Applied Investment Management (AIM) Program

AIM Class of 2016 Equity Fund Reports
Fall 2015

Date**: *Friday, September 25th | ***Time:** 3:00 – 4:30* p.m. | ***Location: Straz Hall Room 105

Student Presenter	Company Name	Ticker	Sector	Page
Eric Christopherson	WageWorks Inc.	WAGE	Producer Durables	2
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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 -57 minutes presenting their formal recommendation, which is then followed by about 8-10 minutes of Q & A. We encourage your attendance and any email comments/questions.

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WageWorks Inc. (WAGE)
September 25, 2015

Eric Christopherson | Domestic Producer Durables

WageWorks Inc. (NYSE: WAGE) is a leading provider of tax-advantaged benefits and administers Consumer-Directed Benefits (CDBs). These CDBs include pre-tax spending accounts such as health and dependent care Flexible Spending Accounts (FSAs), Health Savings Accounts (HSAs) and commuter benefit services. The commuter benefit services include transit and parking programs as well as wellness programs and other employee spending account benefits in the United States. WageWorks' CDB programs delivery model allows their clients and participants access through a standard web browser. Under the company's FSA, HAS and commuter programs, employee participants contribute funds from their pre-tax income to pay healthcare expenses that are not fully covered by health insurance. With the company's HRA programs, employer clients provide employee participants with a specific amount of available reimbursement funds to help their employee participants provide out-of-pocket medical expenses. WageWorks Inc. was founded in 2000, went public in 2012 and is headquartered in San Mateo, California.

				FY: Dec	2014	2015E	2016E	2017E
Price ($):	47.74	Beta:	1.16					
Price Target ($):	59.22	WACC	7.55	Revenue (Mil)	268	335.00	382.00	425.00
52WK H-L ($):	38.19-65.56	M-Term Rev. Gr Rate Est:	18.2%	% Growth	22.40	25.00	14.30	11.20
Market Cap (mil):	2	M-Term EPS Gr Rate Est:	21.9%	Gross Margin	62.60	62.20	63.40	64.50
Float (mil):	35.8	Debt/Equity:	0.3	EBITDA Margin	21.00	27.00	28.90	29.50
Short Interest (%):	12.1	Debt/EBITDA (ttm):	2.19	EPS (Cal)	$0.94	$1.17	$1.40	$1.75
Avg. Daily Vol (mil):	0.2	ROA (%):	2.84	FCF/Share	$0.92	$2.97	$3.00	$3.14
Dividend ($):	N/A	ROE (%):	5.83	P/E (Cal)	68.7	43.0	33.8	31.2
Yield (%):	N/A	ROIC (%):	5.32	EV/EBITDA	34.3	14.3	11.7	10.8

Recommendation

Since going public in 2012, WageWorks has seen huge growth since 2012 with revenues increasing at an average of 24% each year with the gross profit margins not far behind. WageWorks has benefitted from constant acquisitions of new clients and relationships since its inception and can be seen from their numbers. For the six months ended 2015, healthcare revenue increased $13.5 million compared to 2014, of which $12.3 million came from increases in FSA and HRA revenue with $8.4 million coming from two full quarters of contribution from their 2014 acquisition of CONEXIS. The HSA market is shaping up to be a huge selling point for WageWorks as the company has expanded their market reach over the year with revenues up $1.2 million for the six months ended 2015 compared to 2014 with WageWorks gaining momentum through cross-sales. The acquisition of CONEXIS will create even more revenue as WageWorks looks to increase the EBITDA margins of CONEXIS to around 26%-32% by the next year as CONEXIS started with a high-single digit margin at the end of 2014. CONEXIS helped immensely in the increase of COBRA revenue over the past six months with CONEXIS accounting for $16.3 million of the $17.1 million increase from last year. The quarter results for June also beat out expectations for the company with revenue exceeding expectations by 2% and EBITDA by 3% while adjusted EPS rose 18%. In August 2015, the Oregon Educators Benefit Board selected WageWorks to administer their HSAs and FSAs which will bring an estimated additional 60,000 employees to be provided for by WageWorks. WageWorks is also beginning to sell their Connector Service to new entities as the demand for this will increase from the 7.3 million people in 2014 to over 20 million in the next few years. With all of this, WageWorks has expanded its credit facility to $150 million, confirming that the company is committed to portfolio acquisitions of about 1-3 per year with over 400 potential targets to choose from. With these factors in mind, it is recommended that WageWorks Inc. be added to the AIM Equity Portfolio with a price target of $59.22, representing a 24.05% upside. The company does not pay a dividend.

Investment Thesis

- **Newly Established Relationships.** WageWorks recently announced that Mercer's health and welfare administration division is a new channel partner, which gives WageWorks over half a dozen private exchange partnerships. The Oregon Education Board, which has 60,000 eligible members was also added to WageWorks portfolio. WageWorks added 8 Fortune 100 customers and 52 Fortune 500 companies just this year. It is these increases in channel partners that will continue to drive growth for the company.
- **Increasing share of the HSA market.** WageWorks is pushing hard into the health savings account market with management citing over 100 employer HSA wins so far in 2015, with many due to cross-sales with existing customers. WageWorks earns about 25% lower than its competitors on HAS accounts and management has said that this may change. HSAs do not make up a huge part of WageWorks' revenue, but revenue was up 30% in 2014 in this category with a $1.2 million dollar increase for the six months ended 2015 compared to 2014.
- **Large cross-sell opportunity.** WageWorks' 45,000-customer base uses less than 1.5 products of the five to six products that the company offers. There are initiatives in place, like the salesforce being more proactive about the issue, to get these customers to buy more products which should create more attractive margins.

