Applied Investment Management (AIM) Program

AIM Class of 2010 Equity Fund Reports

Broadview Advisors - AIM Student Presentations
November 13, 2009

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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
or visit www.busadm.mu.edu/aim

ABB Ltd.
ABB
Price: $20.04 ($9.11-22.01)
Fiscal Year Ends: December 31

November 10, 2009 | Daniel Widjaja
iShares MSCI EEM Index: $40.92 (18.22-42.00) | International Industrial Materials

ABB Ltd. (ABB) is global leader in providing power and automation solutions to utilities and industrial customers. The company's goal is to help their customers eliminate waste through improving energy efficiency, optimizing factory processes, and promoting a safe working environment. ABB is divided into five divisions: Power Products (31% of total revenue in 2008), Power Systems (18%), Automation Products (27%), Process Automation (20%), and Robotics (4%). Power Products serves customers with a product portfolio for power transmission and distribution. Power Systems gives customers a range of systems and services necessary for power generation, transmission, and distribution. Automation Products provides products and services that are used by industrial customers as components in machinery, buildings and automation systems. Process Automation offers products, systems, and services that automate and optimize industrial processes. Robotics provides robot products, systems, and services for the automotive and manufacturing customers. ABB Ltd. is headquartered in Zurich, Switzerland.

Recommendation

The International Energy Agency (IEA) estimates that demand for energy in 2030 will be 40% higher than demand in 2007, with global electricity consumption expected to grow by 76%. The emission of greenhouse gas raise concerns and IEA has indicated that the fastest and cheapest way to lower emissions is through energy efficiency. As an industrial company specializing in highly-efficient electric products and systems, ABB is well-positioned to take advantage of the changing landscape of the industry. Instead of building new networks to meet increasing demand, utility and industrial customers find benefits in ABB products as their solutions can improve current capacity and potentially reduce energy losses by 20-30%. ABB's presence in emerging market is also enviable. The most energy-efficient economies generate close to six times more GDP with the same amount of energy than the least efficient, highlighting the high demand for energy efficiency in the region. The company has a strong balance sheet, boasting a debt-to-asset ratio of 7.1%, while its competitors averaged 23.1%. It also has a strong cash balance of $6.4B (19.3% of total assets), insulating itself from dependency on credit markets. ABB is also improving its profitability, as operating margin rose from 5.5% in 2004 to 13.1% in 2008 while their peers averaged 10.1% over the past five years and 10.3% for 2008. Given its leading position in the industry, strong balance sheet, and improving profitability, it is recommended that ABB be added into the international portfolio with a target price of $23.44, a return of 20%.

Key Statistics	Nov.10, 2009
Market Cap	$46.47B
Shares Outstanding	2323.257M
Ave. Volume (3 month)	3,364,065
Adjusted Beta	1.26
EPS (2008)	$1.36
2009 Estimated EPS	$1.25
P/E (Current)	17.8
P/E (5 year average)	21.2
WACC	11.98%
Debt/Assets	7.12%
ROE	20.55%
ROA	7.69%
Dividend Yield	0.00%
Gross Margin	31.34%
Operating Margin	13.05%
Analyst Coverage	7
Target Price	$24.05

Source: Bloomberg

Investment Thesis

- **Exposure to Emerging Markets.** Industrial expansion in developing countries is a primary source of growth for ABB as electricity usage in non-OECD countries is expected to grow at a CAGR of 3.8% from 2006 to 2030. In 1H09, 51% of orders received came from emerging markets. China is ABB's largest market in 2008, accounting for 11.7% of total revenue, followed by US and Germany. 44% of ABB's employees are also based in emerging markets. In addition, 38% of raw materials purchased are from lower-cost countries. Over the next five years, China and India are expected to spend $120-$150B on power infrastructure to meet increasing demand. Per person energy usage of energy in non-OECD countries is currently less than half of those in OECD countries, highlighting the potential for growth. Furthermore, India's government has committed to make electricity available to all of its citizens by 2012.

- **Global Push in Energy Efficiency.** Only 20% of energy generated in power stations reaches end-customers, and ABB is deeply involved in improving this inefficiency. The EU estimated that up to 48 million MW (equivalent of 13 million EU households) are lost in the current transmission system that can be cut by using today's energy efficiency technologies. ABB also has a project in China where it can save enough electricity for 150,000 households. UHVDC (ultrahigh-voltage direct current), one of ABB's newer products, can save about 30% of transmission losses on power transmission lines that are above 1,500km.
- **Government Stimulus Plans.** Governments around the world are pushing for cleaner and more efficient technologies through various stimulus plans. In the US alone, the Obama administration has recently announced a $3.4B smart grid project. ABB also commented that $37B of the America Reinvestment and Recovery Act is relevant to the company. Due to its strong footprint in the US market, ABB will benefit indirectly from the stimulus as demand for its high efficiency transmission and distribution systems increases.

Valuation

Based on a 5-year DCF analysis with a computed WACC of 11.98% and terminal growth rate of 3.5%, an intrinsic value of $24.05 was obtained. The stock is currently trading at 17.8x earnings. A sensitivity analysis was also created to test various assumptions. Using a range of WACC (10.12-14.12%) and terminal growth values (2.5-4.5%), the analysis yielded intrinsic values between $17.55 and $36.09. With the stock currently trading at $20.04, the $24.05 price target represents a 20% upside.

