small number of customers to generate a significant portion of revenues. LAM Research and Applied Materials accounted for 53% and 40%, respectively, of sales in 2017. A loss of one of these relationships would be detrimental to the business. Consequently, these two customers have significant negotiating leverage and pricing power. Lastly, there are no long-term contracts that require customers to place orders with Ichor, however, it must be noted that both LAM Research and Applied Materials have both been customers for over 10 years.
- **Highly Cyclical Industry.** ICHR's business relies almost entirely on the expenditures by OEMs in the semiconductor capital equipment industry. In turn, those OEMs rely heavily on current and forecasted market demand for semiconductor devices. Therefore, ICHR's financial condition is highly correlated to consumer spending and overall economic conditions, which is evident in their 2.58 beta.

Management

Thomas Rohrs has been the Executive Chairman and CEO of Ichor since 2012 and 2014, respectively. Prior to beginning his work for Ichor, Mr. Rohrs served as CEO and Chairman of Skyline Solar from 2010 to 2012 and Electroglas from 2006 to 2009. Mr. Rohrs also has served as Senior Vice President of Global Operations for Applied Materials from 1992 to 1997.



Source: Factset

Name	Ticker	Revenues	ROE	ROA	Debt/Equity	ROIC
Ichor Holdings, Ltd.	ICHR	656	31.8	13.5	86.1	19.7
Ultra Clean Holdings, Inc.	UCTT	924	29.1	15.9	17.4	24.7
Xcerra Corporation	XCRA	391	14.4	11.2	6.8	13.9
Nanometrics Incorporated	NANO	259	11.9	10.1	0.0	11.9
Foxsemicon Integrated Tech	3413-TW	268	33.3	17.6	7.2	33.3
Guodian Nanjing Automation Co.	600268-CN	892	1.8	0.4	138.4	1.6
	Peer Averages	547	18.1	11.0	34.0	17.1

Source: Factset

Name	Ticker	Market Cap (mil)	P/S	P/E	EV/EBITDA	P/B
Ichor Holdings, Ltd.	ICHR	653	1.0	11.6	12.4	3.0
Ultra Clean Holdings, Inc.	UCTT	703	0.7	8.3	7.7	2.0
Xcerra Corporation	XCRA	656	1.4	14.4	11.3	1.9
Nanometrics Incorporated	NANO	625	2.6	22.4	10.6	2.5
Foxsemicon Integrated Tech	3413-TW	616	2.3	17.2	11.5	5.1
Guodian Nanjing Automation Co.	600268-CN	617	0.6	103.9*	18.8*	1.7
	Peer Averages	649.9	1.5	15.6	10.3	2.6

*Excluded from Relative Valuation

Source: Factset

Patrick Industries, Inc. (PATK)
April 13, 2018

Alec Jensen — Domestic Industrials

Patrick Industries (NASDAQ:PATK) is a major manufacturer of component products and distributor of building products and materials. The company operates through two main business segments: Manufacturing and Distribution. These divisions currently represent 82% and 18% of their revenue, respectively. Patrick's products are placed within the Recreational Vehicle (RV), Manufactured Housing (MH), Marine, and Industrial markets. Their products range from the inputs to RV's and MH's, such as decorative vinyl and paper laminated panels to drywall and quartz countertops for the industrial end markets. Patrick Industries creates value for customers by providing them with the highest quality products and customer service, helping further establish their position as a top supplier. The company currently operates out of over 100 facilities in 20 states and one in China. Patrick Industries was founded in 1959 and is strategically headquartered in Elkhart, Indiana.

				FY: Dec	2017 A	2018 E	2019 E	2020 E
Price ($):	57.85	Beta:	1.10	Revenue (Mil)	1,636	2,078	2,223	2,368
Price Target ($):	79.00	M-Term Rev. Gr Rate Est:	46.71%	% Growth	33.86%	27.04%	7.00%	6.50%
52WK H-L ($):	72.35 - 40.07	M-Term EPS Gr Rate Est:	12.94%	Oper Inc	122	156	172	185
Market Cap (mil):	1,569	Debt/Equity:	95.47%	% Growth	34.12%	27.71%	10.56%	7.39%
Insider Holdings	4.98%	Debt/EBITDA (ttm):	2.28x	Op Margin	7.45%	7.49%	7.74%	7.81%
Avg. Daily Vol (mil):	0.18	WACC	7.74%	EPS*	$3.48	$4.29	$4.73	$5.06
Yield (%):	-	ROA (%):	12.23%	P/E (Cal)	16.62x	13.49x	12.23x	11.44x
ESG Rating	B	ROE (%):	30.83%	EV/EBITDA	11.74x	8.92x	8.18x	7.67x
		ROIC (%):	14.89%					

