Celebrating 100 Years

Applied Investment Management (AIM) Program

AIM Class of 2012 Equity Fund Reports
Fall 2011

Date: Friday, September 23rd Time: 11:00 am – 12:30 pm
Road Show Location: Ziegler Lotsoff - Chicago

Student Presenter	Company Name	Ticker	Price	Page No.
Rupali Varma	TIM Participaceos	TSU	$27.39	2
Patrick Keeley	Dril-Quip	DRQ	$64.09	5
Sajid Bhimani	Henkel Corporation	HENKY	$45.95	8
Harrison Davis	Incyte Corporation	INCY	$14.95	11
Katherine Curiel	Galicia Financial Group	GGAL	$10.17	14
Chris Gwinn	Titan Machinery	TITN	$23.09	17

Thank you for taking the time today and participating in the AIM 'road show' at Ziegler Lotsoff. 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. Today, each student will spend about 5-7 minutes presenting their formal recommendation, which is then followed by about 8-10 minutes of Q & A. Again, thank you for allowing us the opportunity to present at Ziegler Lotsoff.

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TIM Participacões. (TSU)

September 23, 2011

Rupali Varma International Telecommunications

TIM Participacões SA. (NYSE: TSU) provides mobile telecommunication service throughout Brazil. TSU's services include mobile (92%) and fixed (8%). In addition to telecommunication services (88%), TSU also sells cellular mobile handsets to its customers (12%). The acquisition of AES Atimus in 4Q10 will expand the company's presence in the wealthiest cities of Brazil, Sao Paulo and Rio de Janeiro. As of 2010, TSU serviced approximately 51 million customers across Brazil and seeks to rapidly expand their customer base into untapped geographical and demographic segments. TSU covers an area with over 173 million people of Brazil's 194 million population, serving primarily the urban population (94%).TSU was founded in 1998 and is headquartered in Rio de Janeiro, Brazil, employing over 9,000 employees.

Price ($) (09/17/11)	27.39	Beta:	0.85
Price Target ($):	39.20	WACC	14.06%
52WK Range ($):	24.23-51.32	M-Term Rev. Gr Rate Est:	10.8%
Market Cap:	12.15B	M-Term EPS Gr Rate Est:	10.4%
Float	6.49M	Debt/Equity	28.53%
Short Interest (%):	1.30%	ROA:	12.01%
Avg. Daily Vol:	1.047M	ROE:	23.75%
Dividend ($):	0.75		
Yield (%):	2.73%		

FY: Dec	2010A	2011E	2012E
Total Revenue (Mil)	8,224.24	9,704.60	11,548.48
% Total Rev Growth	23.75%	18.00%	19.00%
Gross Margin	49.47%	50.32%	52.41%
Operating Margin	8.30%	8.42%	8.49%
EPS (Cal)	$2.84A	$1.31E	$1.58E
FCF/Share	1.07	2.84	3.40
P/E (Cal)	9.65	20.95	17.36
EV/EBITDA	3.7x	3.3x	2.7x

Recommendation

As operators look to enter the booming Brazilian telecom market, TSU has successfully positioned itself as a key player. TSU has strengthened its position in the prepaid segment, the largest growing segment in Brazil (16.7% y/y), by growing its customer base 26.8% y/y in 2Q11, while also growing its post-paid segment at 15.3% y/y. Due to their strong focus on quality and convenience, TSU has become a leader of preference with the lowest level in rejection amongst consumers. This performance can be confirmed by TSU's highest volume of additions in 2Q11 reaching 9.3 million lines (45% y/y), growing their customer base to 55.5 million. TSU has rapidly attained a 25% market share, however, management expects to increase market share to 30% by targeting the rising middle class C segment, which accounts for more 50% of Brazil's population. TSU aims to attract the C Class by fulfilling their high demand for mobile internet at an affordable price through their low priced "Web phone". This growth was supported by the rapid boost in penetration of smart phones. TSU aims to expand its reach through the acquisition of the major network in Sao Paulo and Rio, which expands their presence in the two areas that are responsible for 27% of Brazil's GDP. Additionally, this acquisition will allow TSU to acquire high end customers by providing high speed mobile and fixed broadband services along with telecommunication services. TSU has expanded its profitability and increased Q2 2011 ARPU by 3.7% q/q. Accordingly, TSU appears to be an attractive growth play and it is recommended that TSU be added to the AIM International Fund with a price target of $39.20 and upside of 43%.

Investment Thesis

- **Brazil's Rapidly Growing Economic Environment.** Brazil is the fourth largest mobile market in the world. According to an independent study done by Pyramid Research, Brazil's market revenue is expected to reach 88.69B in 2015 (5.6% 5-yr CAGR). By the end of 2Q11, the Brazilian mobile market reached 217 million lines, a yearly growth of 17.4% (vs. 16.0% in 2Q10) with a penetration level of 116.6% in 2Q11 (vs. 95.9% in 2Q10). The largest part of growth is concentrated in the prepaid segment that reached 177.9 million users (16.7% y/y) and accounted for 81.9% of total Brazilian market, while the post-paid users reached 39.4 million, a 20.5% y/y. Management seeks to take advantage of the growing market, by increasing its market share in both prepaid and post-paid segments.

