Applied Investment Management (AIM) Program

AIM Class of 2016 Equity Fund Reports
Spring 2015

Date: Friday, April 17th | ***Time:*** 3:00 - 5:00 p.m. | ***Location: AIM Research Room DS 488***

Join us in person, or considering joining us live at:
Connect to the LIVE meeting via Blackboard web-based conferencing tool

Student Presenter	Company Name	Ticker	Price	Page No.
Brendan Fanning	China Distance Learning Holdings ADR	DL	$20.40	2
Benjamin Huss	CECO Environmental Corp.	CECE	$10.87	5
Patrick Schulz	Exterran Holdings, Inc.	EXH	$34.29	8
Connor Muth	Tessera Technologies, Inc.	TSRA	$40.44	11
Daniel Riley	Carrefour SA	CRRFY	$6.90	14
Daniel Kralovec	Luminex Corporation	LMNX	$16.61	17
Robert Uhland	Ruth's Hospitality Group, Inc.	RUTH	$15.65	20
Mark Lakowske	Sanderson Farms, Inc.	SAFM	$77.68	23

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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China Distance Education Holdings Ltd. ADR (DL)
April 17, 2015

Brendan Fanning International Consumer Discretionary

China Distance Education Holdings (NYSE:DL) is China's largest provider of online professional education services in three high-growth industries: accounting, healthcare, and engineering & construction, in addition to other various professional education courses. As of 9/30/14, DL operated 18 websites, including the main website www.cdeledu.com and 17 other websites. Besides traditional training sites, DL's business model features an Open Learning Platform, which allows customers to share their educational content primarily in professional development areas. Furthermore, DL also offers certain fee-based, mobile accounting and engineering & construction courses through an app available on Android and Apple iOS tablets and smart phones. In 2014, DL's revenue was predominately generated by traditional Online Educational Services (84% of revenue), followed by fee-based mobile application courses and open platform learning (10%), and the selling of test preparation reference materials (6%). DL was founded in 2000 and is headquartered in Beijing, China.

Price ($): (4/10/15)	20.40	Beta:	1.00	FY: Sep	2014A	2015E	2016E	2017E
Price Target ($):	27.08	WACC	7.23%	Revenue (Mil)	96.97	124.12	153.91	181.61
52WK H-L ($):	20.64-12.30	M-Term Rev. Gr Rate Est:	41.2%	% Growth	35.7%	28.0%	24.0%	18.0%
Market Cap (mil):	732	M-Term EPS Gr Rate Est:	24.5%	Gross Margin	59.1%	59.1%	59.6%	58.9%
Float (mil):	27.24M	Debt/Equity:	74.4%	Operating Margin	25.0%	27.0%	28.6%	27.5%
Short Interest (%):	--	Debt/EBITDA (ttm):	0.62x	EPS (Cal)	$0.68	$0.84	$1.05	$1.34
Avg. Daily Vol (mil):	146	ROA:	16.8%	FCF/Share	$1.19	$1.42	$1.76	$2.21
Dividend ($):	0.80	ROE:	28.7%	P/E (Cal)	20.7	21.0	22.8	18.3
Yield (%):	4.30%	ROIC:	28.7%	EV/EBITDA	14.1	16.4	13.0	10.3

Recommendation

During 1Q of 2015, DL's top line grew 15% YoY led by a 17% YoY increase in enrollment growth. This aggressive growth can be attributed to a 21% increase in core CPA course revenue, APQE accounting course growth of 50%, and an increase in sales of test prep materials for engineering and construction of 37%. Besides enrollment growth, average student payment for each offering has been steadily trending upwards (1.3% increase in 4Q FY14 and 5.8% in 1Q FY15). Overall, management maintains that DL's websites are the most viewed sites in China's education industry as measured by 1.21M total average daily unique visitors. Site traffic in conjunction with higher than national average exam passage rates showcases the power of the DL brand. In addition to the core business model, new initiatives are picking up momentum, adding significantly to organic top and bottom line growth at an increasing rate. The open platform initiative generated $2.3M in cash revenues in 1Q of 2015, a 56% increase and 10.7% of total. In addition, mobile offerings expanded to nine courses and 54 total apps with cumulative downloads reaching 7.5M as of 12/31/14 from 6.4M as of 3Q end. Aided by strong market momentum, DL is committed to maintaining a balanced growth strategy that emphasizes quality and innovation. Going forward, DL plans to retain current users and attract new customers through a bedrock of top notch professional competence of lecturers, a respected brand name, an easy-to-use learning platform, and a high quality of customer service. As a result of strong financial position, growth prospects, and a favorable valuation, it is recommended that DL be added to the AIM International Equity Fund at a price target of $27.08, representing a 33% upside.

Investment Thesis

- **Growing demand for professional services jobs and certifications.** According to the National Bureau of Statistics of China, the services sector is the fastest growing portion of Chinese GDP representing 48.2% of the total in 2014 (vs. 40.38% in 2004), bypassing both agriculture and industry in contribution to total GDP. As the Chinese economy continues to cycle away from manufacturing and agriculture, DL is poised to meet demand and grow revenues due to increased

Internet and broadband penetration rates (6%-10% YoY as estimated by CNNIC) and as online training is increasingly perceived as an acceptable means of receiving education and certification.

- **High scalability.** By leveraging the online platform, DL is able to achieve greater economies of scale than traditional offline training programs limited by fixed teacher-student ratios. Despite enrollment growth, cost of services acccounted for 39.9%, 37.9%, and 36.2% of net revenues for 2012, 2013, and 2014. As enrollments continue to rise, DL is positioned to avoid pressure on margins and expand their operating model.
- **Development of college cooperation initiative.** DL is in the pilot stages of extending their accounting vertical market reach to China's college student market in addition to the core working adult market by partnering with colleges to deliver training, offering a compelling value proposition to students, colleges, and employers. With Chinese domestic college enrollment growing at 7% since 2011, DL is aligning itself for an exciting long-term growth opportunity.
- **Diversification of services.** Going forward, management is focused on cultivating the open learning platform and further developing a comprehensive mobile learning option to better equip DL to maintain and grow an adaptable competitive advantage. Future mobile application downloads, totaling 7.5M in 2014, will be billed at full price in 2015 (vs. a 70% discount prior). Which is expected to offset recent download growth but increase the bottom line.

Valuation

In order to reach an intrinsic value for DL, a five year DCF model was constructed. Using a terminal growth rate of 2.5%, WACC of 7.23%, an intrinsic value of $26.78 was reached. A sensitivity analysis on the WACC and terminal growth rate ranged from $24.58-$29.48. Additionally, a P/E multiple valuation was conducted using a peer average P/E of 21.96x, DL's average P/E of 20.33x, and a 2015E EPS of 0.84, resulting in a valuation of $27.54. Lastly, an EV/EBITDA multiple valuation was conducted. Using the same peers, an average EV/EBITDA of 22.05x was used with DL's current multiple of 24.74x and a 2015E EBITDA of 36.7M produced an intrinsic value of $27.75. By weighting the three valuation models evenly, a price target of $27.08 was established, which represents a 33% upside. DL pays an annual dividend of $.80, yielding 4.3%.

Risks

- **Low barriers to entry.** Due to ease of entry and adaptability for Internet-based businesses, DL expects to face increasing competition from both existing domestic and international competitors and new entrants to the online education market.
- **Seasonality of revenues.** DL has experienced and expects to continue to experience seasonality in revenues primarily due to seasonal changes in course enrollments and the timing of various exams. As revenues grow, these seasonal fluctuations may become even more pronounced, creating volatility that adversely affects the stock price.
- **Government regulation.** As a result of current PRC laws and regulations that impose substantial restrictions on foreign investment in Internet businesses in China, DL operates through a series of contractual arrangements entered into among two PRC subsidiaries; Champion Education Technology, and the affiliated PRC entity, Beijing Champion. However, there are substantial uncertainties regarding the interpretation and application of these PRC laws. If the PRC government finds that the structure of DL's operations in China do not comply with PRC restrictions, serve penalties could ensue.

Management

Zhengdong Zhu is co-founder, chairman of the board and CEO of DL since founding in 2000. Baohong Yin is co-founder, and director of DL. Zhu and Yin are husband and wife. Ping Wei, CFO since 2005, announced in February that she will be stepping down from her position into a role of Senior financial and strategy Advisor. New co-CFOs, Mark Marostica (former Vice President of Corporate Development Strategy) and Philip Chan (former financial controller) were appointed subsequently.

Ownership

% of Shares Held by All Insider Owners:	55.26%
% of Shares Held by Institutional & Mutual Fund Owners:	44.74%

Source: Thomson Financial

Top 5 Shareholders

Holder	Shares	% Out
YM Investment, Ltd.	5,878,865	16.29
Zhu (Zhengdong)	1,906,354	5.28
Wellington Management Company, LLP	1,414,440	3.92
Artson, Ltd.	1,057,723	2.93
Goldman Sachs Asset Management (US)	1,053,738	2.92

Source: Thomson Financial

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	D/E	P/E	EV/ EBITDA
China Distance Education Holdings Ltd. ADR	DL	670	96.97	0.74	20.7	14.1
ATA, Inc. ADR	ATAI	101	52.67	0.19	22.6	3.8
NIIT Limited	500304-IN	6.48	9.43	0.68	24.9	8.1
Informatics Education Ltd.	I03-SG	0.68	16.99	0.50	51.5	29.6
SINA Corp.	SINA	2.44	768.2	0.529	13.8	86.1
Ambassadors Group, Inc.	EPAX	0.47	99.48	0.697	26.5	13.7
Peer Averages		28	189	0.5192	27.86	28.2

**Removed For Relative Valuation Analysis*

CECO Environmental Corporation (CECE)

April 17, 2015

Benjamin Huss — Domestic Producer Durables

CECO Environmental Corporation (NASDAQ:CECE) is a service provider and manufacturer of environmental solutions in air pollution control, product recovery, fluid handling, and filtration. It operates through three sales segments; Air Pollution Control, Energy, and Fluid Handling & Filtration which account for 48%, 27%, and 25% of sales, respectively. It serves a wide range of industrial customers including power plants, oil production, metal finishing, food & beverage, wastewater treatment, and pharmaceutical markets to name a few. CECE is vertically integrated with the ability to manufacture, install, monitor, and service complete environmental solutions. They operate numerous brands serving customers both domestically (68%) and internationally (32%). CECO Environmental was founded in 1966 and is headquartered in Cincinnati, Ohio.