Risks

- **Prolonged Economic Downturn.** Due to the cyclical nature of the business, ABB is negatively affected by the current economic downturn. Sales of power systems and products could continue to be affected by decreased capital expenditure from utility companies, while other divisions may suffer from decreased capex by industrial companies. Management remained bearish in their third quarter earnings call this year, indicating that they are not yet seeing signs of stability or bottoming out. Although ABB has a $2B cost-cutting program, this will not be sustainable as the company must eventually grow revenue.
- **Acquisitions.** The board of directors has clearly indicated that they want the company to grow through acquisitions when they replaced former CEO Fred Kindle with Joe Hogan. This change in management direction could give rise to several risks, such as overpaying for acquired company. Additionally, after an acquisition is made, synergies may not be as optimistic as management indicated before the acquisition. Availability of capital should not pose a problem as ABB has a large cash balance of $5.8B.

Management

Before coming to ABB in 2008, CEO Joe Hogan served as CEO and President of GE Healthcare, and held various positions at GE from 1985 to 2000 before he became President of the unit. He was hired by the Board of Directors after former CEO Fred Kindle left the company. The Board disagreed with Kindle on ways to grow the company, as Kindle favored organic growth while the board favored growth through acquisitions. Michael Demare joined ABB in 2005 as Chief Financial Officer and served as interim CEO when Kindle left the company.

Ownership

% of Shares Held by Insiders:	0.08%
% of Shares Held by Institutional & Mutual Fund Owners:	26.6%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Neuberger Berman LLC	21,443,830	0.92%
Fisher Investments Inc.	20,669,958	0.89%
Davis Selected Advisers LP	15,282,852	0.66%
Wellington Management	8,822,585	0.38%
Manning and Napier Advisors Inc.	7,758,585	0.33%

Source: Bloomberg

Duoyuan Global Water (DGX)
Price: $36.61 ($20.40-$43.65)
Fiscal Year Ends: December 31

November 13, 2009 — Nathan Novak
iShares MSCI EAFE Index 56.42 ($31.70-57.07) — Industrial Materials Sector

Simply stated, Duoyuan Global manufactures products that treat water. They manufacture over 80 different products that can be broken down into three categories, circulating water (the oldest segment accounting for 38% of revenue), water purification (21%) and wastewater treatment (41%). Operating in a very underdeveloped market (from a water infrastructure perspective,) DGW focuses on offering proven technologies, rather investing in the next potential cutting edge technology. Their end users are municipalities, industrial entities, and office/residential buildings. 100% of the company's revenue comes from China and they have a strong network of approximately 80 distributors spanning across the country; with a slight concentration in the north/northeast and the interior provinces. In the most underdeveloped areas, DGW has several 5, 10 and 15 year relationships with distributors. The company's IPO was in June 2009 and is listed on the NYSE. Located in Beijing, DGW was founded in 1992.

Recommendation

Duoyuan Global Water is the only US-listed pure play Chinese water stock. In this highly fragmented, domestically dominated market, China has seen a consistently growing population mixed with rising pollution rates and higher instances of water scarcity. Only 1/3 of wastewater in China is treated and over 90% of all urban surface water is considered polluted. In early 2009, a drought affected over 40% of China's wheat crop and left 4.3 million people without drinking water. Globally, China is ranked 128th in water availability. Recognizing the problem, the Chinese government has committed itself to water infrastructure improvement, earmarking $128B in its most recent 5 year plan, and allocating another $51B in the recent stimulus package. Government and distributor relationships in China have left international competitors nearly a decade behind DGW. Of the Chinese domestic players, each has about 5 to10 distributors, while DGW has over 80. The $100M raised by the firm in its recent IPO, along with its historically strong positive cash flows, can be used to fund future capital expenditures. Management stated that the IPO capital will be used to expand existing capacity by 3x, further strengthening their dominant market position. Additionally, the company has no long term debt. Therefore, because of DGW's unique capital and distributor intensive position in a high growth industry with inherent national barriers to entry, it is recommended that Duoyuan Global Water be added to the international AIM portfolio with a target price of $46.

Key Statistics	Nov. 13, 2009
Market Cap	$799.97M
Shares Outstanding	21.85M
Ave. Volume (3 month)	244,602
Bk value/share	$7.84
EPS (TTM)	$1.37
2009 Estimated EPS	$1.61
P/E (TTM)	26.72
Asset Turn	0.9
Debt/Equity	1.7%
Current Ratio	9.72
ROE	26.9%
ROA	23.1%
Gross Margin	48.8%
Operating Margin	36.6%
Dividend Yield	0%
Analyst Coverage	3
Target Price	$46.00

Source: Bloomberg

Investment Thesis

- **Continued Water Shortage/Pollution.** The availability and condition of water in China is among the worst in the world. China is the world's largest country, but ranks 128th in terms of water availability. In addition, only 1/3 of the China's wastewater has ever been treated, and 90% of all urban surface water is considered polluted.

- **Increased Governmental Dedication to Improvement.** China's most recent 5 year plan earmarked $128B for investing in water related projects. On top of that, the most recent stimulus package added another $51B towards wastewater treatment (DGW's largest business segment) and $10B towards purifying drinking water. In the fourth quarter of 2008, China spent $5.5B of stimulus money towards improving their water infrastructure, compared to the $6B the US has spent over the last 2 years. The markets in which DGW operates, yield approximately $15B of revenue each year, while the specific products they offer generate approximately $5B across the entire competitive landscape. The high spending of the 5 year plan demonstrated the government's dedication to improvement in 2005, and the large stimulus earmarked during the past year shows it is still an important issue. Early indications of the next 5 year plan (which begins in 2011) point toward a continued emphasis on water infrastructure improvement.
- **Increased Demand in End Markets.** The largest end users of DGW's products are municipalities and industrial companies. As water becomes increasing scarce, Chinese localities have been consistently raising water rates to discourage usage. These rates have increased each of the last 10 years and are projected to continue trending upwards. Furthermore, demand for water by industrial companies will rise as the Chinese economy grows. The World Bank recently estimated Chinese GDP growth rates for 2009 and 2010 will be 8.4% and 8.7%, respectively, ranking China among the highest growth economies in the world.

