Applied Investment Management (AIM) Program

AIM Class of 2013 Equity Fund Reports
Fall 2012

Date: Friday, September 28, 2012   Time: 1:00 p.m. – 2:30 p.m.
Road Show Location: 1492 Capital Management

The students below will also present to their class from 11 am to noon which will be broadcasted live. Follow this link to join

Student Presenter	Company Name	Ticker	Price	Page No.
Elizabeth Buckton	Novavax, Inc.	NVAX	$2.00	2
Brent Adams	CoreSite	COR	$26.18	5
Brandon Byrne	Luxottica Group	LUX	$36.31	8
Heinz Schelhammer	Gulf Island Fabrication	GIFI	$28.92	11

Thank you for taking the time today and participating in the AIM 'road show' at 1492 Capital Management. 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 1492 Capital Management.

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Novavax, Inc. (NVAX)
September 28, 2012

Elizabeth Buckton Healthcare

Novavax, Inc. is a clinical-stage biopharmaceutical company that focuses on developing recombinant vaccines for infectious diseases using its virus-like particles (VLP) and recombinant nanoparticle vaccine technologies. Currently, NVAX is developing vaccine product candidates to protect against various circulating strains of pandemic influenza, including H1N1 and H5N1 influenza, as well as seasonal flu and respiratory syncytial virus (RSV). In the international space, the company has a joint venture with Cadila Pharmaceuticals Ltd. and a licensing agreement with LG Life Sciences to develop pandemic and seasonal influenza vaccine candidates for India, South Korea and other Asian countries. Headquartered in Rockville, Maryland, NVAX has 112 employees and was founded in 1987.

Price ($) (9/21/12)	2.00	Beta:	1.81
Price Taget ($):	3.57	WACC	17.5%
52WK Range ($):	1.12-2.25	M-Term Rev. Gr Rate Est:	40%
Market Cap:	262M	M-Term EPS Gr Rate Est:	14.3%
Float	119.3M	Debt/Equity	0.2%
Short Interest (%):	9.8%	ROA:	-27.4%
Avg. Daily Vol:	1,040 K	ROE:	-34.3%
Dividend ($):	N/A		
Yield (%):	N/A		

FY: December	2011A	2012E	2013E
Revenue (Mil)	15	29	41
% Growth	4221%	100%	38%
Gross Margin	52.3%	46%	47%
Operating Margin	-146.4%	-78.2%	-53%
EPS (Cal)	-$0.14A	-$0.16E	-$0.15E
FCF/Share	$0.18	$0.05	$0.05
P/S (Cal)	17.84	8.92	6.46
EV/Sales	16.06	8.60	6.94

Recommendation

NVAX's top-line data for their influenza and RSV vaccines have resulted in favorable contracts and partnerships, which will support them through the remainder of the development and distribution phases. The U.S. Department of Health and Human Services' Biomedical Advanced Research and Development Authority (BARDA) contract, as well as the partnership from an international nonprofit health organization (PATH), has allowed NVAX to increase its value within the clinical vaccine space. These partnerships and associated monetary aid are invaluable to the company in order to prevent stock dilution. The partnerships are also important to cover NVAX's fixed costs, which is their largest burden since variable costs for vaccine manufacture are only estimated at 15% of revenue. Their unique insect cell production technologies provide an opportunity to produce vaccines at a speed and cost scale that is not possible with conventional production processes. Proof of this efficiency can be seen in 2009, when NVAX demonstrated the ability to produce an H1N1 vaccine in just 11 weeks, while companies like GlaxoSmithKline took 6 months to make the same vaccine. Of course, the key to their commercial success will be their ability to build low cost manufacturing plants which will allow for global expansion, especially into countries that are likely to experience high mortality and morbidity rates associated with a pandemic. As continued favorable news is received regarding their influenza vaccines and RSV vaccines, the firm's revenue will grow at an impressive 40% CAGR. It is therefore recommended that Novavax, Inc. be added to the AIM Equity portfolio with a price target of $3.57, representing a 78% upside.

Investment Thesis

Efficient VLP Technology. Unlike the traditional egg-based vaccine process that most pharmaceutical companies employ, NVAX's insect cell technology is advantageous for various reasons. It enables rapid expansion of capacity allowing for faster availability of product for new virus strains, suspension of cell culture for easy scale-up, and a low risk of microbial product contamination. The virus-like particles that are used to deliver antigens in NVAX vaccines may increase immune response, further enhancing their product differentiation. Because of NVAX's efficiencies, in March 2011, the company was awarded a $180MM contract from BARDA for the advanced clinical and manufacturing development of recombinant vaccines.

