Applied Investment Management (AIM) Program

AIM Class of 2019 Equity Fund Reports
Spring 2018

Date**: Friday, April 6th | **Time:** See Schedule Below | **Location: AIM Research Room 488

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

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NexPoint Residential Trust (NXRT)
April 6, 2018

Gregory Anderson — Real Estate

NexPoint Residential Trust (NYSE: NXRT) is an externally controlled equity real estate investment trust (REIT) specializing in the acquisition, asset management, and disposition of Class A and Class B multifamily assets. NexPoint primarily operates and controls assets in the Southwest (particularly Texas), as well as other assets in select cities across the country. NXRT caters to low-to median-income renters by providing lifestyle amenities and upgraded living spaces at an affordable rate. NexPoint Residential Trust was founded on September 19, 2014 and is headquartered in Dallas, Texas.

Price ($):	25.59
Price Target ($):	29.00
52WK H-L ($):	22.84 - 29.40
Market Cap (mil):	523.1
Insider Holdings	19%
Avg. Daily Vol (mil):	0.77
Yield (%):	4
ESG Rating	N/A

Beta:	0.78
M-Term Rev. Gr Rate Est:	5%
M-Term EPS Gr Rate Est:	3.2%
Financial Leverage	4.4
WACC	5.18%
ROA (%):	2.7
ROE (%):	5.1
FFO/Total Debt	16.09%
Debt/Equity	63.4

FY: Dec	12/31/2015	12/31/2016	12/31/2017	12/31/2018
Revenues	117.66	132.92	144.23	150.94
% Growth	172.67%	12.97%	8.51%	4.65%
Net Income	-10.99	25.96	56.36	23.75
% Growth	-37.31%	336.17%	117.09%	-57.86%
EPS (Cal)	-$0.51	$1.03	$2.49	$1.12
% Growth	-46.5%	301.96%	141.75%	-55.00%
FFO/Share	$1.40	$1.68	$1.27	$2.10
P/FFO	0.44	0.63	1.04	0.56

Source: FactSet

Recommendation

NexPoint Residential Trust derives all of its revenues in the United States through the leasing of multifamily spaces in large cities to low-to median income-renters. NexPoint currently owns 33 properties (11,775 units), primarily in the Southwest (Arizona and Texas), along with other assets located in Florida (Tampa, Orlando, and West Palm Beach), Georgia (Atlanta), Tennessee (Nashville), North Carolina (Charlotte), Virginia, and the Washington D.C. Metro area. NexPoint utilizes a 'value-add' business model, or the addition of value to preexisting assets, in cities with attractive job growth, high cost of ownership in Class A/B multifamily rentals, and elevated replacement costs for multifamily real estate properties. NexPoint adds value through the update of older assets and the implementation of 'lifestyle amenities' found primarily in new multifamily assets. In 2017 alone, NXRT completed interior renovations of 4,885 units, resulting in a 10.5% rent premium over the prior lease period. Additionally, by updating the interior and exterior of selected properties in 2017, increases in occupancy (.4% increase), average effective rent (4.4% increase), rental income (6.3% increase), and other income (11.6% increase) all occurred, further resulting in a 10.5%, or an average of $90 per unit, increase in same store growth. Last year also marked a period of asset recycling and the disposal of nine properties (2,538 units in total), resulting on a gain from proceeds of $78.4 million. NXRT also acquired three assets (1,348 units) in Houston, Dallas, and Atlanta. Collectively, the dispositions and acquisitions are expected to fetch an average rent of $1,292 and a 19.6% ROI by 2019. Historically, NXRT has maintained an occupancy rate of 93.8% across its whole portfolio, with an average rent of $932 (range between $771 in Phoenix and $1,133 in Houston). Based on solid management and attractive assets, it is recommended that NexPoint Residential Trust be placed into the AIM Equity Fund with an $39.57 intrinsic price, representing a 54.6% upside.

Investment Thesis

- **All in the Value-Add**. Real estate is a highly levered industry, with the ability to increase property value through property improvements. By buying low and repositioning properties, NXRT is able to provide amenities available in new developments for low to median income renters. Doing so effectively increases property value, rental and occupancy rates, and allows for a higher resale value if a disposition is necessary to free up funds. Value-addition simultaneously combats market saturation of newly developed properties through the acquisition of preexisting assets, effectively lessening competition risk.

- **Aim for the Middle**. NexPoint Residential Trust targets the general workforce (low-to median-income renters) in large cities with employment growth rates between 1%-3.5%. Operating in cities with high metropolitan statistical areas (MSAs) provides greater exposure to a large pool of renters. This is evident in the expansion into Nashville, which has had an average annual employment growth rate of 3%. Doing this fills a void in the market by offering amenity-rich, affordable housing to the larger income class, compared to development firms who are building new assets geared towards charging higher rents at a premium. Targeting this demographic allows NXRT to bypass high construction costs and mitigate market saturation of new developments.
- **Position to Expand**. In addition to the strong presence in the Southwest, NexPoint has indicated interest in capitalizing on their expansion on the east coast. With Atlanta, Nashville, Charlotte, and Orlando growing at an average annual growth rate of 2.4%, NXRT has the opportunity to continue to address large pools of renters. The indication to expand is proven by same-store results, with average rent across all properties in the portfolio increasing from \$846 to \$893 between 4Q'16 and 4Q'17. Additionally, with the disposition of nine properties in 2017 (\$78.4 million gain), NXRT received adequate capital to fund future acquisitions in these markets.