Recommendation

While there are a variety of suppliers that a company can seek for inputs to their products, it is essential that they choose the right partner. For the last 59 years, Patrick Industries has provided its clients with not only the highest quality products, but a customer-focused relationship as well. Since its inception, Patrick has continuously expanded its reach from a majority manufactured housing supplier to a more diversified company with four end markets. Patrick's dedication to its customers is unwavering, proven by their strategic alignment with OEM customers throughout the country, not to mention being located at the epicenter of the "RV Capital of the World." Although the company has experienced considerable success in recent years, they are still evolving. Their increased credit facility and convertible note offering have given them more financial flexibility to grow the way management desires. Patrick has acquired 47 companies in the last eight years, having widened their product line, increased margins, and gained market share. Furthermore, the RV end market has been their biggest revenue generator at 69% of sales and has a continued positive outlook of around 5% annual growth in RV wholesale unit shipments over the next three years. Also, the demographic and consumer activity trends within this segment are helping the company grow organically. Nowadays, more people are focusing on "family time" through travel and leisure activities. With a strong economy and consumer trends, Patrick is on a path to adding more value for its customers and shareholders. After constructing a five-year DCF model, P/E, and EV/EBITDA multiple valuation, it is recommended that Patrick Industries be added to the AIM Equity Fund with a price target of $79.00, representing a 36.56% upside. Patrick Industries does not pay a dividend.

Investment Thesis

- **Promising Demographic and Outdoor Activity Trends.** Patrick Industries is well positioned to benefit from the current trends in their RV market. Two key groups for Patrick are Baby Boomers and Gen Xers. Baby Boomers, who total nearly 80 million people, are retiring and the amount of Americans between 35-44 years old is beginning to grow again. Additionally, from a lifestyle standpoint, there is an increasing popularity for leisure and outdoor activity. According to the KOA North American Camping Report, the frequency of camping is growing with a 36% increase in campers taking three or more trips per year since 2014. Also, 22% (8 million) of the

31.7 million households who camp once a year are RV campers. Looking ahead, the start of an upward trend in people of age 35-44 in the US will help both the RV and marine market with their spending of discretionary income and family-focused lifestyle. Meanwhile, the retirement of Baby Boomers provides a wealth of people looking to spend money with their extra time and income. The RV market looks to benefit, having over 80% of RV demand coming from these two key groups. The combination of demographic and travel/leisure trends bodes well for Patrick looking forward.

- **Acquisitive Company with History of Accretive Deals.** Having acquired 13 smaller companies in 2017 and four thus far in 2018, the company is focused on geographic and product expansion. With these acquired revenues, PATK has historically obtained immediately accretive earnings. Management has stated these acquisitions are for obtaining higher margin product lines and increasing RV content per unit. Future acquisitions are likely to continue to add to future earnings in a similar fashion.
- **Favorable Economic Conditions.** The strength of the economy has been a catalyst for Patrick Industries. With strong consumer confidence, low unemployment and expected wage inflation, and an increase in consumer spending for recreational goods, the company looks to continue its success in the coming years.