Creation of RSV Vaccine. Respiratory syncytial virus is a common virus that leads to mild, cold-like symptoms in adults and older healthy children; however, RSV can be serious and often deadly for infants - and especially to those in certain high-risk groups like the elderly. Domestically, RSV in children leads to 75-125K hospitalizations annually with an average cost per hospitalization of $9,000. In high-risk adults, RSV causes 14K deaths and 175K hospitalizations annually with an average hospital bill in excess of $11,000 per episode. Currently, there are no vaccines for RSV and NVAX is spearheading the creation of an RSV vaccine, which targets a $1B market opportunity. Phase II for this vaccine will begin in 4Q2012 and will be funded with the help of PATH's $2M contribution.

Influenza Vaccines in Clinical Trial Stage. The influenza vaccines are the furthest along, entering into Phase II trials due at the end of 3Q2012. Domestically this is a $3B market with the CDC encouraging 100% vaccination rate of the population every year. NVAX is focusing its efforts on the unmet medical needs within the influenza vaccine space, including improved vaccines for children as well as the elderly.

Valuation

Using a 5-year DCF with a computed WACC 17.5% and a LT growth rate of 2.5%, an intrinsic value of $3.20 was derived. The DCF model grew revenues in the near term at an average rate of 40%. In addition, a 17.8x P/S multiple and a 16x EV/Sales multiple were applied to the 2012 revenue/share forecast of $29M, which yielded an intrinsic value of $3.92 and $3.53, respectively. Weighting the DCF 30%, P/S 35% and EV/Sales 35%, a $3.57 price target was established, representing a 78% upside. The firm does not pay a dividend.

Risk Factors

Uncertainty with Future Gains. Since their inception, NVAX's expenses have exceeded their revenues. NVAX is entering into a period of increased production and expenses will continue to increase, as a result of higher research and development efforts to support vaccine development. Because they have no products on the market, it cannot be predicted when, if ever, NVAX will be able to achieve profitability.

Uncertainty with FDA Approval. There is no guarantee the FDA will view the development of NVAX seasonal influenza vaccine as meeting an unmet medical need. If this occurs, it is likely that NVAX will need to conduct larger and more expensive efficacy clinical trials and that licensure of the seasonal vaccine will be materially delayed for a year or more, assuming such licensure occurs at all.

Unfavorable Economic Conditions. Traditionally, biopharmaceutical companies fund their expenditures through raising capital in the equity markets. Uncertainties in these markets have severely restricted raising new capital. Since NVAX is in early development with their products, they require significant capital. If economic conditions become worse, NVAX's access to the capital markets could be adversely affected.

Management

Since the BARDA award, Novavax restructured its clinical and commercial management team in order to prepare for continuing progress in the clinical development of its vaccine candidates and for their eventual regulatory approval. In April 2011, Novavax named Stanley (Stan) Erck as its new President and CEO. Mr. Erck was Director of the company since 2009 and Executive Chairman of the Board since February 2010. In January 2011, Dr. Greg Glenn joined Novavax as Senior VP and Chief Medical Officer.

Ownership

% of Shares Held by All Insider and 5% Owners:	33.12%
% of Shares Held by Institutional & Mutual Fund Owners:	79.71%

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
Fidelity Management & Research	16,715,426	12.50%
RA Capital Management LLC	13,200,000	9.87%
Cadila Pharmaceutical LTD	12,500,000	9.35%
Vanguard Group Inc.	5,696,223	2.64%
Blackrock Fund Advisors	3,526,841	2.46%

Source: Bloomberg

CoreSite Realty Corporation (COR)
September 28, 2012

Brent Adams Financials

Coresite Realty (COR) is a national provider of data center products and interconnection services. More than 700 customers including communications providers, cloud and content companies, financial firms, media and entertainment, healthcare, and government agencies use Coresite's services. Coresite data centers are business catalysts, featuring the Any2 Internet exchange and network ecosystems, which include access to 200+ carriers and service providers and a growing mesh of more than 15,000 interconnections. Coresite's data centers include ample and redundant power and advanced cooling and security systems. The company features a diverse colocation offering from individual cabinets to custom cages and private suites, with 12 data center locations in seven major U.S. markets. Coresite was founded in 2001 and is headquartered in Denver, Colorado.