Price ($):	$ 10.87
Price Target ($):	$ 15.54
52WK H-L ($):	17.29-10.20
Market Cap (mil):	287
Float (mil):	20.5
Short Interest (%):	4.3%
Avg. Daily Vol (000)	131.6
Dividend ($):	$ 0.26
Yield (%):	2.4%

Beta:	1.01
WACC	7.0%
M-Term Rev. Gr Rate Est:	5.0%
M-Term EPS Gr Rate Est:	19.3%
Debt/Equity:	51%
Debt/EBITDA (ttm):	3.03
ROA (%):	3.43%
ROE (%):	7.44%
ROIC (%):	4.89%

FY: Dec	2013	2014	2015	2016
Revenue (Mil)	$ 197.32	$ 263.22	$ 330.00	$ 354.75
% Growth	46.1%	33.4%	25.4%	7.5%
Gross Margin	28.9%	32.2%	31.0%	31.0%
EBITDA Margin	13.5%	14.1%	13.0%	14.9%
EPS (Cal)	$0.32	$0.50	$0.77	$1.07
FCF/Share	$1.10	$0.58	$0.84	$1.01
P/E (Cal)	50.5	31.1	20.5	10.1
EV/EBITDA	18.1	13.5	14.0	14.0

Recommendation

CECO Environmental has an industry leading position as a full provider of environmental solutions. CECE is unique from its competitors which are primarily small specialized product or service lines because of its large, vertically integrated nature. In 2010, CECE launched series of growth strategies largely through medium sized acquisitions. CECE acquired four companies for a total of $44.4MM in 2014, while maintaining a leverage factor of 2.0x. These acquisitions have expanded product lines and driven top line sales which are expected to increase 25.6% from $263MM in 2014 to $330MM in 2015. This year has started with a backlog of $140MM, up 32%, which is a promising sign looking forward as 2015 sales are projected to grow 25.4%. They have established an installation base of over $3.5B to which they actively are pursuing a strategy to increase aftermarket revenues establishing a greater recurring revenue stream. CECE operates globally with 68% of domestic sales with long term plans to balance domestic and foreign sales 50/50. CECE has a large platform in China which did $50MM in revenue in 2014. An asset lite manufacturing model keeps capital expenditures minimal ($1.15MM-2014). Management has achieved a 5-year EBITDA CAGR of 57.5% and expect to reach $100MM EBITDA by 2020. CECE has consistently been able to convert over 95% of EBITDA to free cash flow. Recently, CECE missed earning projections, thus the stock is currently trading at the low end of its 52-week range. While 2014 Q4 earnings missed targets, the long term fundamentals are well intact. The firm pays a quarterly dividend of $0.066 (2015Q1) growing at 10%. Based on CECO Environmental's market position and strategic growth outlook, it is recommended that it be added to the AIM Equity Fund with a price target of $15.54 representing an upside of 43%.

Investment Thesis

- **Tight Regulatory Environment**. Since the Clean Air Act of 2002 the EPA has continually tightened regulation on emissions on industry to which CECE is a solutions provider. The new boiler MACT regulations (effective 2014) will drive an estimated $5B of capital cost domestically to which CECE is a large player in providing those solutions. The EPA recently announced it will finalize the Clean Power Plan by mid-summer of 2015 which will impose even stricter regulations on air pollution. These environmental trends are also prominent internationally as Europe, South America, and China also continue to impose new regulatory standards on a wide range of environmental concerns. In January of 2015 China updated its Environmental Protection Law which calls for stronger enforcement of environmental laws and also created channels in which non-government organizations take legal actions against polluters on behalf of the public interest.

- **Emerging Market Industry Growth**. CECE's exposure to foreign markets has given them an advantage over competitors as traditional utility and energy markets outperform domestic markets. CECE continues to increase its presence in emerging markets, especially China whose economy is expected to show GDP growth of 6.5% in 2015 and double its energy consumption by 2021. Combined with new regulation imposed by the Chinese government, China is becoming a main engine of growth for CECO.
- **Extensive Product Line and Customer Base.** CECE operated 10 product brands giving them a large, diversified product line yielding a wide customer base. They have applications in many industries from municipalities to microelectronics to metal manufacturing ultimately creating a customer base of over 5000 clients, none of which make up more than 5% of revenues. Their ability to continually meet demands for full environmental solutions with their extensive product lines gives them an economic moat.

Valuation

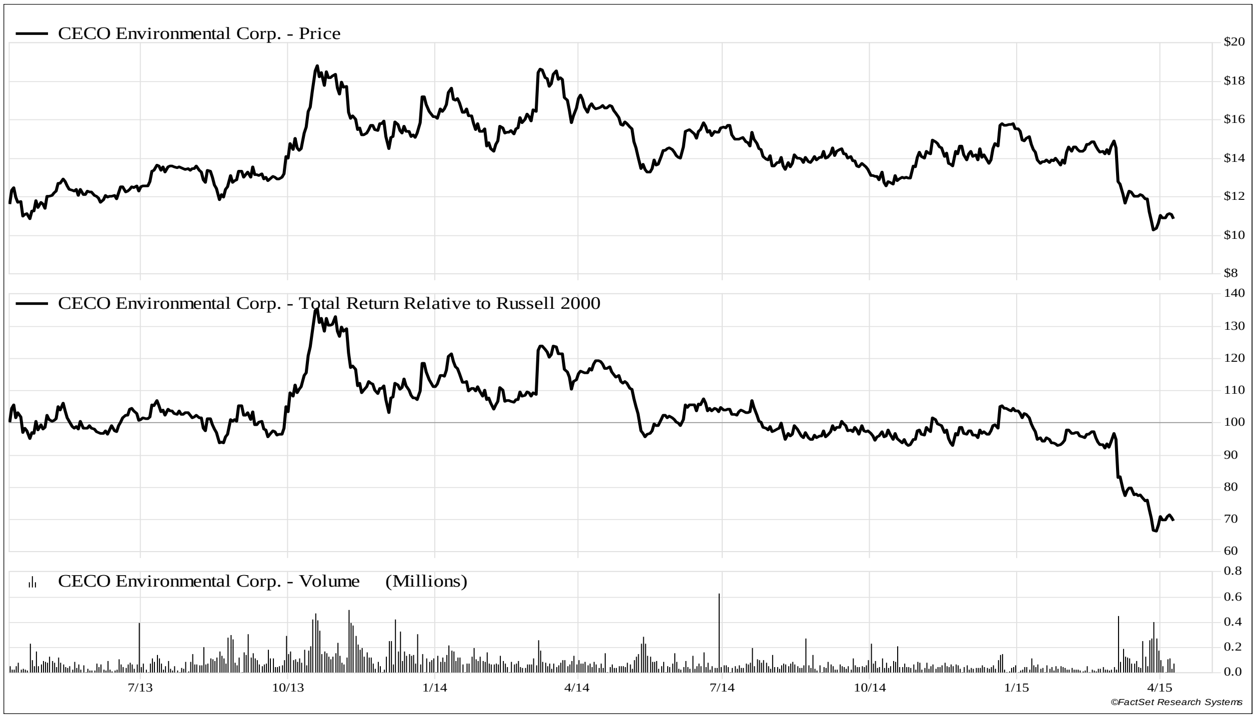
In order to obtain an intrinsic value for CECE, a five year discounted cash flow model was conducted. Using a discount rate of 9.00% and terminal growth rate of 2.00% yielded in a valuation of $16.62 representing an upside potential of 53%. A range of $20.87-$13.85 was established after a sensitivity analysis regarding the discount rate and the terminal growth rate. Additionally a P/E and EV/EBITDA model using a weighted average of environmental services industry (67%) and industrial machinery industry (33%) averages. A P/E and EV/EBITDA of 20.5x and 14x yielded prices of $15.85 and $13.46 respectively. Weighing each of the three models equally at 33% a price target of $15.54 was established representing a 43% upside.

Risks

- **Dependence on Fixed-Price Contracts.** Contracts with customers are drawn with fixed prices at which the project was bid at by CECE. These are large jobs with contract cycles up to 3 years. This means margins are vulnerable to unforeseen disruptions and price changes in raw materials. Additionally, margins are always vulnerable to competition when contractors have to outbid competition to receive work.
- **Macroeconomic Factors.** End users or products and services are in highly cyclical markets, thus CECE is vulnerable to volatility because of their dependence on business expansion and industrial demand. Additionally, with increasing exposure to foreign and especially emerging markets, their success hinges the ability for those emerging markets to continually grow by primary source of foreign investment.

Management

Mr. Jeffrey Lang, 58, has served as President, CEO, Director, and Head of Investor Relations since 2010. He is the only member of the management team to sit on the board of directors. Chief Financial & Accounting Officer, Mr. Edward J. Prajzner has served his position since 2013 after gaining experience as controller for a number of industrial corporations. CECE's four executive officers have an average tenure of only 6 years.