Valuation

DGW does not have any publically listed Chinese competitors. To assess valuation, a peer group of 10 US based, pure play water treatment stocks was utilized. While water scarcity is a worldwide issue, the investable universe of such stocks connected to the problem is limited, so stocks in this space have traditionally commanded a high multiple. The peer group yielded an average CY2009 P/E ratio of 25.28, with a range 18.37 – 52.54, concentrating in the low 20s. A premium multiple is appropriate, given DGW's ROE versus the peer group (26.9% vs. 12.4%) and stronger margins (OM 36.6% vs. 11.7%). In addition, China has a larger water problem and spends more money attempting to rectify the situation. Taking all of this into consideration, a 29x 2009 EPS yield a $46 target price (>30% return potential).

Risks

- **Execution.** DGW is in a high growth industry and expects to expand their reach by increasing capacity 3x. Thus, the possibility of growing too big, too fast, etc. exists. While the potential for explosive growth exists, a risk is whether or not DGW's management team can execute the strategy involving rapid growth and ramped up capital expenditures.
- **Investment in Young Chinese Company.** All things held the same, an investment in an emerging Chinese company is inherently riskier than investing is a similar US firm. While DGW conforms to proper US accounting standards, there is always the potential management could make decisions deemed improper by US norms. In addition, the management team does not speak English and must communicate via a translator.
- **Reliance on Government Funds.** The vast majority of DGW's revenue comes directly from China's earmarked spending towards improving water infrastructure, outlined in each separate 5 year plan. The current 5 year plan ends in 2010, and the terms of the next plan have not yet been disclosed. While early signs appear very favorable, it is too early to put a number on such a figure in the future. There is a risk that the infrastructure expenditures could be lower than expected.

Management

CEO Wenhua Guo has been with the company since its inception nearly 20 years ago. Mr. Guo does not speak English, so the language barrier of such a high profile official could be a concern. Much of the outward communication is done by CFO Steve Park, CPA. He has been working for DGW since 2007 and has used his background to bring DGW up to speed with US GAAP and its customs.

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Jordan Management Company	297,500	1.98%
Columbus Circle Investors	236,090	1.57%
Harvest Capital Strategies	150,000	1.00%
Crosslink Capital	142,100	0.95%
Putnam Investment Management	102,368	0.68%

Source: Bloomberg

Forestar Group Inc.
FOR
Price: $17.04 ($2.93-18.39)
Fiscal Year Ends: December 31

November 11, 2009 — Ryan Rusch
Russell 2000: $586.93 (342.57-625.31) — Financial Services Sector

Forestar Group Inc. either directly or through joint ventures owns over 987,000 acres of real estate across ten states. FOR utilizes the land they own through three business segments: Real Estate (62%), Mineral Resources (30%) and Fiber Resources (8%). The Real Estate segment owns 365,000 acres (37% of total acreage) and focuses on the securing of entitlements and development of infrastructure for single-family and mixed-use communities The Mineral Resource segment owns 622,000 acres (63% of total acreage) which is used for the exploration and development of oil and gas in TX, GA, LA and AL. The Fiber Resources segment sells wood fiber and leases land for recreational use. FOR was spun-off from Temple-Inland Inc. in December 2007 and is currently headquartered in Austin, TX.

Recommendation

Forestar's real estate business operations are focused on major economic and demographic growth corridors within the U.S. The two main regions that FOR has targeted are the I-35 corridor (Dallas, Austin, and San Antonio) and I-85 corridor (Atlanta, Charlotte, and Raleigh). Within the greater Atlanta region, the Case-Shiller Home Price Index has indicated three consecutive monthly increases in homes prices, equating to a combined increase of over 2%. Moreover, in the Dallas metro area, home prices are currently at their highest point since September 2008. As prices and home sales continue to increase in the I-35 and I-85 corridors, FOR should be able to move real estate through their value chain, optimizing potential land value. Encompassing more than 622,000 acres, 76% of which is still available for lease, FOR's mineral resource business also presents opportunities for growth. With the expansion of the Haynesville Shale boundaries, FOR's 200,000 acres in LA and eastern TX should become more attractive to natural gas producers. Therefore, due to FOR's prominent position in the real estate and its ability to capture upside growth potential in both their mineral resource and real estate markets, it is recommend that FOR be added to the AIM Equity Portfolio with a price target of $26.50, offering upside potential of 55%.

Key Statistics	Nov. 11, 2009
Market Cap	$611.02M
Shares Outstanding	35.86M
Ave. Volume (3 month)	327,411
Adjusted Beta	1.35
EPS (TTM)	$0.20
2009 Estimated EPS	$1.79
P/B (TTM)	1.18
P/FCF (TTM)	6.54
Dividend Yield	-
Debt/Assets	29.37%
ROE	2.72%
ROA	1.51%
Gross Margin	63.38%
Operating Margin	22.42%
Analyst Coverage	2
Target Price	$26.50

Source: Bloomberg

Investment Thesis

- **Strong Presence in U.S. Growth Corridors.** There are ten strategic growth corridors in the U.S. that comprise less than 5% of total surface area. They are projected to weigh heavily on population changes over the next 30 years. Over that time period, 43% of population growth, 38% of job creation, and 41% of housing starts are expected to take place within these areas. Two of those corridors center largely across FOR's main areas of developmental focus, Interstate 85 and Interstate 35. The Atlanta region in particular is expected to see its current population of five million double by 2025. Throughout these two specific areas of future population growth, FOR has 44 projects that are either entitled, developed or under development.

