Celebrating 100 Years

Applied Investment Management (AIM) Program

AIM Class of 2012 Equity Fund Reports
Fall 2011

Date: Friday, September 30th Time: 3:15 pm – 4:30 pm
Road Show Location: Cortina Asset Management.

Student Presenter	Company Name	Ticker	Price	Page No.
Jacob Bear	DFC Global Corporation	DLLR	$22.85	2
Alice Wycklendt	Wabash National Corporation	WNC	$4.74	5
Vincent Ong	Alcatel-Lucent	ALU	$2.91	8
Nicholas Hiller	Cavium, Inc.	CAVM	$28.95	11
Brian Brophy	GNC Holdings, Inc.	GNC	$21.23	14
Kaili Wang	New Oriental Education & Technology Group	EDU	$28.27	17

Thank you for taking the time today and participating in the AIM 'road show' at Cortina Asset 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 Cortina.

For more information about AIM please contact:

David S. Krause, PhD
Director, Applied Investment Management Program
Marquette University
College of Business Administration, Department of Finance
436 Straz Hall, PO Box 1881
Milwaukee, WI 53201-1881

mailto: AIM@marquette.edu

Website: MarquetteBuz/AIM AIM Blog: AIM Program Blog
Twitter: Marquette AIM Facebook: Marquette AIM

DFC Global Corporation (DLLR)
September 30, 2011

Jacob Bear — Financial Services

DFC Global Corp (NASDAQ: DLLR), formerly known as Dollar Financial, is a diversified financial services firm with a strong international presence looking to serve the unbanked, under-banked, and small business demographic groups. DFC offers short term consumer loans (54% of revenue), secured pawn loans (7%), check cashing services (18%), money orders (4%), foreign exchange services, prepaid debit cards (other 11%), and gold buying (6%). Its customers are served with over 1300 retail storefront locations across 7 countries in North America and Europe, multiple internet websites, and mobile phone applications. Having begun in 1979, DFC changed their name from Dollar Financial in August, 2011 to reflect its emergence in the global market and to distance itself from its stagnant U.S. market. DFC has a 30% market share in Canada, 30% in U.K, and 1.5% in U.S. with 46% of revenue coming from U.K, 35% from Canada, and 15% U.S. DFC went public in 2005 and is headquartered in Berwyn, Pennsylvania.

Financial Services							
Price 9/22 ($):	22.85	Beta:	1.37	FY: June	2011A	2012E	2013E
Price Target ($):	30.00	Discount Rate:	9.54%	Excess Returns	$44.21	$16.40	$18.80
52 WK L-H ($):	12.90-24.89	M-Term Rev. Gr Rate Est:	8.1%	ROE:	20.4%	13.4%	13.4%
Market Cap:	1.0 B	M-Term EPS Gr Rate Est:	4.8%	EPS:	$1.73	$1.96	$1.98
Float (mil):	42.48	Debt to Equity:	2.04x	Div Per Share:	$0.00	$0.00	$0.00
Short Interest (%):	7.4%	ROA:	4.60%	BVPS:	9.70	13.24	15.05
Avg. 3 Month Vol (mil):	0.450	ROE:	20.40%	P/B:	2.07	1.51	1.33
Dividend ($):	0.00	Dividend Payout:	0.00%	P/E:	13.18	11.66	11.52

Recommendation

Worldwide, DFC's target demographic of asset light, income constrained, employed persons (ALICE) has been expanding. The recent financial and housing crisis in the U.K. and U.S. caused even more people to drop into this demographic, with income constrained and or credit scores adversely impacted. As banks face even greater pressures on NIM, they have looked to increase revenue in other ways, notably fees. Coupled with cost cutting measures - closing less profitable branches, reducing hours - these forces have combined to increase DLLR's target demographic. Furthermore, the main international markets in which DLLR has its strongest presence maintain growth opportunities based on persons per under-banked retail locations: 25,000:1 in Canada and 45,000:1 in U.K vs. U.S. of 15,000:1. DFG is a strong company with a proven track record for growing revenues and EBITDA, 17% CAGR and 22.4% CAGR over past 5 years. Loan loss provisions as a % of gross consumer lending revenue were 18% in FY 2011, down from 22.2% as of 12/31/2008, and below management's target of 20%. FY 2011, 50% of revenue was comprised of products and services with little to no credit risk (secured pawn lending, check cashing, money transfers, etc.). Going forward, DLLR should continue to be able to strategically expand both organically and through acquisitions as it leverages its dominant market share in an industry with an ever increasing target demographic. Margins should be maintained and potentially positively impacted with greater strategic emphasis on internet based expansion. Therefore, it is recommended that DFC Global be added to the AIM Equity Fund with a price target of $30 or a 30% upside potential.

Investment Thesis

- **Present Lending Environment Favors DLLR vs. Banks.** With the Operation Twist outlook and further likely flattening of the yield curve, bank net interest margins will face further pressures. Additionally, bank consumer lending is a function of customer's employment and future earnings. DLLR's pawn loans are secured by assets, gold and silver and demand tends to vastly increase in times of high unemployment. And, because

maximum average short-term loan amount is $1200 and maximum average duration is 37 days, DLLR revenue is not as reliant on the yield curve as traditional banks.

- **Recent Acquisitions & Strategy Highlight Shift toward Internet Platform.** For FY 2010, only 11% of total lending activity was conducted via the internet. FY 2011 saw internet lending increase to 34% of total lending, due almost exclusively to the acquisitions of Riscum, internet loan provider in Finland and Sweden, and MEM, market leader in internet loans in the U.K. Internet loans, while they tend to experience higher loan losses than store-front lending, allow DFC to reach a wider customer base with much less capital expenditures and variable operating costs. Industry trends suggest a shift toward internet based delivery platforms as more traditional services, especially in check cashing revenue with only a .23% 5-year CAGR, stagnate and decline.
- **Strong Product Diversification.** Management has taken advantage of the financial crisis to grow its product base: high end pawn lending, internet lending and mobile phone interface, U.S. Military Installment Loan and Educational Services (MILES) program, and geographic segments: Scandinavia, Poland, via acquisitions. Combined with its core retail services and ancillary services (prepaid debit cards, electronic tax filing, Western Union money order partnership), DLLR has a dynamic revenue base which should help it capitalize on future product and geographic growth.

Valuation

To value DLLR, a variety of valuation techniques were utilized. An equity excess returns analysis was performed, with an assumed cost of equity of 9.54%, implying an intrinsic value of $27.05. A P/B methodology was also utilized applying a weighted DLLR historical and peer multiple of 2.77 x to DLLR's 2011- 2012 blended BVPS which implied an intrinsic value of $35.14. Taking each valuation method into account and weighting them appropriately, a target price of $30 has been established, representing a nearly 30% upside. Currently, DLLR does not pay a dividend and has never done so.

