Applied Investment Management (AIM) Program

AIM Class of 2014 Equity Fund Reports
Fall 2013

Date: Friday, August 30th | ***Location: AIM Research Room (488)***
AIM Open House: 2:00-3:00 p.m. and
Presentation Times 3:00-4:30 p.m.

Join us in person, or considering joining us live at:
Connect to the LIVE meeting via Blackboard web-based conferencing tool

Student Presenter	Company Name	Ticker	Price	Page No.
Daniel Gaide	Deutsche Bank	DB	$45.51	2
James Ford	Flagstar Bank Corporation	FBC	$15.49	5
Mona Syed	GlaxoSmithKline	GSK	$52.19	8
Mark Long	Orix Corporation	IX	$69.34	11
John Osborne	Black Hills Corporation	BKH	$49.48	14
David Yarmulnik	First American Financial	FAF	$21.74	17

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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Deutsche Bank (DB)
August 30, 2013

Dan Gaide — International Financials

Deutsche Bank (NYSE: DB) is a global investment bank. The bank offers a variety of investment and financial products and services to private individuals, corporate entities and institutional clients around the world. Deutsche Bank is divided into four core business lines which include: Corporate Banking and Securities (45.0%), Private and Business Clients (31.2%), Asset and Wealth Management (12.9%) and Global Transaction Banking (10.9%). Deutsche Bank's Corporate and Investment Bank maintained its number one global ranking for Fixed Income for the third straight year and remained top five in the world for Corporate Finance. Deutsche Bank's Private Banking division gained market share in Germany in 2012, while continuing its post-acquisition integration of Postbank. The Asset Management division is undertaking a complex business integration that intends to unify its investment platform and integrate its Global Client Group. The Global Transaction Banking division provides commercial banking products and services for both corporate and financial institutions worldwide. Deutsche Bank operates with over 98,000 employees at 2,984 branches worldwide, of which 65% are in Germany.

Price 8/25/13 ($):	$45.51	Beta:	2.30	FY: Dec 31	2012A	2013E	2014E
Price Target ($):	$57.76	Cost of Equity:	14.57%	Net Interest Income ($M):	20,433.85	21,830.14	23,026.44
52 WK L-H ($):	33.46-53.12	M-Term Rev. Gr Rate Est:	5.5%	% Growth:	-15.88%	6.83%	5.48%
Market Cap (B):	46.4	M-Term EPS Gr Rate Est:	2.7%	NIM (%)	1.02%	0.95%	0.84%
Float (M):	1,013.93	Financial Leverage	0.348	EPS:	0.32	6.39	6.11
Avg. 10 Day Vol:	922,063	Ave. ROE (FY 2010-12):	4.64%	BVPS:	$76.70	$77.14	$79.10
Loan Loss %	11.61%	Tier-1 Capital Ratio	15.10%	P/B:	0.57	0.64	0.68
Dividend:	$0.97	Credit Rating	A+	P/E	141.56	7.76	8.85
Dividend Yield:	2.13%	Short Interest	0.48	Div. Per Share	$0.96	$1.11	$1.17

Recommendation

Since the outbreak of the European Debt Crisis, European nations and financial institutions have received over €400 billion in bailout funds. Despite the wide-ranging issues and systematic problems that led to the Debt Crisis, some countries have begun showing signs of recovery and growth. Germany in particular outperformed last quarter's expectations with 0.7% GDP growth which helped lead the Eurozone to its most positive GDP growth since late 2011 (0.3%). Germany's largest bank is Deutsche Bank; their size, reputation and resources have allowed them to gain a competitive advantage in its domestic market. DB's competitive advantage emerged as it cut excess expenses during the Debt Crisis and made acquisitions to diversify its revenue. The size and scope of expense-cutting and acquisitions have made it difficult for small and regional banks to compete with DB. In the next two years DB expects to complete its "Strategy 2015+" project which intends to improve DB in the areas of Capital, Cost, Competencies, Clients and Culture leading to €4.5B in "cumulative run-rate savings". For the following reasons and a favorable valuation, it is recommended that DB be added to the AIM International Equity Fund with a target price of $57.76, which offers a potential upside of 27%. DB also offers an attractive 2.13% dividend.

Investment Thesis

- **Macroeconomic Improvement and Exposure.** During the 2nd quarter of 2013, the Eurozone experienced its most positive GDP growth (0.3%) since late 2011. This GDP growth was largely driven by Germany (0.7%) and France (0.5%). Since January 2013, consumer confidence in the Euro Area has improved by over 30% and consumer confidence in Germany has remained positive. GDP growth and consumer confidence are positively correlated with the amount of loans given. An increase in the amount of loans given in Germany would allow Deutsche Bank to become more profitable, despite low interest rates, because of the vast amount of loans that DB can give. The ability to be profitable despite a low-interest environment provides DB with an opportunity to capture market share from small and regional competitors who may struggle to provide such low profitability loans. This advantage has allowed DB to increase its Total Loans by nearly 150% since 2009. DB also provides an opportunity for the International Financial sector of the AIM portfolio to gain exposure to the Eurozone where it currently has no investments.

- **Dominant Market Position.** Margins on loans have historically been low for German banks, as low as 12% of interest revenue, because of the proliferation of small and regionally owned banks throughout the country. Despite the presence of these smaller banks DB has created an economic moat through its vast access to resources, global reach and specialized investment banking products. DB's vast access to resources allow DB to provide low-margin loans while remaining profitable because of the sheer amount of loans that it can give. DB's global reach and specialized investment banking products allow DB to outperform its competitors despite difficult macro-economic conditions because of its diversified revenue sources. These diversified revenues allowed DB to survive the Great Recession and the European Debt Crisis without a bail-out.
- **"Strategy 2015+". "**Strategy 2015+" is a firm wide effort that intends to improve DB in the areas of: Capital, Costs, Competencies, Clients and Culture. These efforts have largely been successful and are aggressively moving DB towards becoming "the leading client-centric global universal bank". Capital improvements are in part being driven by the Basel 3 capital framework; DB had the fastest rate of organic capital formation of any of its major peers during 2012. Cost efficiency is also central to "Strategy 2015+" as it aims to save €4.5B in operating expenses by the end of 2015. These changes will help DB improve its core business long-term and improve profitability.