- **Smart Phone Penetration.** As smart phones have become more affordable, Brazil is expected to become one of the fastest growing markets in the smart phone segment growing at a 5 yr CAGR of 43%. In 2Q11, TSU's revenues from the sale of the devices grew 92% y/y. TSU now has 15% of its customer base on smart phones, increasing data revenues 33% y/y and is expected to see acceleration as smartphones penetrate more into their subscriber base. TSU aims to accelerate sales by offering two different types of devices: the real smartphone (Androids and iphones) and the Web phone, which are low-priced smartphones with mobile internet access. Roughly 25-30 million people go to cafes to access the internet and TSU aims capture these customers with their Infinity web offering, which provides mobile access through the smartphones.
- **AES Atimus Acquisition.** With the acquisition, TSU will increase its fiber network by 5,500km to 33,700km, becoming the largest fiber optic network in Brazil. According to management, the approximate cost of building a network as large as the one acquired would be $1.05B. TSU Atimus's fiber network will connect 21 cities in Sao Paulo and Rio de Janeiro and have the capacity to reach 7.5 million homes and 500,000 businesses. This will provide TSU with the opportunity to enter into the $17.5B market of Sao Paulo and Rio, as well as the fixed broadband market and attract more high value customers that look for high quality broadband in the area. Atimus will strengthen TSU's brand position and accelerate growth in the mobile data market by ensuring entry into an unexplored, rapidly growing market.
- **Rapid Socio-Demographic Reshaping.** Brazil is experiencing an emergence of a booming middle class C segment, accounting for 50% of population. Brazil has the highest time spent online in the world and management sees Class C as a high, hidden demand in mobile Internet access service and Web phones. Web phones are targeted for the class C who have high willingness to use these phones but limited willingness to pay. Although cheaper priced, TSU looks to profit from massive a demand in terms of volume.

Valuation

Using a 5-year DCF with a computed WACC of 14.1% and terminal growth rate of 3.5%, an intrinsic value of $37.44 was obtained for TSU. Using a sensitivity analysis that adjusts for both the long term growth rate (2.5-4.5%) and WACC (13-15%) generates a price range of $31-$43. Additionally, a weighted average historical and peer EV/EBITDA multiple of 5.7x was applied to estimated 2011-2012 earnings to yield an intrinsic value of $40.97. Applying an equal weighting to the DCF and EV/EBITDA valuation methods provides a target price of $39.24. With the stock currently trading at $27.39, the price target would yield a 43% return. TSU pays a dividend of $.075, yielding 2.73%

Risks

- **Increasing Competition.** Brazil is the third most competitive market after the U.S. and U.K, being one of the few to present 4 competitors with a market share between 20-30%. Since the industry has no product differentiation, TSU must maintain its innovation by developing and introducing new technologies to the market to create company distinctiveness to escape the pure price competition and handset subsidy war.
- **Regulatory Oversight.** As a player in the telecommunications industry, TSU is subject to potential increases in regulatory oversight, which could include pricing restrictions and/or bundling requirements. This would affect their flexibility in responding to competition and changes in cost structure and be detrimental to TSU's margins.

Management

CEO Luca Luciani joined the company in December 2008. He has served the company and subsidiaries, holding several positions for over 10 years. Prior to joining ELNK, Mr. Luciani worked at Procter & Gamble and Bain & Company Consulting. Mr. Luciani has proved to be a strategic leader as he successfully repositioned TSU's brand and led the company to becoming market player in Brazil today.

Ownership

% of Shares Held by All Insider and 5% Owners:	6.34%
% of Shares Held by Institutional & Mutual Fund Owners:	93.66%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Fidelity Management & Research	16,277,267	3.67
Acadian Asset Management LLC	5,454,184	1.23
Massachusetts Financial Services	3,731,238	0.84
Brandes Investment Partners LP	3,198,006	0.72
Batterymarch Financial Management Inc.	2,858,681	0.64

Source: Yahoo! Finance

Dril-Quip Inc. (DRQ)
September 23, 2011

Patrick Keeley Domestic Energy

Dril-Quip Inc. (NYSE: DRQ) is a global firm that designs, manufactures, sells, and services highly engineered offshore drilling equipment that is well suited for use in deepwater, harsh environment, and severe service applications. The company's main products include subsea and surface wellheads and associated parts, production trees, subsea control systems, and specialty connectors and associated pipes, drilling, and production riser systems. They operate in two segments: Products and Service, which make up 86% and 14% respectively of revenue. DRQ's products are used by major integrated large, independent and foreign national oil and gas companies throughout the world. DRQ operates globally in three geographically distinct regions: Western Hemisphere (58% of 2010 revenues) Eastern Hemisphere (27%), and Asia-Pacific (15%). Each of the segments sells similar product and services. The company has major manufacturing facilities in all three segment locations. The company was established in 1981 and is headquartered in Houston, Texas.

Price ($): 9/15/11	64.09	Beta:	1.17	FY: Dec	2010 A	2011 E	2012 E
Price Target ($):	78	WACC:	12.65%	Revenue ($mil)	$ 556	$ 600	$ 720
52 WK H-L ($):	84 - 47	Mid Term Rev Gr. Rate Est:	13%	% Growth	4.8%	8.0%	20.0%
Market Cap (mil):	2,567	Mid Term EPS Gr. Rate Est:	20%	Gross Margin	40.14%	42.75%	44.55%
Float (mil):	32.77	Debt/Equity:	1.00%	Operating Margin	22.21%	22.89%	28.19%
Short Interest (%):	8.4	Financial Leverage:	0.01	EPS (Cal)	2.54	2.79	3.40
Avg Daily Vol (K):	342	ROA:	11.58%	FCF/Share	0.33	0.96	2.50
Dividend ($):	N/A	ROE:	14.97%	P/E (Cal)	26.27	26.93	18.57
Yield (%):	N/A			EV/EBITDA	13.19	15.3	10.96

Recommendation

Dril-Quip is a leading firm designing, manufacturing and selling highly engineered offshore drilling equipment in every major oil market in the world. DRQ has fixed project contracts ranging up to 7 years with global oil giants such as Exxon Mobile, Shell, and Conoco Phillips as well as non-contractual relations with these firms for their products. DRQ's products are considered consumable and only 17% of purchases are one-time orders, so the company is able to benefit from repeated purchases and contract renewal. Their global positioning allows them close proximity to capitalize on new revenue opportunities. DRQ has a 5-year deal with Petrobras to capitalize on the estimated 13 billion barrels of oil of the coast of South America. DRQ is seeking to expand its project relationship with Exxon Mobile, which was recently granted access to develop oil fields in the Arctic Ocean, where Russian estimates place as much 35 billion barrels of recoverable oil. The company currently has a record high $727 million of orders backlogged, in large part to the slowing of drilling in the U.S. Gulf of Mexico since April 2010. However, DRQ is expanding its production capacity around the world and the book/bill ratio is currently near 1.0x with estimates showing growth to 1.5x by the end of 2012. DRQ recognizes approximately 40% of their revenues from the U.S. Gulf of Mexico and figures show production and drilling in the region are back to the pre-*Deepwater Horizon* incident levels. Estimates forecast increases due to new discoveries of 5-10 billion recoverable barrels in the area. Therefore, it is recommended that DRQ be added to the AIM Equity Fund with a price target of $78, offering over a 20% upside.