Risks

- **Aggressive Acquisition Strategy.** Over the past 3 years, DLLR has acquired 8 companies for a total amount of $374M. While the new acquisitions have served to generate 33% of 2011 revenue, it cannot be ignored that Goodwill has increased 87% over the past 3 years. Such aggressive acquisitions could set up the potential for impairment charges in the future.
- **Currency Risks.** Given the revenue reliance on foreign currency, 85% coming from U.K., Canada, Scandinavia, and Poland, DLLR is highly susceptible to unfavorable future currency shifts. Mitigating these risks are the Federal Reserve's 2 year accommodative policy outlook that should keep the USD from drastically appreciating, and the fact that Canada and the U.K. are highly stable in terms of currency and government with mature industries.
- **Regulatory Risks.** Because DLLR operates across 7 different nations, it is susceptible to regulatory changes that may impact its market share and profitability. Check cashing fees, general fee limitations, lending practices and avoiding usury restrictions may undergo future changes that adversely affect DFC Global. Notably, in 2010 the U.S. created a federal Bureau of Consumer Protection with regulatory jurisdiction over DLLR.

Management

Jeffrey A Weiss has served as Chairman and CEO since 1990. Mr. Weiss was brought in to run DFC following the Bear Stearns buyout in 1990. Prior to serving as CEO, Mr. Weiss was a managing director at Bear Stearns. Randy Underwood has served as executive vice president and CFO since 2004. A CPA, Mr. Underwood has served in prior CFO roles for The Coleman Company and Rent-A-Center. Norman Miller serves as the company's COO, having done so since 2007. Mr. Miller brings 19 years of prior experience working in operations roles at Nestle, Kraft, and most recently, Aramark.

Ownership

% of Shares Held by All Insider and 5% Owners:	39.6%
% of Shares Held by Institutional & Mutual Fund Owners:	60.4%

Top 5 Shareholders

Holder	Shares	% Out
Wellington Management	3,925,140	8.97
Alydar Partners	3,438,357	7.86
Bank of New York Mellon	3,143,643	7.18
Wasatch Advisors	2,401,265	5.49
Pyramis Global Advisors Trust	2,312,210	5.28

Wabash National Corporation (WNC)
September 30, 2011

Alice Wycklendt Industrials

Wabash National Corporation is a leading North American manufacturer of trailers and related transportation products including dry vans, platform trailers, refrigerated trailers, and related parts and accessories. The manufacturing segment (85% of 2010 revenue) sells directly to fleet operators with core customers including major truckload carriers, leasing companies, private fleets, and less-than-truckload carriers. Wabash historically focused on the large fleet market (those managing over 7,500 trailers) but has been actively pursuing the mid-market (250-7500 trailers) since 2003, gaining approximately 320 customers out of over 2,100 carriers. The retail segment (15%) consists of 11 company-owned branches and over 30 independent dealers distributing new company-manufactured units and third-party specialty trailers, selling used trailers, and providing replacement parts, accessories, and maintenance. Wabash maintains a solid position in a competitive market with over 20% market share of industry shipments in 2010. The top 3 manufacturers – Wabash, Great Dane, and Utility – have historically captured over 50% of the market. WNC was incorporated in 1985 and is headquartered in Lafayette, Indiana.

Price ($): (9/22/2011)	4.74	Beta:	1.84	FY: Dec	2010A	2011E	2012E
Price Target ($):	9.00	WACC	16.22%	Revenue (Mil)	640,371	1,159,854	1,509,426
52WK H-L ($):	4.5-13.1	M-Term Rev. Gr. Rate Est.:	9.2%	% Growth	89.5%	81.1%	30.1%
Market Cap (mil):	324.8	M-Term EPS Gr. Rate Est.:	22.8%	EBITDA Margin	0.20%	3.50%	5.80%
Float (mil):	67.66	Debt/Equity:	51.8%	EBIT Margin	-2.40%	2.20%	4.60%
Short Interest (%):	13.32%	ROA (ttm):	2.77%	EPS (adj)	($0.71)	$0.31	$0.96
Avg. Daily Vol (mil):	1.497	ROE (ttm):	6.89%	FCF/Share	$(0.39)	$0.51	$1.05
Dividend ($):	0.00			P/E (adj)	--	15.25x	4.96x
Yield (%):	0.0%			EV/EBITDA	265.4x	9.29x	4.39x

Recommendation

WNC is well-positioned in the highly cyclical trailer manufacturing industry as the replacement cycle continues after industry unit shipments hit 79,000 in 2009—the lowest level in over 25 years. There are now significant volume increases on the horizon, which means profitability for Wabash after 3 years of operating losses. Reduced productivity and rising materials costs created short-term margin headwinds in 2Q11 as gross margin decreased to 5.7% from 7.4% in 1Q11, despite increasing new shipments by 2,500 units. WNC is now better-positioned to manage these issues heading into 2012 and drive operating margins beyond their 2004 peak of 6.7%. This improved margin also stands to benefit further as Wabash diversifies its product base with higher margin industrial products and water storage tanks for the shale gas market. Shares of WNC have fallen 50% since the start of June, creating an attractive entry point at 5x FY2012 estimated earnings. Therefore, based on a 10 year DCF valuation and P/E multiple approach, it is recommended that WNC be added to the AIM Equity portfolio with a target price of $9.00.

Investment Thesis

- **Continuing Replacement Cycle.** Past industry cycles have experienced several years of volume growth after significant drop-offs in demand; on average, unit shipments for the three industry cycles since the 1990s grew at a CAGR of 13% over 4 years from trough to peak. In the current cycle, industry unit volumes grew to 124,000 in 2010--a significant improvement over 2009, yet not above replacement levels. Shipments are expected to grow to 209,000 in 2011 and 260,000 in 2012, still below the 1995 and 1999 peaks of 284,000 and 307,000. WNC's backlog indicates they will supply a substantial share of these trailers as the company ended 2Q11 with a backlog valued at $731m, representing almost 30% of the industry backlog. Historically WNC's backlog

has accounted for 21%. Despite what the market may be signaling, industry indications are that the backlog and continued trailer demand are not at risk in the near term.

- **Opportunity for Margin Improvement**. A combination of high materials costs and labor inefficiencies has created margin headwinds for WNC in 2011. Wabash had entered into fixed price contracts with customers in 2009 and 2010 and decided to honor those commitments without being able to pass on rising input costs. Management estimates that approximately 1/3 of shipments for the remainder of 2011 are now more favorably priced and substantially all contracts in 2012 will be set to recover lost margin of over 1.7%. In addition, WNC needed to increase its employee base by 50% to manage the influx of demand, but had difficulties acquiring capable labor in the Lafayette area. Management estimates this negatively impacted productivity by 1.7%. With contracts re-pricing and workers now adequately trained, the company can drive margin improvements higher and earlier than in past cycles.
- **Non-Trailer Product Ramp-Up.** Wabash has been pursuing additional applications for its DuraPlate composite material that is currently used in over 97% of its dry vans. Current opportunities are only expected to generate $50m in 2011 revenues, but typically provide higher margins and less cyclicality than trailer production. In addition, WNC recently entered its first contract to produce 2,500 water-storing frac tanks for the shale gas industry over the next 5 years. While this only results in approximately $17m in annual revenues, the production rate equates to only 5-6 wells per year. Demand is likely well above this, as over 1,400 wells were drilled in the Marcellus shale alone in 2010 and each well requires 50-100 units for storage. With an ASP at the high end of WNC trailer production line, a margin profile 2x that of trailer production, significant room for demand growth, and current capacity for 3x its contracted volumes, there is considerable room to drive earnings improvements with these products. The frac tank products could potentially add $0.10 per share in incremental EPS at full capacity.