- **Mineral Resource Expansion.** The 3Q09 average price per acre leased through FOR's mineral resource segment increased to an average $1,485/accre; nearly 3x the average 3Q08 price of $338/acre. Price increases were and will continue to be driven by the westward expansion of the Haynesville Shale into eastern Texas. Devon Energy's announcement of successful drilling and well establishment in San Augustine County, TX will create continued demand for the 58,000 acres that FOR owns in the surrounding four county area. Royalty revenue on leased acreage for these surrounding areas will also increase as drilling activity is accelerated and the prices of oil and natural gas rise.
- **Completion of Cibolo Canyons Project.** Located in San Antonio, TX, Cibolo Canyons is FOR's largest development project. Over the course of the next year, J.W. Marriott will open their largest resort and two championship golf courses. Upon the resort's opening, FOR will receive 9.0% of hotel occupancy revenues and 1.5% of sales generated within the resort through 2034. As of the beginning of 4Q09, FOR has received $20 million in reimbursements related to infrastructure and expects to receive an additional $30 million upon the resorts opening. Furthermore, FOR has leasing opportunities still available both in the commercial (44% acres available) and residential areas (34% lots available) of the development which will be sold over the course of the next two years. Residential opportunities include 1st and 2nd move up homes, as well as multi-family and retail on the commercial side. FOR is expected to replicate Cibolo Canyons in the Wolf Creek area near Atlanta

Valuation

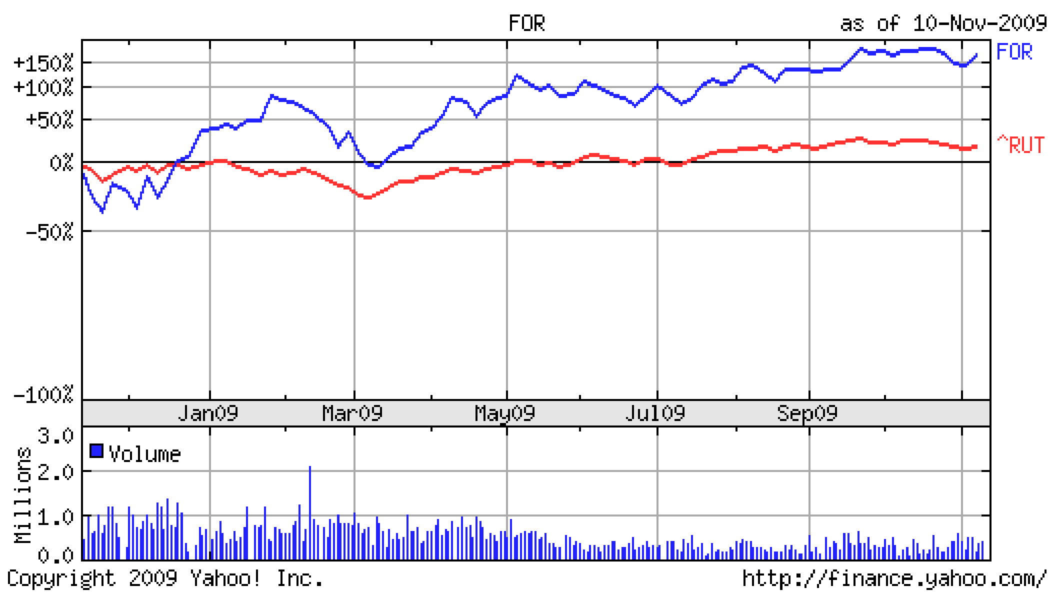
A Net Asset Valuation of each property segment was conducted to value FOR. Using a conservative estimation of the per share value of FOR's 230,280 acres of undeveloped land yielded a $14-18 per share estimated value. Accounting for a significant discount in residential and commercial real estate, a NAV of FOR's 50,564 acres of developed real estate yielded an estimated value of $14-$21 per share. The value assigned to FOR's mineral resources/acre of $1,100 is below the $1,200/acre value of similar transactions in the area. Additionally, with 622,000 acres containing mineral resources, a value between $5-$17/share was calculated. Combining the above estimated values, less net debt, with asset values from development projects such as Cibolo Canyons, a net equity value per share range of $32-57 was calculated. On a P/BV basis, FOR currently trades at 1.18x compared to the peer group average of 2.57x. Based on these assumptions, an intrinsic value of $26.50 was established, which would yield an impressive 55% upside.

Risks

- **Lengthened Recovery in Housing Market.** The U.S. real estate market is arguably in the earliest stages of a possible recovery; however, an increase in foreclosures and continued decreases in home prices could lead to a continued depression on housing markets.
- **Delayed Expansion in Growth Corridors.** Current unemployment rates in the metro Atlanta and Dallas regions are 10.5% and 9.8%, respectively. A delayed recovery from these high unemployment rates could have a negative impact and postpone the growth potential for the greater regions around I-85 and I-35 corridors.
- **Mineral Resource Value.** The demand for mineral resources will fluctuate with uncertainty as the leases and the establishment of producing wells varies. Different formations and discoveries constantly fluctuate and influence the value of current projects.

Management

Mr. Jim Decosmo, President and CEO since 2006, has served as the real estate Group Vice President of Temple-Inland and specializes forest resources and conservation. Craig Knight, current CIO, has over 30 years of industry experience. Craig has served as President of Lumbermen's Investment Corporation and Principal of Health and Knight Properties.



