MARQUETTE UNIVERSITY
College of Business Administration
Applied Investment Management

AIM
APPLIED INVESTMENT MANAGEMENT

Applied Investment Management (AIM) Program

AIM Class of 2017 Equity Fund Reports
Fall 2016

Date**: Friday, September 23rd | **Time:** 3:00 – 4:30 p.m. | **Location: AIM Research Room 488

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

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Signet Jewelers Limited (SIG)
September 23, 2016

Joseph Kennedy International Consumer Discretionary

Signet Jewelers (NYSE: SIG) is the world's largest retailer of diamond jewelry. The company controls 3,600 stores, providing a full range of products to its customers including watches, earrings, and associated services. Popular brands of the organization include three of America's top five jewelry lines: Kay Jewelers (#1 in America), Jared the Galleria of Jewelry (3), and Zale's (4). Signet Jewelers operates through three reportable segments: Sterling Jewelers (61% of revenue), Zale's (28%), and UK Jewelry (11%) earning 84.9% of revenue in the United States, 11.3% in the United Kingdom, and 3.8% in Canada. The company was founded in 1949 and is headquartered in Hamilton, Bermuda.

Price ($): (9/14/16)	79.19	Beta:	1.01	FY: Jan	2016	2017E	2018E	2019E
Price Target ($):	98.44	WACC	7.4%	Revenue (Mil)	6,550.20	6,877.71	7,221.60	7,799.32
52WK H-L ($):	76-152	M-Term Rev. Gr Rate Est:	7.0%	% Growth	5.0%	5.0%	8.0%	10.0%
Market Cap (mil):	5,986	M-Term EPS Gr Rate Est:	3.7%	Gross Margin	40.7%	40.9%	40.9%	41.0%
Float (mil):	99.6%	Debt/Equity:	45.4%	Operating Margin	8.2%	9.2%	9.0%	8.9%
Short Interest (%):	10.8%	Debt/EBITDA (ttm):	1.96x	EPS (Cal)	$5.87	$5.49	$5.75	$6.16
Avg. Daily Vol (mil):	1,768	ROA:	9.5%	FCF/Share	$0.80	$3.96	$5.51	$2.66
Dividend ($):	$0.88	ROE:	15.9%	P/E (Cal)	17.9x	17.1x	16.0x	14.9x
Yield (%):	1.3%	ROIC:	14.3%	EV/EBITDA	10.3x	9.3x	9.0x	8.4x

Recommendation

Since 2011, the volume of fine jewelry sales in the United States has grown at a CAGR of 4.5% driven by growth in real disposable personal income and low unemployment rates. Signet Jewelers has positioned itself to dominate the highly fragmented, competitive landscape through the purchase of Zale's Jewelers and integrating an efficient, Omni-channel system. The company's implementations have driven annual revenue to grow at to a six- year CAGR of 12.25%, while expanding margins and growing same store sales, on average, 2.5% and 5.0% YoY, throughout the same period. Such stellar performance has led the company to capture 15.6% of the $42B fine jewelry market in the United States, which is projected to grow by at a CAGR of 3% for the next four years. Recently, jewelry retailers have faced moderate headwinds; CY15 industry-sales declined 2.7% following a span of rapid increase from CY11 through CY14. Downturn in current industry performance has affected same store sales, predominantly in locations tied to the energy industry. Further, Kay Jewelers faced allegations of diamond swapping in May 2016 forcing the stock to fall an additional 15%. Since then, allegations have disappeared and the company has implemented new technology that corroborates gems that are taken out for repair, with gems that are put back in. Additionally for SIG, a nationwide distribution of retailer outlets has maintained top-line growth while SIG's major competitor, Tiffany's & Co., has realized a 3.4% decline in revenue. Signet Jewelers has been able to mitigate overall sales decline by expanding its physical presence while other companies have been closing. Since FY11, Signet Jewelers has more than doubled the number of stores it operates, increasing from 1,317 to 3,122; Kay Jewelers (31.1% of total stores) and Zale's (20.1%) dominate the company's store count. For FY16, Kay Jewelers realized same store sales increase of 5.7%, while Zales had at 5.5% increase. Signet Jeweler's diversification and increased presence of fine-jewelry retail outlets will continue to keep the company atop the industry. Therefore, it is recommended that Signet Jewelers Limited be added to the AIM International Fund with a price target of $98.36, representing a 25.19% upside. The company pays and annual dividend of $0.88, with a 1.3% yield.