Valuation

A ten year DCF model was conducted to determine the intrinsic value of WNC. A WACC of 16.22% was utilized to reach an intrinsic value of $5.84 on varied sales growth and terminal cash flow growth of 2.00%. A sensitivity analysis produced a target range of $5.53-$6.19 based on variations in WACC and terminal growth. A P/E multiple of 12x based on a typical mid-cycle average was applied to 2012 earnings of $0.97 to yield a target of $11.46. Given equal weighting these approaches result in a target price of $9.00, providing 90% upside to the current price. The firm discontinued its dividend in 2008.

Risks

- **Recession.** The truck trailer industry is highly cyclical as it is related to the demand for transportation and thereby the overall health of the economy. The onset of a significant recession could derail demand for the company’s products.
- **Input Costs.** WNC has significant exposure to aluminum, steel, and resin costs and has had difficulty passing on these volatile costs in the past. Significant increases in raw material costs would adversely affect margin. The company has also experienced difficulties in finding qualified labor to meet the current demand environment and integration of new employees could continue to create short-term headwinds.

Management

Richard Giromini, 57, was named CEO in January 2007 after acting as COO since 2002 and has previous experience with Accuride and ITT Automotive. Giromini holds a degree in mechanical engineering. Mark Weber, 39, was named CFO in August 2009 after joining the company in 2005. Weber served with Great Lakes Chemical Corp. from 1995 to 2005. Rodney Ehrlich, 64, was named CTO in January 2004 after joining at the founding; Ehrlish served with Monon Trailer Corp from 1963. Insiders, including the CEO and CFO, purchased 19,700 shares at an average price of $5.25 during August 2011.

Ownership

% of Shares Held by All Insider and 5% Owners:	2%
% of Shares Held by Institutional & Mutual Fund Owners:	98%

Source: Bloomberg L.P.

Top 5 Shareholders

Holder	Shares	% Out
Wells Capital Management	3,403,217	4.97
Gilder, Gagnon Howe & Co.	3,255,143	4.75
Ameriprise Financial, Inc.	3,160,302	4.61
Franklin Resources, Inc.	3,027,940	4.42
Vanguard Group, Inc.	3,001,555	4.38

Source: Bloomberg L.P.

Alcatel-Lucent (ALU)
September 30, 2011

Vincent Julian H. Ong International Information Technology

Alcatel-Lucent (NYSE: ALU) is a leader in mobile, fixed, IP and optics technologies, and a pioneer in applications and services. The company's operations are divided into three segments: Networks (60% of revenues), Applications (12%), and Services (23%). The Networks segment (IP, Optics, Wireless, Wire line) supplies a broad portfolio of products and offerings used by fixed, wireless, and converged services providers to address all of their needs, as well as enterprises and governments for their business critical communications. The Applications segment is divided into two businesses – Enterprise Applications and Network Applications. This segment develops software-based applications and solutions that contribute to the enrichment of the personal communication experience for end-users. Their customers include over 300 service providers and more than 40% of the companies included in the Fortune 500. The Service segment designs, integrates, manages, and maintains networks. Their offerings are organized into four areas: network and systems integrations, managed and outsourcing solutions, multi-vendor maintenance, and product-attached services. ALU holds Bell Labs, one of the largest innovation and R&D houses in the communications industry. ALU was founded in 1898, is headquartered in Paris and operates in more than 130 countries (37% Europe, 33% US, 9% other Americas, 18% Asia Pacific, 8% rest of world).

Price ($): (9/23/2011)	2.91		Beta:	1.50		FY: March	2010A	2011E	2012E
Price Target ($):	5.00		WACC	12.44%		Revenue (€mil)	15,996	17,413	18,875
52WK H-L ($):	6.63-2.67		3-5 Yr Rev. Gr Rate Est:	8.49%		% Growth	5.54%	8.86%	8.40%
Market Cap (bil):	6.53		3-5 Yr EPS Gr Rate Est:	2.26%		Gross Margin	34.83%	35.00%	35.50%
Float (bil):	2.12		Debt/Equity:	97.79%		Operating Margin	-1.93%	5.02%	5.25%
Short Interest (%):	1.25%		ROA:	1.8%		Pro-Forma EPS ($Cal)	0.36	0.37	0.37
Avg. Daily Vol:	28,815,800		ROE:	12.5%		FCF/Share (€Cal)	-0.23	0.28	0.31
Dividend ($):	N/A					P/E (Cal)	8.10	7.90	7.80

Recommendation

The past decade saw low growth in the mobile telecom equipment industry (1% CAGR from 2000-2010) but the next decade is projected to be better in terms of growth as the 5-year CAGR to 2015 is expected to be at least 5%. One major reason for the low growth rates though was because 2000 was the tech bubble, and thus a poor starting point to begin with. The biggest driver going forward will be the rapid smartphone penetration especially in emerging markets and the switch to 3G/4G LTE. The spending on WCDMA and other technology for 3G/4G is still well below the peak for GSM spending in 2006 and 2007, when revenues from GSM equipment around the world exceeded $120bn. If the rapid growth in smartphone penetration continues (1 in every 2 new contracts), operators will be forced to spend more in order to support the additional data requirements. This can already be seen in the two major US operators, AT&T and Verizon, both customers of Alcatel-Lucent, with capex spending increasing in line with smartphone penetration (from 2009 postpaid ARPU increased 7.3% and 3.5% respectively). ALU has also been underpriced relatively to its peers because of their poor margins but management has stated that the restructuring efforts the past few years will finally pay off as their have guided to an operating margin of >5%. Recent M&A activity has also showed the value of intellectual property and patents in this industry. Nortel's 6,000 patents sold for $4.5bn, while Motorola's 17,000 patents sold for $12.5bn. Alcatel-Lucent has roughly 19,000 patents in its intellectual property portfolio including Bell Labs. Because of these reasons, it is recommended that ALU be added to the AIM International Equity Fund with a target price of $5.00, representing an upside of over 70%.

Investment Thesis

- **Progress in Restructuring Efforts and Improving Margins**: Margins have been a problem for this company in the past but all the restructuring efforts are finally paying off. Management has

guided that the firm will achieve operating margins of >5% for FY11. One reason for this is that restructuring costs will be kept under €400M, which is less than recent years. 1H11 numbers have shown that these numbers are certainly obtainable.

- **Rapid Growth of Smartphones and Rollout of 4G LTE**. Alcatel-Lucent has seen strong double-digit percentage growth in its wireless (15% y/y) and IP (35% y/y) business over the past year. Their two biggest customers, Verizon and AT&T (11% of revenues each), have plans to roll out new technology in the next year. ALU's involvement in Verizon's LTE will be a huge growth driver in the next FY (Additional 20+ more markets by October 2011). AT&T will also start to shift to their own LTE in 2H11 to keep up Verizon, especially now that Verizon has access to Apple's iPhone. With their strong portfolio of products and patents, along with strong smartphone penetration and 3G/4G growth around the world, ALU should be able to match or exceed growth rates in line with the telecom equipment industry growth, which is projected to be at 6%.
- **AT&T/T-Mobile Merger**: AT&T is one of Alcatel-Lucent's largest customers. AT&T relies heavily on Alcatel-Lucent for its mobile infrastructure such as WCDMA base stations and technologies deployed throughout its cellular network. Either way if the deal goes through or not, ALU will be a beneficiary. If the deal happens, ALU will gain more market share as AT&T will likely drop Nokia Siemens Networks, who was in charge of T-Mobile's infrastructure. If the deal falls through then AT&T would be expanding on its own, still utilizing ALU for its infrastructure needs. This would also block out the possibility of a Verizon-Sprint merger. Verizon is another huge ALU customer. US wireless infrastructure spending is estimated to be $2bn more with separate carriers compared to a merger scenario.