Valuation

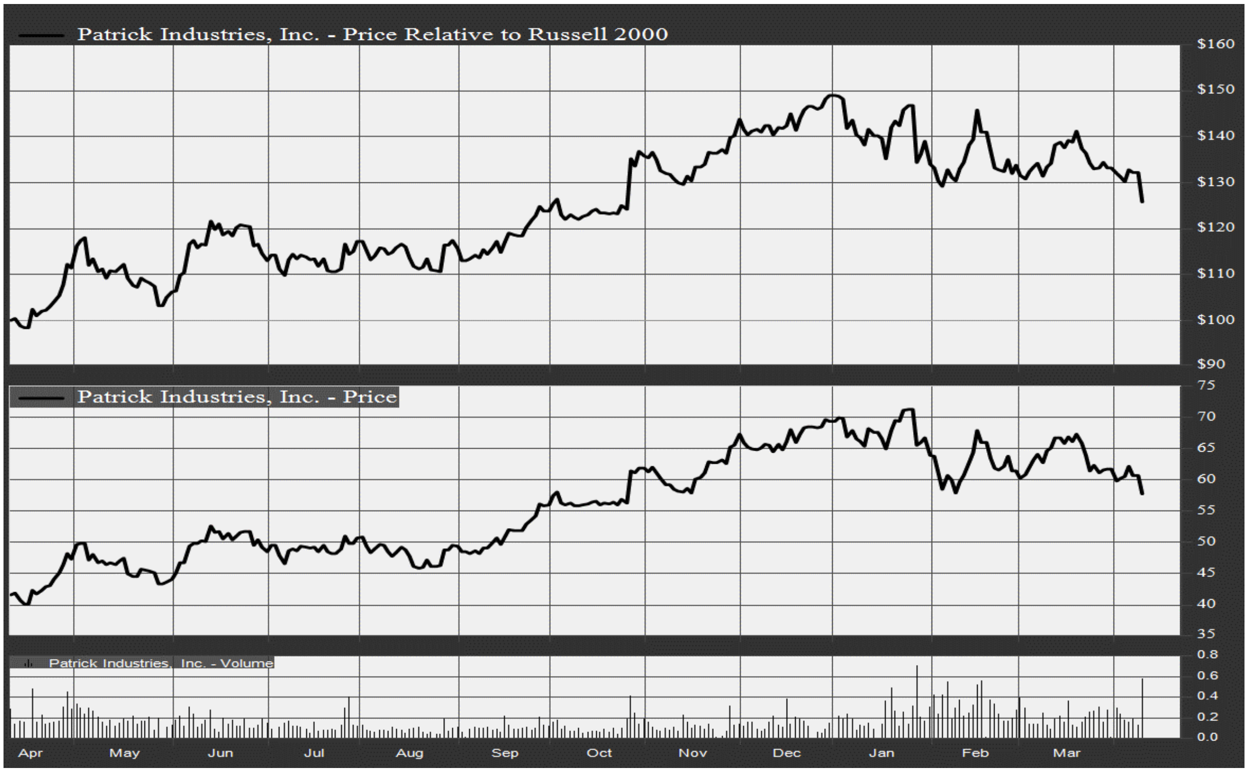
In order to reach an intrinsic value for Patrick Industries, a five-year DCF model was constructed. Using a terminal growth rate of 2.50% and a WACC of 7.74%, an intrinsic value of $88.22 was reached. A sensitivity analysis of +/- 50 bps. on the terminal growth rate and +/- 200 bps. on the WACC ranged from $62.72-$124.84. Additionally, an EV/EBITDA multiple valuation was calculated. Using a peer average multiple of 10.38x and FY 2018 EBITDA of $204.67M, the multiple resulted in a valuation of $69.64. A P/E multiple valuation was also calculated using a multiple of 16.31x, resulting in an intrinsic value of $69.91. By weighting the three valuations 50/25/25, a price target of $79.00 was reached, which yields an upside of 36.56%. Patrick Industries does not pay a dividend.

Risks

- **Increase in Oil Prices.** While Patrick is a diversified industrial company, about 75% of their revenue comes from their RV and Marine markets. If the price of oil rises, this will create a headwind for the company. An increase in oil prices will lead to a decrease in the amount of Motorhomes bought due to their lack of fuel efficiency. Also, the purchase of towables such as travel trailers will go down as well due to people traveling less, even with a more fuel-efficient vehicle. Looking at the marine market, operating a boat will now cost more with the increased gas prices and lead to people using and purchasing boats less often.
- **The Economy Starts to Weaken.** Patrick Industries is a company that relies substantially on favorable economic conditions. The company is dependent on consumer spending and favorable employment and wage trends. If the economy takes a downturn and consumer confidence/spending falls, PATK will experience hard times.
- **Dependence on Main Customers.** Within the RV market, two of Patrick's customers accounted for 57% of net sales in 2017. A loss of one or both of these customers will have a drastic impact on the company's financial condition.

Management

Todd Cleveland is currently the CEO and Director of the company. He has been with Patrick for 11 years. Joshua Boone has been with the company for 2 years and resides as CFO and VP of Finance. Additionally, Andrew Nemeth is the President and Director of the company.



