

Applied Investment Management (AIM) Program

AIM Class of 2013 Equity Fund Reports Spring 2012

Date: Friday, April 20, 2012 Time: 2:00 pm to 3:30 pm
Road Show Location: Timpani Capital Management

Student Presenter	Company Name	Ticker	Price	Page No.
Taylor Nordmark	ZAGG, Inc.	ZAGG	\$11.41	2
Dan Tallarico	J2 Global, Inc.	JCOM	\$26.00	5
Elizabeth Buckton	ICU Medical, Inc.	ICUI	\$48.80	8
David Maio	Cogent Communications Group Inc.	CCOI	\$18.53	11
Mark McCanna	Great Southern Bancorp	GSBC	\$21.88	14

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

For more information about AIM please contact:

David S. Krause, PhD
Director, Applied Investment Management Program
Marquette University
College of Business Administration, Department of Finance
436 Straz Hall, PO Box 1881
Milwaukee, WI 53201-1881

[mailto: AIM@marquette.edu](mailto:AIM@marquette.edu)

Website: [MarquetteBuz/AIM](#) AIM Blog: [AIM Program Blog](#)
Twitter: [Marquette AIM](#) Facebook: [Marquette AIM](#)

ZAGG, Inc. (ZAGG)

April 20, 2012

Taylor Nordmark

Consumer Discretionary

ZAGG, Inc. designs, manufactures, and distributes branded protective coverings, audio accessories, and power solutions for consumer electronic and hand-held devices under the brand names invisibleSHIELD, ZAGGskins, ZAGGbuds, ZAGGsparq, ZAGGmate. 88% of the company's sales come from the U.S., 6% from Europe and the remaining sales come from Africa and the Middle East. The company's flagship product, the invisibleSHIELD, is made from a protective film covering designed specifically to fit smartphones, tablets, MP3 players, gaming devices, digital cameras and other items. The company distributes its products through direct channels, online (15%) and mall kiosk (6%), and indirect channels (78%) comprised of big box retailers, electronics specialty stores, and resellers. The company also distributes cases, earbuds, and headphones under the iFrogz brand, which was acquired in June 2011. ZAGG, which was founded in March 2005, is headquartered in Salt Lake City, Utah.

Price (\$) (4/13/2012):	\$ 11.41	Beta:	1.05	FY December	2011A	2012E	2013E
Price Target (\$):	\$ 19.00	WACC:	10.24%	Revenue (\$Mil)	179.125	259.73	363.62
52WK H-L (\$):	6.40-17.10	Debt/Equity:	25.00%	% Growth	135.00%	45.00%	40.00%
Market Cap (mil):	\$ 342.70	2011 ROE:	27.48%	Operating Margin (%):	16.21%	17.00%	17.65%
Float (mil):	21.6	2011 ROA:	14.05%	Gross Margin (%):	46%	40%	40%
Short Interest (%):	42%	Mid-term Rev Gr Rate Est (1-2 yrs):	40%	EPS	\$ 0.66	\$ 0.81	\$ 1.18
Avg. Vol (3 month):	1,174,980	LT Rev Growth Rate Est. (3-5 yrs)	15%	EPS % Growth	60%	23%	46%
Sales/Share (mil):	\$5.97	EV/EBITDA	6.16	P/E (Cal)	18.11	9.43	6.2

Recommendation

2011 was a record year for ZAGG as the company achieved an annual sales growth of 135% YoY while keeping margins consistent with their 3-year average to beat company guidance and Street estimated EPS numbers. Q4 revenues increased 130%, with 65% organic growth and the remainder coming from iFrogz contributed \$19.2 million; the two main drivers of the organic growth were the continued strong demand for the invisibleSHIELD for tablets and smartphones and increased demand for the company's newer products, notably the award-winning ZAGGfolio for the iPad 2, which tend to have higher margins. Last quarter was the first really clean quarter ZAGG had reported since 2009 due to the deconsolidation of HzO, a venture capital backed firm, which ZAGG still holds a 47% interest in, and the acquisition of iFrogz. Apple's newest version of the iPad was released in March and sold 3 million units in the first three days. With the strong acceptance of the new iPad, a new version of the iPhone expected to come out some time this summer, and a mobile accessories market expected to double in value by 2015 (ABI Market Research), ZAGG is well positioned to continue its aggressive growth in the next years.

Investment Thesis

- **Growing Accessories Market for Tablets and Mobile Phones.** The flexibility of the patented invisibleSHIELD to be cut to cover nearly any electronic device gives it an advantage going forward. According to Gartner, tablet sales to end users will increase 98% in 2012 to 118.9 million units and will jump to nearly 370 million units in 2016. Global smartphone annual sales are widely expected to cross the billion-unit by 2014, and currently the mobile accessories market has room to grow from its current worth of approximately \$26 billion. Tablets and smartphones are generally higher value products that consumers tend to be more willing to spend money on accessories to protect and

enhance them. Tablets and smartphones come in different shapes and sizes depending on the producer and the model; it is because of this variety that ZAGG is well positioned to increase sales of their highly versatile invisibleSHIELD, which can be cut to cover any design or shape.

- **Increased Penetration into Foreign Markets.** One of management's main goals going forward is establishing a global distribution network. In 2011, ZAGG opened a 30,000 sq. ft. distribution center in Ireland to better serve customers in Europe, Africa, and the Middle East under the ZAGG International subsidiary. The company has stated that it will begin working on establishing distribution centers in other locations, especially in the Asian markets, once they have perfected their model in Ireland. Last year only 12% of sales came from overseas, down from 15% in 2010. With the European distribution center up and running, the company is poised to increase sales overseas.
- **Introduction of New Products and Continued Acceptance of Existing Products.** Aside from the invisibleSHIELD, which has a well-established history and reputation, ZAGG has released several new products that have been well received. ZAGGskins are a variation of the invisibleSHIELD and give consumers the ability to upload their own designs as well as pick from over 5,000 company owned designs to outfit their device. The ZAGGfolio and the ZAGGmate, which are multi-function cases for tablets that include detachable Bluetooth keyboards and stands, have both won design awards from CES and the Macworld Expo. In addition to being award-winning products, the ZAGGfolio and ZAGGmate have higher average sale prices at around \$100; these products offer higher margins than earbuds and protective casings. Continued acceptance of these products will drive growth going into the future.