Valuation

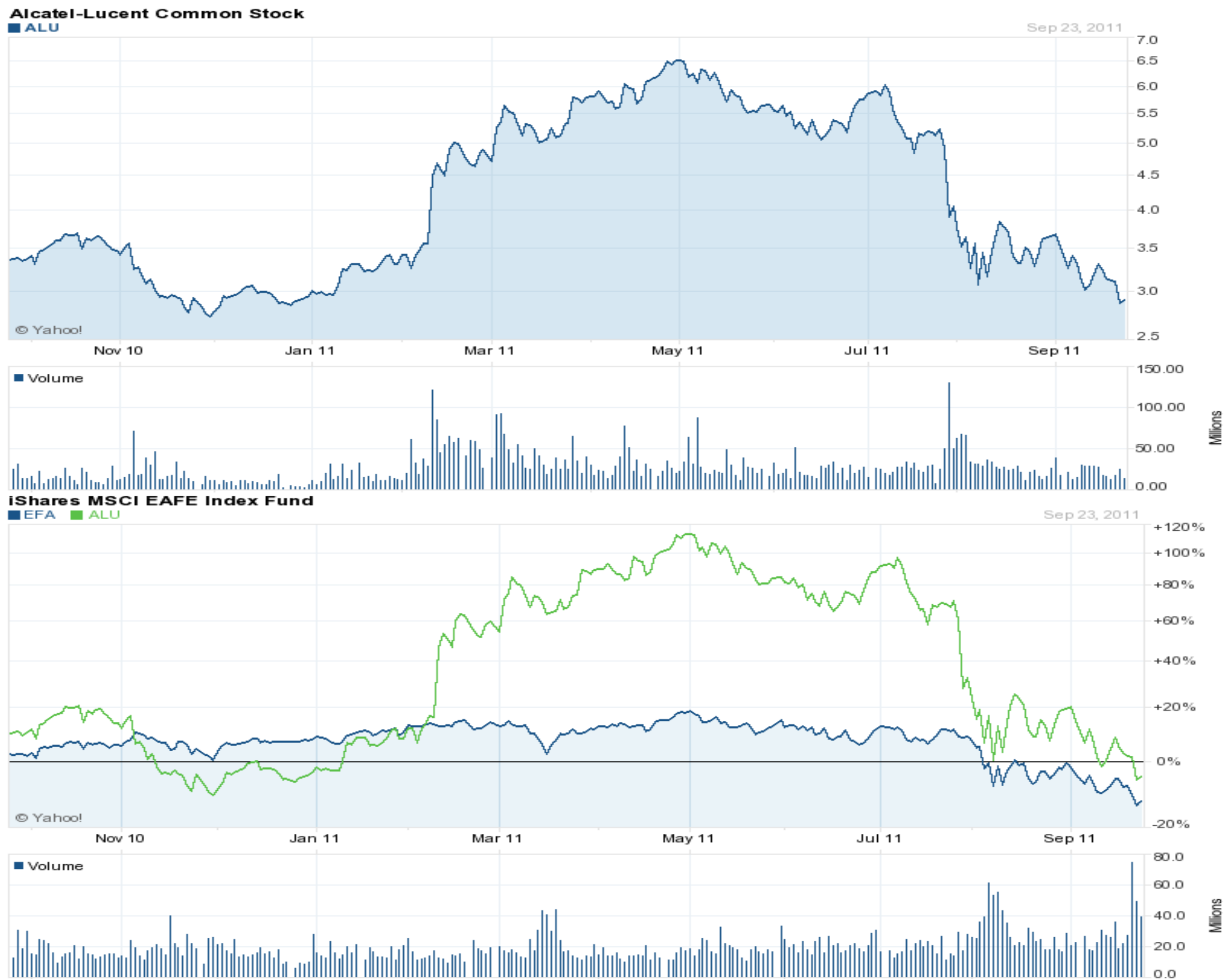
For the valuation of ALU, a 5-year DCF and a multiples approach were used to determine the intrinsic value. A WACC of 12.44% and a terminal growth rate of 3% were used for the DCF to obtain an intrinsic value of $5.20. A P/E multiple of 14x was applied to 2011 EPS estimate to obtain an intrinsic value of $5.03; and a 0.4x EV/Sales multiple was applied to the terminal sales value to obtain an intrinsic value of $4.83. Weighting them 60% for the DCF and 20% each for the multiples, a final target price of $5.00 was obtained, which represents a near 74% upside. Utilizing a sensitivity analysis for the WACC and terminal growth rate, a price range of $4.45-5.84 was obtained. ALU pays no dividends.

Risks

- **Heavy Debt Load**: Alcatel-Lucent has a heavy debt load relative to its peers (98% D/E ratio), which may affect the firm's ability to generate cash in the future. Managing this debt load would be critical for the firm to manage its margins.
- **Changing Industry Landscape and Pressure from New Chinese Competitors**: The mobile telecom equipment industry has seen a lot of consolidation recently through joint ventures (Nokia and Siemens), bankruptcy (Nortel), or M&A activity (Motorola). There are also new players in the industry – Chinese competitors, such as Huawei and ZTE. The historical incumbents (Alcatel, Lucent, Ericsson, Motorola, Nokia, Nortel, and Siemens) had an over 90% market share as recently as 2007. But by 2010, the Chinese players have grown to a ~25% market share from next to nothing. With the substantial growth of the mobile telecom equipment in emerging markets, the incumbents will face heavy pricing pressure from these new Chinese players.

Management

Philippe Camus has been the Chairman of the Board since 2008. He has 39 years of experience in banking and finance, as well as 12 years of experience in the industrial sector. CEO Ben Verwaayen is familiar with large turnaround projects, having led BT Group through difficult times earlier this decade. His earlier experience as COO of Lucent also gives him deep understanding of the firm's operations and familiarity with the telecom equipment industry.



Top 5 Shareholders

Holder	Shares	% Out
FMR LCC	200,158,137	8.61
ARTIS Capital Management, LLC	35,364,000	1.52
MANNING & NAPIER ADVISORS INC	31,386,939	1.35
BlackRock Advisors, LLC	22,131,500	0.95
SYSTEMATIC FINANCIAL MANAGEMENT, LP	13,981,654	0.60

Source: Yahoo! Finance

Cavium, Inc. (CAVM)
September 30, 2011

Nick Hiller Hardware

Cavium, Inc. (CAVM) is a fabless semiconductor company which engages in the design and manufacture of integrated software and semiconductor solutions used primarily in communication equipment. CAVM's OCTEON family of multi-core processors enables Layer 2 - Layer 7 processing and target applications include routers, switches, network security appliances, and 3G/4G LTE equipment. The communication end market is also addressed by the NITROX family of security processors – enabling network security applications and Layer 7 deep packet inspection (DPI). CAVM recently introduced the NEURON Search Processor family, which enables routers/switches to scan the IP addresses on packets of data to intelligently route information along the network. Cavium also sells into the consumer end market with its ECONA, PureVu, and CELESTIAL STB processor families. The PureVu family is poised for aggressive growth due to use in applications like video conferencing systems, wireless HDMI adapters, and solutions enabling wireless streaming of video content from consumer devices to TVs and set-top boxes. Cavium, Inc. is based in California and went public in 2007.