Investment Thesis

- **Put a Ring on it –** Millennials are America's largest living generation; 92M Americans are between the age of 19 and 35. According to Goldman Sachs' research, the median age for millennials to get married is 30. 76.6% of millennials are under the age of 30, with over 70%

projected to get married. Further, the amount people are willing to spend on engagement rings is on the rise. The average amount spent on a wedding ring has rose to $5,978, from $5,095 in 2011. Signet Jeweler's, particularly Jared the Galleria of Jewelry, Zale's, and Kay Jewelers are well positioned to dominate the wedding industry sales; 25% of SIG's sales are for wedding purposes.

- **Diamond in the Rough –** Since FY11, Signet Jeweler's store count has increased 95% while specialty jewelry brands have not been able to compete, closing 21% of stores over the same time-period. Led by Signet's acquisition and integration of Zale's Jewelers, the company has proven successful with synergies jumping from expectations of $160M to $240M due to store count increases. Ideally, online fine jewelry sales in the last five years has only captured 5% of total jewelry sales; Signet Jeweler's nationwide physical presence is key to maintaining its industry-leading status as online jewelry sales are not expected to exceed 10% of sales through 2020.
- **He Went to Jared –** Branded jewelry is projected to grow at a CAGR of 7.25% from 2011 to 2020, capturing significant market share against unbranded jewelry, from 20% to 35%. Driven by consumer trend of millennials to wear branded jewelry as a mean of self-expression, Signet is ideally positioned relative to that of its competitors. The company has increased SG&A at a five-year CAGR of 13.47% developing household phrases such as "He went to Jared" and "Every Kiss Begins with Kay." SIG's top competitors spent, on average, $813.5M on SG&A, while Signet Jewelers spend $2.2B, 2.5x more than that of the industry average.

Valuation

In order to reach an intrinsic value for SIG, a five year DCF model was constructed. Using a terminal growth rate of 2.5%, WACC of 7.38%, an intrinsic value of $94.01 was reached. Additionally, a P/E multiple valuation was conducted using NTM EPS of $5.49, a comparables average P/E of 23.7x, and SIG's 5-year historical average P/E of 17.9x which resulted in a valuation of $114.42. Further, an EV/EBITDA multiple valuation was conducted using LTM EBITDA of $737.5M and an industry average EV/EBITDA of 11.6X, which resulted in a valuation of $91.32. By weighting the three valuation models 50/25/25, a price target of $98.44 was reached, which yields a 25.29% upside. SIG pays a regular annual dividend of $0.88, yielding 1.3%.

Risks

- **Non-traditional Channels** – The jewelry industry is highly fragmented with countless outlets for consumers to purchase jewelry and different companies to offer unique reward programs. In the short-run, consumers trend could turn in an unpredictable direction and various retailers could benefit.
- **Credit book –** Signet Jewelers, like other discretionary companies, offers extensive payment plans to its customers. A sudden shift in the economic landscape could affect individuals' ability to repay the company for its outstanding debt.
- **Uncertainty of input prices –** Geopolitical and social risks could strike the predominant countries that Signet Jewelers purchases its diamond, gold, and silver from. A rise in natural resources would constrain the company's gross profit, impeding their ability to maintain lower prices.

Management

Mark Light, President and CEO of SIG, has served at various capacities within the company since 1978; he was promoted from COO to CEO in October 2014. He also serves as the Vice Chairman at Jewelers of America. Signet Jeweler's COO, Edward Hrabak, joined Sterling Jewelers, subsidiary of SIG, in 1987 and has was promoted to COO in July 2015.

Ownership

% of Shares Held by All Insider and 5% Owners:	0.39%
% of Shares Held by Institutional & Mutual Fund Owners:	> 90%

Source: Factset

Top 5 Shareholders

Holder	Shares	% Out
Select Equity Group LP	7,223,000	9.55%
The Vanguard Group, Inc.	6,825,000	9.03%
Corvex Management LP	6,823,000	9.03%
Lazard Asset Management LLC	4,291,000	5.68%
Abrams Bison Investments LLC	3,701,000	4.90%

Source: Factset

Peer Analysis

Name	Ticker	Market Cap (mil)	Net Income (mil)	D/E	P/E	EV/ EBITDA
Signet Jewelers Ltd.	SIG	5,970	496	0.46	12.62x	9.9x
Tiffany & Co.	TIF	8,585	447	0.38	19.64x	9.4x
Blue Nile, Inc.	NILE	412	10	0.03	40.76x	19.2x
Birk's Group Inc.	BGI	31	-	-	-	-
Michael Kors Holdings Ltd.	KORS	8,381	812	0.14	10.70x	6.4x
Peer Averages		4,352	423	0.2	23.70x	11.6x

**Removed For Relative Valuation Analysis*

Source: Factset

Deutsche Telekom AG (DTEGY)
September 23, 2016

Anthony DiSanto International Telecommunications

Deutsche Telekom AG (NYSE: DTEGY-ADR) provides telecommunication services worldwide and operates through five main segments: Germany (30.4%), United States (41.8%), Europe (17.9), System Solutions (9.0%), and the Group Headquarters & Group Services (0.9%). DTEGY offers information technology services, mobile communication services & products, fixed-network & broadband technology, internet & TV-services, and more. In the United States, T-Mobile is wholly owned by Deutsche Telekom. DTEGY was founded in 1995 and is headquartered in Bonn, Germany.