Ownership

% of Shares Held by All Insider Owners:	22.50% ▼
% of Shares Held by Institutional & Mutual Fund Owners:	53.50% ▲

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
Goldman Sachs Asset Management LP	1,377,000 ▲	5.30
BlackRock Fund Advisors	1,196,000 ▲	4.60
Thomson, Horstmann & Bryant, Inc.	1,172,000 ▼	4.50
Granahan Investment Management, Inc.	981,000 ▼	3.80
Trigran Investments, Inc.	917,000 ▲	3.50

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA	Dividend Yield	EV/ EBITDA
CECO Environmental Corp.	CECE	$ 287.10	$ 263.22	$ 37.10	2.4%	10.20
Advanced Emissions Solutions	ADES	$ 367.20	$ 386.69	$ 20.96	0.0%	20.50
Landauer Inc	LDR	$ 458.10	$ 155.10	$ 39.90	6.4%	11.70
Heritage-Crystal Clean Inc.	HCCI	$ 350.30	$ 339.10	$ 10.40	0.0%	33.70
US Ecology Inc.	ECOL	$ 1,068.00	$ 447.40	$ 111.40	1.8%	12.90
Donaldson Company Inc.	DCI	$ 5,116.00	$ 2,473.00	$ 425.00	1.4%	11.50
Peer Averages		1,472	760	121.5	0.02	19.7

**Removed For Relative Valuation Analysis*

Exterran Holdings, Inc. (EXH)
April 10, 2015

Patrick Schulz — Domestic Energy

Exterran Holdings, Inc. (NYSE: EXH) is a global market leader in the full-service natural gas compression business and a premier provider of operations, maintenance, service and equipment for oil and natural gas production, processing and transportation applications. EXH has a global customer base which consists of companies engaged in all aspects of the oil and natural gas industry. Exterran operates through four business segments. Their North America (25% of revenue) and International Contract Operations (17%) segments primarily provide natural gas compression, maintenance, production and processing equipment services. The Aftermarket Services (14%) segment provides a range of services to support the surface production, compression and processing needs of customers. The Fabrication segment (44%) involves design, engineering, installation, fabrication and sale of natural gas compression units and sale of equipment used in the production and treatment of crude oil and natural gas. Exterran Holdings was founded in 2007 and is headquartered in Houston, TX.

Price ($): (04/10/15)	34.29	Beta:	1.84
Price Target ($):	42.13	WACC	8.23%
52WK H-L ($):	47.01-26.24	M-Term Rev. Gr Rate Est:	8.60%
Market Cap (mil):	2,363.27	M-Term EPS Gr Rate Est:	15.0%
Float (mil):	64.65	Debt/Equity:	1.13
Short Interest (%):	2.54%	Debt/EBITDA (ttm):	3.10
Avg. Daily Vol (mil):	0.83	ROA (%):	2.59%
Dividend ($):	-	ROE (%):	7.01%
Yield (%):	-	ROIC (%):	23.24%

FY: Dec	2014A	2015E	2016E	2017E
Revenue (Mil)	2,900	3,151	3,439	3,744
% Growth	-8.23%	8.65%	9.15%	8.85%
Gross Margin	22.25%	22.00%	22.50%	23.00%
EBITDA Margin	22.53%	22.50%	22.75%	23.00%
EPS (Cal)	$0.92	$1.06	$1.22	$1.40
FCF/Share	($1.61)	$1.80	$1.99	$2.20
P/E (Cal)	37.3	32.4	28.2	24.5
EV/EBITDA	6.4x	6.5x	6.8x	6.9x

Recommendation

As the price of crude oil and natural gas have decreased by nearly 50% in the past year, many oil and gas companies are skeptical of putting large amounts of capital expenditures towards pricy investments. EXH has continued their growth through their customer base consisting of large integrated oil and natural gas companies, national oil and natural gas companies, independent producers and natural gas processors, gatherers and pipelines. EXH has adapted to the rapid changes in the oil and natural gas industry by expanding their capital expenditures at a five-year CAGR of 18.1%, while improving EBIT by 40.8%. In August 2014, EXH completed the acquisition of natural gas and compression assets, including a fleet of 162 compressor units. The majority of the assets acquired are under a five-year contract operations services agreement to provide compression services. In April 2014, EXH completed another acquisition of natural gas compression assets, including a fleet of 337 compressor units and entered into a seven-year contract operations services agreement in which Exterran Partners, L.P. will provide compression services. These acquisitions look to capitalize on the 3.5% five-year CAGR growth in U.S. natural gas production as well as a 3.2% CAGR in natural gas consumption. International consumption has increased at a higher rate than what is seen in the U.S. According to the EIA, the U.S. has a five-year CAGR of 2.2% growth in consumption; Latin America (2.2%), Asia/Pacific (2.5%) and the Middle East (2.6%) have seen similar growth, and China (5.0%), Russia (4.0%), Brazil (3.2%) and India (2.7%) have even more promising outlooks. Due to the opportunities of growth both domestically and internationally, it is recommended that Exterran Holdings, Inc. be added to the AIM Equity Fund with a target price of $42.13, representing a 22.86% upside. EXH does not pay a regular dividend.

Investment Thesis

- **Growth from Exterran Partners, L.P.** EXH owns a 37% equity interest in this limited partnership, which provides natural gas contract operation services to customers throughout the U.S. This is EXH's primary vehicle for domestic growth through third party acquisitions, organic growth and transfers by EXH of additional U.S. contract operations and equipment to the partnership. Management believes the relationship will provide lower cost of capital over time. Since 2006, EXH has completed eight sales to the partnership, with the proceeds from these transactions providing EXH significant capital to reduce debt and fund their capital expenditures.

- **Expansion to International Markets.** Over 70% of the world's natural gas production resides in markets outside North America. The EIA forecasts that total U.S. natural gas consumption will increase by 0.7% per year after 2015 and the consumption level will be approximately 16% of the projected worldwide total consumption. A large amount of production and consumption of natural gas lies outside of the U.S. and North America and the EIA forecasts total natural gas consumption worldwide to increase by 1.7% per year after 2015. From 2000-2012, the natural gas consumption outside the U.S. grew 47%. EXH saw an increase in gross margin for their International Contract Operations of 10.5% YoY while cost of goods sold decreased 5.9%.
- **Breadth and Quality of Service Offerings.** Exterran provides their customers with a broad variety of products and services and believes their contract operations allow customers that outsource their compression or production and processing needs to achieve higher production rates. This results in increased revenue for the customers through higher flexibility of EXH's services and allows Exterran to use their large scale to achieve cost savings in their operations. EXH has been able to optimize their line of business by decreasing cost of goods sold by a four-year CAGR of 2.5% and operating expenses (2.2%) while increasing their gross margin (12.6%) and net margin (from -12.5% in 2011 to 0.8% in 2014).

Valuation

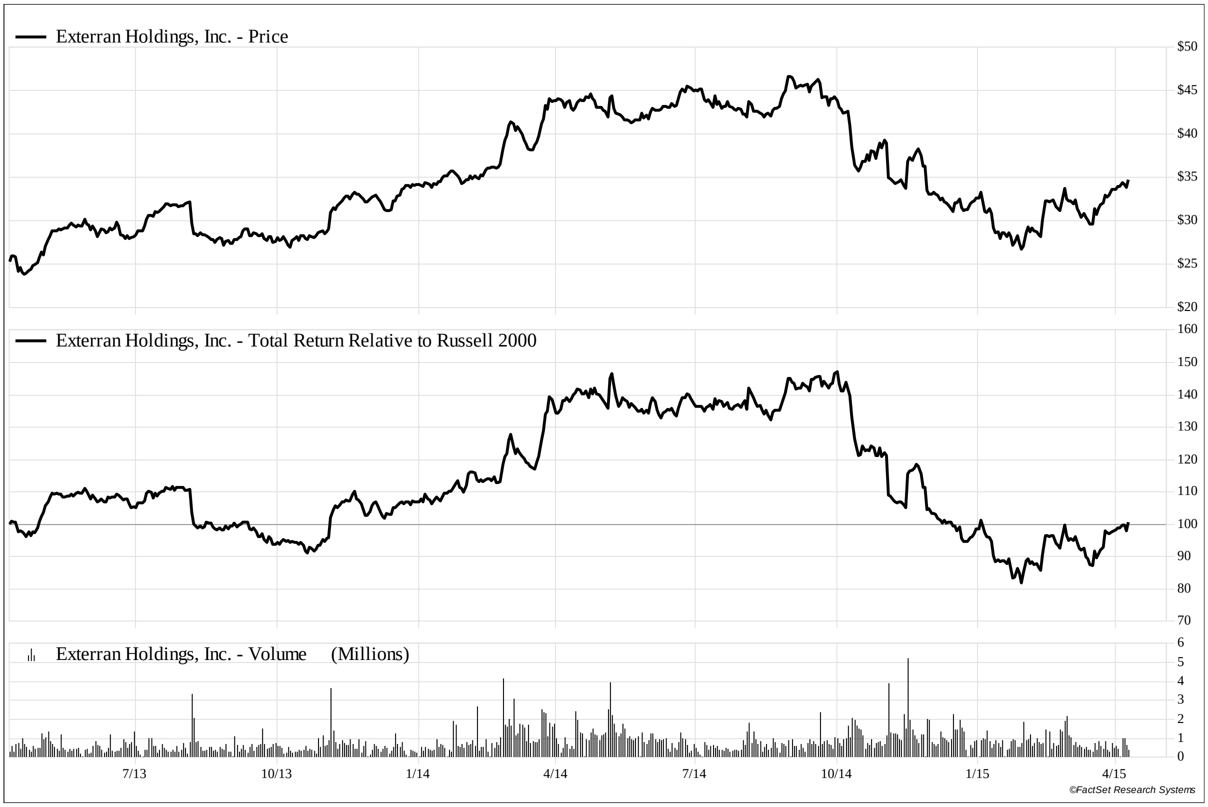
In order to reach an intrinsic value for EXH, a five year DCF model was constructed. Using a terminal growth rate of 2.0% and a WACC of 8.26% an intrinsic value of $40.05 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $28.15-51.70. Additionally, an EV/EBITDA multiple valuation was calculated. Using an EBITDA of $541.56M and weighing EXH and the comparables multiples using a blended average, an intrinsic value of $44.21 was reached. By weighing the two models 50/50, a price target of $42.13 was reached, resulting in a 22.86% potential upside. EXH does not pay regular dividends.

Risks

- **Government Regulations.** EXH is subject to strict and complex U.S. federal, state, local and international laws and regulations governing the discharge of materials into the environment. Compliance with these environmental laws and regulations may expose EXH to significant costs and liabilities. Failure to comply with them may result in severe civil and criminal penalties.
- **Payment Obligations.** After the April 2014 MidCon acquisition, EXH depends on Williams Partners, L.P. for approximately 12% of their revenue. Losing business with Williams, unless it was offset by additional contract compression services revenue from other customers, or the inability of Williams to meet its payment obligations would have material adverse effect on EXH
- **Substantial Debt.** EXH had approximately $2.0 billion in outstanding debt obligations at the end of 2014. These large commitments could have negative effects on ability to satisfy contractual obligations and provide vulnerability to adverse economic and industry conditions.
- **Oil and Natural Gas Pricing.** Historically, oil and natural gas prices in North America have been volatile. Lower prices could cause oil and natural gas production growth to slow down and result in less demand for EXH services.