Source: FactSet

Peer Fundamentals

Name	Ticker	Revenues	ROE	ROA	Debt/Equity	Est 5 yr NI growth
Patrick Industries, Inc.	PATK	1,636	30.83%	12.23%	95.47%	37.92%
Winnebago Industries, Inc.	WGO	1,547	20.09%	10.85%	62.17%	19.98%
LCI Industries	LCII	2,147	22.09%	15.34%	7.65%	32.43%
Meritor, Inc.	MTOR	3,347	-	12.32%	-	66.19%
Continental Building Products, Inc.	CBPX	489	19.09%	9.38%	83.42%	31.95%
Quanex Building Products Corp.	NX	867	4.82%	2.40%	58.85%	-7.04%
Peer Averages		1,883	20.42%	11.97%	51.08%	37.64%

Source: FactSet

Peer Valuation

Name	Ticker	Market Cap (mil)	P/S	P/E	EV/EBITDA	P/B
Patrick Industries, Inc.	PATK	1,542	1.05x	16.62x	11.74x	4.75x
Winnebago Industries, Inc.	WGO	1,213	0.66x	14.89x	9.94x	2.54x
LCI Industries	LCII	2,518	1.54x	24.81x	12.05x	4.98x
Meritor, Inc.	MTOR	1,834	0.70x	7.25x	10.36x	8.60x
Continental Building Products, Inc.	CBPX	1,078	2.32x	18.28x	9.18x	3.46x
Quanex Building Products Corporation	NX	630	0.88x	40.65x*	10.23x*	1.88x
Peer Averages		1,455	1.22x	16.31x	10.38x	4.29x

*Excluded from valuation Source: FactSet

Innophos Holdings, Inc. (IPHS)

April 13, 2018

Elizabeth Wolfe Domestic Materials

Innophos Holdings, Inc. (NASDAQ: IPHS) is a leading producer of far-reaching and versatile ingredients used in the production of food, beverages, oral care, dietary supplements, and pharmaceutical products. IPHS operates through main three segments: Food, Health, and Nutrition (55% of revenues), Industrial Specialties (36.4%), and Other (8.6%). Innophos Holdings has a vast number of offerings under the umbrella of their three segments. For example, their ingredients are used as electrolytes in sports drinks, texture additives in cheeses, leavening agents in baked goods and cleaning agents in toothpaste. IPHS's chemical uses stretch through the Americas (85.4% of revenues) and Asia/Pacific (7.3%) and across a variety of customers, from Coca-Cola Company to Pfizer Inc. to Hormel Foods. Innophos Holdings was founded in 2004 and is headquartered in Cranbury, NJ.

Price ($):	$41.22
Price Target ($):	$55.72
52WK H-L ($):	51.34-38.66
Market Cap (mil):	805.40
Insider Holdings	1.98%
Avg. Daily Vol (mil):	0.10
Yield (%):	4.70
Short Interest	1.80%
ESG Rating	B

Beta:	1.12
M-Term Rev. Gr Rate Est:	2.28
M-Term EPS Gr Rate Est:	0.36
Debt/Equity:	92.94
Debt/EBITDA (ttm):	2.87
WACC	8.15%
ROA (%):	3.14%
ROE (%):	6.57%
ROIC (%):	3.80%

FY: Dec	12/31/2016A	12/31/2017A	12/31/2018E	12/31/2019E
Revenue (Mil)	725.35	722.02	819.50	868.67
% Growth	-8.08%	-0.46%	13.50%	6.00%
Oper Inc	80.82	68.27	90.70	117.86
% Growth	12.33%	-15.53%	24.73%	23.04%
Op Margin	11.10%	9.50%	11.07%	13.57%
EPS	$2.44	$1.13	$2.87	$3.78
P/E	21.42	41.35	14.34	10.89
EV/EBITDA	9.80	11.10	9.02	7.39

Recommendation

Innophos Holdings is currently going through a transformative period with a new management team added over the past two years. In 2017, the company's revenue segments were redefined to better align with their long-term goals. They are turning now to focus broadly on Food, Health, and Nutrition (FHN) instead of specifically Phosphates. In Q4 '17, Innophos' total sales were up 15% YoY and the Food, Health, and Nutrition segment was up 29% YoY. The specialty chemicals industry as a whole is expected to grow nearly 8% in 2018 and Innophos is well positioned to benefit from this uptick. This segment, FHN, is expected to continue to increase at a CAGR of 6.55% until 2022 through innovative product ideas as well as organic and inorganic growth. The new management team also implemented a strategic value chain repositioning and a manufacturing optimization initiative in late 2017 in order to cut costs and increase margins. Essentially, it is a 3-tier plan that is designed to transform the growth profile and deliver on savings. Phase 1 saved the company $16 million in expenses in 2017. The full effects of Phase 2 will be seen in 2019; however, it is already on track to save another $13 million. These changes will allow IPHS to improve profitability and to also set themselves apart from their competitors. Based on the promising compounding YoY growth and cost cutting measures, it is recommended that Innophos Holdings, Inc. be added to the AIM Equity Fund with a price target of $55.72, which represents a 35.18% upside.

