Applied Investment Management (AIM) Program

AIM Class of 2012 Equity Fund Reports
Spring 2011

Date: **Friday, April 8, 2011** ***Location: Heartland Advisors***

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Bronson Wetsch *Senior Mentor: Caitlin Johnson*	WuXi PharmaTech (ADR)	WX	$16.16	8
Ted Linn *Senior Mentors: Mark Rutherford and Kristin Holzhauer*	Sensient Technologies Corp.	SXT	$36.43	11

Thank you for taking the time today and participating in the AIM 'road show' at Heartland Advisors. These student presentations are an important element of the applied learning experience in the AIM program. The students conduct fundamental equity research and present their recommendations in written and oral format – with the goal of adding their stock to the AIM Equity Fund. Your comments and advice add considerably to their educational experience and is greatly appreciated. Today, each student will spend about 5-7 minutes presenting their formal recommendation, which is then followed by about 8-10 minutes of Q & A. Again, thank you for allowing us the opportunity to present at Heartland Advisors.

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American Campus Communities (ACC)
April 8, 2011

Jacob Bear Financial Services

American Campus Communities (ACC) operates as a REIT with a concentration in high quality campus housing. With locations in thirty US states and two Canadian provinces and with 93,800 beds in 31,700 units, ACC is one of the largest owners, managers and developers of student housing properties. Business components consist of wholly-owned and operated properties, on-campus participating programs, and third party consulting, management, and development services. ACC's primary source of revenue is derived from rental fees from both its wholly-owned off-campus properties and on-campus participating properties totaling 94% of revenue. The company has used an advantageous real estate pricing environment to expand its property base by 67% in 2010, increasing its net real estate property assets to 92.6% of total assets. Founded in 1993, ACC is headquartered in Austin, Texas.

Price 3/31 ($):	33	Beta:	0.77	FY: Dec	2010A	2011E	2012E
Price Target ($):	43.9	Discount Rate:	7.74%	FFO (mil):	97.3	112.7	136.0
52 WK H-L ($):	23.6-33.8	M-Term Rev. Gr Rate Est:	13.4%	% Growth	29.7%	13.6%	17.2%
Market Cap:	2.21B	M-Term EPS Gr Rate Est:	30.8%	Operating Margin:	6.32%	3.75%	5.00%
Float (mil):	66.44	Financial Leverage:	2.33x	EPS:	$0.26	$0.27	$0.42
Short Interest (%):	7%	ROA:	0.6%	Div Per Share:	$1.35	$1.35	$1.35
Avg. 3 Month Vol (mil):	0.522	ROE:	1.3%	BVPS:	$21.11	$21.35	$21.73
Dividend ($):	1.35	Dividend Payout:	519.23%	Forward P/B:	1.50	1.49	1.46
Yield (%):	4.10%						

Recommendation

U.S. campus real estate has for the most part avoided the disastrous effects of the housing and commercial real estate market in 2007 and 2008 due to rising enrollments and a general inelastic demand for college education. ACC was able to grow its property base by 223% from 2007 to 2010 as it took advantage of depressed real estate values and its weakened competitors, whose property base remained relatively unchanged over the same period. This increase in property base, as well as an extensive development pipeline ($450M in deliveries by August 2012), provides excellent long-term growth opportunities for its rental revenue. Also, ACC has exceptional pricing power as it was able to increase rental rates 2.8% in 2010, while at the same time increasing average occupancy from 93.0% to 96.4%. Recent product differentiation, such as third party development services, resulted in a 72% revenue increase in 2010. In addition, the American Campus Equity (ACE) program, which was implemented in 2008, should help diversify ACC's revenue streams and broaden market share. Over the duration of the financial crisis, ACC's financial drivers still performed well with increasing funds from operations (FFO) (36% CAGR since 2007) and increasing NOI (24% CAGR). Furthermore, signs of inflation - such as rising gold prices, commodity prices, oil prices, and inflationary pressures in the BRIC countries - make REITs in general more attractive as hedges against higher future inflation. Apartment inventories are relatively low (excess inventory about 250,000 units nationally) and leases are relatively short (9-12 months) for ACC, affording the firm the ability to price inflationary increases into rental rates. ACC pays $1.35 per share annual dividend; a 4.1% yield. As a result of this attractive growth story and strong industry tailwinds, it is recommended that ACC be added to the AIM domestic equity fund at a price target of $44 representing a 33% upside.

Investment Thesis

- **Depressed Market Provides Growth Opportunities.** With $1.1B in student housing properties on the market, some at severely distressed prices, further opportunities to expand the property base exist for ACC. The student housing market is quite fragmented, so ACC competes with local apartment management companies and several REIT competitors (such as HME, EDR, and CCG). ACC has economies of scale over local operators in that it possesses greater managerial and development expertise and the ability to finance projects at lower costs (weighted average interest rate on consolidated debt was 5.04% per year). With the ability to raise equity or access its revolvers or loans (total revolver of $350M, with $249M available to draw down), ACC has greater financing flexibility than the local, private operators. Its closest REIT peers averaged an average FFO of -$7.9M in 2010 and have realized a decrease of 11% in total properties since 2007, as opposed to ACC's 2010 FFO of $97.3M and increase in properties of 223% since 2007.

