

Applied Investment Management (AIM) Program

**AIM Class of 2015 Equity Fund Reports
Fall 2014**

Date: September 19th | *Time:* 1:00 -2:30 p.m. | *Location:* AIM Research Room (488)

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.
Vanessa Foltinger	Gildan Activewear Inc. (GIL)	GIL	\$55.48	2
Alex Ibrahim	Akorn, Inc.	AKRX	\$37.31	5
Charlie Houser	CoreSite Realty Corporation	COR	\$34.04	8
Cole Johnson	America Movil SAB de CV	AMX	\$26.22	11
Patrick Lonzo	The Dixie Group, Inc.	DXYN	\$9.04	14
Jing (Yolanda) Liu	GlaxoSmithKline plc	GSK	\$47.92	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. If you are not able to 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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Gildan Activewear Inc. (GIL)

September 19, 2014

Vanessa Foltinger

International Consumer Discretionary

Gildan Activewear Inc. (NYSE: GIL) is a marketer and vertically-integrated global manufacturer of basic apparel products. The company operates its business through two reportable segments, Printwear (78.6% of revenues) and Branded Apparel (21.4%). GIL offers activewear for the screenprint channel and socks and underwear to mass-market retailers. GIL markets its products under various brands, including Gold Toe, Silver Toe, and Anvil brands, as well as under licensing arrangements for the Under Armour and New Balance brands. The company utilizes 39,000 employees at manufacturing and distribution facilities primarily in Central America and the Caribbean. Gildan Activewear Inc. was incorporated in 1984 and is headquartered in Montreal, Canada.

Price (\$): (09/15/14)	55.48	Beta:	1.04	FY: Sep	2013 A	2014 E	2015 E
Price Target:	\$ 61.26	WACC:	10.34%	Revenue (\$mil)	2,184.30	2490.10	2863.62
52 WK H-L (\$):	44.83-62.52	M-Term Rev Gr. Rate Est	15.50%	% Growth	12.11%	13.99%	14.55%
Market Cap (bil):	6.90	M-Term EPS Gr. Rate Est	17.00%	Gross Margin	29.03%	29.50%	29.90%
Float (mil):	110	Debt/Equity:	7.04%	Operating Margin	16.09%	16.60%	17.20%
Short Interest:	1.15%	ROA (ttm):	15.10%	EPS (Cal)	2.62A	2.88E	3.55E
Ave Daily Vol (K):	170,264	ROE (ttm):	18.83%	FCF/Share	\$ 2.18	\$ 2.10	\$ 2.45
Dividends (\$):	0.44			P/E (Cal)	17.40	19.30	15.60
Yield:	0.76%			EV/EBITDA	15.39	13.26	11.36

Recommendation

Gildan Activewear was added to the AIM International Equity Fund in November 2008 with a price target of \$20. GIL has grown to be a leader in printwear in North America. Currently, GIL offers large quantities of activewear products to wholesale distributors in printwear markets in more than 30 countries across North America (92.1% of revenues), Europe (6.7%), and the Asia-Pacific region (1.2%). The company is now leveraging a well-established, vertically integrated, global manufacturing platform to increase sales in international markets. To serve the European and Asia-Pacific regions, the company has established operations in Bangladesh with a vertically-integrated manufacturing facility. GIL is currently building a new textile facility in its Honduras complex, named Rio Nance 6, and announced the start of another plant in Costa Rica in F2017. F2014 capex spending is expected to provide \$100 million in annual cost benefits by F2017. This strategy shields the company from the competition, driving its operating margins of 16.1% well above the industry median of 11.0% (ttm). GIL has formed an economic moat in a competitive industry with its reputation as a low cost provider capable of delivering product quality and consistency. The company has maintained a consistent positive cash conversion cycle. GIL acquired Doris in July 2014 as part of its initiative to expand its higher value-added Branded Apparel segment. The opportunity for Branded Apparel in the retailer distribution channel is estimated at \$59.04 billion, according to the NPD group, with the retailers targeted directly by GIL representing 34% or \$20.3 billion of the market. With sales growing at a CAGR of 16.0% over the past 5 years, GIL continues to be well positioned to capitalize further in the Printwear and Branded Apparel segments, allowing it to replicate its success in international markets. As a result of these efforts and a favorable valuation offering a moderate upside of 10.2%, it is recommended that GIL be held in the AIM International Equity Fund with a target price of \$61.26.

Investment Thesis

- **Consumer Brand Portfolio Expansions.** GIL is a significant and growing player in the Socks and Underwear industry with Doris being the 3rd largest marketer of branded ladies' intimates in North America and the leader in Canada. The acquisition is part of GIL's larger goal to gain a foothold in the \$20 billion innerwear category and broaden the company's retail distribution network with Doris'

strong presence in the food and drug channel. GIL's substantial free cash flow generation and strong balance sheet position continue to facilitate complementary acquisitions as well as potential revenue synergies. This will compliment organic growth and allow GIL to utilize their unused debt capacity. Cash is beginning to accumulate on the balance sheet and management is forecasting \$200 million of net cash at the end of F2015.

- **International Market Share Growth.** Despite a leadership position in the U.S. and Canada, GIL has much less penetration in international markets, which make up less than 10% of consolidated sales. Strong momentum is expected to continue in Europe, with a total market size of \$2B. The new Anvil product line of ring-spun contemporary fashion basic T-shirts, combined with the Gildan core performance T-shirt line, will contribute to unit volume growth in the international printwear markets, higher net selling prices and more favorable active wear product mix. The improved manufacturing capabilities will better address European styles (slim-fit, ring spun, lighter fabrics).
- **Increasing Operations.** GIL continues to successfully enter new markets. Its vertically-integrated manufacturing capabilities allows flexibility to incorporate textile innovations. GIL entered the branded men's underwear market in 2013, and captured 6.5% of the market in 2014Q3, providing it with the number three position. GIL is currently doubling capacity to support planned growth into F2015. With the combination of the new Costa Rican facility and Rio Nance 6, textile capacity will be ~40% above F2014 year-end levels, translating to an additional \$1 billion of revenue potential. The company continues to add capacity and enhance product capabilities in sock and textile operations to support the rapidly growing Branded Apparel segment.

Valuation

In order to reach an intrinsic value for GIL, a six-year DCF model was conducted. Using a terminal growth rate of 3.0% and a WACC of 10.34% resulted in a valuation of \$59.53. Sensitivity analysis on both the terminal growth rate and WACC provided for a range between \$50.86 and \$73.83. Additionally, relative valuation methods using P/E and EV/EBITDA multiples were conducted. Using a comparable average P/E multiple of 21.38x and a 2014 expected EPS of \$2.88, a value of \$61.58 was obtained. An EV/EBITDA peer average of 13.92x yielded a valuation of \$64.40. By weighing the DCF model 50%, the P/E multiple 25%, and the EV/EBITDA 25%, a price target of \$61.26 was established, representing 10.2% upside. GIL pays a quarterly dividend of \$0.11 with an annual dividend yield of 0.76%.