Ownership

% of Shares Held by Insiders:	7.0%
% of Shares Held by Institutional & Mutual Fund Owners:	81.0%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Fidelity Management & Research	3,111,303	8.7%
Barclays Global Investors, N.A.	2,575,939	7.2%
Keeley Asset Management Corp.	2,390,140	6.7%
Franklin Mutual Advisers, LLC	2,242,753	6.3%
Loomis, Sayles & Company, L.P.	1,891,131	5.3%

Source: Bloomberg

Nighthawk Radiology Holdings, Inc.
NHWK
Price: $4.91 (2.01-7.75)
Fiscal Year Ends: December 31

November 8, 2009
Russell 2000 Index: $496.35 (342.59-764.38)

Mike Signore
Healthcare Sector

NHWK is a leading teleradiology company that provides professional, business, and workflow technology services to radiology groups and hospitals in the United States The professional services segment is comprised of preliminary (84%) and final (16%) interpretations. These interpretations consist of diagnostic images resulting from MRI's, CT's, X-Rays, and ultrasounds. The business services segment offers their proprietary TALON workflow technology platform which improves the efficiency and quality of a radiology practice. The company has 140 board-certified radiologists serving 780 customers and roughly 1,500 U.S. hospitals (26%). NHWK was founded in 2001 and is headquartered in Coeur'd Alene, Idaho.

Recommendation

Operational inefficiencies and customer attrition along with a tough pricing environment hurt NHWK in the back half of 2008 and early part of 2009. A completely revamped management team, however, have begun to enhance quality assurance and control. Results of this can be seen in their Q3 results as 60% of bookings came from new customers and retention improved to 98%. Volumes hit an all-time high and increased 9% y/y. The under-penetrated finals read market will continue to be a catalyst for this industry in the future and NHWK experienced 40% growth in this area of their business. The radiology market itself represents a $15-20B market, with teleradiology comprising only 3% of it. Industry experts believe this 3% has the potential to grow into 30%. NHWK is a leading player in this market and, while Q4 outlook is weak, its latest quarterly results have many positives. Same site growth, a widely evaluated metric of company health, was 7% for its prelims business even with negative pricing pressure. NHWK is under-followed by the street and has been severely discounted by the market, but provides a great turnaround opportunity. With a clean balance sheet and strong FCF, I rate it a buy with a price target of $7.00, implying upside of 43%.

Key Statistics	November 8, 2009
Market Cap	$131.98M
Shares Outstanding	26.50M
Ave. Volume (3 month)	223,735
Adjusted Beta	2.40
EPS (TTM)	$0.66
2009 Estimated EPS	$0.61
P/E (TTM)	8.18
PEG Ratio	0.83
WACC	11.51%
Price/Sales	0.64
ROE	7.80%
ROA	7.11%
Gross Margin	52.1%
Operating Margin	14.50%
Dividend Yield	0.00%
Analyst Coverage	5
Target Price	$7.00

Source: Bloomberg

Investment Thesis

- **Competitive Niche.** With the growth in imaging (7-9% CAGR) outpacing the growth of radiologists (1-2% CAGR), there is a serious supply and demand imbalance NHWK can take advantage of. It offers sub-specialty reads as well as prelims and finals. In fact, less than 5% of radiologists specialize in neuro-radiology, yet NHWK has 25 (of 128) neuro-radiologists. The teleradiology market is also highly fragmented with just two main players. Growth through acquisition of private practices is a future catalyst to earnings. NHWK is well-positioned to buy up market share with $31 million in cash on its balance sheet as well as with the roughly $25 million in FCF they should generate from operations this year.

- **Healthcare Efficiency**. NHWK is 3x more efficient than the average hospital or practice at interpreting scans. The average turnaround time on a preliminary scan is 17 minutes compared to 1 hour by a hospital. NHWK also operates 24/7 365 days a year, allowing hospitals to staff less during off-peak hours. Current political reform has the potential to add 40M people to the healthcare system which should generate a significant increase in volumes.
- **Market Sentiment.** The majority of the street (70%) have neutral or sell ratings on the stock, valuing the company using very depressed multiples (6x P/E and 4x EV/EBITDA), far below historical averages. NHWK's growth and earnings profile is also incredibly similar to its main competitor, VRAD, which is currently trading 3x higher in absolute terms. NHWK has better gross margins (52.1% vs. 49.3%) and op margins (15% vs. 13.5%). The market is heavily discounting the operational issues NHWK has been experiencing.
- **Management.** The executive team are fresh faces to the organization with the majority of them joining the company within the last year. The new leaders bring a wealth of experience on the IT and quality control fronts of the business. They have recently implemented a quality control scorecard and hired an independent, unbiased third party to help evaluate company performance, the results of which they will make available to investors. They have also taken steps to realign the capital structure, using $14 million to repurchase stock and $12 million to pay down debt. Management also owns 32% of the shares outstanding.

Valuation

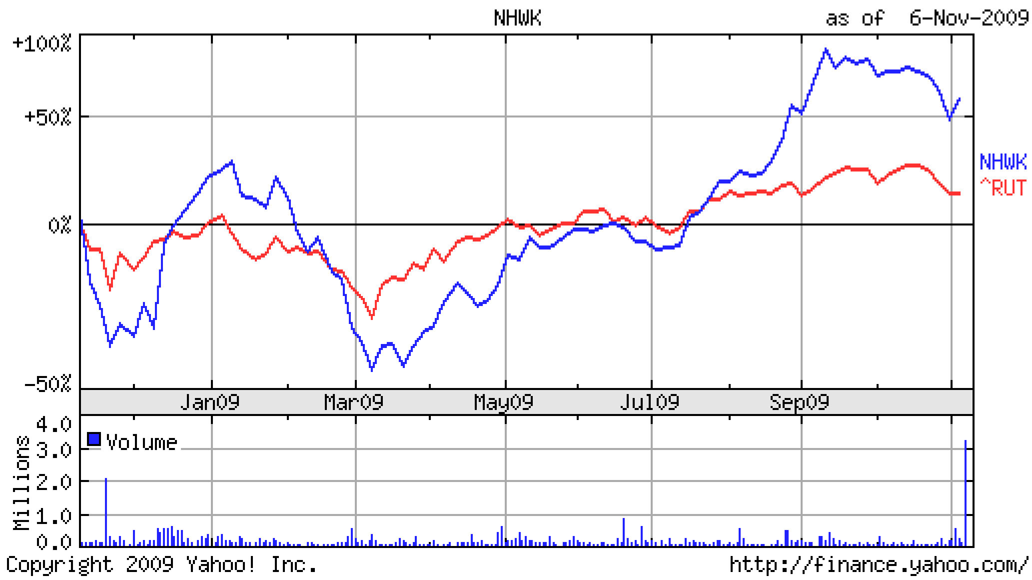
Based on a 10 year DCF analysis, using a computed WACC of 11.5% and a long term growth rate of 3%, an intrinsic value of $7.24 was determined for NHWK. A sensitivity analysis, adjusting both the WACC (10.5-13.00%) and long-term growth rate (2-4%), revealed a price range of $5.90-$9.49. This analysis assumes minimal revenue growth and deteriorating margins (250-300bps) for the next five years. A similar DCF approach, using a terminal EV/EBITDA multiple of 6x revealed a price of $7.75. A PMV analysis using a P/E multiple of 12x 2010 EPS estimate of $0.68 values NHWK at $6.17. Giving slightly more weight to the DCF approaches yields a $7.00 price target, which represents potential upside of 45%.