- **Rising College Enrollment Projections.** While college enrollment projections for 2017 indicate a 10% increase from 2008 enrollment, the most important revenue driver for ACC is enrollment at the colleges where they operate – (which is favorable). Rising student demand is at an all-time high with 39.6% of all 18-24 year olds enrolled in 2008. This, combined with on-campus living constraints, currently only 40% of students live on-campus in U.S., provide rising demand for off-campus living.
- **Growth of American Campus Equity Program.** ACC finances campus living property construction on university campuses and once completed, manages and maintains the properties under a long-term (30-40 year) lease. The ACE program should especially appeal to state universities with budget constraints due to increasing state budget deficits. This arrangement allows universities to meet student housing demands without using university financing, endowment funds, or affecting their debt capacity.

Valuation

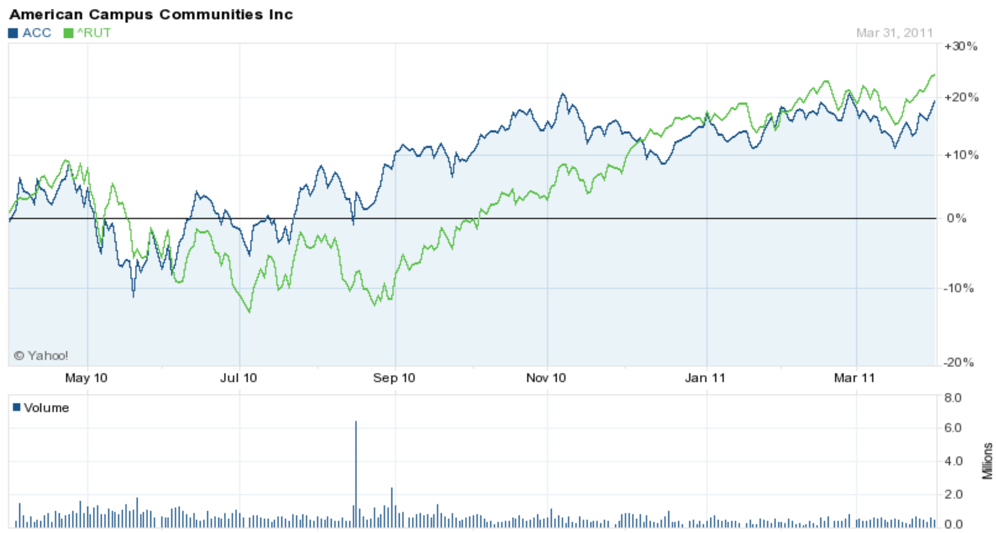
To derive a target price for ACC, a variety of valuation techniques were utilized. A discounted cash flow analysis was performed, with an assumed discount rate of 7.74%, implying an intrinsic value of $42.95. A P/B methodology was also utilized applying a weighted ACC historical and peer 1.96x multiple to ACC's 2011- 2012 blended BVPS implying an intrinsic value of $42.30. Finally, a P/FFO approach was conducted applying a weighted ACC historical and peer .37x multiple to ACC's blended 2011-2012 FFO, yielding an intrinsic value of $46.48. Taking each valuation method into account and weighting them appropriately, a target price of $44 has been established, representing a 33% upside. Currently, ACC pays a $1.35 per share annual dividend currently yielding 4.1%.

Risks

- **REIT Status Jeopardized.** Certain requirements must be maintained in order to avoid adverse consequences of losing REIT qualification. Taxable REIT subsidiaries revenue, which includes management, development and consulting services, may not exceed 25% of total revenue. For ACC, this number is safely around 12%. Also, 90% of taxable income must be distributed to shareholders, meaning that in some instances ACC may need to rely on short term borrowings to fulfill this requirement.
- **Changes in Enrollment or University Policy.** If enrollment declines, occupancy rates will suffer. Universities also have significant power in minimum on-campus living requirements and they have the right to terminate on-campus participating leases and assume operation of property at any time.

Management

Willam Bayless founded ACC and currently acts as President and CEO. With over 23 years of experience in campus housing, Mr. Bayless has successfully taken the company public and positioned its growth through the financial crisis and recovery. Jon Graf, CFO and Treasurer since 2007, brought over 10 years of public company accounting experience to ACC.