Investment Thesis

- **Lifting of Moratorium in Gulf Coast.** The U.S. government lifted a yearlong moratorium on issuing new deepwater oil drilling permits in the Gulf of Mexico. Although the moratorium only affected the issuance of new permits, drilling significantly slowed in 2010 into 2011. Projections have 2011 production down 13.5% from 2010, but reports state that the production is currently operating back at the pre-disaster levels with 72 active rigs drilling wells in the Gulf. Activity is

estimated to surge to new highs at there have been several new deepwater oil discoveries in the U.S Gulf of Mexico yielding estimates of 5-10 billion barrels. There have been 5 new rigs added in 2011 and estimates have 20 new rigs to be developing by the end of 2012

- **Global Footprint.** DRQ generated 61% of revenue from foreign sales in 2010. With manufacturing and sales representatives located in all major international energy markets throughout the world, the company is positioned to capitalize on new offshore reserves. Exxon Mobile expects $4.5 billion in revenue from its claims in the Arctic. DRQ has highly touted equipment suitable for this more dangerous environment and it engaging in talks to supply the Arctic oil wells. Petrobras claims to have found 13 billion barrels of recoverable oil in the South Atlantic and its Brazilian subsidiary has a contract with the firm for the next five years.
- **Focus on Organic Growth.** DRQ is increasing its manufacturing capacity at all four of its major manufacturing locations (Houston, Singapore, Aberdeen, Scotland, and Macae, Brazil) due to be completed by early 2012. The company plans to increase its machinery by 5% and hire 20 new machinists to operate them while adding over 20 acres of production and sales facilities. This will allow DRQ more capacity to fill orders off the backlog as well as enhance new product innovation. DRQ has developed 100% of their 16 products internally since its inception in 1981 and these new facilities allow them to add to their focus on R&D, which has increased by 4-7% annually and into Q1 and Q2 2011, as well as increased production.

Valuation

To find the intrinsic value of DRQ, a five year DCF analysis was conducted. A 12.65% WACC was used along with a 2.5% terminal growth rate to determine an intrinsic value of $71. A sensitivity analysis to with the WACC ranging from 10.65% to 14.65% yielded a price range of $54-$102. Additionally, a competitor average P/E multiple of 30-x to 2011 EPS estimates yields an intrinsic value of $84. After weighing these valuations equally, a price target of $78 has been set, which presents an upside of 22%.

Risks

- **Pending *Deepwater Horizon* Litigation.** Dril-Quip is an affiliated party related to the April 2010 BP oil spill in the Gulf of Mexico because their contract to supply the oil giant with subsea wellheads. DRQ has been named as defendants in multiple lawsuits from the incident, generally alleging violation of state and federal environmental and other laws and regulations, negligence, compensatory and punitive damages and/or declaratory relief. The possibility for additional lawsuits and investigations exists, and while the company has general liability insurance, this may not cover all fines, penalties, or expenses related to the *Deepwater Horizon* incident or clean-up efforts.
- **Competition and Consolidation.** Several of DRQ's primary competitors are diversified multinational companies that have more capital resources. They are able to devote more to development and marketing. The oil industry is quickly consolidating and DRQ could be in jeopardy of losing major contracts. In 2010, its top 15 customers accounted for 63% of revenue and its top customer accounted for 13%. Loss of a customer could significantly impact short term results in cash flows, financial position, and operations.

Management

J. Mike Walker has served as sole CEO and Chairman of the Board since January 1, 2011. He held these roles jointly with co-founders Larry Reimert and Gary Smith. Smith passed away in 2009 and Reimert in May, 2011. The three men started Dril-Quip after holding Engineering and Research and Development positions at Vetco Offshore Inc. New management will allow increased specialization from top company officials.

Ownership

% of Shares Held by All Insider and 5% Owners:	18%
% of Shares Held by Institutional & Mutual Fund Owners:	81%

Top 5 Shareholders

Holder	Shares	% Out
Goldman Sachs Group Inc	2,051031	5.12
Jennison Associates LLC.	1,980,253	4.94
Van Eck Associates Corporation	1,860,166	4.64
The Vanguard Group Inc.	1,595,141	3.98
BlackRock Fund Advisors	1,373,376	3.43

Source: Yahoo! Finance

Henkel Corporation (HENKY)

September 23, 2011

Sajid Bhimani International Consumer Goods

Henkel AG & Co is German-based manufacturer that develops products that fall under 3 business segments: laundry & home care goods; cosmetics & toiletries; and adhesive technologies. The laundry & home care goods segment accounts for 27% of revenues that come from small and large retail outlets and is comprised of products such as: heavy duty detergents, dishwashing products, air fresheners and insecticides. The cosmetic & toiletries segments accounts for 23% of revenues coming primarily from large and small retailers within the vast global marketplace and is constructed of products such as: shampoos, conditioners, hair colorants, styling products, soaps, deodorants, creams, and oral hygiene products. The adhesive technology segment, which essentially creates industrial style glue, currently accounts for 50% of revenues and focuses on heavy duty adhesives used for automotive, packaging, aircraft, electronics, durable goods, and metal sectors. The revenues primarily are attributed to large construction trade deals, retail clients and do-it-yourself (DYI) end users. HENKY manufactures name brand products and continues by selling these products over to dealers and retailers within the global markets. HENKY operates in 75 countries with 188 facilities and currently has 65% of sales coming from countries outside of Europe. The company, founded in 1876, is headquartered in Dusseldorf, Germany.

