## Applied Investment Management (AIM) Program

## AIM Class of 2016 Equity Fund Reports

## Spring 2015

***Date**:* Friday, May 1, 2015 | ***Time:** **3***:00 - 4:40 p.m. | ***Location: AIM Room***

| Student Presenter | Company Name | Ticker | Industry |
|---|---|---|---|
| Ryan Woo | Syneron Medical LTD | ELOS | International Healthcare |
| Daniel Fernandez Guerra | NXP Semiconductors NV | NXPI | International Technology |
| Avery Flyte | Grand Canyon Education, Inc. | LOPE | Consumer Discretionary |
| Jack Kitzinger | HollySys Automation Technologies Ltd. | HOLI | International Producer Durables |
| Patrick Sanchez Mitchell | Royal Dutch Shell Plc | RDS.B | International Energy |
| Ryan Johnston | Enova International Inc. | ENVA | Financial Services |

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 3-4 minutes of Q & A.

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**Syneron Medical LTD (ELOS)**

May 1, 2015

Ryan Woo | International Healthcare

*Syneron Medical Ltd. (NASDAQ: ELOS) specializes in the research, manufacturing, development, marketing, and sale of aesthetic devices. ELOS operates worldwide with over 700 employees under the two brand names of Syneron and Candela. Its primary customers are dermatologists, surgeons, and physicians. Through its proprietary Electro-Optical Synergy technology, ELOS provides a portfolio of products performing a vast range of procedures including fat removal, wrinkle reduction, tattoo removal, acne treatments, and lesion removal. The revenue distribution between regions is as follows: 36% in North America, 32% in Europe and Middle East, 17% in Asia Pacific, 10% in Japan, 1% in Israel, and 3% in other areas. The company has head offices in Irvine, CA and Wayland, MA which focus on manufacturing and sales. Syneron Medical was incorporated in 2000 and is headquartered in Yokneam Illit, Israel.*

| | |
|---|---|
| Price ($): (4/23/15) | 12.19 |
| Price Target ($): | 16.40 |
| 52WK H-L ($): | 12.89 - 8.32 |
| Market Cap (mil): | 448 |
| Float (mil): | 34.1 |
| Short Interest (%): | 1.2 |
| Avg. Daily Vol (mil): | 0.1 |
| Dividend ($): | 0.00 |
| Yield (%): | 0.0 |

| | |
|---|---|
| Beta: | 1.04 |
| WACC | 8.45 |
| M-Term Rev. Gr Rate Est: | 8.8% |
| M-Term EPS Gr Rate Est: | 14.3% |
| Debt/Equity: | 0.0 |
| Debt/EBITDA (ttm): | 0.00 |
| ROA (%): | -1.70 |
| ROE (%): | -2.26 |
| ROIC (%): | -2.26 |

| FY: Dec 31 | 2014 | 2015E | 2016E | 2017E |
|---|---|---|---|---|
| Revenue (Mil) | 256 | 286 | 315 | 343 |
| % Growth | -0.45% | 12% | 10% | 9% |
| Gross Margin | 53.17% | 52.25% | 57.20% | 57.59% |
| EBITDA Margin | 4.12% | 8.53% | 14.91% | 15.46% |
| EPS (Cal) | ($0.06) | $0.22 | $0.63 | $0.72 |
| FCF/Share | $0.36 | $1.17 | $1.50 | $0.80 |
| P/E (Cal) | N/A | 73.7 | 27.4 | 25.4 |
| EV/EBITDA | 33.1 | 20.3 | 11.3 | 10.6 |

## Recommendation

The medical aesthetics industry currently represents a $4.6 billion market opportunity that has grown at a 5-year CAGR of 7.4%. Looking forward, the solid growth is expected to continue into the next five years with a projected CAGR of 5.8% reaching a $6.2 billion market by the end of 2019. Syneron Medical is at the forefront of this growth. ELOS currently maintains a market share of 30% in the highly fragmented aesthetic devices market that has no clear leader in the industry. For Syneron, sales have grown at a 10-year CAGR of 16.1% since 2004, and the company posted record revenues in 4Q 2014 of $74.1 MM, which is up 23.7% YoY. In addition to revenue, gross margins have increased at a 3.31% CAGR since 2009 to 53.2%. In February 2014, ELOS acquired New Star Lasers Inc. and its 20+ patents for $11 MM. New Star Lasers develops, manufactures, and markets advanced lasers in the medical field, primarily in the US. With this acquisition, Syneron expands its product breadth and plans to take the lasers to the global markets. UltraShape, the first non-invasive body contouring system of its kind, received FDA approval in April 2014. In April 2015, the FDA approved Syneron's newest device PicoWay, the latest in tattoo removal technology that is at the top of its class in reliability, performance, cost of ownership, and efficacy. Its dual wavelength technology allows for easy removal of colors that could not previously be treated. In 4Q 2014, the Board of Directors approved a $20 MM share buyback plan, which still has $19.5 MM outstanding. Based on strong future revenue growth for both ELOS and the overall industry, in addition to the drivers mentioned below, it is recommended that Syneron Medical be added to the AIM International Equity fund with a target price of $16.40, representing an attractive 36% upside.

## Investment Thesis

- **Expanded Product Launches.** With the launch of both PicoWay and Ultrashape in the US and abroad, Syneron is poised for stronger revenues and gross margins. Both products are expected to improve gross margins by 20% compared to their former models. Ultrashape opens up a market of individuals who would like to lose weight painlessly and shamelessly. This number has increased with obesity on the rise. PicoWay also opens up a new market in the US for tattoo removal. Currently, there are 51 million Americans with tattoos, and 14% of them regret having them. This presents an $11-22 billion opportunity in the US with further growth opportunities abroad.

- **Aging Trends.** Individuals entering their retirement years are the primary market (77 million US Baby Boomers are approaching this stage). This will spark an increased demand for Syneron's devices. Globally, there are 5 billion people who have a life expectancy of 60 years or greater. By 2025, it is projected that the average life expectancy will be 73 years. These trends in the US and around the world will increase demand by surgeons and physicians for ELOS products to cater to their customers, particularly in the wrinkle removal, tattoo removal, and fat reduction fields.
- **Growth in North America.** ELOS has shifted much of its attention to the US and Canada. Syneron announced the hiring of William Griffing as the CEO of North America. His sales expertise in dermatology coupled with a multi-channel marketing campaign position Syneron in a strong spot to gain market share. Guidance has a 50% increase of revenues for 2015.

**Valuation**

In order to reach an intrinsic value for ELOS, a five year Discounted Cash Flow model was constructed. Using a terminal growth rate of 2% and a WACC of 8.45%, an intrinsic value of $16.61 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $13.38-$21.87. Additionally, a P/S multiple valuation was conducted using forward 2015E sales of $286.44 MM and an average of ELOS and comparables P/S of 2.08x, which resulted in a valuation of $16.18. By weighting the two valuation models 50/50, a price target of $16.40 was reached, which yields a 35.65% upside. ELOS does not pay a dividend.

**Risks**

- **Risk of Business in Israel.** Syneron has its headquarters located in Israel, which includes corporate, research and development, and manufacturing. The country has been known to have political, economic and military uncertainty. If any major event were to happen in Israel or a major trading partner, the operations of Syneron may be negatively affected.
- **Competitive Aesthetic Industry.** The aesthetics industry is very competitive with no clear leader having a majority of the market share. If competitors develop and release products that clearly trump those of Syneron, ELOS may see a decrease in revenue or an increase in research and development to respond.
- **High Regulations.** The healthcare industry is one of the most regulated industries in the world. Syneron has been fortunate to gain approval more often than not from the FDA and other national regulation bodies. If Syneron were to be rejected by any health regulatory agency, Syneron could waste time and money with minuscule benefits.

**Management**

Amit Meridor has been the CEO since February 2014. Previously, he was the CEO of Israeli apparel company Tefron, Ltd. Hugo Goldman is the CFO, a position he has held at two other publicly traded companies before joining Syneron in November 2012. Shlomo Alkalay is the COO, and his previous work experience includes 12 years at competitor Lumenis, where he held various executive positions.