Valuation

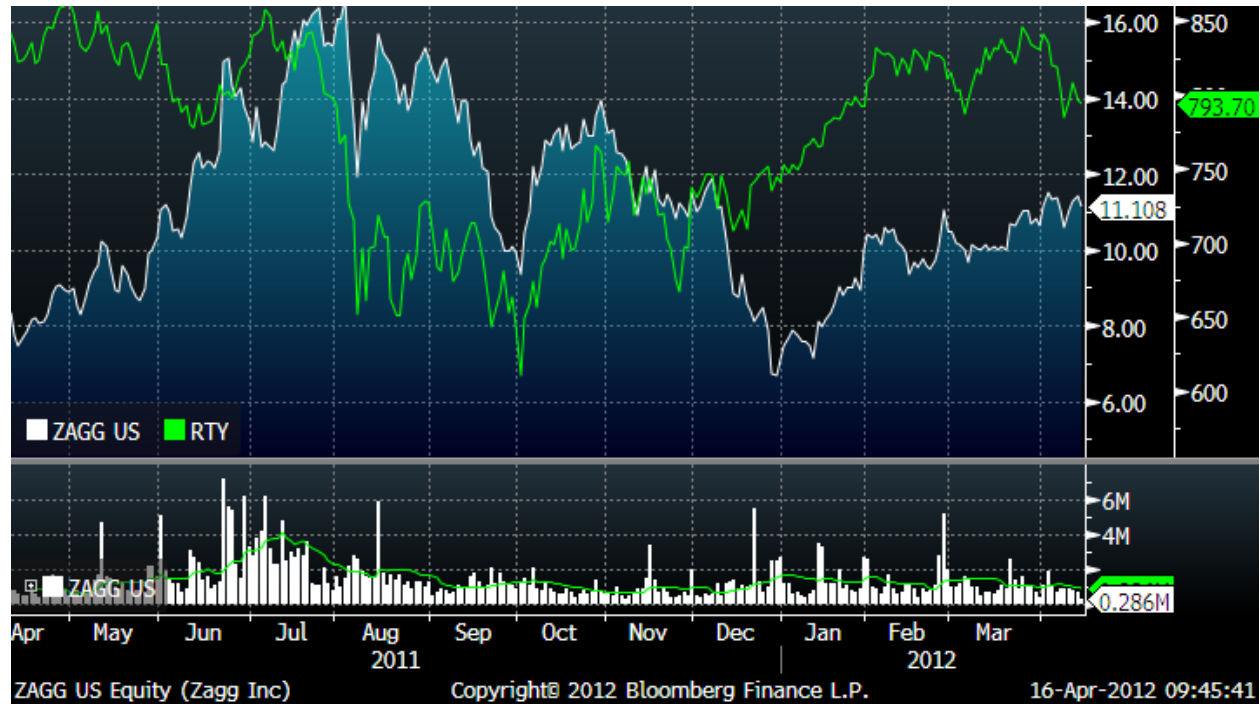
To find the intrinsic value of ZAGG, a five-year DCF using a computed WACC of 10.24% was performed to yield an intrinsic value of \$19.74. Additionally, a consumer electronics industry average P/E multiple of 18x was applied to forward EPS of \$0.85 equaling a value of \$14.58. Finally, a sensitivity analysis was applied with the WACC and terminal growth rate varying 8-12% and 1.5-3.5% respectively; the range of outcomes was \$15.25-36.14. The three approaches were then equally weighted to find an intrinsic value of \$19 offering an upside of 65%.

Risks

- **Term Loan to Finance iFrogz Acquisition.** To facilitate the acquisition of iFrogz, ZAGG entered into a financing agreement with Cerberus Business Finance. The term loan is for \$45 million and matures in July of 2016; currently, there are no scheduled payments on the debt. The loan is secured by all, or substantially all, of the company's assets. If ZAGG is unable to maintain the term loan, it could face a deficiency of short-term cash needs that would hinder the business. The debt could limit flexibility in reacting to changes in the industry and consumer trends.
- **Lack of Barriers to Entry.** The company's ability to maintain its healthy gross margin is subject to pricing competition and their ability to defend their patent protection. With many producers of earbuds and other accessories, maintaining price points could be an issue in the future. ZAGG currently has patents and trademarks on several of its products and designs and has submitted patent applications for several others. Their ability to defend the patents could significantly affect margins.

Management

Robert G. Pedersen II is the chairman and CEO of ZAGG as well as being a co-founder. Utah Business recently named Pedersen CEO of the Year for his work at ZAGG; he has helped turn the company from an unsophisticated backyard workshop operation into what it is today. Randy Hales, the former CEO of privately held furniture manufacturer Mity Enterprises, was brought on as COO in 2011. Hales has twice won Utah Manufacturer of the Year.



Ownership

% of Shares Held by All Insider and 5% Owners:	35%
% of Shares Held by Institutional & Mutual Fund Owners:	56%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
AMERICAN INTERNATIONAL GROUP	3,842,012	12.79
Bank of New York Mellon Corporation	3,041,042	10.12
COLUMBUS CIRCLE INVESTORS	1,359,376	4.53
VANGUARD GROUP	1,011,434	3.37
GRUBER & MCBAIN CAPITAL MANAGEMENT LLC	590,000	1.96

Source: Yahoo! Finance

J2 Global, Inc. (JCOM)

April 20, 2012

Dan Tallarico

Information Technology

J2 Global, Inc is a provider of cloud-based communication and storage messaging services. J2's best known product is eFax. eFax is the world's leading internet fax service for businesses of 10 or more employees and enables users to fax, receive, and store documents over the internet instead of using traditional fax machines. This is done completely digitally with the use of the eFax website and a given phone number. The service requires no hardware or software and also allows customers to sign any fax they send by uploading a picture of their signature. The majority of J2's revenues are derived from fax based services (80%), which they offer to any size business. Besides the online fax service offering, J2 additionally offers virtual voice, hosted email, email marketing, online backup and unified communication services. J2 has customers in over 49 countries on 6 continents and they have offices in 7 countries. They also have over 2 million direct inward-dial numbers (DIDs) (Fax and Voice) which represent the majority of their customer base. J2 is headquartered in Hollywood, California, has 600 employees and went public in 1995.

