Applied Investment Management (AIM) Program

AIM Class of 2017 Equity Fund Reports
Fall 2016

Date: Friday, September 9th | ***Time:*** *3:00 – 4:30* p.m. | ***Location: AIM Research Room 488***

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

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Achaogen Inc. (AKAO)
September 9, 2016

Andrew Szyman — Domestic Healthcare

Achaogen, Inc. (NASDAQ:AKAO) is a clinical-stage biopharmaceutical company that focuses on the research, development, and commercialization of antibacterials to treat multi-drug resistant (MDR) gram-negative infections. Its lead product candidate, plazomicin, is a once daily 30 minute IV infusion aminoglocycide used for the treatment of serious bacterial infections due to MDR enterobacteriaceae, including carabapenem-resistant enterobateriacae (CRE). Plazomicin has shown efficacy in complicated urinary tract infections (cUTI), blood stream infections (BSI), and pneumonia through clinical trials. Aside from plazomicin, AKAO has an LpxC inhibitor staged for clinical trials in 2017, and a therapeutic antibody program aimed towards monotherapy treatment for enterobateriaceae. Achaogen was founded in June 2002, and is headquartered in San Francisco, CA.

Price ($):	4.32
Price Target ($):	6.07
52WK H-L ($):	7.25 - 2.59
Market Cap (mil):	101
Float (mil):	14.9
Short Interest (%):	10.1%
Avg. Daily Vol (000)	369.10
Dividend ($):	0.00
Yield (%):	0.0

Beta:	1.02
WACC	21.15%
M-Term Rev. Gr Rate Est:	75.25%
M-Term EPS Gr Rate Est:	29.39%
Debt/Equity:	66.15%
Debt/EBITDA	N/A
ROA (%):	-39.50%
ROE (%):	-50.28%
ROIC (%):	-44.30%

FY: Dec	2016	2017E	2018E	2019E
Revenue (Mil)	38.99	18.57	33.26	98.79
% Growth	49.61%	-52.38%	79.14%	197.01%
EBITDA Margin	-147.76%	-225.31%	-66.86%	4.04%
Net Margin	-153.69%	-237.93%	-76.24%	0.78%
EPS (Cal)	-$2.30	-$1.70	-$0.98	$0.03
FCF/Share	-$2.14	-$1.64	-$0.84	$0.09
P/S (Cal)	2.96	6.21	3.47	1.17
EV/S	1.42	2.98	1.66	0.56

Recommendation

Achaogen’s improved aminoglycoside antibiotic, plazomicin, has the ability to address the growing issue of MDR gram-negative infections like CRE. These bacterium have generated extraordinary concern as patients with CRE infections face mortality rates as high as 50%. Because of this, there is an overwhelming demand from the CDC and hospitals for new antibiotics that can eradicate bacteria resistant to today’s medicines. In 2013, the CDC identified CRE as a “nightmare bacteria” and an immediate public health threat that requires “urgent and aggressive action.” According to a 2013 study by the CDC, each year more than two million Americans are infected with antibiotic resistant bacteria, which accounts for at least 23,000 deaths. These infections are not only lethal, but can cost up to $20B in direct healthcare costs. With the growing MDR threat, the global antibiotics market has grown at a five year CAGR of 5.9%. These tailwinds translate into a healthcare market in great demand for an antibiotic, like plazomicin, that can address the costs and destructiveness of MDR bacteria. Notably, plazomicin has shown strong potency against CRE isolates compared to marketed antibiotics both in *in vitro* and *in vivo* nonclinical studies. Phase 1 testing proved the drug to have similar toxicity to marketed aminoglycosides, while phase 2 proved non-inferiority to levofloxacin, generating microbiological eradication rates of 89% and 81%, respectively. These positive clinical and nonclinical trial results suggest a low clinical risk for commercialization. Furthermore, as of September 1, plazomicin finished enrollment for phase 3 trials. With top line data expected to be released Q1 of 2017, Achaogen is expected to file a NDA to the FDA by the second half of 2017, and be launched into market by 2018. Achaogen has the potential to leverage plazomicin’s superiority to current medical treatments for many years to come as the drug has demonstrated potential to penetrate a high unmet medical need with a growing patient population, strong physician interest, and a capability to lower direct healthcare costs. Due to the aforementioned, it is recommended that AKAO be added to the AIM Micro-Cap Fund at a target price of $6.07, yielding an upside of 40%.

Investment Thesis

- **Large growing patient population with a high unmet medical need.** According to the CDC, in the United States 5% to 10% of all hospitalized patients fall ill with healthcare associated infections. There are 12M of these infections every year. About 1% are confirmed CRE cases and another 2% are suspected. The confirmed CRE percentage is expected to rise to 2% by 2018, and is anticipated to continue its upward trend. Likewise, the confirmed number of CRE infections per year are projected to grow at a five year CAGR of 15%. This growth has led to strong demand, translating into favorable drug pricing. According to a 2013 forum made up of the FDA and industry representatives, panelists supported an approximate price point of $15,000 per treatment course for new antibacterial agents for resistant infections.

- **Strong physician interest.** According to a 2015 market survey done by AKAO, 35-40% of infectious disease physicians are expected to use plazomicin in CRE infections. This percentage is estimated to rise with positive phase 3 top line data. Further, 50-70% of physicians planning on adopting plazomicin are expected to use the drug for combination therapy to improve coverage for suspected and confirmed CRE infections. Subsequently, this would allow plazomicin to be administered in a larger quantity of infections.
- **Lowers direct healthcare costs.** The median confirmed case for a MDR gram-negative infection hospitalizes patients for 47 days and leaves $178,359 in direct hospital costs. This gives physicians an incentive to use a more efficient and effective antibiotic. Plazomicin is expected to treat patients with cUTI in 5 to 7 days while treating BSI and pneumonia patients in 7 to 14 days.