Valuation

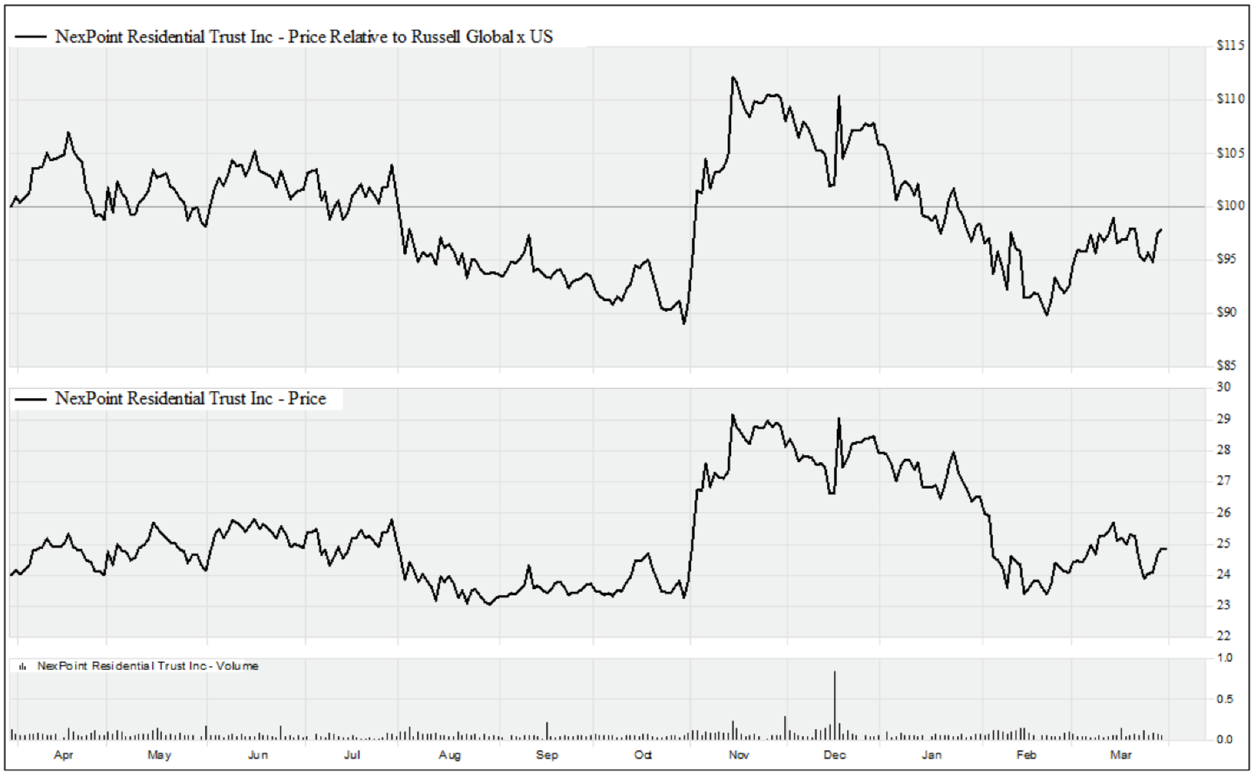
In order to reach a final intrinsic value, a Price to Funds from Operations (P/FFO) model, a Dividend Discount Model (DDM), and a Net Asset Value (NAV) model were performed. The P/FFO model was used because its ability to incorporate property sales, in addition to net income, depreciation, and amortization. Once a historical and peer average value were calculated, a 50/50 weighting was used. A six-year period (2017-2022) was utilized. The P/FFO model resulted with a \$31.84 intrinsic value. The DDM model utilized an 2.5%-15.8% dividend growth rate between 2018 and 2027 and utilized a 5.2% WACC. An intrinsic value of \$51.66 resulted with a 107.98% upside. The NAV model takes into account the assets owned and estimates the value based upon balance sheet figures and cap rates. An intrinsic value of \$35.32 resulted with a 27.5% discount. From there, both a bull and bear case were performed, resulting in a 32% and 16.2% discount. Once the intrinsic values of each model were calculated, a 33/33/33 weighting was utilized, resulting in a \$39.57 intrinsic value with a 54.6% upside. The firm's dividend yields 3.95%.

Risks

- **Market Saturation**. NexPoint's presence in some of the largest and highest growing real estate markets in the country could lead to an overcrowding and concentration of multifamily properties. While NXRT's value-add strategy combats this, there is always the potential that developments from competitors could have a negative impact on NXRT's future value-add, acquisition strategy.
- **Inflating Costs**. The value-add strategy relies heavily on joint-venture partners and the prices of materials. These inflating costs for materials and JV partners could have an impact on net income due to higher expenses, and furthermore, effect investor returns.
- **Cap Rate Expansion**. The rise of interest rates is not unique to NXRT; REITs are greatly affected by interest rates. Hikes in interest rates over time makes borrowing more expensive and places pressure on the dividend yield. As a result, cap rates (the rate of return for real estate assets) could increase, decreasing the overall property value of their assets. If cap rates were to rise, NXRT would miss out on additional revenues if they decided to dispose of an asset.

Management

James Dondero is the Chairman, President, and CEO and continues to work under NexPoint Real Estate Advisors, the external advisor of NXRT, as well as serves as an affiliate of Highland Capital Management. Brian Mitts serves as the CFO, Treasurer, Director, and EVP of Finance, Matthew McGraner serves as the CFO and EVP, and Scott Ellington serves as the secretary and general counsel; each have been with NXRT since its spinoff from NexPoint Real Estate Advisors in 2015.



Source: FactSet

Peer Fundamentals

Name	Ticker	Revenue	ROIC	ROE	Debt/Equity (ntm)	Est. 5 YR NI Growth
NexPoint Residential Trust	NXRT	144.2	5.4%	22.7%	331.1%	N/A
Preferred Apartments	APTS	290.7	1.0%	2.6%	144.5%	N/A
Bluerock Residential	BRG	123.2	-1.1%	-3%	173.8%	N/A
Clipper Realty	CLPR	102.2	-0.04%	-4.6%	1126.6%	N/A
Independence Realty	IRT	160.9	2.3%	5.3%	127.7%	N/A
Investors R.E. Trust	IRET	205.7	-1.2%	-2.9%	135.6%	N/A
Peer Averages		**1,927.5**	**0.19%**	**6.92**	**341.64%**	**N/A**

Source: FactSet

Peer Valuation

Name	Ticker	Market Cap (mil)	P/FFO	P/E	EV/EBITDA	P/B
NexPoint Residential Trust	NXRT	523.1	13.51x	11.22	19.9	2.46
Preferred Apartments	APTS	555.7	13.8x	N/A	11.1	0.61
Bluerock Residential	BRG	206.8	N/A	N/A	17	1.59
Clipper Realty	CLPR	150.9	26.3x	N/A	19.6	2.38
Independence Realty	IRT	780	14x	24.61	16.1	1.37
Investors R.E. Trust	IRET	623.1	13.7x	18.91	15.6	1.59
		17,947	18.7x	21.8	15.88	1.51

Source: FactSet

AMN Healthcare Services, Inc. (AMN)
April 6, 2018

Jack Senft — Domestic Healthcare

AMN Healthcare Services, Inc. (NYSE: AMN) provides staffing and recruitment services, workforce solutions, executive leadership, and advisory services in the United States. AMN operates out of 20 states and has the following segments: Nurse and Allied Solutions (62% of revenue), Locum Tenens Solutions (22%), and Physician Permanent Placement Services (16%). Through these three segments, AMN can provide their customers with a variety of clinical workforce solutions, which is specifically through the Nurse and Allied Solutions segment. The Locum Tenens Solutions offers managed services programs, vendor management solutions, and temporary staffing. AMN Healthcare Services, Inc. was founded in 1997 and is headquartered in San Diego, CA.