Management

D. Bradley Childers is the President, CEO and Director of EXH since 2007 as well as a board member. He was previously employed as President-North America by Exterran Energy Solutions LP. Jon C. Biro is the CFO and Senior Vice President and Robert E. Rice is a Senior Vice President. Mark R. Sotir has been the Executive Chairman on the board for the past 4 years.



Source: FactSet

Ownership

% of Shares Held by All Insider and 5% Owners:	6.20%	
% of Shares Held by Institutional & Mutual Fund Owners:	89.70%	

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
Magnetar Financial LLC	5,980,000 ▲	8.70
Dimensional Fund Advisors, L.P.	5,712,000 ▲	8.30
BlackRock Fund Advisors	5,515,000 ▲	8.00
The Vanguard Group, Inc	4,930,000 ▲	7.20
T. Rowe Price Associates, Inc.	4,918,000 ▼	7.10

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA	Dividend Yield	EV/ EBITDA
Exterran Holdings, Inc.	EXH	2,330	2,900	653.5	1.84	6.84
Enerflex	EFX-CA	984	1,781	163.7	1.89	7.86
Dresser-Rand Group	DRC	6,262	2,812	396.0	--	18.09
McDermott	MDR	1,133	2,301	65.8	--	18.58
Forum Energy Technologies	FET	1,849	1,740	313.2	--	7.03
Regency Energy Partners	RGP	9,660	4,858	800.0	8.11	21.42
Peer Averages		3,977	2,698	347.7	5.00	14.6

**Removed For Relative Valuation Analysis*

Source: FactSet

Tessera Technologies, Inc. (TSRA)
April 17, 2015

J. Connor Muth — Domestic Technology

Tessera Technologies, Inc. (NASDAQ: TSRA) is a holding company that creates and licenses semiconductor and imaging technologies for use in mobile communications, data storage, and 3-D technologies. TSRA operates one segment involved in the licensing of intellectual property, both developed internally and through the acquisition of other technology firms. They own approximately 2,000 patents in the United States and about 1,700 foreign patents. TSRA primarily runs its businesses through its subsidiaries: Invensas, FotoNation, and Tessera Intellectual Property Corp. Invensas develops and licenses flash memory and mobile computing chips, while FotoNation produces face-oriented imaging technologies. Tessera Technologies was incorporated in 1990 and is headquartered in San Jose, CA.

Price ($): 4/10/15	$40.44
Price Target ($):	52.47
52WK H-L ($):	43.71 - 20.38
Market Cap (mil):	2,116
Float (mil):	51.8
Short Interest (%):	3.1
Avg. Daily Vol (mi	0.4
Dividend ($):	0.80
Yield (%):	2.0

Beta:	1.04
WACC	7.62%
M-Term Rev. Gr Rate Est:	-0.8%
M-Term EPS Gr Rate Est:	-7.8%
Debt/Equity:	0.0
Debt/EBITDA (ttm):	0.00
ROA (%):	32.95
ROE (%):	35.64
ROIC (%):	35.64

FY: Dec	12/31/2013	12/31/2014	12/31/2015	12/31/2016
Revenue (Mil)	169	278.80	264.86	251.62
% Growth	-28%	65%	-5%	-5%
Gross Margin	75%	93%	98%	98%
EBITDA Margin	19.99	72.01	51.98	53.04
EPS (Cal)	-$3.48	$3.18	$1.79	$1.72
FCF/Share	($1.28)	$2.73	$2.74	$2.76
P/E (Cal)	-	12.7	22.6	23.6
EV/EBITDA	49.7	8.4	10.4	10.9

Recommendation

TSRA generates revenue by licensing their intellectual property to a variety of corporate customers. Tessera has positioned the company in a unique niche within the technology sector by using their business model to generate profits by collecting royalties and licensing fees annually. They have a global and diverse customer base in Taiwan (36%), Korea (35%), United States (14%), Japan (4%), Asia (10%), and Europe (1%). TSRA is utilizing a new approach by engaging and collaborating with industry leaders on new licensing agreements rather than using legal means as the primary approach to enforcing patents. As a result, Tessera's litigation expenses are expected to decrease significantly, which will subsequently reduce their operating expenses over the next few quarters. The technology industry is highly competitive and Tessera competes with OSAT (outsourced semiconductor assemble and test) companies such as ASE, Amkor, and PTI, all of which TSRA has won monetary awards from through legal action. TSRA has begun to shift their focus on developing long term relationships with OSAT providers in order to keep growing their recurring revenues. In FY14, TSRA's revenue increased by $110M or 65% from FY13. They decided to cease their Digital Optics (DOC) Manufacturing operations and focus extensively on their intellectual property and licensing. The FotoNation subsidiary develops facial recognition and imaging technology which can be found within about 700 million smartphones. About half of TSRA's recurring revenues came from new licensing arrangements with select customers, including Samsung and Micron. Due to the increasing expectations of securing more licensing contracts, the strength of the company's balance sheet and the acquisitions of companies beneficial to the firm's continuing growth, it is recommended that Tessera Technologies, Inc. be added to the AIM Equity Fund with a target price of $52.47, representing a 29.74% upside. TSRA pays a $0.20 quarterly dividend, yielding 2.00%.

Investment Thesis

- **Licensing Contracts with Numerous Technology Firms.** TSRA has worked extensively to create licensing agreements with a variety of large-cap technology firms, including Hynix Inc., Samsung Electronics, Inc., and Micron Technology. By licensing other firms to use their products, they are able to collect annual royalties on their licensed technology. Since TSRA is a holding company, they license products under their Invensas subsidiary for chipsets/hardware, FotoNation for imaging technologies, and Tessera, Inc. for all other technology products. In FY14, TSRA generated $40M in revenues from the sale of patents to Shenzhen O-Film, and further gained an additional $15M in cash with the sale of their Micro-Optics business in North Carolina.

- **Strong Balance Sheet.** TSRA has a strong balance sheet with no outstanding debt obligations and $434M in cash and short term investments. TSRA initiated paying a dividend in FY12, which is presently yielding 2% annually. One of the reasons for their significant cash position is because TSRA has a strong positive cash flow. Even with management's share repurchase plan of up to $250M in FY14, TSRA has enough cash to finance acquisition opportunities. Management stated that TSRA bought a UK-based biometric company, Smart Sensors, in early FY15 for an undisclosed small acquisition price in the single-digit millions in all cash. Management further stated that they are very selective about choosing their acquisition opportunities.
- **Growth of the FotoNation Segment.** In 2008, TSRA acquired FotoNation for about $40M in cash, which has proved to be a profitable investment for the holding company. The sales of FotoNation grew 110%, from $11M in FY13 to $23M in FY14. FotoNation's imaging solutions are being fueled by an increased demand for imaging and facial recognition products for the smartphone industry. The growing FotoNation segment is diversifying TSRA's revenues because it is growing faster than the Invensas DRAM development and licensing segment.
- **Operating Margins Increasing.** TSRA posted strong FQ4 2014 results, increasing their revenue by $60M which exceeded the company's forecast. They updated their corporate expectations that their long-term operating margins would increase to about 60%. A driver behind operating margin expansion is that Amkor Technologies (AMKR) recently arbitrarily settled a legal dispute for $155M, to be paid off to TSRA annually over four years, providing roughly $39M of periodic revenue annually.

Valuation

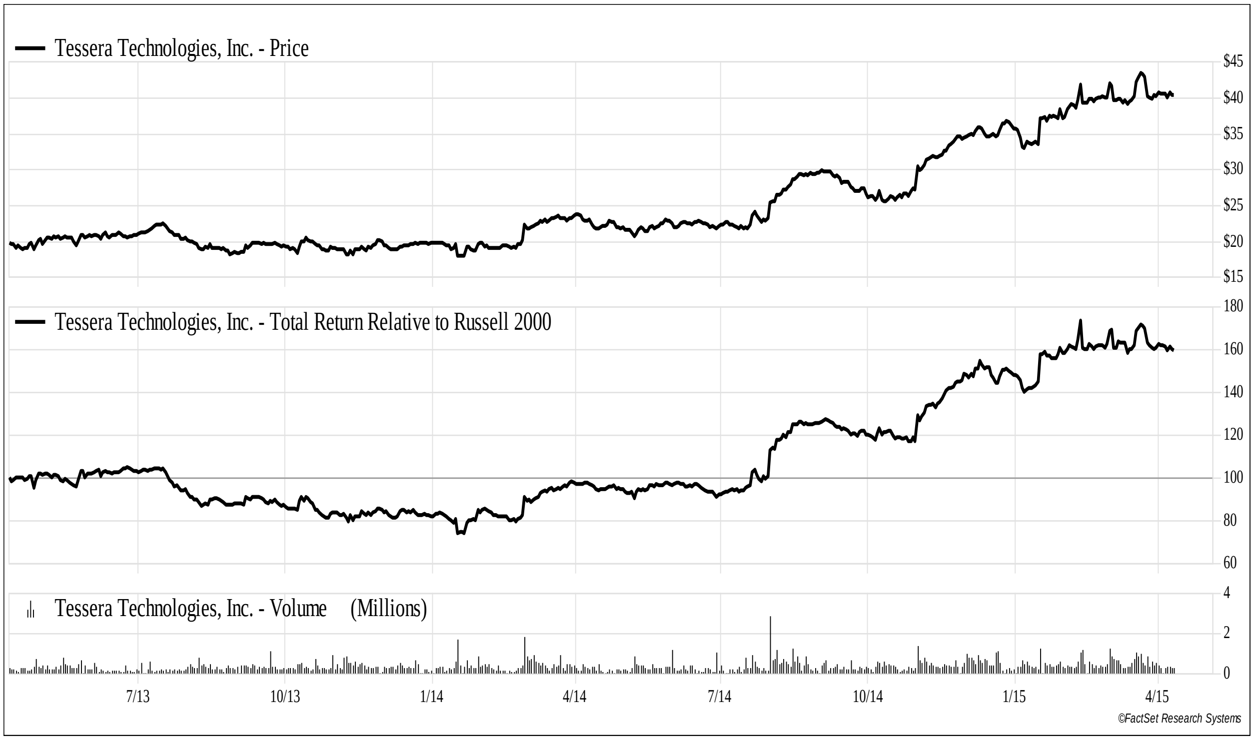
In order to reach an intrinsic value for TSRA, a five year DCF model was constructed. Using a terminal growth rate of 3% and a WACC of 7.62%, an intrinsic value of $54.40 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $42.29-$52.78. Additionally, a P/E multiple valuation was conducted using LTM EPS of $3.18, a comparables average P/E of 13.2x, and TSRA's 5-year historical average P/E of 17.5x which resulted in a valuation of $48.81. By weighting the three valuation models 60/20/20, a price target of $52.47 was reached, which yields a 29.74% upside. TSRA pays a quarterly dividend of $0.20, yielding 2.00%.