Ownership

% of Shares Held by All Insider and 5% Owners:	1%
% of Shares Held by Institutional & Mutual Fund Owners:	88%

Top 5 Shareholders

Holder	Shares	% Out
Vanguard Group	6,429,016	9.61
Davis Selected Advisers	4,173,130	6.24
Diam Co.	3,304,261	4.94
FIL Ltd.	2,740,000	4.09
Goldman Sachs Group	2,606,375	3.90

ARM Holdings PLC (ARMH)
April 8, 2011

Vincent Julian H. Ong — International Hardware

ARM Holdings, plc designs microprocessors, physical intellectual property (IP), and other related technology and software. ARMH holds an extensive portfolio of microprocessors and intellectual properties that specialize in low-power, high-performance chip architecture. ARM Holdings develops and designs the technology and licenses out these technologies to electronics manufacturers, semiconductor companies, and OEMs who in turn manufacture, market, and sell to the end consumers. ARMH's customers pay a license fee and royalties to use ARM technologies for every product they produce that uses ARM technology. This business model, which has minimal variable costs, allows the firm to enjoy gross margins of over 90%. ARM technology can be found is almost all of today's smartphones and computing tablets. The strong secular trend of increased utilization of smartphones, tablets and mobile computing should continue to drive ARMH's future revenues. ARM Holdings has over 95% of the market share in smartphones as of 2010, 10% in mobile computing, and 35% in DTVs/STBs. ARM Holdings' customers are from Europe (14%), North America (40%), and Asia Pacific (46%, including 11% from Japan). The company was formerly known as Advanced RISC Machines Holdings Limited and changed its name to ARM Holdings plc in March 1998. ARM Holdings plc was founded in 1990 and is based in Cambridge, United Kingdom.

Price ($): (3/31/2011)	28.17		Beta:	0.89		FY: Dec	2010A	2011E	2012E
Price Target:	36.89		WACC:	9.30%		Revenue (000)	406,595	569,233	768,465
52WK H-L ($):	9.5-31.81		Y3-5 Rev. Gr Rate Est:	27.87%		% Growth	33.30%	40.00%	35.00%
Market Cap (bil):	12.14		Y3-5 EPS Gr Rate Est:	51.22%		Gross Margin	93.59%	94.00%	94.20%
Float (mil):	438.47		Debt/Equity:	0.00%		Operating Margin	26.31%	36.00%	44.20%
Short Interest (%):	20%		ROA:	10.53%		EPS (Cal)	0.31	0.57	0.94
Avg. Daily Vol (mil):	4.9		ROE:	10.53%		FCF/Share	$0.05	$0.14	$0.26
Dividend ($):	0.8					P/E (Cal)	92.30	49.71	30.13

Recommendation

ARM Holdings had strong performance in 2010 and is poised to see revenues increase by 35% in 2011 as the firm continues to ride the secular tailwind of the "going mobile" trend. ARMH has a strong foothold in the smartphones market as most manufacturers have adopted ARMH's microprocessor technology. Their 95% market share was mainly obtained due to their superior technology. ARM prides itself in its high-performance, low-power chips that give them an edge over their major competitors, such as Intel and AMD. ARM also has other products in their broad portfolio of technologies, including their Mali graphics processors. Licensees such as Samsung and STMicroelectronics have publicly stated that ARMH's Mali chips give them over a 5-fold improvement in performance over the previous products they used. ARMH is also dedicated to creating better technology to stay ahead of competition with over 90% of their new hires in 2010 employed in the R&D area. Since over 85% of their revenue is generated through licensing and royalties, their variable costs are minimal, which should allow them to post gross margins of over 90%. Because of these reasons, and a favorable valuation, it is recommend that ARMH be added to the AIM International Equity fund with a target price of $36.89 and a potential upside of over 30%.

Investment Thesis

- **Strong Secular Trend of Going Mobile**. The world is moving rapidly towards mobile computing and ARMH is likely going to continue benefiting significantly from this trend. The market for mobile computing is projected to grow by 3X from 2011 until 2015. ARMH already has a market share of over 95% in smartphones. The next growth frontier is likely going to be computing tablets, as witnessed by Apple's recent released of the Ipad2, which sold over 1 million units in its opening weekend. ARMH is poised to ride the tablet and other mobile applications momentum wave into 2011 and beyond, as they seek further licensing opportunities and market penetration. ARMH has also set its sights on the desktop market as it tries to unseat incumbent market leader Intel.

- **Profitable Business Model**. License fees and royalties make up over 85% of total revenues for ARM. In this business model, ARMH's R&D costs are semi-fixed, allowing them to enjoy impressive and increasing operating margins in excess of 40%.
- **New Frontiers.** Microsoft announced on December 2010 that they will release a new version of their Windows operating system that will be compatible with chips designed by ARMH. This new system opens the door for Windows Mobile Phones to start adopting ARM technology. This also creates the opportunity for ARMH to go into the desktop computing space, as Microsoft's Windows operating system commands a market share of nearly 90% in this area. ARMH is also at the center of TV digitalization and internet connectivity. As internet TVs become the central computing hub in homes, performance and power consumption will become more important – and more manufacturers will likely turn towards ARM technology. ARMH's market share is currently 35%, which represents a 30% increase from the previous year.

Valuation

To find the intrinsic value of ARMH, a 5-year DCF model was used as well as a multiples approach. Sales growth rates were varied from year-to-year (from 40%, 35%, 30%, 20%, and 20%), a WACC of 9.30% was used and a terminal growth rate of 3.5% was employed to obtain a price of $23.09. A sensitivity analysis was also used to account for changes in WACC and terminal growth rate. P/E (85X), EV/EBITDA (57X), and EV/Sales (17X) multiples were used in the multiples approach. Using a weighting of 10% for the DCF valuation and 30% for each of the multiples, an intrinsic value of $36.89 per share was established, an upside of nearly 30%.