Investment Thesis

- **Vision 2022.** Innophos plans to produce $1.25 billion in revenues and a 20% adjusted EBITDA by 2022 with this new plan that was initiated in early 2017. Vision 2022 aims to attain these goals by strengthening their core business in phosphates, continuing to build growth through acquisitions in their Food, Health, and Nutrition segment, pursuing strategic partnerships, and delivering on continuous improvement initiatives. IPHS is targeting $450 million in inorganic growth and a Food, Health, Nutrition segment that will grow around 6% annually going forward from 2017. Vision 2022 also expands on their goals to increase savings; seeking to cut $35 million in costs by 2022. Overall, with this plan in place, Innophos hopes to drive growth throughout their segments, as well as be able to offer new ingredient solutions.

- **Recent Acquistions.** IPHS had two key acquisitions in 2017 that should help to set them apart from their Food, Health, and Nutrition competition by offering a more diversified product line – which increased the segment's revenue by $0.5 billion. In August 2017, they acquired Novel Ingredient Services LLC and in Novemeber they aquired NutraGenesis. These acquisitions will help IPHS expand further into dietary suppliments, sports nurtition, and men's and women's health. Through these acquisitions IPHS was able to combine their sourcing, manufacturing, and technology capabilities with NutraGenesis and Novel's branding and marketing power. Along with these acquisitions comes $4 million in synergies and future capitalization on cross-selling opportunities.
- **Increasing Healthcare Need.** Innophos produces critical, specialty ingredients for the pharmaceutical, oral care, and healthcare sectors through their FHN segment. The Organization for Economic Co-operation and Development stated that countries like the US, Mexico, and Canada are expected to increase spending on healthcare to over $10 trillion by 2020. Also, in the United States, health spending is projected to grow at an average rate of 5.8% per year until 2025. IPHS has the opportunity to capture a large portion of this growing market with their innovative products and growing Food, Health, and Nutrition segment.

Valuation

In order to reach an intrinsic value for IPHS, a five year DCF model was constructed. Using a terminal growth rate of 2.5% and a WACC of 8.15%, an instrinsic value of $51.31 was reached. A sensitivity analysis on the terminal growth rate and the WACC +/-.25% resulted in a range from $45.13- $63.94. Next, a P/E mutiple valuation was created using a peer average of 23.35x and a 2018 EPS of $2.87. An instrinsic value of $67.12 was reached. Additionally, a EV/EBITDA multiple valuation was calculated. A peer average EV/EBITDA multiple of 12.40x was used, resulting in an intrinsic value of $57.55. By weighting the three models 60/20/20, a price target of $55.72 was reached resulting in a 35.18% potential upside. IPHS currently pays out a $0.48 quarterly dividend.

Risks

- **Numbered Suppliers.** Innophos relies on a limited number of suppliers, like Nutrien, for their raw materials like sulfur and sulfuric acid as well as PPA and natural gas. Since they do not have long term agreements set in place with all of their suppliers it could be difficult for them to secure the materials they need in the future.
- **Environmental Effects and Regulations.** In the chemical industry there are stringent regulations as well as negative environmental impacts. IPHS is regulated by the FDA, USDA, and similar regulatory agencies abroad. Phosphate mining is associated with air emissions and water contamination. Fertilizers, specifically, are linked to the loss of land quality and greenhouse emissions. Environmental regulations are only expected to become tougher and this could negatively impact IPHS.
- **Uncertainty surrounding NAFTA.** Based on a large number of IPHS' suppliers coming from Mexico and Canada, a dissolution of NAFTA could pose a threat to IPHS' profitability. Bringing tariffs back to the supply chain would increase their COGS and in turn increase their margins.

Management

Dr. Kim Ann Mink is currently the President and CEO and was appointed in 2015. Prior to her role at IPHS she was employed with Dow Chemical Company and Rohm and Haas Company. She received her undergrad from Hamilton College and her doctorate from Duke University. Mr. Hermanus Kieftenbeld is the CFO and has been since 2016.

