Applied Investment Management (AIM) Program

AIM Class of 2018 Equity Fund Reports
Spring 2017

Date*:** Friday, April 7th | ***Time: *2:00 – 3:45* p.m. | ***Location: AIM Research Room 488***

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

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Axon Enterprise Inc. (AAXN)
April 6, 2017

Stephen Arcuri — Domestic Industrials

Axon Enterprise Inc. (NASDAQ: AAXN), previously Taser International (TASR), is a weapons and body camera manufacturer that has saved almost 200,000 lives by providing law enforcement personnel with less-lethal alternatives. Axon operates in two primary segments: Conducted Electrical Weapons (CEW) and Body Wearable Cameras (BWC), which make up 75.5% and 24.5% of revenue, respectively. Founded in 1993 by its current CEO, the company is headquartered in Scottsdale, Arizona.

Price ($): (4/5/17)	$ 21.90	Beta:	1.05	FY: Dec.	2016	2017E	2018E	2019E
Price Target ($):	$ 30.21	WACC	8.32%	Revenue (Mil)	268.2	320.7	374.6	472.2
52WK H-L ($):	30.15-17.18	M-Term Rev. Gr Rate Est:	21.08%	% Growth	35.6%	16.4%	14.4%	20.7%
Market Cap (mil):	$1.193	M-Term EPS Gr Rate Est:	62.29%	Gross Margin	62.2%	60.8%	63.0%	67.7%
Float (%):	97.10%	Debt/Equity:	0%	Operating Margin	10.3%	3.6%	8.5%	27.7%
Short Interest (%):	24.70%	Net Debt/EBITDA:	0%	EPS (FY)	$ 0.28	$ 0.11	$ 0.35	$ 1.49
Avg. Daily Vol (th):	881.62	ROA:	6.81%	FCF/Share*	$ 0.38	$ 0.52	$ 0.73	$ 1.76
Dividend ($):	$0.00	ROE:	11.24%	P/E (FY)	77.3	207.6	62.5	14.7
Yield (%):	0.00%	ROIC:	11.23%	EV/EBITDA	37.6	73.7	31.8	8.6

*Reported Non-GAAP

Recommendation

Due to expected changes in product mix, Axon Enterprise has recently chosen to rebrand itself by changing its name from Taser International. Present in 17,000 of 18,000 police agencies in the US, and with approximately 2/3 of officers carrying a Taser product, Axon is a dominant force in equipping law enforcement. Looking to move beyond their original CEW segment, Axon also offers BWC through Axon and Evidence.com, as well as the new Axon Fleet, a dash board camera. AAXN's body cameras justify their slight market premium with a wider range of view, longer battery life, more storage capability, and integration with Taser products. Axon further distinguishes itself by offering products with the ability to record in high definition on a cloud based platform. BWCs are poised to become a $1 billion-dollar industry as more police departments adapt the technology, and by leveraging their current network, Axon will be able to defend its current market share of 75% much more easily than new entrants. Even if it does not consolidate a significant portion of market share, the new promotion to provide free BWCs to every police agency in the United States is expected to generate positive earnings. Steady cash flows from the CEW segment provide a foundation for the Axon segment to invest heavily for the future, and the returns are already materializing. Therefore, it is recommended that Axon Enterprise be added to the AIM Equity with a price target of $30.21, which represents a 37.96% upside. Axon does not pay a dividend.

Investment Thesis

- **Free Body Wearable Camera Promotion:** Axon will target approximately 500,000 officers in a promotional campaign by offering a free Axon 2 BWC, docking port, and free year of its premier tier video storage plan. The promotional is non-binding and can be canceled at any time, but management is confident it will translate to contracts. Disputed incidents of police related shooting deaths are unlikely to change in the foreseeable future, and the increased scrutiny will force departments to increase accountability measures like BWCs. According to a study conducted in partnership by the Department of Homeland Security (DoHS), 97% of police agencies indicated that they would be moving forward with BWC programs.
- **Department Cost Savings Offset Price:** High initial costs will eventually be offset by savings in misconduct complaints. In 2014, the 10 largest police departments in America paid $248.7 million in misconduct settlements, and the Cato Institute found that over a 10-month period the median payout of a misconduct case related to civil rights was $225,000. A study by the *Journal of Quantitative Criminology* found that after police began wearing body cameras, use of force

dropped by 59% and complaints against officers dropped by 87%. Additionally, by utilizing machine learning technology, Axon AI developing a system that will minimize the time officers spend writing reports by automatically transcribing relevant events from BWC footage.

- **Cloud Based Advantage:** Axon's CEWs are its current foundation, but management expects that moving forward service revenues from body cameras will eclipse weapons revenue. A cloud based infrastructure system will allow Axon to achieve economies of scale over individual police departments that would be required to build their own data storage facilities. Consolidating large amount of law enforcement data does increase Axon's risk of hacking attempts, but their partnership with Microsoft Azure is a strong selling point for many local agencies.

Valuation

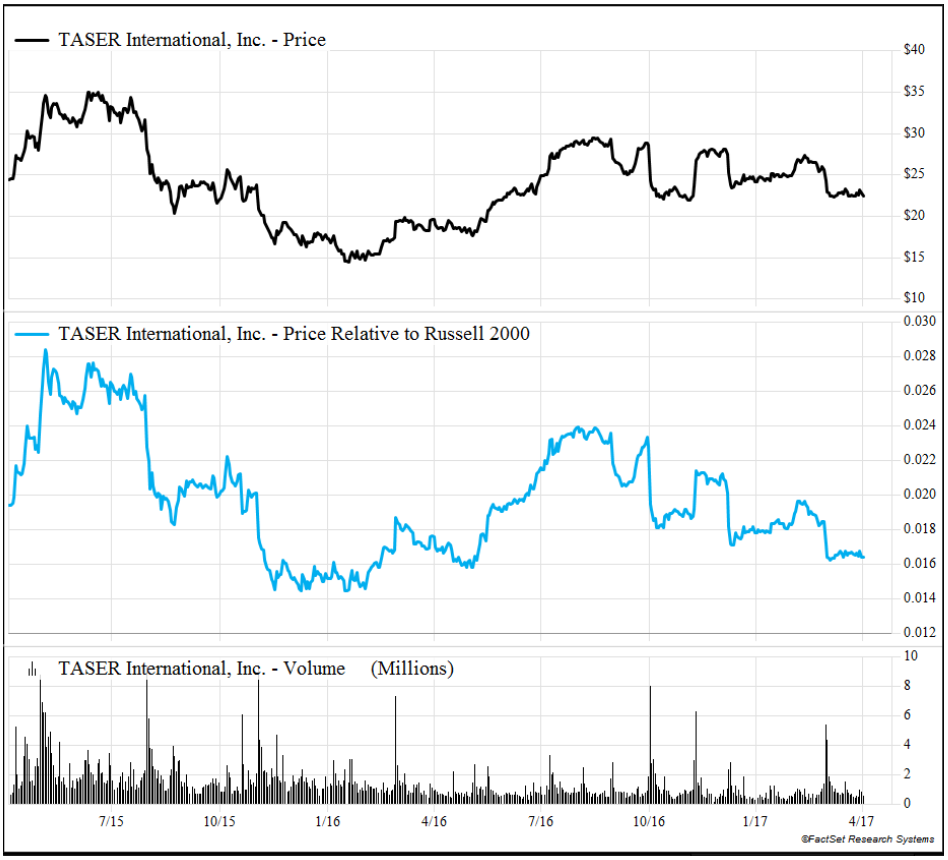
In order to reach an intrinsic value for Axon Enterprise, a 5 year DCF model was constructed. Using a terminal growth rate of 2.00%, WACC of 8.38%, an intrinsic value of $38.59 was reached. A sensitivity analysis on the terminal growth rate and WACC of 50bps ranged from $33.42-$45.70. Additionally, a P/E multiple valuation was conducted using NTM EPS of $0.11 and a 15-year historical average P/E of 67.1x which resulted in a valuation of $7.07. Finally, an EV/EBITDA multiple valuation was calculated using a 15-year historical multiple of 47.44x and a NTM EBITDA of $15.98M, the multiple resulted in a valuation of $14.98. Weighting the three valuation models 70/15/15, a price target of $30.21 was reached, representing an upside of 37.96%.

Risks

- **Litigation:** Digital Ally is currently suing Axon, charging that the BWC's autoactivation feature infringes on Digital Ally's patented technology. Should Digital Ally's suit prove to be successful, Axon could be required to pay a licensing fee to sell their BWCs. Axon argues that they had deployed this technology (circa 2009) before Digital Ally applied for their patent (2013) making it void. The nature of Axon's Taser segment also leave it susceptible to wrongful death and negligence suits.
- **Alternative Policing Methods**: A change in public opinion surrounding policing could decrease the use of BWCs and CEWs. Should the pressure on accountability decrease, local governments could pressure departments to become more cost effective by issuing batons and pepper spray as alternatives.
- **End of Government Grants**: During the Obama administration, federal grants were used to encourage police departments to adapt body camera programs. Should the Trump administration discontinue the federal grant program, adaption rates could decrease.

Management

Patrick W. Smith has been CEO of Axon Enterprise since 1993 after helping co-found the company. He received his undergraduate degree from Harvard University and his MBA from the University of Chicago. Luke Larson has been president of Axon since June 2008 after serving in the United State Marine Core. Jawad Ahsan has been the CFO since April 2017 after working as CFO for Market Track and various roles for General Electric.