Risks

- **Price of Cotton.** Due to the nature of its products, the company has a high exposure to cotton price movements. The volatility of prices for cotton can have an adverse affect on business and cause cost of sales to rise.
- **Exposure to political risks in the countries of operations.** GIL has strategically positioned manufacturing facilities to take advantage of a number of trade liberalization measures providing duty-free access to many markets. Any changes in this policy could have an impact on profitability.
- **Growing Expenses.** F2015 will be another heavy CapEx year to further increase capacity and to improve manufacturing efficiencies. The company has already indicated that it will be at the upper end of its CapEx of \$300-350 million in F2014, with more expected in F2015.

Management

Mr. Glenn J. Chamandy is one of the two founders of Gildan Activewear Inc. and has been its Chief Executive Officer and President since August 2004. Michael R. Hoffman, Vice-President of Sales and Marketing, joined Gildan in November 1997. Prior to joining Gildan, Mr. Hoffman was employed by Fruit of the Loom, where he last served as Divisional Vice-President of the Activewear Division.



Ownership		
% of Shares Held by All Insider and 5% Owners:	0.43%	
% of Shares Held by Institutional & Mutual Fund Owners	92.90%	
		Source: Bloomberg
Top 5 Shareholders		
Holder	Shares	Out%
FMR LLC	18,797,272	15.37%
Caisse De Depot Et Placeme	11,044,802	9.03%
Bank of Montreal	7,875,487	6.46%
Fiera Capital Corporation	7,316,079	5.98%
Massachusetts Financial Services	6,796,710	5.56%
		Source: Bloomberg

Akorn, Inc. (AKRX)
September 19, 2014

Alex Ibrahim

Domestic Health Care

Akorn, Inc. (Nasdaq: AKRX) manufactures and markets a full line of diagnostic and therapeutic ophthalmic pharmaceuticals as well as niche hospital drugs and injectable pharmaceuticals. In addition, through a subsidiary, they manufacture and market a line of over-the-counter (OTC) ophthalmic products for the treatment of dry eye under the TheraTears® brand name, as well as a portfolio of private label OTC ophthalmic products. The company is also a manufacturer and marketer of diagnostic and therapeutic products in various specialty areas, including ophthalmology, antidotes, anti-infectives, vaccines, and controlled substances for pain management and anesthesia, among others. In FY2013, AKRX revenues were broken down as follows: Hospital Drugs & injectables 50.6%, Ophthalmic 40.5%, and contract services 8.9%. The company was founded in Abita Springs, Louisiana in 1971 and relocated to Lake Forest, Illinois in 1997.

Price (\$) (09/12/2014)	37.31	Beta:	0.89	FY: December	2013A	2014E	2015E
Price Target (\$):	35.96	WACC:	9.2%	Revenue (Mil)	\$ 317.7	\$ 596.2	\$ 834.6
52WK Range (\$):	18.11-39.48	M-Term Rev. Gr Rate Est:	19.4%	% Growth	24.00%	87.65%	40.00%
Market Cap:	3.89B	M-Term EPS Gr Rate Est:	35.0%	Gross Margin	54.11%	55.90%	58.30%
Float :	70.5M	Debt/Equity:	239.9%	Operating Margin	28.80%	33.79%	35.74%
Short Interest (%):	14.9%	ROA:	5.9%	EPS (Cal)	\$ 0.55	\$ 1.13	\$ 1.64
Avg. Daily Vol:	1.21M	ROE:	18.1%	FCF/Share	\$ 0.64	\$ 1.04	\$ 1.53
Dividend (\$):	-			P/E (Cal)	68.43	33.06	22.68
Yield (%):	-			EV/EBITDA	22.57x	16.32x	13.60x

Recommendation

Through strategic partnerships and acquisitions, as well as organic growth, Akorn, Inc. has been able to grow at a CAGR (for the period 2007-2013) of 21.5%, well above the industry average of 6.8% for the same time period. AKRX's ability to drive growth stems from its acquisitive nature and its unique position as a hybrid drug manufacturer. Since being added to the AIM Equity Fund in April of 2014, Akorn's stock price has increased from \$21.80 to \$37.31. This is well above the initial price target of \$28.38 and represents a gain of 71%. This growth has been fueled by the successful integration of Hi-Tech Pharmaceuticals which Akorn acquired last May and the recently completed acquisition of VersaPharm in August 2014. After taking into account the better than expected synergies of the Hi-Tech acquisition, as well as the VersaPharm acquisition in August, an intrinsic value of \$35.96 was reached. The stock is currently trading at a premium due to increased speculation regarding the possible acquisition of UCB SA's U.S. subsidiary. This acquisition would allow Akorn to reduce its tax rate - a practice known as a tax inversion. Based on the built in premium due to an unlikely acquisition, it is recommended that AKRX be sold with a price target of \$35.96. This valuation represents a potential downside of 3.61%. The firm does not pay a dividend.

Investment Thesis

- **Low probability of successful acquisition.** Akorn is currently priced at a premium above its intrinsic value of \$35.96 based on speculation around a possible acquisition of UCB SA's U.S. subsidiary, Kremers Urban Pharmaceuticals. This acquisition would allow Akorn to move its tax domicile overseas in a maneuver known as a tax inversion. This strategy would reduce Akorn's tax rate, currently around 37%, to a number more in line with the industry average of 23%. However, an acquisition is unlikely to occur for three reasons. First, there are several interested buyers looking at Kremers. Second, the current regulatory environment governing tax inversions

is questionable at best. There is even a possibility that the U.S. Government retroactively outlaws the practice. Finally, Akorn's D/E has skyrocketed to 239.9% due to acquisitions this quarter. It will be hard for the firm to raise the financing needed to fund this deal in an accretive manner.

- **Lack of action to resolve issues with internal controls.** In the 2013 10-K, Akorn's auditor, KPMG, expressed concerns regarding the company's internal controls. KPMG specifically cited the lack of segregation of duties at Akorn. Although this is a common issue many high growth companies face, Akorn has done relatively little to resolve the issue. The only change to come from KPMG's finding to date is an updated internal whistleblower policy. Another delay in the filing of a 10-k for reasons relating to internal controls will depress the stock price.