Valuation

To find the intrinsic value of DB, an Excess Equity Return model was conducted, as well as a P/B ratio analysis and a Hypothetical Dividend model. A Cost of Equity of 14.57% was used in the equity excess returns and hypothetical dividend model calculations. Using the Equity Excess Returns model, net income and equity cost were projected until 2017 to find the Excess Equity Return, which was then discounted to its present value yielding an intrinsic value of $69. For the P/B model, a blended historical and peers average of 0.84x was used against 2013E BVPS to yield an intrinsic value of $58. The DDM projected 6.0% annual dividend growth, yielding an intrinsic value of $51. Weighting the different models 20%, 40% and 40%, respectively, a price target of $57.76 was established, offering a 27% upside.

Risks

- **Stagnation in European Economic growth.** As the largest bank in Germany, DB's short-term profitability is closely tied to the growth and success of Germany and the Eurozone economy as a whole. Despite the fact that both economies have shown signs of growth and recovery; negative developments, especially by struggling nations, could prove detrimental to near-term growth for DB.
- **Regulatory Environment.** There are two major regulatory issues that may prove detrimental to DB. One such regulation is Basel 3, which has allegedly been inconsistently implemented regionally, which may put certain financial institutions at a disadvantage. The other pending regulation is a European Transaction Tax, this tax could negatively impact DB as it currently completes over 14% of global FX trades and accounts for nearly 11% of DB revenue.

Management

Dr. Stephan Leithner is the CEO of Deutsche Bank. He received his PhD in Finance from the University of St. Gallen. Dr. Leithner's salary is in line with industry norms and is subject to DB's new compensation review.

Top 5 Shareholders

Holder	Shares	% Out
BlackRock Asset Management	46,466,814	4.56
DekaBank Deutsche Girozentrale	23,529,706	2.31
Norges Bank Investment Management	20,142,484	2.17
CommerzBank AG	19,790,330	1.94
Credit Suisse Asset Management	16,753,114	1.64

Source: Thomson ONE

Flagstar Bank Corporation (FBC)

August 30, 2013

Jim Ford — Domestic Financials

Flagstar Bank Corp. (NYSE:FBC) is the holding company for Flagstar Bank. The bank attracts deposits from the general public and originates or acquires residential mortgage loans. Flagstar also originates consumer, commercial real estate, and non-real estate commercial loans. It operates predominantly in Michigan with 111 branches in addition to 31 home loan centers in 19 other states. The bank consists of three operating segments: Community Banking (14.6% of revenue), Mortgage Banking (85.4% of revenue), and Other (no revenue contribution). All of the net income is provided by the Mortgage Banking Segment although it derives much of its business from the Community Banking segment. Flagstar Bank Corp. was chartered in 1987 and is headquartered in Troy, Michigan.

Price 8/23/13 ($):	15.49
Price Target ($):	19.13
52 WK L-H ($):	9.00-20.38
Market Cap (M):	$868
Float (M):	56
Short Interest (%):	2.04%
Avg. 3 Month Vol:	331,605

Beta:	0.95
Cost of Equity:	12.3%
ROIC:	5.5%
Financial Leverage	17.8%
ROA:	0.6%
ROE:	6.7%
Tier-1 Capital Ratio	11.2%

FY: Dec 31	2012A	2013E	2014E
Net Interest Income ($M):	297.2	277.9	324.7
% Growth:	3.3%	-6.5%	16.8%
NIM (%)	2.26%	2.26%	2.76%
EPS:	$1.39	$0.65	$0.77
BVPS:	$19.22	$20.63	$21.55
P/B Multiple:	$1.01	$0.82	$0.89
Dividend:	0	0	0

Recommendation

Flagstar Bank is in position to take advantage of a changing economic environment within its region of operation, especially in its home state of Michigan. The company uses the deposits from its Community Banking segment to finance its profitable Mortgage Banking segment. Through the recession, regional banks profits have been suppressed by all-time low interest rates, resulting in a large consolidation within the American banking system. The anticipated end of QE3 has already resulted in about a 100 bps (from ~5.00% to ~6.00%) increase in mortgage rates. An increase in mortgage rates will lead to higher net interest margins and higher profits for banks focused on providing mortgages. Furthermore, the values of homes around the country are increasing leading to better credit markets and higher mortgages. Finally, the Michigan economy is still recovering from the downturn with significant room for growth riding on the back of a booming auto industry returning production to the U.S. The unemployement rate dropped 1.3% in 2012, but remains at 1.4% above the national rate at 8.8%. Flagstar Bank is undervalued compared to its peers based on P/B metrics and offers an inexpensive opportunity to generate a strong return on a fundamentally solid stock. For these reasons, it is recommend that Flagstar Bank be added to the AIM Equity Fund with a price target of $19.13, which has a potential upside of 23.5%. Flagstar does not currently pay a dividend to common stock shareholders.

Investment Thesis

- **Improving Housing Market.** In 2012, Michigan home sales reached levels (72,856 sales by realtors) not seen since 2005 with a 10% increase YoY from 2011 according to statistics from the Michigan Association of Realtors. Furthermore, the average price of those homes sold by realtors, as opposed to by owner, has increased 5.6% to $111,000 from $105,100 in 2011. All of these stastistics have risen to this level despite being pulled down by the local Detroit economy, which can only improve. 49.6% fewer foreclsures occurred this year compared to last year showing that the credit of homeowners is improving resulting in fewer delinquent loans. The Michigan statistics lag behind the national averages showing that there is much improvement yet to come and mortgage lenders like Flagstar Bank to benefit of these trends.
- **Increasing Interest Rates.** Interest rates are turning upward after decreasing for the better part of the last 25 years. The Fed has kept interest rates at all time lows by keeping the Federal Funds

Rate ,the rate at which banks borrow from each other, low. The FFR has a historical average of 5.76%, but has been at .25% since the end of 2008. Now that credit markets are heating up again, lenders and investors are demanding higher rates on their money. Flagstar currently operates with a 2.26% net interest margin, this margin should expand to around 4% at least. According to Jamie Dimon, the CEO of J.P. Morgan Chase, at a recent financial industry conference “I think you should all be ready, because rates are going to go up.”

- **Improving Economy in Michigan**. Although the recent bankruptcy filing of Detroit makes Michigan seem weak, the manaufacturing heavy state is on the upswing. CNBC named Michigan the top state for manufacturing job creation between December 2009 and March 2013. Obviously, this movement is lead by the return of the auto industry. A report published by PNC Financial Services Group praises the economy of Southwest Michigan claiming that it is improving better than the American economy as a whole. The Detroit area economy can only improve with increasing incomes and and property values.