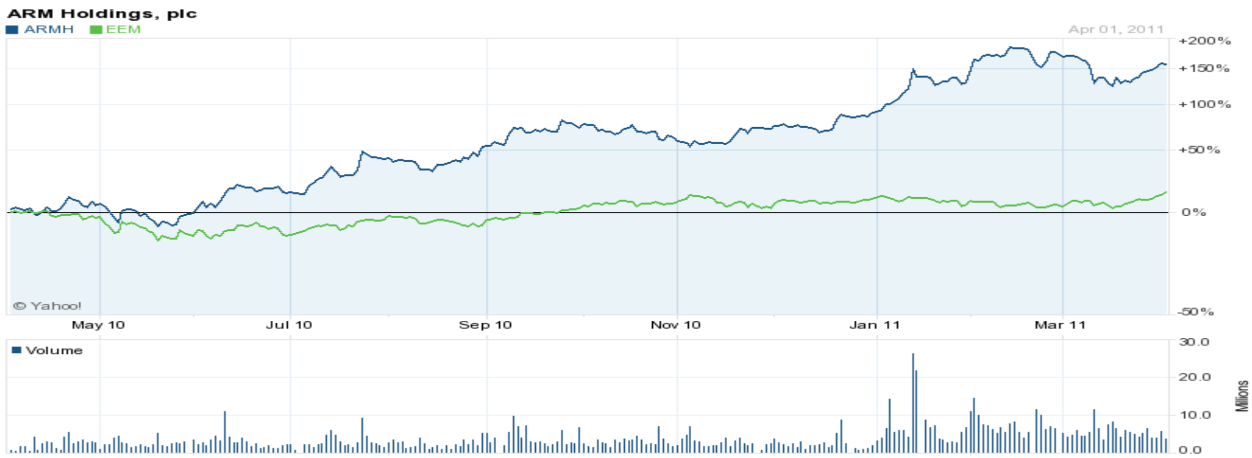
Risks

- **Success Depends on Partners' Ability to Manufacture and Market Products.** ARMH only designs and develops products upon which it collects royalties based the volume and price of the products manufactured and sold by its partners. A partner or licensee's inability to sustain revenue growth – or if they dropped ARMH's architectures – could severely affect the firm's future revenue stream. While ARM may be able to provide superior chip architecture, profitability is largely dependent on the success of their partners' final products' sales. There is also no guarantee that major licensees will utilize ARMH's technologies in their product offerings.
- **Rapid Technology Change.** Rapid advancements in technology may negatively impact ARMH's business if they are unable to keep up with the changes. Because licensees are not obliged to license future generations of ARM technologies – the firm could be adversely affected if one of their major licensees fails to renew their license, pay their royalties, or license future generations of ARM technologies.

Management

ARM is being led by Warren East, CEO, Tim Score, CFO, and Tudor Brown, President. Warren East joined ARM in 1994 and has been CEO since October 2001. Before ARM, he was part of Texas Instruments. Tim Score joined ARM as CFO and director in March 2002. Before ARM, he was the finance director of Rebus Group Limited. He was also Group Finance Director of William Baird plc, Group Controller at LucasVarity plc, and Group Financial Controller at BTR plc. Tudor Brown was one of the founders of ARM. He joined the board in 2001 and became president in 2008. His responsibilities include developing high-level relationships with industry partners and governmental agencies and for regional development. His previous roles include being the Engineering Director and Chief Technology Officer, EVP Global Development and COO. Before ARM, he was at Acom Computers.

Source: Yahoo! Finance



Source: Yahoo! Finance

Ownership

% of Shares Held by All Insider and 5% Owners:	1%
% of Shares Held by Institutional & Mutual Fund Owners:	21.2%

Source: MSN Money

Top 5 Shareholders

Holder	Shares	% Outstanding
FMR LLC	27,127,902	6.05
Fidelity Contrafund Inc.	9,640,800	2.15
Artisan Partners Limited	7,808,400	1.74
Morgan Stanley	5,751,402	1.28
Calamos Advisors	5,434,745	1.21

Source: Yahoo! Finance

WuXi PharmaTech (Cayman) Inc. ADR (WX)
April 8, 2011

Bronson Wetsch — International Healthcare

WuXi PharmaTech (NYSE: WX) is a contract research organization (CRO) with five operating subsidiaries in China and one in the United States. The company consists of two main operating segments: laboratory services that facilitate the outsourced R&D process to pharmaceutical, biotechnology and medical device companies; and manufacturing services. Net revenue in 2010 totaled $334 million; $294 million in laboratory services (88% of net revenue), and $39 million in manufacturing services (12%). In 2010, 77% of revenues came from its China-based services, while 23% were generated from U.S. services as a result of its acquisition of AppTec Laboratory Services in 2008. Established in 2000, WX strengthened its market presence with its IPO in 2007. Although WX's executive offices are domiciled in Shanghai, China; the firm is incorporated in the Cayman Islands.

