Applied Investment Management (AIM) Program

AIM Class of 2010 Equity Fund Reports

Heartland Funds-Milwaukee Student Presentations
November 3, 2009

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Amedisys, Inc.
AMED
Price: $39.79 ($25.20-59.24)
Fiscal Year Ends: December 31

October 30, 2009 — Anne Mongoven
Russell 2000 Index: 562.77 (342.57-625.31) — Healthcare Sector

Amedisys, Inc. (AMED) is a leading provider of home health services to the chronic, co-morbid, aging American population. AMED offers high-quality services and is a low-cost alternative to hospitals, nursing homes and other health care alternatives. AMED provides skilled nursing, pediatric care, rehabilitation care, disease management and home health aide care. AMED has two segments: home health (95% of revenue) and hospice care (5% of revenue). Incorporated in Baton Rouge, Louisiana in 1982, AMED has expanded to own and operate 480 Medicare-certified home health agencies and 48 Medicare-certified hospice agencies, as well as manage the operations of 4Medicare-certified home health and 2 Medicare-certified hospice agencies, in 38 states within the U.S., the District of Columbia and Puerto Rico.

Recommendation

AMED can use health care reform to its advantage as home health services provide a more cost efficient alternative to care than that of facility-based/acute hospitals. Specifically, the government's proposals focused on keeping the elderly in their homes longer and providing better care management suits AMED's business model. Additionally, aging baby boomers will require home health services as they become part of AMED's target demographic in 2011. 3Q09 boded well for AMED as EPS increased 1.6% from 2Q (note: 2Q EPS grew 28% from 1Q) with revenue increasing $10M. The recent strong quarters are attributed to (1) growth in volume, (2) an improvement in performance of recent acquisitions, and (3) operational efficiencies brought about by a strategic plan with regards to expense ratios. AMED generates significant FCF ($160M in 2008) attributed to low CAPEX, as the firm does not require significant office space or medical equipment. It is recommended that AMED be added to the AIM Fund with a target price of $58; an upside potential in excess of 40%.

Key Statistics	Oct. 30, 2009
Market Cap	$1,112.69M
Shares Outstanding	27.96M
Ave. Volume (3 month)	1,339,430
Adjusted Beta	1.03
EPS (TTM)	$4.53
2009 Estimated EPS	$4.87
P/E (TTM)	8.78
PEG Ratio	0.45
WACC	9.18%
Debt/Assets	19.74%
ROE	17.19%
ROA	10.46%
Gross Margin	52.62%
Operating Margin	13.23%
Dividend Yield	0%
Analyst Coverage	17
Target Price	$58.00

Source: Bloomberg

Investment Thesis

- **Growth: Acquisitions, Start-Ups and Organic**. AMED has a record of successful acquisitions, accurately identifying targets that fit its framework and increase revenue. Its largest acquisition to date, TLC Health Care Services, Inc. (TLC) in 2008, added 92 home health and 11 hospice agencies. 3Q09 saw mature home health agency margins lower than prior periods due to the TLC inclusion indicating possible further accretion. AMED has a total of 170 start-ups in its pipeline with a 2009 target of 40 new home health locations. Internal growth is driven by continued quality care, referral relationships, and attracting and retaining skilled, experienced employees.

AMED posted an 18% 3Q09 internal episodic growth rate figure and forecasts a 15% range for 2010.

- **Hospice Care Potential.** According to the Center for Medicare and Medicaid Services (CMS), the number of Medicare beneficiaries utilizing hospice services is expected to increase 9% per year through 2015. 2Q09 demonstrated strong margins for hospice care (28%), which management attributed to TLC's strong hospice locations. Management also voiced optimism that its margin will continue to add to bottom line figures. AMED opened two hospice agencies this quarter and targets two more for 4Q totaling five for 2009. Although hospice care is not AMED's primary business segment, management notes it offers an attractive growth opportunity with 90 potential start ups in various stages as of 3Q.
- **Aging American Population.** AMED's typical home health patient is 82 years old, takes approx. 12 different medications per day, and has multiple co-morbidities. Future health care reform will have a hard time restricting such patients of seemingly required care. In 2004, 36.6M people were Medicare eligible – a figure that will more than double to 86.7M by 2050. The CMS projects health care expenditures to outpace GDP growth over the next decade from 15% GDP today to 20% by 2016. This statistic is favorable to AMED as it continually looks to gain market share through health care consolidation.