Valuation

A five year Price to Book multiple model was conducted to reach Flagstar’s intrinsic value. A group of seven peers with a similar market cap, state of domicile, or business segment was chosen from within the Russell 2000 Index. A historical average of Flagstar’s P/B value since 2006 was also used. Weighting the peer average 70% and the historical average 30%, an intrinsic value of $25.95 was found. An Excess Equity Returns model was also performed in this analysis. Using a WACC of 12.30% as well as projected net income levels, a terminal equity value of $691.4 million was found resulting in an intrinsic value of $12.30 per share. Each method was weighted 50%, resulting in a final price target of $19.13.

Risks

- **Adverse Economic coniditions in the United States.** The housing bubble along with the downturn that followed hit the Midwest hard as manufacturing slowed. A significant decrease in deposits and/or customers in the Community Banking segment would hurt the banks ability to feed its profitable Mortagage Banking segment.
- **Interest Rate Volatility.** We are currently in a unique period in economic history with a prolonged period of very low interest rates. Flagstar is subject to interest rate volatility for their Community and Mortgage Banking segments. Changes in interest rate level without effective hedging by Flagstar could result in a depressed net interest margin and poor profitability.
- **Deterioration of the Housing Market.** A significant decrease in the value of homes around the country (especially Michigan with 66.5% of the held-for-investment loans) could lead to increasing default rates on mortgages and other loans. Due to Flagstar’s reliance on it’s Mortgage Banking segment, headwinds could result in difficult times.

Management

Alessandro P. DiNello has been the president and CEO of Flagstar since May 17 of this year. He served as president and CAO since 2012, and was the Executive Vice President of Personal Financial Services starting in 2003. The previous CEO stepped down and switched titles with DiNello to return to his old position as EVP of Personal Financial Services. Paul D. Borja has been the EVP and CFO since 2005. He worked at a Big Four Accounting firm prior to that. Hugh Boyle joined in January 2013 as EVP and Chief Risk Officer. His previous jobs were at Goldman Sachs, Lehman Brothers, and ,most recently, FirstCaribbean International Bank.

Source: Yahoo Finance

Ownership

% of Shares Held by All Insider:	1.14%
% of Shares Held by Institutional & Mutual Fund Owners:	90.71%

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	%Out
MP (Thrift) Global Advisers III	35,600,352	63.47%
Schneider Capital Management	1,864,382	3.32%
Vangaurd Group Inc.	1,291,608	2.30%
BlackRock	1,254,548	2.24%
Seawolf Capital LLC	862,508	1.54%

Source: Bloomberg

GlaxoSmithKline PLC (GSK)
August 30, 2013

Mona Syed International Health Care

GlaxoSmithKline PLC (NYSE: GSK) is a research-based pharmaceutical company that develops, manufactures, and markets vaccines, prescriptions, over-the-counter medicines, and health-related consumer products worldwide. GSK provides products for infections, depression, skin conditions, asthma, heart and circulatory disease, and cancer. With offices in more than 100 countries and major research centers in Europe, North America and Asia, GSK is the largest healthcare company in the UK and fourth largest worldwide. GSK aims its business around increasing growth, reducing risk, and improving long-term financial performance. As a global healthcare company, the commercial success of GSK depends on creating innovative new medicines, vaccines and healthcare products and their ability to make them accessible. GSK derives revenues from three major product segments: pharmaceuticals (68%), consumer healthcare products (19%), and vaccines (13%). GSK was formed in 2000 following the merger of GlaxoWellcome PLC and SmithKline Beecham PLC and is headquartered in Brentford, United Kingdom. The company employs over 99,000 people in over 100 countries.

General							
Price ($): (8/27/13)	51.76	Beta:	0.53	FY: Dec	2012A	2013E	2014E
Price Target ($):	63.87	WACC	11%	Revenue (Mil)	41,895.00	42,091.00	43,566.00
52WK H-L ($):	54-42	Debt/Equity:	2.56	% Growth	0.50%	3.50%	6.00%
Market Cap (bil):	125.39	ROA (ttm):	9.5%	Gross Margin	70.88%	72.64%	73.03%
Float (bil):	2.38	ROE (ttm):	59.4%	Operating Margin	27.35%	29.20%	30.69%
Avg. 3M Vol (mil):	2.3	P/E (ttm)	19.79	EPS ($)	1.29	1.47	1.79
Dividend ($):	2.21	Short Interest (%):	1.0%	FCF/Share	$0.88	$0.92	$1.11
Yield (%):	4.2%			EV/EBITDA	8.5x	8.79	8.26

Recommendation

As one of the largest pharmaceutical companies worldwide, GSK can provide a defensive position in the AIM International Equity Fund as it is not as reliant on the economy as its smaller counterparts in other sectors - and offers a low beta. While GSK was formed less than 14 years ago, it was a product of the merge of GlaxoWellcome PLC and SmithKline Beecham PLC, companies with histories reaching back to the 1800s. GSK employs over 12,500 people in R&D and the company is well known for its superior pipeline. With 422 products in its research pipeline (44 already in Phase III trials), GSK is in a position to increase its market share, particularly in emerging markets. The company manufactures and distributes over 4 billion packs of products to consumers in more than 150 countries every year. With popular consumer healthcare products such as Abreva, Aquafresh, and Tums, GSK holds strong brand recognition among its consumers. With the recent approvals of various GSK drugs, there is a high likelihood that the company will prosper in coming years. It is recommened that GSK be added to the AIM International Equity Fund with a target price of $63.87, representing a potential upside of 23%. GSK offers an attractive 4.20% dividend yield.

Investment Thesis

- **Relvar Application for Approval.** Last month GSK applied for approval of Relvar, an improved follow-up drug to their blockbuster respiratory drug, Advair, with enhancements of greater efficacy and reduced, once-a-day treatment. Based on the success of Advair and the first FDA approved influenza vaccination, along with the products GSK has in its pipeline, it is possible that the market has not properly credited GSK for their liklihood to deliver strong results after regulatory approval.
- **Flulaval Quadrivalent Approval.** As seasonal influenza is the cause of upwards of 500,000 deaths per year, the US Centers for Disease Control and Prevention (CDC)

recommends that adults and children six month and older receive annual influenza shots. At the end of 2012, the FDA approved the four strain influenza vaccine, Fluarix Quadrivalent, for sale in the US. GSK estimates orders of approximately 10 million doses in the US this flu season – and the CDC has already made an order for over 4 million doses. Earlier this month the FDA approved a second intramuscular quadrivalent influenza vaccine, Flulaval Quadrivalent. Beginning in 2014, GSK will have the capacity to supply substantial quantities of the the influenze vaccines to the US, which makes up 30% of their total revenue.