Risks

- **International Operations Risks.** A significant amount of TSRA's business is conducted in foreign countries, which subjects the company to a variety of risks, including currency risks, increased taxes and withholdings, default risks, patent infringement, and the lack of legal remedies available in collecting international judgements.
- **Highly Competitive Environment.** TSRA operates in an industry that is highly dependent on intellectual property rights and patents. TSRA must constantly be adapting to industry changes in order for their business model to survive. They must also be prepared to legally enforce their intellectual property rights, in which legal expenses can come at a greater than expected cost.
- **Small Number of Customers.** Customer concentration is a risk. Powertech Technology, Samsung Electronics, and Hynix account for 34%, 24%, and 11% of TSRA's sales, respectively. If TSRA lost one of these customers, it has the potential of significantly influencing future earnings.

Management

Thomas Lacey joined the Board of Directors and became the CEO in May 2013. His previous experience includes being the CEO of Components Direct and Phoenix Technologies, Ltd. He also has held other executive level positions at Vista Point Technologies, International Display Works, and Intel Corp. Robert Andersen was named the CFO and Executive Vice President in January 2014. Mr. Andersen formerly served as a Controller for Hewlett-Packard Company.



Source: Factset

Ownership

% of Shares Held by All Insider and 5% Owners:	1.80%
% of Shares Held by Institutional & Mutual Fund Owners:	94.50%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
BlackRock Institutional Trust Company, N.A.	4,256,000 ▲	8.00
The Vanguard Group, Inc.	3,325,000 ▲	6.30
Frontier Capital Management Company, LLC	3,105,000 ▼	5.90
Seizert Capital Partners, LLC	2,821,000 ▼	5.30
Starboard Value, LP	2,600,000 ▼	4.90

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	D/E	EBITDA	P/E	EV/ EBITDA
Tessera Technologies, Inc.	TSRA	2,116	0	201	12.7	8.4
Advanced Semiconductor Engineering, Inc.	ASX	10,970	67.8	1842	12.4	6.4
Amkor Technology, Inc.	AMKR	2,086	137.4	765.4	9.8	3.6
Stats Chippac Ltd.	620746	1,123	135.3	454.9	-	5.3
Ibiden Co., Ltd.	4062	307,303	19.6	60898	17.4	4.3
Infineon Technologies AG	IFX-DE	13,556	4.5	1480	19.4	6.3
Peer Averages		67,008	73	13088.1	13.2	5.2

Source: FactSet

Carrefour SA (CRRFY)
April 17, 2015

Dan Riley — International Consumer Staples

Carrefour SA (OTC: CRRFY), based in France, is the second-largest food retailer in the world after Wal-Mart. The company operates hypermarkets, supermarkets, convenience stores, and cash-and-carry stores in 34 countries across Europe (73% of sales), Latin America (19%), and China (8%). As of December 31, 2014, Carrefour had 10,860 stores, enjoyed a 20% share of the food retail market in France, and employed more than 381,000 people. CRRFY offers products ranging from meat and fresh produce to private-label products to consumer electronics and serves a wide variety of customers in urban and rural areas. Carrefour was founded on July 11, 1959 and is headquartered in Boulogne-Billancourt, France.

Price ($): (4/9/15)	6.90
Price Target ($):	8.28
52WK H-L ($):	8 - 5.5
Market Cap (mil):	25,137
Float (mil):	598.2
Short Interest (%):	N/A
Avg. Daily Vol (k):	63.2
Dividend ($):	0.12
Yield (%):	1.80%

Beta:	1.30
WACC:	8.05%
M-Term Rev. Gr Rate Est:	3.0%
M-Term EPS Gr Rate Est:	7.2%
Debt/Equity:	80.9%
Asset Turnover:	1.75
ROA:	2.7%
ROE:	14.2%
ROIC:	7.0%

FY: Dec	2014A	2015E	2016E	2017E
Revenue (bil)	100.80	104.32	107.92	111.48
% Growth	-	3.00%	3.00%	3.00%
Gross Margin	20.50%	21.00%	21.00%	21.00%
Operating Margin	3.10%	3.10%	3.20%	3.30%
EPS (Cal)	$0.44	$0.47	$0.51	$0.55
FCF/Share	$0.83	$0.24	$0.30	$0.37
P/E (Cal)	16.6	14.4	13.4	12.6
EV/EBITDA	8.9	8.6	8.2	7.7

Recommendation

In 2015, Carrefour is entering the final year of a three-year plan to increase operational efficiency and maintain consistent performance in the wake of economic uncertainty. This plan, which started after Georges Plassat assumed the role of CEO, has helped Carrefour weather the storm of recessionary environments in Europe and Latin America, and increased ROE from -29% in 2011 to 14% currently. In 2011 and 2012, the company divested itself of underperforming stores in the Middle East, Asia, and South America, bringing its store-count down 30% from a high of almost 16,000, and allowing greater focus on its more profitable hypermarkets and supermarkets. More recently, the company has finally begun to see sales and profitability returning to pre-2011 levels (2014 net income +24.6%), and it is poised to move forward under more favorable conditions. In 2014, CRRFY made several strategic acquisitions, including DIA France (800 stores), a subsidiary of Spanish supermarket chain DIA (DIA-ES), as well as 53 supermarkets in Northern Italy. Together, these will help Carrefour grow its low-cost offerings and increase sales by more than $2 billion annually. The firm also strengthened its ties with Brazil by partnering with Península, a well-established Brazilian real-estate company that will aid Carrefour's recognition with Brazilian consumers and assist its expansion there. In April 2014, Carrefour created Carmila, a real-estate company that intends to enhance the shopping centers surrounding Carrefour hypermarkets and thereby attract more customers. Going forward, the company remains committed to improving performance and the customer experience through updating store layouts, modernizing its IT infrastructure, and expanding its e-commerce presence. Despite Carrefour's potential to capitalize on the European recovery, the stock continues to sell as depressed levels and therefore represents a good value. For this reason, it is recommended that CRRFY be added to the AIM International Fund with a price target of $8.28, which represents a 20% upside.

Investment Thesis

- **Organic sales growth despite headwinds.** After controlling for fluctuations in exchange rates and gasoline sales, 2014 sales improved by 3.9% and EBITDA increased by 5.9%. After several years of negative growth for Carrefour, this is a sign of building momentum. Considering that 2014 real GDP growth in France was just .4% and that euro-area unemployment averaged 11.6%, these numbers are encouraging. Q1 2015 confirmed this trend when total sales grew by 6.2%, 3.2% of which was organic. Management expects that this growth trend will persist.

- **Improving margins.** After a strong year for EBIT margins in Europe, margins are expected to increase by 10-20 basis points per year with an improved pricing climate and greater efficiency. With French rivals like Casino Guichard-Perrachon and Leclerc cutting investment, experiencing diminishing volumes, and stating they will stop pressuring prices lower, Carrefour should be able to keep prices constant and not run excessive discounts and promotions. Analysts' estimates have operating margins increasing to 3.6% after 2017, which Carrefour should be able to attain. Helping this will be their Latin America operations, where operating margins are higher (6%). Another source of margin improvement will be non-food items, which carry much higher margins. After focusing more on food products in the wake of the European recession, Carrefour has an opportunity to re-energize non-food sales as consumption picks up.
- **Strengthening economies in Europe and Latin America.** According to the European Commission, over the next two years, the unemployment rate in the Eurozone is expected to decrease by 1%, and real GDP growth is expected to increase from .8% to 1.9%. Furthermore, in March of 2015, the Consumer Confidence Indicator for the euro area increased by 2.6 points and is close to its ten-year high. In Latin America, real GDP growth is also expected to accelerate to 2.5% from 1%. Combined, these indicators are likely to provide tailwinds for Carrfour's performance.

Valuation

In order to reach an intrinsic value for CRRFY, a 5-year Discounted Cash Flow model was employed. Using a terminal growth rate of 1.5% and a WACC of 8.05% yielded an intrinsic value of $8.23, representing a 19.29% upside. Sensitivity analysis on both the WACC and the terminal growth rate provided intrinsic values between $6.35 and $11.76. Additionally, a P/E model was utilized. Using a peer average NTM P/E of 17.73x and 2015 projected EPS of $.47 yielded a value of $8.33, a 21% upside. Weighing the DCF 60% and the P/E model 40% yielded a target price of $8.28 and an upside of 20%. CRRFY pays a $0.12 dividend, which is a yield of 1.8%.