Risks

- **Final Read Penetration.** The preliminary read market is highly competitive and has come under significant pricing pressure (-9.0% in MRQ). Future growth for this firm, in part, must come from the final read market (16% of current read revenue). While this area has shown promise, up 40% in Q3, there are no guarantees hospitals and practices will continue to outsource this work.
- **Government Intervention.** NHWK is indirectly paid by third party payors. Changes in the structure or reimbursement rates of these payors can negatively impact this firm. As the final read market grows, this could further become an issue as payment rates for these types of reads are more complicated. NHWK also treats its radiologists as independent contractors. This could have potential tax consequences if the firm is forced to treat them as employees.
- **Continued Customer Attrition.** Issues related to the firm's technology platform caused customer losses in the last two quarters of 2008 contributing to the 10.3% revenue decline in preliminary read revenue in Q109 as well as the 2.9% volume decline. Management's ability to continue to correct these issues will be critical in attracting new customers.

Management

David Engert has been President and CEO since November of 2008. Prior to joining NHWK, he founded ES3, a strategic consulting firm. He also served as CEO of Quality Care Solutions from 2002 to 2006, a leading provider of healthcare payer enterprise application solutions. He has served in a variety of healthcare services and IT roles. David Sankaran has been CFO since May of 2008. He most recently served as CFO of Accelrys, Inc., a provider of scientific solutions software from 2005 to 2006.



Ownership

% of Shares Held by Insiders:	32%
% of Shares Held by Institutional & Mutual Fund Owners:	55%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Goldman Sachs Group Inc.	1,397,474	5.27%
Portolan Capital Management, LLC	1,272,310	4.80%
Accipiter Capital Management	1,142,020	4.31%
Quaker Capital Management Corporation	1,130,700	4.27%
Vanguard Group Inc.	963,200	3.63%

Source: Yahoo! Finance

Syniverse Holdings, Inc.
SVR
Price: $16.11 ($6.80-19.56)
Fiscal Year Ends: December 31

November 10, 2009 — Ross Michler
Russell 2000 Index: $586.93 ($342.59-761.78) — Telecommunications Sector

Syniverse Holdings, Inc. (NYSE: SVR) is a leading enabler of wireless voice and data services for telecommunication companies worldwide. SVR's transaction-based services allows delivery of seamless voice, data, and next-generation services to the wireless users of their customers, and include wireless voice and data roaming, text and multimedia messaging, mobile instant messaging, and other wireless value-added services between carriers. Serving the majority of the largest global wireless operators such as Verizon Wireless, AT&T, Sprint Nextel, Vodafone, and China Telecom, SVR generates revenue on a per-transaction basis. While a majority of their revenue is attributed to these data transactions, SVR also generates a portion of their revenue from custom software development fees, hardware sales, and recurring fees for network connections and software maintenance. Headquartered in Tampa Bay, Florida, SVR was founded in 1987 and has1,100 employees.

Recommendation

With 75% market share, SVR is the largest clearinghouse for wireless roaming calls in the U.S. As such, the firm has positioned itself to continue to be the leading player in the wireless communications industry. Major competitors for SVR include MACH, VeriSign, NeuStar, Sybase, and AT&T's SNET. SVR's emphasis on revenue growth (34.13% y/y in 2008) through project investments and acquisitions, allows the company to maintain a competitive advantage as they continue their expansion in an industry that is expected to grow 27% by 2012. Additionally, the acquisition of VeriSign's messaging business, which officially closed in October 2009, should transform SVR into one of the messaging service market leaders. Furthermore, data volumes and total messaging volumes are currently growing over 50% and 10% y/y, respectively. SVR, with a business model strongly tied to wireless subscriber growth, roaming volumes, and data traffic, is strategically positioned to capitalize on these current and future consumer trends. Therefore, due to its unique competitive position, enhanced growth from the VeriSign acquisition, and the global attraction and addiction to the Smartphone, it is recommended that SVR be added to the AIM Equity Portfolio with a target price of $23, offering a potential 43% upside.