Financial Services/REIT							
Price ($): (9/21/12)	26.18	Beta:	0.74	FY: Dec	2011A	2012E	2013E
Price Target ($):	31.28	WACC (%):	7.4	Revenue (mil):	172.85	209.629	234.007
52WK H-L ($):	27.78-13.00	Mid-Term Rev. Gr. Rate Est. (%):	12.6	% Growth:	133.86%	21.28%	11.63%
Market Cap (mil):	545.46	Mid-Term EPS Gr. Rate Est. (%):	50.73	Profit Margin (%):	-6.24%	2.78%	4.50%
Float (mil):	20.69	Debt/Equity (%):	24.01	Operating Margin (%):	-4.10%	5.61%	7.35%
Short Interest (%):	5.4	ROA (%):	0.21	EPS (Cal):	-0.24	0.24	0.47
Avg. Daily Vol. (000s):	163.02	ROE (%):	0.76	P/FFO (Cal):	14.37	18.44	18.72
Dividend ($):	0.72	FFO/Total Debt	46.69	P/E (Cal):	N/A	109.08	55.70
Yield (%):	2.74			EV/EBITDA (Cal):	12.99	9.89	9.11
				FFO/Share ($):	1.24	1.74	1.86

Recommendation

Demand for data storage is soaring thanks to cloud computing, video streaming, social networking, hospitals' need to digitize health records and new regulations that require financial firms to store vast amounts of information. As a result, demand for data center space and services will increase 14% this year and 16% next year, while supply is expected to only increase by 6% and 7%, respectively. This favorable demand dynamic in conjunction with limited supply will create an environment for favorable rent increases across the industry driving higher profitability. Because Coresite's data centers are located in attractive locations, it will be in prime position to take advantage of rental rate increases. As a result of these reasons and a favorable valuation, it is recommended that COR be added to the AIM Equity Fund with a target price of $31, which offers a potential price appreciation of 18%. In addition to the share price upside, COR also pays a yearly dividend of $0.72, a yield of 2.74%.

Investment Thesis

- **Cloud Computing.** Worldwide IT spending on cloud computing has increased more than 25% in the past 4 years and spending on data center expansion is expected to remain strong through 2015 as more data management migrates to cloud networks. Cisco projects that by 2015, 57% of all work will be processed in the cloud compared to 21% in 2010. Since data centers are a critical element of cloud networks, this should fuel continued demand for Coresite's products and services. Growth will also be fueled by a government mandate requiring federal agencies to adopt a "cloud-first" policy.
- **Increased Web Traffic.** Cisco estimates that global IP traffic will grow at a 29% compound annual rate in 2011-2016, led by 78% growth in mobile IP traffic. This rapid growth in data is creating a lucrative opportunity for vendors to provide their carrier and enterprise customers with new high-capacity, next-generation switches, routers, ADCs and access devices. Growth in data use is driving demand for high capacity data networking equipment capable of scaling up in-line with traffic growth. To put this in perspective, consumer IP traffic, which makes up 84% of

global IP traffic, is expected to produce a 30% CAGR during the 2011-2016 period, led by Internet video (34% CAGR) and web, email and data (36%) CAGR.

- **Competitive Advantages.** Coresite differs from its publicly traded peers in that its business model focuses on high barriers to entry and network-dense assets, allowing the company to market its services to a larger swath of tenants. This diversity broadens Coresite's tenant portfolio, keeping it from relying too heavily on specific clients for income. Coresite's network-centric data center solutions also allow it to provide network-and-vendor diversity in key U.S. markets where limited alternatives currently exist. Additionally, its properties provide a built-in platform for substantial growth, enabling the company to nearly double the size of operating data center square footage in currently owned buildings.

Valuation

To find the intrinsic value of COR, a five-year Dividend Discount Model was constructed. A blended growth rate of 16.79% was applied to account for historical growth, fundamental calculations and analysts' predictions. The sensitivity analysis accounted for variations in the current earnings growth rate. A conservative cost of equity of 11.1% was used and yielded an intrinsic value of $32.86. A P/FFO multiples approach was also used taking COR's historical average of 15.72x and a peer average of 18.42x. Applying the calculated P/FFO multiple of 17.07x to a projected 2012 FFO per share of 1.74, yielded an intrinsic value of $29.70. Weighting the DDM and P/FFO valuations evenly, a price target of $31 was derived. The firm also pays a yearly dividend of $0.72, yielding 2.74%.