Valuation

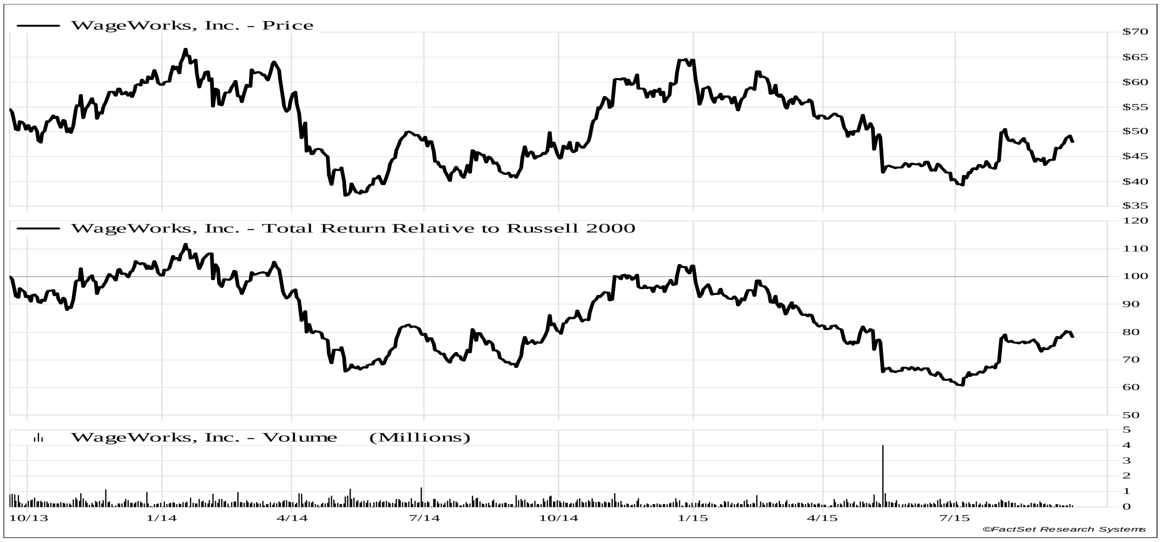
In order to reach an intrinsic value for WAGE, a five year DCF model was constructed. Using a terminal growth rate of 3%, a WACC of 7.55%, an intrinsic value of $60.49 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $45.68-$68.97. Additionally, a P/S multiple valuation was conducted using an average multiple for WAGE of 6.65 and the forecasted revenues for 2015 of $335 million, which resulted in a value of $62.23 A P/E multiple valuation was conducted using the forecasted 2015 EPS, which resulted in a value of $50.31 By weighing these three models 70/15/15 respectively, a price target of $59.22 was reached, representing a 24.05% upside.

Risks

- **Potential future portfolio purchases and acquisitions.** The growth of WageWorks is substantially dependent upon the company's ability to make and integrate portfolio purchases that expand their client base and service offerings. These integrations and acquisitions, on a cost-effective basis, are critical to the future financial performance of WageWorks.
- **General economic conditions.** These and other conditions can adversely impact WageWorks as they can affect trends in employment and hiring patterns. This could lead to less participation in CDB programs which could impact WageWorks as their revenue is attributable to the number of employee participants of their clients that use WageWorks' programs.
- **Healthcare, security and privacy laws.** Changes in these laws and other regulations could have an impact on WageWorks as they could increase the compliance and other costs of doing business which would adversely impact the company. The Patient Protection and Affordable Care Act could inhibit the ability of WageWorks to offer certain CDBs or make their CDBs less attractive than others.

Management

Joseph L. Jackson has held the CEO position and served on the board of directors since 2007. Prior to 2007, Jackson served in various roles at First Date Corporation. Colm Callan has served as CFO since 2014 and prior to joining WageWorks, served as CFO of the Product and Technology division of PayPal, an eBay Inc. company. Edgar O. Montes has held the COO position since 2012 and held the Senior Vice President of Service Delivery Operations prior to 2012. Kimberly L. Wilford has served as Senior Vice President, General Counsel and Corporate Secretary since 2008.



Source: FactSet

Ownership

% of Shares Held by All Insider Owners:	0.20%
% of Shares Held by Institutional & Mutual Fund Owners:	60.66%

Source: FactSet

Top 5 Shareholders

Holder	Shares	%Out
Fidelity Management and Research Company	3,655,764	10.23
Vanguard Group, Inc.	2,537,811	7.10
TimesSquare Capital Management, LLC	2,367,901	6.63
DF Dent & Co Inc.	2,187,252	6.12
BlackRock Fund Advisors	1,984,436	5.55

Source: FactSet

Name	Ticker	Market Cap (bil)	Sales (mil)	EBITDA	Dividend Yield	EV/ EBITDA
WageWorks	WAGE	2	314	61.7	N/A	20.96
Automatic Date Processing Inc.	ADP	37	10,938	2292.0	2.50	15.34
Aetna Inc.	AET	41	59,848	11969.0	0.80	11.17
Crawford and Company Class B	CRD.B	3	1,251	95.1	3.10	5.74
Engility Holdings	EGL	1	1,642	173.7	N/A	12.42
Towers Watson and Co.	TW	8	3,645	767.0	0.50	10.43
Peer Averages		20	18,420	3632.5	2.13	11.2

Source: FactSet

Infineon Technologies (IFNNY)
September 25, 2015

Daniel E. Fernandez Guerra International Technology

Infineon Technologies AG (OTC: IFNNY) is a Germany-based company that designs, develops, manufactures, markets, and provides semiconductors and system solutions. IFNYY operates in four different business segments: Automotive (45%), Power Management & Multimarket (25%), Industrial Power Control (18%), and other Operating Segments (12%). The Automotive segment supplies magnetic and pressure sensors, microcontrollers and power semiconductors providing automotive customers a sustainable and economical solution in terms of efficient consumption of fuel, lower emissions and better protection. The Industrial & Multimarket divisions focus in industrial electronic applications and in applications with customer-specific product requirement, and in components for power management in high-frequency applications. The Chip Card & Security segment provides a range of security controllers and memories for chip card and security applications for passports, identity cards and contact-less payment cards. IFNNY has operations in over 35 countries and their products are sold to a wide range of end-market applications in the areas previously mentioned. IFNNY was founded in 1999 and is headquartered in Munich, Germany.

Price ($):	11.02
Price Target ($):	13.25
52WK H-L ($):	13.52 - 8.87
Market Cap (mil):	13,167
Float (mil):	0.0
Short Interest (%):	0.00%
Avg. Daily Vol (mil):	0.11
Dividend ($):	0.19
Yield (%):	1.60%

Beta:	0.91
WACC	7.3%
M-Term Rev. Gr Rate Est:	15.0%
M-Term EPS Gr Rate Est:	18.8%
Debt/Equity:	40.7%
Debt/EBITDA (ttm):	1.36
ROA (%):	6.1%
ROE (%):	10.3%
ROIC (%):	8.5%

FY: Dec	09/30/2013	09/30/2014	09/30/2015	09/30/2016
Revenue (Mil)	5,053	5,848	6,455	7,130
% Growth	-0.60%	15.74%	10.36%	10.46%
Gross Margin	34.42%	38.12%	35.60%	37.41%
EBITDA Margin	21.20%	25.25%	24.42%	26.01%
EPS (Cal)	$0.33	$0.65	$0.64	$0.80
FCF/Share	$0.35	$0.50	$0.24	$0.74
P/E (Cal)	30.5	15.9	18.0	14.5
EV/EBITDA	7.5	5.9	8.3	6.7

Recommendation

IFNNY has a broad set of business segments with a diverse customer base in Europe, Middle East, Africa, Asia-Pacific, and the Americas. Due to the strong demand in the automotive industry, Infineon expects an EPS CAGR growth of 18% in 2015-17. Infineon has the highest exposure in the automotive industry among large-cap companies and this market segment should be one of strongest semi end markets over the next three years. Benefits from the acquisition of International Rectifier were shown in third-quarter as the automotive segment recorded revenue totaling €621 million, an increase of €111 million (22%) compared to previous fiscal year. Overall, revenue have grown 34% from FY14 to FY15. Furthermore, introduction of products in the sensor markets and better commercial opportunities in major home appliances market are expected to drive growth, going forward. IFNNY has placed themselves in a unique position within the International Technology sector and is fundamentally the market-leading supplier of electrical components and semiconductors of the Automotive and Chip Card & Security segments. The competitive landscape has changed in the past few years as a result of consolidation within the industry and IFNNY has been benefited due to their market-leader position in most of their segments. Infineon competes with integrated device manufacturers and semiconductor companies. These include Atmel Corporation, STMicroelectronics SA, and NXP Semiconductors N.V. Due to the projections that IFNNY will outgrow their sector along with potential drivers, a strong balance sheet and FCF it is recommended that Infineon Technologies AG be added to the AIM International Equity Fund with a target price of $14.20, representing a 28.85% upside. IFNNY also pays an annual dividend yield of 1.60%.