Source: FactSet

Ownership

% of Shares Held by All Insider and 5% Owners:	33.70%
% of Shares Held by Institutional & Mutual Fund Owners:	>83.5%

Source: FactSet

Top 5 Shareholders

Holder	Shares		% Out
BlackRock Fund Advisors	6,237,000	▲	11.93
The Vanguard Group, Inc.	3,488,000	▲	6.67
St. Denis J.Villere & Co. LLC	3,305,000	▼	6.32
Fidelity Management % Research Co.	3,214,000	▲	6.15
SSgA Funds Management, Inc.	2,042,000	▲	3.91

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales	Debt/ Equity	P/E	EV/ EBITDA
Axon Enterprise	TASR	1,177.5	268.2	0.0%	70.3	30.4
Mace Security Internat.	MACE	23.6	9.10	0.0%	97.6	-
Digital Ally	DGLY	24.1	16.60	52.1%	-	-
Panasonic	6752-JP	28,091.1	66,153.0	61.3%	13.8	5.3
Motorola	MSI	13,975.2	6,038.00	-	26.2	11.2
Peer Averages		10,529	18,054	37.8%	45.8	8.3

Source: FactSet

Fibria Celulose S.A. ADR (FBR)
April 7, 2017

Andrew Crossman International Materials

Fibria Celulose S.A. ADR (NYSE: FBR) grows, harvests, and chemically processes eucalyptus pulp used for paper production. Fibria operates in the hardwood pulp market segment; in which, they are the largest producer (17% of total hardwood market) of bleached hardwood kraft pulp (BHKP) in the world. Three different mills are operated on the eastern coast of Brazil: Aracruz (44% of 2016 production), Três Lagoas (25%), and Jacareí (20%). A fourth mill at Veracel (11%) is co-operated with Stora Enso. Fibria pulp is used for production in three different segments: tissue paper (48% of FY16 revenue), specialty printing and writing (34%), and specialty paper such as security papers and cigarette papers (18%). Distribution is geographically diverse as well, with most sales coming from Asia, Europe, and North America (32%, 37%, and 22% of revenues, respectively). The company began trading in 2009 and is headquartered in São Paulo, Brazil.

Price ($) (4/4/17):	$9.68
Price Target ($):	$12.47
52WK H-L ($):	10.24-5.79
Market Cap (Mil):	69,676
Float (%):	41.40%
Short Interest (%):	1.07%
Avg. Daily Vol:	1,429,590
Dividend ($):	$0.22
Yield (%):	2.27%

Beta:	0.59
WACC:	10.20%
M-Term Rev. Gr Rate Est:	15.00%
M-Term EPS Gr Rate Est:	36.36%
Debt/Equity:	110.70%
Debt/EBITDA (ttm):	4.55x
ROA:	5.37%
ROE:	12.99%
ROIC:	6.47%

FY: Dec.	2016	2017E	2018E	2019E
Revenue (Mil):	$2,809.93	$3,203.32	$3,683.82	$4,236.39
% Growth:	-6.84%	14.00%	15.00%	15.00%
Gross Margin:	25.20%	25.92%	28.29%	30.46%
Operating Margin:	17.43%	18.50%	21.63%	24.59%
EPS (CY):	$0.87	$0.37	$0.64	$0.87
FCF/Share (CY):	($0.42)	($1.13)	$0.90	$1.04
P/E (CY):	11.11	26.30	15.12	11.09
EV/EBITDA(CY):	7.67	6.97	6.24	5.61

Recommendation

Fibria's management places emphasis on facilitating organic growth, despite their already large market share of hardwood pulp production (17% of total hardwood market share in CY16). The demand for eucalyptus pulp has grown significantly since 2011 (6.27% 5-year CAGR), and FBR is poised to take advantage of overall market growth due to their expanding production capacity and established logistics processes. The market for pulp is highly competitive worldwide, resulting in limited information about their customer base to protect from being stolen. Prices are projected to show slight growth ($630/ton Asia and $740/ton US) from 2year low prices under which are currently received. Management has listed sources of growth being increased efficiency to meet China's demand for tissue paper (40% of CY16 with a projected 5-year growth of 3.5%). Following the completion of Horizonte 2, a mill expansion project, management looks to grow revenues through M&A activities, and increase margins through technological advancement in harvesting and production. A recent strategic alliance with Celluforce Inc. in November 2016 is one example of future expansion. Fibria is collaborating to create cellulose nanocrystals, a material used as a polymer in mechanical, optical, and chemical applications. Expansion of current productions (37% increase projected capacity) will begin in CY18. The Brazilian government has intervened multiple times since 2012 to prevent the Real from overvaluation, resulting in USD appreciation over the Real (.537 BRL/USD 2012 and .320 BRL/USD 2017). Fibria uses currency hedging because it denominates most revenues and debt in USD (63% of debt), and aims to mitigate currency risk of converting to Brazilian Reals. By-products of production, chemicals and electricity, provide a small source of revenue and allow Fibria to be electrically self-sufficient. With Fibria's focus on expanding market share and increasing margins through cost efficiency and rising pulp prices, it is recommended that Fibria Celulose be added to the AIM International Equity portfolio with a price target of $12.47 representing a 28.8% upside. Fibria pays a dividend of $0.22 per share which represents a 2.27% yield.

Investment Thesis

- **Growth in Sales Revenue Driven by Horizonte 2.** In May 2015, Fibria's board of directors approved an expansion plan in the Três Lagoas production facility called "Horizonte 2." Successful completion of this project is estimated to increase capacity for the site by 1.95 MM tons of eucalyptus hardwood pulp (BEKP) per year (Três Lagoas FY16 1.236 MM tons, 158% increase) and overall effect on production will increase to 7.25 MM tons of pulp (37% increase

FY16). New production capacities will expand Fibria's market share in growing markets especially China (33% of global demand CY16, 10.8% CAGR since 2005). The project was expected to be completed in Q4FY17, and has a total cost $2.2 billion. On March 31, management put out a press release stating the project is now anticipated to be completed in September, ahead of schedule. Early opening could increase production capacity by an estimated 100,000 tons in FY17. Additionally, Fibria could fulfill oversold demand for their products resulting in revenue increases in a range of 1.17-1.34 billion tons of pulp in FY18, and account for 110-220 MM in revenues FY17 Q4. The full production capacity usage will occur in CY18, according to management.

- **Sustainable Operating Efficiencies.** Fibria's position as the largest eucalyptus pulp producer in the world (23% FY17 annual production) will continue to grow because of shortened harvesting cycles and sustainability compared to BKHP produced by other types of trees with less favorable climates than Brazil. Management has stated they will continue to focus on operational efficiency with special focus on the transportation and faster harvesting of eucalyptus logs. Aiming to lower shipping costs associated with pulp, especially through sea transport (4.6 MM tons pulp, 86.7% of total production), Fibria has invested just over $24 MM into improved warehouses and cranes, reported to increase loading and unloading efficiency by 42%. The improvements are expected to be completed by August CY17.
- **Increased Market Share for Eucalyptus Pulp.** The overall market for eucalyptus pulp has seen solid growth (5 year CAGR of 6.27%) since 2009. Eucalyptus trees are often preferred because of their 5-7 year growth cycle, opposed to other hardwood growth cycles that can be as much as 15 years. China has been especially important at driving growth through increased demand for tissue papers and printing and writing materials (48% and 34% of CY16 production, respectively). Increased production capabilities and established logistics channels places Fibria able to capitalize on rising demand.

Valuation

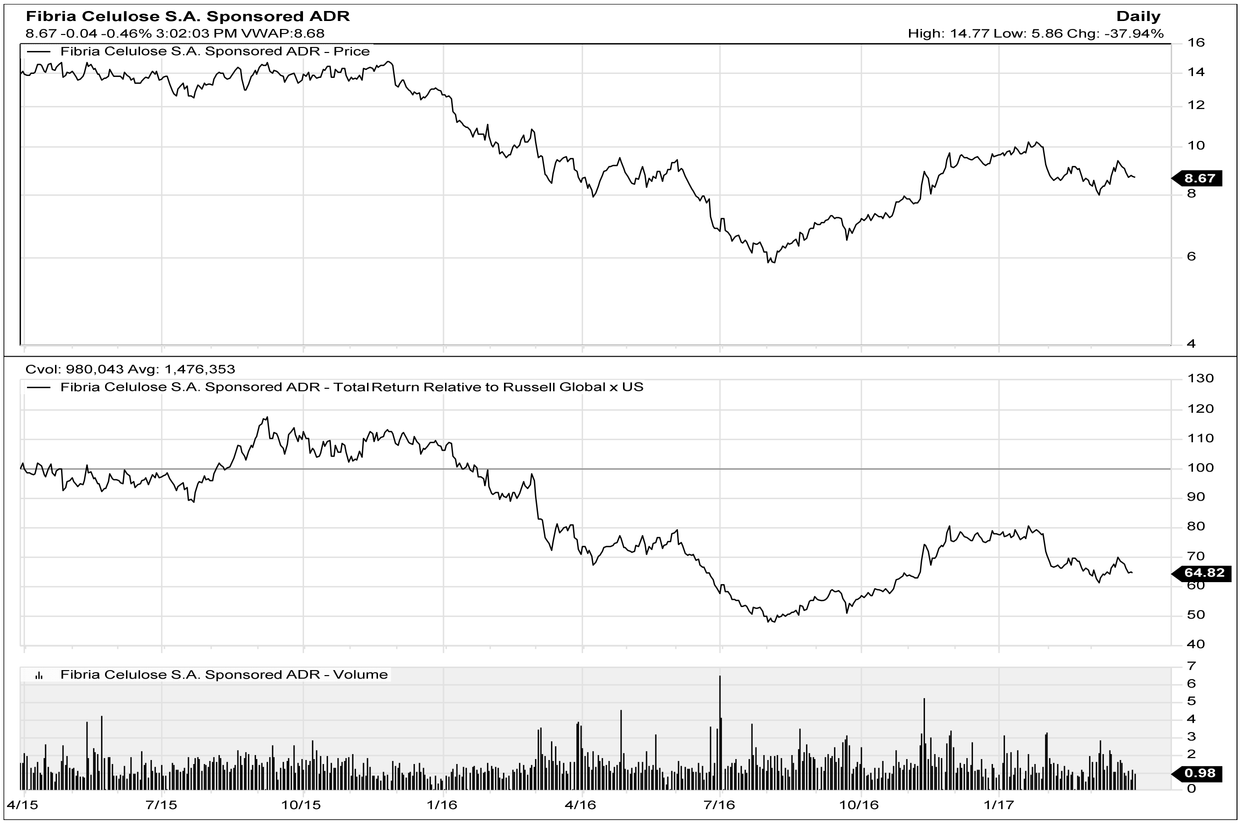
In order to reach an intrinsic value for FBR, a five year DCF model was constructed. Using a terminal growth rate of 2.0%, WACC of 10.20%, an intrinsic value of $10.80 was reached. A ± .5% sensitivity analysis on the terminal growth rate and WACC ranged from $9.80-$12.80. Additionally, a EV/EBITDA relative multiple valuation was conducted using EBITDA NTM of $1,165 and a comparables average EV/EBITDA of 7.78x which resulted in a valuation of $16.38. The DCF model and EV/EBITDA were weighted 70/30 and a price target of $12.47 was reached, which yields a 28.8% upside. Fibria pays an annual dividend of $0.22, resulting in a yield of 2.27%.