Peer Fundamentals

Name	Ticker	Revenues	ROE	ROA	Debt/Equity	Div. Yield
Innophos Holdings, Inc.	IPHS	722.02	6.57	3.13	92.94	4.66
Balchem	BCPC	594.79	15.83	9.42	35.50	0.49
Aceto Corp	ACET	638.32	3.21	1.44	87.31	3.61
Bridgford Foods Corp	BRID	167.22	18.60	9.56	0.76	--
Coca-Cola Bottling Co. Consolidated	COKE	4,323.67	29.99	3.24	308.56	0.57
Peer Averages		1,431.00	16.91	5.92	108.03	1.56

Source: FactSet

Peer Valuation

Name	Ticker	Market Cap (mil)	P/S	P/E	EV/EBITDA	P/B
Innophos Holdings, Inc.	IPHS	805.40	1.10	36.48	11.06	2.38
Balchem	BCPC	2,759.00	4.37	30.46	19.24	4.18
Aceto Corp	ACET	221.50	0.79	20.63	11.78	1.15
Bridgford Foods Corp	BRID	129.80	0.71	21.40	6.62	2.21
Coca-Cola Bottling Co. Consolidated	COKE	1,631.00	0.58	20.90	11.95	5.48
Peer Averages		1,185.33	1.61	23.35	12.40	3.26

Source: FactSet

Momo Inc. (MOMO)

April 13, 2018

Arsh Salwan International Information Technology

Momo Inc. ADR (NASDAQ: MOMO) is a holding company that offers various social networking platforms for mobile users in China. Momo primarily operates in one segment: Mobile-Based Social Networking Services. This segment consists of services including live broadcasting video services, value-added services, mobile marketing, and mobile games. Momo's most popular application is their "Momo" app which serves as a social networking platform that allows for an easy way to meet new people that are nearby. Along with the Momo app, they also offer Hani, a live broadcasting service. The live broadcasting services sub-segment accounted for 85% of total revenue in Q4 2017 and has been the forefront of the company's growth in total revenue. Momo Inc. was founded in 2011 and is headquartered in Beijing, China.

Price ($) (4/3/18):	37.29
Price Target ($):	48.49
52WK H-L ($):	$22.49-$46.69
Market Cap (B):	7.45
Insider Holdings:	1.06%
Avg. Daily Vol (mil):	5.74
Div Yield (%):	0%
Short Interest (%):	6.80%
ESG Rating:	B

Beta:	0.78
M-Term Rev. Gr Rate Est:	42%
M-Term EPS Gr Rate Est:	19%
Debt/Equity:	0.0
Debt/EBITDA:	0.0
WACC:	9.68%
ROE (%):	38.23
ROA (%):	30.85
ROIC (%):	35.21

FY: Dec.	2016A	2017A	2018E	2019E
Revenue (Mil)	553	1,318	2,043	2,963
% Growth	312.8%	138.3%	55.0%	45.0%
Operating Income:	145	361	578	852
Operating Margin:	26.1%	27.4%	28.3%	28.8%
FCF/Share	$0.62	$0.54	$1.19	$1.72
EPS	$0.74	$1.56	$2.04	$2.53
P/E (Cal)	24.25	15.06	18.32	14.73
EV/EBITDA	13.4	7.83	8.73	5.91

Recommendation

Momo Inc. has exhibited strong growth by establishing itself as one of the top social networking companies in China with a concentration on helping users create new relationships. Momo has experienced a 3-year sales CAGR of 209% mainly due to their video streaming and social networking mobile apps. According to Forbes, China's live video streaming industry increased by 180% YoY in 2016 with Momo's Hani being an industry leader. With China's internet services industry progressing, the company capitalized on the high demand of live streaming. The live streaming sub-segment has experienced a 3-year sales CAGR of 864%. With vital improvements within the live broadcasts such as gift giving and third-party partnerships, management believes the sub-segment is expected to offer strong continuous growth. Hani's main objective for users is to live stream themselves to their friends, family, or unknown casual users. The users who are live streaming could range from a student complaining about their day to professional musicians giving their fans a live show. Along with Momo's live streaming service, there is also the app's social network application named Momo. This location-based mobile application serves as a tool for settled adults to make personal and professional connections. In Q4 2017, Momo had 99.1 million monthly active users, representing a 22% YoY increase while generating a 3-year growth CAGR of 13%. In February 2018, Momo decided to pursue a complementary target audience by acquiring Tantan Limited, a mobile dating app that is geared towards the younger generation. This diversifies Momo's target users and adds to their necessary tools for future growth. Due to the company's strong position, increasing popularity, and innovative future plans, it is recommended that Momo Inc. be added to the AIM International Fund with a price target of $48.49 representing a potential upside of 30.03%.