Risks

- **Potential shift away from hypermarkets.** In recent years, some European consumers have favored shopping at smaller stores located within large cities. Since Carrefour derives 66% of total sales from the hypermarket format, this could pose problems; however, Carrefour's efforts to improve store offerings near hypermarkets should drive more store traffic.
- **Competitive food retail industry.** The food retail industry is notorious for low operating margins (2-5%), as well as low switching costs for shoppers. Although the recent price competition between Carrefour and its peers is expected to diminish, the threat of pricing pressure is always present.
- **Lower-than-expected consumer spending.** Despite the improvement of economies across Europe and growing disposable incomes, the propensity for consumers to actually spend their incremental cash remains to be seen.
- **Foreign currency exchange risk.** With CRRFY deriving 27% of total revenue in currencies like the Brazilian Real and Chinese Yuan, its performance is susceptible to exchange rates. In 2014, for instance, the falling Euro negatively impacted sales by 3 percentage points. If central bank intervention persists, Carrefour will likely experience variability in sales.

Management

Mr. Georges Plassat has served as the Chairman and Chief Executive Officer of Carrefour since June 2012. Prior to joining Carrefour, Mr. Plassat worked at rival Casino Guichard-Perrachon. He holds degrees from Cornell University and Ecole hôtelière de Lausanne. Mr. Plassat has played an important role in returning Carrefour to form, and his recently announced return after taking time off for surgery has been well received by investors. Adding to Mr. Plassat's experience are Pierre-Jean Sivignon (Chief Financial Officer) and Hervé Thoumyre (Chief Information Officer).

Source: FactSet

Ownership

% of Shares Held by All Insider and 5% Owners:	18.60%
% of Shares Held by Institutional & Mutual Fund Owners:	16.20%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
Moulin Family	44,209,000	6.00
Colony Capital LLC	41,384,000	5.60
Arnault Family	37,300,000	5.10
First Eagle Investment Management LLC	18,988,000	2.60
Norges Bank Investment Management	15,466,000	2.10

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	EBIT Margin	Inventory Turnover	P/E NTM	EV/ EBITDA
Carrefour SA	CRRFY	25,137	3.0	10.5	17.47	8.71
Tesco	TSCO	29,918	3.3	16.1	22.15	7.69
Royal Ahold	AH	18,314	3.8	15.9	17.37	6.99
Delhaize Group	DELB	9,703	3.0	11.8	16.59	7.10
Casino Guichard-Perrachon	CO	10,427	3.4	7.5	16.5	—
Cia Bras	PCAR4	6,970	6.5	6.7	16.02	3.60
Peer Averages		15,066	4.0	11.6	17.73	6.35

Source: FactSet

Luminex Corporation. (LMNX)
April 17, 2015

Daniel Kralovec | Domestic Healthcare

Luminex Corporation develops, manufactures, and sells proprietary biological testing products and technologies with applications throughout the diagnostics and life sciences industries. The company operates a Technology and Strategic Partners (TSP) segment (60% of revenue) and Assays and Related Projects (ARP) segment (40%). The TSP segment licenses and leverages its proprietary technology to strategic partners that build applications on Luminex's platform, which are then resold to end-users. The ARP segment focuses on the development and commercialization of the company's own products and relies heavily on a direct sales force. The Luminex Corporation was incorporated in Texas in May 1995 and reincorporated in Delaware in February 2000.

Price ($):	16.61
Price Target ($):	19.82
52WK H-L ($):	21.69 - 15.05
Market Cap (mil):	700.9
Float (mil):	38.0
Short Interest (%):	5.1
Avg. Daily Vol (mil):	0.2
Dividend ($):	0.00
Yield (%):	0.0

Beta:	0.99
WACC	8.80
M-Term Rev. Gr Rate Est:	13.0%
M-Term EPS Gr Rate Est:	19.0%
Debt/Equity:	0.00
Debt/EBITDA (ttm):	0.00
ROA (%):	11.04
ROE (%):	13.24
ROIC (%):	13.23

FY: Dec	12/31/13	12/31/14	12/31/15	12/31/16
Revenue (Mil)	213.42	226.98	231.45	244.30
% Growth	5.35	6.35	1.97	5.55
Gross Margin	66.57	69.24	70.63	71.55
EBITDA Margin	15.30	20.02	21.47	22.34
EPS (Cal)	0.17	0.93	0.52	0.62
FCF/Share	0.21	0.76	0.64	0.91
P/E (Cal)	114.12	20.17	31.23	26.26
EV/EBITDA	22.77	15.39	11.41	9.80

Source: FactSet

Recommendation

Luminex Corporation's focus on the molecular diagnostic market will provide the opportunity for the company to vertically integrate their supply line. In previous years, LMNX's ability to drive growth stemmed from its unique business model. Strategic partnerships have been very profitable, consistently providing a steady growing stream of revenue over time (YoY growth of 3%-6%). Of their 66 partners in 2014, 46 have developed products utilizing Luminex technology resulting in the potential for future royalty payments. Changing the strategic focus, the new management team has decided to concentrate on the molecular diagnostic market rather than partnerships. This market presents the largest opportunity for the company and has been facilitated by expansion of the direct sales force and strategic acquisitions. In conjunction with the reconstruction, Luminex is preparing to launch two pipeline products, ARIES and NxTAG. Each should expand the company's addressable market. ARIES, a major growth driver, is expected to launch near the end of 2015. This technology will synergize the laboratory setting, allowing lab technicians to spend more time on meaningful work and less time testing. Management predicts there are 15,000 current instrument placement opportunities for this product and double that amount over the next five years. ARIES will initially focus on the infectious disease segment, the largest segment of the MDx market, projected to reach $4.0B by 2017. The estimated market opportunity for ARIES first five assays is about $770 million. It is an exciting product for Luminex, as a successful launch will finalize the current restructure process and provide a platform for future technologies and developments. With almost $100 million in cash, management has the option to potentially expedite the release of ARIES or subsequent additions to the platform contingent on the success of any acquisition. Laboratory testing has become increasingly time consuming and complex, pressuring the market to alleviate any inefficiencies while delivering dynamic technologies and clear results. Luminex has a vast product menu able to accommodate the needs of all potential customers. It is recommended that LMNX be added to the AIM Equity Portfolio with a price target of $19.82, which represents a 19.31% upside.

Investment Thesis

- **New Product Launch.** Luminex is preparing to launch their ARIES sample-to-answer product. ARIES is designed to help laboratories overcome daily challenges, increase efficiency, and create a lean laboratory environment. Management estimates the market for this product to be in excess of $1 billion. This launch and subsequent additions will allow LMNX to penetrate the molecular diagnostics (MDx) market through direct contact with end-user customers. The system has already begun clinical trials and is expected be released later this year. The NxTAG Respiratory Pathogen Panel (RPP), an assay, which enables laboratories to simultaneously detect 22 respiratory pathogens in a single closed tube system. This product is also target for a year-end release upon clearance from the FDA. Once cleared, this product will foster organic growth and expand market share.

- **Segment Consolidation.** Management consolidated the operating segments with the idea of focusing on core competencies. In 2014, direct sales accounted for almost 40% of revenue with the remaining 60% coming from strategic partnerships. In an attempt to increase synergy management is planning on relocating resources between the company's three manufacturing sites. With an industry leading gross margin of 70% (10-year average), this consolidation will secure this figure and position the company for long term growth.
- **Multiplexing testing.** Luminex continues to be a leader in the multiplexing technology. The xMAP Technology addresses the needs of high density and high throughput applications. They are currently producing technologies aimed at halving test durations. In a highly competitive market, xMAP technology is diversified and flexible to fit just about any application.

Valuation

In order to reach an intrinsic value for LMNX, a five-year DCF model was utilized. Using a terminal growth rate of 2.5% and a WACC of 8.8% resulted in a valuation of of $19.05 per share. Additionally, a realtive valuation was conducted using P/E and EV/EBITDA multiples. Using a comparable average P/E multiple of 34.71x and a 2015 expected EPS of $.52, a value of $18.04 was obtained. An EV/EBITDA multiple peer average of 18.62x yielded a valuation of $21.46. By weighing the DCF model 40%, the P/E multiple 20%, and the EV/EBITDA multiple 40%, a price target of $19.82 was established, reprsenting an upside of 19.31%. The company does not pay a dividend.

Risks

- **Partnership Challenges.** The largest bulk consumables purchaser is experiencing inventory challenges which is expected to continue over the next several years. Likewise, any issues that affect the supply chain of this organization could have a material impact on the firm's operations. The firm projected a $10 million loss in consumable sales during 2015. Although the partnership business has created cash flow and profitability, fluctuations do occur. Purchasers sometimes build up inventories or make yearly bulk purchases. The growth rate of this segment will stay below double-digit numbers in the year to come.
- **Regulatory Risk.** Luminex and their partners are constantly under scrutiny from regulatory agencies. Impending healthcare reform could change the industry's pricing structure or reimbursement levels, making consolidation and mergers more attractive. Shrinkage in the customer base or increased pricing pressure will adversely affect LMNX's operations.

Management

Nachum Shamir joined the company on October 14, 2014 as President and CEO. Previously, Shamir spent eight years serving as the President, CEO, and Director of Given Imaging, a fairly successful diagnostic company. Harriss T. Currie has been Vice President, Finance, Treasurer and CFO since 2002 and has been with the company since 1998. Jeremy Bridge-Cook, Ph.D has served as Senior Vice President of Research and Development since June 2009 and joined the company in 2007 as Vice President of Luminex Molecular Diagnostics.