Risks

- **Undiversified customer base.** Fibria's three largest consumers currently make up 50% of their total revenues. If any event prevented one of these customers to continue doing business with Fibria, it would drastically alter their projected revenue stream.
- **Economic downturn affecting pulp demand.** Historically, economic downturns have negatively affected the demand for BEKP. Increased production capacity could be rendered useless with decreased demand.
- **Stringent environmental regulations.** In April CY16, the municipality of Serra banned new eucalyptus plantations within city limits. New regulations have the potential to limit growth or even potentially force closures of mills to protect the environment.

Management

Macelo Strufaldi Castelli has been CEO since July 2011. He previously served as executive officer of Paper, Planning, Procurement and Forestry Operations and Technology since 2009. Previously he also worked as general manager of the Jacareí mill. José Luciano Duarte Penido has served as chairman of the board since 2009. He previously served as the CEO and President of Votorantim Celulose (a previous alias of Fibria).



Source: Factset

Peer Analysis

Name	Ticker	Market Cap (mil)	Net Income (mil)	D/E	P/E	EV/EBITDA
Fibria Celulose ADR	FBR	4,839	483.6	115.2	9.97	7.67
Suzano Papel Pfd-A	SUZB5-BR	4,399	485.4	138.1	8.99	6.70
KapStone Paper & Pkg	KS	2,184	86.3	164.2	25.67	10.1*
Nine Dragons Paper	2689-HK	5,045	408.8	105	12.40	7.75
Stora Enso R	STERV-FI	9,429	878.1	67.6	10.69	8.90
Peer Averages		5,179	468.4	118.0	14.44	7.78

* Not used in relative valuation

Source: FactSet

Ownership

% of Shares Held by All Insider and 5% Owners:	58.60%
% of Shares Held by Institutional & Mutual Fund Owners:	12.40%

Source: Factset

Top 5 Shareholders

Holder	Shares	% Out
J Safra Asset Management	26,059,000	4.7%
Dimensional Fund Advisors LP	5,844,000	1.1%
Fidelity Management and Research Co.	4,902,000	0.9%
Pictet Asset Management SA	4,703,000	0.9%
Renaissance Technologies LLC	3,801,000	0.7%

Source: FactSet

Fresh Del Monte Produce, Inc. (FDP)
April 7, 2017

Charles Muth — Domestic Consumer Staples

Fresh Del Monte Produce, Inc. (NYSE: FDP) is a vertically integrated holding company that produces, markets, and distributes fresh fruit and vegetable products. FDP is segmented into three major business segments: Bananas (45% FY16 revenue), Other Fresh (46%), and Prepared Food (9%). The Bananas segment offers a variety of tropical and non-tropical fruits including bananas, pineapples, grapes, and vegetables. The Other Fresh segment offers diverse products including strawberries and mangoes, in addition to third-party ocean freight, and plastics and box manufacturing businesses. The Prepared Food segment operates under the Del Monte brand (established in 1892) of prepared food and beverage, which includes prepared fruits, fruit juices, and tomatoes. With sales throughout North America (55%), Europe (17%), the Middle East and North Africa (14%), and Asia (12%), FDP uniquely positions themselves as suppliers to retail and club stores, wholesalers, distributors, and foodservice operations. Fresh Del Monte Produce began publicly trading in October 1997 and is headquartered in the Cayman Islands.

Price ($):	$59.55	Beta:	0.76	FY: Dec	12/31/2015	12/31/2016	12/31/2017	12/31/2018
Price Target ($):	$70.82	WACC	7.43%	Revenue (Mil)	$4,057	$4,012	$4,177	$4,344
52WK H-L ($):	$66.86 - $41.7	M-Term Rev. Gr Rate Est:	3.8%	% Growth	3.3%	-1.1%	4.1%	4.0%
Market Cap (mil):	3,034	M-Term EPS Gr Rate Est:	11.6%	Gross Margin	8.4%	11.5%	12.0%	12.5%
Float (%):	64.3%	Debt/Equity (%):	12.8%	EBITDA Margin	4.0%	8.0%	8.5%	9.0%
Short Interest (%):	8.3%	Debt/EBITDA (%):	67.4%	EPS (Cal)	$1.25	$4.34	$4.68	$5.40
Avg. Daily Vol (mil):	0.22	ROA (%):	8.6%	FCF/Share	$0.86	$3.39	$3.82	$4.49
Dividend ($):	$0.55	ROE (%):	12.9%	P/E (Cal)	33.2	14.0	14.5	14.1
Yield (%):	0.91%	ROIC (%):	11.3%	EV/EBITDA	8.6	9.7	9.1	9.0

Recommendation

In the highly competitive fresh produce and processed fruit and beverage industries, where brand names are the primary differentiator for quality focused consumers, FDP has taken advantage of health-conscious industry trends and uniquely positioned themselves through their leading vertically-integrated company structure. FDP is one of the most widely recognized food brands worldwide (90% awareness). They have developed their broad appeal through ease of market entry, transferability of brands to new products, and greater acceptance at low entry costs. This vertical integration begins with the sourcing of raw materials and extends through the respective product marketing and distribution. Over the last two decades, FDP developed their impressive structure through acquisitions, company reinvestment, and product diversification. The two unique businesses FDP operates through their Other Fresh segment, ocean freight and plastics/boxes, are efficiently integrated with sourcing and distribution operations. This is revealed through reduced per-box logistics costs for higher margin fresh product lines because of large volume banana shipments. Unfortunately, there is currency conversion risk on both the appreciation and depreciation of country currency relative to the U.S. Dollar (USD). This conversion risk exists because revenues are received in country currency, but are recorded in USD, and costs are paid in USD. Also, there is a significant sourcing risk for raw materials on the potential constraining impact of environmental conditions. Despite this, FDP operates with a well-known brand name, generates strong cash flows, and operates with a low 1.46% cost of debt (7.11% of FDP capital structure). FDP has been working to maximize shareholder value through recent share repurchases ($623M since 2010) and its 0.91% dividend yield. Driven by these factors coupled with Fresh Del Monte's growing vertically integrated company structure, it is recommended that FDP be added to the AIM Small Cap Fund with a price target of $70.82, representing an 18.92% upside to the current market value of the stock.

Investment Thesis

- **Direct product sourcing.** FDP's raw materials are primarily grown and sourced from the Americas, Africa, and the Philippines. About 45% of fresh produce sold was grown from company controlled facilities, while independent growers supplied the remaining 55%. With this, FDP establishes price leverage, supply consistency, and quality assurance. Recently, FDP acquired four companies ($55.6M purchase) to expedite expansion and integration with company operations. Further, FDP focused a significant amount of 2016 capital expenditures ($146.7M) on expansion and cost improvements in worldwide production and distribution operations. FDP's desire to be more vertically integrated by controlling their own supply chain and distribution network substantially decreases sourcing risk, reduces operational costs on raw material price fluctuations, and drives increased profit margins.

- **Benefits from shipping bananas.** Bananas, one of the world's best-selling fresh fruits, generate premium margins (FDP: 9% in FY16) and have high turnover. As a major volume producer and shipper of bananas, FDP is able to leverage their banana logistics infrastructure to significantly lower average per-box cost for higher margin products. With this lower logistics cost, FDP can provide regular deliveries of premium fresh fruit that have longer shelf lives and are able to meet year-round demand. Initially, concerns on increased freight costs lowered expected profit margins, but lower overall freight rates (measured by the Baltic dry index) continue to remain relatively low and protect FDP's margins.
- **Health conscious consumers.** On an expanding global economy, expectations for incremental disposal income drive demand for higher quality and more diverse foods. With additional income and a surplus of unhealthy, low fruit content products, there has been increased consumer preference towards health conscious options (i.e., fresh fruits and vegetables). FDP's continued expansion, and reinvestment in logistics and raw material sourcing has expanded their international reach and strategically positioned them to take advantage of health focused consumer preferences.

Valuation

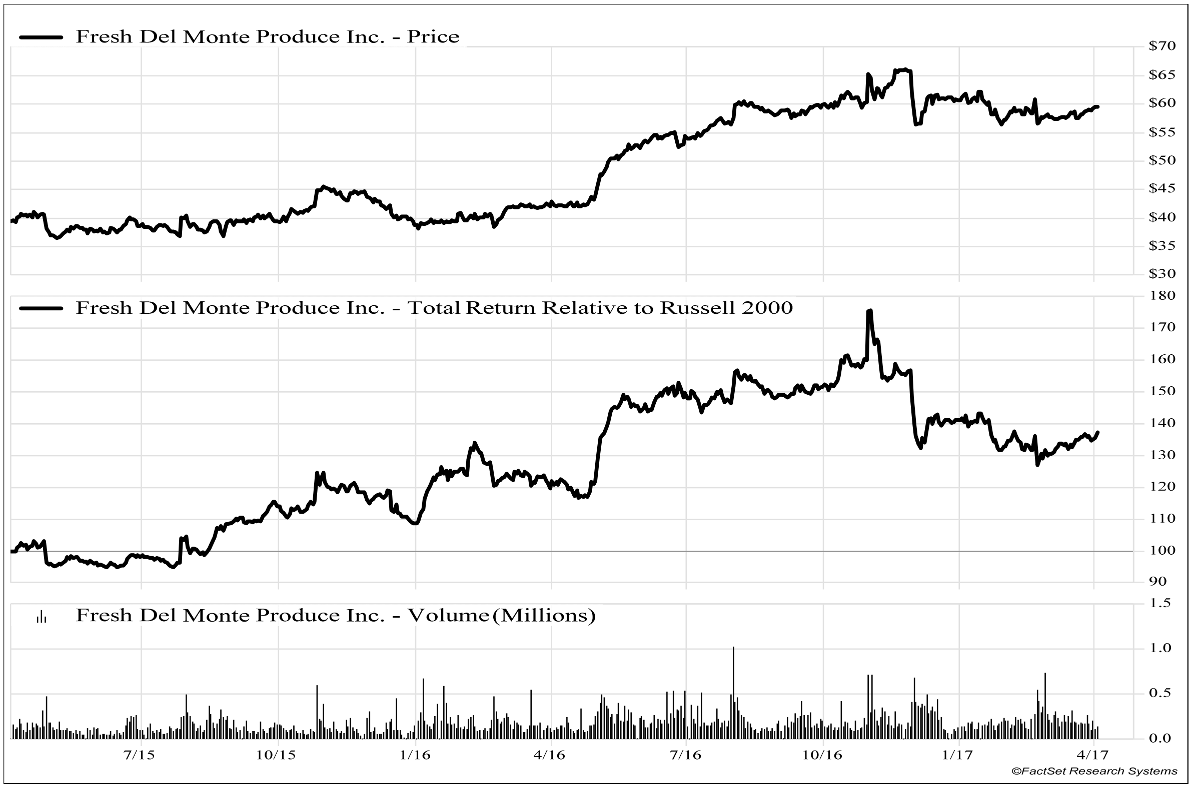
To reach an intrinsic value for FDP, a five-year DCF model was constructed. Using a 2.5% terminal growth rate, 0.5% country risk premium, and 7.43% WACC, an intrinsic value of $76.77 was reached. A sensitivity analysis on the terminal growth rate (2-3%) and discount rate (7-8%) ranged from $73.07-$78.31. Additionally, EV/EBITDA and P/E multiple valuations were conducted by analyzing the five-year and three-year historical, select weighted comparable, and forward year multiples, resulting in an EV/EBITDA target multiple of 9.25x and P/E target multiple of 17.57x, yielding values of $53.67 and $76.06. By weighting the three valuation models 50/25/25, a target price of $70.82 was reached, generating an 18.92% upside and confirming the purchase recommendation. FDP pays a dividend yielding 0.91%.