Investment Thesis

- **Strategic Match.** On February 23, 2018, Momo announced its acquisition of China's top dating app, Tantan Limited. The acquisition was for 5.3 million newly issued Class A ordinary shares of the company and $600.9 million in cash. The deal is expected to be completed in Q2 2018. The acquisition of Tantan was a strategic investment designed to expand the target customer base of Momo. Tantan is a dating application that is used among the young adults of China and has been referred to as the "Chinese Tinder" which currently boasts over 6.5 million daily active users while matching 5 billion users since inception. In 2017, YY, one of Momo's main competitors, tried to acquire Tantan but the attempt was unsuccessful and Momo decided to capitalize. Momo and Tantan will continue to operate independently while sharing resources, conducting joint advertisements, and innovating together.

- **Active Strategies.** In November 2017, the firm decided to implement new strategies that concentrated on improving their live broadcasting. A revenue sharing trial package was one of the strategies implemented, by putting this strategy into action, viewers are able to give the hosts virtual monetary gifts during the live stream. The monetary value behind the gifts are then split 50/50 amongst Momo and the user. In an attempt to increase the number of paid and regular users, Momo implemented a new incentive program for the current hosts of live streams. If current users bring in another user to the app or increase their number of live stream viewers, they are awarded a virtual gift. The value-added services revenue, which includes virtual gift revenues and membership subcriptions, increased to $19.1 million, representing a 54% YoY increase in Q4 2017. The company also formed relationships with 3rd party agencies such as news channels, music labels, and film studios to have live broadcasts of their perspective services. This opens up a new area for increased views and popularity of the app.
- **Intelligent Connections.** Momo has begun moving towards the use of artificial intelligence within the Momo app. In Q4 2017, this process of meeting new people was improved with a new recommendation engine and a new algorithm. Along with the Momo app being location-based, the app now uses big data and machine learning to aid in suggesting connections. Using the process of data mining, Momo learns user preferences to provide more accurate suggested connections. Management believes that with increasing innovation within the app, the number of monthly active users will increase by 15-17% by next year.

Valuation

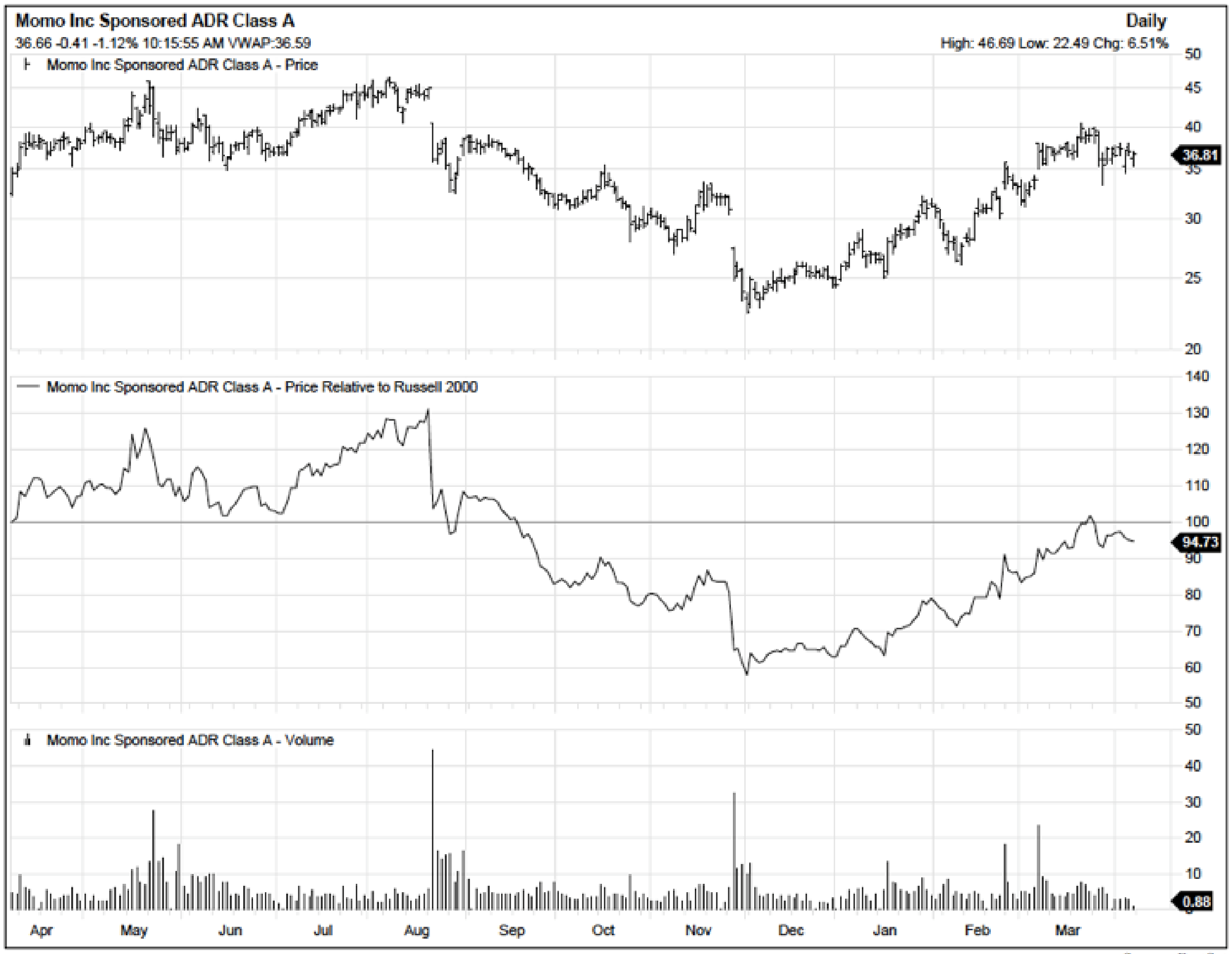
In order to reach an intrinsic value for Momo, a five year DCF model was constructed. Using a terminal growth rate of 2.00% and a WACC of 9.68%, an intrinsic value of $50.17 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $44.86-$57.12. Additionally, a P/E multiple valuation was calculated using a 2017 EPS of $1.56 and utilizing a blended average P/E multiple of 32.15x, resulted in an intrinsic value of $50.02. Finally, an EV/EBITDA multiple valuation was conducted using a blended average EV/EBITDA multiple of 22.50x, resulting in an intrinsic value of $41.89. By weighing the three models 60/20/20, a price target of $48.49 was reached, resulting in a 30.03% potential upside. Momo does not pay a dividend.