Valuation

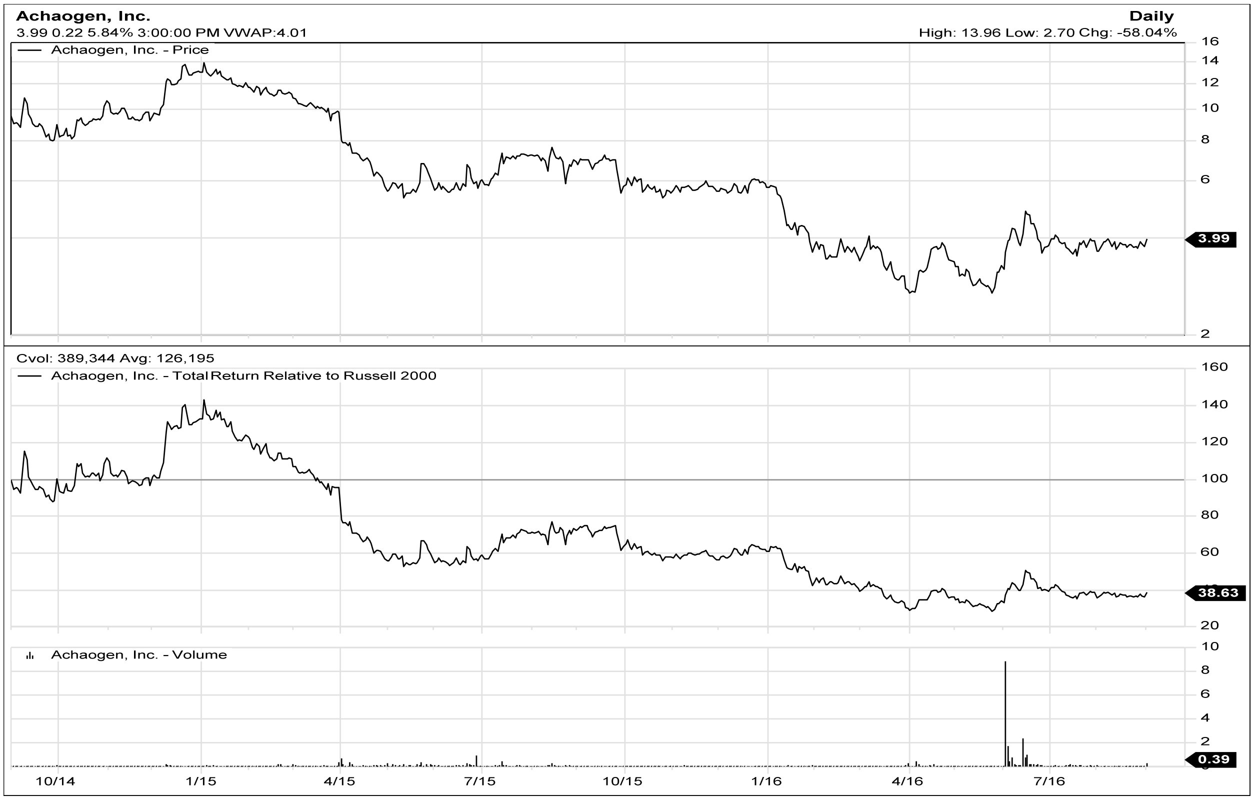
In order to reach an intrinsic value for AKAO, a five year DCF model was constructed. Using a terminal growth rate of 2.5% and a WACC of 21.1%, an intrinsic value of $5.15 was reached. The DCF model expects free cash flow to become positive in 2019 as EBITDA margins expand. A ± 1% sensitivity analysis on the WACC and the terminal growth rate yielded a range from $4.20-$6.48. Additionally, a Damadoran-based adjusted EV/EBITDA model was constructed converting R&D expenses into capital expenditures. Using this model, an adjusted 2015 EV/EBITDA multiple of 4.34x was used on 2019E adjusted EBITDA of $59.96M. This calculation was discounted 20% for risk of plazomicin failure to reach market, which yielded a share price of $8.22. Weighting the DCF and adjusted EV/EBITDA multiple 70-30, a price target of $6.07 was reached, representing a 40.47% upside. AKAO does not pay a dividend.

Risks

- **Dependence on plazomicin.** A large portion of Achaogen's future rides on the success of plazomicin. The corporation's financial position could be materially affected if plazomicin is not approved for market.
- **Financing constraints.** Achaogen will likely have to find a source of financing in order to continue to fund the development of plazomicin before it hits the market. As of now, AKAO has about $70M of cash on its balance sheets and about $25 million in long-term debt, which has an interest rate of 7%. Management believes they have enough cash on hand and can be granted financing through non-dilutive measures, such as government grants, in order to stay in operation.
- **Lack of historical profitability.** Achaogen has zero marketed products and has not turned a profit since its existence. Management believes this will continue until plazomicin hits the market in 2018.

Management

Dr. Kenneth J. Hillan has served as Achaogen's CEO since 2011. Prior to joining AKAO, Hillan served at Genentech, Inc. where he was responsible for numerous successful drug approvals. Ian R. Friedland, M.D., joined Achaogen in 2014 as Chief Medical Officer. Prior to joining Achaogen he worked as the CMO for Calixa therapeutics. Tobin Schilke joined Achaogen this year as CFO after 13 years at Roche/Genentech. He served as the CFO and company director for Roche in the United Kingdom.



Source: FactSet

Ownership

% of Shares Held by All Insider Owners:	45.56%
% of Shares Held by Institutional & Mutual Fund Owners:	34.50%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
New Enterprise Associates LLC	4,715,000	17.81
Fidelity Management & Research Co.	2,600,197	9.82
Ecor1 Capital LLC	1,571,708	5.94
Sphera Funds Management Ltd.	1,257,366	4.75
Point72 Asset Management LP	890,000	3.36

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA	Dividend Yield	Price/ Earnings
Achaogen, Inc.	AKAO	101	24	-47.298	0.00	28.38
AstraZeneca PLC	AZN	62,089	16,274	3713.9	4.08	24.98
Paratek Pharmaceuticals Inc	PRTK	302	0	-70039.0	0.00	N/A
Tetraphase Pharmaceuticals, Inc	TTPH	139	9	-70.0	0.00	N/A
Medicines Company	MDCO	2,764	189	-308.2	0.00	27.01
Cempra, Inc.	CEMP	1,159	14	-88846.0	0.00	N/A
Peer Averages		16,324	4,118	-16675.8	1.02	26.0

Source: FactSet

Ruth's Hospitality Group, Inc. (RUTH)
September 9, 2016

Ketty Alvarado — Consumer Discretionary

Ruth's Hospitality Group, Inc. (NASDAQ: RUTH) is a preeminent steakhouse chain that focuses on differentiating its core products, dining segments and franchisee licensing expansion. RUTH is divided into two segments: Company-Owned Operations (95.5% of revenue) and Franchise Operations (4.5%). The company currently owns and operates 148 Ruth's Chris Steak House restaurants, including 67 company-owned restaurants and 80 franchisee-owned restaurants, including 20 international franchisee-owned restaurants in Canada, China, Japan and Mexico. The firm is known for its broad selection of menu items, including high quality USDA-prime grade and choice-grade steaks to shrimp and lobster tails inspired by its New Orleans heritage. RUTH was founded in 1965 and is headquartered in Winter Park, FL.