Price ($) (9/10/10):	45.95	Beta:	0.80
Price Target ($):	$ 65.18	WACC	10.57%
52WK H-L ($):	41.54-59.16	Debt/Equity:	32.4%
Market Cap (mil):	19,949.77	ROA:	6.5%
Short Interest:	1673	ROE:	7.6%
Avg. Vol (90 day)	4,420.0		
Dividend (2011E):	$ 1.02		
Div. Yield (2011E):	2.2%		

FY: December	2010A	2011E	2012E
Revenue ($Mil)	19,997.21	22,065.1	23,157.3
% Growth	6.00%	10.3%	4.9%
Gross Margin	46.48%	45.00%	45.00%
Operating Margin	11.39%	12.81%	13.00%
EPS ($Cal)	$3.49	$4.47	$4.74
FCF/Share	6.68	4.23	5.08
P/E (Cal)	13.17	14.57	13.76
EV/EBITDA	8.47	10.00	10.00

Recommendation

HENKY's EBIT margin recently grew to a new high of 14.2%. Management expects that slightly higher EBIT margins can be maintained long term in the adhesive segment due to an estimated 5% yearly increase in demand for the next 3 years, as well as plans to reevaluate costs in the segment to encourage operating efficiencies. Additionally, organic revenue growth of 3.7% QoQ in the laundry & homecare segment further increased operating profits by 3%. Sustainability and growth in profits within this segment will be derived from further expansion into emerging markets with discounted product lines that currently are a majority of the segment. Primary expansion opportunities exist in the North African and Asian markets. The cosmetic and toiletries segments are consistently outperforming competitors and have seen 5.4% organic revenue growth in the past quarter - and is on track to obtain 17% YoY revenue growth in 2011. Management has focused its efforts on growing its markets share from its current 29% to 35% by the end of 2012 through expansion into new emerging economies. Management's expectation is for a 5% overall combined growth among all segments for the next 3 years. The firm will also focus on its key product lines and the elimination of low margin products going forward. Expansion efforts out of Europe will also assist in the company's profitability. It is recommended that HENKY be added to the International AIM equity fund with an upside potential of 42%.

Investment Thesis

- **Emerging Market Expansion.** From Q2 2010 to the first half of 2011, HENKY has been able to post an 11.6% growth in sales of which 42% of total sales were derived from emerging markets. Management has reiterated its focus towards expanding its market presence and growing its sales from emerging economies. The Asian-Pacific markets have been the primary driver in this organic growth, which has primarily come from the adhesive technology and cosmetic &

toiletries segments. Management has increased capital expenditures by 3% in hopes to grow revenues to more than 45% of revenues from the emerging economies by 2012 and 50% by the end on 2013. This growth will primarily come from the adhesive technology segment related to the needs of heavy industrial manufacturing plants that use adhesives regularly in operations. The cosmetic and toiletries segments will assist in escalating revenues due to the growing population and the consumer dependency on these product lines.

- **Adhesive Segment Dominance.** At year-end 2010, the adhesive technologies segment had returned 12.5% on employed capital. Three new innovations in adhesive technology accounted for $677M of the segments revenue which amounted to 7% of adhesive revenue. Further trends in energy efficiency and carbon emission reductions will boost demand for sustainable products that will require adhesives. The increase in construction and reparation of older parts, rather than acquiring new assets, will lead to greater adhesive usage from DYI home end users as well as large industrial and capital intensive companies in order to continue cost efficiency efforts. The adhesive technology segment has over 50 sub-brand names under its umbrella, which expands and diversifies it product portfolio to be more risk averse.
- **Focus on Profitable Products.** In March 2011 HENKY sold its 50.97% majority holding of Henkel India to Joythy Laboratories for a $39M one time gain. This sell off was in line with management's new strategy to focus on its core business and phase out any marginal positions they may have. However divestments have not eliminated the potential for new acquisition targets. HENKY has increased its ownership in 2 companies within their laundry and home care segment in Guatemala and Cyprus. In the cosmetic and toiletries segment HENKY acquired Schwarzkopf Inc. in Culver City, California in order to have a direct presence in the U.S and expand the market in North America. Management has guided investors that increased market volatility will slow down acquisitions of new brand names for the time being.

Valuation

To value HENKY a 5 year DCF was conducted with a WACC of 10.57% and a terminal growth rate of 2.5% which yielded an intrinsic value of $71.44. After conducting a sensitivity analysis on the WACC and terminal growth rate, the price target ranged from $61-$89. When looking at comparable companies and using a 50% weighting on a peer adjusted 2011 P/E multiple of 16x, and a 50% weight on a 2011 EV/ EBITDA multiple of 10x, a price target of $65 was obtained. A dividend discount model was also conducted on the 2012 expected dividend per share of $1.17, which led to a $58.50 target. Combining the different valuation methods with weights of 30%, 60% and 10% respectively, an overall price target of $65 was established which offers a 42% upside potential.

Risks

- **High Raw Material Costs.** During the upward trend in economic development, HENKY expects raw material prices to increase in the double digit range until the end of 2012. The increase in raw material costs can adversely affect future gross margins and can potentially impact profitability. The elimination of less profitable business lines and focusing on the efficiency in the profitable product lines is one way management is trying to maintain and grow profitability despite rising raw material costs. Management has stated at the end of Q2 that despite the raw material price increases HENKY intends to more than offset the effects of increased raw material costs on its earnings for the next quarter and the year end
- **Depressed European Economy.** Despite economic stability of Germany, the economic environment throughout Europe is seen by management as a potential threat and opportunity. Further issues with Euro Zone debt obligations and Macro-economic headwinds for Europe will result in HENKY to continue plans to move into the emerging markets faster than expected.

Management

Kasper Rorsted has been the Chairmen of the board and CEO of Henkel since April 2008. He joined Henkel in 2005 after working in management for Hewlett Packard. Mr. Rorsted graduated from Harvard Business School has had exceptional management experience prior to coming to over to Henkel.