					FY: Dec	2010A	2011E	2012E
Price (04/01/11):	$16.16		Beta:	1.10				
Price Target:	$19.00		WACC	11.56%	Revenue (K)	$334,061	$339,084	$389,947
52WK H-L:	$14.01-$20.13		M-Term Rev. Gr Rate Est:	12.0%	% Growth	23.72%	21.00%	18.90%
Market Cap (bil):	$1.29		M-Term EPS Gr Rate Est:	19.2%	Gross Margin	38.19%	39.00%	39.00%
Float (mil):	60.27		Debt/Equity:	9.7%	Operating Margin	21.40%	23.53%	24.69%
Short Interest (%):	1.35%		ROA:	19.24%	EPS (Cal)	$1.22	$1.06	$1.32
Avg. Daily Vol (K):	375.66		ROE:	27.09%	FCF/Share	0.5	0.6	1.1
Dividend ($):	N/A				P/E (Cal)	13.3	15.2	12.2
Yield (%):	N/A				EV/EBITDA	13.7	11.0	8.2

Recommendation

The CRO industry is a $22 billion industry worldwide with an estimated CAGR of 8-10% over the next five years. WX has posted an impressive 59% revenue CAGR since 2005. WX holds partnerships with top pharmaceuticals such as Pfizer's in-vitro screening services, Bristol Myers Squibb's small-molecule portfolio, Merck's chemistry-related R&D services, and AstraZeneca's screening services. WX proves attractive to these firms as a means to outsource R&D, since Chinese pharma R&D costs an estimated 40 to 50% less than in the U.S. As a result of rising R&D costs, declining productivity, and upcoming patent expirations, the top pharma companies are expected to generate a meager revenue CAGR of 1% from 2009-2013. This projection represents only a third of the drugs in the pipeline for approval compared to 10 years ago. With CRO costs growing by more than 7% annually, WX provides a wide pipeline of low-cost services to offset this declining trend. Despite appreciation of the RMB and increasing labor costs, WX is poised to counter cost increases with significant revenue growth and improved capacity utilization in large-scale manufacturing. It is recommended that WX be added to AIM International Equity Fund with a price target of $19, offering a potential upside of nearly 19%.

Investment Thesis

- **Quality, Low-Cost Services.** WX offers a broad, integrated platform of drug discovery and development services that range from the target selection of drugs all the way through a new drug's launch. The average annual salary for a scientist at WX is only $40,000, which is a less than half of the cost for an American-based scientist, which on average surpasses $100,000. In addition, WX employs a highly educated taskforce which has more than 70% of scientists possessing Master's degrees or higher. WX proves its low-cost and high quality services as evidenced by its receipt of three prestigious quality awards in 2010: 'Valued Contribution' from AstraZeneca, 'Special Achievement' from Novartis, and 'Preferred Supplier' from Vertex.
- **Proven, Consistent Growth.** WX reaped an incredible 69% revenue CAGR from 2004-2009, and is expected to see a 16% CAGR through 2014. Although the CRO industry is heavily reliant

on the macroeconomic environment and R&D spending by pharma companies, WX still maintained 7% revenue growth through the global recession, and rebounded in 2010 with a 24% growth in net revenue. In 2010, its manufacturing services segment, which provides 12% of net revenue, grew 95%. This segment should continue to see 60% growth in 2011 given its contracts with Vertex Pharmaceuticals and Johnson & Johnson and the expected release of the blockbuster drug for hepatitis C, Telaprevir. WX's recent partnership in testing Bristol Myers Squibb's New Chemical Entity (NCE) division will add incremental revenues of $5 million in 2011; more importantly, the deal signifies a long-term partnership rather than immediate revenue impact. Expiring patents for drugs such as Plavix and Lipitor in 2011 will ultimately lead to an increase in R&D spending by big pharma firms to develop new drugs to make up for stagnant revenues.

- **Value Overshadowed by Merger Termination.** Drug discovery and development services company, Charles River Laboratories, which boasts a 50% market share worldwide, offered $1.6 billion in cash and stock for WX in April of 2010. The deal fell through in a mutual termination agreement in July due to concerns of CRL overpaying for WX. The offer represented a 30% premium for WX, signaling the tremendous growth opportunities the two firms may have had. Since the announcement and termination of the deal, WX is back to its pre-merger stock price level. Nonetheless, WX has proven itself with a 24% increase in revenues in 2010, and consistent capital expenditures of $63, $54, and $50 million from 2008-2010, respectively. The merger termination strayed investors, but the reasons are not justified given promising financials.