Source: FactSet

**Ownership**

| | |
|---|---|
| % of Shares Held by All Insider Owners: | 7.21% |
| % of Shares Held by Institutional & Mutual Fund Owners: | 87.61% |

Source: FactSet

**Top 5 Shareholders**

| Holder | Shares | % Out |
|---|---|---|
| RIMA Senvest Management LLC | 3,688,151 ▲ | 10.03 |
| Visium Asset Management LP | 3,410,000 ▲ | 9.28 |
| North Tide Capital LLC | 3,000,000 ▲ | 8.16 |
| Brandes Investment Partners LP | 2,338,530 ▼ | 6.36 |
| JPMorgan Investment Management, Inc. | 1,671,777 ▲ | 4.55 |

Source: FactSet

**Peer Analysis**

| Name | Ticker | Market Cap (mil) | Sales (mil) | EBITDA | D/E | P/S |
|---|---|---|---|---|---|---|
| Syneron Medical | ELOS | 448 | 256 | 10.5 | 0.00 | 1.75 |
| Cutera | CUTR | 205 | 78 | -8.6 | 0.00 | 2.63 |
| Cynosure | CYNO | 684 | 292 | 39.5 | 0.06 | 2.34 |
| Lumenis | LMNS | 407 | 290 | 23.5 | 0.52 | 1.41 |
| Iridex | IRIX | 97 | 43 | 3.0 | 0.00 | 2.26 |
| Peer Averages | | 348 | 176 | 14.4 | .14 | 2.2 |

Source: FactSet

**NXP Semiconductors NV (NXPI)**

May 1, 2015

Daniel E. Fernandez Guerra International Technology

*NXP Semiconductors N.V. (NASDAQ: NXPI) is a leader in designing, manufacturing, and a global supplier of semiconductors and software in different businesses. NXPI operates in two different business segments: High Performance Mixed Signal (77%) and Standard Products (23%). The HPMS segment delivers high performance mixed signal solutions for customer systems across different application areas: Automotive (~29%), Secure Connected Devices (~21%), Secure Identification Solutions (~28%), and Secure Interfaces and Power (~22%). The SP segment is focused on selling high-volume, low-cost discrete components to a wide range of customers in a variety of end-markets. They own approximately 11,000 patents around the world. This covers the key technologies used in their target application areas. NXPI has operations in over 25 countries and their products are sold to a wide range of end-market applications in the areas previously mentioned. NXP Semiconductors N.V. was founded in 2006 and is headquartered in Eindhoven, Netherlands.*

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Price ($): (4/21/15) | 95.33 | Beta: | 1.59 | FY: Dec | 2013 | 2014 | 2015E | 2016E |
| Price Target ($): | 124.32 | WACC | 7.8% | Revenue (Mil) | 4,815.00 | 5,647.00 | 6,292.70 | 7,016.36 |
| 52WK H-L ($): | $53.81 - 108.50 | M-Term Rev. Gr Rate Est: | 13.6% | % Growth | 10.49% | 17.28% | 11.40% | 11.50% |
| Market Cap (mil): | 23,615 | M-Term EPS Gr Rate Est: | 16.0% | Gross Margin | 47.70% | 48.00% | 48.09% | 48.50% |
| Float (mil): | 223.3 | Debt/Equity: | 781.0% | EBITDA Margin | 24.84% | 25.07% | 25.80% | 25.20% |
| Short Interest (%): | 3.50% | Debt/EBITDA (ttm): | 2.85 | EPS (Cal) | $3.61 | $5.09 | $5.16 | $5.25 |
| Avg. Daily Vol (mil): | 2.40 | ROA: | 8.1% | FCF/Share | $6.85 | $8.00 | $8.13 | $8.26 |
| Dividend ($): | 0.00 | ROE: | 58.6% | P/E (Cal) | 31.7 | 29.2 | 17.4 | 15.4 |
| Yield (%): | 0.00% | ROIC: | 11.6% | EV/EBITDA | 12.2 | 15.1 | 13.7 | 12.4 |

## Recommendation

NXPI has a broad set of businesses with a diverse customer base which lowers their customer concentration risk. A significant part of NPXI's revenue is derived from top Original Equipment Manufacturer (OEM) customers in the automotive, identification (large credit card companies), wireless infrastructure, lighting, industrial, mobile, and consumer markets, some of which are supplied through distributors. NXPI's ten largest OEM customers are Apple, Bosch, Continental, Delphi, Gemalto, Giesecke/Devrient, Huawei, Kona, Panasonic and Samsung. However, no end customer accounts for greater than 10% of the total sales. NXPI expects the HPMS segment to grow at a ~10% CAGR from 2015 to 2017, reaching over 80% of total revenue. It is expected that the SP segment will grow at a 3-yr CAGR of 6%. NXPI has placed themselves in a unique position within the technology sector and is fundamentally the best-positioned mixed-signal semiconductor firm. The outcome forecasts a sustainable growth of at least 50% above the sector over the next few years, strong earnings growth, and strong free cash flow growth with management's focus shifting toward shareholder returns and potentially accretive acquisitions. NXPI competes with IDMs (integrated device manufacturers), fabless semiconductor companies, as well as the internal divisions of large integrated OEMs. These include Texas Instruments, Qualcomm, and Infineon Technologies. The competitive landscape has changed dramatically over the last several years as a result of consolidation within the industry. Due to the projections that NXP will outgrow their sector along with a strong balance sheet and FCF it is recommended that NXP Semiconductors NV be added to the AIM International Equity Fund with a target price of $125.38, representing a 31.52% upside. NXPI does not pay a dividend.

## Investment Thesis

- **Increasing Demand for Communication Devices**. In an increasingly digital and automated world there is growing dependence on smartphones and Internet of Thing (IoT). Data access and transmission security becomes paramount, with device and network security embedded down to the silicon. NXPI should experience great success by being a leader among mixed-signal peers through integrated silicon and software security.

- **New Contracts with Dominant Firms.** NXPI has worked extensively to create licensing agreements with well-known global technology firms, including Apple, Samsung, and Panasonic. By licensing other firms to use their products, NXPI is able to increase their revenues significantly. They scored a major deal a few months ago when Apple decided to use NXPI's chips to power its new Apple Pay system.
- **Strategic Acquisitions.** By making important acquisitions to the company, NXPI can increase their market share, cost savings, and generate higher revenues. The last acquisiton made ocurred this past March when the company acquired Freescale. With this acquisition the company estimates $200M in cost savings in the first year, and $500M/year cost savings over time. Also, NXPI will become the market leader in automotive semiconductor solutions and a leader in general-purpose microcontroller products.
- **Diversified Businesses.** NXPI's recent fundamental outperformance across the sector is expected to continue. This will be achieved through solid growth in NXPI's security-focused end markets. These include chipsets and software for eGovernment, eHealth and eBanking applications, in-vehicle networking and car-to-car communications, integrated MCU/sensor/connectivity solutions for the IoT, and RF components for internet and wireless infrastructure.