Price ($): (09/01/16)	14.97
Price Target ($):	19.21
52WK H-L ($):	$14.88-18.78
Market Cap (mil):	471
Float (mil):	1.8
Short Interest (%):	1.50%
Avg. Daily Vol (k):	252.5
Dividend ($):	0.24
Yield (%):	1.90%

Beta:	0.75
WACC:	7.92%
M-Term Rev. Gr Rate Est:	9.8%
M-Term EPS Gr Rate Est:	24.4%
Debt/Equity:	50.6%
Debt/EBITDA (ttm)	1.9x
ROA:	14.0%
ROE:	31.1%
ROIC:	29.1%

FY: June	2015A	2016E	2017E	2018E
Revenue (mil)	373.4	393.5	425.3	474.2
% Growth	7.90%	5.37%	8.08%	11.50%
Gross Margin	23.29%	23.82%	23.74%	23.36%
Operating Margin	11.99%	12.62%	12.64%	12.36%
EPS (Cal)	$0.87	$1.15	$1.56	$1.78
FCF/Share	$1.00	$1.22	$1.50	$0.98
P/E (Cal)	17.2	13.0	9.6	8.4
EV/EBITDA	8.7	8.0	7.5	6.9

Recommendation

RUTH has established itself as a leading U.S. steakhouse restaurant with innovative offerings and a solid business model. While many competitors such as Del Frisco's Restaurant Group and Fogo de Chao have focused on cutting costs in the midst of slowing growth, RUTH has maintained strong revenue growth, increased its franchise footprint, and improved its menu offerings. In FY2015 Ruth's Hospitality Group reported strong financial results, highlighted by revenue of $373.4 million compared to $346.1 million in FY2014, representing year-over-year growth of 8%. This increase in the revenue was primarily due to an 8.1% increase in restaurant sales and a 5.7% increase in franchise income. In addition, RUTH has achieved a 5-year CAGR of 12% in its operating margin, which corresponded with an 11% increase in EPS over 2014 and 2015. This strong trend in profitability has allowed RUTH to generate cash-on-cash returns of 60% from its different locations. In comparison to its peer average cash-on-cash returns of 38%, RUTH has positioned itself as a clear leader in the market. Likewise, RUTH's pricing power, new drink specials, and menu expansions have driven same-store sales (SSS) growth FY2015 up to 3.8% for company-owned and 3.4% for franchise-owned operations, which has in turn translated into higher profits. RUTH aims to expand franchise locations by developing new relationships and expanding the rights of existing franchisees to open new restaurants. Because of RUTH's strong business model and potential to keep expanding its businesses and products, it is recommended that Ruth's Hospitality Group be added to the AIM Equity Fund with a price target of $19.21, which represents a 28% upside.

Investment Thesis

- **Continued Same Store Sales Growth.** As of Q4 2015, RUTH has generated 3.5% of same-store sales growth. In 2016, SSS growth remains consistent, with pricing growth at 1.1% and continued positive mix, despite a more cautious consumer environment and more discounting in the steak category. Management remains confident in the ongoing evolution of RUTH and its ability to drive a gradual 2-2.5% SSS lift with the menu refresh with premium items now rolled out to all company-owned and domestic franchise restaurant.

- **Growing US Restaurant Industry.** RUTH stands to augment its revenue growth as a result of the growing US restaurant industry. According to the National Restaurant Association, due to a stronger economy and high levels of demand among consumers, restaurant industry sales are projected to account for 4% of the US Gross Domestic Product. The restaurant industry share of food in dollars have increased from 25% in 2000 to 47% at present. These initiatives may enable RUTH to capture the potential growth from the US restaurant industry.
- **Increasing Global Footprint.** The company intends to expand its presence through the opening of restaurants in the US. In FY2015 the company invested $12.5 million in restaurant remodeling projects and $6.8 million to open new restaurants, including two new company-owned Ruth's Chris Steak House restaurants St. Petersburg, Florida and Dallas, Texas, and three franchisee restaurants in Michigan, South Carolina, and Texas. Management affirms that RUTH intends to open seven new international Ruth's Chris Steak Houses in 2016; four company-owned and three franchise-owned operations. The company anticipates capital expenditures of US$28 million towards restaurant remodeling projects and US$30 million to build new restaurants in FY2016. This rising restaurant count should increase the visibility of the brand and encourage more customers to visit its restaurants, thereby driving SSS growth.

Valuation

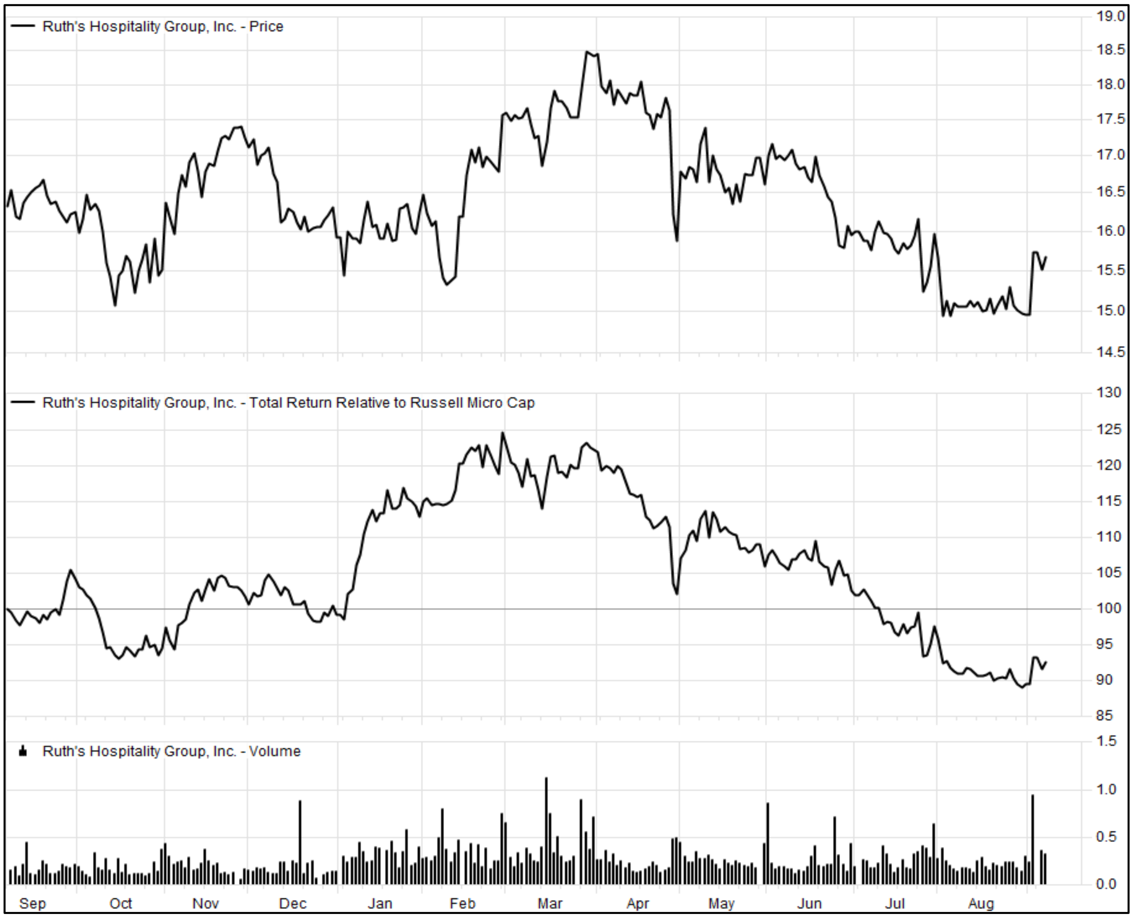
In order to reach an intrinsic value for RUTH, a five-year discounted cash flow model was constructed. Using a WACC of 7.92% and a terminal growth rate of 2.00% resulted in a target price of $23.60. A ± 1% sensitivity analysis on the WACC and the terminal growth rate yielded a range from $14.88- $29.28 per share. In addition to the DCF, an EV/EBITDA model was employed. Using a 8.24x multiple and RUTH's 2016E EBITDA of $62.17 million returned a target price of $15.96 per share. Finally, a P/E model was utilized using a peer average P/E multiple of 15.71x and RUTH's 2016E EPS of $1.15, which produced a target price of $18.07 per share. Weighting the DCF, EV/EBITDA, and P/E valuation models 33% each yielded a final target price of $19.20, or an upside of 28% over RUTH's current price. The company paid a $0.24 annual dividend in 2015, yielding 1.90%.