Price ($): (9/23/15)	$16.11
Price Target ($):	$20.06
52WK H-L ($):	15.22-18.93
Market Cap (bil):	74.19
Float (mil):	N/A
Short Interest (%):	0.00%
Avg. Daily Vol (mil):	164.48
Dividend ($):	0.61
Yield (%):	3.76%

Beta:	0.87
WACC	5.5%
M-Term Rev. Gr Rate Est:	4.3%
M-Term EPS Gr Rate Est:	11.0%
Debt/Equity:	209.6%
Debt/EBITDA (ttm):	2.89
ROA:	2.3%
ROE:	11.5%
ROIC:	4.3%

FY: Dec	2015	2016E	2017E	2018E
Revenue (mil)	76,404	80,685	85,012	90,537
% Growth	-7.70%	5.60%	5.36%	6.50%
Gross Margin	39.00%	15.97%	18.88%	21.93%
Operating Margin	10.00%	12.09%	14.26%	13.96%
EPS (Cal)	$0.78	$0.99	$1.15	$1.23
FCF/Share	$3.64	$0.48	$0.83	$0.85
P/E (Cal)	25.6	20.3	17.4	16.3
EV/EBITDA	7.38	6.6	5.7	5.5

Recommendation

As individuals and organizations globally seek to remain constantly connected, telecommunications and information technology will continue to remain in high demand. In 2015, the telecom market grew by 4.3% to nearly 1.78 trillion, with the growth lead mainly by China, India, a nd the United States. Europe is currently facing regulatory interventions, such as the reduction in roaming and termination charges, but DTEGY was able to capitalize on this opportunity through T-Mobile and its "un-carrier" plan that launched in March 2015. This strategy has driven revenue growth of 29% in its United States segment through the addition of 8.3 million customers. Currently, it serves 156.4 million mobile, 29 million fixed-line, 17.8 million broadband, and about 6.6 million TV customers. Deutsche Telekom wants to further increase these numbers and is doing so by buying spectrum for its mobile units and invest in more fiber-optic lines. In 2015, DTEGY built 1.9 million lines increasing its coverage of German households from 44% to 55%. By the end of 2018, the firm wants to be able to offer its fiber optic services to 80% of the German population, which is over 64 million people. Deutsche Telekom also expanded its fixed-line market through the acquisition of the remaining 49% stake in Slovak Telekom for €900 million - as well as expanded its mobile service, by investing €3.8 billion into acquiring spectrum throughout the United States and Europe. In the U.S. in 2015 they spent €1.3 billion for the AWS-3 spectrum license that covers about 97 million people. Thus, with a unique plan, an increasing consumer base, and building out their cloud based business, it is recommended that Deutsche Telekom AG be added to the International AIM portfolio with a price target of $20.06, representing a 25% upside. DTEGY pays a dividend representing a 3.76% yield.

Investment Thesis

- **Capitalizing on Cloud.** According to DTEGY's estimates, cloud-based services will reach a volume of €230 billion by 2017, growing at about 25% annually. They have been driving digitalization across Europe and have partnered with many companies to release innovative cloud based products. DTEGY has seen 30% growth from 2014 to 2015, and 22% growth from 1H/15 to 1H/16. Currently, cloud accounts for over €1 billion of their revenues.
- **Un-Carrier Plan.** The Un-carrier plan is something truly unique to DTEGY's T-Mobile product, where customers can pick any phone and can use as much data as desired - the only difference in price is the amount of high-speed data one can use before it slows down. This initiative added 8.3 million new T-Mobile customers in 2015, increasing revenue by 29.1% ($7.173 billion); this

trend continues going forward. In 2Q2016 they added 1.8 million new customers since 1Q2016, with a decreasing churn. Further increasing revenue by 12.6% to $9.3 billion.

- **Increasing Spectrum and Expanding Fiber Optics.** Deutsche Telekom has been increasing their spectrum recently to compensate for the massive gains of new users. Spectrum is important to mobile telecommunication companies, because it is the frequency over which mobile phones work and without it, then the phone is relatively useless. So far in 2016, they have purchased more in the USA, Poland, and the Czech Republic. Also, DTEGY has been heavily investing in fiber optics in 2015. They gained an additional 1.9 million households over 2015, and have added 660 thousand in 1Q2016 and 540 thousand in 2Q2016.
- **Acquisition of Slovak Telekom.** Through the acquisition DTEGY has become the market leader in fixed line, fixed broadband, and pay-TV in Slovakia, further strengthening their European presence. Additionally, the acquisition added about 2 million mobile, 850,000 fixed-line, 600,000 fixed broadband, and 490,000 TV customers.