Risks

- **Web Giants Are Increasingly Building Their Own Data Centers.** Google, Amazon and other customers are increasingly designing their own networking equipment that are manufactured by original design manufacturers in Asia. This may reduce their spending and reliance on Coresite's products. If in-sourcing occurs among its key customers, high-margin integration services revenue decline could follow suit.
- **Government Budget Issues Weigh on IT Spending.** U.S. government spending on IT declined 9% in 2011 and is expected to rise just 1% this year and 0.1% in 2013. Government IT spending peaked at $80.5B in 2010 and this recent weakness has hurt systems vendors. If spending growth government continues to be sluggish, it will be difficult for vendors to revive strong revenue growth.

Management

Mr. Thomas M. Ray has served as the President and CEO of Coresite Realty Corporation since its Initial Public Offering in September 2010. Prior to the IPO, Mr. Ray served as a Managing Director of The Carlyle Group LP, in the Real Estate Division leading all activity in the data center sector. He brings over 20 years of experience making and managing investments and businesses throughout the U.S., Europe and Asia. Jarrett Appleby is Coresite's Chief Operating Officer. Mr. Appleby has over 25 years of telecommunications industry experience and is responsible for Coresite's "go-to-market" activities including sales, marketing, operations, engineering and facilities.

Ownership

% of Shares Held by All Insider and 5% Owners:	31.34%
% of Shares Held by Institutional & Mutual Fund Owners:	>90%

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
Wellington Management	2,660,263	12.59
Vanguard Group Inc.	2,385,438	11.29
Goldman Sachs Group Inc.	1,291,879	6.12
Fidelity Management	970,855	4.60
Hartford Investment Management	876,698	4.15

Source: Bloomberg

Luxottica Group (LUX)
September 28, 2012

Brandon Byrne — International Consumer Goods

Luxottica Group (NYSE: LUX) is the leader in premium fashion, luxury, and sports eyewear, with optical and sun retail stores spanning 130 countries (58% of sales US and Canada, 20% Europe, 13% Asia and Pacific, and 9% ROW). The company operates in two segments, Manufacturing and Wholesale Distribution (39% of sales), and Retail Distribution (61% of sales). The Manufacturing and Wholesale Distribution segment engages in the design, manufacture, wholesale distribution, and marketing of house brand and designer lines of prescription frames and sunglasses. This segment offers its products under 12 house brands, such as Ray-Ban and Oakley; and over 20 licensed brands including Burberry, Chanel, Coach, Versace, and Armani (as of 2013). This segment serves retailers of mid- to premium-priced eyewear, including independent opticians, optical retail chains, specialty sun retailers, department stores, and duty-free shops, as well as independent optometrists and ophthalmologists. The Retail Distribution segment operates optical retail stores under the brand names of LensCrafters, Pearle Vision, OPSM, Budget Eyewear, and GMO; and sunglass and luxury retail stores under the brand names of Sunglass Hut and Oakley O' Stores and Vaults. The company was founded in 1961 and is headquartered in Milan, Italy. As of January 31, 2012, Luxottica Group S.p.A. operates as a subsidiary of Delfin S.à.r.l.

Price ($) 9/28/2012:	$ 36.31	Beta	1.06	FY: September	2011A	2012E	2013E
Price Target ($):	$ 48.64	WACC:	7.90%	Revenue ($mil)	$ 8,662.24	$ 9,746.99	$ 10,834.72
52WK H-L ($):	$37.73 - $23.99	Debt/Equity:	81.01	% Growth	12.64%	13.00%	13.00%
Market Cap (mil):	$ 17,079.2	Quick Ratio	0.94	Gross Margin (%):	65.16%	66.07%	67.34%
Float (mil):	122.47	2011 ROE:	13.17%	Operating Margin (%):	12.97%	16.29%	16.71%
Short Interest (%):	1.38%	2011 ROA:	5.53%	EPS (Cal)	1.36	1.89	2.1
Avg. Vol (3 month):	68,872	2011 ROIC:	7.58%	FCF/Share (Cal)	1.79	2.92	2.55
Yield (%):	1.69%	3 Year Avg. Sales Growth	10.48%	FCF/Sales (Cal %)	9.52%	14.42%	11.07%
Interest Coverage Ratio:	9.24	Inventory Turnover	3.55	P/E (Cal)	22.14	25.73	23.38
Cash Return (TTM)	6.04%	EV/EBITDA	12.02	P/S (Cal)	1.61	2.4	2.18