Risks

- **Government Regulation.** Momo's primary goal is to help make connections, which can be business, friendship, and personal relationships. Momo operates primarily as a social network platform, making it susceptible to high government regulation. If the Chinese government decides to increase regulations on the services provided by Momo, revenue could be negatively affected.
- **New Competition.** Momo operates in one of the most competitive industries in China with companies, small and large, looking to find the next big technological advancement. Momo has found its niche market of meeting new people and has had a great deal of success. There could be powerful new entrants to the market. A large company, like Tencent Holdings Limited or Baidu Inc., could enter the online dating services segment and cause a disruption.
- **Public Perception.** As a service company, Momo's reputation is most important. If there is negative publicity involving the users of the company, it could steer users away from services that Momo provides. If this were to happen, this could result in a damage of reputation and a decrease in revenue.

Management

Yan Tang and Xiaoliang Lei co-founded Momo Inc. in 2011. Before that, Tang and Lei both worked at NetEase, Inc. as editor in-chief and manager, respectively. Yan Tang attended the Chengdu University of Technology in China and currently serves as the CIO & Chairman. Xiaoliang Lei attended the South China University of China and currently serves as Co-President.



Source: FactSet

Peer Fundamentals

Name	Ticker	Revenues	ROE	ROIC	Debt/ Equity	Est. 5 yr NI Growth
Momo Inc.	MOMO	1,318	38.23	35.21	0.00	-
YY, Inc.	YY	1,782	31.32	31.31	5.61	90.1
Sina Corp.	SINA	1,584	5.67	4.77	39.60	16.4
IAC/InterActiveCorp.	IAC	3,307	14.18	7.76	82.02	3.4
Match Group Inc.	MTCH	1,331	71.32	20.76	249.91	13.3
Peer Averages		2,001	30.62	16.15	94.29	30.80

Source: FactSet

Peer Valuation

Name	Ticker	Market Cap (mil)	P/S	P/E	EV/ EBITDA
Momo Inc.	MOMO	7,401	3.84	23.97	18.09
YY, Inc.	YY	6,526	4.01	18.18	7.88
Sina Corp.	SINA	7,102	4.68	45.65	12.95
IAC/InterActiveCorp.	IAC	12,562	3.15	38.45	37.78
Match Group Inc.	MTCH	11,676	6.97	26.32	31.39
Peer Averages		9,467	4.70	32.15	22.50

Source: FactSet