Price(\$)	26.00	Beta vs RTY	0.74	FY:December	2011A	2012E	2013E
Price Target(\$)	34.97	WACC	9.5%	Revenue(mil)	\$ 330.16	\$352.58	\$ 380.86
52 WK H-L(\$)	32.66-25.24	M-Term Rev. Gr Rate Est:	10%	% Growth	29%	7%	8%
Market Cap(mil)	1,254	M-Term EPS. Gr Rate Est	13%	Gross Margin	82%	82%	82%
Float(mil)	45.6	Debt/Equity	0	Operating Margin	41%	39%	41%
Short Interest	22.48	ROA	19.39	EPS(\$)	\$ 2.47	\$ 2.47	\$ 2.49
Avg. Daily Vol	133,537	ROE	23.17	FCF/Share(\$)	3.13	2.58	3.68
Dividend(\$)	0.20			P/E	10.63	10.24	9.85
Yield(%)	0.77			EV/EBITDA	6.93	5.92	5.68

Recommendation

Over the last year, J2 has seen 29% revenue growth. J2 declared their first quarterly dividend in August of FY11 (\$0.20 per common share). J2 has since declared two additional dividends. In February, the firm announced a 5 million share repurchase program to be completed in FY13. Since 2000, J2 has acquired 38 businesses, including four in FY12. This includes Landslide Technologies, which expands J2's offering into the CRM market. These companies, although small in size, complement and add to J2's services. J2 has consistently had high FCF since FY09. Figures have ranged from \$98 million to over \$140 million in this three year time frame. The company continues to have a low cancel rate at 2.6% of subscribers and high gross and operating margins. Gross margin has not fallen below 82% since FY09 while operating margin has risen from 39% in FY09 to 41% in FY11. J2's closest competitors, EasyLink and Open Text have gross margins of 66% and 73% and operating margins of 16% and 15%, respectively. Management believes operating margins, will eventually rise to the mid-40s. A key reason for this growth has been the successful integration of acquired firms. J2's customer base has also grown as evident when considering key metric DIDs, which has increased from 1.275 million in FY03 to 2 million in FY11. It is recommended that J2 Global, Inc be added to the portfolio at a target price of \$35, offering an upside of 34%

Investment Thesis

- **Expansion of Mobile Apps and Services.** According to a study by IDC, 916 million units of 'smart' connected devices shipped worldwide in 2011. The same study showed that these shipments will exceed 1.1 billion after 2012 and will grow at a 15.4% CAGR through 2016. As people and businesses transition to mobile platforms, clients will need to access information on the go. The firm offers mobile apps for nearly all its services and has begun to offer these in different regions, such as Japan and Europe. J2 plans further mobile expansion and integration. Moreover, J2's online backup service revenue growth is expected to grow between 200%-300% in FY12. J2 is now one of the few companies who can provide this service to multi-national

corporations. This ability was brought about by the acquisition of Offsite Backup Solutions. Another product J2 can expect robust growth from is their recently acquired CRM tool, Landslide. J2 believes their low price for the product, which is about half the price of their competitor's average of \$1000, high quality, and simplicity will be a success with SMBs.

- **Growth in Japan.** Three years ago, the firm entered the Japanese market. Since FY10, J2 has built their customer base in Japan to 10,000 paying subscribers. As a result J2 has increased their city coverage in Japan by 45% moving from 18 cities to 26 in Japan in FY11. J2 believes they can double this 10,000 subscriber base in FY12 as the International Monetary Fund estimates that Japan's economy will grow 1.7 percent in 2012. Additionally, as J2 offers more of its products in Japan, growth will continue. Management plans to double investments and employees in Japan in FY12. Fax solutions will initially be the main revenue driver in the Japanese market.
- **Implementation of Cross Selling.** Beginning in FY10, J2 looked at ways to encourage cross-sells. J2 in FY12 will make an investment of \$1.5 million in their cross-sell and up-sell platforms which have not been pushed in the past. Furthermore, J2 plans to hire additional personal for the purpose of cross selling. J2 will offer more free trials and use new database marketing strategies to appeal to new and existing customers. Also, they sold an additional 14,000 seats of additional services in 2011; 4,000 of which came in Q4 alone. The media value of selling to these customers is approximately a savings \$2.2 million. If J2 can successfully cross sell its additional cloud based services to its 2 million DID customer base at its ARPU of nearly \$13, margins will continue to increase.