Recommendation

Capturing 61% of the optical goods store industry and a near 40% of the optical goods wholesale industry, Luxottica operates on a scale that competitors cannot match. LUX success is mainly due to its vertical integration business model consisting of 50 years of manufacturing experience, strong in-house design and product development, a well balanced brand portfolio, an extensive list of owned trade names, patents, and technological processes, an in-house lens finishing capacity, a wholesale distribution network of 18 strategically placed centers worldwide, and approximately 7,100 retail locations across five continents. LUX has seen extraordinary growth over the past decade (63% increase in net income since 2002) through a series of strategic acquisitions and 2011 was no exception: the entry into the sun retail business in Mexico with the acquisition of two optical retail chain; acquisition of Multiopticas International (GMO) with stores across Chile, Peru, Ecuador, and Columbia; and the acquisition of Grupo Tecnol, a leading Brazilian eyewear player. These acquisitions have positioned LUX to tap into a 2 billion potential new customer base. In 2011, LUX generated $8.66 billion in total revenue (a 7.3% increase from 2010 and the highest sales record in company history) and $629.85 million in net income (a 12.5% increase from 2010). Even in the challenging macroeconomic environment, the first half of 2012 was extremely strong with net sales growing 15.1% compared to the same period in 2011 and 2Q net income growing 21% compared to 2Q2011. LUX has seen 24 consecutive months of robust organic growth worldwide. With sustained sales growth as the industry continues along the consolidation phase, LUX is currently undervalued and I recommend that Luxottica be added to the AIM International Equity Fund with a price target of $48.64, providing an upside of 25%.

Investment Thesis

- **Single National Brand and Increased Operational Efficiency.** In January 2012, Luxottica began the reorganization of its retail business in Australia. As a result, LUX will close 65 of its Budget Eyewear stores and convert the remaining into its market leading OPSM brand. The strategic repositioning to a single national brand has already proven to be a success with 2Q profitability up 2.1% from the previous year. OPSM Australia maintained its growth pace with an increase of 8.3% comparable store sales. LUX is investing $40 million into OPSM store upgrades, technology, and marketing and plans on opening 40 new OPSM stores by 2013. Retails operating margins are expected to grow 2%-3% by 2013, with an expected payback period of 16 months.
- **Superior Turn Automatic Replenishment System (STARS).** Luxottica's next step in vertical integration is STARS which offers 3rd party customers enhanced service with product selection, production, assortment planning, and automatic inventory replenishment. This free service provides 3rd party stores with higher level of service, exploiting the knowledge of local markets and brands to ensure high turnover and optimal inventory strategies. In 2002, there were only 4 stores using this service but by 2011 the number reached 1875 stores. This number is expected to triple by 2014. 2011 lead time decreased by 6 days and is planned to be reduced by 10 more days by 2014. LUX is on target for 20% reduction in inventory days by 2013.
- **Increased Penetration into Emerging Markets.** More than 1000 stores, 4 manufacturing plants, and 20 wholesale subsidiaries will be targeting 2 billion new customers in emerging markets. In Asia, LUX is opening 50 new LensCrafters stores in 4 new cities with 550 Asian friendly styles. Successful entry into Chile, Peru, Ecuador, Columbia, Mexico, and Brazil with acquisition of Multiopticas International (470 eyewear stores), Grupo Tecnol (vertically integrated with 90 optical retail stores, house and licensed brands, and a production plant), and two Mexican optical chains totaling 70 stores. There are potential synergies between Brazilian Multiopticas and the Mexican acquisitions. The 1st half of 2012 recorded an increase in sales in emerging markets of 35% and is expected to continue as operations are fully integrated.