Source: FactSet

Ownership

% of Shares Held by All Insider Owners:	11.47%
% of Shares Held by Institutional & Mutual Fund Owners:	111.49%

Source: FactSet

Top 5 Shareholders

Holder	Shares		% Out
St. Denis J. Villere & Co. LLC	5,547,983	▲	12.93
BlackRock Fund Advisors	3,720,099	▲	8.67
The Vanguard Group, Inc.	2,595,591	▲	6.05
PRIMECAP Management Co.	1,904,718	▼	4.44
Kalmar Investments, Inc.	1,622,654	▲	3.78

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA	EV/ EBITDA
Luminex Corporation	lmnx	701	227.0	45.44	15.39
Affymetrix, Inc.	AFFX	975	347.7	36.60	21.05
Sequenom, Inc.	SQNM	468	151.6	-9.32	#N/A
Abbott Laboratories	ABT	70,922	20,247.0	7720.0	9.36
Becton, Dickinson and Company	BDX	29,758	8,482.0	2271.0	10.54
Cepheid	CPHD	4,003	469.7	12.0	315.84
Peer Averages		25,531	7,307.1	2504.6	#N/A

**Removed For Relative Valuation Analysis*

Source: FactSet

Ruth's Hospitality Group, Inc. (RUTH)
April 17, 2015

Robert Uhland — Domestic Consumer Discretionary

Ruth's Hospitality Group, Inc. (NYSE: RUTH) is a value-driven, high-end steak house restaurant franchise and diversified market leader that focuses on differentiation, creation, and organic growth of the upscale dining segment, core products, and new franchisee licensing expansion. RUTH is divided into, and operated under 2 core segments: Company-owned Operations (45.78% of Net Stores, ~94.0% of Net Revenues) and Franchise Operations (54.22% of Net Stores, ~4.6% of Net Revenues). RUTH's Company-owned segment has presence only in the U.S, while its Franchise Operations Segment maintains both domestic and international franchising activities. The company models its restaurants around a broad consumer base that allows it to expand into a wide variety of markets. RUTH offers a diverse menu ranging from USDA-Prime and Choice-grade steaks to premium quality shrimp and lobster tail to follow suit with their unique New Orleans heritage. RUTH operates globally, with a major company-owned presence in 33 states, Canada, Puerto Rico, and 10 foreign countries, maintaining over 142 upscale steak houses. RUTH was incorporated in 1965 and is headquartered in Heathrow, FL.

Price ($): (4/13/15)	15.65	Beta:	1.11	FY: Dec 31	2013	2014	2015E	2016E
Price Target ($):	18.69	WACC	7.9%	Revenue (Mil)	406.65	346.10	377.20	413.50
52WK H-L ($):	16-10	M-Term Rev. Gr Rate Est:	8.4%	% Growth	2.02%	-14.89%	8.99%	9.62%
Market Cap (mil):	546	M-Term EPS Gr Rate Est:	10.0%	Gross Margin	19.29%	21.87%	24.79%	28.35%
Float (mil):	33.9	Debt/Equity:	13.5%	Operating Margin	8.78%	11.46%	13.75%	13.18%
Short Interest (%):	1.50%	Debt/EBITDA (ttm):	0.25	EPS (Cal)	$0.70	$0.74	$0.83	$0.91
Avg. Daily Vol (mil):	0.10	ROA:	12.0%	FCF/Share	$0.91	$0.73	$0.65	$0.73
Dividend ($):	0.24	ROE:	27.1%	P/E (Cal)	20.3x	20.3x	19.0x	17.2x
Yield (%):	1.50%	ROIC:	25.3%	EV/EBITDA	10.34x	9.89x	9.3x	8.7x

Recommendation

Ruth's Hospitality Group, Inc. is a leading steak house restaurant that has been able to maintain an edge over its competitors like Bravo Brio, Del Frisco, and Bloomin' Brands, in the upscale dining segment due to its innovative core structure and customer excellence. RUTH has been able to maintain a strong core through its efforts to increase franchise and company- owned stores and its ability to price lower than its competitors. This pricing power paired with the Happy Hour drink specials and continued menu expansion have driven same-store sales (SSS) growth to increase 3.7% for Company-owned and 3.4% for franchise-owned operations, and thus increased revenue by 7.0% and 5.0% respectively. The company has increased CapEx spending by $3M each year over the past five years and plans to increase this to $20-23M in FY 2015. With over 15 remodeling's set to begin in 2015 and an expected 55-60 remodeling's to be carried out over the next three to five years, the company is effectively positioning itself to increase brand awareness and improve brand image. In addition, in January 2015, RUTH closed the sale of the 21 Mitchell Restaurants under ownership, and in turn refocused all its efforts on Ruth's steak houses. This shift in focus is likely to be a positive one looking towards the future as the company has already seen an increase in operating margins in Q1 2015. Also, the 60% 5-Yr CAGR of Net Income has driven a 11% YoY increase in operating margins, which has led to a 10% increase in EPS over 2013 and 2014. This reiterates the company's ability to stimulate shareholder earnings and revenue expansion. Due to the value-driven business development structure, abundant domestic and international expansion opportunities, and stable earnings growth, it is recommended that Ruth's Hospitality Group be added to the AIM Equity fund with a target price of $18.69, representing 19% upside. RUTH pays a $.06 quarterly dividend, yielding 1.50%.

Investment Thesis

- **Positive Same Store Sales Growth.** As of Q4 2014, RUTH has generated 19 consecutive quarters of same-store sales growth. During FY 2014, comparable company-owned restaurant sales increased by 3.7% and comparable franchise-owned restaurant sales increased by 5.0%. With over 13 franchisee commitments over the course of FY 2015 through FY 2017, it is apparent that management has positioned the company to take advantage of new markets both domestically and abroad.
- **Broad Appeal and Wide Range of Markets.** Although the market for upscale dining restaurants is highly competitive, RUTH has been able to reach a wide range of consumers. Furthermore, the company's well blended allocation across three segments (special occasion, regular customers, and corporate/ business) has enabled it to gain full exposure to new markets. The appeal stems from RUTH's ability to constantly evolve, diversify, and uphold a premier menu.
- **Management's Ability to Drive Earnings Growth.** Management has consistently paid a quarterly dividend per share since Q2 2013. At the end of Q4 2014, management approved the payment of a quarterly cash dividend of $.06/sh. In addition, cash has been distributed back out to shareholders through stock repurchases, which totaled $5.1 MM in FY 2014. With EPS expected to increase by 10% YoY, it appears that they will continue to have a sustainable structure looking out to the future.

Valuation

In order to reach an intrinsic value for RUTH, a five year DCF model was constructed. Using a terminal growth rate of 3.0%, and a WACC of 7.9%, an intrinsic value of $18.38 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $16.01-$21.58. Additionally, a P/E multiple valuation was conducted using a 2015 E EPS of $0.83, a comparables average P/E of 25.12x, and RUTH's 5-year historical average P/E of 21.44x, which resulted in a valuation of $19.62. Finally, an EV/EBITDA multiple valuation was calculated. Using the peer comparables average 10.53x, RUTH's EV/EBITDA of 11.03x and 2015 E EBITDA of $57.43M, the multiple resulted in a valuation of $18.07. By weighting the three valuation models evenly, a price target of $18.69 was reached, which yields a 19% upside. RUTH pays a regular quartely dividend of $0.06, yielding 1.50%.

Risks

- **Slow Pick Up to New Markets Abroad.** RUTH has no company-owned restaurants abroad and in turn could miss out on potential new markets captured by peers established internationally.
- **International Risks.** With steak house restaurant holdings in 10 foreign countries including Japan, Mexico, and China among others, there is a risk of the international revenues being exposed to currency volatility. Additionally, the state of the economies in these foreign markets may dictate the performance of steak houses in those countries.
- **Increase in commodity prices.** Fresh beef is the primary raw material used in RUTH's operations contributing to 40% of food and beverage costs during FY 2014. With the price of beef expected to rise by 5-8%, in 2015 it could negatively impact operating margins and furthermore, impede on the company's ability to maintain pricing power relative to its peers.

Management

Michael P. O'Donnell has served as President and CEO of Ruth's Hospitality Group, Inc. since late 2008. Prior to this he served as President of MPO Enterprises and CEO of Champps Entertainment, Inc. Arne G. Haak has served as CFO since 2011. Prior to RUTH's he was CFO of AirTran Airways. Other executive directors include: Cheryl Henry (Senior VP & CBO) and Kevin Toomy (President & COO).

Source: Factset

Ownership

% of Shares Held by All Insider Owners:	4.24%
% of Shares Held by Institutional & Mutual Fund Owners:	85.10%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
Fidelity Management & Research Co.	3,995,593 ▲	11.49
BlackRock Fund Advisors	2,442,469 ▲	7.02
Lombardia Capital Partners LLC	1,598,376 ▲	4.60
The Vanguard Group, Inc.	1,314,900 ▼	3.78
Dimensional Fund Advisors LP	1,200,144 ▲	3.45

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA	Dividend Yield	EV/ EBITDA
Ruth's Hospitality Group, Inc.	RUTH	548	346	52.976	1.39	9.78
Del Frisco's Restaurant Group, Inc.	DFRG	476	302	41.7	-	11.33
Red Robin Gourmet Burgers, Inc	RRGB	1,201	1,146	120.1	0.00	11.04
Bravo Brio Restaurant Group, Inc.	BBRG	228	408	36.1	0.00	7.86
Texas Roadhouse, Inc.	TXRH	2,516	1,582	190.3	1.90	13.07
Bloomin' Brands, Inc.	BLMN	2,983	91	437.2	0.20	9.36
Peer Averages		1,481	706	165.1	0.53	10.5

Source: Factset

Sanderson Farms, Inc. (SAFM)
April 17, 2015

Mark Lakowske | Consumer Staples

Sanderson Farms, Inc. (NASDAQ: SAFM) is a poultry processing company that engages in the production, processing, marketing, and distribution of fresh, frozen, further processed, and partially cooked chicken products. It sells ice, chill, and bulk packs, as well as frozen chicken in whole, cut-up, and boneless form under the Sanderson Farms brand name. It operates through the following business divisions: Production, Processing, and Foods. The Production division does not account for any sales because it acts as a middleman in the production process. The processing division accounts for roughly 78% of the company's total sales. The processing division is divided up into three product lines—frozen whole chickens, chill packs, and fresh bulk packs. The third division at SAFM is the Foods division and it accounts for roughly 12% of total sales. SAFM had $2.775 billion in sales in 2014—increased 3.42% from fiscal year 2013. The company was founded by Dewey R. Sanderson, Dewey R. Sanderson, Jr. and Joe Frank Sanderson in 1947 and is headquartered in Laurel, MS.