Risks

- **Crop disease, severe weather, and natural disasters.** As a volume driven business, raw material constraints can significantly impact profitability by increasing production costs, and delaying or cancelling shipments. Adverse weather or growing conditions negatively impact raw material production at sourcing locations, especially for products sourced from specific regions.
- **Intense competition in fresh and prepared food segments.** In the fresh produce markets, FDP needs to strategically source high quality raw materials on a regular, timely basis to compete with numerous small producers and regional competitors. The processed (prepared) market is driven by competition with multi-national banana and pineapple producers (i.e., Dole & Chiquita) and consumer awareness of higher quality brands.
- **Currency exchange.** A substantial amount of revenues (36% in FY16) originate from non-USD currencies, but are reported in USD. A stronger dollar may negatively impact sales on fixed product prices, while a weaker dollar results in increased production costs from currency conversion.

Management

Mohammad Abu-Ghazaleh joined FDP in 1996 as Chairman and CEO. Yousef N. Zakharia joined FDP in 2000 and recently became President and COO. Richard Contreras (CPA) joined FDP in 1999 and is the CFO and SVP.



Source: FactSet

Ownership

% of Shares Held by All Insider Owners:	35.67% ▼
% of Shares Held by Institutional & Mutual Fund Owners:	69.03% ▲

Source: FactSet

Top 5 Shareholders

Holder	Shares (M)	% Out
Fidelity Management & Research Co.	7,548 ▼	14.72%
Dimensional Fund Advisors LP	4,339 ▼	8.46%
The Vanguard Group, Inc.	3,286 ▲	6.41%
BlackRock Fund Advisors	1,976 ▲	3.85%
LSV Asset Management	1,893 ▲	3.69%

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Revenue (mil)	EBITDA	Dividend Yield	Price/ Earnings	EV/ EBITDA
Fresh Del Monte Produce	FDP	3,030.4	4,004.0	344.5	0.91%	13.74x	9.48x
Calavo Growers	CVGW	1,057.5	957.7	68.1	1.52%	28.60x	16.32x
United Natural Foods	UNFI	2,168.9	8,909.8	310.6	*	16.94x	8.69x
Total Produce PLC	TTPPF	670.7	3,366.0	72.1	1.92%	19.80x	11.93x
Weighted Peer Averages		3897.10	5797.87	203.74	1.68	20.60	11.32

**Removed For Relative Valuation Analysis*

Source: FactSet

Danone SA ADR (DANOY)
April 7, 2017

Michael Dennison International Consumer Staples

Danone SA ADR (OTC: DANOY) participates in the Food & Beverage industry. The company operates through four distinct lines of business: Fresh Dairy Products (49% of total revenue in 2016), Waters (21%), Early-Life Nutrition (23%) and Medical Nutrition (7%). The company is well-known for its yogurt brands which include Activia, Oikos Greek Yogurt, Dannon and Danimals. DANOY's Waters Division includes names such as Evian and Bonafont. The Early-Life Nutrition Division primarily focuses on babies, ages two weeks to two years while the Medical Nutrition Division serves malnourished consumers undergoing medical treatment. DANOY segments its revenues into three geographic regions. ALMA (Asia/Pacific, Latin America, Middle East, and Africa) which accounts for 41% of revenue; CIS (Commonwealth of Independent States) & North America, 20% of revenue; and Europe, 39% of revenue. DANOY also dissects revenues by country: United States (11% of total revenue); France (10%); Russia (7%); Mainland China (7%); and Indonesia (6%). The company was founded in 1899 and is headquartered in Paris, France.

Price ($) (4/5/17):	$13.60
Price Target ($):	$16.85
52WK H-L ($):	$15.77-$12.21
Market Cap (M):	44,367
Float (%):	90.50%
Short Interest (%):	0.00%
Avg. Daily Vol:	855,518
Dividend ($):	$0.23
Yield (%):	1.70%

Beta:	0.80
WACC:	7.05%
M-Term Rev. Gr Rate Est:	3.00%
M-Term EPS Gr Rate Est:	16.04%
Debt/Equity:	134.01%
Debt/EBITDA (ttm):	4.71x
ROA:	4.10%
ROE:	13.64%
ROIC:	6.77%

FY: Dec.	2016	2017E	2018E	2019E
Revenue (Mil):	$24,221.13	$24,463.34	$24,952.61	$25,701.19
% Growth:	-2.08%	1.00%	2.00%	3.00%
Gross Margin:	50.56%	49.16%	49.01%	48.91%
Operating Margin:	13.94%	14.21%	15.63%	17.34%
Net Margin:	7.84%	8.25%	9.17%	10.34%
EPS (Cal):	$0.62	$0.65	$0.74	$0.86
FCF/Share (Cal):	$0.67	$0.69	$0.76	$0.85
P/E (Cal):	22.08	20.79	18.32	15.79

Recommendation

As the world's second largest producer of dairy products, DANOY also boasts an impressive waters division, ranking as the world's third largest producer of bottled water. The company has sales in six continents, with the largest percentage coming from Europe. In July 2016, DANOY announced that it had entered a deal to buy U.S.-based WhiteWave Foods (NYSE: WWAV) for $12.5 billion. This transaction allows DANOY increased access to the U.S. market, which already accounts for 11% of revenue, as well as a foray into the fast growing organic food & beverage space, a $43 billion industry which outpaces the overall food market (10.8% growth vs. 3.3% in 2015). A growing trend among millennials, the organic food & beverage market was a key component targeted by DANOY in its company-wide program of "Danone 2020". The initiative was developed by CEO Emmanuel Faber to increase top line growth by 5% across its four fundamental business units. The company will achieve these goals through alimentation, securing of its essential resources and retaining top talent. In addition to executing "Danone 2020" – Mr. Faber also helped initiate a comprehensive efficiency and cost cutting program, "Project Protein", which aims to reduce selling general & administrative expenses by $1.1 billion by 2020. In light of the WWAV acquisition, encouraging global macro trends within the organics and bottled water spaces, as well as the company's aggressive growth and cost cutting initiatives, it is recommended that Danone SA ADR be added to the AIM International Equity Fund with a target price of $16.85, representing a 23.93% upside.

Investment Thesis

- **Bottling Up the Market for Water.** Bottled water consumption worldwide has grown by 9% YoY for the last three years and now represents a $147 billion market. Part of this is due to the "Stay-at-Home Economy" combined with the rise in the organic food & beverage market. 2016 was the first year that consumption of bottled water surpassed the consumption of sugary drinks in the United States. In Europe, water is now being likened to that of wine - where, like grapes, it matters where the water is sourced. Flavored water is now being viewed as an equally classy yet healthier option to wine and soda with the rise of premium water brands. Further, consumption of flavored water accounts for only 4% of the total bottled water market volume globally, but 15%

of revenue. DANOY markets its premium water brands with vitamin enriched and natural fruit extract options that further help the company obtain market share in the organic food & beverage space. DANOY has fixated itself on the health benefits of drinking more water and pushes the fact in its marketing campaigns. In 2016, DANOY's waters division represented about 21% of total revenue with YoY growth of 3%. The company is aiming for 10% growth as given in its "Danone 2020" initiative.

- **A New Splash of Consumers with WhiteWave Foods.** On July 7, 2016 DANOY entered a deal with the fastest growing food & beverage company in the US, WhiteWave Foods, for $56.25 per share representing a 24% premium in a $12.5 billion, all cash purchase. Located in Denver, Colorado, WWAV is the United States' largest producer of organic produce and specializes in plant based, non-GMO and organic foods and beverages. WWAV saw revenues of $4 billion in 2016 translating to growth of 8.5% over 2015. This deal provides DANOY with greater access to the fast growing organic food & beverage market, (Projected 16% YoY growth through 2020) a market in which 82% of 117 million U.S. households participate. The deal has been approved by both the companies' shareholders, as well as European and American Anti-Trust authorities. It is set to be finalized this quarter with accretion arriving by year-end.
- **Setting Sail for Success.** As stated previously, DANOY launched two company initiatives that targeted both top and bottom line growth in 2016. "Danone 2020" targets "strong, profitable, sustainable" growth by 2020 in the company's four essential operating segments. In its initial outlines, DANOY has given the YoY benchmarks of 3-5% revenue growth in its fresh dairy products division, 7-10% in waters and early life nutrition and 6-8% growth in medical nutrition with sustained 5% or greater YoY growth in perpetuity. The company aims to ultimately reinvest the savings from "Project Protein" back into the company in order to create stable EPS growth.