Valuation

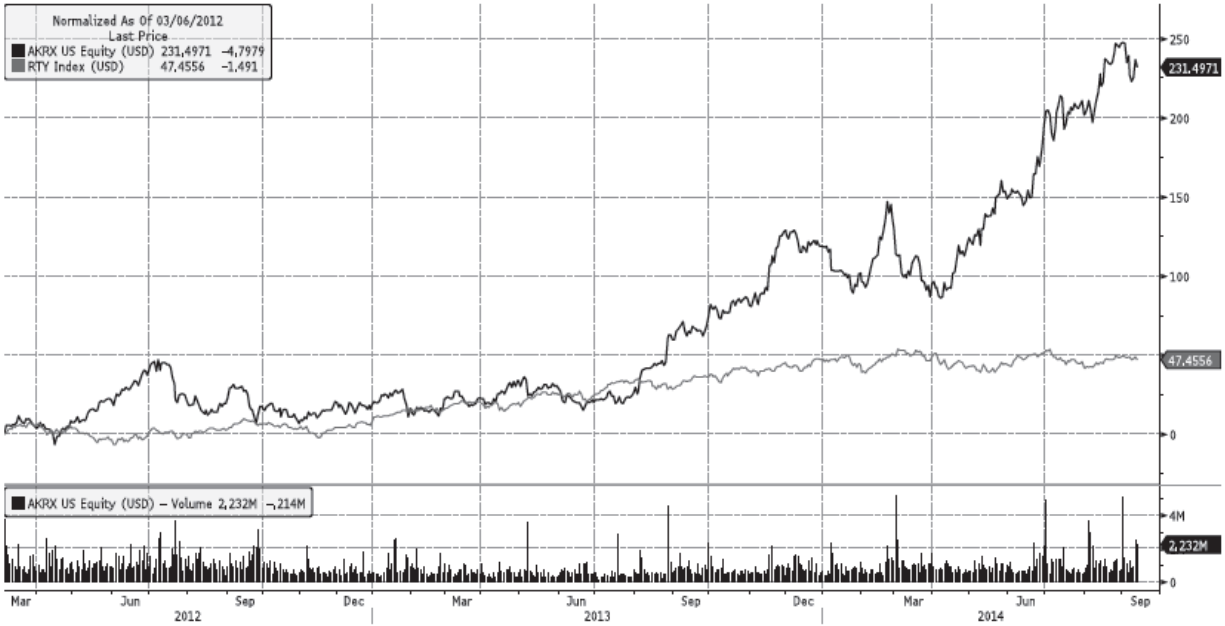
In order to reach an intrinsic value for Akorn, a 10 year DCF model was conducted. Using a terminal growth rate of 2.5% and a WACC of 9.24% resulted in a valuation of \$24.09. Sensitivity analysis on both the WACC and terminal growth rate provided a price range of \$20.79-\$28.51. Additionally, a P/E analysis and EV/EBITDA analysis was conducted. Using weighted blend of the current P/E multiple of 78.48x and the five year historical average P/E multiple of 34.26x yielded a multiple of 49.96x. With a 2014E EPS of \$1.13, a value of \$56.45 was obtained. Using the industry EV/EBITDA multiple of 24.97x and a current EV/EBITDA multiple of 32.6x, a value of \$28.51 was obtained. By weighing the DCF model, the P/E multiple, and the EV/EBITDA multiple evenly, a price target of \$35.96 was established. AKRX does not currently pay a dividend.

Risks

- **Better than expected VersaPharm synergies.** Similar to Hi-Tech, the firm has announced expected synergies from the acquisition of VersaPharm which are currently built into the price. If the company is able to derive better than expected synergies, an earnings surprise may lift the stock price further.
- **Successful cross-border acquisition.** Although the likelihood of a successful cross-border acquisition is unlikely, the result of a depressed tax rate could greatly increase the stock price long term. According to PricewaterhouseCoopers, Akorn's effective tax rate for 2014 is approximately 14% higher than average.

Management

Raj Rai has served as the CEO of Akorn, Inc. since June 2009. Prior to serving as the CEO of Akorn, he held the position of CEO at Option Care, Inc. Timothy A. Dick has been serving as the CFO since June 2009. Prior to assuming the role of CFO, Mr. Dick was the VP, Operations Improvement & Analysis at Option Care, Inc. Bruce Kutinsky, Pharm D. has been serving as COO since 2009. Prior to joining Akorn, Mr. Kutinsky was the VP, Sales and Marketing at Apotex, Inc. Mr. Kutinsky also holds a Doctor of Pharmacy degree from University of Michigan.



Ownership	
% of Shares Held by All Insider and 5% Owners:	26%
% of Shares Held by Institutional and Mutual Fund Owners:	85%

Top 5 Shareholders		
Holder	Shares	% Out
Columbia Wagner Asset Management, L.P.	8,123,700	7.52%
Oak Ridge Investments , LLC	5,790,723	5.77%
Columbia Acorn Fund	5,290,000	5.39%
BlackRock Fund Advisors	5,017,438	5.11%
AllianceBernstein, L.P.	4,187,975	4.33%

CoreSite Realty Corporation (COR)
September 19, 2014

Charlie Houser

Financial Services

CoreSite Realty Corporation (NYSE: COR) is a real estate investment trust (REIT) in the business of ownership, acquisition, construction and management of data centers. The company currently owns and operates sixteen data centers, contributing more than one and a half million square feet of capacity to eight key United States markets. The company's largest geographic concentrations are the San Francisco Bay/Silicon Valley area (5 data centers, 29.8% of annualized rent), Los Angeles (2, 28.7%) and Northern Virginia/Washington D.C. (3, 18.2%). CoreSite's data centers provide an optimal performance environment for its 800+ customers to house mission-critical data and IT infrastructure for Internet enterprises and cloud service providers. CoreSite was founded in 2001 and went public in September 2010. The company is located in Denver, CO and houses 363 employees.

Price (\$): (09/16/14)	34.04	Beta:	1.11	FY: Dec	2013A	2014E	2015E
Price Target (\$):	\$38.70	WACC:	7.87%	Revenue (thou)	234,833.00	272,873.17	318,572.40
52WK H-L (\$):	27.51-36.47	L-Term Rev. Gr Rate Est:	11.1%	% Growth	13.48%	16.20%	16.75%
Market Cap (mil):	775.90	L-Term EPS Gr Rate Est:	22.3%	Operating Margin (%)	14.76%	17.01%	19.07%
Float (mil):	20.1	Debt/Equity:	47.7%	Profit Margin (%)	8.02%	8.79%	9.65%
Short Interest (%):	3.63%	ROA:	2.14%	EPS (Cal)	0.50	0.71	1.00
Avg. Daily Vol (thou):	84.78	ROE:	5.84%	P/E (Cal)	65.90x	47.69x	33.97x
Dividend TTM (\$):	1.40	FFO/Total Debt:	22.73%	FFO/Share	\$1.90	\$2.23	\$2.62
Yield (%):	4.11%			P/FFO	16.94x	15.23x	13.00x
				Div. Per Share	\$1.16	\$1.46	\$1.68

Recommendation

CoreSite Realty Corporation is a relatively new company in the niche data center REIT market, with only two direct competitors, DuPont Fabros Technology (DFT) and Digital Realty Trust Inc. (DLR). COR was added to the AIM Equity Fund in September 2012 at a price of \$26.18, and has since appreciated 32.1%. Since 2Q11, COR's revenue has increased at a 16% CAGR, their Funds from Operations (FFO) – grew at a 20% pace, EBITDA grew by 26% and dividends were increased at a 40% CAGR. COR prides itself on running a scalable operation, permitting tenants of all size to rent space. As a result, CoreSite has over 800 tenants across multiple industries including financial, healthcare, government agencies and educational institutions. This dense network of tenants provides a competitive advantage that tenants are able to leverage in their own operations. Notable tenants include Amazon, Microsoft, Cisco, Facebook, Verizon Wireless and IBM. Each of CoreSite's data centers run at an uptime of six 9s (99.9999%), which is one of the industry's highest measures of reliability. A company running at six 9s of uptime only has 31.5 seconds of downtime each year. For comparison, a company running at seven 9s (the only higher measurement) has an annual downtime of 3.15 seconds, while a company running at five 9s has an annual downtime of 5.26 minutes. COR conducts independent SSAE 16 Type 2 SOC 1 certifications on each of its centers annually, which provides customers with assurance on the sites' security and environmental compliance. CoreSite has been expanding rapidly, adding four data centers in the past two years with over one million square feet of land held for development. Due to the company's recent and projected growth, it is recommended that we expand COR's position in the AIM Equity Fund with a target price of \$38.70, which offers a potential upside of 13.70%. CoreSite pays a quarterly dividend of \$0.35, representing an annual dividend yield of 4% (the next dividend will be paid 9/26).