Price ($):	77.68
Price Target ($):	90.74
52WK H-L ($):	103.9 - 74.95
Market Cap (mil):	1,800
Float (mil):	20.4
Short Interest (%):	44.3
Avg. Daily Vol (mil):	0.5
Dividend ($):	0.22
Yield (%):	1.1

Beta:	1.08
WACC	8.6
M-Term Rev. Gr Rate Est:	6.2%
M-Term EPS Gr Rate Est:	5.2%
Debt/Equity:	2.10%
Debt/EBITDA (ttm):	0.04
ROA (%):	23.80
ROE (%):	30.87
ROIC (%):	30.87

FY: Dec	10/31/2013	10/31/2014	10/31/2015	10/31/2016
Revenue (Mil)	2,683	2,774.85	2,948.06	2,940.97
% Growth	12.44	3.42	8.00	8.00
Gross Margin	11.40	18.77	19.31	14.03
EBITDA Margin	10.05	16.08	16.45	10.45
EPS (Cal)	$5.68	$10.80	$11.36	$6.63
FCF/Share	$8.87	$6.01	$6.41	$5.80
P/E (Cal)	11.1	7.8	6.8	11.7
EV/EBITDA	5.1	3.9	3.1	4.6

Source: FactSet

Recommendation

Sanderson Farms might not be the first company to come to mind when purchasing chicken from a grocery store, but they have displayed several signs of future growth much better than their competitors. In fact, Sanderson Farms is the third largest producer of dressed chickens in the country behind Tyson Foods and Perdue Farms. One of the main drivers behind SAFM is from how the company finances its projects. SAFM has a total of $1.1 billion in assets and only $20 million in debt. SAFM self-funded all of their capital expenditures in fiscal year 2014. Capital expenditures from fiscal 2013 and 2014 were $59.6 million and $48.8 million, respectively. SAFM built two new plants costing $280 million. The conservative financing SAFM employs builds trust in investors because of the lowered risk of defaulting on loans. Another attractive aspect of SAFM is the discipline in the products they sell within the marketplace. Every one of SAFM's products are 100% natural with no additives – and each chicken sold with the Sanderson Farms name on it goes through thorough state-of-the-art testing for avian influenza to ensure their brand is never tainted by a mass recall. Although the price of chicken has risen over the past year, the price of beef has vastly outpaced it. Ground beef retail prices rose 22% in 2014 whereas chicken prices rose only 2%. Despite American income levels rising, chicken demand is outpacing beef with a CAGR of 2.17%. According to Sentier Research, the median household income has risen almost 4% over the last three years. SAFM has been experiencing an increase in investor activity over the last six months—more specifically, from hedge funds. Over the past six months, hedge funds have increased their stake in SAFM by 2.3 million shares and mutual funds have increased their position by 350,000 shares. It should be noted that only three out of fifteen investor types have been selling during the past six months—a total of 400,000 shares sold. Due to company expansion, a growing demand for chicken, and various other drivers mentioned below, it is recommended that SAFM be added to the AIM Equity fund with a price target of $90.74, yielding a 15.21% upside. SAFM pays a regular quartely dividend of $0.22, yielding 1.13%.

Investment Thesis

- **Company expansion across the United States.** Over the past three years, Sanderson Farms has been expanding its operations across the US. In November 2014, SAFM opened its new $140 million chicken processing plant in Palestine, Texas. The new plant allows SAFM to process 1.25

million chickens in the deboning and treatment process which increases production by 16%. Just recently, SAFM announced that they will begin construction of a new $139 million poultry processing plant in North Carolina. This plant will allow SAFM to process 1.25 million more chickens per week and will employ 1,100 new workers from the area. These new plants will allow SAFM to remain competitive with poultry giants Tyson and Pilgrim's Pride. Tyson's gross margin is 8% and Pilgrim's Pride's margin is 16% compared to SAFM's 19% gross margin. SAFM has eleven processing plants, eight feed mills, and nine hatcheries across the United States.

- **Higher poultry demand.** Sanderson Farms offers an array of 100% natural chicken options such as chicken breasts, drumsticks, legs, and whole chickens. Chicken prices rose 3.1% over the past year due to a lower supply derived from reproduction issues from the roosters. Chicken consumption per capita in the US has risen 8.2% since 2012—increasing at a consistent 2.7% year over year. Over the last five years, poultry demand has risen at a CAGR of 2.17%, whereas pork demand has only grown at a CAGR of 1.65%.
- **Lower grain costs.** Sanderson Farms' sales depend heavily on the price of grains—specifically soybeans. In 2014, the price of soybeans fell 21% and have fallen another 4.5% in the first quarter of 2015. May, July, and August futures are down 3.4%, 3.6%, and 3.4%, respectively. Last year, feed costs fell $0.327 or 10% per pound. Weather reports for summer 2015 in the Midwest predict average temperatures from May until the end of July with consistent rainfall. These factors will keep the price of grain down due to the high supply available to the marketplace.

Valuation

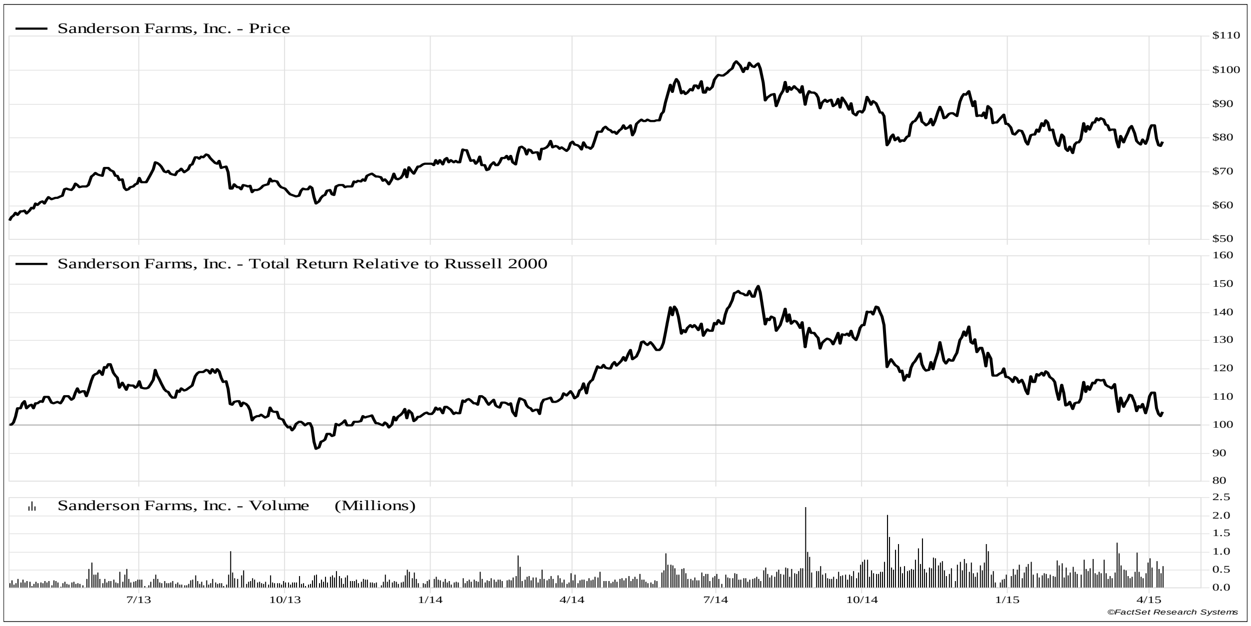
In order to reach an intrinsic value for SAFM, a five year DCF model was constructed. Using a terminal growth rate of 2.5%, average WACC of 8.60%, an intrinsic value of $84.19 was reached. A sensitivity analysis on terminal growth rate and WACC ranged from $74.72-167.35. Additionally, a P/E multiple valuation was conducted using NTM EPS of $7.00, a comparables average P/E of 17.58x, and SAFM's 5-year historical average P/E which resulted in a valuation of $97.29. By weighting the two valuation models 50/50, a price target of $90.74 was reached, which yields a 15.21% upside. Sanderson Farms pays a regular quartely dividend of $0.22, yielding 1.13%.

Risks

- **Outbreak of Avian influenza.** Avian influenza is a highly contagious disease found in farm birds such as turkeys and chickens. According to the US Department of Agriculture, there have been recent reports about outbreaks in Missouri and Arkansas. A major outbreak could halt SAFM's production until the virus has passed. SAFM confirms none of its flocks have been affected and they are examining every chicken as thoroughly as usual.
- **Top ten customers make up 50% of net sales.** A substantial portion of Sanderson Farm's sales is derived from a few large customers. If a customer as big as Kroger chooses to go with another brand, SAFM's sales will take a sizeable hit. SAFM stated that a few customers are contractually obligated to remain with them.
- **Reliance on grain prices.** Sanderson Farms relies greatly on the prices to soybean and various other grains to determine margins. Historically, when grain prices rose, SAFM's sales fell as a result. It would only take one dry summer to decrease the supply of grains and adversely affect SAFM's margins.

Management

Joe F. Sanderson, Jr. has been an executive with the company since 1984 and CEO since 1989—total compensation of $5,931,371. Lampkin Butts has been with the company since 1996 and COO since 2004—total compensation of $2,126,958. Mike Cockrell has been with the company and CFO since 1993—total compensation of $1,732,919. Tim Rigney has been with the company since 1990 and Secretary and Controller since 2012—total compensation of $ 404,151.



Source: FactSet

Ownership

% of Shares Held by All Insider Owners:	11.10%
% of Shares Held by Institutional & Mutual Fund Owners:	58.70%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
The Vanguard Group, Inc.	2,082,696 ▲	8.99
BlackRock Fund Advisors	2,046,311 ▲	8.83
Royce & Associates LLC	1,329,259 ▼	5.74
SouthernSun Asset Management LLC	1,207,050 ▼	5.21
Tiger Global Management LLC	1,125,000 ▲	4.86

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	D/E	P/E	EV/ EBITDA
Sanderson Farms, Inc.	SAFM	1,800	2,857	20.69	7.78	3.90
Pilgrim's Pride Corporation	PPC	6,267	8,583	116.0	11.97	6.21
Tyson Foods, Inc. Class A	TSN	11,772	39,564	51.8	16.61	5.80
Hormel Foods Corp.	HRL	15,324	9,316	9.47	24.17	16.4
Peer Averages		11,121	19,154	59.1	17.583	10.1

**Removed For Relative Valuation Analysis*

Source: FactSet