Valuation

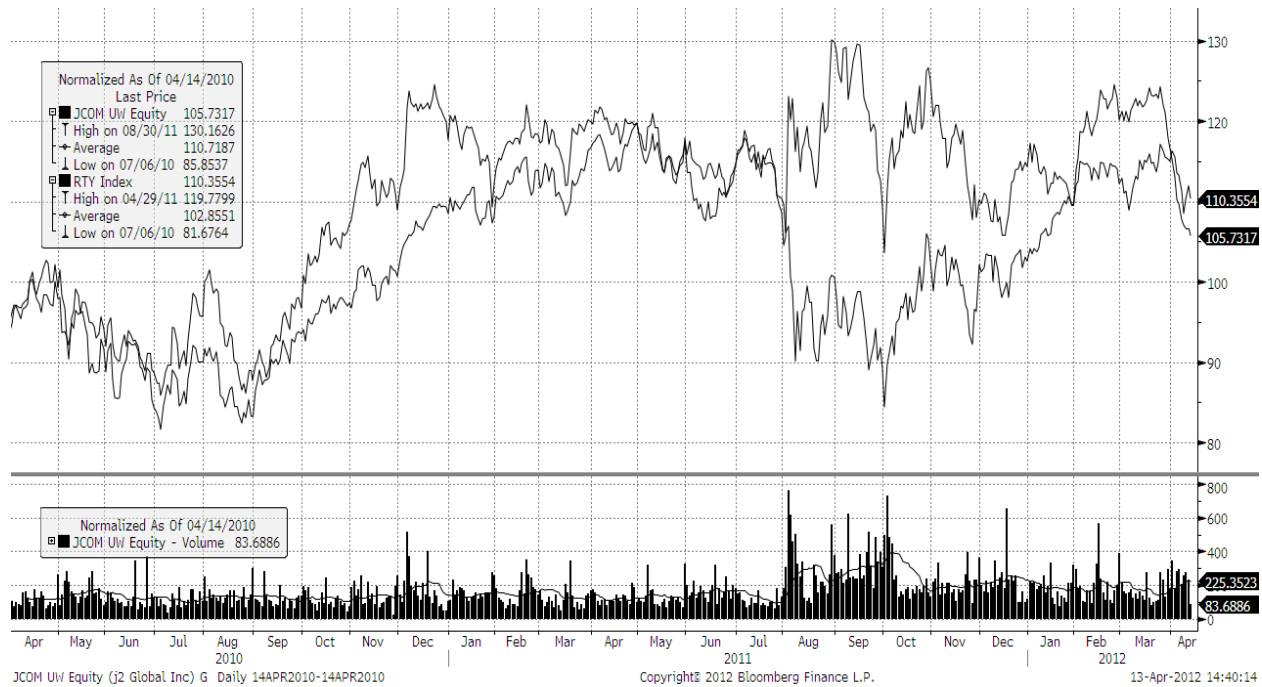
To find the intrinsic value of J2, a five-year DCF was conducted. Sales growth rates were varied year-to-year to account for both DID revenue growth and non-DID revenue growth. A sensitivity analysis also was used to account for variations in WACC and the terminal growth rate. A WACC of 9.5% was used and yielded an intrinsic value of \$40.78. EV/EBITDA and EV/Sales multiples approach were also used. With an EV/EBITDA multiple of 8.5x, this method gives an intrinsic value of \$33.12 and an EV/Sales multiple of 3.25x giving an intrinsic value of \$24.70. Taking these into account and weighting the DCF 50% and multiples each 25%, a price target of \$35 was established representing a 34% upside.

Risks

- **Reliance On Fax and DID Revenue.** Currently, a substantial portion of overall revenue for J2 is fax related (80%). If the demand for fax decreases the financial condition, operating results and cash flows of J2 would be heavily impaired. According to the firm, there are on-going efforts by governmental and non-governmental entities to create a universally accepted method for electronically signing documents. Widespread adoption of "digital signatures" could reduce demand for fax.
- **Integration and Acquisitions.** J2 has integrated and acquired 38 companies since 2000 and is currently looking for more companies to add. Along with so many acquisitions comes business risk. These risks include losing key employees, customers and vendors, and developing and maintaining sufficient controls, policies and procedures. J2 has had a proven track record of successfully integrating businesses of all sizes, including successfully integrating eight acquisitions from FY10 in FY11.

Management

J2 has four officers. Nehemia Zucker, CEO, is the longest tenured employee at j2. He joined the company from Motorola. The President of the company is Scott Turicci. His core responsibilities are dealing with the public, analysts, shareholders, and the media. He also oversees the M&A program. Kathy Griggs serves as CFO, and previously served as the Chief Financial Officer of SonicWall, Inc and Jeff Adelman is the General Counsel and is also responsible for the intellectual property portfolio.



Ownership

% of Shares Held by All Insider and 5% Owners:	3%
% of Shares Held by Institutional & Mutual Fund Owners:	>90%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Fidelity Management & Research	5,988,410	12.42
Delaware Management Company	4,932,079	10.23
Vanguard Group Inc	2,525,841	5.24
William Blair & Company LLC	2,287,423	4.74
Blackrock Fund Advisors	1,987,673	4.12

Source: Bloomberg

ICU Medical, Inc. (ICUI)

April 20, 2012

Elizabeth Buckton

Healthcare

ICU Medical, Inc. (ICUI) is a healthcare biotechnology company that develops, manufactures, and sells disposable medical connection systems for use in intravenous (IV) therapy applications. ICUI internally develops products, which are designed to prevent accidental disconnection of IV lines. ICUI provides products that help prevent bloodstream infections, thus protecting patients and healthcare workers from harmful exposure to drugs or diseases. Their complete product line includes needlefree vascular access devices with closed delivery systems. ICUI derives its revenue from three distinct product lines including: infusion therapy (69%), oncology (7%), and critical care applications (19%). The company employs 2,100 specialized personnel at their Mexico and Slovakia manufacturing facilities. ICUI was founded in 1984 and is headquartered in San Clemente, California. The company's products are used in hospitals and alternate medical sites in more than 50 countries throughout the world and the United States.

Price (\$) (4/13/12)	48.80	Beta:	0.8	FY: December	2011A	2012E	2013E
Price Target (\$):	78.42	WACC	9.0%	Revenue (Mil)	302	323	352
52W K Range (\$):	35.58-50.43	M-Term Rev. Gr Rate Est:	8.0%	% Growth	6.80%	7.00%	9.00%
Market Cap:	698.9M	M-Term EPS Gr Rate Est:	11.3%	Gross Margin	47.11%	47.00%	46.50%
Float	12.5M	Debt/Equity	0.0%	Operating Margin	16.04%	17.62%	17.00%
Short Interest (%):	16.6%	ROA:	13.3%	EPS (Cal)	\$2.36A	\$3.15E	\$3.41E
Avg. Daily Vol:	72.5 K	ROE:	15.1%	FCF/Share	5.16	5.44	5.41
Dividend (\$):	N/A			P/E (Cal)	20.67	15.51	14.30
Yield (%):	N/A			EV/EBITDA	7.90	7.24	7.01