**Valuation**

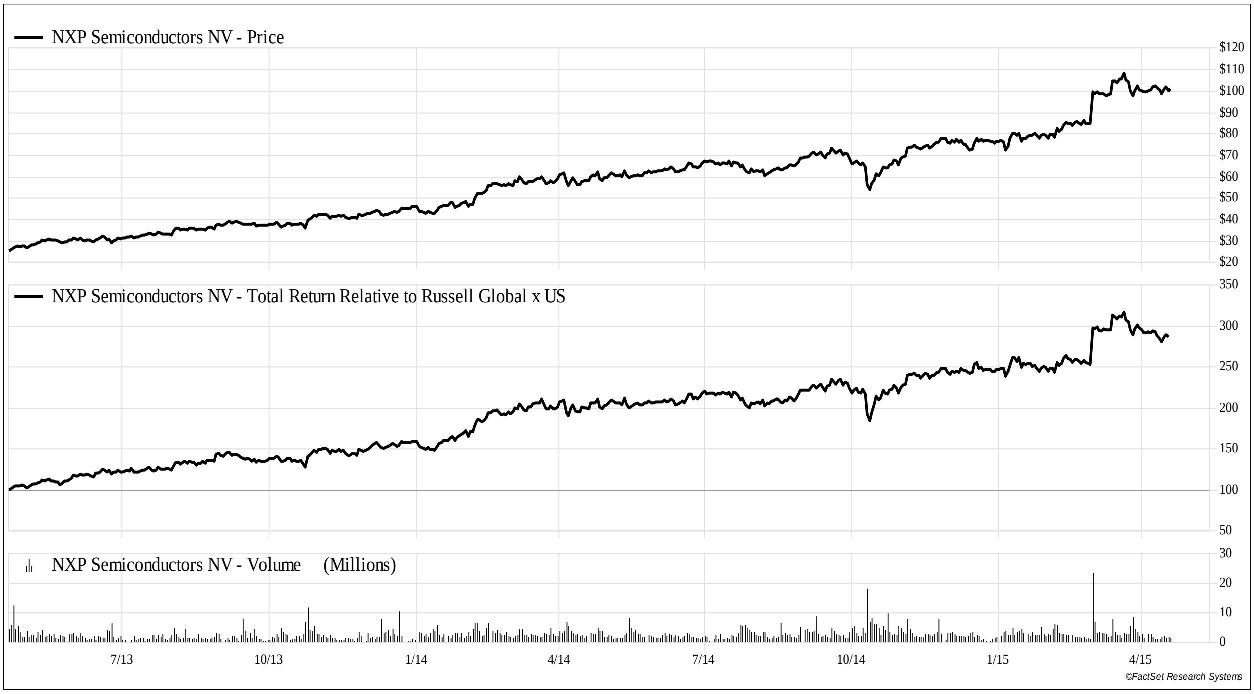
In order to reach an intrinsic value for NXPI, a five year DCF model was constructed. Using a terminal growth rate of 3% and a WACC of 7.77%, an intrinsic value of $126.55 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $93.56-$188.09. Additionally, a P/E multiple valuation was conducted a comparable average P/E of 21.4x and NXPI's 5-year historical average P/E of 26.8x which resulted in a valuation of $122.67. By weighting the three valuation models 60/20/20, a price target of $125.38 was reached, which yields a 31.89% upside. NXPI does not pay dividens.

**Risks**

- **End of Contracts with Major Firms:** NXPI has a huge partnership with Samsung and Apple, providing the NFC controller, for the Samsung Galaxy S5 and the iPhone 6, respectively. However, Samsung announced that they will be using their own NFC controller for the new S6 phone.
- **High Debt Levels:** NXPI currently holds a 781% debt/equity ratio. This large amount of debt can be concerning for both current and future investors. The company's balance sheet shows $600M in cash versus roughly $3.5B in debt. However, management feels comfortable by carrying this level of debt in order to lower its cost of capital. In fact, they recently achieved their Debt/EBITDA long-term target of below 2.0x.
- **Operations with High Fixed Costs:** NXPI operates with high fixed costs (both in terms of debt and capital infrastructure for manufacturing). This provides risks in the semiconductor market where sales are notoriously cyclical.

**Management**

Richard L. Clemmer became executive director, president and chief executive officer on January 1, 2009. Prior to that, from December 2007, Mr. Clemmer was a member of the supervisory board of NXP B.V. Prior to joining NXPI; he served as Chairman of u-Nav Microelectronics Corporation. He also held other executive level positions at Quantum Corporation and Texas Instruments. Peter Kelly was named the Executive Vice President and CFO on March 1, 2011. He has 25 years of experience, working in the technology industry in Europe and the US.




Source: Factset

**Ownership**

| | |
|---|---|
| % of Shares Held by All Insider Owners: | 4.26% |
| % of Shares Held by Institutional & Mutual Fund Owners: | 136.88% |

Source: FactSet

**Top 5 Shareholders**

| Holder | Shares | % Out |
|---|---|---|
| Fidelity Management & Research Co. | 21,063,694 ▲ | 9.03 |
| Wellington Management Co. LLP | 18,841,226 ▲ | 8.08 |
| Invesco Advisers, Inc. | 5,499,715 ▲ | 2.36 |
| Waddell & Reed Investment Management Co. | 5,469,147 ▼ | 2.35 |
| Viking Global Investors LP | 5,411,595 ▲ | 2.32 |

Source: FactSet

**Peer Analysis**

| Name | Ticker | Market Cap (mil) | Sales (mil) | EBITDA | Dividend Yield | EV/ EBITDA |
|---|---|---|---|---|---|---|
| NXP Semiconductors NV | NXPI | 23,615 | 5,647 | 1472 | #N/A | 15.13 |
| Infineon Technologies AG | 588950 | 13,295 | 4,464 | 1154.0 | 2.20 | 6.35 |
| STMicroelectronics NV | 596233 | 8,174 | 5,582 | 528.5 | 5.22 | 9.68 |
| Texas Instruments Incorporated | TXN | 60,902 | 13,045 | 5456.0 | 2.32 | 10.79 |
| Analog Devices, Inc. | ADI | 20,059 | 3,009 | 1023.0 | 2.92 | 14.19 |
| Atmel Corporation | ATML | 3,481 | 1,413 | 159.9 | 0.00 | 21.35 |
| Peer Averages | | 25,608 | 6,525 | 2040.4 | 3.16 | 10.3 |

Source: Factset

**Grand Canyon Education, Inc. (LOPE)**

May 1, 2015

Avery D. Flyte — Domestic Consumer Discretionary

*Grand Canyon Education, Inc. (NASDAQ: LOPE) is a regionally accredited provider of postsecondary education services. The company primarily serves working adults seeking a flexible alternative to traditional schooling, offering both undergraduate (61% of enrollees) and graduate (39%) degree programs online and onsite at facilities it leases and at facilities owned by third party employers. As of December 31, 2014, Grand Canyon Education had 67,806 students enrolled in its core disciplines of education, healthcare, business, and the liberal arts, of which 55,060, or 81.2%, were enrolled in online programs, and 12,746, or 18.8%, were enrolled in ground programs. The company also offers certificate programs for students who seek to enhance their skills and knowledge or achieve additional licensure. Grand Canyon Education was founded by Christopher C. Richardson and Brent D. Richardson in November 2003 and is headquartered in Phoenix, AZ.*

| | | | |
|---|---|---|---|
| Price ($): (4/20/2015) | 44.69 | Beta: | 0.97 |
| Price Target ($): | 53.25 | WACC | 6.00% |
| 52WK H-L ($): | 51.99 - 36.95 | M-Term Rev. Gr Rate Est: | 10.0% |
| Market Cap (mil): | 2,120 | M-Term EPS Gr Rate Est: | 14.3% |
| Float (mil): | 44.64 | Debt/Equity: | 18.27 |
| Short Interest (%): | 3.2 | Debt/EBITDA (ttm): | 0.41 |
| Avg. Daily Vol (mil): | 0.23 | ROA (%): | 16.25 |
| Dividend ($): | 0.00 | ROE (%): | 27.15 |
| Yield (%): | 0.0 | ROIC (%): | 22.56 |

| FY: Dec 31 | 2014A | 2015E | 2016E | 2017E |
|---|---|---|---|---|
| Revenue (Mil) | 691.06 | 777.12 | 861.43 | 944.92 |
| % Growth | 15.50% | 12.45% | 10.85% | 9.69% |
| Gross Margin | 58.21% | 58.37% | 58.37% | 58.30% |
| EBITDA Margin | 26.17% | 27.47% | 28.57% | 29.59% |
| EPS (Cal) | $ 2.37 | $ 2.81 | $ 3.24 | $ 3.69 |
| FCF/Share | $ (0.29) | $ 0.24 | $ 0.57 | $ 0.94 |
| P/E (Cal) | 19.69x | 15.98x | 14.25x | 13.06x |
| EV/EBITDA | 9.38x | 8.17x | 7.36x | 6.80x |

## Recommendation

Grand Canyon Education, Inc. is a multifaceted enterprise that is strongly positioned to compete in the highly fragmented and competitive postsecondary education market because of its above average industry enrollment growth (14.00% YoY vs. 3.70% YoY) and margin expansion (300bps YoY). With a clearly defined and differentiated brand with which to grow its more sizeable online university, LOPE continues to significantly outperform its postsecondary peers; with 4Q results beating expectations on all key metrics. The company achieved revenue and enrollment growth of 16.9% and 13.7%, respectively, during the fiscal year 2014, driven by ground enrollment increases of 26.5% and online enrollment increases of 11.1% over the prior year. In contrast, their leading competitor, the University of Phoenix, a wholly owned subsidy of Apollo Education Group, announced March 25, 2015, that revenues and enrollment had fallen 16.67% and 14.6%, respectively, in the last quarter compared to the same period in 2014. In addition, Grand Canyon Education has achieved a 28% five-year EPS CAGR with lower bad debt expense and leverage from strong revenue growth. The company initiated a share repurchase program of up to $75 million in April 2013 as part of its overall capital allocation strategy. Since the approval of the share repurchase program, Grand Canyon has purchased 2.8 million shares of common stock at an aggregate cost of $49.1 million, which includes 37,900 shares of common stock at an aggregate cost of $1.7 million during the year ended December 31, 2014. At December 31, 2014, $25.9 million (34.5%) remained available under the current share repurchase authorization. The new share repurchase authorization not only displays the firm’s financial strength but its ongoing commitment to increasing shareholder value as well. It is recommended that Grand Canyon Education be added to the AIM Equity Fund with a target price of $54.28, representing a 21.00% upside. The firm does not pay a dividend.