Investment Thesis

- **Expansion Capability.** Currently, CoreSite has the ability to increase its occupied net-rentable square footage (NRSF) by 150%. Of COR's 2.75M NRSF of data center capacity, only 1.5M NRSF are existing data centers or pre-stabilized facilities. The company owns land that provides potential for 875k more NRSF of development. In the past year, a total of 170k NRSF came on-

line in three markets, and the company currently has 50k NRSF under construction. Since COR was first pitched in 2012, it has expanded from owning 12 to now 16 data centers. The company owns developable land in six markets, including its four largest revenue providers. COR's data centers have a weighted average occupancy of 85.4%.

- **Scalability and Tenant Diversification.** Tenants at COR are able to rent anywhere from a single data cabinet to a dedicated computer room or even an entire building. This allows space for large tenants while providing flexibility for smaller tenants. That being said, COR's ten largest tenants only represent 33.9% of the company's annual rent and 29.6% of the NRSF. COR is not exposed to excessive risk from one sector, as its tenants are diversified as follows: Network & Mobility (34% of NRSF), Cloud & IT (24%), Enterprise (21%), Media/Entertainment (14%), and SIs/MSPs (7%). In 2015, 2016 and 2017, respectively, 21.1%, 15.9% and 14.6% of COR's annual rent is expected to roll.
- **Network Density.** COR's data centers provide their customers with attractive networking opportunities that can cut costs and attract new tenants. In total, CoreSite offers over 15,000 interconnections across their portfolio. Tenants can leverage this network to offer their services directly to other COR tenants. Enterprises can reduce their cost of operations by connecting to service providers in the same data center. CoreSite offers direct access to over 275 carriers and ISPs, and over 180 cloud and IT service providers. COR's network of more than 800 tenants is a competitive advantage and barrier to entry that would take new firms years to develop.

Valuation

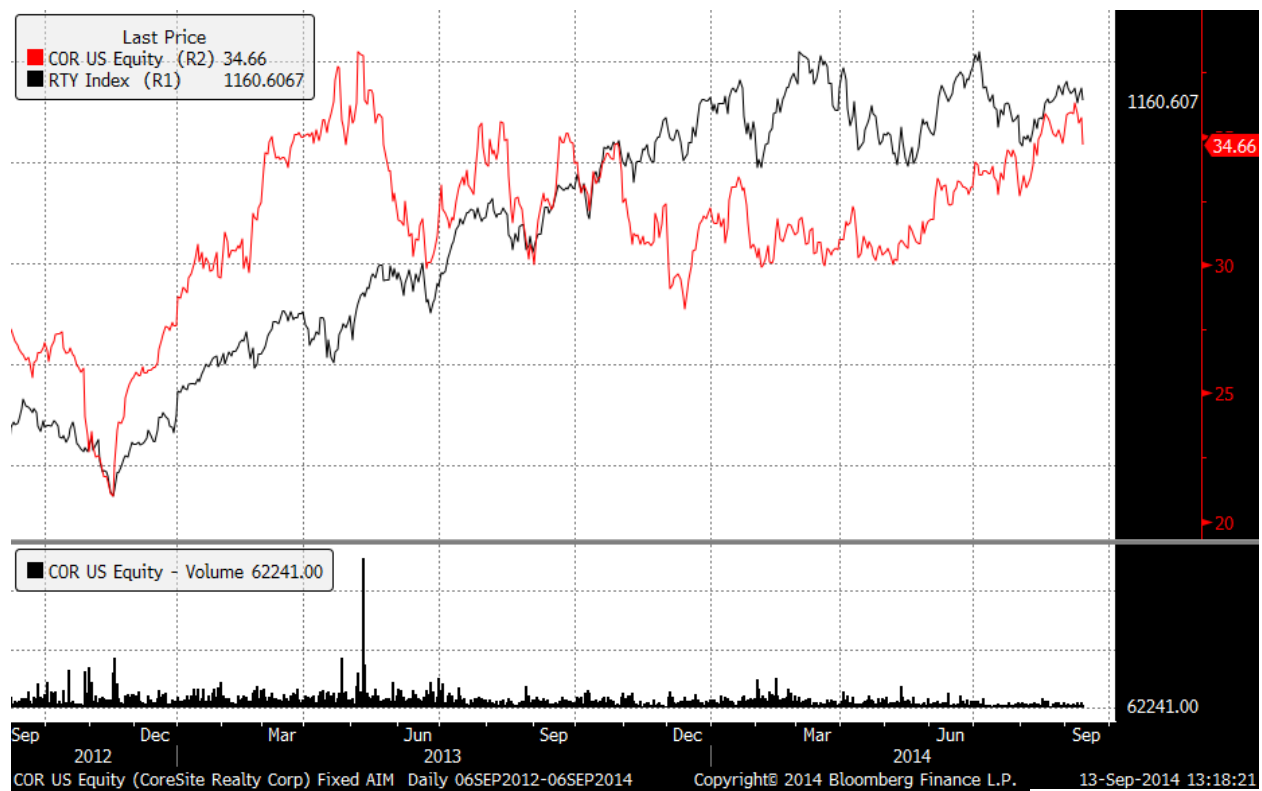
To find the intrinsic value of COR, a dividend discount model and price to FFO multiple method were used. A multiple-stage dividend discount model was used with a terminal growth rate of 3% and discount rate of 7.87% to calculate an intrinsic value of \$35.14. A sensitivity analysis was conducted varying the growth rate from 1.5-3.5% and the discount rate from 7-8.5%. The resulting values ranged from \$25.44 to \$48.32. Using a historic P/FFO multiple for COR of 16.90x, coupled with the peer average of 12.30x, and intrinsic value of \$42.27 was calculated. The historical value multiple was weighted at 40% and the peer average was weighted at 60%. Weighing these valuations equally, the final estimated intrinsic value of COR was calculated at \$38.70, which provides an upside of 13.70%.