Investment Thesis

- **Increasing Demand in the Automotive Industry**. The solid momentum that Infineon is experiencing with the automotive segment, representing roughly 41% of sales and with great expectations for an average growth of +13% in 2015/17. This increase was attributable mainly to unchanged high demand for cars in China and North-America, the first-time consolidation of International Rectifier, and the positive impact of a strong US dollar.
- **Strategic Mergers/Acquisitions.** With the acquisitions of International Rectifier Corp. and LS Power Semitech Co, IFNNY has effectively strengthened their worlwide position in the growth market for IPM's (Intelligent Power Modules) and system leader in Automotive industry. This acquisitions have been one of the key drivers of profitability growth in the reported quarter. Further, this allows Infineon to expand over important international markets, particularly in North America and Asia-Pacific regions.
- **Strong R&D:** Infineon is focused on developing its technological capabilities to further increase its market share while increasing margins. The company makes large capital investments, in order to conduct research and development as well as expanding market reach. The company expects to make total investments worth €800 million in this fiscal year. In the semiconductor industry, the company is securing the benefits of being the exclusive provider of the 300-millimeter thin wafer power semiconductors.
- **Market-leader Consolidation:** Infineon puts extreme attention on capitalizing on market dominating trends, to stay ahead of its peers. The compnay will be highly benefited with the acceleration of demand for energy efficient products, along with the steady strategy of the company which has been constantly introducing innovative semiconductors that reduce power loss and maximize power savings. The consolidation of its leader positioning in the industry (Industrial & Multimarket) representing close to 48% of sales, with expectations of an average growth at +24% on average in 2015/17.

Valuation

In order to reach an intrinsic value for IFNNY, a five year DCF model was constructed. Using a terminal growth rate of 3% and a WACC of 8.75%, an intrinsic value of $14.20 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $12.31-$23.85. Additionally, a P/E multiple valuation was conducted, a comparable average P/E of 17.95x and IFNNY's 5-year historical average P/E of 18.5x which resulted in a valuation of $13.86. By weighting the three valuation models 60/20/20, a price target of $14.41 was reached, which offers an upside of 28.85%. The company does pay a dividend yield of 1.60%.

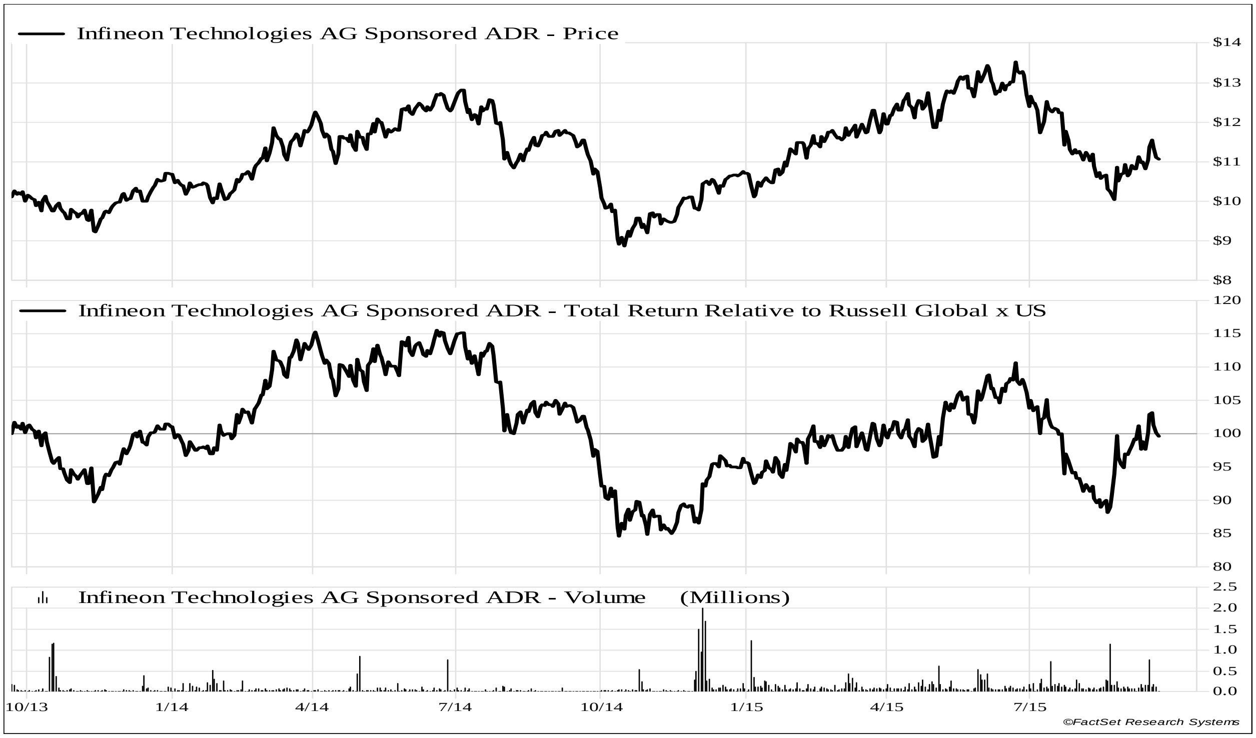
Risks

- **Cyclical Industry:** The semiconductor industry in general, is highly cyclical. It is characterized by constant and swift technological changes, as well as rapid product obsolescence and price erosion, evolving standards, short product life-cycles.
- **Highly Competitive Environment:** Infineon faces strong competition from existing rivals as the semiconductor industry is highly dynamic in nature. Intensifying competition might force the company to reduce prices or increase spending, which would negatively impact its sales and profits.
- **High Operating Expenses:** The manufacturing capacities that are essential to maintain a competitive cost position require large capital investments. The continuous introduction of new products and integration of acquired companies also burden Infineon's exchequer with high operating expenses, which could affect the company's long-term prospects.

Management

Reinhard Ploss became executive director, president and chief executive officer on October 1, 2012. From 2000 to 2007, Mr. Ploss was part of the management board and was president in the three different segments of Infineon. Prior to joining IFNNY, he held other executive level positions at the Industrial Power Business Unit and eupec GbmH Co. KG, a subsidiary of Infineon. He also served as Chairman of a chip manufacturing company, having over 20 years of experience in the industry.