## Investment Thesis

- **Differentiated Model.** In a for-profit postsecondary education industry that has been in a severe multi-year decline, Grand Canyon Education’s success is a direct result of a truly differentiated model, which continues to resonate well with students, as both online and ground-based enrollments continue to grow at robust rates (11.1% YoY and 26.5% YoY, respectively). The company recognizes the need to provide students with a complete and diverse educational experience. In doing so, LOPE supports 20 athletic teams and is a member of the D1 Western

Athletic Conference (WAC). Furthermore, the company strives to separate itself from other online institutions as it offers a non-denominational Christian affiliation.

- **Tuition Rates.** The total cost of attending a postsecondary institution has skyrocketed over the past decade, adding both time and expense to the higher education experience. Grand Canyon Education's investment-funded financial model is making college education possible, and affordable, for many students who aspire to alter their socio-economic status; a tuition freeze has been in effect since 2009. The company's campus-based students pay tuition and room-and-board rates ($8,000 per year) less than one-half of most private traditional universities in other states ($28,101 per year) and comparable with rates of many taxpayer-supported universities in the state of Arizona ($10,398 per year).
- **Focus on Quality.** Grand Canyon's team-based, proactive approach to recruitment and enhanced student services focuses on the admission of high-quality students. Admissions standards for traditional undergraduate students were raised in 2012, to a minimum 3.0 GPA from 2.75 previously. For the fall of 2014, the average GPA of fully-admitted, incoming campus-based students was 3.5. Attracting academically superior students has resulted in both increased retention and on-time graduation rates. As a result of improved retention rates among students, Grand Canyon Education's revenue per student for the year ended December 31, 2014 increased over 2013.

**Valuation**

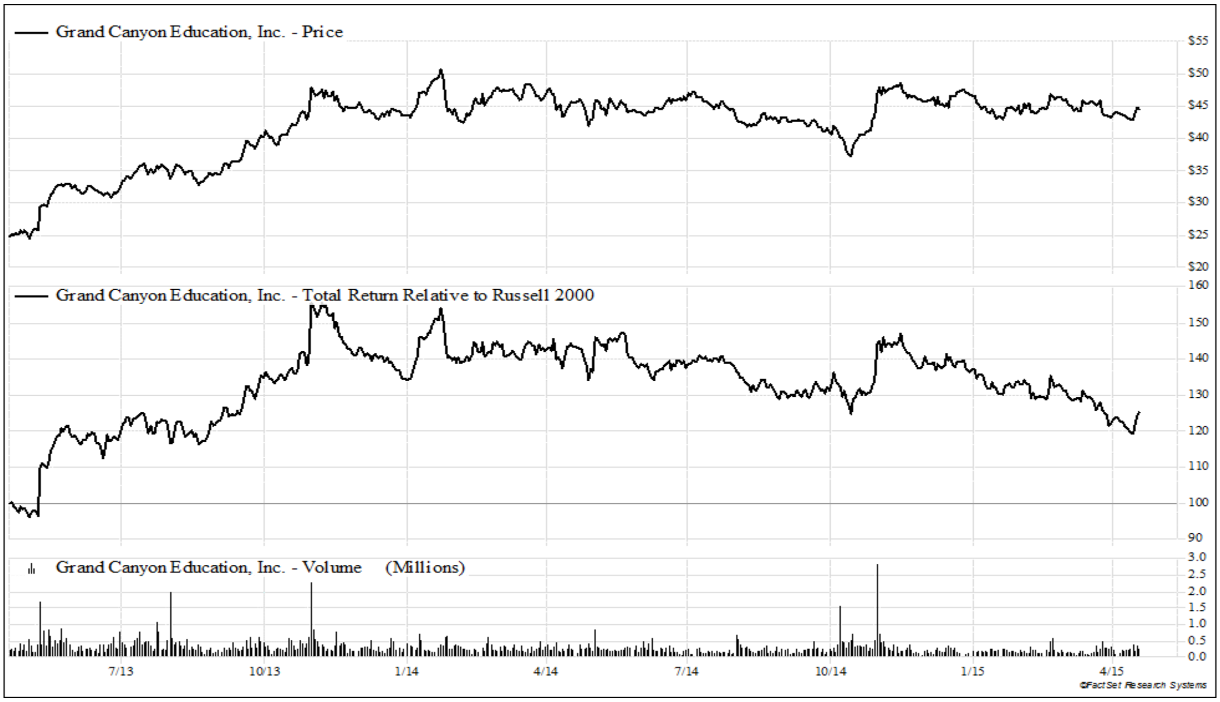
In order to reach an intrinsic value for LOPE, a five-year DCF model was constructed. Using a terminal growth rate of 3.00% and a WACC of 6.00%, an intrinsic value of $54.64 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $41.70-$80.53. Additionally, a historical and peer P/E comparison was conducted resulting in a price target of $53.93. By weighting the two valuation models 50/50, a price target of $54.28 was reached, which yields a 21% upside. LOPE does not pay a regular quarterly dividend.

**Risks**

- **Title IV Programs.** During fiscal 2014 and 2013, Grand Canyon derived approximately 76.5% and 78.5%, respectively, of its net revenues from tuition financed under the Title IV programs. The loss of all or a substantial portion of their Title IV programs could have a material adverse effect on the company's business, prospects, financial condition, and results of operations.
- **Highly Competitive Industry.** As the proportion of traditional colleges and universities offering distance learning and other online education programs increases, Grand Canyon will begin to face competition for students from such institutions. These competitive pressures could cause the company's enrollments, revenues, and profitability to significantly decrease.
- **Ground Campus Investments.** Management has stated that the profitability of ground program students is on average higher than online students. The significant capital expenditures required to fund future ground campus expansion could negatively impact the ROIC of the traditional ground population.

**Management**

Mr. Brian E. Mueller was named President and CEO in July 2008, and has served as the President of Grand Canyon since September 2012. He started with the company in March 2009 as a Director. From 1987 to 2008, Mr. Mueller was employed by Apollo Education Group, Inc., a for-profit, postsecondary education company and the parent company of the University of Phoenix, serving between January 2006 and June 2008 as its President and a Director.




Source: FactSet

**Ownership**

| | |
|---|---|
| % of Shares Held by All Insider Owners: | 5.16% |
| % of Shares Held by Institutional & Mutual Fund Owners: | 98.20% |

Source: FactSet

**Top 5 Shareholders**

| Holder | Shares | % Out |
|---|---|---|
| Wells Capital Management, Inc. | 5,368,465 ▲ | 11.41 |
| The Vanguard Group, Inc. | 3,091,433 ▲ | 6.57 |
| BlackRock Fund Advisors | 2,382,476 ▲ | 5.06 |
| Riverbridge Partners LLC | 2,262,308 ▼ | 4.81 |
| AllianceBernstein LP | 1,870,143 ▲ | 3.97 |

Source: FactSet

**Peer Analysis**

| Name | Ticker | Market Cap (mil) | Sales (mil) | EBITDA | Dividend Yield | EV/ EBITDA |
|---|---|---|---|---|---|---|
| Grand Canyon Education, Inc. | LOPE | 2,094 | 691 | 210.288 | N/A | 9.73 |
| Apollo Education Group, Inc. Class A | APOL | 1,910 | 2,786 | 425.5 | N/A | 4.80 |
| Capella Education Company | CPLA | 800 | 422 | 90.6 | 1.85 | 9.29 |
| American Public Education, Inc. | APEI | 519 | 350 | 82.0 | N/A | 6.48 |
| Bridgepoint Education, Inc. | BPI | 431 | 639 | 54.5 | N/A | 5.16 |
| Career Education Corporation | CECO | 329 | 741 | -21.5 | N/A | N/A |
| Peer Averages | | 798 | 988 | 126.2 | N/A | 6.43 |