Key Statistics	Nov 10, 2009
Market Cap	$1,118.3M
Shares Outstanding	69.415M
Ave. Volume (3 month)	732,778
Adjusted Beta	0.90
EPS (TTM)	$1.35
2010 Estimated EPS	$1.46
P/E (TTM)	11.93
ROA (TTM)	6.80%
ROE (TTM)	15.59%
Debt/Assets	42.82%
Gross Margin	67.37%
Operating Margin	31.79%
Dividend Yield	0.00%
WACC	9.00%
Analyst Coverage	14
Target Price	$23

Source: Bloomberg

Investment Thesis

- **Acquisition growth.** In the past two years Syniverse made two major acquisitions: BSG Limited's wireless clearing business in December 2007 ($294M) and VeriSign's messaging business in October 2009 ($174.5M). The BSG transaction, paid for in cash using SVR's senior credit facility, allows the firm to combine network service capabilities with BSG's European, Middle Eastern and Asian expertise and relationships. The cash acquisition of VeriSign will produce strong top and bottom line growth as it expands SVR's global reach to over 800 mobile operators across 160 countries - as messaging volumes grow at a 100% y/y pace for the major

U.S. carriers. Additionally, the messaging segment alone generated $140M in revenue for the 12 month period ending June 30, 2009, with an approximate 25% EBITDA margin, presenting strong financial incentives and significant synergy opportunities for SVR once the platform is fully integrated.

- **Data Trends.** Smartphone adoption has remained a strong driver for SVR. In 2008, there were 131 million Smartphones sold worldwide, a number that is expected to top 300 million by 2013 with 1.1 billion total units sold through that point. Furthermore, consumers have developed a personal relationship with the devices, underlining the addictive power of e-mail, internet, and other phone app capabilities inspired by the iPhone. For instance, global data volumes grew more than 50% y/y, while worldwide text message traffic and global multimedia traffic are expected to grow at a 13% and 22%CAGR, respectively, through 2013 according to Portio Research.

Valuation

With a TTM P/E of 12, SVR currently trades at a discount to the industry average P/E of 16x. Applying a 15x multiple to the estimated 2010 EPS of $1.46 produces a relative valuation of $22. A 5-year DCF analysis with a WACC of 9.0% and terminal growth rate of 3.0%, led to an intrinsic value of $23.62. A sensitivity analysis adjusting for best and worst case scenarios led to an intrinsic value range of $16-31. Taking management revenue assumptions, industry consolidation, and barriers to entry into consideration, a stock price of $23 was established for SVR, offering upside potential of 42%.

Risks

- **Weak Consumer.** Despite a roaming trend pickup in July, the global economic downturn continues to impact roaming in all parts of the world because of fewer travelers. Factors such as rebounding energy prices and the continued threat of the H1N1 virus have led to a weak 2010 forecast in tourism and travel. A research study reports that travel and tourism demand globally is expected to increase only 0.3% y/y in 2010 as unemployment remains high and corporate travel remains weak.
- **Pricing Pressure and Customer Dependence.** SVR's contract terms average three years in duration, which creates the potential for pricing pressure. SVR extended its contract with Verizon for three years at reduced prices, primarily affecting transaction-based revenues, but the renewal was approximately $5 million worse than anticipated. Management expects the average per-transaction fee for certain services to continue to decline as a result of their volume-based and service bundling pricing strategy, as well as pricing pressure from its main competitors. Also, as SVR's three largest customers represented approximately 32.1% of revenues, and as its top 10 customers generated 55.8% of revenue for the company in 2008, SVR has a significant dependence on a small number of customers.
- **ITHL Contributions.** Lower revenues for the Interactive Technologies Holdings Limited (ITHL) business in the Asia Pacific region continues to weigh on business. ITHL was acquired in 2006 for $45.7 million in cash, and expanded SVR's footprint in that region. The economy and competition has hit this part of the business especially hard as mobile operators in the region continue to be reluctant to commit to most projects that require CapEx. Furthermore, a delay in the implementation of mobile number portability in India, an exclusive contract for SVR, is expected to impact Q4 revenue by $7-8M as the timeline continues to be pushed back into 2010.

Management

Tony Holcombe brings years of industry experience to SVR, having served as Chairman and CEO since 2006 and as a director since 2003. Previously, Mr. Holcombe was CEO of Valutec Card Solutions, and held various executive positions with Ceridian Corporation. David Hitchcock, Executive VP and CFO, has over 20 years of corporate finance experience with AT&T and Lucent Technologies.

Ownership

% of Shares Held by Insiders:	2.35%
% of Shares Held by Institutional & Mutual Fund Owners:	102.75%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Barclays Global Investors UK Holdings Ltd	4,258,200	6.19%
Vanguard Group, Inc.	4,037,082	5.87%
Highside Capital Management, LP	3,870,000	5.63%
Brookside Capital Management, LLC	3,809,558	5.54%
Vaughan, Nelson, Scarborough & McCullough	3,054,555	4.44%

Source: Bloomberg

True Religion Apparel Inc.
TRLG
Price: $20.80 ($7.80 - $28.90)
Fiscal Year Ends: December 31

Date: November 13, 2009 — Michael Klenn
Russell 2000 Index: 590.30 (342.59 – 625.31) — Consumer Goods Sector

True Religion Apparel Inc. designs, manufactures and markets True Religion Apparel products, including its premium True Religion Brand Jeans. TRLG's product line includes high-quality, distinctive styling and fit in denim, sportswear, and licensed products. True Religion operates in four customer markets: US wholesale, consumer direct, international, and other. The US wholesale segment sells products to leading nationwide premium stores, specialty retailers and boutiques. This includes Bloomingdale's, Neiman Marcus, Nordstrom, Saks Fifth Avenue and approximately 900 specialty retailers and boutiques. In the 3rd quarter of 2009, this segment accounted for 38% of revenue. The consumer direct segment includes branded retail stores and e-commerce sales (39% of Q3 revenue). The international segment distributes products to sales agents and the wholly-owned subsidiary (20%). The other revenues consist mainly of licensing on footwear, fragrances, headwear and swimwear. True Religion Apparel's headquarters are in Vernon, California and went public under the name Gusana Explorations Inc. in 2003.