Ownership

% of Shares Held by All Insider and 5% Owners:	52%
% of Shares Held by Institutional & Mutual Fund Owners:	1%

Source: Morningstar

Top 5 Shareholders

Holder	Shares	% Out
Cooke & Bieler, L.P.	483,645	.19
Boston Common Asset Management, LLC	158,153	.06
Wells Fargo	137,003	.05
SGAM Luxembourg S.A.	103,083	.05
HighMark Value Momentum Fid	65,000	.03

Source: Morningstar

Incyte Corporation (INCY)

September 23, 2011

Harrison Davis — Healthcare

Incyte Corporation (NASDAQ: INCY) focuses on the discovery and development of proprietary small molecule drugs for hematologic and oncology indications, and inflammatory and autoimmune diseases. The firm has several wholly owned product candidates in early and mid-stage development. Its central compound in its pipeline is its janus kinase (JAK) inhibitor ruxolitinib for the treatment of myeloproliferative disorders (MPDs), which is a potentially life-threatening blood cancer with limited treatment options and no FDA-approved medicines. INCY has filed ruxolitinib with the appropriate regulatory bodies in the U.S. and Europe in June 2011. The FDA granted INCY's request for a six month Priority Review, which is given to investigational drugs that could offer a major advancement in treatment where no adequate therapy exists. The compound could potentially be expected to be approved in the U.S. by 2011 yearend. Additionally, ruxolitinib is being studied in polycythemia vera, liquid cancers, such as lymphomas, and a second version of the JAK inhibitor is in Phase IIb for rheumatoid arthritis. INCY has partnered with Novartis to address the myelofibrosis opportunity and with Eli Lilly to address rheumatoid arthritis. The company, founded in 1991, is headquartered in Wilmington, Delaware.

Price ($) (9/15/11)	14.95	Beta:	1.34
Price Taget ($):	22.50	WACC	11.3%
52WK Range ($):	12.58 - 21.15	M-Term Rev. Gr Rate Est:	50.0%
Market Cap:	1.90B	M-Term EPS Gr Rate Est:	60.0%
Float	124.76M	Debt/Equity	15.3%
Short Ratio:	8.40	ROA:	-5.1%
Avg. Daily Vol:	1.64M	ROE:	N/A
Dividend ($):	N/A		
Yield (%):	N/A		

FY: Mar	2010A	2011E	2012E
Revenue (Mil)	169,877	86,579	303,027
% Growth	1733.53%	-49.03%	250.00%
Gross Margin	100.00%	99.7%	96.5%
Operating Margin	8.27%	-171.31%	14.00%
EPS (Cal)	-$0.26A	-$1.53E	-$0.02E
FCF/Share	-1.08	-1.31	-0.22
P/E (Cal)	N/A	N/A	N/A
EV/EBITDA	N/A	N/A	N/A

Recommendation

INCY's patent protected JAK inhibitor ruxolitinib has tremendous growth opportunities due to the lack of MPD treatment available. MPDs are most prevalent in individuals above the age of 60; however, 20% of those affected with the condition are under the age of 45. The rise in the average age of the population in the U.S. ensures an inflow of individuals ridden with diseases. According to the U.S. Census Bureau, there will be 72 million people above the age of sixty-five in 2030 compared to forty million currently. This 80% increase in population of individuals aged above 65 is more prone to diseases and signals pent up demand for medical care as they currently consume three times more prescription drugs per person than those aged below 65. Over 200,000 individuals in the U.S. and twice as many individuals worldwide are affected by MPDs; currently, there are minimal forms of therapeutic treatment and no FDA-approved medicines for MPDs. Pending FDA approval for ruxolitinib in late 2011, the U.S. market opportunity for INCY's molecular drug in 2012 is expected to yield $224M in revenues and grow to $1.1B by 2018, which would be a CAGR of 30%. Additionally, the firm has a diversified product pipeline focusing on oncology, inflammation, and diabetes. INCY has engaged in partnerships outside of the U.S. with Novartis and Eli Lilly generating a stream of revenues from its JAK I and JAK II inhibitors for the treatment of MPDs and rheumatoid arthritis. In 2010, these alliances have provided the firm with milestone payments of $50M and $49M, respectively. Given the market penetration opportunities, vast pipeline of mid-stage products, and international alliances, it is recommended INCY be added to the AIM Equity Fund with a with a target price $22.50, which offers an upside potential of 50%.

Investment Thesis

- **Superior, Patent-Protected Technology.** Strong patent protection will help INCY generate higher revenues and margins in the intensely competitive biotechnology market. Their product portfolio includes four drugs that have passed into at least Phase II clinical trials with each

having a term of 20 years. The company's primary patent, JAK inhibitor ruxolitinib, has addressed the lack of treatment of MPDs. Due to strong patent protection, INCY will be the sole provider of treatment for MPDs.

- **Strategic Alliances and Partnerships.** INCY leverages its position on its long-term strategy of maintaining partnerships to drive its R&D activities and to strengthen its balance sheet. In 2009, INCY entered into an agreement with Novartis for exclusive development and commercialization rights of ruxolitinib outside of the U.S. Under the agreement, INCY will receive milestone payments up to $1.1B if commercialization and development occurs on schedule. The company has reached a similar deal with Eli Lilly for the exclusive development and commercialization of its JAK II inhibitor for the treatment of rheumatoid arthritis. Under the Eli Lilly agreement, INCY is eligible to receive payments of up to $665M based on successful development and commercialization milestones. The strategic alliances have built a strong base for INCY.
- **Strong Product Pipeline.** INCY separates itself from other small-cap biotechnology companies due its vast array of products already in Phase II and III of clinical trials. INCY expects commercialization for its JAK II inhibitor for the treatment of rheumatoid arthritis in 2H 2013 while revenue from other products for psoriasis and solid cancers expected to be launched between 2014-2016. The broad pipeline of potential products will provide steady revenue and royalty streams and reduce the dependency on success of one particular drug.