Valuation

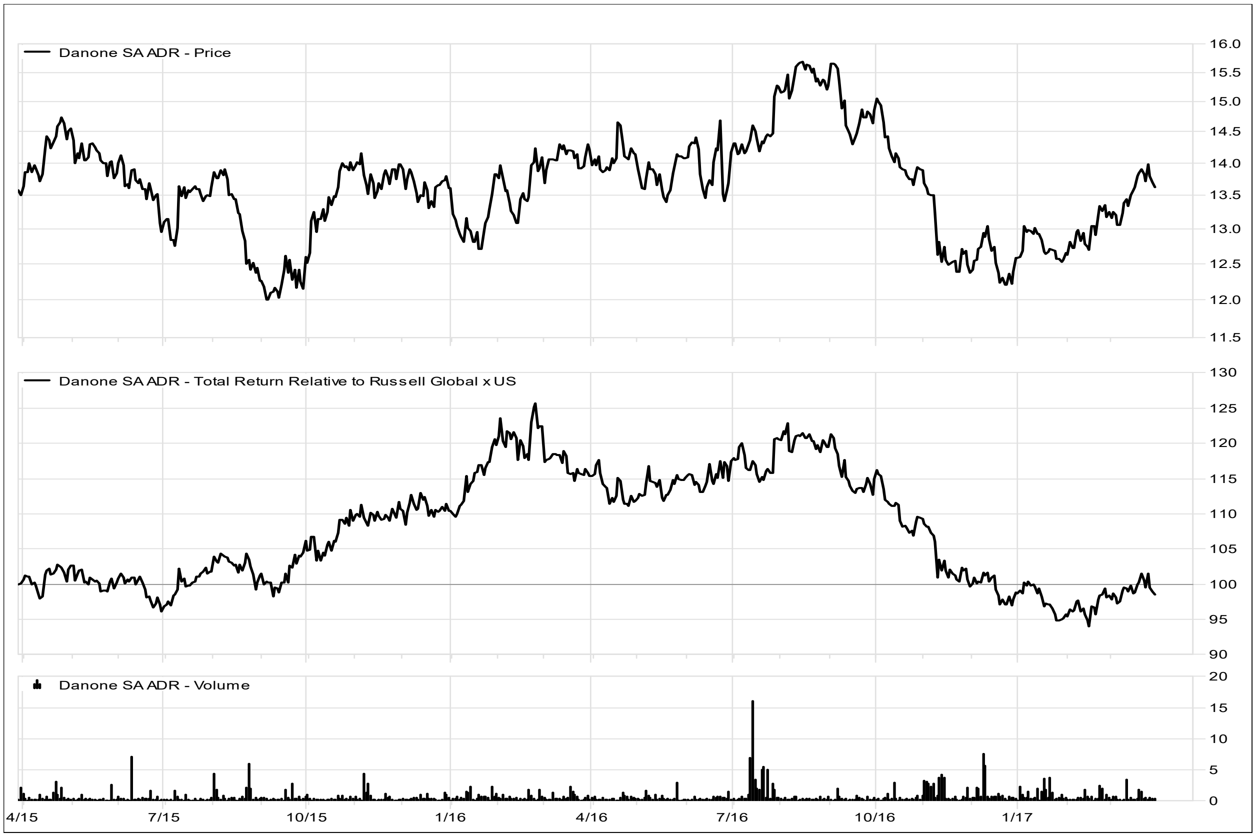
In order to reach an intrinsic value for DANOY, a five year DCF model was constructed. Using a terminal growth rate of 2.0% and a WACC of 7.05%, an intrinsic value of $16.85 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $16.18 to $24.08. Additionally, P/E and EV/EBITDA multiple valuations were conducted. The P/E valuation was conducted using a comparables average P/E of 28.42x, which resulted in a valuation of $16.52. The EV/EBITDA valuation was carried out by using a peer average EV/EBITDA of 15.45x which represented a valuation of $17.15. By weighting the three valuation models 40/30/30, a price target of $16.85 was reached, representing a 23.93% upside. In 2016 DANOY paid an annual dividend yielding 1.7%.

Risks

- **Increased Laws and Regulations.** Being one of the largest global participants in the food & beverage industry while collecting sales from many different countries, DANOY is subject to a significant number of laws and regulations. These can be extremely complex, especially when marketing the health benefits of one product over another. Food & beverages must be produced in clean environments; however, increased regulation could make it hard for DANOY to compete.
- **French Elections.** The French elections are a big question mark for the future of Europe and the entire market. If Marine Le Pen wins she has vowed to initiate a "Frexit". This could lead to volatility in European and global trade. Since DANOY obtains 39% of all revenue from Europe, a Frexit is certainly seen as a source of concern for the company.
- **Industry Consolidation.** Just seven months after Danone announced its acquisition of WWAV, the industry was again battered by the Buffet-backed bid by the United States' Kraft Heinz Company for its Dutch counterpart, Unilever. The industry has since been on high alert for any signs of hostile takeovers, or Kraft Heinz's next target.

Management

Emmanuel Faber is Vice Chairman & Chief Executive Officer. Cecile Cabanis serves as the company's CFO for the past 13 years. Franck Ribound has been Chairman of the board since 2011.



Ownership

% of Shares Held by All Insiders and Owners	9.46%
% of Shares Held by Institutional & Mutual Fund Owners	36.76%

Source: FactSet

Top 5 Shareholders

Holder	Shares		% Out
Danone SA	76,020		9.46%
Massachusetts Financial Services Co.	74,792		3.53%
Sofina SA (Private Equity)	68,645		2.49%
First Eagle Investment Management LLC	68,578		2.06%
The Vanguard Group, Inc.	59,427		1.88%

Source: FactSet

Peer Comparables

Name	Ticker	Market Cap (B)	Debt/Equity (%)	P/E (ttm)	EV/EBITDA (ttm)
Danone	DANOY	$41.82	134.01%	22.21x	11.04
Coca Cola	KO	$182.80	198%	27.83	18.07
Mondelez	MDLZ	$66.07	68%	43.15	18.04
Nestle	NESN	$240.60	36%	26.47	13.91
Unilever	ULVR	$120.10	100%	21.95	13.47
General Mills	GIS	$34.03	171%	22.70	13.74
	Peer Averages	$115.20	94%	28.42	15.45

Source: FactSet

Orbotech Ltd. (ORBK)
April 7, 2017

Kevin Blank International Industrials

Orbotech Ltd. engages in the design, development, manufacture, marketing and servicing of automated optical inspections (AOI) systems for bare printed circuit boards (PCB), flat panel displays (FPD), and imaging solutions for PCB production. ORBK consists of three business segments: Production Solutions for the Electronics Industry (97.5% of total sales), Recognition Software (1.8%), and Solar Energy (1.7%). The Production Solutions segment designs, develops, and trades automated optical inspection, automated optical repair, imaging, and production systems used in the manufacture of PCBs and other electronic components. China and Taiwan comprise over 50% of total revenue. ORBK was founded on February 8, 1981 and is headquartered in Yavne, Israel.

Price ($): (3/31/17)	$32.25
Price Target ($):	41.09
52WK H-L ($):	36-23
Market Cap (mil):	1,542
Float (%):	91.7
Short Interest (%):	0.08%
Avg. Daily Vol (th):	422.70
Dividend ($):	0.00
Yield (%):	0.00%

Beta:	0.70
WACC	6.88%
M-Term Rev. Gr Rate Est:	8.00%
M-Term EPS Gr Rate Est:	10.12%
Debt/Equity:	0.12
Debt/EBITDA:	0.56
ROA:	7.39%
ROE:	12.01%
ROIC:	9.82%

FY: Feb	2015	2016	2017E	2018E
Revenue (Mil)	752.5	806.4	854.8	923.2
% Growth	29.1%	7.2%	6.0%	8.0%
Gross Margin	41.1%	42.8%	42.0%	42.0%
Operating Margin	11.7%	14.1%	14.0%	14.0%
EPS (FY)	$1.08	$1.59	$1.87	$1.99
FCF/Share	$1.35	$1.72	$2.08	$2.21
P/E (FY)	16.5	19.2	17.3	16.2
EV/EBITDA	7.5	9.2	9.8	9.2

Recommendation

Orbotech Ltd. is a leading provider of yield enhancement and production solutions for electronics reading, writing, and connecting, used by manufacturers. The customers ORBK serves produce printed circuit boards (PCB), flat panel displays (FPD), microelectronic mechanical systems (MEMS), radio frequency (RF) devices, semiconductors (SD), and other electronic devices. An automated optical inspection (AOI) system is implemented at different stages of the manufacturing process and ORBK provides AOI systems for multiple markets of electronic component manufacturing. ORBK's major markets are PCB (30-35% of revenue), SD (30-35%), and FPD (25-30%). ORBK's business segments diversify their market exposure to cyclicality of industry specific headwinds. Orbotech has leadership positions in all the markets that they serve, providing product and service to the top manufacturers of PCB, FPD, MEMS, and RF and SD. Orbotech's ability to adapt to the rapidly changing market environment allows their customers to have faster time to market on new products and developments. Revenues of $806M in 2016 were up 7% from 2015 compared with $753M. Revenues are expected to increase 8% in 2017 driven by an increase in SD and FPD equipment sales. Customers using ORBK's AOI systems include Samsung, Sony, Toshiba, Sharp, Bosch, LG, Hitachi, and many others. By 2019, the total addressable market is expected to be $2.2B. Investments made by manufacturers, primarily in China and Taiwan, and growing demand for SD solutions, especially in emerging markets, will push ORBK into accelerated growth. Growing demand for SD solutions is mainly a cause of the adoption of advanced semiconductor technologies in the manufacture of consumer electronic devices and growing content of RF devices in smartphones. Due to the semiconductor market growth, demand for wearable and smart mobile technology, and M&A opportunities, it is recommended that Orbotech Ltd. be added to the AIM International Equity Fund with a target price of $41.19, representing 27.73% upside.

Investment Thesis

- **China's Semiconductor Industry Expansion.** China imports a large percentage of integrated circuits from foreign vendors and the Chinese government is working to reduce their trade imbalance. China has attracted several multinational chipmakers to build new plants or expand existing plants in China. Samsung, Intel, SK Hynix Apple, and Taiwan Semiconductor

Manufacturing Company (TSMC) have all elected to build new or expand existing plants. With the expansion of semiconductor plants in China, it is projected that chip manufacturing output will triple by 2020. This is a key revenue driver for Orbotech, as 30-35% of total revenue on a given year is driven by the semiconductor device market. The expansion of these plants will increase demand for MEMS manufacturing technologies. ORBK serves 28 of the top 30 MEMS manufacturers in the removal of the silicon oxide layer of MEMS devices.