Dominik Asam was named Executive Vice President and CFO on January 1, 2011. He started with Infineon on 2003 as a Head of Investor Relations, Mergers & Acquisitions, and Ventures.



Source: Factset

Ownership

% of Shares Held by All Insider Owners:	#N/A
% of Shares Held by Institutional & Mutual Fund Owners:	0.19%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
Dimensional Fund Advisors LP	612,476 ▲	0.05
William Blair & Co. LLC (Investment Management)	305,693 ▲	0.03
Parametric Portfolio Associates LLC	284,873 ▲	0.03
Glenmede Investment Management LP	103,962 ▼	0.01
World Asset Management, Inc.	45,697 ▲	0.00

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA	Dividend Yield	EV/ EBITDA
Infineon Technologies AG Spons	IFNNY	13,167	6,374	1468.08501	1.44	5.93
Atmel Corporation	ATML	3,422	1,345	175.8	0.00	21.35
NXP Semiconductors NV	NXPI	21,110	6,025	1424.0	#N/A	15.13
STMicroelectronics NV	596233	5,806	6,024	426.5	5.22	9.68
Advanced Micro Devices, Inc.	AMD	1,473	4,640	49.0	0.00	8.62
Fairchild Semiconductor Internat	FCS	1,636	1,421	211.9	0.00	8.71
Peer Averages		7,953	4,508	518.8	#N/A	13.7

Select Comfort Corporation (SCSS)
September 25, 2015

Robert Uhland Domestic Consumer Discretionary

Select Comfort Corporation (NYSE: SCSS) is a vertically integrated, consumer-driven specialty-mattress retailer and the exclusive designer, manufacturer, and retailer of Sleep Number beds, sleep products and bedding accessories. SCSS generates revenue by marketing and selling their individualized sleep solutions and services through 2 distribution channels: the Company-Controlled channel (97.3% of Net Revenues) and the Wholesale channel (2.7% of Net Revenues). SCSS's Company-Controlled channel operates under Retail, Direct Marketing, and E-Commerce and sells directly to consumers. The Wholesale channel sells to selected retail and wholesale customers in the U.S., Australia, New Zealand and the QVC channel. The company models its products around innovation and individualization to emphasize its position as a proprietary sleep innovator. SCSS operates solely in the U.S., with a presence in 47 states, maintaining over 463 retail stores. SCSS was founded in 1987 and is headquartered in Minneapolis, MN.

Price ($):	22.72	Beta:	1.07	FY: Dec	12/28/2013	01/03/2015	12/31/2015	12/31/2016
Price Target ($):	32.20	WACC	9.1%	Revenue (Mil)	960.17	1,156.76	1,295.17	1,412.17
52WK H-L ($):	35.75 - 19.7	M-Term Rev. Gr Rate Est:	23.5%	% Growth	2.69	20.47	12.00	9.00
Market Cap (mil):	1,168	M-Term EPS Gr Rate Est:	18.6%	Gross Margin	62.70	61.11	61.82	62.30
Float (mil):	50.5	Debt/Equity:	0.0	EBITDA Margin	12.61	12.24	12.49	13.68
Short Interest (%):	9.1	Debt/EBITDA (ttm):	0.00	EPS (Cal)	$1.08	$1.25	$1.35	$1.75
Avg. Daily Vol (mil):	0.5	ROA (%):	19.06	FCF/Share	$0.20	$1.25	$1.17	$1.79
Dividend ($):	0.00	ROE (%):	33.72	P/E (Cal)	19.5	21.5	16.7	13.0
Yield (%):	0.0	ROIC (%):	33.72	EV/EBITDA	8.7	9.4	7.5	9.3

Recommendation

Select Comfort Corporation is a high-quality, individualized sleep service and solutions company that seeks to deliver an unparalleled sleep experience. As the only vertically integrated specialty-mattress retailer in the nation, SCSS has been able to maintain an edge over its competitors like Tempur Sealy, Mattress Firm Holding, and La-Z-Boy in the specialty retail segment due to its commitment to delivering shareholder value and its innovative technological advancements. Additionally, the Sleep Number bed offers proprietary technology that is clinically proven to provide better sleep quality and back relief relative to traditional mattress products. SCSS management has put forth efforts to more than double EPS to $2.75 by 2019E through three main drivers: increasing the consumer demand, leveraging the business model, and deploying capital efficiently. Since 2011, SCSS has improved, remodeled, and repositioned over 70% of the company's existing portfolio and thus, increased average sales per comparable stores by 7.1% to $2.5M/store. Over the next five years the company expects to reach 590-650 retail stores nationwide, reflecting managements position to capitalize on the large underdeveloped markets and expand their strategic market initiatives. Also, at the end of July, SCSS launched the SleepIQ Kids bed nationwide and due to strong consumer response, the SleepIQ Kids bed is expected to be a contributor to core revenue. As of September 2015, SCSS acquired the rest of BAM Labs for $58M, a position that is set to be accretive to EPS starting in FY 2017. In addition, due to SCSS's vertically integrated company structure and its commitment to life-long customer relationships, the repeat and referral sales continue to constitute over 30% of net sales. SCSS introduced several innovations in 2014 such as the Dual Temp layer and FlexFit adjustable base series, which led to strong consumer response and resulted in 22% net sales growth and 60% EPS growth in 1H 2015. Additionally, these innovations and peaked consumer interest drove comparable store sales and new store sales to grow 13% and 5% respectively. The aforementioned investments in customer experience follows suit with SCSS's strategic growth initiative expectations to deliver average revenue per retail location of more than $3M, while investing in 5-7% new store growth annually. Due to the innovative core business structure, aggressive growth strategy, and management's poised commitment to deliver mid-to high-teens earnings growth moving forward, it is recommended that Select Comfort Corporation be added to the AIM Equity Fund with a target price of $32.20, representing a 42% upside. SCSS does not pay a dividend.

Investment Thesis

- **Positive Growth in Disposable Income.** Since 2013, disposable personal income has been steadily increasing, reaching all-time highs in FY 2015 of around $13.43B. With consumer confidence projected to increase by 4% by Q2 2016, consumer spending on the rise, and disposable personal income projected to continue to reach record highs it appears that SCSS is in perfect position to capture upside from this spending shift.
- **Underdeveloped Market Expansion.** In 2011, SCSS launched an "aggressive growth strategy" set to target thirteen underdeveloped markets accounting for one-third of U.S. mattress sales. The four underdeveloped markets launched in 2011 have already doubled market share and the others are in line to achieve this goal. With the 10th underdeveloped market set to launch by the end of FY 2015, and the other three remaining in various stages of development, it is apparent that SCSS has positioned itself to grow its sales revenue and consumer base significantly.
- **Management's Ability to Drive Earnings Growth.** Over the past three years SCSS has repurchased over 5.5M shares outstanding and in doing so has driven over $120M in shareholder returns. Furthermore, following Q3 2014, the company announced an increase in its outstanding share repurchase authorization to $250M and a significant increase in the rate of shares repurchased. With over $50M returned to shareholders through 1H 2015, improvements to operational efficiencies through the implementation of the ERP platform, and a 17% EPS CAGR looking out to 2019E, management has demonstrated their commitment to long-term earnings growth and efficiencies to improve margins.