Risks

- **Macroeconomic risk.** RUTH's success is heavily tied to the strength of the overall economy. The company is subject to the strength in the upper tiers of consumer and business spending and any slowdown in the 20 foreign countries in which they operate, which could pressure top line results. Despite the market's steadily increasing concern that a broader economic slowdown could be on the horizon, RUTH's customer base remains strong.
- **Increase in input prices.** RUTH's model also faces risks related to food costs through availability and pricing, especially on its primary commodity, beef (50% of total COGS). The company does, however, expect a 2-4% deflation in beef by the end of this year.
- **Limited scale of operations.** RUTH's operations are limited compared to its competitors operating in the U.S. Companies such as Darden Restaurants, Inc., and Del Frisco's Restaurant Group, Inc. have wide geographic operations compared to Ruth's Hospitality. With competitors having diversified their geographical operations, Ruth's is at somewhat of a disadvantage when it comes to maintaining visibility for its brand and attracting customers.

Management

Mr. Michael P. O'Donnell has been the President and CEO of Ruth's Hospitality Group, Inc. since 2008. Prior to joining the company, Mr. O'Donnell served as President of MPO Enterprises and CEO of Champps Entertainment, Inc. He holds a B.A. from Rollins College. Arne G. Haak has served as CFO since 2011 and brings years of experience in the restaurant industry.



Source: Factset

Ownership

% of Shares Held by All Insider and 5% Owners:	81.53%
% of Shares Held by Institutional & Mutual Fund Owners:	35.11%

Source: Thomson One

Top 5 Shareholders

Holder	Shares	% Out
BlackRock Institutional Trust Company	2,901	8.88
The Vanguard Group, Inc.	2,191	6.70
Fidelity Management & Research Company	1,444	4.42
Dimensional Fund Advisors, L.P.	1,347	4.12
O'Donnell (Micheal P)	1,175	3.60

Source: FactSet

Peer Comparables

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA Margin	EV/ EBITDA	P/E NTM
Ruth's Hospitality Group	RUTH	471	380	15.7%	8.8x	15.0x
Del Frisco's Restaurant Group	DFRG	349	344	13.6%	7.8x	16.9x
Fogo de Chao	FOGO	351	277	19.5%	7.8x	13.6x
J Alexanders Holdings A	JAX	140	219	10.5%	7.4x	17.4x
Darden Restaurants	DRI	7,723	6,934	13.9%	8.9x	15.4x
Brinker	EAT	2,950	3,258	14.2%	9.3x	15.3x
Peer Averages		2,303	2,206	14.3%	8.2x	15.7x

Source: FactSet

Kaiser Aluminum Corporation (KALU)

September 9, 2016

Andy Krueger Materials

Kaiser Aluminum Corporation (NASDAQ:KALU) engages in the creation of semi-fabricated specialty aluminum goods. KALU manufactures a variety of products including aluminum plate and sheet, extruded and drawn products primarily used in the aerospace/high strength automotive markets, general engineering, and other products for industrial oriented end markets. The company earns all revenues within North America with the split being heavily weighted towards the U.S. (95%), noting that the rest are earned in Canada (5%). KALU aluminum products are used in a variety of capacities in the aerospace and automotive industries, from the skin of an airplane, to the driveshaft in a truck. KALU operates more than ten production sites in the US, as well as one in Canada. The company receives roughly 50% of revenue from aerospace/high strength products, 30% from general engineering products, 15% from automotive extrusions, and 5% from other products. Finally, KALU is headquartered in Foothill Ranch, CA and the company was founded in 1946.

Price ($):	89.36
Price Target ($):	118.35
52WK H-L ($):	96.06 - 70.14
Market Cap (mil):	1,607
Float (mil):	17.5
Short Interest (%):	4.2
Avg. Daily Vol (mil):	0.1
Dividend ($):	1.80
Yield (%):	2.1

Beta:	0.73
WACC	5.14
M-Term Rev. Gr Rate Est:	-8.3%
M-Term EPS Gr Rate Est:	17.9%
Debt/Equity:	45.6
Debt/EBITDA (ttm):	1.65
ROA (%):	6.56
ROE (%):	11.19
ROIC (%):	8.12

FY: Dec	12/31/2015	12/31/2016	12/31/2017	12/31/2018
Revenue (Mil)	1,391	1,340.30	1,393.91	1,456.64
% Growth	2.6%	-3.7%	4.0%	4.5%
Gross Margin (%)	19.84	24.29	21.87	23.45
EBITDA Margin(%	13.20	15.70	15.70	15.70
Adj. EPS (Cal)	$4.95	$5.01	$5.33	$5.80
FCF/Share	$3.48	$5.56	$2.41	$5.66
P/E (Cal)	18.5	15.5	15.2	14.5
EV/EBITDA	7.8	7.0	7.9	7.5