Price ($): (9/23/11)	28.95	Beta:	1.32
Price Target ($):	42.01	WACC:	9.95%
52WK Range ($):	25.17-48.30	Mid Term Rev. Gr Rate Est	19.0%
Market Cap:	1,412	Mid Term EPS Gr Rate Est	19.0%
Float:	47.19	Debt/Equity:	0.0%
Short Interest (%):	8.4%	ROA:	4.2%
Avg. Daily Vol:	1,555	ROE:	18.4%
Dividend ($):	0.00		
Yield (%):	0.0%		

FY: December	2010A	2011E	2012E
Revenue (Mil)	206.50	273.33	327.58
% Growth	104.0%	32.4%	19.8%
Gross Margin	64.6%	65.4%	65.0%
Operating Margin	22.2%	23.7%	26.0%
EPS (Cal)	$ 0.88	$ 1.20	$ 1.37
FCF/Share	$ 0.52	$ 0.83	$ 1.27
P/E (Cal)	32.9x	24.1x	21.1x
EV/EBIT	29.6x	20.8x	15.9x

Recommendation

CAVM is highly leveraged to many long-term secular growth trends, including upgrades of existing internet infrastructure, roll outs of 4G LTE networks, data center build outs and upgrades, and exponential growth in online video traffic (Netflix now estimated to account for 20%-30% of primetime US internet traffic). Recent market volatility and management's negatively revised sales and EPS guidance for fiscal Q3 2011 have brought CAVM's stock within range of its 52-week low of $25.17. Weakness at largest customer Cisco has pressured share prices this year, and management cited the transition to a hub inventory system at a large Cisco original design manufacturer (ODM) as one of the primary reasons for lower Q3 guidance. Many of these worries are transitory and do not impact CAVM's long-term growth prospects. Broadcom's recent acquisition of NetLogic Microsystems (NETL) confirms that many of these growth drivers remain intact. The recent pullback in share price presents an attractive entry point for investors interested in owning a high quality name with one of the few remaining aggressive growth stories in the small-cap semiconductor universe. It is recommended that CAVM be added to the AIM Domestic Equity Fund with potential for 45% upside.

Investment Thesis

- **Short-Term Issues Do Not Change Long-Term Growth Story.** Sell-side consensus estimates have come down materially post management's lowered guidance for Q3 on September 22 (2011 and 2012 EPS estimates all down ~10%). Management attributed the majority of the shortfall to a large Cisco ODM moving to a hub inventory system. Weakness was also noted in the Enterprise and Service Provider segment, as customers work down inventories given macroeconomic uncertainties. All of these issues are short-term in nature, and do not represent a change to long-term growth drivers.

- **4G LTE Product Cycles Beginning in 2012.** CAVM has led its competitors in multi-core processor design wins into 4G LTE networks. The company's exposure to the worldwide rollouts of 4G LTE will prove to be highly defensive in the event of a "double-dip" recession. 4G LTE networks enable carriers to cope with more data traffic at a lower cost (bending the cost curve), so carriers can only delay network upgrades at their own risk. CAVM will also see resumed growth across enterprise customers driven by data center build outs as well as the upgrade of Cisco's switching platform. Already, CAVM has a $600M+ design win pipeline (across all products) which it continues to grow.
- **NEURON Search Processor Family Leveraged to IPv6 Transition.** During the Q2 2011 earnings call CAVM unveiled the NEURON Search Processor family – shipping in 2013. This offering scans the IP addresses on packets of data to route the information to its destination. Historically this market has been addressed by in-house solutions at Cisco and Juniper. The transition from IPv4 to IPv6 will increase the file size of IP addresses by 4 times, necessitating the adoption of merchant vendor products as in-house solutions are unable to process the larger IP addresses. The NEURON family will address an estimated $450-$500M TAM. Due to technological complexities and extremely long design cycles there is a substantial economic moat around this market. Assuming that CAVM captures only 5% of this market initially, the NEURON family will generate revenues ~$24M in 2013 and grow at +20% through 2015.

Valuation

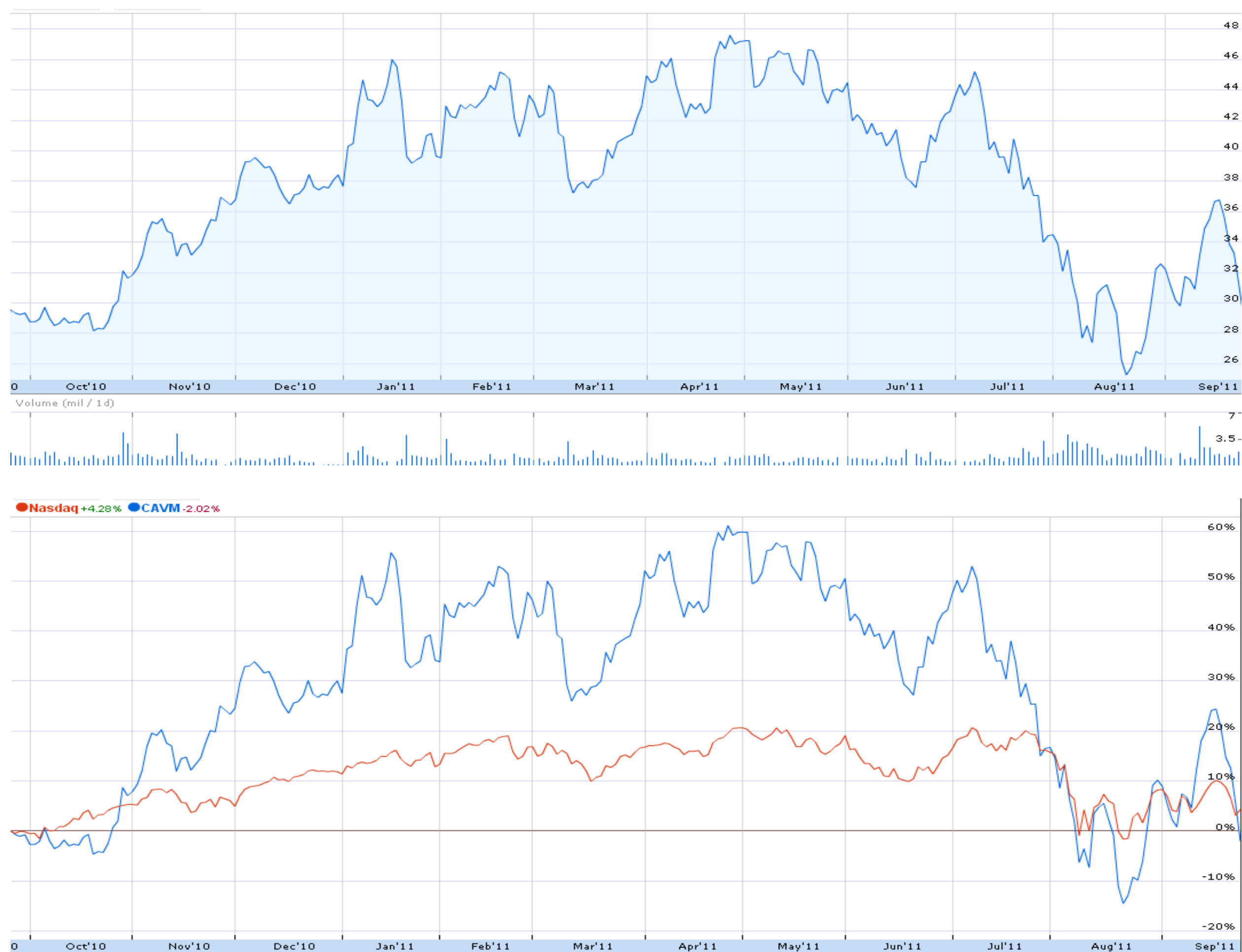
A 10-year DCF with a 9.95% WACC and 3% terminal growth rate yields an intrinsic value of $42.75 per CAVM share. Currently CAVM trades at 21x 2012 EPS estimates, which is a significant discount the 2-year median next fiscal year P/E of 27x it has traded at. Applying a 26x 2012 P/E yields a target price of $35.50. NetLogic was acquired by Broadcom at 30x 2012 EPS estimates. Due to Cavium's dominant position in the multi-core processor market, it could likely fetch a multiple as high as 35x 2012 EPS if taken out, which implies a private market value of $47.78 per CAVM share. An equal weighted average of the prior three methods yields a target price of $42.01 – upside of more than 45%.