Valuation

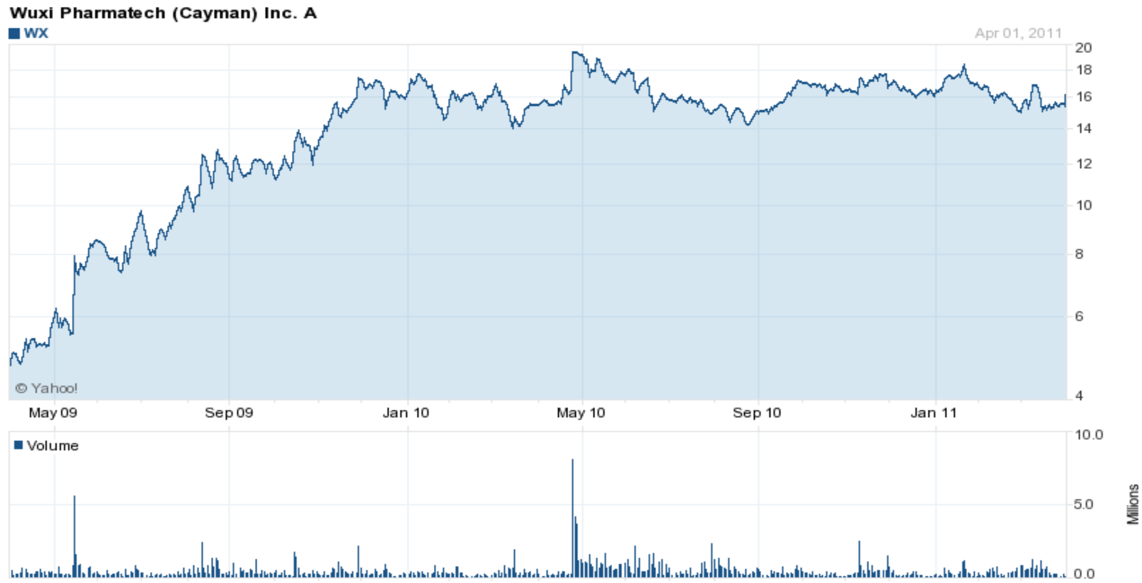
To find the intrinsic value of WX, a ten-year DCF analysis was conducted. Based on a calculated WACC of 11.56% and terminal growth rate of 3.5%, a value of $19.06 was obtained. Using a sensitivity analysis with WACC ranging from 10.56% to 12.56% and terminal growth rate of 2.50% to 4.50% yields a range of values from $16.28 to $23.66. On a relative basis, WX has an EV/EBITDA margin of 13.70, compared to the industry average of 11.0; WX also trades at a P/E of 12.72x, which is significantly lower compared to its peer average of 24.11x, signaling that WX is potentially undervalued. Applying a conservative 12x EV/EBITDA multiple—comparable to the peer average of 11x—to the 2011 EBIDTA derives a price target of $19.69. A final price target of $19—a potential upside of 19%—was obtained by weighting the DCF analysis (75%) and the EV/EBITDA multiple approach (25%). The firm does not pay a dividend.

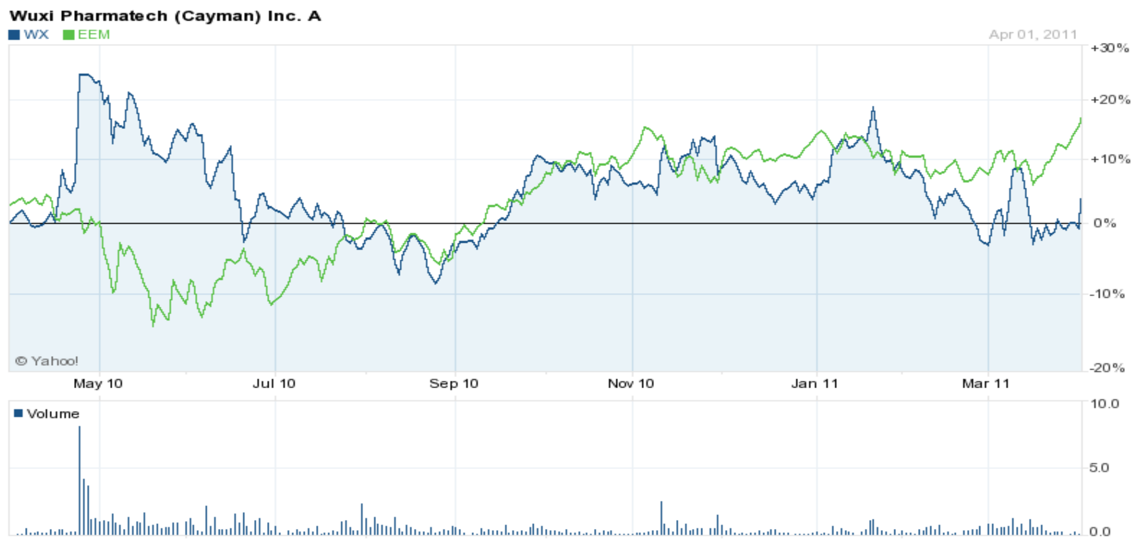
Risks

- **Increases in Labor Costs.** Although management predicts stable margins, the minimum wage in China is set to increase by at least 13% per year over the next five years. China is also considering a plan that increases urban and rural residents' disposable income by at least 7% per year—matching the target GDP growth rate on concerns of inflation. Any significant increase in labor costs will hurt margins and discourage pharmaceutical companies to outsource.
- **Currency Fluctuation.** Most of WX's sales are denominated in U.S. dollars; however, the majority of WX's operating expenses are denominated in RMB, resulting in pressured margins when the RMB appreciates against the dollar. The RMB appreciated 3.59% against the dollar in 2010 after the Chinese government ended its peg exchange rate with the dollar. Expectations indicate a 5% appreciation in the RMB in 2011 and 2012, leading to stressed margins.