- **Growth in Emerging Markets.** Regardless of where a healthcare company is headquartered, it must work to gain presence in emerging markets in order to stay competitve, as this is the market where future growth is most promising. GSK, with more than a third of its 99,000 employees located in emerging markets, has proved that it wants to invest in these countries. 80% of the 900 million vaccine doses GSK supplied in 2012 were to developing countries.

Valuation

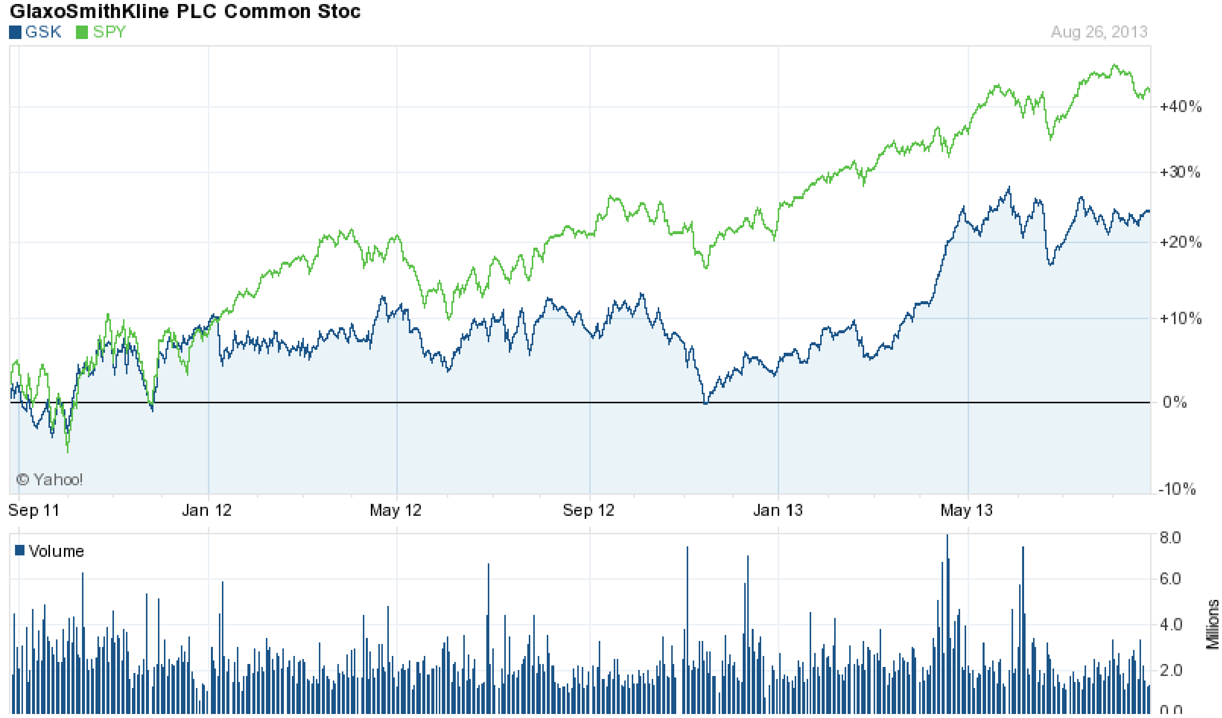
To assist in finding the intrinsic value of GSK, DCF analysis and EV/EBITDA multiple approaches were employed. Using the EV/EBITDA multiple, a calculation of 8.46x was multiplied by the estimated EBITDA to yield an intrinsic value of $59.70. The DCF model generated an intrinsic value of $68.03. Weighting the DCF and EV/EBITDA multiples evenly a price target of $63.87 was established, representing a 23% upside.

Risks

- **Lack of Rapid Growth Potential.** As the fourth largest pharmaceutical company in the world, it is possible that GSK has passed its highest potential growth phase and might have lower future growth rates.
- **Entrance of Generic Versions of Blockbuster Drugs.** Given that a percentage of GSK's success in the past is based on patented blockbuster drugs, potential investors should be weary that this success has a time limit. As patents expire and generic versions of their best selling drugs become available at a more economical price, GSK will have to innovate and bring new products to the market to stay profitable.
- **Bad Press.** Last month stories were published regarding GSK employees potentially breaching Chinese law. Until more details are released and the incident is settled, it is likely that this will reflect the company negatively in the public eye. Last year, GSK was involved in the largest pharmaceutical company settledment in which it agreed to pay $3 billion in fraud settlement. Headlines such as these hurt the reputation and trust held in GSK.

Management

Sir Andrew Witty became Chief Executive Officer of GSK on May 21, 2008 and is a member of the Board and Corporate Executive team. After joining the company in 1985, Witty held a variety of roles at GSK working with different parts of the business in a range of geographical locations. In 2003 Witty joined the Corporate Executive Team as President of GSK Europe. Witty is a member of the Prime Minister's Business Advisory Group and is the Lead Non-Executive Director for the Department for Business Innovation and Skills. In 2012 he was awarded a knighthood for services to the economy and to the UK pharmaceutical industry. Witty has a Joint Honors BA in Economics from the University of Nottingham where he became Chancellor at the start of this year. He is also president of the European Federation of Pharmaceutical Industries and Associations.



Source: Yahoo! Finance

Ownership	
% of Shares Held by All Insider and 5% Owners:	NaN
% of Shares Held by Institutional & Mutual Fund Owners:	NaN
	Source: Yahoo! Finance

Top 5 Shareholders		
Holder	Shares	% Out
Dodge & Cox Inc	61,935,959	2.53%
Royal Bank of Canada	18,123,087	0.74%
FMR, LLC	11,584,665	0.47%
State Street Corporation	11,200,614	0.46%
Fisher Asset Management, LLC	11,148,275	0.45%
		Source: Yahoo! Finance

Orix Corporation (IX)

August 30, 2013

Mark D. Long International Financials

Orix Corporation (NYSE ADR: IX), headquartered in Tokyo and Osaka, provides commercial and consumer financial services globally. Orix's business services include Overseas Business (31%), Retail Banking (25%), Investment and Operations (20%), Maintenance Leasing (14%) and Corporate Financial Services (14%). Orix Corporation also has a real-estate business segment. The geographical revenue segments are separated by Japan (78.37%), The Americas (12.13%), and the Rest of the World (9.5%). Orix was founded in April 1964 as the Orient Leasing Company, Ltd. by the current chairman and CEO, Yoshihiko Miyauchi.