Risks

- **Macroeconomic Slowdown.** A slowdown in the economy or a new recession could lead to delays at enterprise customers. Approximately 20% of estimated 2011 revenues will come from the consumer and broadband end markets. These revenues also would be at risk in the event of a "double-dip" recession.
- **New Technology.** The emergence of disruptive technology at one of CAVM's competitors could negatively impact the ability to meet aggressive investor growth expectations.
- **Failure to Secure Design Wins.** Product design cycles are typically several years long. Failure to secure new design wins would effectively lock CAVM out of that particular product for years.
- **Customer Concentration.** Cisco represents approximately 20% of CAVM's revenues, and any problems at CSCO or its ODM's would negatively impact CAVM. In Q2'11 the top 5 customers represented 45% of revenues and the top 10 customers represented 58% of revenues.

Management

Syed Ali is the President, CEO, and Chairman of the Board of Directors at CAVM and has extensive experience in the semiconductor industry. He played a role in the founding of CAVM and has been with the company since its inception in 2000. Prior to CAVM Mr. Ali was VP of Marketing and Sales at Malleable Technologies, a communication chip company which was purchased in 2000 by PMC-Sierra (PMCS). Mr. Ali has also worked at Samsung, Wafer Scale Integration, Tandem Computer, and American Microsystems.



Ownership

% of Shares Held by All Insider and 5% Owners:	8%
% of Shares Held by Institutional & Mutual Fund Owners:	99%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
FMR, LLC	3,632,202	7.45
Blair (William) & Company, LLC	2,948,625	6.05
Fidelity Contrafund Inc.	2,801,316	5.74
Vanguard Group, Inc.	2,192,510	4.50
Columbus Circle Investors	2,043,453	4.19

Source: Yahoo! Finance

GNC Holdings, Inc. (GNC)

September 30, 2011

Brian Brophy Consumer Defensive

GNC Holdings, Inc. (NYSE: GNC) is a specialty retailer of health and wellness products including vitamin, mineral, and herbal supplements (VMHS); sports nutrition products; diet products; and other wellness merchandise. These four categories accounted for approximately 40%, 43%, 10%, and 7% of GNC's sales in fiscal 2010, respectively. Within these categories, the firm sells a variety of proprietary GNC products including Mega Men, Ultra Mega, GNC WellBeing, Longevity Factors, and Pro Performance, among others, as well as third-party products. GNC sells these products through three primary segments including retail, franchising, and manufacturing/wholesale which accounted for 74%, 16%, and 10% of revenues in fiscal 2010, respectively. The company has over 7,400 locations of which approximately 5,700 are located within the U.S. including about 900 franchise and 2,100 Rite Aid (RAD) store-within-a-store locations. The remaining 1,700 locations are mostly franchises located in 50 countries across the globe. GNC is in headquartered in Pittsburgh, Pennsylvania and went public in April at a price of $16 per share.

Price ($) : (9/23/11)	21.23	Beta:	1.13
Price Target ($):	26	WACC	11.24%
52WK H-L ($):	26 - 16	M-Term Rev. Gr Rate Est:	5.00%
Market Cap (mil):	2,248.43	M-Term EPS Gr Rate Est:	6.75%
Float (mil):	25.1	LT Debt/Equity:	134.3%
Short Interest (%):	6.46%	ROA:	4.85%
Avg. Daily Vol (mil):	0.57	ROE:	12.59%
Dividend ($):	0.00		
Yield (%):	0.00%		

FY: Dec	2010A	2011E	2012E
Revenue (Mil)	1,822.17	2,013.50	2,164.51
% Growth	6.75%	10.50%	7.50%
Gross Margin	35.25%	36.00%	36.00%
Operating Margin	11.64%	13.50%	14.00%
EPS (Cal)	$0.95	$1.32	$1.56
FCF/Share	$1.03	$1.22	$1.47
P/E (ttm)	20.85	16.09	13.57
EV/EBITDA (ttm)	10.46	9.54	8.60

Recommendation

GNC has a variety of recent corporate alliances and new product releases which should help drive growth going forward. In 2010, GNC partnered with PetSmart and released a line of pet nutritional products which are offered in over 1,000 PetSmart stores. GNC also began supplying Sam's Clubs with GNC branded products in early 2011 to increase brand awareness and develop a new customer base. Additionally, GNC and Pepsi have formed a joint venture to develop and release Phenom, a line of fortified coconut water, which is currently being sold in GNC stores and planned to be released to the mass market. In 2006, the company started selling products through GNC.com which has grown approximately 25% annually and is expected to account for 10% of earnings by 2015. Lastly, GNC recently released a new GNC branded product, Beyond Raw, to target endurance athletes. These initiatives have increased GNC brand awareness which has helped drive growth in sales of merchandise to higher margin, GNC branded products. Given the array of growth avenues, the secular growth occurring throughout the wellness industry, and positive demographic trends, it is recommended that GNC be added to the AIM Equity Fund with a price target of $26 which represents a potential upside of approximately 25%.

Investment Thesis

- **Secular Industry Growth.** According to the *Nutrition Business Journal*, the vitamin and supplements industry in the U.S. is estimated to be just under $30 billion in size and has grown at a CAGR of 5.4% from 2000 to 2010. Additionally, this industry experienced very limited decelerations in growth during both recessions over this time frame. It is estimated that similar growth rates will be experienced until at least 2015. The sports nutrition industry in the U.S. has also experienced significant and steady growth evidenced by the growing number of participants in endurance sporting events. For example, U.S. half-marathons reporting 10,000 or more

finishers rose from 2 in 2000 to 24 in 2010. The growth of these two areas bodes well for GNC as these two product segments currently account for over 80% of company revenues.