- **Millennials Want Wearable Tech.** The wearable technology market is expected to exceed $4 billion in 2017 and millennials are pushing the front line for growth. ORBK's TAM for smart mobile technology is $500M. Smartwatches lead the market and companies are beginning to test the uses of wearables at work for employee communication, security access, and time management. The demand for wearables to become smaller, sleeker, thinner, and flexible is where ORBK's expertise in manufacturing solutions for electronics comes into play. Wearable technology and smart mobile devices is a key driver for ORBK's PCB and FPD segments. The product portfolio for PCBs and FPDs includes devices that provide automatic detection of flaws and defects at various stages of production of PCBs and FPDs.
- **Acquisition of Applied Microstructures.** During Q4 of 2016, the company acquired the assets of Applied Microstructures, Inc. (AMST) for $6.4M in cash. AMST is part of the SD division, offering an adjacent process in MEMS, with potential expansion in encapsulation – integrated circuit packaging, in which a block of semiconducting material is encapsulated in a supporting case that prevents physical damage and corrosion. The company estimates that annual revenue contribution from this purchase will be in the range of $6M to $8M with such annual revenues contributing higher gross margins than the average products' gross margin. Management maintained that M&A is a top priority given ORBK's stable and growing cash flows.

Valuation

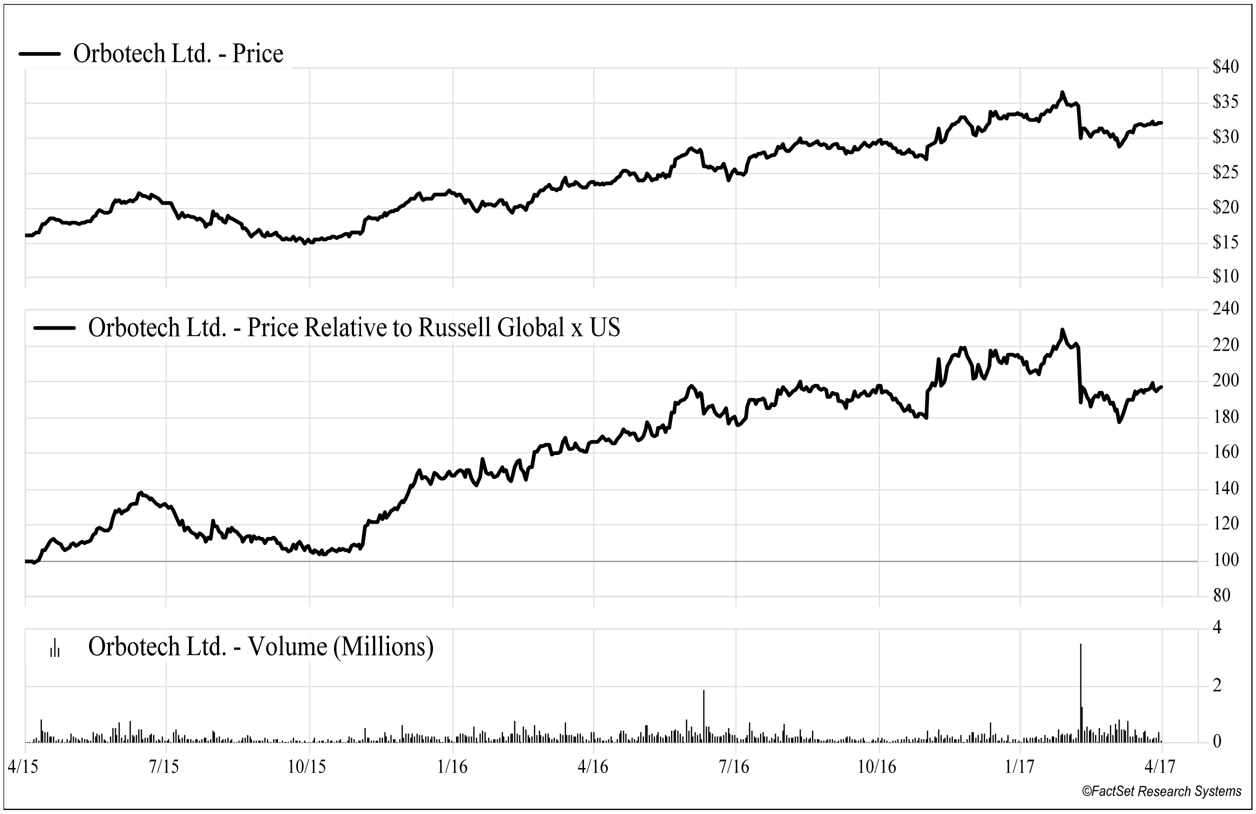
In order to reach an intrinsic value for ORBK, a five year DCF model was constructed. Using a terminal growth rate of 2%, WACC of 6.88%, an intrinsic value of $41.62 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $31.98-$57.76. Additionally, an EV/Sales multiple valuation was calculated using 2016 Sales of $860.4 (mil) and a comparables average EV/Sales of 2.40x, the multiple resulted in a valuation of $40.56. By weighting the valuation models 60/40, a price target of $41.19 was reached, which yields a 27.73% upside. ORBK does not pay a dividend.

Risks

- **Competitive pricing.** Currently, ORBK has a strong competitive position. The complexity and rapid change of mobile electronics could present pricing issues if competitors gain market share in China, as China represents ORBKs highest customer concentration of 32.9% of total sales.
- **Currency Exposure.** Financial expenses for the Q4 2016 were $5.7M, which included a currency translation and hedging loss of $4.8M, due to the strengthening of the U.S. dollar against other currencies. Currency hedging remains a risk for the future. ORBK is operating in different countries and assets are exposed to changes in currency.
- **Geopolitical Disrupters.** The stability of China, impact of Brexit, and new administration in the United States propose risks to ORBK's performance. Terrorism in Israel is a growing concern motivated by the conflict in Iraq and Syria.

Management

Asher Levy has held the CEO position since March 2010. He has been with firm for 15 years holding management positions for subsidiaries of Orbotech, including Orbotech Technology Ventures and Orbotech Pacific Ltd. Amichai Steimberg serves as President and COO and has been with the firm since August 2000. Dr. Abraham Gross (Exec. VP of Technology and Innovations) also brings 17 years of expertise.



Source: FactSet

Ownership

% of Shares Held by All Insider and 5% Owners:	8.33%
% of Shares Held by Institutional & Mutual Fund Owners:	77.03%

Source: FactSet

Top 5 Shareholders

Holder	Shares		% Out
Renaissance Technologies LLC	2,380,000	▲	10.39
Acadian Asset Management LLC	1,880,000	▲	8.43
LSV Asset Management	1,795,000	▲	8.26
Systematic Financial Management LP	1,662,000	▼	7.74
Fidelity Management & Research Co.	1,370,000	▼	5.03

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	Gross Margin	EV/Sales	Inventory Turnover
Orbotech Ltd.	ORBK	1,542	806.4	42.8%	1.74	3.43
Electro Scientific	ESIO	213	162.6	44.0%	1.00	1.52
Camtek	CAMT	136	958.3	43.5%	1.09	2.27
Han's Laser Tech Industry Group	002008-CN	4,164	373.5	37.7%	4.45	1.97
V Technology	7717-JP	769	265.2	30.3%	1.88	2.35
EO Technics	039030-KR	906	106	23.8%	3.36	2.51
Peer Averages		1,238	373.12	36%	2.35	2.12

Source: FactSet

Omega Flex, Inc. (OFLX)
April 7, 2017

Max Mattappillil — Domestic Industrials

Omega Flex, Inc. (NASDAQ: OFLX) is a manufacturer of flexible metal hose that is primarily utilized to carry gas, electricity, and automotive fuel. OFLX is a leader in the Residential & Commercial Construction sector as well as the General Industrial sector and is managed as a single operating segment. Their most popular products utilize Corrugated Stainless Steel Tubing (CSST) technology. These products include TracPipe, a flexible metal gas pipe, and TracPipe CounterStrike, an upgraded version of TracPipe specifically created to handle electrical surges from lightning strikes. OFLX was incorporated in 2005 and has two subsidiaries located in the United Kingdom (12% of sales) along with one subsidiary in Exton, Pennsylvania (88% of sales).

Price ($): (4/5/17)	48.48
Price Target ($):	59.02
52WK H-L ($):	$31.5-$64.9
Market Cap (mil):	482.30
Float (mil):	482.30
Short Interest (%):	0.60%
Avg. Daily Vol (000s):	5404.00
Dividend ($):	0.85
Yield (%):	1.73%

Beta:	1.28
WACC	7.35%
M-Term Rev. Gr Rate Est:	5.00%
M-Term EPS Gr Rate Est:	21.24%
Debt/Equity:	0.00%
Debt/EBITDA (ttm):	0.00
ROA:	21.01%
ROE:	33.22%
ROIC:	33.22%

FY: Dec	2015A	2016A	2017E	2018E
Revenue (Mil)	93,278.00	94,051.00	98,753.55	105,666.30
% Growth	9.46%	0.83%	5.00%	7.00%
Gross Margin	59.33%	59.00%	59.99%	62.05%
Operating Margin	25.20%	23.28%	24.96%	28.25%
EPS (Cal)	$1.56	$1.42	$1.62	$1.97
FCF/Share	$1.25	$1.44	$1.27	$2.27
P/E (Cal)	31.1	34.1	29.9	24.7
EV/EBITDA	12.65x	23.61x	17.73x	14.58x

Recommendation

Black iron piping (BIP) has been the traditional item utilized for transporting gas and electricity within single family homes as well as multi-unit buildings. However, it is difficult to install BIP systems that require many twists and turns as each junction requires a new fitting to ensure no gas or electrical leakage. CSSTs advantage is flexible installation of long, uninterrupted lines without the additional costs of installation and fitting. Moreover, its ability to withstand seismic testing proves its functionality and robustness as a better alternative to BIP. While the inception of TracPipe sets OFLX apart from its peers in the flexible gas piping market, TracPipe CounterStrike boosted OFLX near the top of the General Industrial and Residential & Commercial Construction sectors. The latest version of TracPipe Counterstrike is up to 400x more resistant to electrical damage than conventional CSST and 6x more resistant than its previous model. Specifically in geographic regions that experience multiple lightning strikes, this provides OFLX with an advantageous channel to supply existing and new customers with one of their most popular products. OFLX faces intense competition as there are approximately 10 flexible metal hose manufacturers in the U.S. and 4 major markets to operate in. However, the general rule of limiting manufacturer participation to a maximum of 2 major markets allows OFLX to focus on growing its operations within its respective sectors without the fear of giving up significant market share to their competition. OFLX also expands beyond traditional fuel gas piping to include automotive fuel, diesel fuel, corrosive liquids, and ultra hot/cold liquid transportation. Thus, OFLX can make an impact upon the pharmaceutical, petrochemical, and maintenance and repair markets, generating additional revenue streams. Furthermore, the approval to build natural gas pipelines and power plants across Michigan, Texas, Louisiana, and Virginia within the next two years can be a promising opportunity for OFLX. Exxon Mobil projects natural gas to represent 25% of the global energy supply by 2040 and the effectiveness of natural gas vs coal on both a cost basis and efficiency basis place OFLX in a strong position to provide the piping necessary to transport natural gas. Thus, it is recommended that Omega Flex be added to the AIM Equity Fund with a target price of $59.02, representing a 21.74% upside.