Recommendation

KALU is the leading North American specialty aluminum producer with minimal metal price risk. KALU minimizes metal risk through contractual agreements and financial hedges, which protects margins from most aluminum price fluctuations. An important metric for KALU is value added revenue (VAR) growth, highlighting that over the past 17 quarters YoY VAR growth has averaged 5.5%. Also, the aerospace backlog has historically been a three to five-year backlog, although recent KALU estimates state the backlog at over 9 years long. In addition to this record backlog, metal producer Alcoa is on the record projecting aluminum content per automobile will increase by 39% by 2025 to 547lbs. These facts support the notion that roughly 75% of KALU's revenue streams will be experiencing high growth in the next three to five years. One key competitive advantage baked into KALU's business model is the ability to produce specialty metals that outperform the products offered by its competitors. KALU is unique versus other aluminum players because KALU focuses solely on aluminum fabrication, allowing the company to produce top-of-the-line aluminum products when measured by a variety of performance standards. In terms of the business model, after a contract is awarded, the winning supplier produces the contracted part until the product containing the specified part is no longer produced, with the customer rarely terminating the production contract due to the high risk associated with switching suppliers. KALU and Boeing recently began discussions regarding a new contract, and without releasing further details, KALU management made it clear they are confident in KALU's ability to retain the supply agreement. Thus, KALU can reasonably forecast revenues from the nearly 10 year backlog in the commercial aerospace industry. With the strong demand for aluminum in the aerospace and automotive markets, earnings leverage available to the company, and strong leadership from the firm's top management, it is recommended that KALU be added to the AIM Equity Fund with a price target of $118.35, representing a 32.5% upside. Notably, the company's dividend yield is 2.10%.

Investment Thesis

- **Well Supported Demand.** Total commercial airframe deliveries for KALU are projected to grow 8% YoY through 2018, with the most growth coming from B737 and A320 wide-body models.

Automotive demand in North America is expected to remain flat through 2018, however, aluminum content per vehicle is growing in the high single-digits YoY. Higher fuel efficiency and stricter emission requirements from federal regulations is causing the movement towards new automotive models containing more aluminum, as it is a lighter metal than traditionally used in vehicles. In 2015, North American auto production flattened, while KALU auto shipments grew 19% YoY. Recent support for the growing demand in aerospace and automotive markets came when Zhongwang International Group Ltd. purchased Aleris Corp, a competitor of KALU, for $2.33B.

- **Available Earnings Leverage.** KALU spent roughly $285M upgrading their manufacturing plants in Trentwood and Kalamazoo which will lower production cost and increase capacity by 20-30%. Currently, the plants remain underutilized; however, Boeing 737 and Airbus 320 annual builds will increase versus narrow-body designs in 2017. The B737 and A320 designs use two to three times as much Aluminum versus their narrow-body counterparts, helping absorb KALU's previously mentioned excess capacity. Once the Trentwood and Kalamazoo facilities are at peak capacity, KALU expects to see 500-600bps of EBITDA margin expansion – which will help power roughly $280M-$300M of EBITDA (vs. $183M in 2015).
- **Strong Management through Cycles.** KALU's CEO and CFO each have 20 years of experience with the firm. KALU management takes a long-term, shareholder friendly approach to managing through the cyclicality of the aluminum market. Management puts an emphasis on share buybacks, paying a dividend, and driving value-added sales. KALU management has guided for a 5% sales growth CAGR over the next three years, which is clearly a lofty goal, but management has proven to be up to the task after leading the company to a 40% increase in EBITDA and 270bps increase in margins from 2007 to 2015.

Valuation

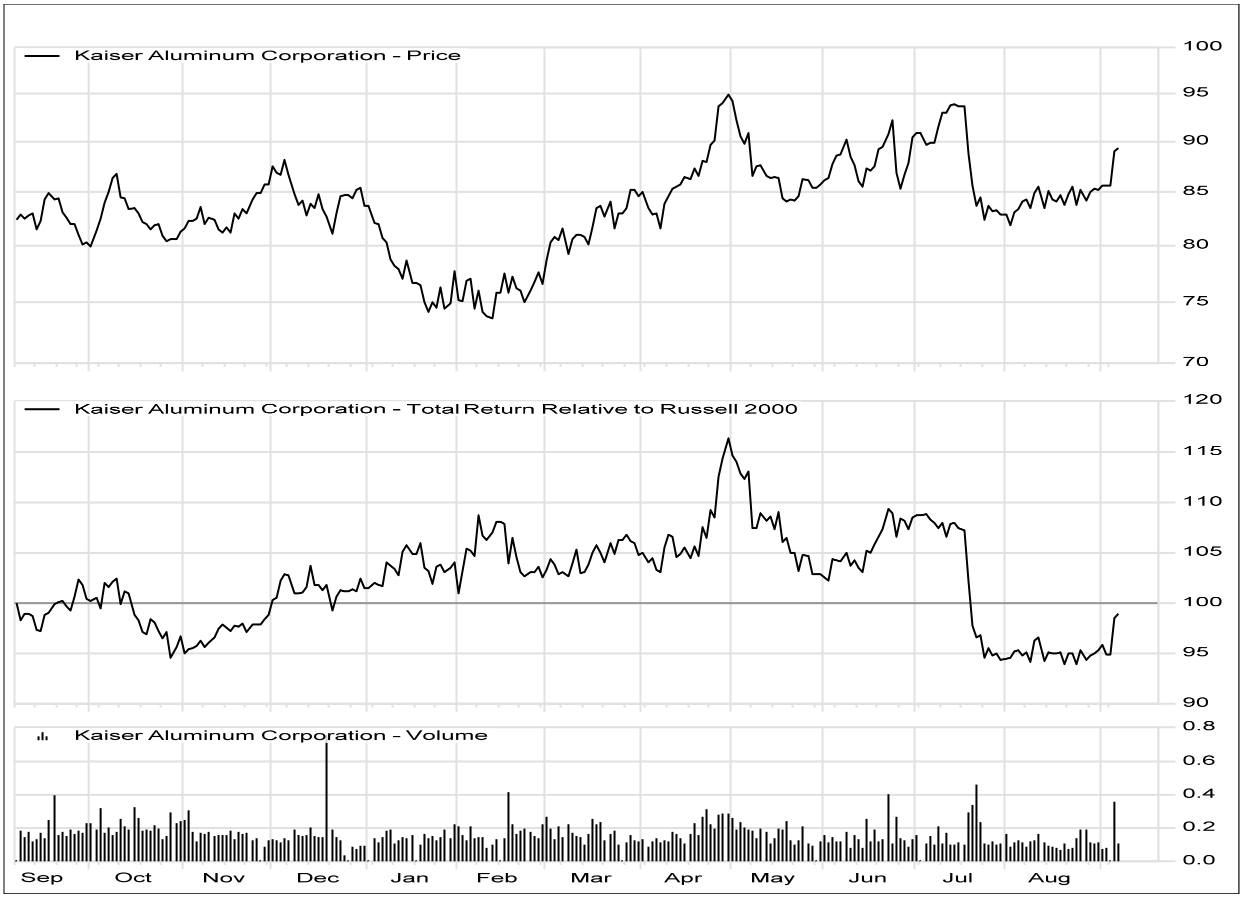
To reach an intrinsic value for KALU, a five year DCF model was created. Using a terminal growth rate of 3.45% and a WACC of 5.14%, an intrinsic value of $113.68 resulted. A ± .5% sensativity analysis on the terminal growth rate and ± .7% sensativity to WACC ranged from $101.11-130.03. Additionally, an EV/EBITDA multiple valuation was conducted using 2016 EBITDA of $223MM and peer comparable multiple of 12.03x, resulting in a valuation of $123.03. By weighting the two valuation models 50/50, a price target of $118.35 was reached, resulting in a 32.5% upside.