Price 8/23/13 ($):	69.34	Beta:	0.984	FY for December 31	2012A	2013E	2014E
Price Target ($):	82.43	Cost of Equity:	14.80%	Net Interest Income ($M):	1,091.84	1,514.38	1,709.54
52 Week L-H:	45.70-80.81	M-Term Rev. Growth Rate Est:	9.00%	% Growth:	-2.61%	10.90%	12.89%
Market Capitalization (B):	17.60	M-Term EPS Growth Rate Est:	1.72%	NIM (%):	1.79	2.27	2.75
Float (M):	138.51	Financial Leverage:	5.53x	EPS ($):	0.99	1.25	1.46
Average 10 Day Volume (M):	12,263	ROA (FY 2013):	2.33%	BVPS ($):	16.59	17.49	18.07
Loan Loss %:	16.44%	ROE (FY 2013):	7.76%	P/B:	0.61	0.90	0.91
Dividend ($ Qtrly):	0.21	Tier-1 Capital Ratio:	N/A	P/E:	10.10	11.56	13.01
Dividend Yield:	1.09%	Credit Rating:	A-	Div. Per Share ($):	0.83	0.84	0.86

Recommendation

With $17.6B in market capitalization, Orix is one of the largest banks in the Japanese financial industry. Some of their value drivers include an exposure to increasing demand for renewable energy sources in Japan, the acquisition of U.S. Mariner Investment Group, which offers a complete product solution for clients, and increased automobile financing. Orix has exposure to all of these opportunities through their various diversified business segments. With these investment drivers and the prospects for rising growth of the Japanese economy (put in motion by aggressive government policy), it is recommended that this well-established financial institution, IX, be added to the AIM International Equity Fund. By acquiring this stock, we are introducing exposure into an established Japanese bank in a developed market. The estimated target price of $82.43 offers a potential upside of 18.82%. Furthermore, the company has a dividend yield of 1.09%.

Investment Thesis

- **Renewable Energy Increase in Japan.** With the Fukushima Dai-ichi nuclear plant meltdown in 2011, a stronger emphasis for using renewable energy, specifically solar, has emerged within the past few years. Japan is expected to surpass Germany as the largest solar energy consumer this year with expenditures of $19.8B. Orix plans on taking advantage of this opportunity by using its Corporate Financial Services business segment to support the purchase new solar panels. Management plans on using these clients to, not only utilize the bank for solar panel financing, but to offer a gateway to other services offered within the bank. Orix has an established customer base for solar panel financing and plans to take advantage of the increase demand for solar panels in the future.
- **Acquisition of U.S. Mariner Investment Group.** The acquisition of this U.S-based hedge fund has helped Orix Corporation develop a stronger presence in financial markets outside of Japan. This works with management's desire to continue growing the company through its products and diversified hedge fund service offerings, instead of simply by growing through asset acquisitions. It is also a unique gateway for Orix to enter the U.S. markets. This helps fill a hole in Orix's portfolio by offering high-end services to upper-income clients. U.S. Mariner adds to Orix's global exposure of 343 bases in 27 countries and regions.
- **Increased Auto Sales Projections.** The promise of a recovery of the Japanese economy with the stimulus package from Shizo Abe has led people to believe in the hope of increase automobile sales. Car manufacturers in Japan have increased their capital spending by 7.8%, compared to the

manufacturing sector's growth of 5.5%. This shows confidence in the rally of the automobile sector in Japan. This will help Orix in its Investments and Operations business segment with the increased demand for financing in automobiles, coupled with the expected rise in tourism and the expected demand for automobile purchases from car rental agencies.

Valuation

A combination of an Excess Equity Return Model and a P/B Multiple Ratio Model was performed to find the intrinsic value of Orix Corporation. With a 50% weight on the Excess Equity Return Model and by loading net income projections and a CAPM of 10.90% from 2013-2017, a value of $73.16 was computed. When computing the BVPS, an intrinsic value of $91.70 was estimated, also using a 50% weight for this model. Combining the two valuations, a price target of $82.43 was calculated, offering an 18.88% appreciation. The company also has a dividend yield of 1.09%.

Risks

- **Government Tax Rate Increase.** Japan's Prime Minister, Shizo Abe, has been trying to expand the economy through fiscal and monetary policies, in order to decrease the $10.4 trillion deficit and try to return the country to an inflationary environment. If the economy reacts positively to these policies, Abe has further plans to double the personal income tax rate from the original 5% to 10% by October 2015. He will likely implement this tax increase gradually, as shown by the tax increase to 8% that occurred in April. A poor reaction to this tax increase through the possibility of failed policies could decrease company growth and consumer spending, which would lower the borrowing demand for Orix, thereby lowering interest revenue and possible fee opportunities.
- **Lack of Replacement of Management.** The current Chairman and CEO of Orix, Yoshihiko Miyauchi is 77 years-old. Miyauchi has not made any indications of retirement. However at his seasoned age, there is a likelihood of change in management in the coming years. However, this has not been discussed with the public in any management reports. The risk lies in finding a replacement as capable and passionate as Miyauchi.

Management

Yoshihiko Miyauchi has currently been the chair member and CEO of Orix Corporation since 2000. Miyauchi originally founded Orient Leasing Co., Ltd in April 1964. The Orient Leasing Co., Ltd. would later expand into its current state, Orix Corporation. Miyauchi assumed the roles of president and CEO of Orient Leasing Co., Ltd. in 1980. Over the course of Orix's existence, Miyauchi has seen the company grow to over $17.5B. Management has proven to be very strong through the years, making sound investments for the future. The Company's CEO has been at the helm for 49 years. His leadership has allowed Orix to invest effectively in various industries. This diversification strategy is highlighted in management's discussions in the last earnings report. Miyauchi obtained his BA from Kwansei Gakuin University and his MBA from the University of Washington. Haruyuki Urata is the Executive Vice President and CFO.

Source: Yahoo! Finance

Source: Yahoo! Finance

Ownership

% of Shares Held by All Insider and 5% Owners:	N/A
% of Shares Held by Institutional & Mutual Fund Owners:	N/A

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares Outstanding	Outstanding
Johnston Asset Management Corp.	339,590.00	0.14%
Todd Asset Management LLC	243,200.00	0.10%
Kentucky (State Of) Teachers Retirement System	240,000.00	0.10%
ClearBridge Investments, LLC	237,540.00	0.10%
Lord Abbett & Co.	222,858.00	0.09%

Source: Yahoo! Finance

Black Hills Corporation (BKH)
August 30, 2013

John Osborne Domestic Utilities

Black Hills Corporation (NYSE: BKH) together with its subsidiaries, operates as a diversified energy company in the United States. The company's electric utilities segment generates, transmits, and distributes electricity to approximately 202,000 electric customers in South Dakota, Wyoming, Colorado, and Montana; and distributes natural gas to approximately 35,000 gas utility customers in Cheyenne, Wyoming. It owns 859 megawatts of generation capacity and 8,530 miles of electric and distribution lines. The company also provides appliance repair services to approximately 62,000 residential customers; and constructs gas infrastructure facilities for gas transportation customers. As of December 31, 2012, it has total reserves of approximately 81 billion cubic feet equivalent of natural gas and crude oil pipeline. Black Hill Corporation was founded in 1941 and is headquartered in Rapid City, South Dakota.