Source: FactSet

**HollySys Automation Technologies Ltd. (HOLI)**
May 1, 2015

Jack Kitzinger | International Producer Durables

*HollySys Automation Technologies Ltd. (NASDAQ: HOLI) is a provider of automation solutions in three major segments: Industrial Automation (42% of revenue), Rail Transportation (27.5%), and Mechanical & Electrical Solutions [M&E] (30.5%). The Industrial Automation segment has two main products: total distributed control systems for industrial and power plants; and nuclear power automation. Rail systems focus on high-speed rail signaling (automatic train protection) and subway solutions. The M&E Solution segment focuses on electrification and engineering services. HOLI operates most of their segments in China. HOLI was founded by Chang Li Wang and An Luo in 1993 and is headquartered in Beijing, China.*

| | |
|---|---|
| Price ($): (4/24/15) | 23.49 |
| Price Target ($): | 28.77 |
| 52WK H-L ($): | 16-26 |
| Market Cap (mil): | 1,396 |
| Float (mil): | 25.8 |
| Short Interest (%): | 2.40% |
| Avg. Daily Vol (mil): | 0.85 |
| Dividend ($): | 0.00 |
| Yield (%): | 0.00% |

| | |
|---|---|
| Beta: | 1.22 |
| WACC | 11.7% |
| M-Term Rev. Gr Rate Est: | 7.0% |
| M-Term EPS Gr Rate Est: | 7.1% |
| Debt/Equity: | 5.7% |
| Debt/EBITDA (ttm): | 0.29 |
| ROA: | 8.3% |
| ROE: | 15.4% |
| ROIC: | 14.9% |

| FY: Dec | 2013 | 2014 | 2015E | 2016E |
|---|---|---|---|---|
| Revenue (Mil) | 349.10 | 521.33 | 568.25 | 636.44 |
| % Growth | 22.40% | 8.50% | 9.00% | 12.00% |
| Gross Margin | 41.60% | 38.10% | 40.00% | 40.00% |
| Operating Margin | 16.90% | 14.60% | 20.00% | 25.00% |
| EPS (Cal) | $0.97 | $0.90 | $1.58 | $1.66 |
| FCF/Share | $0.35 | $1.15 | $1.53 | $1.62 |
| P/E (Cal) | 13.3 | 20.4 | 14.9 | 14.1 |
| EV/EBITDA | 14.01x | 14.81x | 10.2 | 9.1 |

## Recommendation

In the past few years, China has experienced lower GDP growth than at any point in the past twenty years; however, it still has room to grow its infrastructure. Over the last two years, the Chinese economy has reached its lowest level of growth since 1990, not including the great recession, yet the government is still pouring money into infrastructural projects. HOLI stands out as a company that will benefit from the over $1 trillion worth of government spending on infrastructure, highlighting the transportation services sector in China, which will grow at a CAGR of 9% over the next five years.. Presently, HOLI is one of only three approved of high speed rail signaling systems in the 200-250 km/h segment controlling 60% of this segment, and is one of only two providers of the 300-350 km/h segment. In the next five years, high-speed rail is projected to increase from 20,000 to 37,000 km and during the same time period, multiple units are forecasted to increase from 1,800 to 3,500 by 2020. HOLI will also profit from increased Chinese nuclear production, which is expected to grow at an estimated CAGR of 20.3% until 2020. Not only is HOLI gaining momentum in China's infrastructural program, but the company stands as a frontrunner to benefit from a new transportation network between China and the Middle East. Additionally, due to increased environmental awareness, concerns for safety and a desire for production efficiency, there remains a growing demand for HOLI's distributed control systems, which hold a dominant market share. Finally, with a backlog CAGR of 19.7% for 2015, HOLI is poised to have another strong year. Due to HOLI's diverse product lineup, growing infrastructural in China, and the international expansion, it is recommended that HollySys Automation Technologies Ltd. be added to the AIM International Fund with a price target of $28.77, representing a 23% upside.

## Investment Thesis

- **China's Rail Invesment.** Infrastructure investing has been strong in China for the past 20 years. As China moves toward a more consumer oriented, middle class society, the infrastructure growth must continue considering that China still lags behind more developed countries. HOLI estimates that there will be 4,630 km of subways by 2016 and 8,314 km by 2020. Similarly, China plans to double high-speed rail from 12,000 km by 2020: for every km of rail HOLI creates ATP processes for, they earn about $21,000.
- **Chinese Nuclear Power Investment.** The magnitude of the pollution problem in China has mandated a secular shift towards renewable energy. The Chinese government has plans increase

nuclear production to 200 GW by 2030, and they will further benefit from the joint venture with China General Nuclear Power Corporation that started in 2005. Currently, this partnership (China Techenergy Co. Ltd.) holds 60% of China's nuclear market share. China has 23 nuclear power plants under construction, 34 proposed, and 29 conceived. As HOLI is the only Chinese company that can provide the entire support and control system of these nuclear power plants, they are positioned well for future contracts. This can be seen by the 44 contracts that HOLI has already provided solutions for, which includes the majority of Chinese nuclear plants and high barriers to entry will help them continue this growth.

- **Growing International Footprint.** HOLI has a growing presence in Southeast Asia, India, and the Middle East. It is the largest Southeast Asian solutions provider in industrial and railway automation. China begins a $46 billion dollar investment into boosting trade with Pakistan as a safeguard to trade in case of a blockade in Indonesia. HOLI will be in a strong position to gain from the expansion because China will be investing money into Chinese companies to provide these solutions. The main part of the project plans to add 10,400 megawatts of electricity by 2018. With HOLI's international growth, they will be positioned well to get these contracts, continuing international growth.

**Valuation**

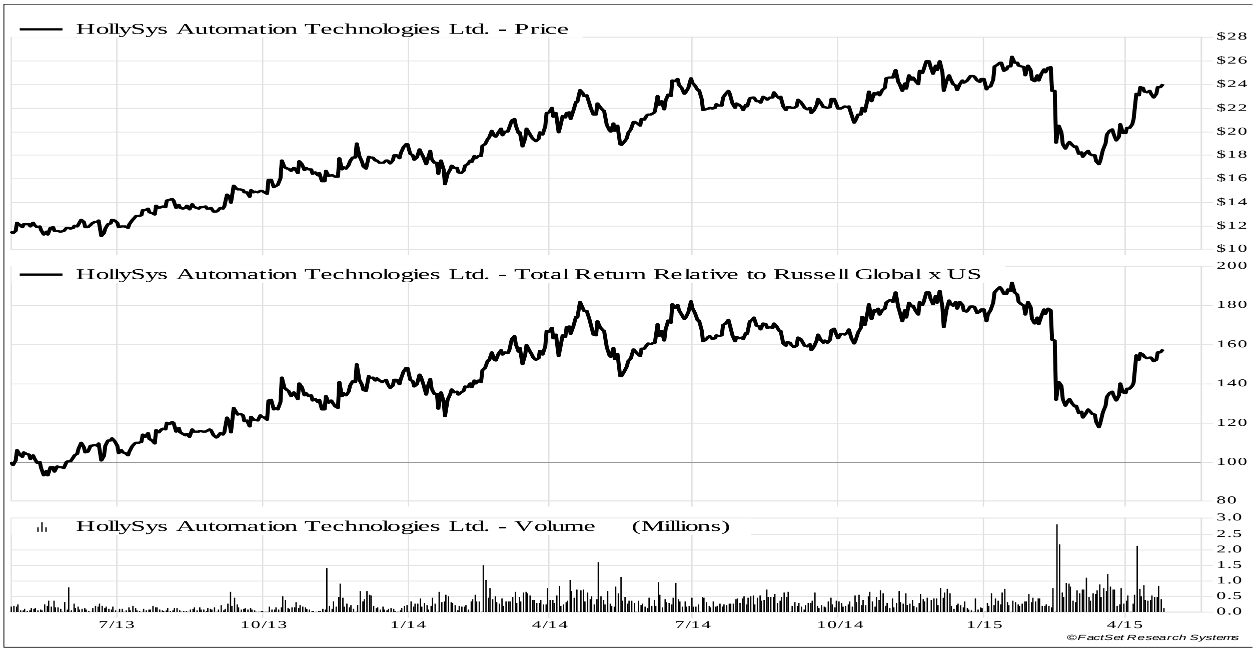
In order to reach an intrinsic value for HOLI, a five year DCF model was constructed. Using a terminal growth rate of 2.5%, WACC of 11.66%, an intrinsic value of $29.95 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $28.19-$33.37. Additionally, a P/E multiple valuation was conducted using next years EPS of $1.58, a comparables average P/E of 18.49x, and HOLI's 5-year historical average P/E which resulted in a valuation of $26.00. By weighting the two valuation models 70% and 30% respectively, a price target of $28.77 was reached, yielding a 23.00% upside. HOLI does not pay a dividend.