Valuation

A five year DCF model was constructed to reach DTEGY’s intrinsic value. Using a terminal growth rate of 2.00%, WACC of 5.50%, an intrinsic value of $19.16 was reached. A sensitivity analysis ranged from $17.54 to $34.36. Additionally, an EV/EBITDA multiple variation was conducted using comparables and a historical average of 6.65 which resulted in a valuation of $25.24. By weighting the models 80/20 a price target of $20.56, representing a 26% upside, was reached. DTEGY pays a dividend representing a 3.76% yield.

Risks

- **Regulations.** Regulations continue to cut into telecommunication profits, especially in Europe. Starting June 2017, a new roaming fee law will take affect where travellers will be able to move through countries for up to 30 days at a time without being charged extra. This will adversely affect all telecommunication providers.
- **Substitutes.** Apart from other carriers, over-the-top competitors are over-the-top competitors taking. These include products such as WhatsApp and Skype.
- **Consolidating Market.** The telecommunications market is increasingly competitive and more companies are merging together to stay at the top. Thus, strategic mergers by competitor companies could be detrimental to DTEGY.

Management

Mr. Timotheus Höttges has been CEO since January of 2014 and before his promotion, held various management roles around Deutsche Telekom AG. Through these positions he gained knowledge of the various segments of the firm. Thomas Dannenfeldt, since graduating from the University of Trier, has been with T-Mobile branch of DTEGY until his appointment as the CFO of the whole company. He also was the Board of Management Representative for the restructuring of the Group under the One Company project, so he understands DTEGY well.

Source: FactSet

Ownership

% of Shares Held by All Insider and 5% Owners:	31.32%
% of Shares Held by Institutional & Mutual Fund Owners:	68.68%

Source: ThompsonOne

Top 5 Shareholders

Holder	Shares	% Out
Norges Bank Investment Management	70,745	1.51
The Vanguard Group, Inc.	64,917	1.39
Amundi Asset Management SA (Investment Management)	53,277	1.14
BlackRock Asset Management Deutschland AG	50,249	1.07
Lyxor International Asset Management SAS	48,489	1.04

Source: FactSet

Name	Ticker	Market Cap (mil)	Sales (mil)	Debt/Equity	Div. Yld.	EV/ EBITDA
Deutsche Telekom AG Sponsored ADR	DTEGY	75,646	77,842	209.6	3.3%	6.9
Vodafone Group ADR	VOD	77,112	61,533	44.5	4.7%	7.1
Verizon	VZ	307,400	131,600	670.8	4.5%	6.3
Sprint Corp	S	24,706	32,165	171.7	0.0%	6.3
BT Group ADR	BT	49,891	29,982	108.2	2.9%	6.5
Peer Averages		114,777	63,820	248.8	3.0%	6.6

Universal Insurance Holdings, Inc. (UVE)

September 23, 2016

Steven Hoffmann | Financial Services

Universal Insurance Holdings, Inc. (NYSE: UVE) is a vertically integrated insurance holding company, which through its subsidiaries Universal Property & Casualty Insurance Company (UPCIC) and American Platinum Property and Casualty Insurance Company (APPCIC), covers all aspects of insurance underwriting, distribution, claims processing and exposure management services for the property & casualty insurance industry. UVE offers its products through a network of independent agents in Florida, Alabama, Delaware, Georgia, Hawaii, Indiana, Maryland, Massachusetts, Minnesota, North Carolina, Pennsylvania and South Carolina. As of December 31, 2015, UVE's subsidiaries have established a robust network of nearly 8,000 independent agents and serviced approximately 625,000 homeowners and dwelling fire insurance policies. The company was founded on November 13, 1990 by Bradley I. Meier and is headquartered in Fort Lauderdale, FL.

Price ($): (9/16/16)	24.03
Price Target ($):	28.69
52Wk H-L ($):	37 - 16
Market Cap (mil):	851.3
Float:	93.0%
Short Interest (%):	11.7%
Avg. Daily Vol (000):	286
Dividend ($):	0.56
Yield (%):	2.31%

Beta:	0.95
WACC	8.7%
M-Term Rev. Gr Rate Est:	16.4%
M-Term EPS Gr Rate Est:	18.6%
Total Debt/Equity	4.6%
ROA:	10.8%
ROE:	39.0%
Loss Ratio	39.7%
Combined Ratio	73.4%