Price ($) (8/2613)	49.48	Beta:	0.54	FY: December	2012A	2013E	2014E
Price Taget ($):	58.21	WACC	10.2%	Revenue (Mil)	1,174	1,213	1,269
52WK Range ($):	33.40-55.09	M-Term Rev. Gr Rate Est:	3.0%	% Growth	-8.30%	3.29%	4.70%
Market Cap:	2.20B	M-Term EPS Gr Rate Est:	5.0%	Gross Margin	65.32%	68.34%	70.29%
Shares Outstanding	44.5M	Debt/Equity	60.6%	Operating Margin	20.57%	18.34%	20.29%
Short Interest (%):	2.6%	ROA:	2.1%	EPS	$0.48	$0.58	$0.62
Avg. Daily Vol:	170.4K	ROE:	6.7%	FCF/Share	3.52	3.57	3.90
Dividend ($):	$ 1.52			P/E	25.95	22.19	21.87
Yield (%):	3.10%			EV/EBITDA	9.70	10.87	9.23

Recommendation

Black Hills Corporation is poised to benefit from increased demand from all customer classes. The successful operational efficiency of this company has continually enhanced the reliability of its services, which increases their consumer satisfaction. The company also benefited from customer rate adjustments and will continue to enjoy the same over the next few quarters. This electric utility delivered positive earnings surprises in three out of the last four quarters with an average beat of 10.43%. The firm's revenue, according to management, is projected to grow at a 3-4% rate annually in the future. The strategic initiatives undertaken by the utility to add to its power generation capacity and drilling activities in Mancos Shale formation in the Piceance Basin will improve its natural gas production. The financial strength of Black Hills Corporation allows it to make strategic acquisitions. The gas utility segment acquired two small systems in the first quarter, swelling its customer base by 500 retail and two high-volume industrial customers. Based on solid historical and forecasted operating results, it is recommeneded that BKH be added to the AIM Equity Fund with a target price of $58.21, which offers a potential upsides or 17.6%. The firm pays a dividend of $1.52 per share for a yield of 3.10%.

Investment Thesis

- **Company Diversification.** Black Hills power generation facilities total 309 MW and are mainly located in Gillette, WY and Pueblo, CO. Their oil and gas segment operates in San Juan, Powder River, and Piceance Basins along with non-operated wells in the Williston Basin in North Dakota and Montana (Bakken Shale), and in California, Montana, North Dakota, Oklahoma, Texas and Wyoming. Their coal mining segment serves as fuel supply to adjacent mine mouth electric power generation customers. It includes approximately 46-year supply of low-sulfer Powder River Basin coal reserves at expected production levels. All of these operations they are looking to continue to grow at roughly 5% annually according to management.
- **Successful Execution of Growth Strategy.** BKH has recently received all necessary permits and approvals to construct and operate a $237 million, 132 MW natural gas-fired generation project to be built in Cheyenne, WY. Black Hills received approvals from the Wyoming

commision to increase electric and gas base rates by $4.3 million in annual revenues. They also filed a request with South Dakota commission in December 2012 for a 9.94%, or $13.7 million, increase in annual revenues. Gas Utilities, part of the business operating segment deployed $46 million into distribution growth and integrity projects.

- **Energy Significance.** During times when stocks and bonds have declined, energy prices have risen. Because of this relationship, energy investments can help create a well-balanced protfolio by serving as a hedge against recession and inflation. Virtually every major industry relies on energy and a change in energy prices reverberates throughout the economy. Oil and natural gas account for two-thirds of the energy used to power our modern economy and their role is expected to expand even more in the future.

Valuation

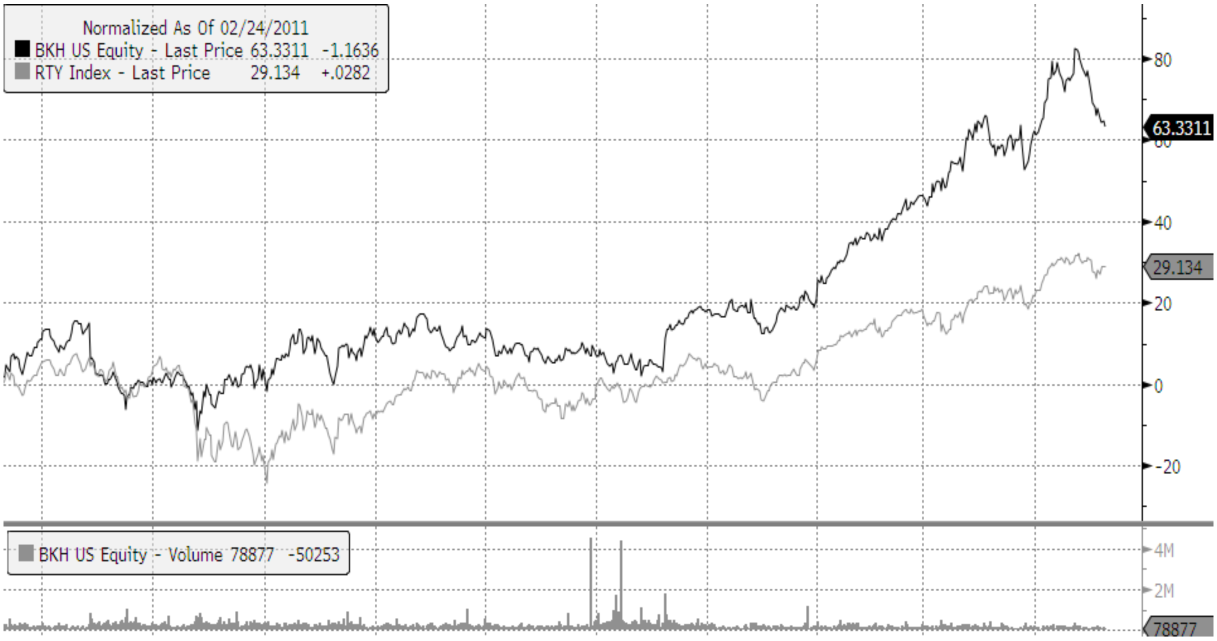
In order to reach an intrinsic value for BKH, a ten year discounted cash flow model was conducted. The firm's current WACC of 7.2% was given a 300 bps safety margin that is more in line with industry averages, resulting in 10.2%. A perpetuity growth rate of 3% in the DCF model which generated an intrinsic value of $57.85 per share. An EV/EBITDA multiple approach was also used with a peer multiple of 9.70x; resulting in an intrinsic value of $61.24. A P/E multiple also was used with a peer multiple of 25.96x; producing an intrinsic value of $55.89. Weighing the three values 50/25/25 respectively, a price target of $58.21 established, representing a 17.6% upside. BKH pays a quarterly stock dividend of $.38 per share to their common shareholders.