Recommendation

ICUI is well positioned to capitalize on the rising demand for needlefree vascular access devices. Since 2009, they have doubled their free cash flow to \$99.6M, which has been utilized in recent investing activities. Two of the investment activities consist of a share buyback program as well as the creation of new product lines, including the Diana, set to launch in the first half of 2012. ICUI maintains a strong balance sheet with cash equivalents and marketable securities of \$160M with no long-term debt. During Q4, ICUI sold their diabetes infusion set known as Orbit, to VistaMed out of Switzerland. The proceeds of the sale were \$16.5M and net operating gains totaled \$12.6M, which favorably off set its approximate \$3M annual revenue. In spite of its robust value proposition, it was one of their smallest non-core products and ICUI believes that this sale allows them to focus better on their target markets. Recently ICUI has concentrated on expanding their manufacturing capacity, including an expansion of their facilities in Mexico, as well as a new facility in Slovakia. These expansions are going to allow the firm to have the resources in place to meet the demand for oncology products with sales increasing by approximately 40% in 2012. ICUI is positioned in a competitive marketplace, which has resulted in lower unit sales on certain items including a decrease in critical care sales 4% YoY. Still, ICUI is continuing to develop and modify their products to effectively differentiate them from competitors. Because of ICUI's established presence with their product line that will complement the healthcare industry's move toward more health conscious initiatives, it is recommended that ICUI be added to the AIM Equity Fund with a target price of \$63, representing a 30% upside.

Investment Thesis

Domestic Sales to Hospira. In 2009, ICUI purchased Hospira's critical care line for approximately \$35M, and gained commercial responsibility for the products. ICUI's strategic supply distribution relationship with Hospira, a major IV product supplier, is noteworthy because it maintains a 50% market share in the U.S. with the IV market under contract. ICUI has an agreement with Hospira, which allows conditional rights to distribute certain products, including CLAVE, to customers in both the U.S. and foreign countries. Hospira makes up 41% of ICUI's

total revenue and is expected to stay constant through the life of the agreement, which runs through 2018.

Manufacturing Plant in Slovakia. The Slovakia plant is the key component for ICUI's driving growth in Europe, which makes up 30% of ICUI total revenue and demands custom orders. The Slovakian plant will be able to meet these demands through its ability to meet customer orders in a prompt fashion (48-72 hours after order). Since the plant is still new, it is only operating at about 35% capacity, and consequently puts pressure on ICUI's gross margins of about 100 basis points; however, this pressure will be alleviated in the second half of 2012 with an expected increase in production volume.

Accountable Care Organizations (ACOs). ACOs networks of hospitals and doctors that share responsibility for providing patient care. These programs work by making providers jointly accountable for the health of their patients, giving them an incentive to save money by avoiding unnecessary tests and procedures, and to reduce nosocomial infections, also known as hospital-acquired infections. ICUI fits in with these initiatives by offering proven infection-prevention tools to lower costs, and to improve patient outcomes. ICUI's ever-expanding portfolio of infection-prevention products includes their CLAVE and oncology products, which has increased 13.7% and 33%, respectively.

Valuation

Using a 10-year DCF with a computed WACC 9.04% and a LT growth rate of 2.5%, an intrinsic value of \$84.34 was derived. The model grew revenues in the near term at an average of 8% per year and maintained operating margins at around 17%. In addition, a 15x P/E multiple and a 7.2x multiple was applied to the 2013 EPS forecast of \$3.14 and yielded an intrinsic value of \$52.93 and \$24.70 respectively. Weighting the DCF 50%, the P/E 30% and EV/EBITDA 20%, a \$63 price target was established, representing a 30% upside. The firm does not pay a dividend.

Risk Factors

Changes Regarding the Relationship with Hospira. ICUI's ability to maintain and increase their market penetration depends heavily on their arrangement with Hospira and other major buying organizations - of which there is no assurance. Hospira maintained 42% of ICUI's revenue in 2011, and ICUI would be adversely affected if Hospira terminated their agreement, negotiated lower prices, or begins to sell competing products.

Dependence on Manufacturing Facilities in Mexico and Slovakia. This dependence could be adversely affected by any economic, social or political disturbances in either of these countries. Since ICUI depends on the ability to quickly move goods across borders, any disruption to this flow would affect the business. Specifically, political and social instability in Mexico has raised personnel safety concerns. Consequently, production could shift to the US, thereby resulting in higher costs and inefficiencies.

Unfavorable Economic Conditions. Disruptions to financial markets and increasing macro-economic challenges can pose as a threat to the company. If job losses and subsequent loss of health insurance causes individuals to postpone treatment, the resulting decreased hospital use could affect the demand for ICUI products. Additionally, if customers' or suppliers' financial performance deteriorates, inability to pay for products may adversely affect earnings and cash flow.

Management

Dr. George Lopez has served as Chairman and CEO since 1989. Ms. Alison Burcar, the niece of Dr. Lopez, has served as VP of Product Development since 2009 and has held various positions since 1998. Mr. Scott Lamb has served as CFO since 2008. Mr. Riggs has served as VP of Operations since 2002, and has worked within the company since 1998.



Ownership

% of Shares Held by All Insider and 5% Owners:	11.47%
% of Shares Held by Institutional & Mutual Fund Owners:	83.75%

Source: Bloomberg

Top 5 Shareholders

<u>Holder</u>	<u>Shares</u>	<u>% Out</u>
George Lopez	1,520,762	10.80%
River Road Asset Management, LLC	1,491,809	10.59%
Wellington Management Co., LLC	1,256,978	8.99%
Ameriprise Financial Inc.	995,249	7.06%
Vanguard Group Inc.	659,164	4.68%

Source: Bloomberg

Cogent Communications Group Inc. (CCOI)

April 20, 2012

David Maio

Telecommunication Services

Cogent Communications Group Inc. (NASDAQ: CCOI) is a facilities-based provider of Internet access and Internet Protocol (IP) communications services. The company's services are used mainly in metropolitan areas by small to medium businesses, communication service providers, and bandwidth-intensive organizations in North America, Europe, and most recently Japan. The company offers its on-net services, which feature high speed internet access and IP connectivity, in over 175 metropolitan markets which reaches 1,740 on-net buildings (84% U.S., 16% Europe). CCOI's on-net services are used by net-centric and corporate clients directly connected to their network which accounted for 76% of their 2011 revenues. The company also offers off-net services using service lines obtained from other carriers, accounting for 23% of 2011 revenues. CCOI also owns and operates 43 data centers in the U.S. and Europe that allow customers to co-locate their equipment and access its network. The company was founded in 1999 and is headquartered in Washington, D.C with 623 employees.