Management

Dr. Ge Li has served as the CEO of WX since its inception in 2000. He has earned a master's degree and PhD in organic chemistry from Columbia University. COO and CFO, Edward Hu, received his MBA and PhD in biophysics and biochemistry at Carnegie Mellon University and has worked various senior financial positions at firms such as Biogen Idec and Tanox. Shuhui Chen has served as the Chief Scientific Officer since 2004 and received his PhD in organic chemistry from Yale University; Chen brings significant industry experience from senior research positions at firms such as Ely Lilly, Vion Pharmaceuticals, and Bristol-Myers Squibb.





Ownership

% of Shares Held by All Insider and 5% Owners:	7%
% of Shares Held by Institutional & Mutual Fund Owners:	65%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Outstanding
Fidelity International Limited	7,604,774	10.88
Kylin Management LLC	4,158,292	5.95
Martin Currie Limited	3,909,155	5.59
Emerging Markets Management LLC	2,969,457	4.25
FMR LLC	2,873,815	4.11

Source: Yahoo! Finance

Sensient Technologies Corporation (SXT)
April 8, 2011

Theodore J. Linn — Industrial Materials

Sensient Technologies Corporation (NYSE: SXT) manufactures and markets a variety of colors, flavors, and fragrances to customers who represent some of the world's best-known brands. SXT operates in two segments: the Flavors & Fragrances Group and the Color Group. The Flavors & Fragrances Group produces products that impart a desired taste, texture, aroma, and other characteristics for the food, beverage, pharmaceutical, personal care, and household-products industries. The Flavors & Fragrances Group represented 63% of total revenue, while utilizing 54% of SXT's total assets for the most recent fiscal year. The Color Group produces natural and synthetic colors for use in foods, beverages, pharmaceuticals, cosmetics, industrial application, and digital imaging. The Color Group represented 30% of total revenue for the most recent fiscal year. SXT maintained 589 of its 3,618 (16.3%) employees in research, development, and quality assurance to continually develop and improve products to meet their customers' needs. SXT was founded in 1882 and is headquartered in Milwaukee, Wisconsin while operating 75 locations in 35 nations.

					FY: Mar	2010A	2011E	2012E
Price ($): (4/1/11)	36.43		Beta:	0.97	FY: Mar	2010A	2011E	2012E
Price Target ($):	43.50		WACC (%):	9.12	Revenue (Mil)	1,328	1,392	1,460
52WK H-L ($):	25-37		Mid-Term Rev. Gr Rate Est (%):	4.85	% Growth	10.58%	4.85%	4.85%
Market Cap (mil):	1,821		Mid-Term EPS Gr Rate Est (%):	10.80	Gross Margin	30.75%	30.88%	31.01%
Float (mil):	49.11		Debt/Equity:	0.72	Operating Margin	13.14%	13.51%	13.88%
Short Interest (%):	2.24		ROA (%):	4.02	EPS (Cal)	2.17	2.40	2.66
Avg. Daily Vol (mil):	0.321		ROE (%):	10.7	FCF/Share	$2.00	$2.27	$2.58
Dividend ($):	0.82				P/E (Cal)	16.79	17.41	18.06
Yield (%):	2.22				EV/EBITDA	9.10x	8.57x	8.11x

Recommendation

Fiscal year 2010 was an outstanding year for SXT as the company posted record revenues of $1.33 billion, a 10.9% increase from 2009. SXT's leading-edge products, worldwide research, disciplined leadership, and strong balance sheet are due credit for such gains. Revenues have grown 4.9% annually over the past 5 years, while net income grew at an impressive 12.8% annually, pushing net income to $107 million in 2010. SXT maintained both an operating income growth rate of 7.9% and decrease in interest expense of 13.7% annually. Free cash flows have increased by 13.6% YoY since 2006. Positive outlook for the specialty chemicals industry for the next twelve months and a conservative growth rate in free cash flows of 6.9% provides a favorable valuation. It is recommended that SXT be added to the AIM Equity Fund with a target price of $43.50, which offers a potential upside of nearly 20%. The firm pays a dividend which currently yields 2.22%

Investment Thesis

- **Few Direct Competitors.** Currently SXT has no direct competitor that offers a complete line of products, nor does SXT purchase from a single supplier in all product categories. Competitors are challenged to find offerings that exceed the quality of SXT's natural color and flavor systems either; competitors such as Givaudan, International Flavors & Fragrances, and McCormick & Co. SXT's complete product line serves to attract and retain larger customers. To maintain this advantage, SXT has made capital investments in improvements to manufacturing technologies and facilities worth $55.8 million throughout the most recent fiscal year.
- **Growth in Foreign Markets.** In 2010, more than 60% of SXT's revenues came from sales outside the United States. To continue this trend, SXT recently opened a new flagship facility in Guangzhou, China. This location positions SXT for growth in China with advanced research,

application development, and production capabilities. Management forecasts a 28% growth rate in the Asian Market in 2010.