Valuation

Using a 10-year DCF with a computed WACC of 11.3% and a terminal growth rate of 3%, an intrinsic value of $23.13 was determined for INCY. The DCF model had negative revenue growth in 2011 followed by extreme growth in 2012 and 2013 (250%, 90%) due to the expected commercial launch of ruxolitinib. The following years' revenues were estimated to grow at 20% in 2016 and followed by 5% increases in revenue from 2017-2020. Additionally, an industry average P/E multiple of 16x was applied to the 2015 EPS estimate of $2.03. Discounting the multiples approach, an intrinsic value of $21.18 was obtained. Blending these two approaches produced a price target of $22.50, which offers a 50% return.

Risks

- **FDA Approval and Government Regulation.** The marketing and sale of Rx drugs is subject to various state, foreign, and federal regulation, most notably FDA approval. Failure to comply with any of these regulations could delay the commercial launch of ruxolitinib which could significantly impact revenues and cash flows in the coming years. Any delays in the launch could inhibit INCY from achieving their estimated earnings and cash flow generation. The company has $360M of cash on hand as of Q2 2011 and burns $190M of cash each year; therefore, in the most extreme circumstance, should the FDA decide not to give INCY's ruxolitinib approval, (final FDA approval is expected to be granted in late 2011) expected revenue from the U.S. market would not occur, resulting in substantial net losses and liquidity issues for INCY.
- **Competition.** The biotechnology and pharmaceutical industries are extremely competitive and subject to significant technological changes. While INCY does not face intense competition in the development of targeted therapy for MPDs, the company's other pipeline products focusing on inflammatory disease and oncology face strong competition for market share.

Management

Paul A. Friedman, M.D. has served as CEO and Director of INCY since 2001. Prior to joining the company, Dr. Friedman was the President of R&D for DuPont Merck Pharmaceutical Company. He has additional healthcare experiences working as an associate professor of medicine and pharmacology at Harvard Medical School. David Hastings has been the Executive Vice President and Chief Financial Officer since 2003. Before joining INCY, Mr. Hastings was the CFO at ArQule, Inc. and was the Corporate Controller of Genzyme.

Ownership

% of Shares Held by All Insider and 5% Owners:	1%
% of Shares Held by Institutional & Mutual Fund Owners:	99%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Wellington Management Company, LLP	11,152,412	8.83
Baker Brothers Advisors, LLC	11,080,561	8.78
American FDS Insurance Ser-Growth Fund	7,910,000	6.27
FMR LLC	7,341,018	5.82
The Vanguard Group, Inc.	7,209,998	5.71

Source: Yahoo! Finance

Galicia Financial Group (GGAL)
September 23, 2011

Katherine Curiel International Financial Services

Galicia Financial Group S.A. (NASDAQ:GGAL) provides, through its subsidiaries, a range of financial services and insurance products to large corporations, small and medium sized companies and individuals. Banco Galicia (60% of total revenue), its largest subsidiary, has a well-established distribution platform amongst private-sector financial institutions with 239 full-service banking branches and 1,431 ATMs, as well as phone and internet banking facilities in Argentina. Banco Galicia, through its subsidiary Targetas Rejionales, is also Argentina's largest issuer of Visa credit cards among other brand cards with 4.7 million cards outstanding and a market share of 45%. GGAL is one of Argentina's largest financial firms serving more than 6 million individuals and corporations with total assets of $8.9 billion. In June 2010, it acquired CFA from AIG and increased its position in the personal loans segment, adding 95 branches to its network. The company is headquartered in Buenos Aires, Argentina.

Price 9/1 ($):	10.17	Beta:	1.28	FY: Dec	2010A	2011E	2012E
Price Target ($):	17.55	Discount Rate:	17.41%	Revenue (M)	1153.3	1418.6	1673.9
52 WK L-H ($):	9.11 - 17.10	M-Term Rev. Gr Rate Est:	12.9%	% Growth	60.8%	23.0%	18.0%
Market Cap:	1.26B	M-Term EPS Gr Rate Est:	18.8%	ROE:	31.7%	32.5%	32.0%
Float (mil):	82.59M	Debt/Equity	0.71	EPS:	$ 0.08	$ 0.16	$ 0.22
Short Interest (%):	0.30%	ROA:	2.45%	Div Per Share:	-	0.02	0.02
Avg. 3 Month Vol:	236,743	ROE:	31.65%	BVPS:	5.77	7.35	9.58
Dividend ($):	0.20			P/B:	1.76x	1.38x	1.06x
Yield (%):	0.20%						

Recommendation

Strong organic growth, coupled with strategic expansion initiatives, will position GGAL to benefit from the booming demand for financial services in Argentina. Over the past few years, GGAL has made substantial improvements in its customer mix and loan portfolio quality; the reserves coverage for NPLs, reached 141% in 2Q11. GGAL has initiated expansion into the untapped markets of the low-income, unbanked population and as the market leader in the personal loans and credit card segment; it has been able to benefit from this large-margin market in a much larger scale than its competitors. GGAL's exposure to the public sector (measure as a % of total assets) has decreased substantially from 16% in 2009 to 4% in 2011; while its geographical presence and market share (~9%) in the private sector has been increased through expansions. Additionally, increasing bank deposits (35%), high loan growth (52% y/y) and low delinquency rates (3.1%) will continue to fuel top-line growth as no signs of asset quality deterioration are evident. Due to the strong economic growth expectations in 2011, GGAL has also been able to raise its funding rate and increase its service fees (up 39% y/y). These strong operating results have helped the group report an ROE of 31% in 2010 and 35% for 2Q11. For 2010, net income increased by 69% to $104 million and in the 1H'11 net income amounted to $118 million. Taking into consideration Argentina's expected 6.5% GDP growth, along with GGAL's continuing strong operational performance, it is recommended that GGAL be added to the international AIM fund at a price target of $17.55, an upside potential of 73%.