Valuation

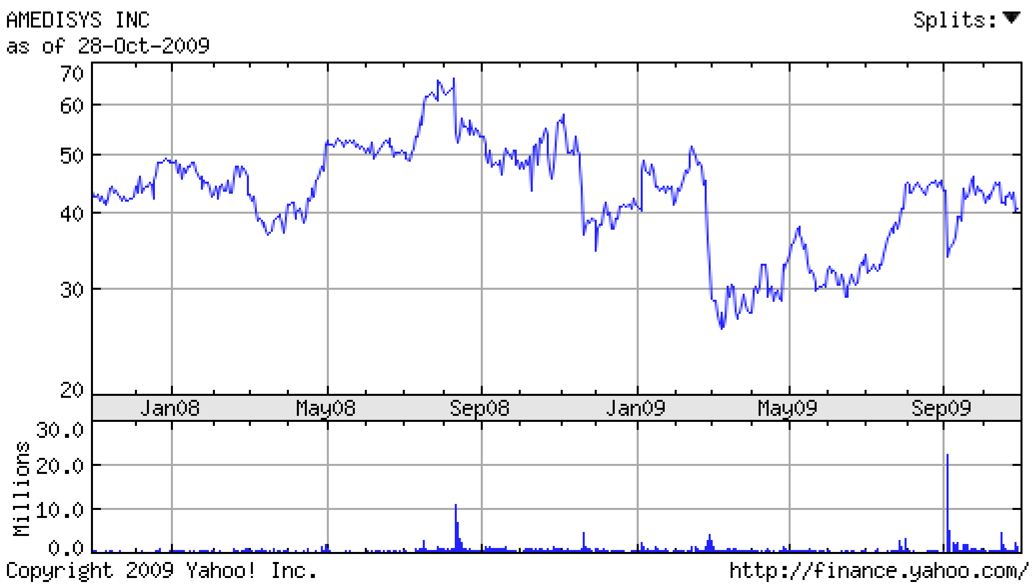
A blended P/E multiples approach using a conservative P/E of 11x 2010 EPS yields a price of $60.60. Based on a 10 year DCF analysis with a WACC of 8.60% and a terminal growth rate of 3%, an intrinsic value of $59.77 was obtained. The DCF assumes a 25% growth rate in 2009 based on management guidance from 3Q earnings call and 17% in 2010 attributed to continued acquisition integration strategies. A sensitivity analysis that adjusts both the long-term growth rate (2-4%) and the WACC (7.60-9.60%) generates a price range of $46.05-87.89. With the stock currently trading at $39.79, the $58.00 price target would yield a 46% return. The firm currently pays no dividend.