**Risks**

- **Failure of new product introductions.** HOLI has a strong track record with new product introductions; however, if one of their products does not see early adaption, the R&D expenses will be lost and margins will suffer.
- **Slowing Chinese Economy.** The Chinese GDP has been slowing down (estimated growth of 7% in 2017). If the bank loan capital decreases do not help stimulate Chinese growth, it may take longer for this investment to come to fruition.
- **System Failure.** In the event of a failure in one of HOLI's systems, it could not only lead to litigation, it would also harm HOLI's reputation. While this has not happened to any of their systems in the recent past, there is always a possibility of it occurring.

**Management**

Dr. He Jianfeng is Chairman. He joined in 1997 and has been general manager of Hangzhou HollySys and Beijing HollySys. He received a graduate degree from Central South University and a doctorate degree from the South China University of Technology. Mr. Bai Qing Shao is CEO of HOLI. He has on the Board of Directors and received an MBA from Peking University.




Source: FactSet

**Ownership**

| | |
|---|---|
| % of Shares Held by All Insider and 5% Owners: | 31.40% |
| % of Shares Held by Institutional & Mutual Fund Owners: | 60.10% |

Source: FactSet

**Top 5 Shareholders**

| Holder | Shares | % Out |
|---|---|---|
| Wang Chang Li | 9,004 | 15.50 |
| Luo An | 5,097 | 8.80 |
| Wang Wenfu | 4,114 | 7.10 |
| M&G Investment Management | 3,635 | 6.20 |
| Dimensional Fund Advisors, L.P. | 2,138 | 3.70 |

Source: FactSet

**Peer Analysis**

| Name | Ticker | Market Cap (mil) | Net Income (mil) | D/E | P/E | EV/ EBITDA |
|---|---|---|---|---|---|---|
| HollySys Automation | HOLI | 1,394 | 69 | 5.70% | 20.41 | 12.6 |
| Yokogawa Electric Corp. | YOKEY | 3,312 | 172 | 0.4 | 23.29 | 11.3 |
| ABB | ABB | 50,238 | 2,540 | 47.27% | 18.94 | 9.7 |
| Emerson Electric Co. | EMR | 39,337 | 2,147 | 59.50% | 20.52 | 9.2 |
| Honeywell | HON | 80,336 | 4,239 | 49% | 18.75 | 10.9 |
| Peer Averages | | 43,306 | 2,275 | 0.5 | 20.375 | 10.3 |

Source: FactSet

**Royal Dutch Shell Plc (RDS.B)**
May 1, 2015

Patrick Sanchez Mitchell International Energy

*Royal Dutch Shell Plc (NYSE: RDS.B) operates as an independent oil and gas company worldwide. It operates through Upstream (10.7% of revenues) and Downstream (89.3%) segments. The Upstream segment engages in the exploration and recovery of crude oil and natural gas; the liquefaction of gas; the extraction of bitumen from oil sands; and wind energy. The Downstream segment engages in manufacturing, distribution, and marketing activities for oil products and chemicals with an emphasis on sustained cash generation from existing assets and selective investments in growth markets. In addition, the company engages in manufacturing, supplying, and shipping crude oil. Shell was founded in 1970 and is headquartered in The Hague, Netherlands.*

| | |
|---|---|
| Price ($): | $64.59 |
| Price Target ($): | 80.61 |
| 52WK H-L ($): | 88.13 - 59.33 |
| Market Cap (mil): | 199,580 |
| Float (mil): | 0.0 |
| Short Interest (%): | 0.1 |
| Avg. Daily Vol (mil): | 1.6 |
| Dividend ($): | 3.76 |
| Yield (%): | 5.9 |

| | |
|---|---|
| Beta: | 0.92 |
| WACC | 6.96 |
| M-Term Rev. Gr Rate Est: | 4.5% |
| M-Term EPS Gr Rate Est: | 2.3% |
| Debt/Equity: | 26.5 |
| Debt/EBITDA (ttm): | 1.02 |
| ROA (%): | 4.37 |
| ROE (%): | 8.83 |
| ROIC (%): | 6.97 |

| FY: Dec | 12/31/2013 | 12/31/2014 | 12/31/2015 | 12/31/2016 |
|---|---|---|---|---|
| Revenue (Mil) | 449,926 | 419,397 | 247,780 | 447,040 |
| % Growth | -3.87 | -6.79 | 2.00 | 4.50 |
| Gross Margin | 15.40 | 15.15 | 16.90 | 16.91 |
| EBITDA Margin | 10.72 | 10.54 | 11.14 | 11.14 |
| EPS (Cal) | $5.18 | $4.70 | $3.84 | $5.25 |
| FCF/Share | ($0.27) | $3.75 | $3.02 | $3.18 |
| P/E (Cal) | 14.5 | 14.8 | 16.5 | 12.1 |
| EV/EBITDA | 5.6 | 5.5 | 5.9 | 5.7 |

## Recommendation

As crude oil prices plummeted in the past year, analysts, investors, and executives are beginning to see signals that the price of crude oil is returning to sustainable spot prices in order to support costly global oil production. Consensus expects the global population to grow one-third by 2040, which leads to predictions that oil will continue to remain the largest source of energy with its share remaining at 33% of total energy worldwide. Royal Dutch Shell Plc is one of the world's top integrated oil producers and has positioned itself within the upstream and downstream markets with a niche focus in the regions of Europe (36.7% of revenues) and Africa (35.6%). The company's strong financial position generated an ROACE of 7.1% in 2014, which allows for future project development. Moreover, Shell has developed a cost advantage through vertical integration of its operations in strategic low cost areas such as Asia ($7.87 per boe) and Oceania ($13.62 per boe). Shell has an average cost of producing boe of $15.10 and constantly has worked to improve these margins. During the recent downturn of commodity prices, the company shifted its focus to recent refining trends by engaging in new markets. As a result of Shell's continuous reserve discoveries, it has the capacity of producing 3.1 million boe/d and has 4,098 million boe of unproven reserves as of Dec. 14. Stable cash flows from operations allow Shell to consistently implement share repurchase programs and disburse annual dividends. Shell has continuously pursued growth opportunities, such as the recent acquisition of BG Group to better position itself in market cap size. Due to Shell's focus on balancing growth and returns, enhanced capital efficiency, and strong project delivery, it is recommended Royal Dutch Shell be added to the AIM International Equity Fund with a target price of $80.61, representing a 24.80% upside. Shell pays an annual dividend of $3.76, yielding 5.9%.

## Investment Thesis

- **Acquisition of BG Group.** Shell has conducted an aggressive capex schedule by acquiring BG Group, paying $69B (approximately $19B in cash and $50B in equity) in order to expand their global position. The deal will expand Shell's presence into regions such as Egypt, Brazil, Singapore, and Australia and also increase capacity by 600,000 barrels per day (19.48% increase). In addition, the synergy is estimated to save Shell $2.5B in annualized costs over the next three years, increase cash flow from operations by 15%, and increase free cash flow to over

$20 billion in 2018. In addition, the acquisition will increase reserves by 3.5 billion barrels (30 years of reserves).

- **Refining margin trends in Asia.** In the key refining hubs such as Singapore, refining margins have increased considerably from approximately 1.32 usd/bbl to 8.98 uds/bbl. Shell's growing presence in this region will allow the company to better position itself relative to its peers. In addition, realized refining margins in 2014 were higher overall in all regions aside from the US West Coast. Therefore, Shell's focus on international operations (83.2% of revenues) could provide substantial contribution margin to its downstream segment. Consistent increases in refining margins have been driven by operations improvements and a stronger margin environment in new markets.
- **Management's focus on returns to shareholders.** Shell has consistently paid annual dividends with a strong and stable dividend history. Shell pays an annual dividend of $3.76/sh, yielding 5.9% annually. In addition, the company has continuously engaged in share buyback programs to offset the dilution of shares, totaling $87.7 MM in FY14. After an optimistic capex schedule investing in the acquisition of BG Group, management estimates that the company will have sufficient cash to pay dividends for the next ten years.