Risks

- **Large Tenants' Ability to Develop or Expand Data Centers of their Own.** Increasingly, large web companies are investing billions of dollars to build data centers of their own, instead of renting. Notable companies who currently lease through COR that have recently built data centers include Amazon, Facebook, Cisco, IBM and Verizon (per *Data Center Knowledge*). Some of these companies, like Verizon, are leasing space to other providers. Many of these centers are in the same markets as CoreSite's facilities.
- **Vulnerability to Cyber-Attacks.** Data centers are attractive to hackers because of the large amounts of valuable information they store. Techniques to breach cyber security change often, and are generally not recognized until launched against a target. This makes security measures difficult to prepare, and any successful hack would harm COR's reputation, could prevent future customers from renting, and would provide legal implications.

Management

Thomas Ray is the President and CEO of CoreSite and has been with the company since 2010, prior to the company's IPO. Ray has over 26 years of experience in commercial real estate including 14 years in the data center industry and nine years at publically traded REITs. Ray is on the company's board and has been responsible for COR's activities since its founding in 2001. Jeff Finnin, COR's CFO, also has more than 25 years of experience in commercial real estate and has been with the company since 2011.



Source: Bloomberg

Ownership

% of Shares Held by All Insider and 5% Owners:	2.87%
% of Shares Held by Institutional & Mutual Fund Owners:	>90%

Source: Thompson ONE

Top 5 Shareholders

<u>Holder</u>	<u>Shares</u>	<u>% Out</u>
FMR LLC	2,583,856	11.95
Vanguard Group Inc.	2,530,973	11.71
Blackrock	1,879,318	8.70
Columbia Wanger Asset Management	1,758,300	8.14
JP Morgan Chase & Co.	1,055,389	4.88

Source: Bloomberg

America Movil SAB de CV (AMX)

September 19, 2014

Cole Johnson

International Telecom Services

America Movil SAB de CV (NYSE: AMX) is a Mexico-based provider of wireless communications services in 18 countries primarily throughout Latin America and the United States. The firm offers mobile and landline telephony services, broadband access, as well as cable and satellite television services. It distributes its services under the Telcel, Telmex, Claro, Embratel, Simple Mobile, Net and TracFone brands. America Movil operates through numerous subsidiaries located in Mexico (which represented 37% of FY13 sales), Brazil (25%), the United States (10%), Central America and the Caribbean (6%) and South America excluding Brazil (22%). AMX generates revenues from four primary business units including: Wireless Services (54% of FY13 sales), Fixed Line Services (25%), Wireless Equipment (13%) and Paid TV Services (8%). AMX was founded in 2000 and is headquartered in Mexico City.

Price (\$): (9/15/14)	26.22	Beta:	1.06	FYE: December	2013A	2014E	2015E
Price Target (\$):	22.83	WACC	9.0%	Revenue (Mil)	61,258.37	63,708.70	66,894.14
52WK H-L (\$):	26.87-19.02	M-Term Rev. Gr Rate Est:	3.5%	% Growth	3.79%	4.00%	5.00%
Market Cap (mil):	88,420	M-Term EPS Gr Rate Est:	7.2%	Gross Margin	54.4%	54.9%	55.3%
Float (mil):	1,030	Debt/Equity:	242%	Operating Margin	19.6%	20.1%	20.5%
Short Interest (%):	0.7%	Debt/Total Assets:	50%	EPS (Cal)	\$1.31	\$1.40	\$1.51
Avg. Vol (10d):	6,330	ROA:	10.1%	FCF/Share	\$1.26	\$1.63	\$1.38
Dividend ttm (\$):	0.36	ROE:	33.6%	P/E (Cal)	14.3x	12.0x	11.5x
Yield (%):	1.40%	ROIC:	14.2%	EV/EBITDA	5.9x	5.8x	5.8x

Recommendation

America Movil currently serves 338.7M customers throughout the Americas, including a wireless subscriber base of 267M users. Since its spinoff from Telmex in 2000, America Movil has demonstrated impressive relative performance within the Latin American market. With an approximate 70% market share, the company now serves as the dominant wireless service provider within Mexico and its extensive scale has been instrumental in lowering operating costs and maintaining among the highest margins of wireless operators globally. Following our purchase of the holding in 2011, AMX has seriously underperformed the market, generating dismal compound annual growth of -0.29%. From FY09 to FY13, operating margins have declined 800 bps, from 27.6% to 19.6%. This performance has been driven by increased regulatory challenges and risks, the maturing of the Latin American market and strong competition. The Mexican government most recently signed into law a constitutional reform preventing the existence of preponderant economic agents which occupy greater than a 50% share of the market. IFETEL (Federal Institute of Telecommunications in Mexico) has accordingly declared that it plans to impose asymmetrical regulations upon the company to mitigate the firm's competitive position in Mexico. At the end of 2Q14, AMX announced plans to sell a large portion of its Mexican operating assets in order to satisfy the new measures. Due to these constraints on expansion and organic growth in its current markets, AMX launched a public tender offer to acquire all outstanding shares of Telekom Austria in July and now holds a stake of 50.8% of the operator. The firm plans to continue attempts to expand European exposure and develop a greater presence in the region. Due to high regulatory risk and an unfavorable valuation, it is recommended that AMX be sold from the AIM International Fund with a price target of \$22.83, representing a downside of 13%.

Investment Thesis

- Regulatory headwinds continue in Mexico and Colombia.** AMX continues to face increasing levels of scrutiny from the Mexican government and the IFETEL to reduce its dominant market presence in Mexico. New regulatory measures within the country have canceled and prohibited national roaming charges and have cut termination rates by 34%. These factors among others contributed to an 8.7% decline in mobile voice sales and a 1.1% decline in Mexican ARPU, which cut 90 basis points from the firm's Mexican EBITDA margins. Meanwhile, Colombian

operations have been negatively impacted by similar regulatory measures and the introduction of more competitive mobile plans by Colombia Movil and Movista. This culminated in a 12% YoY contraction in EBITDA for the region – these two regions represented 77% of EBITDA in 2013.

- **Fierce Competition in Brazil.** While Brazil has shown positive relative performance in the first half of FY14, the firm still continues to struggle with significant pricing pressures. Four major players within the market (America Movil, Oi, Telefonica and Telecom Italia) have created a deep discount environment that has shrunk margins and dragged down revenues. While the market believes a sale of TIM Participacoes by Telecom Italia is likely to occur within the coming year, management has noted that the competitor is highly unlikely to sell its fastest growing asset in the Brazilian market. AMX has failed in three prior attempts to purchase the company. Margin environment in the region continues to be challenged – AMX generated 25.5% EBITDA margins in 2Q14, while Mexican operations generated a 43.6% EBITDA margin in the same period. Despite large recent investments in the region and throughout Latin America, margins are expected to remain low on a relative basis in the near and mid-term.