Price (\$): (04/13/12)	\$18.53	Beta:	1.16	FY: Jan	2011A	2012E	2013E
Price Target (\$):	\$27.00	WACC:	10.20%	Revenue (mil):	305.50	326.89	369.38
52WK H-L (\$):	20.24-12.23	M-Term Rev. Gr Rate Est:	9.23%	% Growth	15.97%	7.00%	13.00%
Market Cap (mil):	850.9	M-Term EPS Gr Rate Est:	42.89%	Gross Margin	56.74%	55.53%	56.71%
Float (mil):	42.8	Debt/Equity:	235.55%	Operating Margin	11.95%	11.86%	16.39%
Short Interest (%):	6.49%	ROA:	1.55%	EPS (Cal)	\$0.17	\$0.04	\$0.31
Avg. Daily Vol:	683,786	ROE:	4.78%	FCF/Share	\$0.66	\$0.75	\$1.18
Dividend (\$):	\$0.00			P/E (Cal)	107.35	436.03	63.01
Yield (%):	0.00%			EV/EBITDA	9.6x	9.7x	7.5x

Recommendation

As bandwidth usage by households has soared by 40-50% annually in the US since 2007, CCOI has positioned itself as a key player and likely beneficiary of the continued growth. Bandwidth usage is actually 100 times what it was in 2002 and this trend looks to continue without an end in sight as more quantity as well as better quality video is being consumed on the internet. CCOI has positioned itself in a strong position within the industry, already owning 10% of the net-centric revenue as it relates to IP transit services. It is likely that the firm will increase its market share in the coming years from 10% up to 30%. CCOI created its IP data network independent of the networks owned by RBOCs (Regional Bell Operating Company) which has given the company the ability to reduce the cost of high-quality internet. CCOI has used this advantage in turn to offer bandwidth at the lowest price to customers in the industry. CCOI is only using about 13% of their total network capacity which means they will be able to add customers on their existing footprint at extremely high profit margins. CCOI has strong growth potential and is recommended as an addition to the AIM equity fund at a target price of \$27 – a 45% upside.

Investment Thesis

- Explosion of Bandwidth Usage:** Within CCOI's on-net services, the net-centric customers offer immense growth potential. Net-centric customers are those who are bandwidth-intensive, including commercial content providers. Households have almost doubled their use of bandwidth in the past year, mostly due to the increased demand for video and movies on the internet. This theme is very likely to continue into the future and since CCOI charges its net-centric clients on a per-megabit basis as opposed to a per-connection basis, the more megabits households consume, the more CCOI gets paid. In addition, CCOI only has 10% of the global net-centric revenue pie so there is extreme growth potential in customers. CCOI has differentiated itself from its competitors by charging substantially lower prices per-megabit than its competition and should benefit as video consumption over the internet continues to increase.

- **Strategic Network Design:** A strong management team has been able to strategically build a network that operates on a single protocol. This design has given CCOI the benefit of avoiding many of the costs their competitors incur in provisioning and monitoring multiple protocols giving the luxury of some pricing flexibility. The company's tactical on-net location decisions in multi-tenant buildings in major cities offers low churn customers in close proximity to each other, maximizing revenue and increasing margins. In addition, their network is independent and their on-net service does not rely on any third party provider, leaving CCOI with more control of their service, quality, and pricing.
- **Increasing Margins:** Capital expenditures decreased by 13% last year and management has stated they will continue to decrease capital expenses by about 10% per year going into the foreseeable future as they believe they have developed a strong network and do not need to be as aggressive in network expansion. Management has also stated the company is currently only using 13% of their network capacity and adding customers to the existing network is a main focus in the coming years. On-net sales to customers carry 100% direct incremental gross profit margins meaning there is definite potential for margin expansion.

Valuation

Using a 5-year DCF with a computed WACC of 10.2% and a terminal growth rate of 3.5%, an intrinsic value of \$33 was obtained for CCOI. Using a sensitivity analysis that adjusts for both long term growth rate (2.5%-4.5%) and WACC (9%-11%) generates a price range of \$27-\$47. Additionally, a weighted average of historical and peer EV/EBITDA multiple of 10.2x was applied to estimated 2012 earnings to yield an intrinsic value of \$22. Applying an equal weighting to the DCF and EV/EBITDA valuation methods provides a price target of \$27. With the stock currently trading at \$18.53, the price target would yield a 45% return. CCOI does not currently pay a dividend but management has stated there is a possibility the company would begin paying a regular dividend within the next year.

Risks

- **Shutdown of Megaupload:** In January, CCOI's largest customer, Megaupload, was shut down for copyright infringement by the government. Megaupload, a content sharing website, was ranked 13th in global internet traffic during 2011 and accounted for 5.5% of CCOI's 2011 revenues. While the firm has no legal liability in the case, Q1 numbers are expected to be down and the company will have to add customers to make up for the loss in revenue going forward.
- **Inconsistent Cash Flows:** Though the company is currently generating positive cash flows, past year's cash flows have been inconsistent and sometimes negative. CCOI has room on their networks to add additional customers but if they are unable to do so or retain current customers, cash flow could turn negative. The company has limited funds and if they do not remain cash flow positive or need capital in order to keep up with technology to stay competitive they may need to raise additional capital.
- **Intense Competition:** CCOI is in a market that has fierce competition which features internet service providers and facilities-based network operators that often have greater financial resources, established brand names, a larger current customer base, and more diverse service offerings. Intense competition between established and new companies has caused high-speed internet prices and margins to decrease. In addition, new technology from another company could cause CCOI's services to be less valuable.