Price ($):	56.75
Price Target ($):	68.21
52WK H-L ($):	34.70-60.80
Market Cap (mil):	2,714.00
Insider Holdings	14.17%
Avg. Daily Vol (mil):	473.8
Yield (%):	0.0
ESG Rating	AA

Beta:	0.71
M-Term Rev. Gr Rate Est:	5.9%
M-Term EPS Gr Rate Est:	10.7%
Debt/Equity:	49.6
Debt/EBITDA (ttm):	1.31
WACC	7.38%
ROA (%):	10.34
ROE (%):	26.20
ROIC (%):	67.44

FY: Dec	2017A	2018E	2019E	2020E
Revenue (Mil)	1,988,454	2,109,144	2,238,103	2,375,931
% Growth	4.53	6.07	6.11	6.16
Oper Inc	212624	236952	265758	292414
% Growth	10.97	11.44	12.16	10.03
Op Margin	10.69	11.23	11.87	12.31
EPS*	$2.68	$3.18	$3.61	$3.96
P/E (Cal)	21.1	17.8	15.7	14.3
EV/EBITDA	10.9	10.1	9.1	8.3

Recommendation

AMN Healthcare Solutions, Inc. is leader in Managed Services Programs (MSP), Vendor Management Systems (VMS), workforce optimization, and Recruitment Process Outsourcing (RPO). Over the past five years, AMN has experienced revenue CAGR of 18%, along with an EBITDA CAGR of 32%. Even with seeing the strong, stable growth, the company still has solid demand for their solutions, through gaining market share in MSP, and improving upon the momentum in travel nursing. Being in the staffing business, it is estimated that by 2025 there will be a physician shortage of 94,700 in the United States alone due to demographics. Healthcare professionals are also an aging population where extensive research shows that 55% of RNs who plan to retire will do so by 2020, and 50% of RNs and physicians are age 50 and older. AMN is also continuing to innovate and update their platforms, specifically in the locum tenens platform. In recent years, the locum tenens segment has experienced slow growth in sales, but the company is rolling out a new technology platform in May, which management is optimistic that it will allow this segment to return to normal growth. Analysts believe that AMN Healthcare will make some acquisitions in the 2018 year, targeting their locum tenens business. If acquisitions were to take place, it would most likely be after they move to a single platform in late May. These acquisitions would be used for expanding their workforce solutions platform. Continued innovation is a strong theme for AMN as they are expanding their solutions to support their diverse client base, particularly in the workforce solutions area. Seeing the long-term stability and potential growth of AMN Healthcare Solutions, considering the strong macro opportunities, it is recommended that AMN Healthcare Services, Inc. be added to the AIM Equity Fund with a price target of $68.21, representing a potential upside of 20.19%.

Investment Thesis

- **Going Long on a Shortage.** According to the Bureau of Labor Statistics, by the year 2025, the healthcare sector will add over 4 million jobs. With an already favorable demand, AMN saw an increase of new orders in late 2017. AMN is a good position due to the shortage of nurses and physicians worsening, which is a key issue for U.S. health systems. Management has stated that by using all their solutions, their healthcare clients can save 4-7% of their total labor costs, which is substantial seeing that the healthcare staffing market is expected to be over $17 billion by the end of 2018. Currently, nursing accounts for about 25% of a hospital's labor spend.

- **Call it a Comeback.** Over the 2017 year, the locum tenens segment experienced slow growth and the permanent placement business saw negative growth. Through market research, management determined that there is still strong demand for the locum tenens service, meaning that management had poor implementation. To counteract this, the company will finish unveiling an updated consolidated technology platform in May. Management also has a positive outlook towards the permanent placement business, as they see a turnaround in the growth. Overall, analysts believe that there will be a flat period of revenue growth, before an acceleration in 2019.
- **Staff, Optimize, Repeat.** AMN is gaining market share through Managed Service Programs and workforce solutions. Since its introduction in 2008, MSP has grown immensely, to over 45% of revenue. Management is still confident that there is room to grow, especially within their EBITDA margins. They have hopes to reach their 14% EBITDA margin target by 2020, implying a 5-year revenue CAGR of about 10%. MSP contracts have seen substantial growth in the past four years, as well as the direct fill revenue, which grew by 21% in 2017. Managed Service Programs accounts for over 55% of the nurse and allied solutions segment.

Valuation

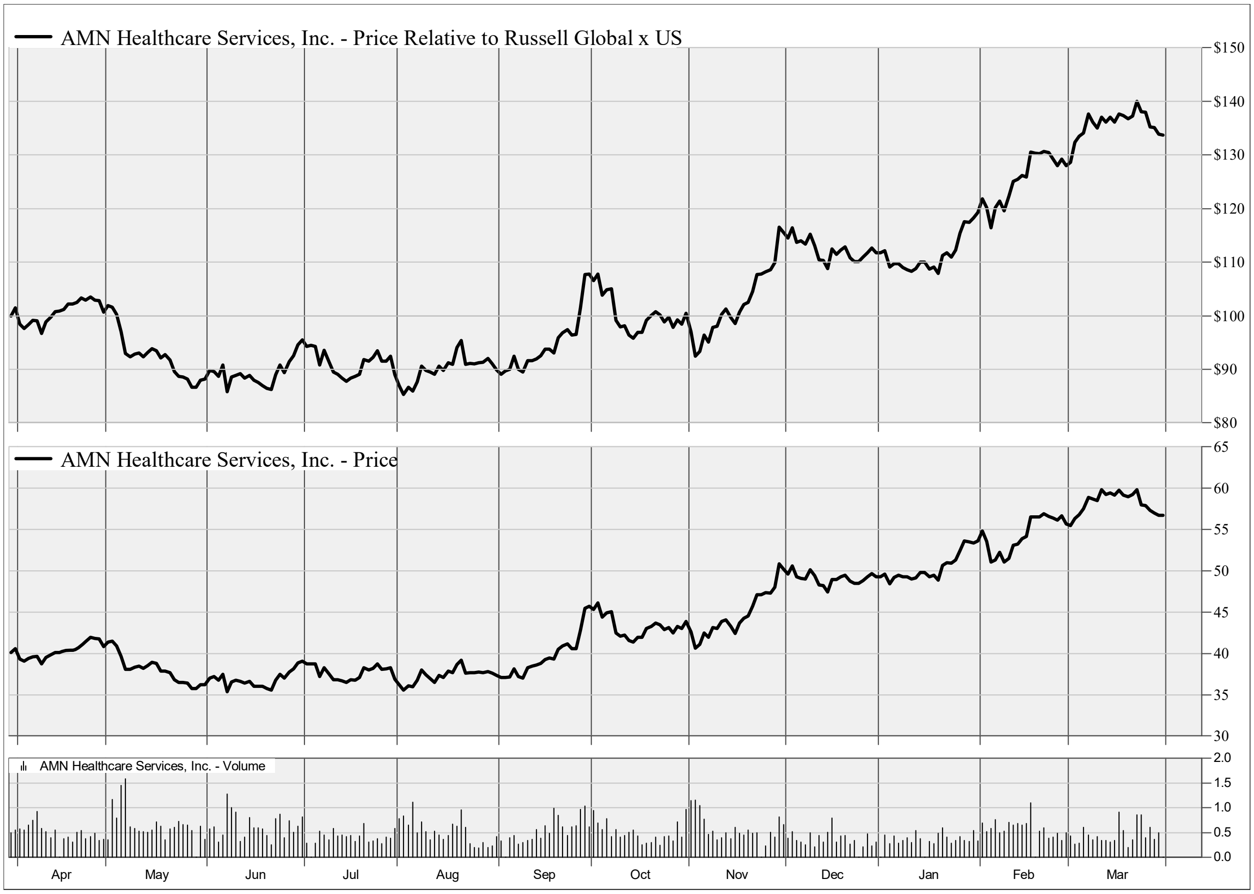
In order to reach a price target for AMN, a five year DCF model was constructed. Using a terminal growth rate of 3.00% and a WACC of 7.38%, price target of $68.64 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $57.03-76.00. Additionally, a P/E multiple valuation was calculated. Using a peer average P/E multiple of 21.37x, a price target of $68.03 was reached. Finally, an EV/EBITDA multiple valuation was conducted using a peer average EV/EBITDA multiple of 11.79x, a price target of $66.35 was calculated. By weighing the three models 70/15/15, a price target of $68.21 was reached, resulting in a 20.19% upside. AMN does not pay a dividend.