Valuation

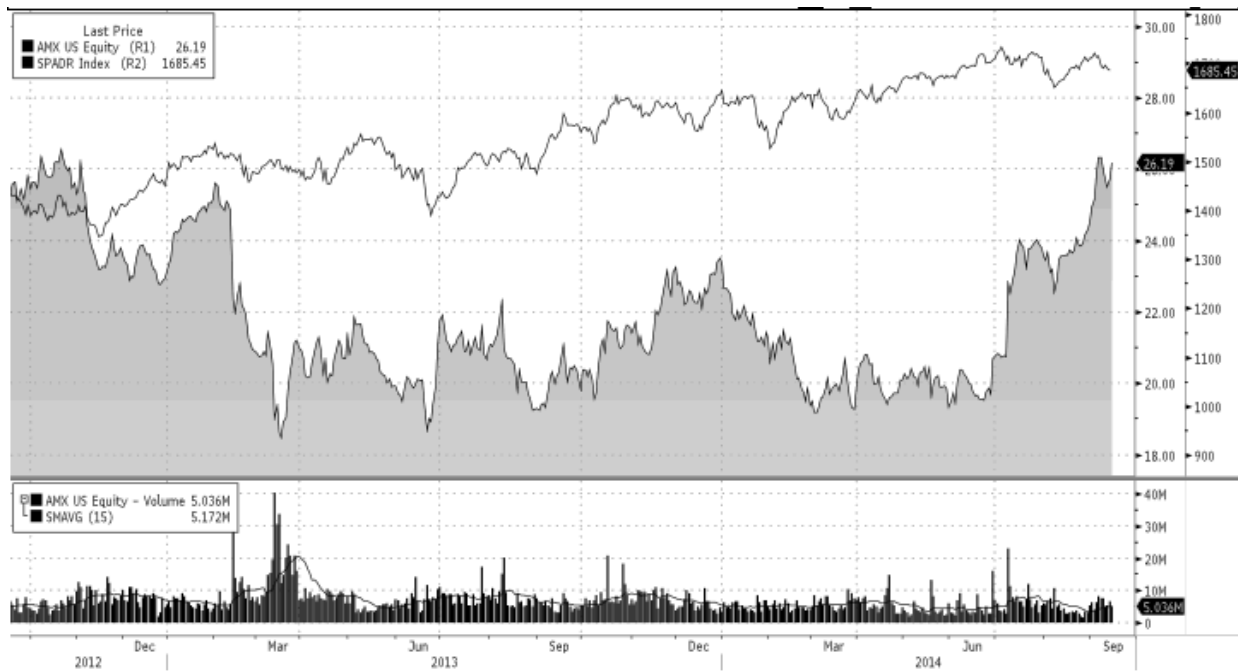
In order to reach an intrinsic value for AMX, a five year discounted cash flow model was conducted. Using a terminal growth rate of 2.5% and a WACC of 9.0% resulted in a valuation of \$20.85. Sensitivity analysis on both the terminal growth rate and WACC provided for a range between \$27.40 and \$18.20. Additionally, EV/EBITDA and EV/Sales peer multiple comparisons were also employed. Using an industry average EV/EBITDA multiple of 5.46x and projected FY14 EBITDA of \$21.00B, a value of \$23.32 was obtained. Using an industry average EV/Sales multiple of 1.94x and projected FY14 Sales of \$63.71B, a value of \$25.83 was obtained. By weighing the DCF, EV/EBITDA and EV/Sales multiple comparisons at 40%, 40% and 20%, respectively, an intrinsic value of \$22.83 was obtained, which represents a potential downside of 13%. AMX pays a 1.4% dividend yield.

Risks

- **Premium Valuations in Sale of Cellular Site Assets.** AMX is in the process of divesting all cell towers, base stations and passive infrastructure. If the firm is able to fetch premium prices (6.0x-7.0x EBITDA) for some of these assets from internationally expanding tower operators like American Tower, SBC Communications and Crown Castle, this sale could provide for some substantial unanticipated profitability. It still remains unlikely that asset sales alone will assist in removing the Company's preponderance status.
- **Improvement in Brazilian Operational Efficiency and Market Competitiveness.** The firm's relatively low profitability in Brazil could improve if the firm is able to successfully complete several large investment projects in the region. Additionally, the consolidation of Telecom Italia's TIM Participacoes could allow margin expansion from reduced competition.
- **Successful expansion into European market through majority stake position in Telekom Austria.** The company recently completed a \$1B public tender offer to acquire a majority stake in TKA and now holds a 50.8% stake in the firm. While TKA currently faces a declining revenue base and thinning margins, the deal is one of the few large opportunities for AMX to build out its international exposure in European markets. With a market saturation in Mexico and limitations for organic growth throughout Latin America, this increased stake could improve organic growth prospects for AMX.

Management

Mr. Daniel Hajj Aboumrad serves as Chief Executive Officer and Member of the Board of Directors of America Movil SAB de CV, a position he has held since 2000. He has also served as Member of the Board of Directors of Grupo Carso SAB de CV and Telmex. In the past, he acted as Chief Executive Officer of Hulera Euzkadi SA de CV. Dr. Carlos Jose Garcia Moreno Elizondo has served as Chief Financial and Administrative Officer of America Movil SAB de CV since 2001.



Ownership

% of Shares Held by All Insider & 5% Owners:	55%
% of Shares Held by Institutional & Mutual Fund Owners:	15%

Source: Thompson ONE

Top 5 Shareholders

Holder	Shares	% Out
Acadian Asset Management LLC	25,636,054	1.14%
Genesis Investment Management, LLP	24,144,727	1.07%
OppenheimerFunds, Inc.	20,537,912	0.91%
Brandes Investment Partners, L.P.	17,862,260	0.80%
Morgan Stanley Investment Management, Inc.	15,299,321	0.68%

Source: Thompson ONE

The Dixie Group, Inc. (DXYN)
September 19, 2014

Patrick Lonzo

Consumer Discretionary

The Dixie Group Inc. (NASDAQ: DXYN) markets, manufactures, and sells high-end carpets and rugs. Primary customers include interior decorators, furniture stores, luxury home builders, and yacht designers. The Dixie Group distributes its products under the Fabrica, Masland Residential, Masland Contract, Dixie Home, and Avant Contract brands. Products offered include specialty carpets, custom rugs, tufted broadloom carpets, and modular carpet tiles. The company was founded as a textile manufacturer in 1920, but entered the floorcovering industry in 1993. The firm is headquartered in Chattanooga, Tennessee and has recently made several strategic acquisitions, including the Colormaster carpet dyeing facility in 2012, Robertex Associates Inc. in 2013, and Atlas Carpet Mills Inc. in March 2014.