- **Positive Customer Demographics.** In 2010, approximately 40 million Americans were above the age of 65. This is expected to increase to 55 million and 70 million by 2020 and 2030, respectively. According to a consumer survey done by Simmons, only 4% of Americans above the age of 65 never took a VMHS product in the past month compared to 16% of those age 18 to 24. This aging population provides GNC an opportunity to grow as older individuals are more likely to take VMHS products regularly and at a higher frequency than younger individuals. Additionally, GNC customers tend to be college educated, have higher than average levels of income, and view health and wellness products as a healthcare expense. This makes GNC relatively resistant to downturns in the economy which is evidenced by the 24 quarters of consecutive same store sales growth.
- **Domestic and International Expansion.** Based on analysis done by GNC and Buxton Company, they see an opportunity to increase company-owned and franchised stores by approximately 30% to 4,500 locations in the United States. By adding about 100 new stores per year, this projection could be met in approximately nine years. Additionally, GNC entered into a joint venture agreement with Rich Life in 2010 to pursue opportunities in China. Currently, the joint venture is developing 70 store-within-a-store displays with approximately 50 different products. In the future, the estimated $20 billion health and wellness industry in China could be a large opportunity for growth and management is currently evaluating possibilities for opening company-owned stores in the country.

Valuation

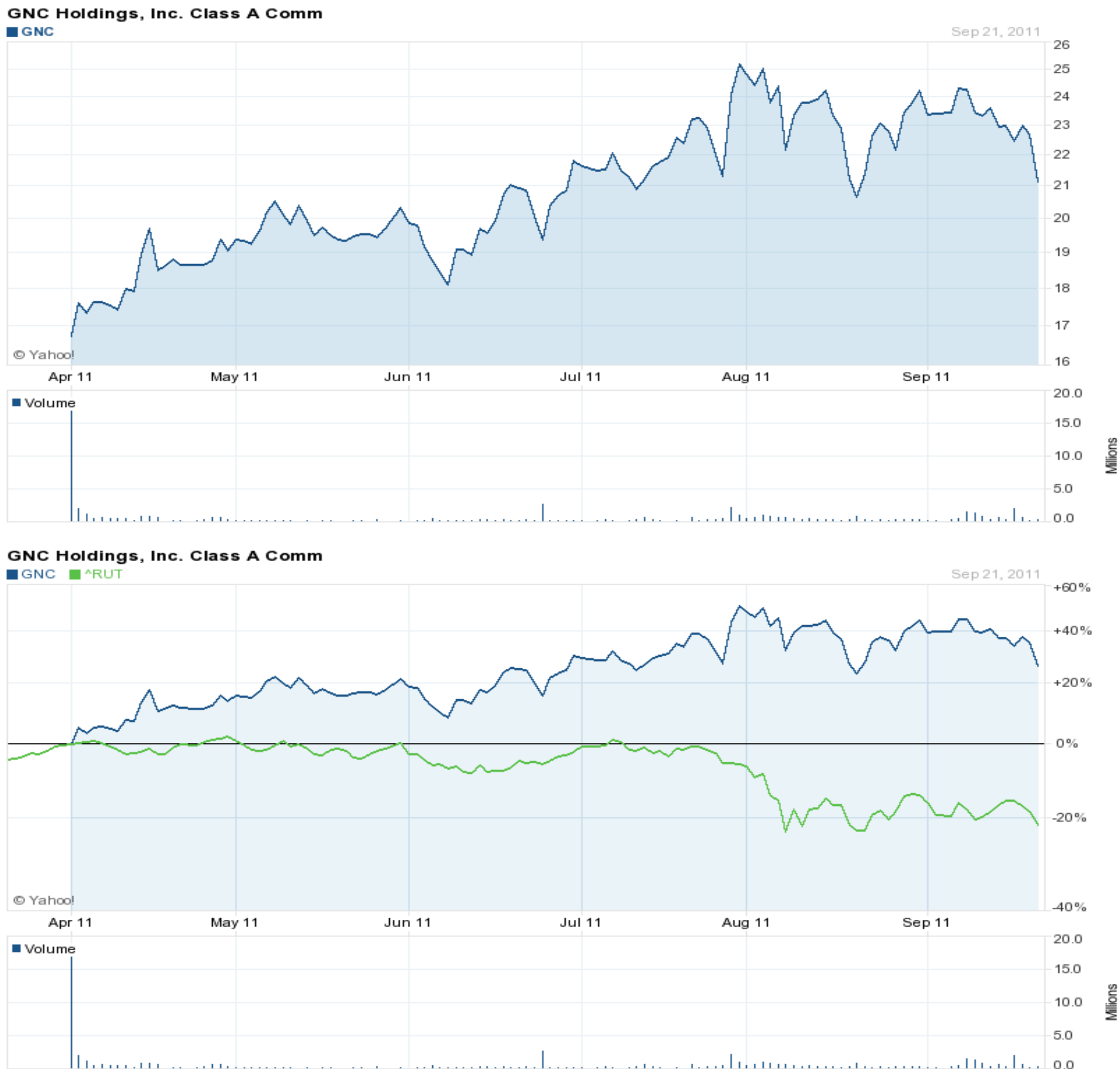
To find the intrinsic value of GNC, a ten-year DCF was conducted. A computed WACC of 11.24% and a terminal growth rate of 3% yielded an intrinsic value of $25.24. A sensitivity analysis accounted for variations in WACC from 10% to 12% and in the terminal growth rate from 2% to 4%. This analysis found a range in values from $21.63 to $33.34. In addition, an EV/EBITDA multiple of the 10x, the industry average, was used to calculate an intrinsic value of $30.23. Applying a 75% weight to the DCF and a 25% weight to the EV/EBITDA multiple provides a target price of $26.49. With the stock currently trading at $21.23, the target price yields a return of approximately 25%. The company does not pay a dividend.

Risks

- **Highly Levered.** GNC has a total debt to equity ratio of 1.6 making the company highly levered in comparison to industry peers. Although the company does not have shorter-term liquidity issues as the current ratio is 2.9, this leverage significantly magnifies impacts on earnings from changes in operating results.
- **E-commerce Competition.** Although GNC is one of only three relatively large specialty health and wellness retailers, along with Vitamin Shoppe and Vitamin World, the company competes against a wide variety of different businesses including e-commerce businesses such as Amazon.com. These online competitors are able to offer a wide variety of different wellness products at a discount to retail prices.

Management

Joseph Fortunato is the CEO of GNC. He began his career at GNC in 1990 and has held various positions before becoming CEO in November 2005. Before GNC, he was President of Fortunato & Associates Financial Consulting Group. Michael Nuzzo has served as CFO since September 2008. Prior to GNC, he worked as Senior Vice President of Finance at Abercrombie & Fitch and as a senior consultant at William M. Mercer and Medimetrix Group.