Risks

- **Aerospace or Automotive Production Disruptors.** The aerospace and automotive end markets are cyclical and impacted by regulatory laws, economic growth forecasts, and broader financial and credit market conditions. Shifts in any of these macroeconomic factors could interrupt the positive growth trajectory of the aerospace and automotive markets, thus affecting KALU's sales.
- **Concentrated Customer Base.** KALU's top five customers account for roughly 50% of sales with Reliance Steel and Aluminum, the nation's largest service center and distributor, accounting for 25% of KALU sales alone.
- **Next-gen alloys.** Although management is not overly concerned at current, new aluminum alloys are being developed. Such new product introductions have the potential to upset KALU's market share with current customers over the long-term.

Management

Jack Hockema began serving as Chairman and CEO 2006. He has nearly 20 years of experience with KALU where he began his tenure in a VP position. Keith Harvey currently holds the titles of COO and EVP of Fabricated Products at KALU. He began in a Senior VP role in 2012. Daniel Rinkenberger has 21 years of experience with KALU, kicking off his career at the company as an assistant Treasurer in 1995, since becoming CFO and EVP of the company.



Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA	EV/ EBITDA
Kaiser Aluminum Corporation	KALU	1,606.78	1,340.30	213.60	8.00
Constellium NV Class A	CSTM	817.45	5,342.95	222.70	12.82
Century Aluminum Company	CENX	548.58	1,484.06	41.03	12.78
Allegheny Technologies Incorporated	ATI	1,960.79	3,139.60	-128.00	14.36*
Carpenter Technology Corporation	CRS	1,785.74	1,813.20	244.30	9.48
Haynes International, Inc.	HAYN	480.03	415.84	33.10	13.03
Peer Averages		1,118.52	2,439.13	82.63	12.03

**EV/Adjusted EBITDA used*

Source: FactSet

Ownership

% of Shares Held by All Insider Owners:	2.72%
% of Shares Held by Institutional & Mutual Fund Owners:	>90%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
The Vanguard Group, Inc.	1,680,846 ▲	9.35
BlackRock Fund Advisors	1,560,773 —	8.68
Dimensional Fund Advisors LP	900,759 ▼	5.01
SSgA Funds Management, Inc.	700,838 ▲	3.90
Acadian Asset Management LLC	675,042 ▲	3.75

Source: FactSet

Omeros Corporation (OMER)
September 9, 2016

Daniel Drew Domestic Healthcare

Omeros Corporation (NASDAQ:OMER) is a biopharmaceutical company which discovers, develops, and commercializes small-molecule and protein therapeutics; and orphan indications targeting inflammation; coagulopathies (a condition in which the blood's ability to clot is impaired); and disorders of the central nervous system. Omeros' products are derived from its proprietary PharmacoSurgery platform designed to improve clinical outcomes of patients undergoing arthroscopic (a minimally invasive surgical procedure on a joint using a small incision), ophthalmological (branch of medicine that deals with the diseases of the eye), urological (branch of medicine that focuses on surgical and medical diseases of the male and female urinary tract system), and other surgical and medical procedures. The firm's PharmacoSurgery platform is based on low-dose combinations of therapeutic agents delivered directly to the surgical site throughout the duration of the procedure to inhibit early inflammation and other problems caused by surgical trauma and to provide clinical benefits during and after surgery.

Price ($): (9/7/16)	11.2
Price Target ($):	31.5
52WK H-L ($):	8.9-16.8
Market Cap (mil):	475.1
Float (mil):	40.2
Short Interest (%):	24.6%
Avg. Daily Vol (mil):	0.4
Dividend ($):	N/A
Yield (%):	N/A

Beta:	1.3
WACC	10.2%
M-Term Rev. Gr Rate Est:	133.6%
M-Term EPS Gr Rate Est:	285.4%
Debt/Equity:	14.7%
Debt/EBITDA (ttm):	N/A
ROA:	-140.0%
ROE:	N/A
ROIC:	-213.0%

FY: Dec	2015	2016E	2017E	2018E
Revenue (Mil)	13.5	44.0	123.5	301.1
% Growth	1461.7%	225.8%	180.5%	143.9%
Gross Margin	91.9%	95.5%	95.1%	95.1%
Operating Margin	-527.3%	-109.5%	16.9%	57.6%
EPS (Cal)	($1.9)	($1.4)	$0.2	$2.5
FCF/Share	($1.5)	($1.3)	$0.3	$2.6
P/E (Cal)	--	--	67.3x	4.4x
EV/EBITDA	--	--	24.7x	3.0x

Recommendation

OMER is heavily focused on driving higher sales and expanding into new markets this year for one FDA approved product, OMIDRIA. This is OMER' first commercial drug product from its PharmacoSurgery platform, which was broadly launched in the U.S. in April 2015, and is approved by the FDA and the European Commission. OMIDRIA is used during cataract or intraocular lens replacement surgery to improve patient outcomes. The drug is extremely effective with 94% of OMIDRIA patients maintaining a pupil diameter of ≥ 6 mm, compared with just 78% of patients with phenylephrine alone. Delivery of OMIDRIA throughout the surgical procedure prevents miosis (excessive constriction of the pupil) and reduces postoperative eye pain. OMER is not aware of any products that directly compete with OMIDRIA. A significant addressable market opportunity exists regarding the number of cataract surgeries and lens replacement procedures. The World Health Organization estimates that by 2020, 32 million cataract operations will be performed worldwide, up from 12 million in 2000, representing a CAGR of 5%. In 2015, 4 million cataract surgeries were performed in the U.S. About 22 million intraocular lens replacement procedures are performed worldwide each year. OMER expects the number of these procedures to grow annually by 3-4%. The drug timeline is as follows: in 2016 OMS721 Phase III trial enrollment should begin and additional data from Phase II trial for OMS721/aHUS-TMAs; in 2017 Phase III results for OMS721/aHUS-TMAs and potential Phase I results for OMS527/PDE7; and in 2018 OMS721/aHUS-TMAs is expected to be launched. Given these factors, it is recommended that OMER be added to the AIM Portfolio with a price target of $31, representing a 180% upside.