Investment Thesis

- **Growth in CSST's command of over half the fuel gas piping market.** CSST is currently replacing traditional black iron pipe in home remodeling and general construction as a cheaper and more versatile alternative to supplying gas. Combining the cost-effective solution of flexible metal hosing with OFLX's diverse product line of 5 different hoses – which includes lightning resistant hosing along with diesel and automotive fuel friendly piping – OFLX has the potential to capture a larger share of the residential & commercial construction and general industrial markets and return to high single digit growth going forward.

- **Rapid rise in home starts and momentum of HPI.** The total value of the housing market hit a 10 year high of $24.7 trillion and homes sales surged 6% in February. Consumer confidence may begin to be restored in the housing market and push individuals to purchase and remodel their homes, opening up new customers for OFLX. Additionally, a percent change analysis of the Housing Price Index since 2006 on a monthly basis revealed a sinusoidal behavior of a positive HPI change between February and September and a retraction from October to January. Thus, OFLX could receive a bump in demand for their piping products in the coming months that may carry out into the future should confidence in the housing market remain.
- **Increased production of natural gas pipelines.** In 2016, gas surpassed coal at 33% - compared to 32% - of electrical power in the U.S. With the cost of natural gas as low as $16/Mwh compared to coal at $22/Mwh in 2016, both natural gas production and demand has increased as demonstrated by the number of pipelines approved to be built by 2017 and 2018. This provides OFLX with the opportunity to expand upon their current customer base and increase their supply of natural gas to residential and institutional customers, boosting future revenue growth.

Valuation

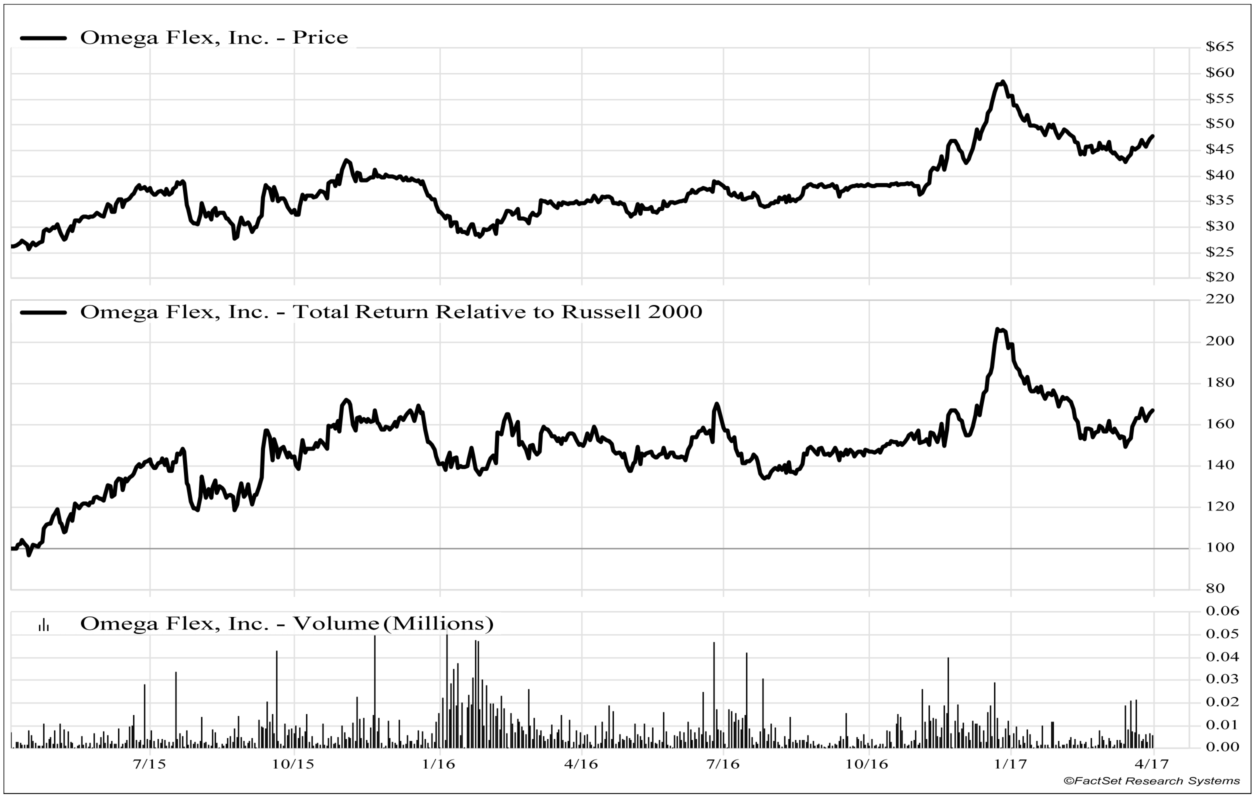
In order to reach an intrinsic value for OFLX, a five year DCF model was constructed. Using a terminal growth rate of 2.00% and a WACC of 7.35%, an intrinsic value of $61.24 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $62.57-$59.95. Additionally, a P/E multiple valuation was conducted using OFLX's peer average of 39.2x and OFLX's 2016 EPS of $1.42, resulting in a valuation of $55.69. Weighing the DCF and P/E multiple models 60/40, a price target of $59.02 was reached, yielding a 21.74% upside. OFLX paid a special dividend of $0.85 in 2016, yielding 1.73%.

Risks

- **Few flexible metal hose manufacturers and only four major markets.** While metal hose manufacturers cannot participate in more than 2 major markets, a revolutionary new product can provide a manufacturer with the means to make a complete transition from one market to the next, potentially taking existing clients of other manufacturers. Although the transition would prove difficult, OFLX must focus on constant innovation to ensure their strength as a market leader.
- **Increasing number of legal claims against OFLX since 2010.** OFLX received its first legal claim regarding poor installation and design of their TracPipe product. Over time, there have been more cases against OFLX about the structural integrity of their piping systems during periods of large electrical output, such as a strike of lightning, yet OFLX has yet to be held responsible by the court for poor craftsman ship of their products. Recently, the number of cases against OFLX has decreased. However, repeated legal cases against OFLX can incur a greater amount of costs that reduce OFLXs profit generating ability.
- **Large swings in the price of raw materials.** Stainless steel is obtained from one of two major suppliers and is OFLX's most important raw material for flexible metal hose production. Despite obtaining contractual agreements from their supplier, large upward movements in the price of steel, nickel, or copper can increase the cost of OFLX's products and reduce the number of products sold to their customer base.

Management

Kevin R. Hoben has held the position of CEO and President since 2005 and 1996 respectively. Prior to joining Omega Flex, he held many senior executive positions at Titeflex Corporation. Paul J. Kane is the CFO and Vice President of Finance and has held his positions since 2008.



Ownership

% of Shares Held by All Insider and 5% Owners:	77.26%
% of Shares Held by Institutional & Mutual Fund Owners:	22.71%

Source: Factset

Top 5 Shareholders

Holder	Shares	% Out
Kayne Anderson Rudnick Investment Management	503,000 ▲	4.99%
Nine Ten Capital Management	449,000 ▼	4.45%
Schwerin Boyle Capital Management	327,000 ▼	3.24%
Dimensional Fund Advisors	255,000 ▼	2.52%
The Vanguard Group	115,000 ▲	1.14%

Source: Factset

Peer Analysis

Name	Ticker	Market Cap (mil)	Net Income (mil)	Operating Margin	P/E	EV/ EBITDA
Omega Flex	OFLX	482.30	14.37	23.28	33.82	23.61
Colfax Corporation	CFX	4,728.00	128.10	8.60	37.00	12.43
Handy & Harman Ltd	HNH	337.30	(10.90)	6.04	39.67	6.20
Global Brass & Copper Holdings	BRSS	726.60	32.20	7.10	23.02	8.83
Chart Industries	GTLS	1,041.00	28.20	8.11	37.26	9.91
Flowserve	FLS	6,243.00	145.10	10.67	43.09	13.75
	Peer Averages	2,615	65	8.1	39.2	10.2

Source: Factset

Grupo Supervielle SA (SUPV)
April 7, 2017

Adam Hamilton International Financial Services

Grupo Supervielle SA (NYSE: SUPV) is a Latin American private financial group with a focus on providing banking and financial services to individuals and SMEs (small and medium size enterprises). SUPV is currently the 13th largest financial institution and the 10th largest private bank in Argentina with $3 billion in assets, $1.5 billion in loans, over 2 million clients. The group currently controls 4.8% of the Argentine private financial market. Despite its small size, SUPV is able to provide services nationwide. The firm operates through four segments in which revenues are broken down into: Banking (79.56%), Insurance (2.74%), Investment Services (2.97%), and Specialty Finance and Services (14.73). The company was founded on October 8, 1979, is headquartered in Buenos Aires, Argentina, and has 4976 employees.