Valuation

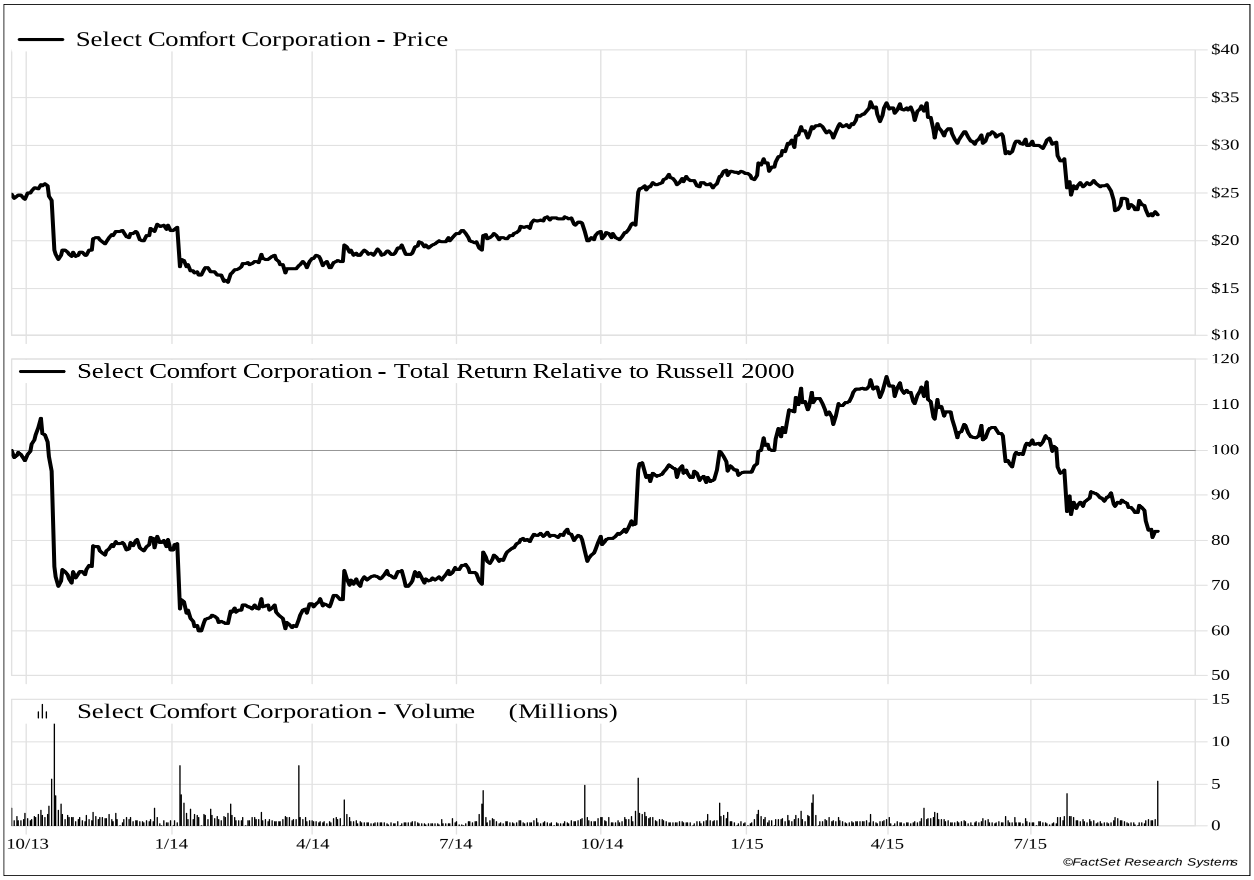
In order to reach an intrinsic value for SCSS, a five year DCF model was constructed. Using a terminal growth rate of 2.0%, and a WACC of 9.1%, an intrinsic value of $33.35 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $28.14-$40.80. Additionally, a P/S multiple valuation was conducted using 2016 E Sales, a comparables average P/S of 1.08x, and SCSS's 5-year historical average P/S of 1.29x, which resulted in a valuation of $31.97. Finally, an EV/EBITDA multiple valuation was calculated. Using the peer comparables average 13.67x, SCSS's EV/EBITDA of 6.77x and 2015 E EBITDA of $159.44M, the multiple resulted in a valuation of $31.28. By weighting the three valuation models evenly, a price target of $32.20 was reached, which yields a 42% upside.

Risks

- **Potential Margin Compression.** SCSS has put a lot of effort into developing the ERP platform to deliver operational efficiencies starting FY 2016. However, if the platform does not provide the margins expected by these efficiencies the company could potentially face margin compression and inventory inefficiencies.
- **Underperforming Product Line.** Since a majority of the company sales growth is generated by an increase in consumer demand and interest, SCSS relies on revenues to grow from the roll out of a new line. However, if a new strategic initiative were to underperform or the technology were to malfunction revenues could be significantly impacted.

Management

Shelly R. Ibach has served as President and CEO of Select Comfort Corporation since June 1, 2012. Prior to this she served as Senior Vice President of Macy's. David R. Callen has served as CFO since April 2014. Prior to RUTH's he was CFO of Ethan Allen Interior, Inc. Other executive directors include: Hunter Saklad (Senior VP & CIO) and Kathryn V. Roedel (Executive Vice President & CSO).



Source: Factset

Ownership

% of Shares Held by All Insider Owners:	1.84%
% of Shares Held by Institutional & Mutual Fund Owners:	155.06%

Source: FactSet

Top 5 Shareholders

Holder	Shares		% Out
BlackRock Fund Advisors	4,341,988	▲	8.45
The Vanguard Group, Inc.	3,954,793	▲	7.69
Disciplined Growth Investors, Inc.	3,659,192	▲	7.12
Columbia Wanger Asset Management LLC	3,054,221	▼	5.94
SSgA Funds Management, Inc.	2,740,142	▲	5.33

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA	Dividend Yield	EV/ EBITDA
Select Comfort Corporation	SCSS	1,168	1,271	166.09	0.00	9.45
Tempur Sealy International, Inc.	TPX	4,752	3,077	342.6	0.00	15.21
Mattress Firm Holding Corp.	MFRM	1,544	2,286	175.7	0.00	18.92
La-Z-Boy Incorporated	LZB	1,407	1,440	131.5	1.10	9.63
Peer Averages		2,218	2,019	204	0	13.3

Dr. Reddy's Laboratories (RDY)

September 25, 2015

Ryan Woo International Healthcare

Dr. Reddy's Laboratories Ltd. (NYSE: RDY) specializes in the research, manufacturing, development, marketing, and sale of generic drugs, complex generics, and pharmaceutical active ingredients. The company reports in two business segments: global generics (81% of revenue, ~68% gross margin) and pharmaceutical services & active ingredients (aka PSAI) (17% of revenue, ~24% gross margin). The global generics segment specializes in the manufacturing and marketing of both prescription and over-the-counter drugs. PSAI refers to the development and marketing of active pharmaceutical ingredients and intermediates, also known as API or bulk drugs. RDY addresses several therapeutic areas such as gastrointestinal, cardiovascular disease, pain management, oncology, anti-infective, pediatrics, and dermatology. Headquartered in Telangana India, the company employs over 20,000 individuals with operations in 36 different countries. The geographic revenue breakdown is as follows: North America (48%), India (14%), Europe (12%) and Other (26%). It was founded in 1984 and went public in 2001.