Valuation

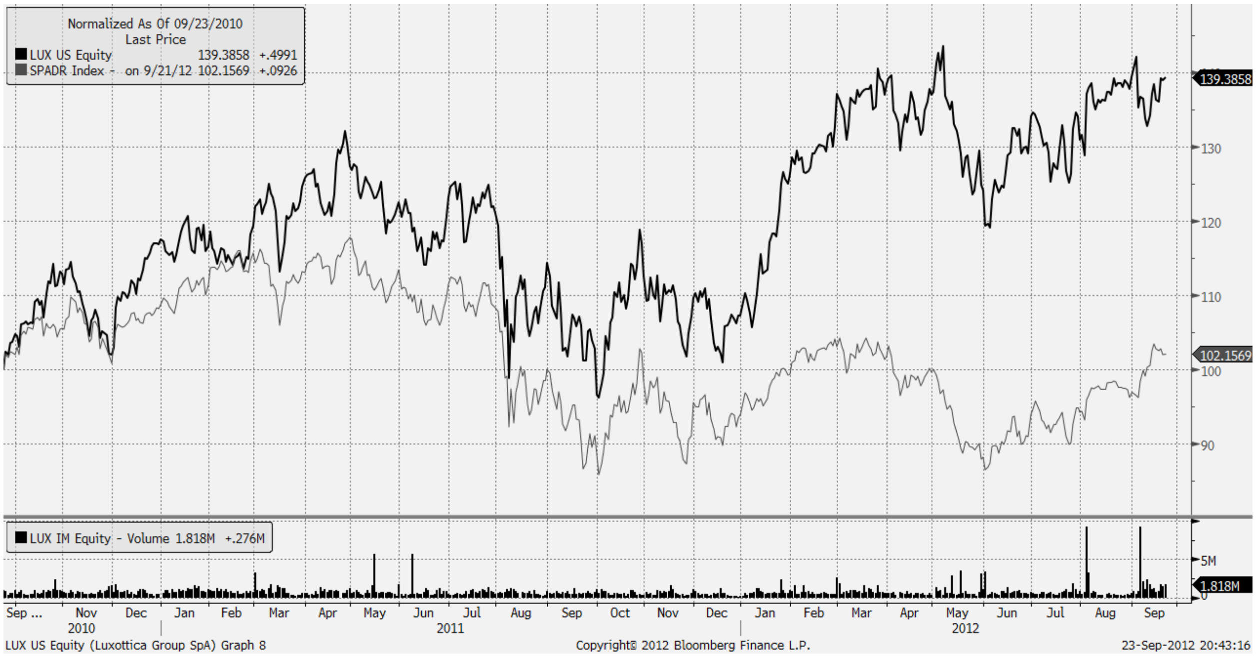
A seven year DCF was conducted using a terminal growth rate of 3% and a WACC of 7.9% which resulted in an intrinsic value of $52.13. Sensitivity analysis on both the terminal growth rate and WACC provided for a range between $46.36 and $57.31. Additionally, using an industry average P/E multiple of 24x and a 2012 expected EPS of $1.89, a value of $45.36 was obtained. By weighing the DCF model and the P/E multiple equally, a price target of $48.64 was established and represents a 25% upside from the current market price. LUX paid an annual dividend of $0.49 (1.40% yield).

Risks

- **Currency Fluctuations.** If the Euro or Chinese Yuan (manufacturing costs) strengths relative to certain other currencies or if the U.S or Australian dollar (revenues) weakens relative to the Euro, the LUX profitability could suffer.
- **Availability of Vision Correction Alternatives.** The increased demand of vision correction alternatives such as contact lenses and refractive optical surgery would result in a decreased demand for LUX prescription eyewear products, which represents about 50% of total LUX sales.

Management

Leonardo Del Vecchio is the founder of Luxottica Group and has been Chairman of the Board since it was formed in 1961. Andrea Guerra was appointed a Director and Chief Executive Officer of Luxottica Group S.p.A. on July 27, 2004. He received a degree in Business Administration from the "La Sapienza" University of Rome in 1989. Prior to joining the Company, Mr. Guerra was with Merloni Elettrodomestici since 1994, where, from 2000, he was its Chief Executive Officer.



Ownership	
% of Shares Held by All Insider and 5% of Owners	67.27%
% of Shares Held by Institutional & Mutual Fund Owners	2.07%
	Source: Bloomberg

Top 5 Shareholders		
Holder	Shares	% Out
Delfin Sarl	312,726,567	66.49
Armani Giorgio	13,514,000	2.87
Marathon Asset Management	4,118,164	0.88
Francavilla Luigi	3,625,000	0.77
Scout Investment Advisors	2,489,782	0.53
		Source: Bloomberg

Gulf Island Fabrication, Inc. (GIFI)
September 28, 2012

Heinz Schelhammer — Domestic Energy

Gulf Island Fabrication, Inc. (NASDAQ: GIFI) is a fabricator of offshore drilling and production platforms, hull and/or deck sections of floating production platforms and other specialized structures used in the development and production of offshore oil and gas reserves. The company operates through six subsidiaries located in Louisiana and Texas. Outside of the oil industry projects, the company also receives job awards in the marine and municipal sectors to maintain a steady flow of work in times of volatile oil contracts. Some of GIFI's customers in past years have included Chevron, Eni, ATP Oil & Gas, Williams Partners, and the Iraqi Navy. Gulf Island Fabrication is based in Houma, Louisiana with approximately 2,400 employees and 350 contract employees and was incorporated in 1985.