Risks

- **Weather Conditions Affect Operating Results.** Operating results can be adverserly affected by variations from normal weather conditions. Natural gas is primarily used for residential and commercial heating, the demand for this product depends heavily upon winter weather patterns throughout their service territory and a significant amount of natural gas revenues are recognized in the first and fourth quarters related to the heating seasons. Their utility operations have historically generated lower revenues and income when weather conditions are cooler than normal in the summer and warmer than normal in the winter.
- **Current and Future Development.** Their current and future development, expansion and acquisition may not be successful, which could impair their ability to execute their growth strategy. They can provide no assurance that they will be able to complete development projects or acquisitions they undertake or continue to develop attractive opportunities for growth.
- **Regulatory Penalites Negative Impact.** Business activities in the energy field are heavily reguktaed, primarily by agencies of the federal government. Agencies that historically sought voluntary compliance, or issued non-monetary sanctions, now employ mandatory civil penalty structures violations. The FERC, CFTC, EPA, OSHA, SEC and MSHA can increasingly impose significant civil penalties to enforce compliance reuqirements relative to their business. If regulatory violation did occur, this action could have a material adverse effect on their operations and/or financial results.

Management

David Emery has been the Chairman, President and CEO of Black Hills Corporation since November of 2004. Prior to joining BKH, he served as a petroleum engineer for a large independent oil and gas company. Mr. Emery is their only employee currently on their Board. With over 20 years of experience at BKH, he has a deep knowledge and understanding of each of their business units and related industries. Anthony Cleberg is the EVP and CFO and has held these positions since 2008 and served in the same role for Champion Enterpirses Inc. He was an independent investor, developer and consultant with companies in Colorado and Wyoming from 2002 until joining the company. Scott Buchholz has been Senior VP and CIO of Black Hills Corporation since 2008 and previously worked for Aquila Inc.



Ownership	
% of Shares Held by All Insiders and 5% Owners:	1%
% of Shares Held by Institutional & Mutual Fund Owners	68%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Vanguard Group, Inc.	3,040,621	6.83%
State Street Corporation	1,610,187	3.62%
BlackRock Institutional Trust Company	1,517,993	3.41%
Gabelli Funds, LLC	1,273,000	2.86%
Price Associates Inc	1,133,120	2.55%

Source: Bloomberg

First American Financial (FAF)
August 30, 2013

David Yarmulnik | Financial Services

First American Financial Corporation (NYSE: FAF) operates in two segments in the insurance industry- title insurance and services and specialty insurance. The title insurance segment issues title insurance policies and related products to residential as well as commercial property. The specialty insurance segment provides property and casualty insurance, primarily homeowners and home warranty insurance. FAF offers its products through a network of direct operations in 49 states, Canada, the UK, Australia, and other select places internationally. In 2008, First American announced it intended to separate into two companies: financial services and information solutions. This operation change occurred in June 2010 - the new firm that resulted was called First American Financial and consists of title and specialty insurance. This operation resulted in a more cyclical company due to its heavier reliance on the real estate market; however, focusing on the specialized area of title insurance allows for FAF to increase its market share. FAF has nearly doubled its title insurance market share since 1991, and it is currently the second largest title insurer in the United States with 27% of the market. FAF is headquartered in Santa Ana, California and consists of over 17,000 employees.

				FY: Jan	2012A	2013E	2014E
Price ($): (8/15/13)	$22.08	Beta:	0.54				
Price Target ($):	$29.42	WACC:	8.91%	Revenue (mil):	4541.82	4744.32	4956.50
52WK H-L ($):	27.4-18.9	M-Term Rev. Gr Rate Est:	4.47%	% Growth	18.87%	4.46%	4.47%
Market Cap (mil):	2,323.80	M-Term EPS Gr Rate Est:	4.00%	Expense Ratio	95.76%	92.51%	92.00%
Float (mil):	103.6	Return on Invested Capital	8.84%	Pretax Margin	10.29%	6.22%	7.98%
Short Interest (%):	5.41%	ROA:	5.28%	EPS (Cal)	$2.77	$1.58	$1.81
Avg. Daily Vol:	999,695	ROE:	13.73%	BVPS	$22.00	$24.65	$27.03
Dividend ($):	$0.48	Debt/Capital	11.80%	P/B	1.01x	1.06x	1.06x
Yield (%):	2.20%	Debt/Assets	3.94	P/E (Cal)	9.92	13.67	11.95

Recommendation

FAF has been able to maintain a stable financial position and a sustainable competitive advantage through the past couple decades despite the financial crisis in 2008, which negatively affected the real estate market. The company has almost doubled its market share since 1991 and owns the largest title database with more than 450 million title records giving it an advantage in producing title information. During the past few years, FAF has performed massive cost reductions, allowing for higher margins and increased efficiency. With a debt to capital rate of 11.8% FAF is well capitalized and has explored a few options to return capital. First, they are currently in the middle of a $150 million dollar share repurchase schedule. FAF has repurchased $36 million dollars of its shares in this second quarter and will continue to buy back $112 million in shares. Second, FAF has increased its dividend again to $0.12 paid quarterly from $0.09 in 2011 and $0.06 in 2010. In addition, FAF is seeking strategic acquisition opportunities that would provide the necessary returns, but is conservative in their efforts as to not over expand and fail to remain competitive in the market. FAF has also been able to increase its margins in recent years as well as consistently decrease its expense ratio from 103% in 2010 to 92% in the trailing twelve months, producing an ROE of 14%, which is predicted to continue in the foreseeable future. This is an indication of good underwriting discipline and cost control. Unfortunately, FAF has added $89M to its reserve fund for lender policies from 2004-2008, which has negatively affected earnings for this most recent quarter. However, FAF very rarely adds to its reserve and they conservatively strengthened their reserve fund to be 5% larger than their actuaries' estimates. With strong financial position, large market share, and well-capitalized structure, it is recommended that FAF be added to the AIM equity fund with a target price of 29.42, which offers a 33% upside. The company also pays a dividend of $0.48, which is a dividend yield of 2.2%.