Price ($):	60.42
Price Target ($):	72.55
52WK H-L ($):	68 - 45.67
Market Cap (mil):	10,380
Float (mil):	170.5
Short Interest (%):	1.9
Avg. Daily Vol (mil):	0.2
Dividend ($):	0.29
Yield (%):	0.5

Beta:	0.90
WACC	7.11%
M-Term Rev. Gr Rate Est:	11.8%
M-Term EPS Gr Rate Est:	16.9%
Debt/Equity:	0.39
Debt/EBITDA (ttm):	0.08
ROA (%):	12.14
ROE (%):	21.95
ROIC (%):	18.68

FY: March End	FY2014	FY2015E	FY2016E	FY2017E
Revenue (Mil)	2,349	2,576.96	2,895.20	3,249.59
% Growth	9.87	9.72	12.35	12.24
Gross Margin	57.62	59.06	60.65	61.40
EBITDA Margin	23.62	23.30	26.26	28.34
EPS (Cal)	$2.07	$2.23	$2.84	$3.31
FCF/Share	$0.89	$1.60	$2.16	$2.75
P/E (Cal)	21.0	26.9	25.8	21.5
EV/Sales	5.5	4.4	4.5	4.2

Recommendation

With its 190 medications and 60 active pharmaceutical ingredients, Dr. Reddy's Laboratories is one of the largest generics companies in the world. RDY has an advantage over its competition through its ability to use its PSAI business segment in order to improve its global generics segment. This has led to higher margins in its generics segment, which is expected to continue to grow. Geographically, the PSAI segment has eight US FDA inspected plants, five of which are in India while the other two are in Mexico and the United Kingdom respectively. For the global generics segment, the active ingredients are converted into finished dosages. The global generics segment has thirteen manufacturing locations with 11 in India and two in the United States. Through this unique dynamic, in the United States, RDY has a majority market share in four different generic drugs, including an 82% and 86% market share on blood cell drug Decitabine and osteoporosis biophosphate Zoledronic Acid, respectively. The size and growth of Dr. Reddy's Laboratories has been accomplished mainly through organic growth. Sales have grown at a 5 year CAGR of 10.2%. Margins have also improved through a 14.2% EBIT 5 year CAGR. RDY has also resumed incorporating mergers and acquisitions into its growth strategy as a way to deploy cash. On April 1, 2015, RDY acquired UCB's established product business for $128 million which equates to an EV/Sales of 5.3x, which is higher than RDY's overall multiple. The deal is also expected to be accretive to earnings as commentary regarding integration has been positive and completed. Most recently, Dr. Reddy's Laboratories has finalized agreements with Hatchtech and PanTheryx to market their products. Both of these agreements were announced in the last month. Based on the aforementioned information as well as the drivers below, it is recommended that Dr. Reddy's Laboratories (RDY) be added to the AIM International Fund with a target price of $72.55, representing a 20.0% upside. RDY pays an annual dividend of $0.29, yielding 0.5%.

Investment Thesis

- **Continued Growth in India.** RDY posted India revenue growth of 19% yoy in its last reported quarter (1Q16) due to the release of six new brands throughout the quarter. The UCB acquisition was finished in the quarter and added 1% growth, meaning India revenues grew 18% organically in the quarter. This should continue as the Indian economy posts GDP growth of roughly 5%, one of the higher growing developed markets. Going forward, RDY should continue its expansion of products into its home country. With India being its largest area for operations, RDY should be able to develop leverage as demand increases in this country. There is some concern regarding the value of the INR, but RDY should figure to benefit from the weakness because they mainly produce their drugs in India but sell a high portion of their products elsewhere.

- **Strength in Product Portfolio & Pipeline.** The global generics segment is growing and becoming a larger slice of revenues in comparison to PSAI. A competitive advantage for RDY has been the fact that PSAI supports its global generics business. RDY has been investing its savings from margin improvement into R&D. This has led to a robust and profitable pipeline of products that are set to hit the market in the near future. It is conceivable that the company averages nearly 10 new products every year in the next three to five years. As the sales mix shifts toward global generics, RDY's margins should see steady improvements.
- **Cash Deployment Optionality.** RDY currently boasts a strong and conserve balance sheet. With low double digit sales growth and higher margins, RDY should be able to generate significant free cash flow. Indian pharmaceutical companies are seeing pressure to deploy cash as a means for inorganic growth. This should lead to further M&A in the company's short-to-medium corporate vision. Another option could be a share repurchase program because the company has low LT debt and is paying a low interest rate. Lastly, raising the current dividend, which yields at 0.5%, could be another option to return capital to shareholders. Assuming RDY can execute for a strategic acquisition, any deployment of cash should have positive implications for its stock price.

Valuation

In order to reach an intrinsic value for RDY, a five year Discounted Cash Flow model was constructed. Using a terminal growth rate of 2% and a WACC of 7.11%, an intrinsic value of $69.21 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $58.22-85.73. Additionally, an EV/Sales multiple valuation was conducted using forward 2016E sales of $2,895mm. The multiple was derived using RDY's current EV/Sales multiple of 4.31 and an average peers multiple of 4.77. Weighting each multiple 50/50, the relative valuation yielded a price target of $75.88. Weighting the DCF and EV/Sales valuation methods evenly, a price target of $72.55 was reached. This yields an upside of 20.0% from its current share price. RDY pays an annual dividend of $0.29, which yields 0.5%.

Risks

- **Litigation.** It is not uncommon for pharmaceutical companies to be in legal disputes with patients, competitors or both. In the past 10 years, RDY has been in legal disputes with BioMarin, Teva, Reddy Pharma, and Astra Zeneca. Most cases are with respect to patent law, and RDY comes out successful more often than not. However, if a ruling does not go in favor of RDY, it may cause a loss of revenue, litigation fees, and/or compensation for damages.
- **High Regulations.** Release of generic drugs and use of pharmaceutical ingredients requires strict regulations from governing bodies. For example, the FDA receives ANDA filings and chooses whether or not it passes. If RDY spends money to research and development new products, but they do not get their products passed in their expected timeframe, it could result in a loss of sales or extra costs.
- **Emerging Markets.** RDY has seen its Russia and Venezuela revenues decline steeply due to macroeconomic concerns. With neither economy seeming to have reached an inflection point, further volume decline in these markets would lead to stagnant growth in these areas which were originally thought to be a catalyst going forward.