Investment Thesis

- **Several shots on goal.** OMER has a diverse pipeline with drugs in various phases including one candidate in Phase III trials, four in Phase II trials, and several pre-clinical candidates with multiple patents filed, large potential markets, and the likelihood of generating additional spinoff products. OMER has five clinical-stage development programs focused on: complement-related thrombotic microangiopathies (a rare but serious disease that damages red blood cells in many of the body's vital organs – commonly the brain and kidney); complement-mediated glomerulopathies (a rare disease which affects the millions of filtering units that make up the kidney); Huntington's disease (a fatal genetic disorder that causes the progressive breakdown of nerve cells in the brain) and cognitive impairment; addictive and compulsive disorders; and problems associated with urologic surgical procedures. Significant addressable markets exist for OMER including the substance abuse a $484 billion annual market (PPARy completed Phase II), the schizophrenia market with current antipsychotic medications generating over $20 billion (OMS824 is in Phase II clinical trials), and the addressable market for the treatment of PD (a disorder of the central nervous system) is over $4 billion. OMER has retained all commercial rights to its products with the exception of OMS103, a drug used in combination with other arthroscopic irrigation solutions to aid with inflammation during arthroscopic surgery.

- **GPCR platform**: OMER created a unique platform for the discovery of novel GPCR (G-Protein coupled receptor) targeted drugs. The GPCR family represents an important source of drug discovery. Of the 363 characterized GPCRs, only about 46 are currently targeted by marketed drugs, yet GPCR-targeted drugs account for 30-40% of all drugs sold worldwide. At a time when the discovery of novel compounds for GPCRs has slowed significantly, OMER could become a partner for the pharma industry in addition to developing drug candidates internally. Furthermore, the company has a proprietary GPCR platform, which is making available an unprecedented number of new GPCR drug targets and corresponding compounds to the pharmaceutical industry for drug development, and a platform used to generate antibodies.
- **Novel inflammatory disease drug.** OMS721 is a fully human monoclonal antibody that specifically targets the MASP-2 protein, a novel pro-inflammatory protein. OMS721 is easily delivered and more effective than Alexion's Soliris, which generated $2.6 billion in sales in 2015. Alexion Pharmaceutical's Soliris is the only FDA-approved therapy for aHUS and it carries a jaw-dropping sticker price of roughly $537,000 per year in the U.S. Phase III trial enrollment should begin later this year and the FDA awarded OMS721 both orphan drug designation and fast-track status, so its pathway to market is clearer than it may have been otherwise.

Valuation

To reach an intrinsic value for OMER, a five year DCF model was constructed. Using a terminal growth rate of 3% and a WACC of 10%, an intrinsic value of $31 was reached. A ±1% sensitivity analysis on the terminal growth rate and WACC ranged from $41-$25. Additionally, a P/S multiple valuation was constructed using 2016E sales and a peer comparable multiple of 32x, resulting in a valuation of $33. By weighting the DCF (60%) and the P/S (40%), a price target of $31, resulting in a potential 180% upside.

Risks

- **Dependency on the success of OMIDRIA.** OMER' ability to achieve profitability as of now is dependent on the commercial success of OMIDRIA, their only product that has been approved for commercial sale. To the extent, OMIDRIA is not successful, OMER' business, financial condition, and results of operations may be adversely affected.
- **Lack of funding.** To date, OMER has not generated revenues that are sufficient to fully fund its operations. OMER has a cash burn rate of $3 million per month. At this rate, OMER has a cash runway of 8 months. If OMER is unable to generate sufficient revenue, it may be required to raise additional capital to continue to fund its operations.

Management

Gregory A. Demopulos, M.D. founded Omeros and has served as President, CEO, and Chairman of the board of directors since 1994. Prior to founding Omeros, Dr. Demopulos completed his residency in orthopedic surgery at Stanford University and his fellowship training in hand and microvascular surgery at Duke University. Leonard M. Blum joined Omeros as Chief Business and Commercial Officer in 2016. Mr. Blum brings over 28 years of executive and management experience in the pharmaceutical industry.

Ownership

% of Shares Held by All Insider and 5% Owners:	5.96%
% of Shares Held by Institutional & Mutual Fund Owners:	86.97%

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
Ingalls & Snyder	4,414,579 ▲	10.33
BlackRock Fund Advisors	2,575,536 ▲	6.02
Cormorant Asset Management	1,710,000 ▼	4.00
Demopulos Gregory Asset Management	1,676,985 ▲	3.92
Bank of Montreal	1,430,125 ▲	3.34

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Net Income (mil)	D/E	P/E	EV/ EBITDA
Omeros Corporation	OMER	460	(73)	0.1	--	--
Alkermes	ALKS	6,781	(275)	0.2	--	--
Achillion Pharmaceutica	ACHN	1,125	7	0.1	75	--
Ocular Therapeutix	OCUL	158	(44)	0.2	--	--
Corcept Therapeutics	CORT	592	1	0.7	535	144
Peer Averages		2,164	-78	0.3	305	144

Source: FactSet

AUTOLIV (ALV)
September 9, 2016

Matthew J. Ogren International Consumer Discretionary

Autoliv (NYSE:ALV) is a world leader in automotive safety systems. The company designs and produces safety systems for all the major manufacturers within the automotive industry. In 2015, the company split itself into two major operating segments: Passive Safety (83%) and Electronics (17%). Products within the Passive Safety category include basic automotive necessities such as airbags, seatbelts and steering wheels. On the other hand, much of what makes up the Electronics division is considered "active safety systems." While active safety systems are relatively new, they are becoming increasingly popular in automobiles today. These systems include, but are not limited to radar, night vision and camera vision systems. The company was founded by Lennart Lindblad in 1953 and is headquartered in Stockholm, Sweden.