Ownership

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

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Ares Management LLC	29,865,918	33.16
Ontario Teachers' Pension Plan Board	24,284,790	26.26
Wellington Management Company, LLP	2,721,897	3.02
Tremblant Capital Group	2,477,042	2.75
Rainer Investment Management	2,299,290	2.55

Source: Yahoo! Finance

New Oriental Education & Technology Group Inc. (EDU)
September 30, 2011

Kaili Wang International Business Services

New Oriental Education & Technology Group Inc. (NYSE:EDU) is the largest provider of private education in the People's Republic of China. Its wide range of educational programs, services and products includes three main segments: language training and test preparation; primary and secondary school education; and online education, commanding 87%, 3% and 10% of revenue, respectively. Since its founding in 1993, New Oriental has recorded nearly 11 million student enrollments, including approximately 2.1 million enrollments (23% annual growth) in fiscal year 2011. The company now owns 54 schools, 487 learning centers, nearly 5,000 bookstores and over 11,700 teachers in 47 cities, as well as an online learning network with over 6.7 million registered users. The company is now headquartered in Beijing, China.

Price ($) : (9/23/11)	28.27	Beta	0.93	FY: Dec	2010 A	2011 E	2012 E
Price Target ($)	34.08	WACC	10.00%	Revenue (Mil)	$386.31	$557.87	$749.98
52 WK H-L ($)	21.71-34.77	Mid-Term Rev. Gr Rate Est:	44%	% Growth	32.04	44.41	34
Market Cap (mil)	4392.58	Mid-Term EPS Gr Rate Est:	30%	Gross Margin	61.88%	62.05%	60.03%
Dividend ($)	0	Debt/Equity	0.39	Operating Margin	20.01%	17.40%	18.80%
Yield (%)	0	ROA	14.60%	EPS (Cal)	$0.52	$0.67	$0.89
Avg Daily Vol:	1,663,680	ROE	19.98%	EV/EBITDA	36.58	25.68	23.02

Recommendation. The company finished fiscal 2011 (ended May 31st) with a jump in sales of 59% from the previous year. The number of students' enrolled in academic tutoring and test preparation rose by 12% to 489,100 during the period. The demand trends in China remain very favorable and New Oriental, as the country's largest provider of educational services in the country, should benefit more than its potential competitors because of its nationwide brand recognition. Total enrollment growth will remain robust by approximately 16% annually, driven by the strong demand for overseas test preparation programs. K-12 after-school tutoring and English language training classes recorded YOY enrollment growth of 32% - and the future growth rate is expected to be steady at 30%. Since its IPO in 2006, New Oriental's gross margin has been steady at 60% and operating margins have been near 20%. In FY 2011, EDU's net revenue increased by 44.4% and operating income increased by 185.3% YOY in Q4. In addition, management expects to open between 80 and 100 new learning centers and schools for the 2012 fiscal year. Robust enrollments and sales growth give New Oriental an upside potential of over 20% at a target price of $34.08. Consequently, because of New Oriental's dominate market share and robust sales growth, it is recommended that New Oriental Education be added to the AIM Equity Fund.

Investment Thesis

- **Dominate Market Share.** New Oriental has continued to dominate the test-preparation market in education-obsessed China with 75% of the mainland market share in TOEFL (Test of English as Foreign Language) testing and 90% in the U.S. graduate admission GRE, GMAT, ACT, IELTS and SAT tests. EDU also has a dominate 82% market share for major PRC admissions tests including Professional Title English Test, Public English Test System and National English Test.
- **Continued Domestic Trend of Overseas Studying.** Because of the continued depreciation of foreign currencies in terms of the Chinese Yuan, the average fees for a Chinese student to study abroad has gone down by approximately one fourth depending on the foreign country, thus attracting more middle-class families to send their children for foreign study. According to the Chinese Ministry of Education, a record of 1.27 million Chinese students went to study abroad in the year 2010, and the number is expected to grow by 12% over the next three years. Since generally international students are required to take TOFEL test along with one graduate

admission test, EDU students are enrolled into two classes at the same time. This would thus drive up the enrollment in the test preparation courses by an estimated 20% in 2012.

- **Growth with New Partnership.** New Oriental recently announced its partnership with Kinderdance, the U.S. based provider of dance, motor development, gymnastics and fitness program for young children, Kinderdance is going to offer specialized content designed for Chinese kids aged two to six years old. New Oriental plans to expand its network of KingderPlace centers throughout China, and expects to be in over 10 major cities in the year 2014. This partnership builds on its ability to reach students at an even younger age. The size of pre-school market is about 100 million children and many Chinese families are increasingly placing emphasis on education at an even younger age.

Valuation

To find the intrinsic value of EDU, a ten-year DCF analysis was conducted. Based on a calculated WACC of 10.00% and terminal growth rate of 3.00%, a value of $35.02 was obtained. Using a sensitivity analysis with WACC ranging from 9.00% to 11.00% and terminal growth rate of 2.50% to 3.50% yielded a range of values from $31.29 to $36.45. Using a sensitivity analysis with net margin ranging from 7.00 % to 10.00% yielded a range of share values from $32.51 to $37.35. In addition, a 33x historical average P/E multiple was applied to 2012 estimated EPS, yielding an intrinsic value of $32.82. With the DCF and P/E weighted equally, a $34.08 price target was established, providing a potential upside of 21%. The firm does not pay a dividend.

Risks

- **Increased Competition.** The main competition for New Oriental is now from Global IELTS, another private educational group that was established in the year 2001. It is attempting to seize the IELTS training market from New Oriental by offering a very competitive market price. Other international companies have shown an increased interest in the Chinese English testing market, such as Pearson.
- **Increased Operating Costs.** Because of market expansion and new program launching, New Oriental continues to have an increase in administration costs as well as market promotion costs. In FY 2010, New Oriental's general and administrative expenses have increased by 28.0% from US$80.7 million in the FY 2009 to US$103.3 million in FY 2010. This increase was primarily due to an increase of $15.1 million in human resources related expenses, primarily as a result of the addition of approximately 2,480 new employees in management departments. In addition to that, New Oriental is having difficulty finding teachers who meet the company's standards for qualifications and in-classrooms skills. This would substantially increase the company's training costs for new entry level employees because of their lower than required qualifications.

Management

Michael Yu is the founder of New Oriental and serves as the Chairman of the Board and as the company's CEO. He is also the Vice Chairman of the Beijing Young Entrepreneurs Association and Vice Chairman of the Committee of Education of the Central Committee of the China Democratic League. Prior to founding New Oriental, Mr. Yu was an English instructor at Peking University between 1985 and 1991. Mr. Yu received his bachelor's degree in English from Peking University. Louis Hsieh has served as the company's CFO since December 2005.

Ownership	
% of Shares Held by All Insider and 5% Owners	1.0%
% of Shares Held by Institutional and Mutual Fund Owners	76.0%

Top 5 Shareholders

Shareholder	Shares	% Out
MORGAN STANLEY	3,279,164	8.44
OPPENHEIMER DEVELOPING MARKETS	2,567,000	6.61
MATTHEWS ASIA FDS-MATTHEWS PACIFIC TIGER	2,057,600	5.30
MATTHEWS ASIA FDS-MATTHEWS CHINA FD	2,020,800	5.20
CALAMOS GROWTH FUND	2,000,000	5.15

Source: Yahoo Finance