Investment Thesis

- **Growing Demand for Financial Services.** Argentina's GDP growth for 2011 (6.5%) and the enhanced economic conditions (i.e. accelerated wages and high labor growth) will help boost the financial services sector. Total deposits in Argentina's financial sector increased by 39% in 2010 and 46% y/y in the second quarter of 2011. In particular, deposits from the non-financial private sector, an area of high concentration for GGAL, increased 30% in 2010. Further, as the top credit card provider, GGAL is also in a position to take advantage of demand for credit in the private sector.
- **Access to Attractive Markets.** Tarjetas Regionales (TR) is an unmatched vehicle for accessing the low-income customer base in Argentina. Private sector consumption from this group is being

fueled by negative real-interest rates, labor growth and real wage increases. Average consumption per statement reached $170 in 2010, increasing by 30% compared to 2009 and leading to a 46% increase in overall consumption. Low competition in the market allows TR to benefit from pricing power: in 2010 revenue and net income increase by 26% and 58%, respectively, due to rising fees. Although profits in this segment are characterized by the large margin prospects of providing to low-income residents, they do not face the same risks (the delinquency ratio is only 2.7%). In a 12-month course GGAL plans to open around 15 branches in the outskirts of Buenos Aires, where the demand for personal loans is higher.

- **CFA Acquisition.** The $35 million CFA acquisition added 12% of 2010 net income and management expects the income contributions to double in 2011, the first year of full consolidation. The acquisition makes sense as it provides GGAL with a nationwide distribution system with 3,900 retailers and about 1 million customers with average loans of $741. GGAL's market share in the private loan sector increased to 9% from 8.3% after the acquisition. CFA primarily lends to the low-income segment (77% of revenues) and thus has higher delinquency rates (5.5%) than GGAL, but still maintains a coverage ratio of 183%. CFA benefits from lending at large spreads and is strategically located in providences with low credit availability.

Valuation

A variety of valuation techniques were utilized to find the intrinsic value of GGAL. Using a 31% ROE and an estimated short-term cost of equity of 17.41% and 19.36% for long-term, an equity excess returns analysis was performed, resulting in an intrinsic value of $17.03. A terminal value rate of 5% was assumed. A P/B multiple of 2.1, resulted from an equally weighted blend of historical and peer P/B multiples, was applied against a BV/Share of $8.46, resulting in a valuation of $18.07. Weighting these techniques equally, an intrinsic valuation of $17.55 was determined, providing a 73% upside. In 2011, GGAL began paying a dividend of $0.20, or a yield of 0.2%.

Risks

- **Inflationary Pressures and Political Intervention Risk.** Uncertainty over Argentina's economic, inflationary and political climate is a key long-term investment concern. Current inflation in Argentina is estimated at 13%. A scenario of economic contraction, inflation, and currency depreciation would have a significant negative impact on the outlook for GGAL and the financial system as a whole. Additionally, the global interest rate imbalances also pose a challenge to Argentine banks as high interest rates attract large capital inflows placing further upward inflationary pressures. The political instability and high scrutiny on macroeconomic variables can pose a risk for the financial sector and the stability of the company.
- **Intense Competition.** The rising competition in the financial markets in Argentina could affect the operations of GGAL. Galicia holds the number 3 position in the private deposits market with a market share of 8.9%, only 80 bps from the #4 player, and the number 3 position in the loan market with a market share of 8.1%. As of 2010, 64 banks operated in Argentina including 44 domestic and 20 foreign banks.
- **Fluctuations in Interest Rates.** Increase in interest rates could have a material adverse effect on the book value of the company. GGAL's investment portfolio contains interest rate sensitive-investment, such as municipal and corporate bonds, and increases in interest rates would decrease unrealized capital gains. A decline in market interest rates could also have an adverse effect as it will decrease the interest income the company generates.

Management

Chairman Eduardo J. Escasany joined Galicia in 1973. He was appointed to the Group's Board of Directors in 1975 and from 1989 to 2002 was the chairman and CEO of Banco Galicia. In April 2010, he was re-elected as member of Board of Directors and appointed as Chairman of the Group. He is also a lifetime trustee and vice chairman of the Banco Galicia.

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	% Out
Discovery Capital Management, LLC	1,570,897	1.27
Deutsche Bank Aktiengesellschaft	811,549	0.65
Batterymarch Financial Management, Inc.	602,100	0.49
State Street Corporation	539,715	0.43
Spinnaker Capital	486,688	0.41

Source: Yahoo! Finance

Titan Machinery (TITN)
September 23, 2011

Chris Gwinn | Consumer Cyclical

Incorporated in 1980, Titan Machinery Inc. (TITN) is an agricultural, construction, and consumer product dealership company with operations throughout the upper Midwest of the United States. The company operates in two segments: Agricultural (87% of revenue) and Construction (13%). In addition to selling new and used equipment, TITN rents new and used equipment, sells parts, services equipment, and provides other ancillary services such as equipment transportation, GPS signal subscriptions, and financing options. TITN operates 89 stores in Iowa, Minnesota, Montana, Nebraska, North Dakota, South Dakota, and Wyoming. TITN is the world's largest retail dealer of Case IH Agriculture equipment and a major retail dealer of New Holland Agriculture, Case Construction and New Holland Construction equipment in the United States. TITN is headquartered in Fargo, ND.

Price ($) (9/16/11):	$ 23.09	Beta:	1.54	FY: December	**2011A**	**2012E**	**2013E**
Price Target ($):	$ 30.95	WACC	11.15%	Revenue ($Mil)	1,094.49	1,333.46	1,550.96
52WK H-L ($):	32.03 - 15.54	LT Rev. Gr Rate Est (3-5 yr):	13.91%	% Growth	30.49%	21.8%	16.3%
Market Cap (mil):	$471.9M	LT EPS Gr Rate Est (3-5 yr):	17.66%	Gross Margin	15.95%	16.10%	16.90%
Float (mil):	16.52M	Debt/Equity:	202.4%	Operating Margin	4.02%	4.20%	5.03%
Short Interest (%):	11.0%	LT Debt/Total Assets	5.1%	EPS ($Cal)	$1.21	$1.31	$1.82
Avg. Vol (10 day)	845,700	Cash Ratio:	19.6%	FCF/Share	(2.80)	(1.16)	0.13
Inventory Turnover:	2.37	ROA:	4.20%	P/E (Cal)	19.12	17.60	12.71
Current Ratio:	1.43	ROE:	12.60%	EV/EBITDA	8.91	7.36	5.00