Management

Dave Schaeffer, 54 years old, has served as Chairman and CEO of CCOI since its inception in August of 1999. Previous to CCOI, Schaeffer successfully founded and operated six other businesses. Schaeffer has proven to be a strategic leader, effectively acquiring 13 companies during his time with CCOI and building a strong management team around him committed to success.



Source: Bloomberg

Ownership

% of Shares Held by All Insider and 5% Owners:	7%
% of Shares Held by Institutional & Mutual Fund Owners:	88%

Source: Bloomberg

Top 5 Shareholders

<u>Holder</u>	<u>Shares</u>	<u>% Out</u>
Frontier Capital Management	3,991,644	8.69
Peninsula Capital Advisors	3,800,000	8.28
Dave Schaeffer	2,752,471	5.99
Columbia Wagner Asset Management	2,547,000	5.55
Vanguard Group Inc.	2,437,447	5.31

Source: Bloomberg

Great Southern Bancorp (GSBC)

April 20, 2012

Mark McCanna

Financial Institutions

Great Southern Bancorp (NASDAQ: GSBC) is a bank holding company of Great Southern Bank, which is a regional bank headquartered in Springfield Missouri. The bank's assets increased 42% from \$2.66B in 2008 to \$3.8B in 2011. In addition to normal expansion, the asset increase resulted from several FDIC-assisted acquisitions of smaller and weaker regional banks. The acquisitions expanded GSBC's market area from 39 banking centers in Missouri to 104 banking centers, leaving the bank with footprints in Missouri, Kansas, Arkansas, Nebraska, and Iowa. The bank's principal operation is the origination of residential real estate loans - and while it sells most of the long term fixed-rate residential real estate mortgages on the secondary markets, it retains in its portfolio most of the adjustable-rate mortgage loans. The average yield on loans in GSBC's portfolio was 8.53% in 2011. About 80% of the bank's loan portfolio is real estate loans, while the remaining 20% is consumer loans. The bank was chartered in 1923 and has 960 full time employees.

Price(\$): (4/13/12)	21.88	Beta:	0.99	FY: March	2011A	2012E	2013E
Price Target (\$):	27.92	WACC	5.1	Revenue (Mil)	196.61	212.3388	227.20
52 WK H-L (\$):	25.18 - 15.01	M-Term Rev. Gr Rate Est:	6.44%	% Growth	8.00%	7.00%	6.00%
Market Cap (mil):	295.29	M-Term EPS Gr Rate Est:	15.40%	Net Interest Margin	5.17%	5.81%	5.79%
Float (mil):	13.5	Financial Leverage	13.99	Pretax Margin	18.20%	29.26%	29.26%
Short Interest (%):	6.02%	ROA:	0.73	EPS (Cal)	2.24	3.23	3.45
Avg. Daily Vol (mil):	0.223	ROE:	10.21	P/E (Cal)	7.40	8.65	8.95
Dividend (\$):	0.72	Tier 1 Capital Ratio	14.8	BVPS	27.27	30.73	34.32
Yield (%):	3.17%	Credit Provisions/Revenue (%)	17.97%	P/B	1.10	0.91	0.90

Recommendation

Great Southern Bancorp had a \$15.5M loss in the first quarter of 2008 as a result of the financial crisis, which was largely due to 82% of the bank's portfolio being collateralized by real estate prior to the crisis. The bank's 2008 loss was relatively smaller than its peers and they emerged from the financial crisis with a respectable 10.12% Tier 1 Capital Ratio – which they have subsequently increased this to 14.8%, which is strong enough for the FDIC to allow them to acquire troubled regional banks. GSBC's revenue growth has been consistently positive the past three years with a CAGR of over 8%. While these acquisitions are partially responsible for their impressive growth, the bank's overall organic growth rate has been strong. For instance, 2010 was devoid of acquisitions and the bank's revenue increased 11% from the previous year. They have more than doubled the amount of banking centers they control (from 39 to 104) during the past three years by using a strong balance sheet to position itself over weaker rivals. GSBC has a Net Interest Margin of over 5%; while the average for banks of comparable size is 3.89%. The firm also has a price to book ratio of 1.1x, which is 8% lower than comparable banks. These two factors result in a projected BVPS CAGR of 12%, and judging from the relatively low P/B ratio, the growth comes at a reasonable price. With growth prospects strong and the possibility of the bank being fundamentally undervalued, combined with a target price of \$27.92, results in GSBC offering an upside of 28%. Additionally the stock offers a 3.17% dividend yield.

Investment Thesis

- Mortgage Rates.** Great Southern Bancorp's loan portfolio strategy is well positioned in the low interest rate environment. GSBC sells fixed rate loans maturities over 5 years on the secondary market to investors. Mortgage rates have recently hit a multi-year low, and since GSBC keeps the adjustable-rate loans it originates, the mortgages it owns should generate increased interest income in the future when rates rise. Economic data by the Federal Reserve shows that in the markets that GSBC serves, there has been a slight turnaround in the real estate markets (vacancy rates in 2 of GSBC's 3 main market areas are below the national average and commercial real

estate sales increased in these markets). The unemployment rate is lower than the national averages in all of GSBC's market area, with the exception of Branson, a tourism hub whose fortunes will improve as disposable incomes increase. Overall lending activity has improved and growing employment should lead to improved housing and loan demand.

- **Future Acquisitions.** A strong Tier 1 Capital Ratio and previous favorable experiences with the FDIC on acquisitions of struggling banks puts GSBC in a dominant position to acquire more banks if they become available. The previous banks that GSBC acquired were in weak financial positions, but due to GSBC's capitalization and the FDIC's commitment to reimburse GSBC for 80% of the losses resulting from acquisition, the acquisitions' negative impact has been minimized, while the increased geographic footprint will assist future growth. The bank now has a presence in 5 states, up from 1, and more acquisitions with similar agreements by the FDIC would be a large driver for growth. The most recent three acquisitions resulted in one-time gains and no recorded goodwill.