Risks

- **Responding to Market Conditions.** Alternative modes of healthcare delivery, reimbursement and client needs continue to evolve. If AMN is unable to anticipate and quickly respond to these changing marketplace conditions and government mandates, it could materially impact revenues.
- **New Platform Integration.** The inability to implement new infrastructure and technology systems may adversely affect the efficiency of management. Along with this, technology disruptions from deliberate attacks may affect operations and profitability.
- **Talent Retention.** If AMN is unable to continue to recruit and retain sufficient quality healthcare professionals at reasonable costs, it could increase our operating costs and negatively affect the business and profitability. The inability to properly screen and match quality healthcare professionals with suitable placements may also negatively affect demand for the services.

Management

Susan Salka is the president, CEO, and director and has been with AMN Healthcare Solutions, Inc. since 1990. Ms. Salka currently serves on the board of directors of McKesson, The Campanile Foundation at San Diego State University, and serves on the editorial advisory board of Directors & Boards magazine. Julie Fletcher has been the Chief Talent Officer since 2014, and has held positions at H&R Block and Walt Disney Co. Brian Scott has been the CFO since 2011 and has been with the company since 2003.



Source: FactSet

Peer Fundamentals

Name	Ticker	Revenues (ttm) (mil)	ROE	ROA	Debt/Equity	Est 5-yr NI Growth
AMN Healthcare Services, Inc.	AMN-US	1,988	26.20	10.34	49.6	--
Cross Country Healthcare, Inc.	CCRN-US	865	19.32	8.75	41.8	--
On Assignment, Inc.	ASGN-US	2,626	16.97	8.86	54.3	--
Kforce Inc.	KFRC-US	1,414	26.00	8.88	89.3	--
Robert Half International Inc.	RHI-US	5,267	26.51	15.94	-26.6	--
TrueBlue, Inc.	TBI-US	2,563	10.27	4.95	16.2	--
	Peer Averages	2,547	19.81	9.5	35.0	--

Source: FactSet

Peer Valuation

Name	Ticker	Market Cap (mil)	P/E	EV/ EBITDA	EV/Sales (NTM)	P/B
AMN Healthcare Services, Inc.	AMN-US	2,714	18.38	10.92	1.32	4.16
Cross Country Healthcare, Inc.	CCRN-US	405	12.63*	13.52	0.61	1.93
On Assignment, Inc.	ASGN-US	4,272	21.69	13.53	1.48	3.38
Kforce Inc.	KFRC-US	710	19.42	10.66	0.58	4.95
Robert Half International Inc.	RHI-US	7,322	23.84	11.37	1.25	6.24
TrueBlue, Inc.	TBI-US	1,064	20.52	9.87	0.49	2.04
	Peer Averages	2,755	19.62	11.79	0.88	3.71

*Removed for valuation   Source: FactSet

Tokyo Electron Ltd. ADR (TOELY)

April 6, 2018

Gregory Glaab — International IT

Tokyo Electron Ltd. (US OTC: TOELY) engages in the development, production, maintenance and sale of semiconductor production equipment (SPE) and flat panel displays (FPD). The company's SPE division accounts for over 90% of total revenue by producing coaters, plasma etchers, thermal processing, single wafer deposition, cleaning, and wafer prober systems. These products are integrated into the manufacturing processes of wafers, circuits and chips for some of the top semiconductor companies. The FPD division focusses on producing developers, ash systems, and inkjet printing systems for manufacturing organic light-emitting diode (OLED) panels. This equipment is ultimately used for the production of screens of TV's, cellular devices, tablets, and most recently, virtual reality displays. The company was founded in November of 1963 and is headquartered in Tokyo, Japan.

Price ($):	46.23	Beta:	1.17	FY: March (USD)	2017 (A)	2018 (A)	2019 (E)	2020 (E)
Price Target ($):	56.16	M-Term Rev. Gr Rate Est:	53.92%	Revenue (Mil)	7385.15	10,565.99	11,836.54	12,822.92
52WK H-L ($):	53.24 - 26.59	M-Term EPS Gr Rate Est:	19.35%	% Growth	33.53%	43.07%	12.02%	8.33%
Market Cap (mil):	32,021	Debt/Equity:	0.00	Oper Inc (Mil)	1437.82	2531.09	2880.94	3281.52
Insider Holdings	--	Debt/EBITDA (ttm):	0.00	% Growth	47.80%	76.04%	13.82%	13.90%
Avg. Daily Vol (mil):	0.06	WACC	12.43%	Op Margin	19.47%	23.96%	24.34%	25.59%
Yield (%):	1.76%	ROA (%):	18.40%	EPS	1.68	2.74	3.12	3.56
ESG Rating	A	ROE (%):	27.91%	P/E (Cal)	16.82	16.87	14.80	12.98
		ROIC (%):	27.91%	EV/EBITDA	9.40	10.36	9.16	8.03

Recommendation

Tokyo Electron has established themselves as a vital contributor to the growing semiconductor and tech industries. The company restructured its operations in 2012 from being mainly a supplier of electronic components to focusing on its current segments, SPE and FPD. By providing maintenance and repair services along with their products, the company has solidified relationships with some of the top names in the industry such as Intel, TSM, and Samsung, who account for over 60% of global chip making equipment orders. Combined, these companies are projected to spend more than $45 billion on capital expenditures in 2018, maintaining their spending habits of 2017, which saw a 50% increase from 2016. As the demand and growth for semiconductors has plateaued for cell phones, computers and other consumer tech products, the industry is currently adjusting to new applications of semiconductors in industries such as healthcare, automotive, financial services, and manufacturing. This has required industry leaders to expand operations and output for these emerging markets. This was evident in the company's sales growth for the past 8 quarters, averaging 15% QoQ and a 3-Year EBITDA CAGR of 38%. This growth can be attributed to the increase in market share of their DRAM and 3D NAND HARC etching systems along with their ALD and CVD deposition systems. In order to control this growth, the company increased capital spending by 20% from its initial estimate for 2018 without issuing any debt. They have also been combining their subsidiaries to promote increased collaboration and production within the company. Most notably, the company will unveil its expansion of the Miyagi plant in September which is projected to increase production capacity by 70%. For these reasons, it is recommended that Tokyo Electron Ltd. be added to the AIM International portfolio with a target price of $56.16, an upside of 21.48%.