Investment Thesis

- **Real-Estate Markets.** Since FAF provides title insurance to residential and commercial property, it relies somewhat heavily on the real estate markets; however, the economic environment is improving, housing prices are rising, and a lower rate of foreclosures has been observed. The percent of subprime US mortgages 90 days past due has decreased from over 14% in 2010 to over 10% in 2012. Furthermore the housing prices have bottomed out at approximately 40% below the 2005-06 peak, and have begun to rebound. Having resized and cut costs during the real-estate crisis, FAF is now perfectly positioned to reap the benefits of these improved conditions.
- **Niche in the Market.** FAF has been able to sustain a competitive because of its size and agency network, and it is believed to have a narrow economic moat. Title insurance is required on almost all purchases and sales of real-estate in the US. FAF specializes in title insurance issuance, which allows for management and the company to dominate the industry and provide quality insurance. FAF contains 27% of the US title insurance market, which allows it to spread out its production costs over a larger base than most of its competitors, giving it a competitive advantage. Furthermore, FAF's current combined ratio is at 110%, which is very poor. However, disregarding the loss reserve increase, the combined ratio is roughly 97%, and is expected to slowly decrease throughout the next few years. This indicates FAF is able to control its underwriting costs very well in addition to all other expenses.

Valuation

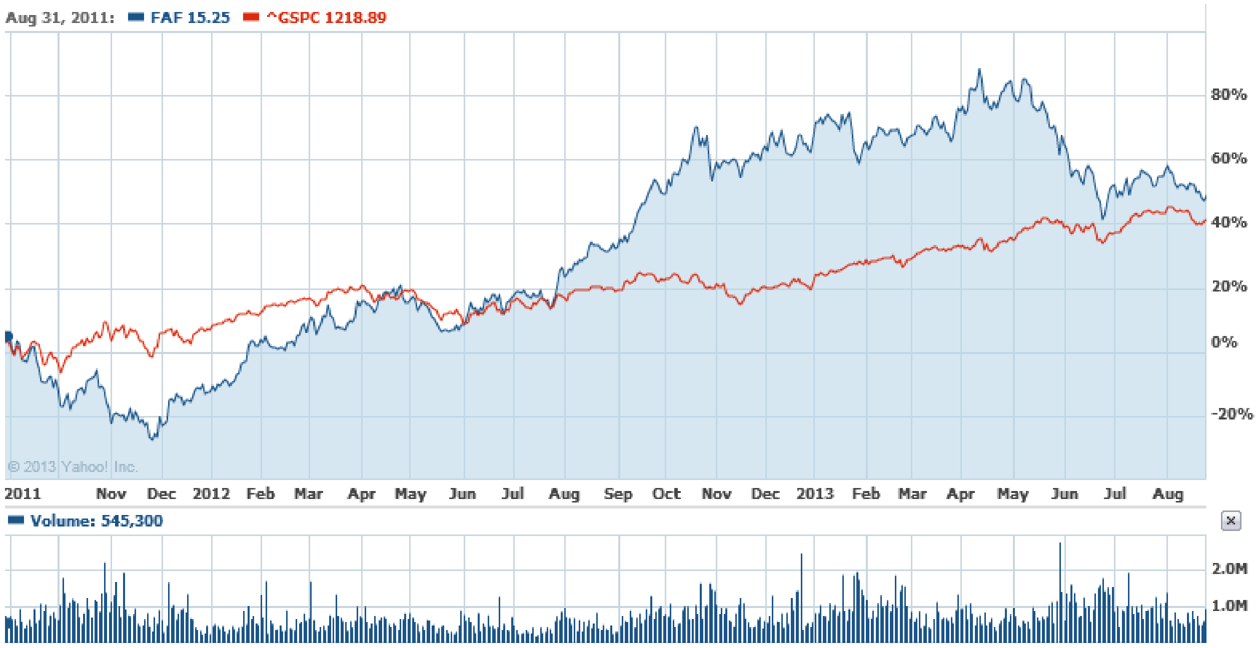
To find the intrinsic value of FAF's stock a price to book multiple was used, as well as a DCF and discount dividend model. The 3-year average historic price to book for FAF and its peer average, produced a predicted P/B of 1.06x. The P/B model yielded an intrinsic value of $27.27. The DCF approach using a discount rate of 11%, adding a couple hundred basis points to the WACC in order to maintain conservative estimates, and a long term growth rate of 1% resulted in an intrinsic value of $37.21. Finally the discounted dividend model used a discount rate of 11% and projected future dividends increasing at approximately 8% growth from a $0.48 dividend in 2012 provided a value of 8.55. Weighting these valuations 50/40/10 respectively, the final estimated intrinsic value of FAF is $29.42, which provides an upside of over 33%.

Risks

- **Real-Estate Conditions.** Demand for a great deal of FAF's products and services generally decreases as the number of real estate transactions decreases. Some factors in the real estate market that negatively affect FAF's profitability are an increase in mortgage interest rates, limited availability of mortgage funding, and declining real estate values. Furthermore, an increase in foreclosures would adversely impact FAF's title issuance.
- **Changes in Government Regulation.** Most of FAF's business is regulated by federal, state, and local governmental agencies, within which its guidelines the company must operate. Changes in the applicable regulatory environment could cause customers to refrain from using FAF's products and could limit future business operations or strategies.
- **Unfavorable Economic Conditions.** Uncertainty and negative trends in general economic conditions in the US as well as abroad adversely affect FAF's performance. The tightening of credit markets and general decline in the value of property create a difficult operating environment for the company.

Management

Parker Kennedy is executive chairmen of the board and has been in the title insurance industry his entire career. He is the great-grandson of FAF's founder and is primarily responsible for the firm's growth over the past 25 years. CEO Dennis Gilmore has also been with the company for most of his career and has been CEO since 2008. FAF is run by experienced professionals who are devoted to maintaining profitability and growth in this industry.



Source: Yahoo Finance

Ownership

% of Shares Held by All Insider and 5% Owners:	4%
% of Shares Held by Institutional & Mutual Fund Owners:	88%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Price (T.Rowe) Associates Inc.	10,143,339	9.48
Ariel Investments, LLC	8,650,370	8.09
Vanguard Group, Inc.	5.528,323	5.17
BlackRock Fund Advisors	4,586,468	4.29
State Street Corporation	4,332,494	4.04

Source: Yahoo! Finance