Price (\$): (9/11/14)	9.04	Beta:	1.45	FY: Dec	2013A	2014E	2015E
Price Target (\$):	10.06	WACC	8.74%	Revenue (Mil)	345.1	421.7	474.7
52WK H-L (\$):	7.42-18.41	M-Term Rev. Gr Rate Est:	15.05%	% Growth	29.54%	22.20%	12.57%
Market Cap (mil):	125.01	M-Term EPS Gr Rate Est:	34.83%	Gross Margin	24.82%	24.40%	26.00%
Float (mil):	11.41	Debt/Equity:	119.38%	Operating Margin	2.49%	2.15%	5.04%
Short Interest (%):	1.5%	ROA:	2.35%	EPS (Cal)	\$0.39	\$0.46	\$0.74
Avg. Daily Vol (mil):	0.17	ROE:	8.30%	FCF/Share	-\$1.36	-\$0.98	-\$0.63
Dividend (\$):	0.00			P/E (Cal)	15.63x	29.22	10.72
Yield (%):	0.0%			EV/EBITDA	14.25x	8.82	6.39

Recommendation

In April 2014, DXYN was added to the AIM Equity Fund at a price of \$15.44 per share. Since then, the price has plummeted about 41%. Because of the initiatives that the firm has undertaken and the cyclical nature of the floorcovering industry, however, DXYN is likely to recover some of this lost value. The company has been active in acquiring other companies and investing in its operations, which is demonstrated by the fact that capital expenditures have exceeded net income in each of the past 5 years. With competent management and proficient execution, this disproportionate spending could help the firm generate future profitability improvements, but it also presents risk. There is certainly room for efficiency enhancement as the company has an operating margin (ttm) of approximately 2%, which is substandard in comparison to its primary competitors (9% for Interface Inc. and 10% for Mohawk Industries Inc.). The success of the company also depends considerably on its ability to retain its largest customers—particularly Lowe’s, which accounted for roughly 13% of DXYN’s sales revenue in 2013. For these reasons, there is upside, but also a fair amount of risk involved. The stock price, however, is currently approaching its 52-week low and the floorcovering industry correlates with the cyclical housing market, which continues to improve. With the goal of allowing the stock to recover some of its lost value without taking on additional risk, it is recommended that the current number of shares of DXYN be held in the AIM Equity Fund with a target price of \$10.06. This valuation offers a potential upside of 11.25%.

Investment Thesis

- Determination to Develop and Expand.** The Dixie Group has invested extensively in creating and improving products, processes, and facilities in recent years. In 2013, the company increased its yarn capacity by over 40%, acquired Robertex Associates Inc., upgraded its modular carpet tile processing equipment for greater efficiency, launched the Avant product line, and entered into a joint venture and distribution agreement with Desso, another high-quality floorcovering company. In March 2014, DXYN also acquired Atlas Carpet Mills Inc., a major commercial carpet manufacturer. The effects of these projects are reflected in the 5-year expected PEG ratio

of 2.39, compared to an industry average of 1.41. With sufficient success in these developments, the company will be well-positioned to expand its market share and improve its financial health.

- **Project to Streamline Distribution Networks.** A 15-month plan to consolidate Dixie Group's warehouses and distribution systems began in June 2014. This initiative aims to increase efficiency, improve production levels, and expand profit margins. The plan is projected to cost approximately \$2.4 million and will involve closing multiple production and distribution facilities with the intent to construct larger buildings in more centralized locations. Despite losing several facilities, DXYN forecasts that this consolidation will increase production by up to 40%.
- **Commercial Sector Growth.** The Dixie Group has decided to focus more of its resources on its commercial sector in recent years. In 2012, the company brought in new leadership for its commercial business operations. In 2013, the company launched Avant Contract, which is a brand that targets the corporate office market. Effects of this increased attention is reflected by the commercial sector's 2013 YoY carpet sales growth of 30.1%. Commercial floorcovering product sales accounted for 26% of DXYN's revenue in 2013. Combined with continued success of the company's new product introductions in this sector, the management changes could help strengthen the company's performance and market position.

Valuation

In order to reach an intrinsic value for DXYN, a five year discounted cash flow model was constructed. Using a terminal growth rate of 3.00% and a WACC of 8.74% resulted in a valuation of \$8.73. Sensitivity analysis on both the terminal growth rate and the WACC resulted in a range between \$7.26 and \$10.18. Averaging the data that was calculated in the sensitivity analysis led to a valuation of \$8.54. Additionally, P/E multiples were used as another valuation approach. Using an industry average of 19.82x and an expected 2014 EPS of \$0.79, a value of \$15.76 was established. By weighting the result of the five-year discounted value model 40%, the result of the sensitivity analysis 40%, and the result of the P/E multiple calculation 20%, a price target of \$10.06 was obtained. DXYN does not pay a dividend.

Risks

- **Substantial Debt.** The Dixie Group holds high levels of debt, which could lead to severe consequences if the company's cash flows or levels of profitability are not sufficient. In comparison to the industry average of approximately 33%, the company's debt-to-equity ratio of 119.38% reveals that the firm holds far more debt relative to its equity. This high level of debt has the potential to amplify the impact of undesirable events and impede recovery from financial struggles.
- **Intense Competition.** There are several major competitors in the floorcovering industry, some of which hold considerably more market share than The Dixie Group. In 2013, the company owned only about 3.5% of the residential and commercial floorcovering markets. Larger competitors include Interface, Inc. and Mohawk Industries, Inc. The relatively recent consolidation within the industry has contributed to the rapid growth of these competitors. Because larger competitors often initiate downward price pressures and prevent smaller players from gaining market share, this competition threatens DXYN's sales and profitability.
- **Increasing Raw Material Prices:** As a manufacturer, profitability for The Dixie Group relies heavily on the cost of raw materials—specifically nylon, polyester yarn, wool yarn, synthetic backing, latex, and dyes. Although some raw material price increases could likely be passed on to customers, most financially-conscious consumers would resort to alternate products at a certain price point. Failure to appropriately balance reasonable prices with lucrative margins could be detrimental to The Dixie Group's success.

Management

Daniel K. Frierson is the Chief Executive Officer and Chairman of the Board of The Dixie Group. He was named CEO in 1980 and became Chairman of the Board in 1987. Mr. Frierson, who is 72 years old, also currently serves as a director of two manufacturing companies: Astec Industries, Inc. and Louisiana-Pacific Corporation. Jon A. Faulkner has been the Vice President and Chief Financial Officer since 2009.



Ownership

% of Shares Held by All Insider and 5% Owners		16%
% of Shares Held by Institutional & Mutual Fund Owners		47%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
T Rowe Price Associates	1,446,220	9.64
Shaw, Robert E.	1,275,000	8.50
Rayce and Associates Inc.	1,194,735	7.97
Dimensional Fund Advisors LP	1,035,296	6.90
Blackrock	863,608	5.76

Source: Bloomberg

GlaxoSmithKline plc (GSK)

September 19, 2014

Jing (Yolanda) Liu

International Health Care

GlaxoSmithKline plc (NYSE:GSK) is a large cap global pharmaceutical and biotechnology company headquartered in Brentford, United Kingdom. The company was formed in 2000 with the merger of Glaxo Wellcom plc and SmithKline Beecham plc. GSK is engaged in the creation and discovery, development, manufacture, and marketing of pharmaceutical products. The various pharmaceutical products are in therapeutic areas, including respiratory, anti-virals, central nervous systems, cardiovascular and urogenital, metabolic, antibacterials, oncology and emesis, dermatology, rare diseases, immune-inflammation, vaccines, and human immunodeficiency virus (HIV). The company employees 99,817 people in over 100 countries. GlaxoSmithKline's revenue in 2013 were generated through three business segments, which are pharmaceuticals (67%), consumer healthcare (20%), and vaccines (13%). The company's revenue's geographic segments in 2013 are United States (31%), Europe (26%), Emerging Markets (15%), Asia Pacific/Japan (6%), and the rest of the world (22%).