Price ($):	107.93
Price Target ($):	131.93
52WK H-L ($):	129.37 - 95.34
Market Cap (mil):	9,334
Float (%):	99.8
Short Interest (%):	5.8
Avg. Daily Vol (mil):	0.5
Dividend ($):	2.32
Yield (%):	2.2

Beta:	0.85
WACC	7.70
M-Term Rev. Gr Rate Est:	6.0%
M-Term EPS Gr Rate Est:	14.3%
Debt/Equity:	44.5
Debt/EBITDA (ttm):	0.50
ROA (%):	6.10
ROE (%):	13.27
ROIC (%):	9.12

FY: Dec	2015	2016E	2017E	2018E
Revenue (Mil)	9,170	10,087	10,591	11,120
% Growth	-1%	10%	5%	5%
Gross Margin	20%	20%	20%	21%
EBITDA Margin	13%	13%	14%	15%
EPS (Cal)	$6.32	$7.31	$8.43	$9.64
FCF/Share	$3.23	$4.65	$5.55	$6.53
P/E (Cal)	16.7	14.5	12.6	11.0
EV/EBITDA	8.3	7.7	6.9	6.2

Recommendation

As a Fortune 500 company, Autoliv is a respected company that has seen sales grow overall at a 5-year CAGR of 5% - and the company is also well positioned to continue this growth into the coming years. Due to solid organic growth and new ventures, such as their new brake systems joint venture, ALV is expected to achieve a 10% revenue growth in FY'16. The firm has recently partnered with Nissin Koygo to create an improved brake system division, which is a growing part of their Electronics group. This division is working to develop active safety components that will be used to create higher tech and safer vehicles. These innovations are being sought with hopes of taking advantage of the constantly increasing demand for new automotive technology within the U.S. and other developed countries. Lastly, the company currently owns a 39% market share of the global passive safety market - and as growing economies, such as China and India, demand more cars, they are well positioned to take advantage of the market growth. For these reasons it is recommended that ALV receive a buy rating and be added to the AIM International Equity Fund at a target price of $132, representing 22% upside. The company's dividend yield is currently 2.2%.

Investment Thesis

- **Joint venture with Nissin Koygo**: On March 31, 2016, Autoliv finalized a deal with Nissin Koygo to create a joint venture. The JV, Autoliv-Nissin Brake Systems (ANBS), will proceed forward with the goal of manufacturing and providing superior braking control system. This portion of the business could immediately add value to the overall business with expected sales of $400-$450 million in the final 9 months of FY'16 - a sales number that could grow substantially in future periods. In fact, in the company's 2015 report, Autoliv's CEO, Jan Carlson, expressed his enthusiasm and excitement about the new venture. He stated, "This arrangement will provide Autoliv with a firm foothold in this area, something that has been a strategic priority for some time." The new brakes division will include Autonomous Emergency Braking (AEB) which will help drivers identify other vehicles and pedestrians, braking the car on its own if needed. These braking capabilities will be a must for self-driving cars and are a great example of Autoliv's forward looking mindset and constant desire to improve their position within the market.

- **Growth of spending on active safety**: Consumers in the United States purchased 17.5 million new cars last year, amounting to $570 billion of industry revenue. According to an article published earlier this year in the Wall Street Journal, auto sales are expected to continue to grow in FY'16. This is good news for Autoliv, which generates 35% of its revenue from sales in the Americas. The consumers in developed Western economies, who are buying these cars, have indicated that safety is one of the strongest drivers for new car sales. Autoliv has recognized that this trend and has invested over $1.5 billion in RD&E since the beginning of 2014. ALV now offers over 35 car safety products and that number continues to grow each year as a result of their development efforts. Some of the newest technologies include Adaptive Cruise Control (ACC), which includes features like Queue Assist. This feature takes control of braking and accelerating during stop-and-go traffic. This new product makes driving safer and more comfortable and will contribute to Autoliv's expected 5% organic annual growth.
- **Growth in car sales in growing economies:** Emerging markets, such as China and India, continue to grow at impressive rates. As Asian economies further develop, the overall demand for automobiles will grow nearly double-digit levels. A recent Bloomberg article reported that retail sales of cars, utility vehicles and multipurpose vehicles grew by 9.5% in China during first half of this calendar year. In the company's 2015 report, they stated, "Statistically, there were almost two seatbelts and more than 1.5 airbags from Autoliv in every vehicle produced globally." With this in mind, Autoliv is well positioned to take full advantage of the further gains within the global market.

Valuation

In order to reach an intrinsic value for ALV, a five year DCF model was constructed. Using a terminal growth rate of 2.50% and a WACC of 7.70%, an intrinsic value of $142.76 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $132.65-154.80. Additionally, a P/E multiple valuation was conducted using expected 2017 EPS of $8.43, a comparable average P/E of 14.37x and ALV's FY1 P/E which resulted in a valuation of $121.11. By weighting the two valuation models 50/50, a price target of $131.93 was reached, which yields a 22.24% upside. ALV regularly pays a quarterly dividend which yields about 2.2%.

Risks

- **Currency risk:** Autoliv is a company that does business globally, exposing them to multiple currencies. In fact, the company does approximately three quarters of its sales in currencies other than the U.S. dollar. Autoliv actively monitors but does not hedge its currency exposures.
- **Risk of recall:** In this past June Autoliv announced its cooperation in Toyota's recall of both the Toyota Prius and the Lexus CT200h. It is estimated that the cost of this specific recall will not exceed $20 million. Although recalls are always a risk within the automobile industry.
- **Global economic downturn:** As is true with most stocks in this sector, a poor economy will hurt demand. When it comes big ticket things like automobiles, many people will try to stretch out the useful life of their current vehicle rather than by a new one during downturns.

Management

Mr. Jan Carlson became the President, CEO and a board of director for ALV in 2007. Seven years later, Carlson became Chairman of the Board, in May of 2014. Carlson has been with the company for 17 years. Carlson's previous positions within the company include being President of Autoliv Electronics and Vice President of Engineering for the company.

Ownership

% of Shares Held by All Insider Owners:	0.22%
% of Shares Held by Institutional & Mutual Fund Owners:	>90%

Source: FactSet

Top 5 Shareholders

Holder	Shares	% Out
Alecta Pension Insurance Mutual	8,463	9.59
AMF Pensionsforsakring AB	2,875	3.26
Fidelity Management & Research Co.	1,778	2.02
BlackRock Fund Advisors	1,650	1.87
Norges Bank Investment Management	1,489	1.69

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Sales (mil)	EBITDA	Dividend Yield	EV/ EBITDA
Autoliv	ALV	9,367	9,713	1274	2.20	7.92
HELLA Hueck	HLE	4,492	7,045	805.1	2.27	5.91
Toyoda Gosei	7282	2,994	6,615	764.2	2.58	4.02
Delphi Automotive	DLPH	19,274	15,767	2585.0	1.17	9.01
Denso	6902	32,796	38,695	4950.5	2.65	5.71
Peer Averages		14,889	17,031	2276.2	2.17	6.2