FY: Dec	2015A	2016E	2017E	2018E
Revenue (Mil)	546.54	688.87	877.24	1,021.16
% Growth	48.00%	26.04%	27.34%	16.41%
Pretax Income	175.02	194.09	236.42	278.96
Pretax Margin	32.02%	28.18%	26.95%	27.32%
EPS (Cal)	$2.97	$3.26	$3.99	$4.73
P/E (Cal)	8.09	7.37	6.02	5.08
BVPS	6.24	8.35	10.84	12.99
P/B	3.85	2.88	2.22	1.85

Recommendation

Universal Insurance Holdings is the largest private personal residential homeowner's insurance company in Florida with a 9.0% market share of direct written premiums as of 9/30/15, according to data from the Florida Office of Insurance Regulation (FLOIR). As of 12/31/15, UVE had nearly $820mm in direct written premiums in Florida and nearly $66mm in 12 more states. The business outside Florida represents 16% of UVE's total insured value – or $24.271 Bn. UVE's strategy for growth revolves around expansion and diversification, while building scale both via online and in traditional ways. Revenue increased 48% from $369mm in 2014 to $546mm in 2015 and is growing at a 5-year CAGR of 18%. Net income and EPS have grown at 5-year CAGRs of 24% and 27%, respectively. On the heels of UVE's growth plan, UVE was able to decrease its combined ratio from 94.06 for FY12 to 73.52 for FY15. In addition, UVE has seen a consistent increase in policy count and premium value in all states over the past two years. Shortly after increasing its dividend this year, the firm's board approved a $20mm share repurchase program. UVE completed its 2016 – 2017 reinsurance programs for UPCIC and APPCIC and reduced its retention for catastrophe losses, while retaining 100% of its profitable business. UVE also added insulation from a potential industry-wide increase in reinsurance pricing in 2017 – 2018 by adding over $100mm of multi-year capacity, bringing the total to $300mm for the period. Not only does Universal have a defensive market position, but its sustainable growth makes it an attractive opportunity compared to its regional peers. Based on the continued expansion and diversification, strong local markets, and state-of-the-art online platform, it is recommended that UVE be added to the AIM Equity Fund with a price target of $28.69, representing a potential upside of 19%. The firm also pays a dividend of $0.56, yielding 2.31%.

Investment Thesis

- **Geographic Expansion and Diversification.** Universal focuses on organically-driven growth by expanding geographically, as well as deepening its penetration of the Florida market. UVE announced in June 2016 that it had written its first homeowners insurance policy in Alabama, bringing the total coverage to 13 states. As of 6/30/16, 13.7% of UPCIC's policies in force and 18.6% of its insured values now reside outside of Florida – these diversification ratios have improved from 1Q16 from 12.8% of policies and 17.3% of insured values.

- **Universal Direct.** Coupled with its current expansion plans and to simplify the process of purchasing homeowners insurance, UVE launched Universal Direct, a direct-to-consumer online platform for homeowners insurance, this past April. Showing rapid growth, Universal Direct wrote its first policy in June in Minnesota and Alabama and launched the platform in four other states during 3Q16. Management believes that UVE "is the first insurance company to offer a policy where you can find coverage and pay for it in one transaction." Also, the customer acquisition cost is expected to be significantly lower than with traditional agents.
- **Tailwinds in Local Markets.** While focusing on expansion and diversification, Florida's real estate market continues to thrive. From Federal Reserve Economic Data (FRED), new private housing units authorized by building permits for Florida (FLBP1FH) have increased from 5,170 units in July 2013 to 6,255 units in July 2016. In addition, the All-Transactions House Price Index for Florida (FLSTHPI) has increased from 266.61 for 2Q12 to 382.78 for 2Q16.

Valuation

To find the intrinsic value of UVE, a dividend discount model was used, as well as a price to book and a price to earnings multiple. The price to book and price to earnings multiple was derived from taking the average P/E and P/B multiple of UVE's peer and industry, as well as UVE's ttm P/E and P/B multiple. By doing this, a predicted P/E and P/B multiple of 11.60x and 1.74x was calculated, respectively. These predicted multiples were then multiplied by UVE's TTM EPS ($3.31) and BVPS ($10.02) to reach an intrinsic value of $38.39 for P/E and $17.41 for P/B. Weighing these multiples 50/50, an intrinsic value of $27.90 was reached. The dividend discount model (DDM) approach using a WACC of 8.72% and a long-term growth rate of 3.0% resulted in an intrinsic value of $29.49. Weighing these valuations 50/50, respectively, the final estimated intrinsic value of UVE is $28.69, which provides an upside of 19.41%. UVE also pays a $0.56 annual dividend, yielding 2.31%.