Price ($): (9/21/12)	$ 28.92	Beta:	0.96	FY:	2011 A	2012 E	2013 E
Price Target ($):	$ 37.20	WACC:	9.89%	Revenue ($mil)	$ 307,832	$ 530,000	$ 609,500
52 WK H-L ($):	36 - 19	M-Term Rev Gr. Rate Est:	15%	% Growth	23.98%	72.17%	15.00%
Market Cap (mil):	$ 416.7	M-Term EPS Gr. Rate Est	15%	Gross Margin	1.47%	10.50%	12.50%
Float (mil):	12.3	Debt/Equity:	0.00%	Operating Margin	-1.19%	7.85%	9.85%
Short Interest (%):	3.31%	ROA:	6.71%	EPS (Cal)	$ (0.13)	$ 1.91	$ 2.75
Avg. Daily Vol. (3 mo):	49,247	ROE:	8.70%	FCF/Share	$ (2.06)	$ 0.69	$ 2.35
Dividend ($):	$ 0.40	ROE (2013E):	10.97%	P/E (Cal)	-222.46	15.16	10.51
Yield (%):	1.40%			EV/EBITDA	24.46	6.57	5.01

Recommendation

The demand for oil, essential to many forms of transportation and energy production, will continue to be strong in the future. A source of increased demand will be from the growth of the world's middle-class population, which is expected to grow from 1.8B presently to 5B people by 2030, according to the Brookings Institute. GIFI operates in an industry essential for E&P companies to be able to explore for hydro-carbons inside deep-water reserves. The company produces platforms that allow others to drill offshore in waters that can reach 5,000-plus feet deep, including a current Gulf of Mexico project headed for waters 5,200 feet deep. Lately, E&P companies have shown an increasing focus on the Gulf of Mexico for continued future exploration and production activities. BP recently announced that it plans to spend $4 billion per year over the next decade and plans to add two more deep-water rigs this year in the area. Chevron, who has been a customer of GIFI, also considers the Gulf as a key area for future expansion. In a NOIA report, cap ex for the oil and gas industries in the Gulf region are expected to grow from about $6.5B in 2010 to $15.7B by 2013, which should translate to more bids for GIFI, as they are one of the three main players in the region. It is recommended that GIFI be added to the AIM Equity fund at a target price of $37.20 and upside of 29%.

Investment Thesis

- **Moratorium Lifted.** After the BP Deep Horizon oil spill in 2010, the U.S. government enacted a deep-water drilling moratorium in the Gulf of Mexico that lasted until October 2010, with no permits awarded until February 2011. This period without any new exploration in what has been considered the most developed offshore oil and gas region in the world, put a damper on the region's activities. Through August 2012, 105 permits have been issued, which is on pace for more than 150 total permits for the year; levels similar to the 2006-09 period.
- **High Oil Prices.** With oil prices staying in a range of $90 to $110 a barrel this year (current price of $92) for WTI, oil and gas E&Ps will continue to pursue and fund new drilling sites. This increase in activity should translate into an increase in demand for GIFI's products, including offshore platforms and structures.

- **Expanding Margins.** While GIFI has seen its gross and operating margins taper off in the past few years due to lowering revenue figures, hurt by the slowdown in exploration caused by the financial crisis and the Gulf moratorium, they should be able to return these figures to historical levels last seen in 2009. After producing gross and operating margins of 1.47% and -1.19%, respectively, their gross margins should be able to return in excess of 12.50% and their operating margins to return 9.50% as soon as next year.