**Valuation**

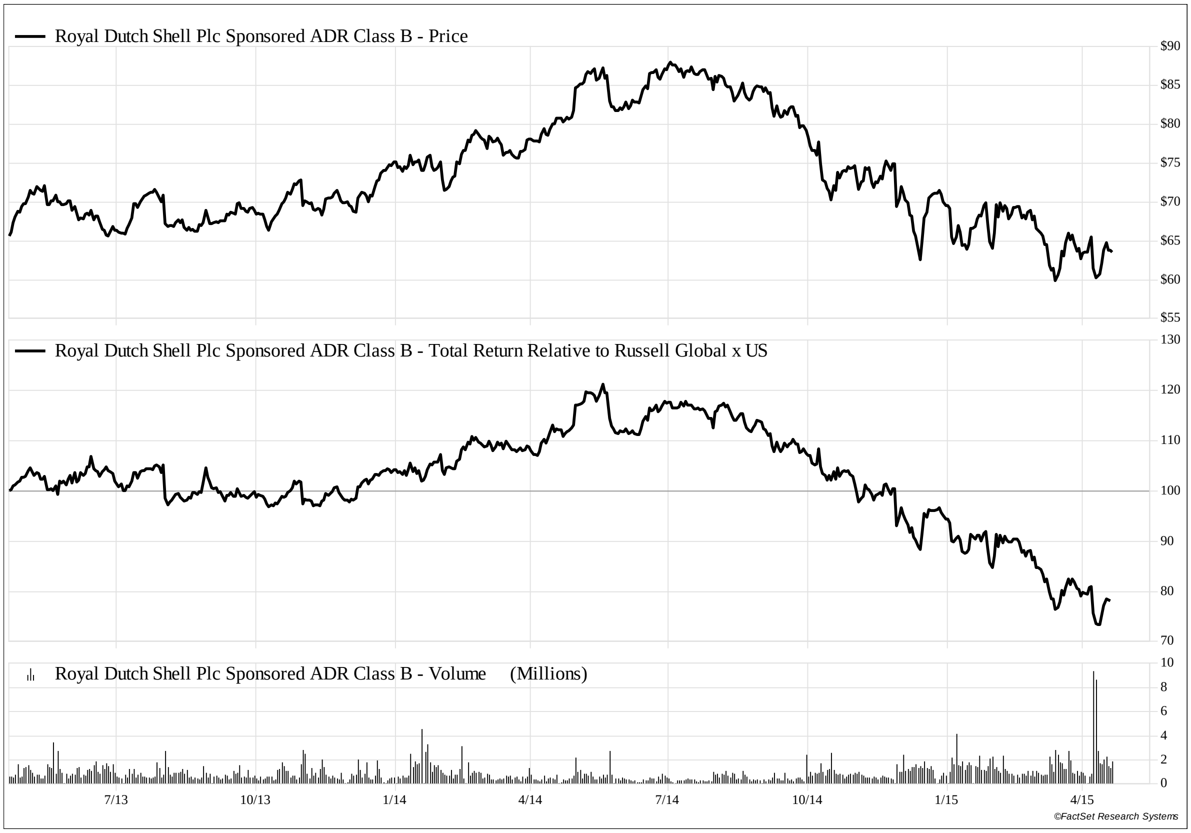
In order to reach an intrinsic value for Shell, a five year DCF model was constructed. Using a terminal growth rate of 2.55%, WACC of 6.96%, an intrinsic value of $83.98 was reached. A sensitivity analysis on the terminal growth rate and discount rate ranged from $67.32 to $89.60. Additionally, an EV/EBITDA multiple valuation was also calculated. Using a historical average of 4.58x and NTM EBITDA of $47,734 MM, the multiple resulted in a valuation of $75.55. By weighting the DCF model 60% and the EV/EBITDA multiple 40% a price target of $80.61 was achieved. RDS.B pays a regular annual dividiend of $3.76, yielding 5.9%.

**Risks**

- **Erosion of operations in Nigeria.** Operations in Nigeria face adverse conditions, which deteriorated during 2014. These conditions inculde security issues sorrounding Shell's employees, sabotage and theft, potential legislation that could increase taxes or cost of operations, and regional estability created by millitant activities. In additon, the government has contemplated a new legislation, which if passed, would have a significant impact on the exisiting and future operations of that country.
- **A downturn in comodity prices.** Although concensus estimates that commodity prices have bottomed out, Shell's financial position is reliant upon prices of crude oil and natural gas. Prices are subject to the changing global supply and demand. Falling commodity prices could weaken borrowing capabilities, require additional collateral, or cause a write-down in inventory.
- **Environmental Risks.** As with all oil and natural gas companies who operate internationally, Shell is subject to environmental regulation from local governments, federal, provincial and municipal laws and legislation. Violation of other countries' laws and regulations could lead to criminal and civil sanctions.

**Management**

Ben Van Beurden has been CEO since January 2014 and has been part of Shell since 1983. Prior to this, he held a number of operational and commercial roles at Shell in both Upstream and Downstream. Simon Henry has held the CFO since May 2009 and previously was Shell's CFO of Exploration & Production. Henry has been with Shell since 1982. Other Executive Vice Presidents include: Harry Brekelmans (Projects & Technology Director), Alan D. Matula (Chief Information Officer), Donny Ching (Legal Director).




## Ownership

| | |
|---|---|
| % of Shares Held by All Insider Owners: | N/A |
| % of Shares Held by Institutional & Mutual Fund Owners: | 26.07% |

Source: FactSet

## Top 5 Shareholders

| Holder | Shares | % Out |
|---|---|---|
| Capital Research & Management Co. (Global Investors) | 123,466,466 ▲ | 10.12 |
| Capital Research & Management Co. (World Investors) | 54,472,434 ▲ | 4.46 |
| T. Rowe Price Associates, Inc. | 8,917,187 ▲ | 0.73 |
| Dimensional Fund Advisors LP | 7,747,342 ▼ | 0.64 |
| T. Rowe Price International Ltd. | 3,886,309 ▲ | 0.32 |

## Peer Analysis

| Name | Ticker | Market Cap (mil) | Sales (mil) | EBITDA | Dividend Yield | EV/ EBITDA |
|---|---|---|---|---|---|---|
| Royal Dutch Shell Plc Sponsorec | RDS.B | 199,580 | 419,397 | 44197.9875 | 5.41 | 5.52 |
| BP p.l.c. | 079805 | 87,626 | 214,732 | 17290.6 | 6.04 | 5.09 |
| Exxon Mobil Corporation | XOM | 363,983 | 364,763 | 51379.0 | 2.92 | 8.31 |
| Total SA | B15C55 | 116,151 | 159,816 | 21255.3 | 5.74 | 5.82 |
| Ashland Inc. | ASH | 8,790 | 5,644 | 1013.0 | 1.31 | 9.77 |
| BHP Billiton Limited | 614469 | 97,218 | 63,158.0 | 28533.0 | 3.65 | 6.86 |
| Peer Averages | | 144,137 | 186,239 | 22734.5 | 4.00 | 7.2 |