Risks

- **Catastrophe Risk.** Given that UVE's operations are concentrated in Florida (92.6% of direct written premiums), a single catastrophic event, destructive weather and regulatory changes could significantly impact UVE's financial condition. During the past three years, UVE did not experience any significant effects from catastrophic events. Also, the direct written premium concentration in Florida decreased 170 bps from 94.3% in FY14 to 92.6% in FY15.
- **Reinsurance Risk.** Market conditions determine the availability and cost of the reinsurance UVE purchases and no guarantee can be made the reinsurance will remain continuously available at the same rates. UVE completed the 2016 – 2017 reinsurance programs for UPCIC and APPCIC in June retaining 100% of profitable business while maintaining a $35mm catastrophe retention for Florida despite a 9% YoY growth in Florida exposures.
- **Compliance Risk.** Universal's daily business is highly dependent on the ability to engage in a large number of insurance underwritings and could be affected by compliance standards, resulting in the payment of substantial awards or settlements.

Management

Sean P. Downes has been Chairman of the Board of Directors and CEO since 2013 and a director of UVE since 2005. Prior to this role, Downes was President from 2013 to March 2016 and COO since 2005 and a director of UPCIC since 2003. Jon W. Springer has been President and CRO since March 2016 and a director of UVE since 2013. Prior to this, Springer was EVP and COO since 2013. Stephen J. Donaghy has been COO of the Company since March 2016; prior, he was CMO since 2015 and CAO since 2013.

Ownership

% of Shares Held by All Insider and 5% Owners:	7.04%
% of Shares Held by Institutional & Mutual Fund Owners:	73.54%

Source: FactSet

Top 5 Shareholders

Holder	Shares (000)	% Out
The Vanguard Group, Inc.	3,435	9.79
BlackRock Fund Advisors	2,948	8.40
Dimensional Fund Advisors	1,608	4.59
LSV Asset Management	1,376	3.92
Schroder Investment Management	1,129	3.22

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Net Income (mil)	Div. Yld. %	P/E	P/B	ROE
Universal Insurance Holdings	UVE	851.70	117.00	2.31	7.41	2.42	39.01
United Insurance Holdings	UIHC	339.40	34.60	1.53	9.77	1.31	14.49
Federated National Holding	FNHC	239.30	29.10	1.84	8.35	0.97	13.21
Heritage Insurance Holdings	HRTG	409.50	61.40	1.78	4.46	1.15	18.36
HCI Group	HCI	318.80	32.80	3.91	9.28	1.26	13.00
Peer Averages		326.75	39.48	2.27	7.97	1.17	14.77

LTM as of 6/30/2016

Source: Bloomberg

IHS Markit Ltd. (INFO)
September 23, 2016

Nicholas Christman — International Financial Services

IHS Markit (NASDAQ:INFO) delivers information services to more than 50,000 customers across 140+ countries, including 94 of the largest 100 US corporations. The company was created in July 2016 in an all stock merger between IHS Inc. and Markit. IHS Markit provides analytics, information, consulting, and vertical software solutions across every business sector. On a pre-merger basis Markit reported revenues through the Information (45%), Solution (32%), and Processing (23%) segments. IHS splits revenues between Resources (40.5%), Transportation (34.7%), and Consolidated Markets & Solutions (24.8%) segments. The company generates their data from their 5,000 employees who specialize in information services and analytics. INFO is headquartered in London, United Kingdom.

Price ($): (9/19/16)	36.5
Price Target ($):	43.27
52WK H-L ($):	26-37
Market Cap (mil):	15,520
Float (mil):	423
Short Interest (%):	1.3%
Avg. Daily Vol (mil):	1.58
Dividend ($):	$0.00
Yield (%):	0.0%

Beta:	0.81
WACC	6.3%
M-Term Rev. Gr Rate Est:	5.0%
M-Term EPS Gr Rate Est:	14.6%
Debt/Equity:	24.0%
Debt/EBITDA (ttm):	3.21x
ROA:	3.8%
ROE:	8.1%
ROIC:	4.9%

FY: Nov	2015	2016E	2017E	2018E
Revenue (Mil)	3,344.30	3,511.52	3,687.10	3,871.45
% Growth	15.1%	5.0%	5.0%	5.0%
Gross Margin	56.9%	58.1%	59.3%	60.5%
Operating Margin	18.1%	21.0%	22.3%	23.5%
EPS (Cal)	$0.82	$1.05	$1.18	$1.33
FCF/Share	$1.07	$1.76	$1.96	$2.19
P/E (Cal)	44.4x	34.7x	30.8x	27.5x
EV/EBITDA	19.2x	16.4x	14.8x	13.4x