Price ($): (3/31/17)	17
Price Target ($):	22.98
52Wk H-L ($):	10-17
Market Cap (mil):	1,256
Float (mil):	-
Short Interest (%):	0.89%
Avg. Daily Vol (mil):	0.19
Dividend ($):	0.00
Yield (%):	0.00%

Beta:	0.76
COE	12.6%
M-Term Rev. Gr Rate Est:	4.0%
M-Term EPS Gr Rate Est:	29.0%
Financial Leverage	16.54x
ROA:	0.8%
ROE:	12.8%
Tier 1 Capital Ratio	12.2%
Loan Loss Reserves/Loans	2.6%

FY: Dec	2015A	2016A	2017E	2018E
Income (Mil)	689	693	717	749
% Growth	24.55%	0.62%	3.50%	4.50%
Net Interest Margin	19.10%	20.40%	19.70%	18.60%
Pretax Margin	14.58%	17.74%	19.23%	22.09%
EPS (Cal)	$2.37	$1.37	$1.74	$2.28
P/E (Cal)	-	9.6	9.1	7.3
BVPS	7.6	9.2	9.3	9.0
P/B	-	2.2	2.5	1.9

Recommendation

After being in a financial crisis for more than 14 years, recently elected Argentinean President, Mauricio Macri, has issued economic and policy reforms and is expecting an economic recovery. GDP is expected to grow at 3% YOY due to investments in infrastructure and agriculture, eliminating currency controls, and cutting the export tax. Also, the Central Bank of Argentina (BCRA) forecasts a decrease in inflation from 26% to 17-19% due to increases in minimum capital requirements for banks. SUPV expects to benefit from these macro-economic reforms tremendously. Its business model and position in the Argentinean banking industry has helped the company produce tremendous growth. SUPV increased net income by 94% in FY16 compared to the 27% average net income growth posted by Argentinean private banks. This is contributed to its banking segment, which has three distinct, key fragments. First, the Consumer Finance fragment continues to grow due to an exclusive partnership with Walmart through 2020 to provide consumer loans, credit cards, and insurance products at each of Walmart Argentina's 109 supermarkets. Second, the Retiree fragment provides constant revenues and helps sustain NIMs. SUPV's agreement with National Social Security Administration (ANSES) allows the bank to act as a paying agent of 13.2% of all monthly social security payments to citizens – ranking first among Argentine private banks. SUPV has dedicated 78 of its branches to retiree services, which allows access to potential customers of financial services – the senior citizens, who account for 32% of revenues and 25% of its deposit base. Lastly, SMEs, which account for 28% of its loan portfolio, stand to benefit from the growing economy of Argentina with the sector becoming one of the main drivers of credit demand growth. As the economy performs better, more corporate loans will be available to SMEs. Based on the company's attractive positioning with the Argentine economy and the potential revenue tailwinds, it is recommended that SUPV be added to the AIM International Equity Fund with a price target of $22.98 representing an upside of 34.6%. SUPV currently does not pay a dividend.

Investment Thesis

- **Loan Portfolio Growth.** SUPV will continue to grow its loan portfolio, driven by strong performance in corporate loans and consumer finance. Loans were up 58% in FY16, coming in slightly above management's guidance range of 47% to 57% for 2016. As management further reduced securitized loans post-IPO, balance sheet loans rose 71% for the year. This is important because securitized loans are kept off the balance sheet and sold to third parties, which in essence decreases total loans on paper. In FY16 corporate loans increased SUPV's total loan portfolio by 41%. The Central Bank of Argentina (BCRA) has deregulated the terms regarding branch bank openings, which allows SUPV to convert 65 of its 78 retiree branches into full fledge banking services branches. This means that with a very small investment in a partial sales force increase, SUPV will be able to use those existing branches to increase the loan per branch ratio.

- **Cross-Selling Potential.** Through SUPV's subsidiaries, it is able to cross-sell and create synergies across its segments, which improves the company's financial performance. Bancassurance allows SUPV to cross-sell value added insurance products to its customers. Additionally, through Espacio Cordial de Servicios, the company can attach products and services like tourism packages, health insurance and health services, electric appliances, furniture, and alarm systems. These cross-selling services account for approximately 345,000 customers and have a 12% contribution to next income.
- **Presence.** SUPV is a household name, being the oldest private franchise in the country. Due to the 78 retiree service branches, which has a customer base of 1.1 million retirees, this allows SUPV to be the largest player among this network, which accounts for 25% of the company's deposit base and 15% of SUPV's bottom line. Also, its presence is concentrated throughout Argentina's major cities where GDP per-capita is above $12,000. The Bank has 326 access points (branches, senior service centers, and collection centers), 492 ATMs, and 158 self-service terminals. This brand recognition makes growth and cash flows more sustainable and predictable.

Valuation

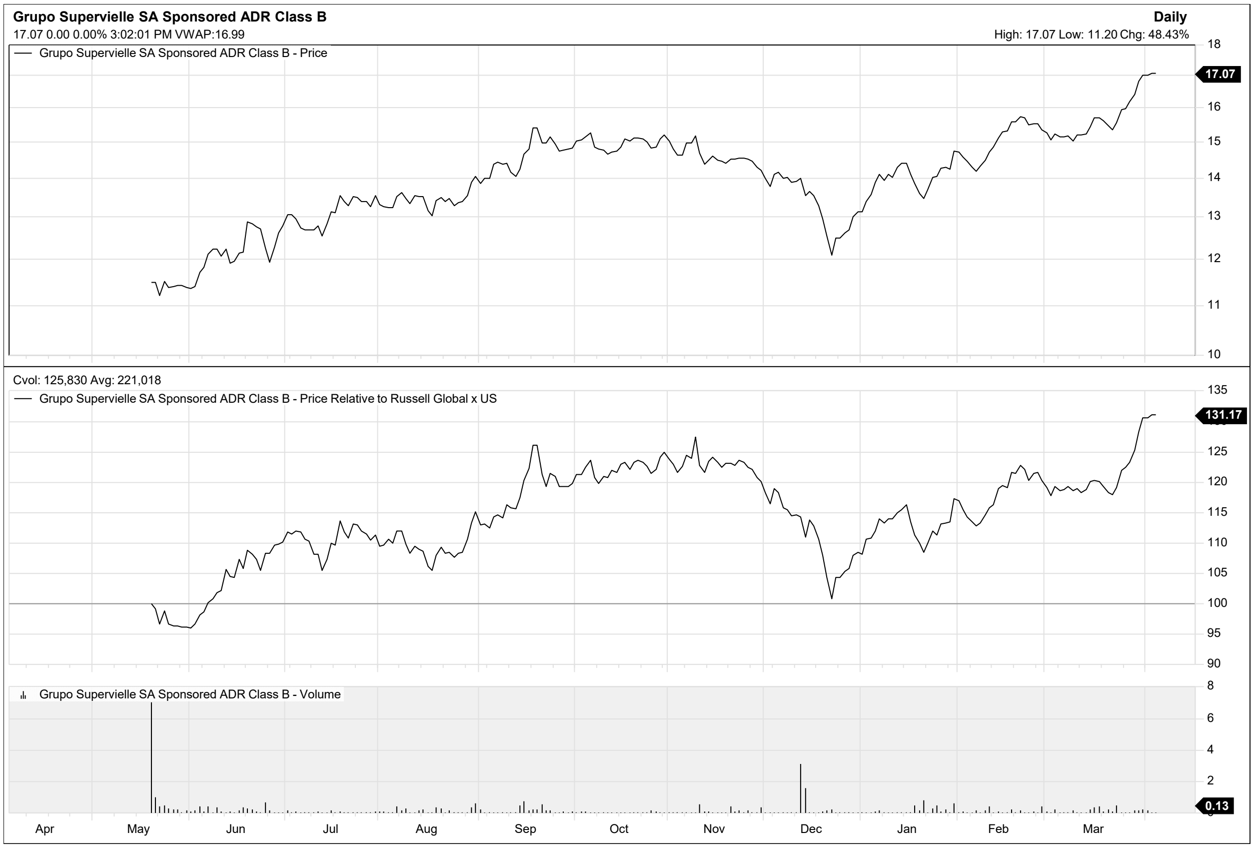
To find the intrinsic value of SUPV a price to tangible book multiple was used. The 4-quarter weighted average historic price to book for SUPV was 1.99x and the 4-year average historic price to book for SUPV was 0.76x. SUPV's peer average P/B multiple was higher at 2.60x. A target price to book valuation was created alternatively using a Gordon Growth Model, using a COE of 12.64%, 2017 ROE of 28%, and LT growth of 3%. This resulted in a price to book value of 2.61x. A sensitivity analysis was run altering LT growth ± 1% and 2017 ROE ± 3%, yielding a price range of 16.68-35.10. Weighting historical, peer, and Gordon growth valuations 10/30/60, the final estimated intrinsic value of SUPV is $22.98, which provides an upside of 34.6%.

Risks

- **Economic Uncertainty.** SUPV's financial performance depends on the health of the overall Argentinean economy. If Argentina's GDP does not reach the projected 3% and inflation does not stabilize, banking penetration could fall short of expectations causing an increase in stock price volatility. Also, softening of monetary policy will lower interest rates.
- **Losing Partnerships.** Any loss of one of SUPV's partnerships with Walmart or ANSES, would negatively impact the Consumer Finance and Retiree Fragments. This would stifle a huge competitive advantage for the company and negate strong revenue growth.
- **Political Climate.** Political parties who oppose President Macri recently gained a majority in the Argentinean Congress in 2015. This creates uncertainty in terms of policy implementation and could lead to stock price volatility in all Argentinean publicly traded companies.

Management

Julio Patricio Supervielle is the CEO and chairman of the boards of Grupo Supervielle and has served in this role since 2008. He has 35 years of industry experience and has been with the company since 1986. He has 35 years of industry experience and has been with the company since 1986 where he has also held the positions of general manager and director. Alejandra Naughton serves as CFO.



Ownership

% of Shares Held by All Insider and 5% Owners:	22.00%
% of Shares Held by Institutional & Mutual Fund Owners:	>90%

Source: Factset

Top 5 Shareholders

Holder	Shares	% Out
Third Point LLC	2,740	5.78
PointState Capital LP	2,719	5.74
Soros Fund Management LLC	2,002	4.22
Gilder, Gagnon, Howe & Co. LLC	1,666	3.51
Kora Management LP	1,294	2.73

Peer Analysis

Name	Ticker	Market Cap (mil)	Net Income (mil)	Div. Yld. %	P/B	D/E
Grupo Financiero Galicia SA	GGAL	4,979	403	-	3.83	260.9
Bank of N.T. Butterfield & Son	NTB	1,677	116	4.00	2.39	19.8
BBVA Banco Frances SA	BFR	3,319	244	-	1.98	335.6
Banco Latinoamericano de Comercio Exterior, SA	BLX	1,006	87	5.23	3.17	80.8
Peer Averages		2,745	213	4.62	2.8	174.3