**Enova International Inc. (ENVA)**
May 1, 2015

Ryan Johnston Financial Services

*Enova International Inc. (NYSE: ENVA) operates as a short-term online lender and has three distinct business segments: short-term loans (32% of sales), revolving lines of credit (38%), and installment loans (30%). They operate in 38 states and four countries. ENVA's focus is product, geographic, and customer diversification while utilizing a flexible online platform with proprietary analytics. Due to Enova's high-speed technology, the company typically approves and funds loans within one business day. By the end of 2014, ENVA had an ending consumer loan balance of $425 million. The company recently spun off from Cash America International (CSH) and completed an IPO in November 2014. ENVA was founded in 2003 (under the name Check Giant, LLC) and is headquartered in Chicago, Illinois, with approximately 1,100 employees and two offices.*

| | |
|---|---|
| Price ($): (4/28/15) | 19.23 |
| Price Target ($): | 32.13 |
| 52Wk H-L ($): | 32.10-18.37 |
| Market Cap (mil): | 645 |
| Float (mil): | 25.6 |
| Short Interest (%): | 6.8 |
| Avg. Daily Vol (000): | 248 |
| Dividend ($): | - |
| Yield (%): | - |

| | |
|---|---|
| Beta: | 1.36 |
| WACC | 7.9% |
| M-Term Rev. Gr Rate Est: | 3.0% |
| M-Term EPS Gr Rate Est: | 2.5% |
| Receivables Turnover | 5.01x |
| ROA: | 15.4% |
| ROE: | 68.3% |
| Coverage Ratio | 5.6x |
| Debt to EBITDA | 1.79x |

| FY: Dec | 2014A | 2015E | 2016E | 2017E |
|---|---|---|---|---|
| Revenue (Mil) | 809.84 | 758.66 | 794.11 | 831.84 |
| % Growth | 5.82% | -6.32% | 4.67% | 4.75% |
| Gross Margin | 55% | 42% | 41% | 37% |
| Pretax Margin | 21.79% | 18.10% | 18.47% | 17.30% |
| EPS (Cal) | $3.38 | $2.58 | $3.03 | $3.49 |
| P/E (Cal) | 5.8 | 9.7 | 8.6 | 8.9 |
| BVPS | 4.67 | 5.32 | 6.12 | 7.03 |
| P/B | 4.1 | 4.7 | 4.3 | 4.4 |

**Recommendation**

Enova is the leader in online lending as an alternative to traditional banking. With ENVA's recent spin off and IPO, the company is now positioned as an independent entity. Since ENVA's IPO the company has introduced two new initiatives in China and Brazil. Additionally, ENVA is offering new products including a near-prime loan and a revolving line of credit to small businesses. By coupling ENVA's new lines with their established lines and scalable technology they should be able to maintain their 5-year sales CAGR of 16%. Responsible spending has allowed ENVA to increase operating margins 3% YoY to 22%. The fastest growing and newest line is a revolving line of credit, posting an impressive 3-year sales CAGR of 61%. The next largest business line, installment loans, observed a 3-year sales CAGR of 25%. The installment loan line paired with the revolving line of credit product have lead growth in the United States by posting a 17% increase in overall sales YoY. Enova's international operations are currently in a beta phase in Brazil and China. Sales in the U.K for 2014 were negatively impacted by increased short term leading regulation. Management indicated they no longer see regulation having a negative impact on sales and expect U.K. sales to increase in future periods. As a result of ENVA's organic growth, decreasing competition, controlled spending, and a favorable valuation it is recommended that ENVA be added to the AIM Equity Fund with a price target of $32.21 representing a potential upside of 67%.

**Investment Thesis**

- **Organic Growth.** In the past two years ENVA has undertaken four new initiatives in four different countries to help mitigate regulatory and geographical risk. In the U.K. they are offering a new near-prime installment loan, which will address a market that is largely unrepresented by traditional forms of lending. This also holds true for the U.S. where they have added a similar line to address the lack of an online lending presence. With nearly 60% of the U.S. market consisting of brick and mortar competitors ENVA can capitalize on the market with the convenience of their online model. Additionally, this year Enova is expecting to add a thin file line of credit to appeal to a younger demographic lacking credit history.
- **Decreasing Competition.** In recent years the short-term lending industry has seen a dramatic increase in regulation causing stress to the industry as a whole. Businesses in the U.S. and U.K.

that have not embraced ethical practices are now beginning to exit the market due to the inability to comply with stricter regulations. In the U.K. nearly 100 companies participated in the short term lending market last year, the Financial Conduct Authority (FCA) expects a dramatic fall off in the number of companies that will be able to comply with new regulatory standards. Since 2013, the number of stores offering short term loans has fallen by 58% in the U.K. Enova is currently operating with interim permission from the FCA and will be able to comply with the new regulations.

- **Controlled Spending.** For the past five years Enova has constantly grown their Net Margin by 1-2%. To further ENVA's predictability, the company's COGS, which primarily consists of loan loss charge offs, has remained consistent at an average of 50% with minimal deviation. Management has indicated SG&A expenses will level off at 30%. Increased expenses over the past several years can be explained by an increase in hiring of technology personnel and consultants in the U.K. These factors allow Enova the ability to make smart decisions surrounding the addition of new products that will ultimately allow them to grow their business.

**Valuation**

To reach an intrinsic value of $32 Discounted Cash Flow, Equity Excess, and P/B models were utilized. For the DCF, a WACC of 7.92% and a terminal growth rate of 2.5% yielded a value of $40.49. A sensitivity analysis of the WACC and terminal growth rate produced a range of $39.22 - 45.90. The Equity Excess model led to a valuation of $47.83 with a cost of equity of 9.4% and a terminal growth rate of 2.5%. Using a current and historic blend of the company's five peers, a P/B multiple of 4.34x was achieved leading to a valuation of $20.26. Weighing the DCF 25%, Equity Excess 25% and P/B 50%, a target price target of $32.21 was established representing a 67% upside.

**Risks**

- **U.S. Regulation.** In the wake of Dodd-Frank, the lending market as a whole has been turned on its head. With new regulations beginning to be put in place Enova has been successfully adapting to the new landscape with well thought-out, deliberate changes. In the U.S., there is indication that the Consumer Financial Protection Bureau (CFPB) is currently working on new regulation, the breath and scope of which is unknown, but will likely include measures on prevention and protection against consumer debt traps. If a new set of short-term lending regulations were to come to fruition, it could seriously impair one or multiple business lines, having a detrimental effect on the company.
- **Loan Portfolio Mix.** By offering only three different products ENVA could seriously be affected by regulation change. With the offering of the near-prime and thin file products in the U.S., ENVA's management team recognizes the need to diversify their loan portfolio. A lack of new products flowing through their pipeline may prove to be detrimental to the company's growth prospects, which would only be exasperated by a regulation change.
- **Retention of Key Personnel.** Aside from Enova's capable management team, there is a clear necessity to retain important employees that understand the company's technologic and algorithmic demands. If ENVA's technology base were to begin to deteriorate because of lack of talent, it could affect every part of their business model in a negative way.

**Management**

David Fisher has been the CEO and President of Enova International since January 2013 when Enova was still apart of Cash America. Before Enova, Mr. Fisher served as Senior Vice President at Charles Schwab after the company he was CEO of, OptionsXpress, was acquired by Schwab. He is currently an Independent Director of InnerWorkings Inc., OptionsCity Software Inc., and GrubHub Inc. He has also served as a Director of the Chicago Board Options Exchange and C2 Options Exchange. Mr. Fisher graduated with a Bachelor of Science in finance and also holds a J.D. from Northwestern University.


**Ownership**

| | | |
|---|---|---|
| % of Shares Held by All Insiders (Including Cash America): | 22.4% | ▲ |
| % of Shares Held by Institutional & Mutual Fund Owners: | 75.0% | ▲ |

Source: FactSet

**Top 5 Shareholders**

| Holder | Shares | % Out |
|---|---|---|
| Cash America International | 6,589,000 ▲ | 20.0 |
| BlackRock Fund Advisors | 2,089,000 ▲ | 6.3 |
| Fidelity Management & Research | 1,966,000 ▲ | 6.0 |
| The Vanguard Group | 1,728,000 ▲ | 5.2 |
| NFJ Investment Group | 1,546,000 ▲ | 4.7 |

Source: FactSet

**Peer Analysis**

| Name | Ticker | Market Cap (mil) | Net Income (mil) | Asset Turnover | P/B | ROA |
|---|---|---|---|---|---|---|
| Enova International | ENVA | 645 | 112 | 1.12x | 4.1 | 15.4% |
| EZCORP | EZPW | 506 | 41 | 0.71x | 0.6 | 2.3% |
| LendingClub | LC | 7,198 | -33 | 0.19x | 6.9 | -1.1% |
| On Deck Capital | ONDK | 1,471 | -19 | 0.33x | 4.7 | 3.8% |
| LendingTree | TREE | 700 | -1 | 1.14x | 7.2 | -0.3% |
| First Cash Financial | FCFS | 1,397 | 85 | 1.04x | 3.2 | 12.4% |
| Peer Averages | | 1,986 | 31 | 0.76x | 4.5 | 5.4% |

Source: FactSet