Recommendation

The recent merger between IHS and Markit is expected to yield $125M in cost synergies through consolidation of infrastructure, management, and facilities. INFO can achieve 5-7% organic growth into the foreseeable future and management remains optimistic that there are multiple opportunities for acceleration. Management has also set a target of 20% EPS growth and this is should be attainable with the possibility for expanding margins and increasing revenue. INFO's strong positioning in the pricing and reference data market is important for the success of the company. Many of INFO's customers want two suppliers and consolidation in this space has created opportunity for INFO. Roughly 85% of INFO's revenues are reoccurring, while the rest of their revenue comes from consulting, transaction, or one off product sales. The integration of INFO's products into their customer's operations make their offerings critical to the day-to-day operations. Renewal rates run in the 90% range for INFO's subscriptions giving them significant pricing power. INFO's business model allows their services to be diversified across multiple industries, protecting them from the cyclicality of any one industry. They also plan to reward shareholders through a $1B share repurchase program in 2017 and 2018. As low global interest rates make banks less attractive to own, the diversification of a financial in the information services business with a global footprint and an innovative product portfolio warrants consideration for addition into the AIM International Equity Fund. My target price for INFO is $43.27, representing a 18.53% upside. INFO does not pay a dividend.

Investment Thesis

- **The Technological Arms Race**. The fallout from the financial crisis has shaken up the landscape of the financial services industry. While the balance sheets have shrunk for global financial players, technology spending has exploded. In a survey of bank CIOs, these executives planned to spend 58% more on data analytics and 50% more on compliance in 2016. INFO is set to capitalize on this trend, as IHS Markit has an industry leading portfolio of data analytic services and regulatory reporting solutions (MiFID and FRTB rollouts expected soon). INFO management is confident in mid-single digit growth with strong potential upside, as their product offerings continue to be implemented with their customers.

- **Innovative Product Offerings.** Markit specifically has several compelling products which are in high demand in the current market environment. The first product is their Enterprise Data Management (EDM) platform which has grown from 50 to 200+ clients globally. This system allows clients to source, validate, and circulate operational, risk, finance, and customer data across their entire organization. In response to the regulatory environment, Markit has created a Know Your Client service which streamlines the onboarding process for new clients. This business has 5000+ buy-side subscribers and is expected to grow with the inclusion of IHS' customer data. Lastly, Markit successfully tested blockchain in the Credit Default Swap market in March. This proof-of-concept technology will be useful to help customers cut costs and encourage capital flow in the future.
- **IHS Markit Merger Synergies.** INFO can expect to benefit from the recent merger between IHS and Markit. Management sees a 100M revenue synergy within the first 3 years as easily achievable based on opportunities now possible with the combined resources of the two companies. In the information services business, unique content allows companies to differentiate themselves. With IHS' strong customer base and data set, there will be significant improvement to Markit's index business. Secondly, Markit's strong sales team for the financial service industry can now leverage IHS' financial service products. Finally, the economic and country rating product from IHS can leverage Markit's PMI franchise to improve content and drive sales.