Price (\$): (09/07/14)	47.92	Beta:	0.65	FY: Dec. 31	2013A	2014E	2015E
Price Target (\$):	52.83	WACC	7.12%	Revenue (Mil)(\$)	41,475	38,629	39,208
52 WK H-L (\$):	56.73-46.01	M-Term Rev. Gr Rate Est:	0.43%	% Growth	-1.00%	-6.86%	1.50%
Market Cap (mil):	113,805.80	M-Term EPS Gr Rate Est:	1.41%	Gross Margin	69.82%	71.00%	71.50%
Float (bil):	2.34	Debt/Equity	258.2%	Operating Margin	22.63%	28.00%	29.00%
Short Interest (%):	3.87	ROA:	12.80%	EPS (Cal) (\$):	1.73	1.64	1.65
Avg. 3M Vol (k):	2,465.64	ROE:	72.76%	FCF/Share (\$):	2.00	1.50	1.62
Dividend (\$):	2.47			P/E (Cal) (\$):	27.71	29.16	29.12
Yield (%):	5.20			EV/EBITDA	10.0x	10.8x	10.3x

Recommendation

GlaxoSmithKline plc, one of the four largest worldwide pharmaceutical companies, has a well-diversified portfolio. The company has launched 170 drugs, and it has registered four drugs. In addition, four more drugs are in pre-registration status, 14 are in Phase 3 Clinical, 47 are in Phase 2 Clinical, and 51 are in Phase 1 Clinical. However, considering a lot of approvals in the past 18 months (Breo, Anoro, Incruse, Mekinist, Tafinlar, etc.) and the recent failure of several high-risk projects (Darapladib and MAGEA3), GSK's current pipeline needs new products. GSK had a -1% revenue growth rate since 2008, and the margins had generally declined in the last three years. Nevertheless, the management team mentioned that they will continue implement cost saving initiatives, and GSK has identified more than 3B GBP in potential annual cost savings. The company has acquired from Novartis its vaccine segment, which should help build scale in this market. Moreover, GSK is continue its expansion in the emerging markets. GSK was added to the AIM International Equity Fund in September 2013 with a price target of \$63.87. Despite most of the company's investment drivers have been played out and legal risks seems to be rising, the company's potential emerging market opportunities and its diversified portfolio still makes the company attractive. Based on the above reasons and a modest valuation, it is recommended that GSK to be reduced (not sold entirely) in the AIM International Equity Fund with a target price of \$52.83, which offers a potential upside of 10.24%.

Investment Thesis

- Innovative Products.** The company's innovative new product lineup and expansive list of patent-protected drugs create a wide economic moat for the company. The company's past three year R&D costs were 14.64%, 15.05%, and 14.80% as of its revenues, which should help GSK's product development. One of GSK's inhaled drug, Advair, represents approximately 20% of its total revenue. The company's device patents may hold off generic Advair until 2016. The Advair

patent may help the company maintain its wide economic moat for a while, and the company's advancement of its next generation respiratory drugs should help the company maintain its advantage in both asthma and chronic obstructive pulmonary disease. These next generation of drugs addresses unmet medical needs.

- **Gaining Share through Emerging Markets Expansion.** GSK is strategically branching out from developed markets into emerging markets. The company's increasing consumer and vaccine segments make GSK well positioned in the price-sensitive emerging market through its highly recognizable brand and economic of scale. In March 2014, the company was to create a R&D open laboratory in Africa to support development of new medicines, increase understanding of non-communicable diseases, and build new manufacturing facilities to increase local production. The targeted \$216 million investment was to create approximately 500 new jobs. The R&D laboratory there broadens GSK's access in the emerging market.
- **Strategic Acquisitions in Key Therapeutic Areas.** In April 2014, GSK and Novartis announced a multi-faceted agreement with the goal of gaining scale in key therapeutic areas. The terms of the agreement stated that Novartis was to acquire GSK's oncology products for \$14.5 billion and was to divest vaccines to GSK for \$7.1 billion, including \$1.8 billion royalties. Overall, the transactions strengthen GSK's already strong vaccine segment. The transaction was expected to close during the first half of 2015. The addition of the meningococcal vaccine should give GSK competitive advantage against Sanofi and Merck.

Valuation

In order to reach an intrinsic value for GSK, a five year discounted cash flow model was conducted. Using a terminal growth rate of 1% and a WACC of 7.12% resulted in a valuation of \$57.69. The sensitivity analysis on both the terminal growth rate and WACC provided for a range between \$52.93 and \$63.51. In addition, an EV/EBITDA comparison valuation was done for GSK. Weighting the historical average of 10.80x (60%) and the peer mean of 10.90x (40%), the blend came up to be 10.90x, resulted in a valuation of \$47.96. By weighing the FCF model 50%, the EV/EBITDA multiple 50%, a price target of \$52.83 was established – offering about a 10% upside. GSK pays a \$2.47 dividend.

Risks

- **Consensus Sales Misses Forecasts by 3%.** The U.S. pressured on Advair revenues, which is down 21%, may be temporary since Advair is the only drug in this field, and temporary supply chain issues in OTC caused GSK missed its 2Q14 sales forecast. In addition, the higher-than-expected SG&A cost amplified the 3% sales miss.
- **Bad Press.** In June 2014, GSK received a warning letter from the US FDA regarding issues related to certain quality control and manufacturing procedures at the facility at its influenza vaccine manufacturing facility in Ste-Foy, Quebec, Canada. In May 2014, the UK's Serious Fraud Office (SFO) opened a formal criminal investigation into GSK's commercial practices. The company was to cooperate fully with the SFO. In July 2013, GSK potentially breached Chinese law, and the investigation in the alleged bribery is progressing. Moreover, the company was involved in the largest pharmaceutical company settlement in 2012, which cost GSK to pay \$3 billion in fraud settlement. These headlines hurt the reputation and trust of GSK.

Management

Sir Andrew Witty has been the Chief Executive Officer of GSK since May 21, 2008, and he is a member of the Board and Corporate Executive team. Witty has a Joint Honors BA in Economics from the University of Nottingham, where he became the Chancellor at the start of 2013. In 2012, Witty was awarded a knighthood for services to the economy and to the UK pharmaceutical industry. He is also the president of the European Federation of Pharmaceutical Industries and Associations. Witty has brought top talent from competing firms and the Food and Drug Administration.



Ownership

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

Source: Yahoo Finance

Top 5 Shareholders

Holder	Shares	% Out
Dodge & Cox	59,914,880	2.48%
Royal Bank of Canada	14,012,351	0.58%
Fisher Investments Inc.	11,354,836	0.47%
State Street Corp	10,871,652	0.45%
Bank of American Coropration	10,630,059	0.44%

Peer Group

Name	EV/EBITDA
Merck & Co. Inc.	12.4x
Novartis AG	16.0x
Pfizer Inc.	9.0x
Sanofi	11.0x
AstraZeneca PLC	7.5x

Source: Bloomberg