Recommendation

TITN's well-positioned stores and the ability to operate as a niche service provider have allowed the company to continuously generate strong top-line growth. TITN has consistently outperformed its peers and foremost supplier, CNH, in top-line growth. TITN has experienced total sales growth of 30%, 21%, and 59% in 2011, 2010, and 2009, respectively, compared to the industry average of 10%, 15%, and -5%. Additionally, management places a strong emphasis on same-store sales growth and their effectiveness can be seen as same-store sales growth accounted for 73%, 21%, and 31% of additional revenue growth in 2011, 2010, and 2009, respectively. TITN also maintains a keen interest in acquiring smaller dealerships to expand acquisitively, through which it has successfully integrated 29 dealerships since January 1, 2003. In fiscal 2011, acquired stores accounted for $117 MM in additional total revenue, while same-store sales contributed only $31.3 MM in additional total revenue. Negative FCF is an obvious concern for TITN, as investors grow worrisome of receiving shared profits at a future date. Through TITN's capital intensive business model, FCF remains under pressure as TITN currently does not generate enough cash from operations to cover its capital expenditures and acquired assets. Management anticipates generating positive FCF in fiscal 2013, as recent acquisitions begin to fully realize the benefits of the Titan Operating Model. Because of these reasons, as well as an attractive valuation, it is recommended that TITN be added to the AIM Equity Fund with a target price of $30.95, offering a potential upside of 34%.

Investment Thesis

- **Robust Organic Growth.** Management places a heavy emphasis on same-store sales growth. In fiscal 2011, TITN grew same-stores sales at a pace of 28%. The regions that TITN maintains its operations are some of the strongest crop regions in the United States, such as Iowa, Minnesota, and Nebraska – which have consistently maintained, "good" and "excellent" crop conditions of 51% and 14%, respectively. Compared to the overall agriculture industry average for "good" and "excellent" crop conditions of 42% and 11%, respectively. Management expects to continue to grow organically through its strong market position in these regions.

- **Rise in Commodity Prices** TITN is strongly impacted by commodity prices, especially corn, soybean, and wheat. As commodity prices increase, farmers experience additional profits for the season, which typically translates into purchases of new equipment. Over the past year, corn has risen 58.6% to $7.23 per bushel and soybean has risen 35.5% to $13.92 per bushel. However, the price of wheat has declined 6.8% to $7.02. With a current bullish commodity market, the USDA is forecasting a 31% increase in net farm income, which management expects will add growth in their agricultural segment.
- **Aggressive Acquisition Strategy.** TITN's acquisition strategy parallels the purchases of additional CNH geographic areas and store locations in both the Agricultural and Construction equipment segments. TITN has completed 20 acquisitions in the past 4 years. In calendar year 2011 alone, TITN has acquired 7 additional dealers with expected synergies of approximately $126 million. Acquisitions have recently accounted for 57% of additional revenue growth.

Valuation

A five-year DCF was constructed to calculate the intrinsic value of TITN. Sales growth rates were forecasted based off of same-store sales growth rates as well as through management's expectations. A WACC of 11.15%, which accounts for a 3% risk premium, was used and yielded an intrinsic value of $43.99. TITN's Net Debt/Share was then subtracted from this intrinsic value to give a final DCF intrinsic value of $28.73. An EV/EBITDA multiple approach was also applied to account for its pressured margins and capital intensive structure. With a forward year EV/EBITDA multiple of 13.25, this method provided an intrinsic value of $39.83. Taking both valuations into account and weighting the intrinsic values appropriately, a price target of $30.95 was established offering an upside of 34.04%. TITN currently does not pay a dividend.

Risks

- **Heavy Dependence on CNH.** Titan Machinery is an authorized dealer of CNH agricultural and construction equipment and parts. In fiscal 2011, CNH supplied approximately 83% of the new agricultural equipment and 71% of the new construction equipment sold and represents a significant portion of TITN's parts revenue. TITN operates all stores in compliance with CNH's dealership agreements. If CNH changes the restrictions and obligations in the agreement, this may have a material effect on TITN's profitability.
- **Highly Levered with Pressured Margins** Despite strong top-line growth, TITN experiences highly pressured margins due to aggressive pricing competition from manufacturer's discount programs as well as other competitive pricing tactics. This is apparent as the industry average for gross margin, operating margin, and profit margin during the last filing was 22.72%, 9.08%, and 5.61%, respectively, compared to TITN, which maintained margins of 17.97%, 3.79%, and 2.02%. Investors may find it alarming that TITN operates with a Total Debt/Equity of 202.4% while their margins are under pressure; however, TITN's capital structure is very much comparable to the industry average Total Debt/Equity of 207.8%. Additionally, 90% of TITN's overall debt consists of short-term borrowings which are used to finance acquisitions.

Management

David Meyer is the Chairman and CEO. Mr. Meyer was a founder of TITN in 1980 and has been a director since its creation. From 1976 to 1980, Mr. Meyer was a partner in a Case and New Holland dealership with locations in Lisbon and Wahpeton, ND. Mark Kalvoda became the CFO in April 2011 and previously served as CAO since September 2007. Previously, Mr. Kalvoda held various positions between 2004 and 2007 at American Crystal Sugar Co., including Corporate Controller, Assistant Secretary and Assistant Treasurer. Prior to working for American Crystal Sugar Co., he served in various financial positions within Hormel Foods Corporation.

Ownership

% of Shares Held by All Insider and 5% Owners:	26%
% of Shares Held by Institutional & Mutual Fund Owners:	73%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Wells Fargo & Company	1,103,908	5.34
Ameriprise Financial, Inc.	951,494	4.60
Manatuck Hill Partners, LLC	810,000	3.92
VANGUARD GROUP, INC. (THE)	733,413	3.55
ARBOR CAPITAL MANAGEMENT, LLC	649,900	3.14

Source: Yahoo! Finance