Valuation

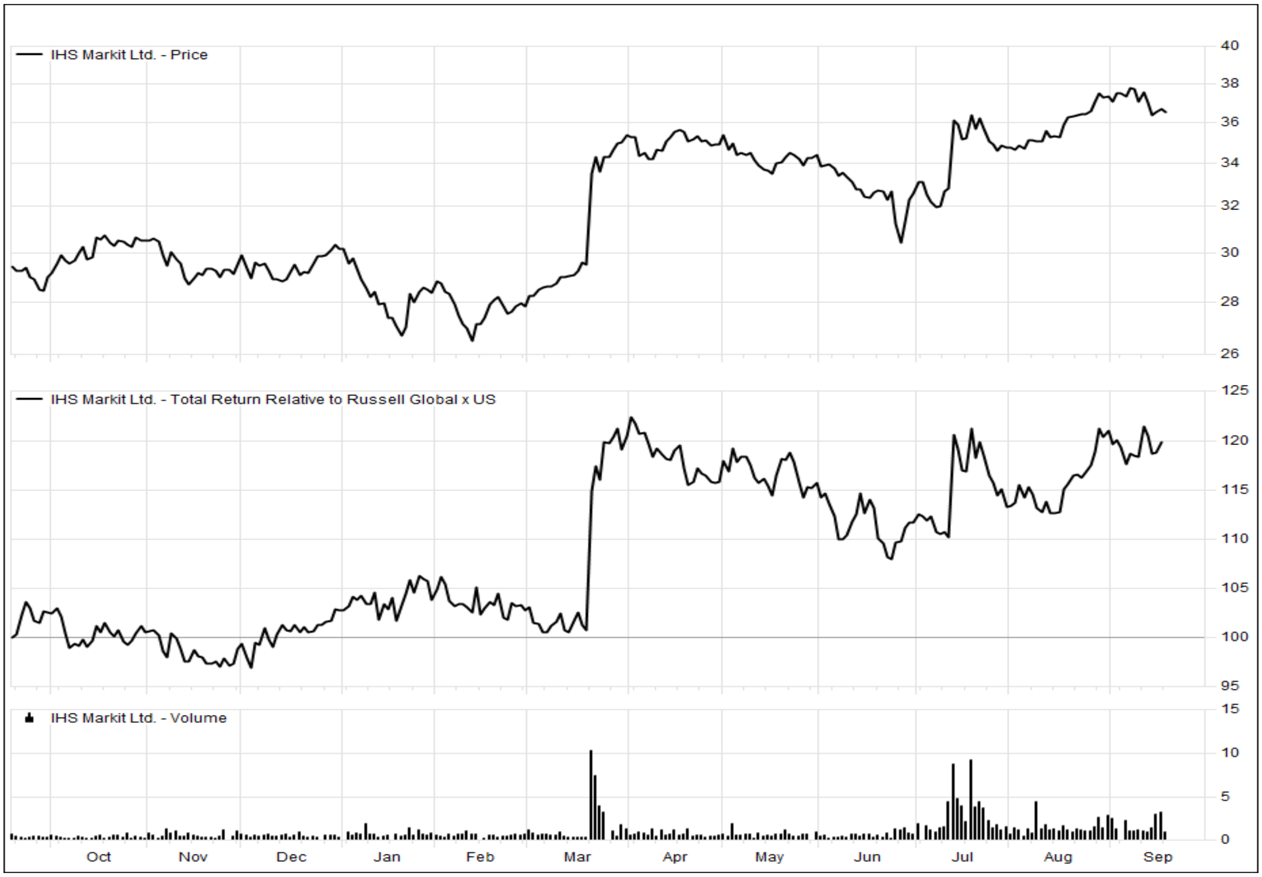
In order to reach an intrinsic value for INFO, a five year DCF model was constructed. Using a terminal growth rate of 1.25% and a WACC of 6.28%, an intrinsic value of $43.00 was reached. A sensitivity analysis was conducted using a ±.5% terminal growth rate and a ±1% WACC, which yielded a range of $64.41 to $31.52. Additionally, a forward Price/EBITDA multiple valuation was conducted using NTM EBITDA per share of $2.94 and a weighted comparables average forward Price/EBITDA of 14.80x which resulted in a valuation of $43.53. By weighting these two valuation models 50/50, a price target of $43.27 was reached, which yields a 18.53% upside.

Risks

- **Guilty by Association.** In 2016, Markit resolved an investigation into their role in the CDS market. INFO is susceptible to future lawsuits and regulatory scrutiny because they are so closely aligned with the financial service industry. Markit paid 5.6M in legal fees in 2014, and 3.7M in 2015.
- **Data security.** Information is the single greatest asset which INFO can offer to their clients. The security of this information is vital to their business, as their clients expect them to keep data confidential. A data breach would be meaningfully negative for the company's image and operations.
- **Merger Integration.** INFO must successfully integrate the two company's systems, management teams, and workforce. There also is execution risk in the ability of IHS and Markit to meet target revenue and expense synergies.

Management

Jerre Stead is the CEO of INFO and his previous role was CEO of the standalone IHS Inc. He brought the company public in November 2005, and has provided shareowners a 28% compounding growth rate since the IPO. He attended Harvard University's Advanced Management Program in Switzerland. Lance Uggla was Markit's CEO before the merger; now he will serve as INFO's President. Lance founded Markit in 2003 focusing on the CDS market. Todd Hyatt is INFO's CFO; he served in the same role at IHS before the merger.



Ownership

% of Shares Held by All Insider and 5% Owners:	15.61%
% of Shares Held by Institutional & Mutual Fund Owners:	51.58%

Source: Factset

Top 5 Shareholders

Holder	Shares	% Out
Ogier Employee Benefit Trustee	25,210	5.95%
Temasek Holdings Pte Ltd. (Investment Management)	21,173	5.00%
Canada Pension Plan Investment Board	15,674	3.70%
General Atlantic LLC	13,276	3.13%
Mawer Investment Management Ltd.	11,607	2.74%

Source: Factset

Peer Analysis

Name	Ticker	Market Cap (mil)	Net Income (mil)	D/E	P/E	EV/ EBITDA
IHS Markit	INFO	15,461	347	0.24	44.51x	19.2x
FactSet	FDS	7,177	256	0.55	28.66x	18.9x
Verisk Analytics	VRSK	13,639	462	1.57	23.13x	15.4x
Moody's	MCO	20,860	889	-	24.21x	14.8x
S&P Global	SPGI	32,915	1,177	10.05	28.53x	16.2x
RELX	REL	39,213	1,632	2.44	24.23x	14.7x
Peer Averages		18,648	696	4.1	26.13x	16.4x

Source: Factset