- **Improving Balance Sheet.** SXT is de-levering to reduce financial risk unrelated to operations, pushing the debt/equity ratio to 0.27. SXT has reduced debt by more than $78 million in 2010, in-turn bringing total long-debt below $325 million for the first time since 1999. SXT has been funding operations with equity even though their pre-tax cost of debt is 3.15% while the cost of equity sits at 10.27%. Recent balance sheet clean-up coupled with the CEO's age are likely to make SXT an attractive acquisition target.

Valuation

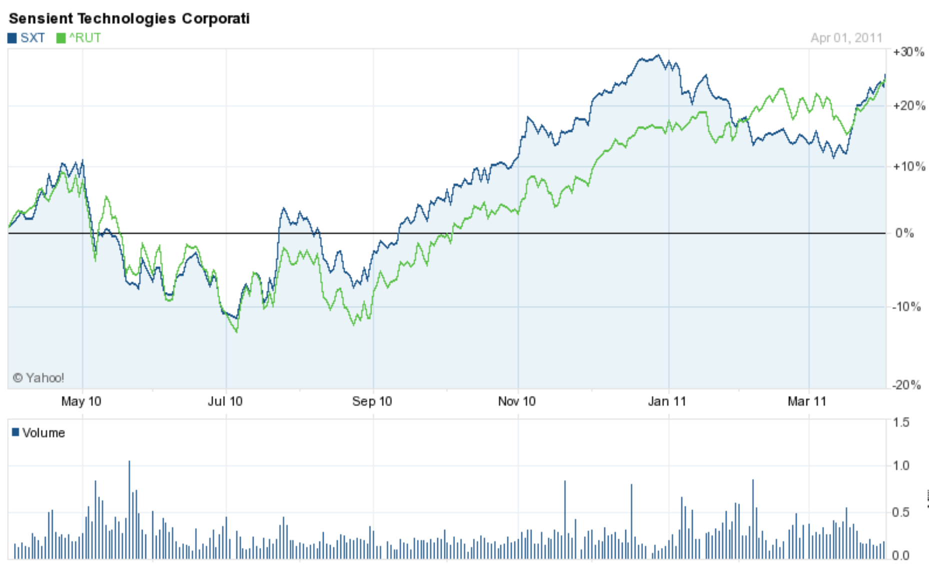
To find the intrinsic value of SXT, a ten-year DCF was conducted utilizing a free cash flow equity model approach. The compound annual growth rates for net income and dividends paid were used to calculate a 1-5 year growth rate of 6.94% and a 6-10 year growth rate of 5.5%. A long-term terminal growth rate of 2.50% was derived from a conservative estimate of GDP growth. A sensitivity analysis produced a price range of $33.85-$56.62 when accounting for variations in WACC, long-term growth rate, and future cash flows. A conservative WACC of 9.12% was used and yielded an intrinsic value of $43.66. Taking these into account, a price target of $43.50 was established offering a nearly 20% upside.

Risks

- **Food Dye Hyperactivity in Children.** A possible link between artificial food dyes and hyperactivity in children possibly threatens SXT’s sales and professional reputation. A ban or warning label would greatly affect the SXT Color Group in so far as it makes seven of the eight dyes critics and consumer groups seek to have banned. Additionally, 59% of the Color Group’s revenue is derived from food and beverage colorings. The U.S. advisory panel voted on March 26, 2011, 8-6 against recommending a warning on the wide range of snacks, cereals, candy, beverages and other foods brightened with artificial colors, but called for more study to determine if the colors worsen hyperactivity in some kids.
- **Diminishing Pricing Power.** Buyer consolidations have begun to produce large, sophisticated customers with increasing buying power who are more capable of resisting price increases. If the larger size or greater buying power of those consolidations result in additional negotiating strength, the prices SXT is able to charge could be negatively affected and profitability could decline.

Management

Kenneth P. Manning, 69, is the Chairman (since 1997) and CEO (since 1996) of Sensient Technologies Corporation. Manning joined Sensient as a Group Vice President in 1987 and has since overseen numerous key strategic moves, such as increasing its presence overseas and its moves into high-performance specialty ingredients for food and beverage systems, cosmetic and pharmaceutical ingredient systems, and specialty chemicals for various applications. Mr. Manning is also a director of Sealed Air Corporation (since 2002) and a former director of Badger Meter, Inc. (from 1996 to 2009), Firstar Corporation (from 1997 to 1999), Firstar Trust Company (from 1992 to 1997) and numerous other public and charitable organizations. Mr. Manning served as an officer on active duty in the U.S. Navy from 1963 to 1967 and retired from the U.S. Naval Reserve in 1995 with the rank of Rear Admiral.



Ownership

% of Shares Held by All Insider and 5% Owners:	6%
% of Shares Held by Institutional & Mutual Fund Owners:	86%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
BlackRock Fund Advisors	4,591,339	9.18
Allianz Global Investors of American L.P.	2,394,100	4.79
The Vanguard Group, Inc.	2,268,758	4.54
Artisan Partners Limited Partnership	2,138,215	4.28
Neuberger Berman LLC	1,915,922	3.83

Source: Bloomberg