Investment Thesis

Second Surge of Semiconductor Demand. Consumer electronic companies will continue to be buyers of semiconductors; however, the growth potential through smartphones, laptops, and tablets, that has driven this industry to new heights, is fading. At the same time though the arrival of the internet of things (IoT) and big data has fundamentally shifted the industry's growth opportunities. Devices of all kinds are now able to connect to networks and communicate with each other, streamlining processes. Industries such as healthcare, automotive, financial services, and manufacturing are just scraping the surface of the potential for semiconductors in their operations. As new and more complex technologies, such as autonomous automobiles and AI, continue to develop, semiconductors will become increasingly vital for their completion. With estimates having global semiconductor sales exceeding $437 billion for 2018, TOELY is positioning themselves for long term sustainability by adapting to these market changes.

- **Miyagi Plant Expansion.** The plant was first built in October of 2011 and was initially constructed for logistic purposes and production of their etching systems. To keep up with the rest of the industry and their own sales growth, management decided to expand this facility in March of 2017. Completion is expected by September with initial estimates increasing production capacity by 70%. FY 2018 sales estimates in etching systems are $410 billion (Yen). By dividing by the same exchange rate, NI margin, and US ADR shares outstanding in my valuation, I calculated a $.68 annualized increase in EPS.
- **Global R&D Collaboration.** In order to maintain high profit margins semiconductor equipment and semiconductor manufacturers collaborate on R&D projects. One specific consortium that TOELY has invested in heavily over the past five years has been IMEC. IMEC consists of over 3,500 researchers from 75 countries. Within IMEC, TOELY is focused on the nano-electronics division, specifically, IoT, energy, and healthcare along with the development of lithography. Here, each participant is able to contribute their expertise and knowledge that their company specializes in. Consortiums such as this, have allowed industry driving R&D to continue to grow while TOELY is able to reduce R&D expenses from 12% to 8.5% of revenue from FY2014 to FY2018. TOELY management has put a hard cap on R&D until 2020 at $105-$110 billion (Yen). This has contributed to the company's increased operating margins from 6% in FY 2014 to over 19% in FY 2017.

Valuation

To reach an intrinsic value for TOELY, a 5-year DCF was constructed with a WACC of 12.43%. Using a terminal growth rate of 3.5%, an intrinsic value of $53.26 was reached. Additionally a P/E multiple valuation was employed using a FY1 EPS of $3.12 and a peer average LTM P/E multiple of 21.18x resulting in an instrinsic value of $66.15. Additionally an EV/EBITDA multiple valuation was calculated using a FY1 EBITDA of $3,130,000,000 and a peer average of 11.55x, an intrinsic value of $54.89 was achieved. Weighing the valutations 60/20/20, an overall intrinsic value of $56.16 was achieved, representing an upside of 21.48%. TOELY also pays a divdend yielding 1.8%.

Risks

- **Uncertainty of Trump.** The impulsiveness of Trump has been in full swing this year. Trump has issued multiple tariffs on various imports, attempting to stimulate the growth of domestic companies. This has brought volatility back into the market, making investors cautious, especially of international equities. Even though majority of the tariffs implemented have been on materials, there is a possibility that he could go after the tech industry. North America only accounted for 13.5% of the company's revenue in FY 2017 however Intel and Micron are some of their biggest customers and a trade war could diminish capital spending by semiconductor companies.
- **Highly Cyclical Industry.** Along with the IT sector, the semiconductor industry has historically been highly cyclical and fluctuated heavily with the market. This is attributed to the industry ultimately being reliant on consumer demand for IT products. However, with the industry evolving its customer base, this could decrease the industry's reliance on consumer IT goods and decrease volatility.

Management

Toshiki Kawai has been the CEO and President of TOELY for the past three years. The CFO is Testsuro Hori, having served for the past five years.

Peer Valuation

Name	Ticker	Market Cap (mil)	P/S	P/E	EV/EBITDA	P/B
Tokyo Electron Ltd. Unsponsored ADR	TOELY	31,703	3.42	19.76	9.40	5.00
ASM Pacific Technology Limited Unsponsored ADR	ASMVY	5,769	2.74	16.04	12.67	4.43
Applied Materials, Inc.	AMAT	56,333	3.96	21.55	14.07	7.06
KLA-Tencor Corporation	KLAC	16,862	4.47	26.07	10.80	13.82
Lam Research Corporation	LRCX	33,019	3.42	22.34	11.11	5.26
SCREEN Holdings Co., Ltd	7735-jp	4,922	1.44	19.90	9.09	2.84
Peer Averages		23,381	3.21	21.18	11.55	6.68

Source: Factset

Peer Fundamentals

Name	Ticker	Revenues Cal 17'	ROE (%)	ROA (%)	D/E (%)	Est 5 yr NI growth
Tokyo Electron Ltd. Unsponsored ADR	TOELY	9,234	20	14	0	44
ASM Pacific Technology Limited Unsponsored ADR	ASMVY	2,249	28	16	20	#N/A
Applied Materials, Inc.	AMAT	10,316	35	16	62	61
KLA-Tencor Corporation	KLAC	3,791	92	18	221	22
Lam Research Corporation	LRCX	9,547	27	14	42	82
SCREEN Holdings Co., Ltd	7735-jp	2,803	18	8	12	34
Peer Averages		5,741	40	15	71	50

Source: Factset

Winnebago Industries (WGO)

April 6, 2018

Sarfaraz Mohammed Domestic Consumer Discretionary

Winnebago Industries, Inc. (NYSE:WGO) is a leading manufacturer of recreational vehicles (RVs) used primarily in leisure travel and outdoor activities. Winnebago engages in the design, development, manufacture, and sale of motorized and towable recreation products along with other supporting products and services. The company operates primarily in two segments: motorized products and services (55.7% of revenue) and towable products and services (44.3%). The towables segment consists of fifth wheel and travel trailers. Winnebago operates primarily in the United States. Winnebago Industries was incorporated in February, 1968 and is headquartered in Forest City, Iowa.