Recommendation

Despite the economic downturn, sales of premium denim jeans, those costing $200 and more, grew 18% during 2008 according to research firm NPD Group. NPD also found that overall women's jeans sales have increased 4.6% year-to-date compared to 2008. Monitor data says 75% of consumers are purchasing more or the same amount of denim as last year. TRLG CEO, Jeff Lubell, considers jeans a value purchase in a tough economy because they are used more than once. Consumers see the fashion and value denim represents and have also chosen to stick with their favorite brands. US consumers said that fit, cut, and length are the most important criteria when purchasing denim jeans. Consumers also wear denim on average 4.2 days a week, ahead of the global average of 3.5 according to Cotton Inc. This has to do with the fact that jeans have infiltrated every facet of our culture including work, school, and formal events. True Religion has become a major player in the premium denim jean industry, holding a 22% market share. Given their growth prospects and overall financial strength, it is recommended that TRLG be added to the AIM Equity Fund with a target price of $30.00 representing a 50% upside.

Key Statistics	Nov. 13, 2009
Market Cap	$524.51M
Shares Outstanding	25.346M
Average Volume	496,720
Beta	1.10
EPS (TTM)	$1.93
F2010 Estimated EPS	$2.31
ROE (TTM)	30.91%
ROA (TTM)	28.62%
WACC	10.68%
P/E	10.43
Debt/Equity	0.00%
Gross Margin (YTD)	62.73%
Operating Margin (YTD)	24.62%
Dividend Yield	0%
Profit Margin	15.24%
Target Price	$30.00

Source: Bloomberg

Investment Thesis

- **Consumer Direct Expansion.** Compared to the first nine months of 2008, sales in the consumer direct segment increased 64.8% and now represent 38.5% of sales year-to-date. The number of stores increased by 57%, from 42 to 66, showing not all the revenue growth is a result of expansion. True Religion has already leased four locations set to open in the final quarter of 2009 and expects to open 20 to 25 additional stores in 2010. New store openings in addition to receiving a full year of revenue from stores opened in 2009 should increase consumer direct annual sales by 25%. Despite overall apparel sales sliding 5% in the past year, the premium denim market grew 5%. Same store sales for those opened more than a year should be able to maintain these levels. This segment represents the largest area of growth and will also become the largest percentage of annual net sales by 2010. This accompanied with the international growth should help raise the company's operating margin from 25% to over 30%. Competitors Joe's Jeans and VF Corp have operating margins around 10%.

- **International Expansion.** Sales in the first half of 2009 increased 39% compared to 2008. Most of this can be attributed to the wholly-owned subsidiary True Religion Japan. In spite of the challenging international retail environment, sales have grown as the brands have gained greater exposure and awareness. The international segment has operating income consistently over 40%, so further international expansion will continue to improve margins.
- **Strong Financial Statements.** Currently, True Religion has $78 million in cash on its balance sheet and no debt. The firm has been able to fund expansion with internally generated cash flows. Competitors such as Polo Ralph Lauren, Abercrombie & Fitch, Warnaco Group, and Iconix all operate with debt on their balance sheet showing True Religion's strength. The income statement has not had any extraordinary items or discontinued operations in the past five years while consistently turning a profit. Cash flows have also been positive for the past year and a half.

Valuation

To find the intrinsic value of TRLG, a five-year DCF was conducted. Sales growth of 10% took into account international and consumer direct expansion with slight decreases in the US wholesale segment for 2009 and 2010. Using a calculated WACC of 10.68% and a terminal growth rate of 3%, an intrinsic value of $29 was found. A sensitivity analysis varying the WACC and terminal growth rate gave an average of $32. An EV/Sales Multiple approach using the forecasted 2009 sales per segment and a historic multiple of 2.7 yielded a value of $28. Taking all of these into account, a price target of $30 was established representing an upside growth potential of 50%. The company does not pay a dividend.

Risks

- **Continued US Wholesale Decline.** While True Religion has done an excellent job growing total sales, US Wholesale has seen declines of 22% in the first nine months of 2009 compared to 2008. This is largely attributed to the economic downturn. Neiman Marcus saw comparable revenues in its Specialty Retail Stores decrease 17% in September, and Saks Incorporated saw comparable store sales decrease 20.6% for the first eight months compared to 2008. If these key retailers are unable to turn around their poor performance, True Religion will continue to see US Wholesale revenues decline.
- **Continued Expansion.** The increases in revenue in the consumer direct segment have outpaced the new store openings. Given the relative youth of many of the stores, it is still uncertain if they will be able to maintain the sales growth from a same store sales perspective. The company plans to continue opening new stores for the near future so this appears to be a long term risk.
- **Sales Force Transformation.** Currently TRLG is in the process of transforming from using independent sales agents to a corporate sales force. The transformation is still in its very early stages so the impact is unclear. Bringing on a VP of US Wholesale Sales and a full sales force will be a significant cost but it will strengthen business relationships and help communication.

Management

Jeffrey Lubell has served as Chairman, CEI, and Chief Merchant since June of 2003. He has been in the textile industry for 30 years. His knowledge of the industry and knack for design is vital to the continued success of True Religion. Recently, Michael Buckley and Marcello Bottoli were brought on to continue the growth of the international segment given their backgrounds. CFO Peter Collins came to the company from key retailer Nordstrom, Inc. His retail background should help True Religion recover revenue in the US wholesale segment.

Ownership

% of Shares Held by All Insider and 5% Owners:	36.03%
% of Shares Held by Institutional & Mutual Fund Owners:	>90%

Source: MSN Money

Top 5 Shareholders

Holder	Shares	% Outstanding
Columbia Wanger Asset Management LP	2,772,658	10.9
Eagle Asset Management, Inc.	1,908,212	7.53
Turner Investment Partners, Inc.	1,450,968	5.72
Barclays Global Investors UK Holdings Ltd.	1,422,022	5.61
Vanguard Group, Inc.	1,371,011	5.41

Source: Yahoo! Finance