Management

Satish Reddy is chairman and managing director of Dr. Reddy's. He has a BS in chemical engineering from Osmania University and an M.S. in Medicinal Chemistry from Purdue University. G.V. Prasad, the CEO of RDY, received his degree in chemical engineering from Alagappa College of Technology. He co-founded Benzex Labs, which was acquired by RDY. He has also served as CEO and managing director of Cheminor Drugs. Saumen Chakborty is the CFO of RDY and has been with company since 2001.

Ownership

% of Shares Held by All Insider Owners:	0.01%
% of Shares Held by Institutional & Mutual Fund Owners:	22.56%

Source: FactSet

Top 5 Shareholders

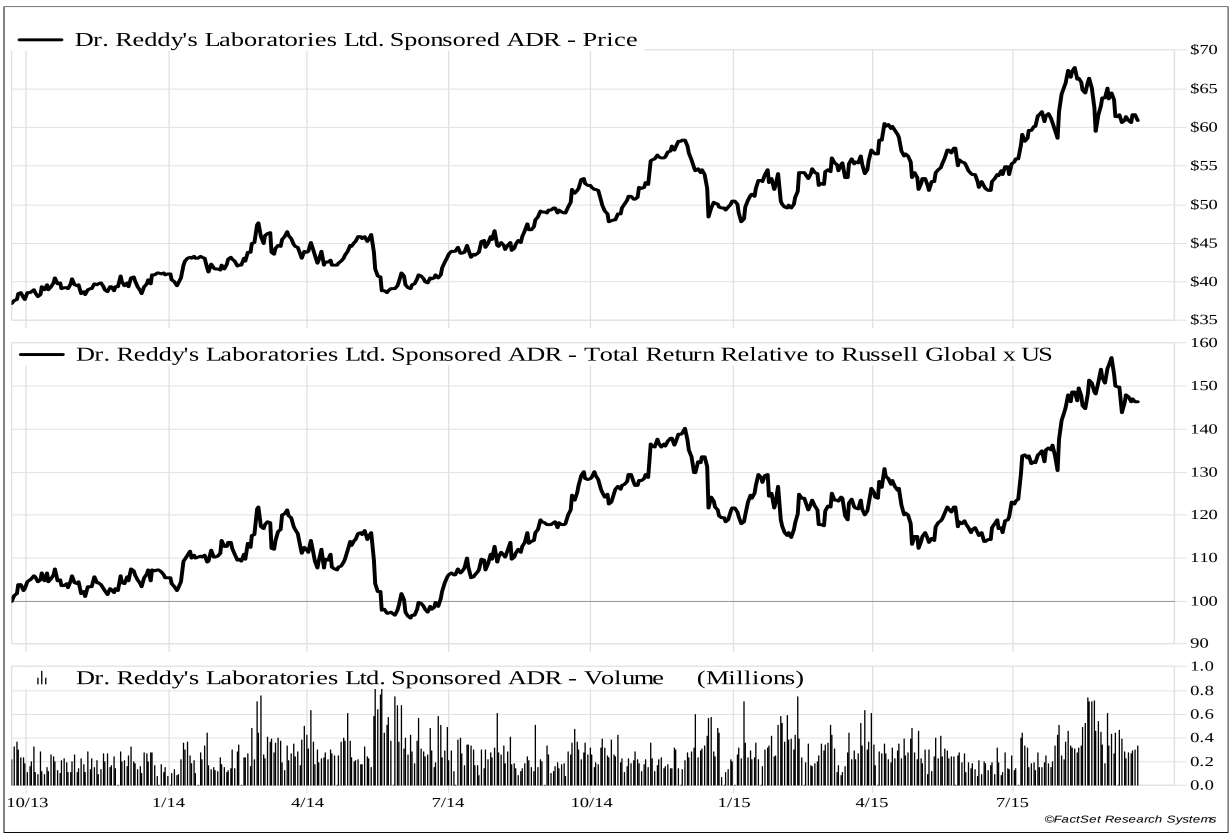
Holder	Shares	% Out
Fisher Asset Management LLC	5,198,254 ▼	3.05
Colonial First State Asset Management (Australia) Ltd.	2,422,581 ▼	1.42
AQR Capital Management LLC	2,009,028 ▲	1.18
First State Investment Management (UK) Ltd.	1,860,752 ▼	1.09
The Vanguard Group, Inc.	1,407,390 ▲	0.83

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA	D/E	EV/Sales
Dr. Reddy's	RDY	10,380	2,424	556	0.75	4.31
Sun Pharma Inds	542715-IN	33,119	4,463	1,295	0.85	6.76
Teva Pharma	TEVA-IL	61,824	20,275	5,989	0.99	3.72
Cadila	532321-IN	5,979	1,390	264	1.18	4.18
Cipla	500087-IN	7,984	1,791	289	0.61	4.42
Peer Averages		27,226	6980	1959	.91	4.77

Source: FactSet



Evercore Partners Inc. Class A (EVR)

September 25, 2015

Ryan Johnston | Financial Services

Evercore Partners (NYSE: EVR) operates as an independent investment bank and has two distinct business segments: investment banking (89% of sales) and asset management (11%). EVR's investment banking segment has two business lines: first, Advisory Services, in which the company provides advice to clients on mergers, acquisitions, divestitures, and restructurings; and second, Capital Markets Group, which focuses on debt and equity underwriting. Since inception, Evercore has had $1.5 trillion in announced transactions. The company's asset management arm focuses on institutional clients, high net worth individuals, specialized investment management, and private equity fund management. EVR currently has more than $6 billion in assets under management, and $14 billion in assets under advisement. The company has approximately 1,300 employees, of which 79 are senior managing directors. Evercore was founded in 1995 by Roger Altman and is headquartered in New York, New York; with 25 offices spread across the United States, Mexico, Brazil, Europe, Hong Kong, and Canada.