Price ($):	36.8
Price Target ($):	45.27
52WK H-L ($):	58.65 - 24.15
Market Cap (mil):	1,165
Insider Holdings	871%
Avg. Daily Vol (mil):	0.9
Yield (%):	1.1
ESG Rating	B

Beta:	1.15
M-Term Rev. Gr Rate Est:	32.0%
M-Term EPS Gr Rate Est:	18.0%
Debt/Equity:	57%
Debt/EBITDA (ttm):	1.94
WACC	9.80%
ROA (%):	10.85
ROE (%):	20.09
ROIC (%):	14.53

FY: Aug	2016A	2017A	2018E	2019E
Revenue (Mil)	975.2	1547.1	1883.4	1921.1
% Growth	-0.13%	59%	22%	2%
Oper Inc	69.1	106.9	158.2	167.5
% Growth	15%	55%	48%	6%
Op Margin	7%	7%	8%	9%
EPS*	1.7	2.3	2.6	2.5
P/E (Cal)	13.4	14.2	14.2	15.0
EV/EBITDA	7.5	7.5	8.9	7.2

Recommendation

Winnebago Industries completed their IPO in 1978 and has been developing their craft in the RV industry. Recognized as one of the industry leaders with more than 4,000 employees, Winnebago has set the standard in recreational vehicles over the past several decades. The RV sector had an extremely strong year in 2017, but has experienced quite the reversal thus far in 2018 – as WGO shares have dropped by over 30%. Since 2008, sales for RV's have increased from 237,000 units delivered to 446,000 units in 2017. A large factor in the weaker market sentiment recently causing the stock price to drop was President Trump's announcement of potential trade tariffs on steel and aluminum. This hit the RV sector directly and resulted in WGO's share price to drop significantly; however, despite this sudden pullback due to the tariff scare, this sector should continue to progress steadily. Sales have continued to increase for WGO over the past few years, and was boosted by the Grand Design acquisition as well. The growing interest toward travel experiences, especially with millennials, creates a strong long-term opportunity for the RV market especially. Milennials are focused on experiences rather than material objects and likely will spend money on objects such as RVs to fulfill this cultural phenomena. Additionally, WGO produces new designs yearly which are deemed extremely innovative compared to the market and is resonating a lot of interest from RV fans. Due to the Grand Design RV acquisition, a new experience-driven culture, and Winnebago's industry leading innovative designing, it is recommended that Winnebago Industries be added to the AIM Small Cap Fund with a price target of $45.27, representing a potential upside of 22.05%.

Investment Thesis

- **Grand Design RV Acquisition.** On November 8, 2016, Winnebago Industries acquired Grand Design, an acquisition that allowed them to significantly increase their towables segment. Before the acquisition, motorized products made up 90.8% of the company's product portfolio, and towables made up 9.2%. After the acquisition, motorized products now make up 55.7% of the portfolio while towables make up 44.3%. As seen, this acquisition has diversified WGO's portfolio which is great turn as demand for towables has gone up recently while motorized products have struggled. This can be seen in the most recent quarter as Winnebago benefited from a 57% surge in deliveries within its towables fleet.

- **Experience-Driven Culture.** Rather than acquiring materialistic objects such as a brand new car, suit, or watch, nowadays people are more oriented towards experiences-especially milennials. A study by the Harris Group showed that 72% of milennials prefer to spend money on experiences rather than stuff. This shows how the culture is changing and Winnebago can take advantage of this opportunity as the RV market is perfect for individuals who want to experience the outdoors. Frank Hugelmeyer, president of the Recreational Vehicle Industry Association commented on the 2017 RV industry growth saying, "Our growth is absolutely coming from the young families and millennials getting into the lifestyle." 38% of 75 million campers in the US are millennials, and improving features such as WiFi, solar, and stainless steel are making RV's more modern and therefore more appealing.
- **Innovative Designing.** A key aspect that sets Winnebago apart from its competition is their innovative interior designing of their RVs. WGO's widening product line has allowed Winnebago to win more space in dealership lots, even though dealer inventory slipped 5% compared to 2% last quarter. They have been known to lead their industry in this category as they release new and redesigned products yearly. These modifications include new floor plans and sizes as well as decor modifications. Sales rose by 26% in the most recent quarter and this is correlated to Winnebago's newest product launches which are resonating with RV fans.

Valuation

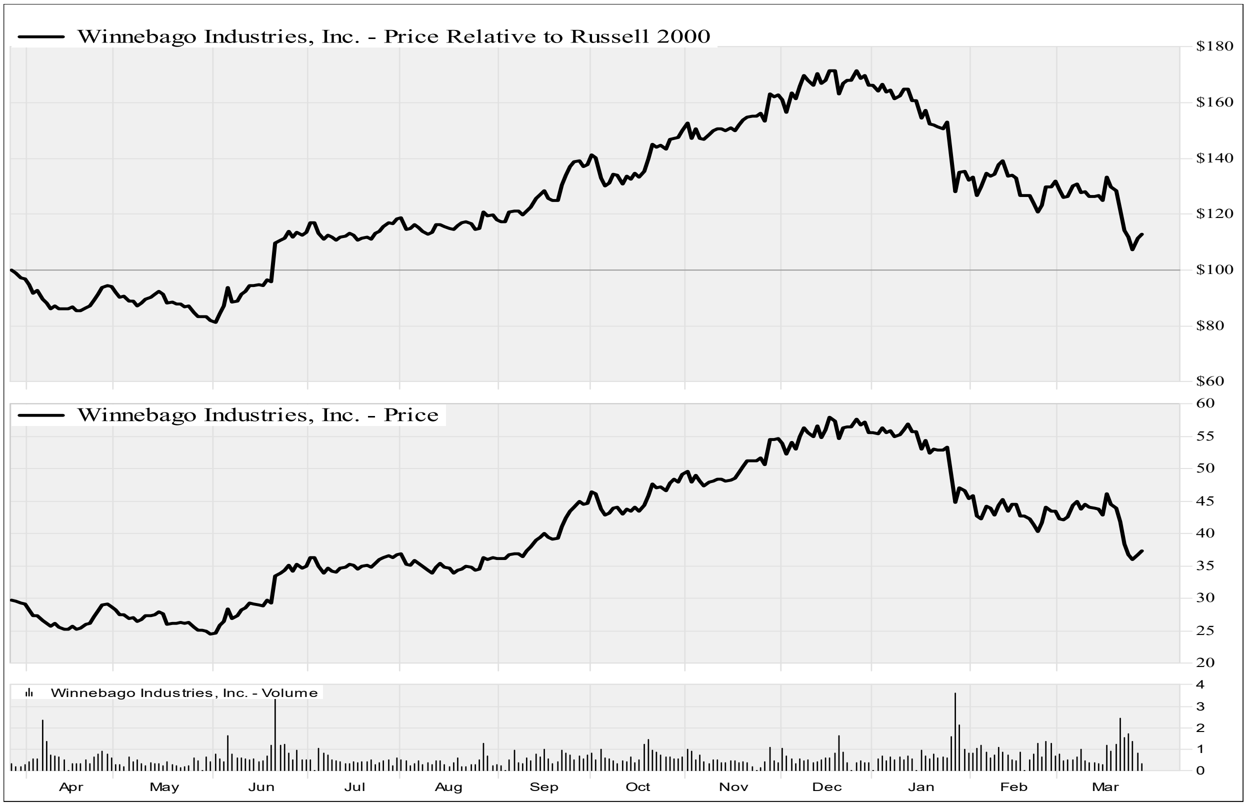
In order to reach an intrinsic value for WGO, a five year DCF model was constructed. Using a terminal growth rate of 2.00% and a WACC of 8.20%, an intrinsic value of $47.72 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $40.90-$57.20. Additionally, a P/E multiple valuation was calculated. Using a LTM EPS of $2.32 and utilizing a blended average P/E mutiple of 18.04x, resulted in an intrinsic value of $41.85. Finally, an EV/EBITDA multiple valuation was conducted using a blended average EV/EBITDA multiple of 12.37x, resulting in an intrinsic value of $45.36. By weighing these three models 34/33/33, a price target of $45.27 was reached, resulting in a 22.05% potential upside. WGO pays a quarterly dividend of $0.10 per share.