Valuation

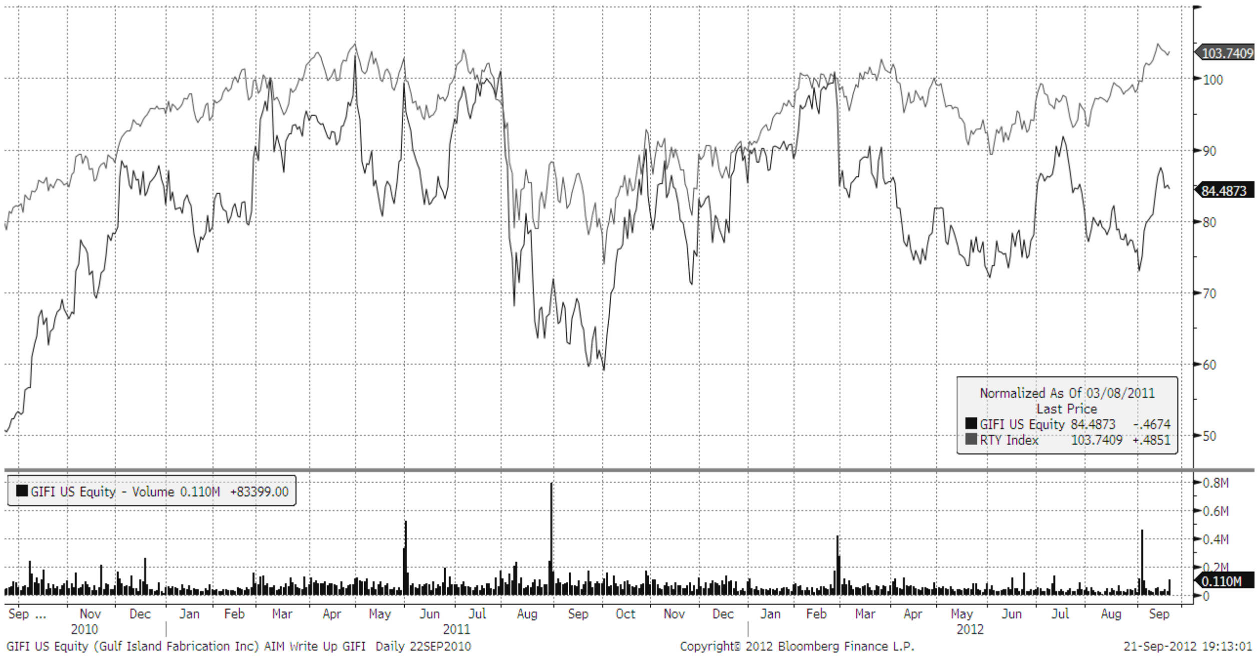
To find the intrinsic value of GIFI, a five-year DCF was conducted with a sales growth rate of 15% through 2017. A sensitivity analysis was also conducted with the discount rate varying from 8% to 12% and a perpetuity growth rate varying from 1.50% to 2.50%; producing a share price range of $34.33 to $55.62. A P/E multiple was also used with five comparable competitors to arrive at an average multiple of 12.5x. Applying this to the 2013 estimates EPS of $2.75 resulted in a value of $34.41. Finally, an EV/EBITDA competitor multiple of 5.80x was used against the 2013 estimated EBITDA of $83.2M to arrive at a value of $33.48. Weighting these values at 40% DCF, 30% P/E, and 30% EV/EBITDA established an intrinsic price target of $37.20, representing a 29% upside. The firm also pays a 1.40% dividend.

Risks

- **Decrease in Commodity Prices.** With the exception of the dip during this past summer, crude oil prices have hovered around $100/barrel going back to November 2011. If the price of oil were to drop significantly, as it did in late 2008, this could put pressure on oil companies' exploration budgets, which would affect their demand for products such as new drilling platforms. Another issue would be in steel prices, the main production input, which have remained subdued in the recent past due to a China slowdown.
- **Customer Concentration.** Given the large scale of the projects that the firm undertakes, the revenues of a certain year or period may be heavily weighted towards a single, or a few, customers due to the timing of the contracts and the recognition of revenue. Over the last few years, some customers have accounted for a higher amount of that period's revenue amount. These large weights usually only last for a period or two, and each period fluctuates between the customers who represented these large revenue figures.

Management

Kerry J. Chauvin, 64 years old, has served as Chairman of the Board since April 2001 and CEO since January 1990. He previously served as the President from inception until January 2009, and COO from January 1989 to January 1990. Kirk J. Meche has been the President and COO since January 2009 after having served as Executive Vice President of Operations from 2001 to 2009, and has also served as President and CEO of two subsidiaries for about 6 years combined.



Ownership

% of Shares Held by All Insider and 5% Owners:	15%
% of Shares Held by Institutional & Mutual Fund Owners:	76%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
T. Rowe Price Associates	1,812,470	12.58%
Heartland Advisors Inc.	1,283,000	8.91%
Starboard Enterprises LLC	924,700	6.42%
Dimensional Fund Advisors LP	921,992	6.40%
Vanguard Group Inc.	804,979	5.59%

Source: Bloomberg