Price ($) (9/21/15):	52.95	Beta:	1.11	FY: Dec	2014A	2015E	2016E	2017E
Price Target ($):	65.41	WACC:	8.1%	Revenue (Mil)	931.40	1,012.18	1,137.92	1,248.13
52Wk H-L ($):	44.67-59.40	M-Term Rev. Gr Rate Est:	7.2%	% Growth	19.50%	8.67%	12.42%	9.69%
Market Cap (Mil):	2,169	M-Term EPS Gr Rate Est:	8.8%	Gross Margin	20%	19%	18%	18%
Float (mil):	34,328	EBITDA Margin:	22.3%	Pretax Margin	18.91%	17.53%	18.10%	18.19%
Short Interest (%):	6.2	ROA:	6.6%	EPS (Cal)	$1.60	$1.92	$2.26	$2.50
Avg. Daily Vol (000):	386	ROE:	16.5%	P/E (Cal)	33.1	29.1	25.7	24.0
Dividend ($):	1.09	Dividend Coverage Ratio	6.6x	BVPS	$15.21	$15.63	$15.76	$16.23
Yield (%):	2.1	LT Debt/Total Equity	23.2%	P/B	3.4	3.6	3.7	3.7

Recommendation

Evercore is considered a best-in-breed company due to its relatively small size, but superior capabilities and talent. While the company is not considered a "bulge-bracket" firm, as of August 2015 EVR was ranked 11th in the world with 38 deals and $118.4 million in transaction value year-to-date. Evercore's brand recognition leads them to be actively sought after as a lead underwriter and advisor, most notably as an underwriter for Alibaba, the largest IPO to date. Since entering the business in 2010, Evercore's Equity Capital Markets group has raised over $122 billion for clients in 173 offerings. Overall, EVR's investment banking segment has posted an impressive 5-year sales CAGR of 22%. With this increase, Evercore has doubled their market share from 2.5% in 2010 to over 5% as of 2Q 2015. Responsible spending is also a focal point for management. EVR has decreased their compensation expense by 3% YoY to 59%, which is approaching management's goal of 55%. While the ratio is expected to marginally increase over short-term because of a great recruiting year, it will begin to pare back in the mid-term. As a result of EVR's brand name, gaining of top talent, acquisition of International Strategy and Investment (ISI), a stable U.S. economy, and a favorable valuation it is recommended that EVR be added to the AIM Equity Fund with a price target of $65.41, representing a potential upside of 23.5%. The firm also pays a dividend, yielding 2.1%.

Investment Thesis

- **Strong Acquisition of Talent.** In a typical year, Evercore aims to add approximately 4 to 7 new senior managing directors (SMDs) to grow their investment banking segment. This year has proven to be an extraordinary year to capture new talent for the firm. EVR has disclosed the addition of 12 new SMDs to their debt, healthcare, chemical, technology and energy advisory units. The newest members come from a wide-range of bulge-bracket firms like Goldman Sachs, UBS, Credit Suisse, and Citi. The typical SMD contributes approximately $12 million to revenues, which will have a 62-cent per share positive impact on the share price. Over the past five years, the average SMD's contribution to revenue has grown by a CAGR of nearly11%.

- **Acquisition of ISI.** In October of 2014, with the completed acquisition of International Strategy and Investment (ISI), Evercore was able to expand and strengthen its independent equity research and agency trading capabilities. This combination created the second largest independent equity research, sales and agency trading platform in the U.S. After full integration, EVR will be serving more than 1,750 institutional investors globally, covering 620 companies across 12 industries and approximately 60% of the combined market cap of the S&P 500. The synergies created by Evercore purchasing ISI will significantly broaden the company's ability to capitalize on equity underwriting opportunities and continue ISI's 15-year revenue CAGR of 12.5%.
- **Stable US Economy.** While global markets are underperforming, the U.S. economy is on a firm foundation. Evercore currently derives 66% of its revenues from the United States, and has rather limited exposure in Europe (25%). Excluding the rough start to 2015 due to bad weather that suppressed spending and growth, the United States economy has been growing at a 3.7% annualized rate as of the second quarter 2015. Pair that with a seven-year low unemployment rate of 5.1%, and an increase in consumer spending by 2.1% indicates the U.S. economy is in solid shape. These factors equate to a healthy economy that encourages deal flow, which EVR can capitalize on.

Valuation

Utilizing a Dividend Discount Model (DDM), and a blended historical and peer price-to-book (P/B) average yielded an intrinsic value of $65.41. For the DDM, a cost of equity of 8.30% and a terminal growth rate of 3% yielded a value of $61.83. A sensitivity analysis of the cost of equity and terminal growth rate produced a range of $57.32 – 67.28. When switching methods to a current and historic blend of the company's five peers, a P/B multiple of 4.54x was achieved leading to a valuation of $68.98. Weighing the DDM 50% and P/B multiple 50%, a price target of $65.41 was established representing a 23.5% upside. Evercore also paid a $1.09 annual dividend in 2014, yielding 2.1%.

Risks

- **Cyclicality of Industry.** From an industry perspective, investment banks are at the will of the economy. During the financial crash of 2008, investment banks saw a decrease in revenues by an average of 30%. At the same time, global and U.S. M&A activity decreased by approximately 42%. EVR observed a similar decline in revenue by approximately 31%. While the company is relatively protected from the world economy, if there was a major turndown in the U.S. economy EVR's revenues would be negatively impacted due to the decrease in demand for advisory services similar to what transpired during 2008.
- **Retention of Key Personnel.** At the cornerstone of Evercore's business are its employees. Senior Managing Directors are seen as trusted advisors that take their book of clients to whatever company they work for. Clients of EVR's investment management segment are similar as well, where if a key portfolio manager leaves a strategy, the client may take their business elsewhere due to lack of confidence. Overall, this demonstrates the necessity to retain top talent to keep existing clients.

Management

Roger Altman is Founder and Executive Chairman at Evercore Partners Inc. He received his Bachelors of Administration from Georgetown University and Masters from University of Chicago. Mr. Altman started his career at Lehman Brothers where he served as a Managing Director and eventually as Co-Head of Investment Banking. From 1987 to 1992 he was Vice Chairman of The Blackstone Group, where he led the firm's merger advisory business. Before starting Evercore, Mr. Altman served at the U.S. Treasury Department between 1993 and 1994. He is on the Board of Directors at the New York Presbyterian Hospital, American Museum of Natural History, and Conservation International Foundation.

Peer Analysis

Name	Ticker	Market Cap (mil)	P/B	ROE	Dividend Yield
Evercore Partners	EVR	2,161	3.9	13%	2.1%
Golman Sachs	GS	80,709	1.1	10%	1.4%
Credit Suisse Group	CSGN	44,061	1.0	9%	2.7%
Lazard Ltd	LAZ	6,327	7.6	106%	2.9%
Moelis & Co.	MC	1,488	10.4	28%	4.4%
Houlihan Lokey, Inc.	HLI	1,465	2.5	10%	-
Greenhill & Co., Inc.	GHL	932	3.2	19%	5.7%
Peer Averages		19,592	4.2	28%	3.2%

Source: FactSet

Ownership

% of Shares Held by All Insiders:	5.4%	▲
% of Shares Held by Institutional & Mutual Fund Owners:	95.9%	▲

Source: FactSet

Top 5 Shareholders

Holder		% Out
BlackRock Fund Advisors	▲	8.7%
Standard Life Investments	▼	8.6%
The Vanguard Group	▲	6.5%
Wellington Management	▲	2.7%
Ceredex Value Advisors	▼	2.6%

Source: FactSet