Risks

- **Intense Competition.** The market for RV's is highly competitive. Competitive factors include price, design, value, quality, service, brand awareness, and reputation. Some of WGO's competitors are much larger and therefore have more resources and purchasing power. Finally, if new firms enter the market, this will increase competition as well.
- **Dependence on Suppliers.** Although Winnebago gets its components from multiple suppliers, it receives a few components from a small group of suppliers. WGO's suppliers also supply their peers as well, so if terms change or if there is less supply, this could adversely affect WGO's operations.
- **Adverse Weather.** WGO's operations are highly dependent on seasonality and cyclicality. They produce leisure vehicles that are mainly used in the summer time, so adverse weather could affect sales as well as overall economic cyclicality.

Management

Michael J. Happe has been the President and Chief Executive Officer of Winnebago Industries for a tenure of 2 years. He received his MBA from the Cartis L. Carlson School of Management and was previously a Group Vice President at The Toro Company. The Chief Financial Officer is Bryan L. Hughes.



Source: FactSet

Peer Valuation						
Name	Ticker	Market Cap (mil)	P/S	P/E	EV/EBITDA	P/B
Winnebago Industries, Inc.	WGO	1,016.1	0.7	16.3	9.6	1.4
Thor Industries, Inc.	THO	5,930.3	0.7	13.5	8.3	3.4
Patrick Industries, Inc.	PATK	1,560.1	0.9	17.6	13.3	4.2
REV Group, Inc.	REVG	1,361.8	0.6	25.7	14.6	2.3
Spartan Motors, Inc.	SPAR	598.3	0.8	37.1	18.9	3.5
		2,362.6	0.8	23.5	13.8	3.4

Source: Factset

Peer Fundamentals						
Name	Ticker	Revenues	ROE	ROA	Debt/Equity	Est 5 yr NI growth
Winnebago Industries, Inc.	WGO	1,165.1	20.1	10.9	57.0	20.0
Thor Industries, Inc.	THO	5,930.3	26.3	15.3	9.6	29.6
Patrick Industries, Inc.	PATK	1,560.1	30.8	12.2	95.5	37.9
REV Group, Inc.	REVG	1,361.8	7.5	2.9	40.2	34.2
Spartan Motors, Inc.	SPAR	598.3	9.9	5.9	10.6	49.4
		2,362.6	18.6	9.1	39.0	37.8

Source: Factset

Triton International Ltd. (TRTN)
April 6, 2018

Michael Healy — International Financial Services

Triton International Ltd. (NYSE: TRTN) engages in the operation and management of shipping cargo containers. After merging with another container leasing company, TAL International Group in July 2016, Triton established itself as the industry's market leader. Triton International leases five types of products: dry, refrigerated, special, and tank containers as well as chassis for moving these containers. The business operates in two segments: Equipment Leasing (97% of revenue) and Equipment Trading (3% of revenue). Triton has an extensive global infrastructure consisting of offices in 15 countries and third-party depots in 47 countries that engage in storage of containers for Triton and their clients. The company was founded on September 29, 2015 and is headquartered in Hamilton, Bermuda.

Price ($): (4/3/18)	29.98
Price Target ($):	36.84
52Wk H-L ($):	(24.85 - 43.85)
Market Cap (Bil):	2.47
Float	64%
Short Int. % Float	2.50%
Avg. Daily Vol:	633,235.60
Dividend ($):	1.80
Yield	5.88%

Beta:	1.32
WACC	6.55%
M-Term Rev. Gr Rate Est:	12.84%
M-Term EPS Gr Rate Est:	4.27%
Debt/Equity	332.89
ROA:	3.77%
ROE:	18.43%
ROIC (%):	4.41%
ESG:	BB

FY: Dec	12/31/17	12/31/2018E	12/31/2019E	13/31/20E
Sales	1,200.94	1,482.97	1,752.73	1928.00
% Growth	42.10%	23.48%	18.19%	10.00%
EBIT	513.13	679.79	852.38	944.20
EBIT Growth	94.41%	32.48%	25.39%	10.77%
Pretax Margin	21.67%	24.76%	0.26	0.26
EPS	4.60	4.06	4.99	4.87
P/E	8.29	7.38	6.01	6.15
P/B	1.46	1.10	1.00	0.92

Source: Factset

Recommendation

Since merging with TAL in July of 2016, Triton International's sales have grown by an average of 21% quarter-over-quarter and its pretax income grew 179% from Q4 2016 to Q4 2017. A short, but sharp downturn in 2015 and 2016 hit the firm's financials hard. Trade growth fell far below expectations which combined with falling commodity prices, resulted in a perfect storm. Despite being the largest buyer of steel containers in the world, Triton prefers high steel costs since this translates into higher lease rates and a more valuable fleet. Additionally during this period, Hanjin Shipping, a major asset owning shipping line based out of South Korea, went bankrupt creating volatility in the maritime trade industry. Unfortunately for Triton, 2015 was the beginning of when many of their leases expired, after capitalizing on the trade growth in the post-financial crisis period. The importance of this experience can't be overlooked in terms of what it means for the future of Triton. After posting five weak quarters, the company has been able to rebound strongly. Recently, the firm has been spreading the duration of their leases to prevent a large volume of expiring leases in one period − and the global trade growth has outperformed expectations so far in 2018. Furthermore, rising steel demand and prices in Asia negate the immediate risk of low commodity prices which could reduce fleet value and lease revenues. Triton currently possesses the highest market share in the container leasing industry. The company has relations with an extensive, global network of third-party depots for container drop-off and storage. With 456 of these depots in 47 countries, Triton's competition faces an uphill battle to provide better container pick-up and drop-off flexibility, an important offering to customers in the maritime shipping industry. Due to strong performance after merging, as well as favorable economic conditions, it is recommended that Triton International Ltd. be added to the AIM International Equity fund with a price target of $36.84, representing an upside of 22.87% in addition to its current 5.88% dividend yield.

Investment Thesis

- **Favorable Global Trade Conditions.** Positive results from the first month of 2018 have indicated that global trade growth is exceeding expectations. January had the fastest global trade growth since the financial crisis ended in 2011, increasing 0.9% in January. The CPB World Trade Monitor, a Dutch government service considered the benchmark on trade data, stated that Germany and China contributed the highest export volume to the growth. These countries account for the second and fourth highest levels of Triton International's revenue. The increased trade volume has trickled into the container and air freight industries, which saw freight volumes rise in both January and February.