Valuation

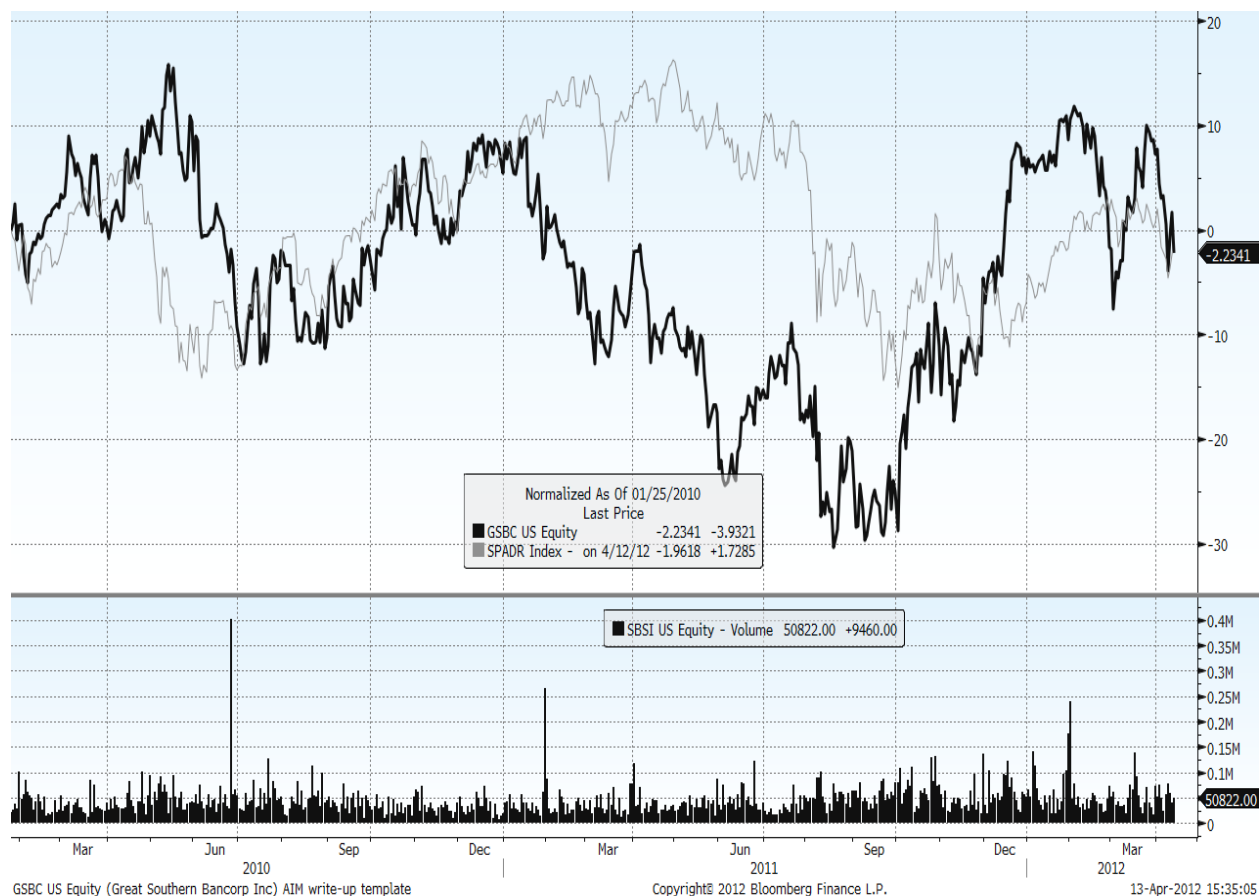
A discount dividend model and a price to book ratio approach were used to find the intrinsic value of GSBC. The WACC for the company is 5.1%. The discounted dividend model used the most recent and historically relevant yearly dividend payouts of \$0.72. The intrinsic value of this approach was weighted only 30% in the total valuation, the remaining 70% was allocated to the price to book multiple, which used the ten banks with the closest market cap to GSBC. The multiple yielded an intrinsic value of \$33.83. Blended together, GSBC has an estimated intrinsic value of \$27.92; an upside of nearly 30%.

Risks

- **Regulation.** After the financial crisis, Congress passed the Dodd-Frank Act, and combined with the new international regulations referred to as Basel III, regulation poses new cost risks to banks throughout the country. The legal and compliance costs of the new regulation are hard to estimate because of the uncertainty behind the meaning of the laws; furthermore, many of the specific rules in the law have yet to be written. The creation of a new agency, the Bureau of Consumer Financial Protection is one of the implications of the regulation with which banks are particularly concerned due to the large oversight and supervision requirements it will have over day to day operations.
- **Economic Considerations.** All banks require liquidity to function correctly, if the European debt crisis intensifies a liquidity freeze could seriously disrupt operations and cause the bank to be insolvent. Unemployment is lower in most of the market areas that GSBC serves, but as part of the rust belt, the areas are dependent on manufacturing to keep the economy going. A significant downturn could depress housing prices, increase underwater mortgages, and lower interest income on the adjustable mortgages that GSBC holds in its portfolio.

Management

The current President and CEO of Great Southern Bancorp joined the company in 1991, and is the son and brother of two other Board Directors at GSBC. The previous CEO, and current Chairmen of the Board, was his father William Turner, who has been Chairman since 1974. The average tenure of the executives is more than twice that of the bank's competitors, but the board of the bank controls 56% more shares than the average board would. The Turner family exercises significant control over the bank, but there is no evidence to show that this control has been put to use in a way that is detrimental to public investors. There seems to be little correlation with insider transactions and price movements of the stock, meaning that the Turner family is significantly invested in the bank.



Ownership

% of Shares Held by All Insiders and 5% Owners:	12.32%
% of Shares Held by Institutional and Mutual Fund Owners:	26.08%

Top 5 Shareholders

Holder	Shares	% Out
Mahoney, Robert M	1,116,240	8.27%
Steinert Jr, Earl A	933,000	6.91%
Vanguard Group	518,124	3.84%
Dimensional Fund Advisors	405,014	3.00%
Blackrock Institutional Trust	389,521	2.89%