- **Worldwide Steel Demand Increasing.** The World Steel Association was far too conservative in the fourth quarter of 2016, only predicting a 0.5% increase in global steel demand for 2017. Since then, the same association revised its numbers in October 2017. The forecast for 2018 is now at a 1.6% growth in demand. It also believed that the price of steel will increase 8% in 2018 due to China's growing demand, as well as a projection from the American Institute of Architects that forecasts the pace of construction to increase through 2019. As CEO Brian Sondey stated in his presentation to JP Morgan in March, Triton actually prefers high steel prices as it enables the business to generate higher revenues from its leasing and trading operations.
- **Benefits of the Industry Leader.** The main advantage Triton offers its clients is global operating flexibility, which is the ability to pick-up and drop-off containers at any one of their 456 third-party operated shipping depots. This vast network helps Triton remarket its containers to sell them effectively. In the shipping industry it's crucial to line operators to have this flexibility in case a change of plans arises. Furthermore, Triton's S&A as a percent of revenue is much lower than competitors CAI and Textainer (6% compared to 10% and 8% respectively). Triton's low S&A expense has created positive operating income margin growth for the past 6 quarters, and I anticipate this trend to continue.

Valuation

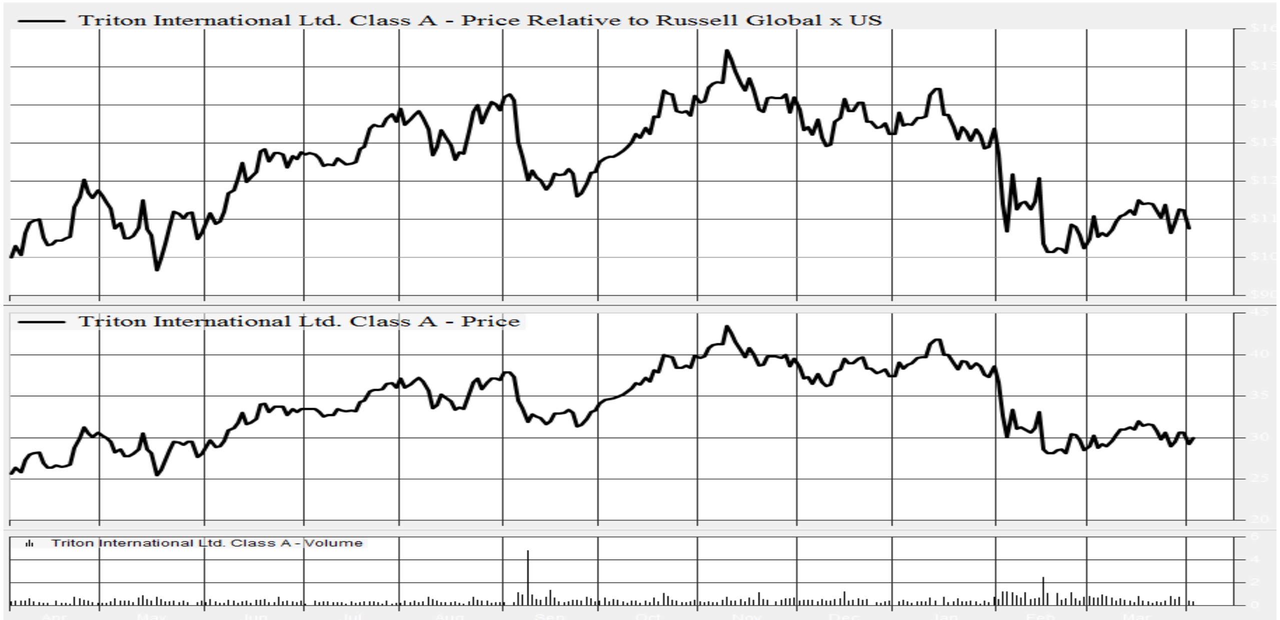
In order to reach an intrinsic value for TRTN, a five year DDM model was constructed. Using a terminal growth rate of 2.00% and a WACC of 6.55%, an intrinsic value of $36.63 was reached. An excess returns model was also constructed utilizing a 12.00% cost of equity and a terminal growth rate of 2.00%. This model yielded an intrinsic value of $36.39. Finally, a P/E multiple valuation was calculated. An average multiple of 9.23x was reached, resulting in an intrinsic value of $37.48. By weighing the three models evenly, a price target of $36.84 was reached, resulting in a 22.87% potential upside. TRTN currently has a dividend yield of 5.88%.

Risks

- **Highly Concentrated Customer Base.** TRTN's five largest customers accounted for 55% of their lease billings, and their two largest customers are CMA CGM and Mediterranean Shipping Company accounted for 19% and 14%, respectively, of their lease billings in 2017. A poor performance year for a top customer would have a negative impact on TRTN's sales, a could leave them at risk for lease defaults.
- **Industry Consolidation.** As mentioned, TRTN's competition is smaller than them and the CEO believes that companies could begin to merge to keep pace. When TAL and Triton merged, they surpassed Textainer to hold the largest percentage of market share – a tactic others could replicate.
- **Environmental Regulation.** Many countries, including the United States, regulate or restrict the use of chemical refrigerants due to their ozone depleting effects. TRTN's refrigerated containers use R134A and 404A refrigerant, which do not contain chlorofluorocarbons; however, the EU has been proposed legislation that could ban R134A and 404A usage in intermodal containers beginning in 2025.

Management

Mr. Brian M. Sondey has been the Chairman of the Board and CEO since 2016. Prior to the merger in 2016, Mr. Sondey was the CEO of TAL International Container Corporation and held that position since 1999. Mr. Sondey is now approaching 20 years as the leading officer of a container leasing company, a good representation of the experience he brings to the table at TRTN. He holds a BA in economics from Amherst College and an MBA from Stanford University.



Peer Fundamentals

Name	Ticker	Revenue (mil)	Net Income (mil)	Div. Yld. %	ROE	ROA
Triton International Ltd.	TRTN	1,200.94	344.60	5.88%	18.43	3.77
Textainer Group Holdings	TGH	464.64	19.36	0.00%	1.70	0.45
CAI International	CAI	348.39	72.06	0.00%	14.11	3.16
Bohai Financial Investment Hold	000415-CN	5,113.87	398.25	0.70%	-	-
Mitsubishi UFJ Lease & Finance	8593-JP	7,778.08	489.47	2.40%	8.34	1.01
Peer Averages		3,426.25	244.79	0.78%	8.05	1.54

Source: Factset

Peer Valuation

Name	Ticker	Market Cap (bil)	P/S	P/E	P/B	EV/EBITDA
Triton International Ltd.	TRTN	2.47	1.90	6.52	1.17	8.36
Textainer Group Holdings	TGH	0.97	2.04	12.50	0.82	10.69
CAI International	CAI	0.44	1.16	5.36	0.75	9.45
Bohai Financial Investment Hold	000415-CN	5.61	1.04	10.25	1.16	15.94
Mitsubishi UFJ Lease & Finance	8593-JP	5.23	0.64	9.60	0.80	21.32
Peer Averages		3.06	1.22	9.43	0.88	14.35

Sources: Bloomberg & Factset