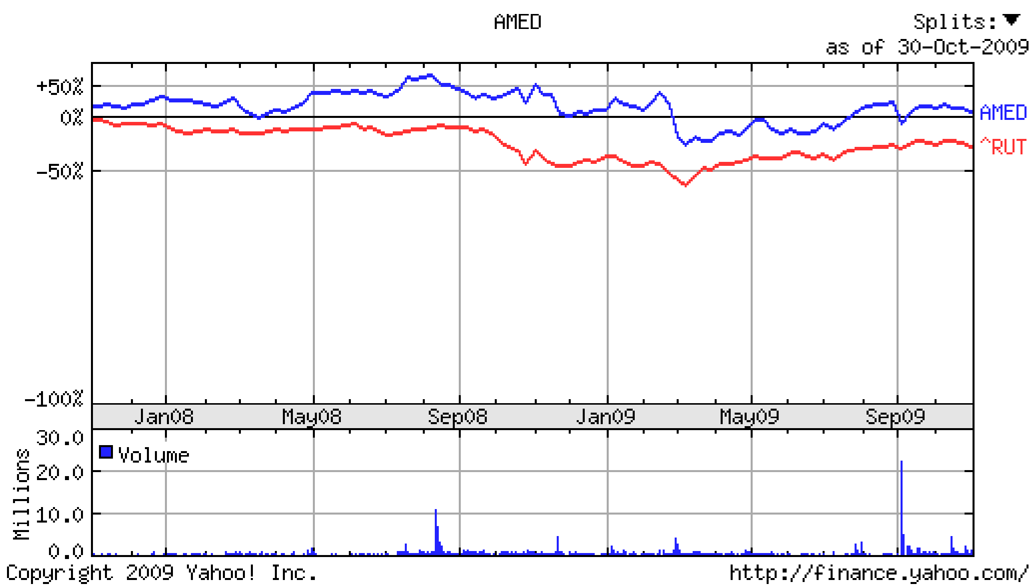
Risks

- **Reliance on Medicare.** AMED derives approximately 87% of its revenue from Medicare and major changes could greatly reduce AMED's profitability.
- **Management Vacancies.** The recent resignation of Larry Graham and Alice Ann Schwartz could negatively impact AMED in the short term. Graham is a highly regarded senior manager in the home health industry, viewed as one of the best, and has been with AMED for 13 years. His departure leaves AMED with big shoes to fill. The street speculates differences in strategic direction between Graham and the board of directors prompted his resignation. AMED expects to fill these roles by year end with the help of search firm, Russell Reynolds.
- **Few Barriers to Entry.** AMED competitors are local privately-owned, hospital-owned and non-profit health care providers. The non-profit organizations receive tax advantages and charitable contributions, which are unavailable to AMED. AMED depends on acquisition and integration strategies to gain market share and lagging in these areas would adversely affect business.

Management

Chairman and CEO Bill Borne founded AMED in 1982 and has assumed these positions since its inception. Borne will assume COO and President responsibilities while the firm launches a national search to replace former President and COO Larry Graham by year end.





Ownership

% of Shares Held by Insiders:	1%
% of Shares Held by Institutional & Mutual Fund Owners:	>90%

Source: Yahoo! Finance

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
FMR LLC	1,988,990	7.16%
Barclays Global Investment UK Holdings Ltd	1,808,434	6.51%
Times Square Capital Management	1,409,065	5.07%
Vanguard Group, Inc.	1,250,135	4.50%
Earnest Partners LLC	1,235,729	4.45%

Source: Yahoo! Finance

El Paso Electric
EE
Price: $19.13 ($11.65-22.01)
Fiscal Year Ends: December 31

November 3, 2009 — Michael O'Carroll
Russell 2000 Index: $ (342.59-625.31) — Utility Sector

El Paso Electric Company, a public utility company, engages in the generation, transmission, and distribution of electricity in west Texas and southern New Mexico. The company generates electric capacity through nuclear (42%), natural gas (28%), and coal power plants (7%), as well as purchased power (22%) and wind turbines (1%). As of June 30, 2009, the company owns six electrical generating facilities with a net generating capacity of approximately 1,643 megawatts. The company serves approximately 367,000 residential, commercial, industrial, public authority, and wholesale customers. The firm sells its products to electric utilities and power marketers, as well as to oil, copper refining, and steel production facilities, and to United States military installations. The company was founded in 1901 and is based in El Paso, Texas.

Recommendation

EE is one of the smaller regional electric providers in the southwest United States. The firm is positioned for solid growth due to anticipated rising government expenditures. The strongest catalyst for the firm is its developing customer base. The firm provides electricity to Fort Bliss and the White Sands Missile Range which provides missile and artillery training for the U.S. military. The U.S. government is taking part in one of its largest defense projects by expanding the Fort Bliss Military base through the addition of 37,000 troops to the area over the course of the next four years. This action should result in an additional 53,000 family members (with 20,000 of the troops needing off base housing by 2013). As a result of this expansion, the area is expected to receive $5B annually in government stimulus for the next five years, with the amount growing to $6.3B annually in 2015. EE has shown a strong commitment to growth with $997M of planned infrastructure investments from 2009 - 2012 targeted in the areas of production ($600M), transmission ($93M), distribution ($237M), and general expenditures ($67M). Given EE's growing revenue base and favorable regulatory climate in Texas, it is recommend that El Paso Electric be added to the AIM Fund with a target price of $24; a upside potential in excess of 25%.

Key Statistics	Nov. 3, 2009
Market Cap	$838.22M
Shares Outstanding	44.81M
Ave. Volume (3 month)	238.65k
Adjusted Beta	0.60
EPS (TTM)	$1.58
2009 Estimated EPS	$1.35
P/E (TTM)	11.80
P/B	1.15
P/CF	3.19
WACC	5.44%
Debt/Assets	39.86%
Debt/Capital	54%
Debt Coverage	3.46x
Interest Coverage	3.54x
ROE	9.77%
ROA	3.32%
Gross Margin	64.56%
Operating Margin	16.31%
Analyst Coverage	6
Target Price	$24

Source: Bloomberg

Investment Thesis

- **High Quality Generation Assets.** Given that 42% of electric capacity is generated through nuclear power, EE is set up for strong earnings power if the system of cap and trade is enacted. Nuclear power is a form of cleaner power generation which has a high amount of capital cost, but very low fuel costs. As a result, the firm is currently able to weather any future clean energy legislation enacted by Washington positively and will be able to operate at a lower cost in comparison to competitors.

- **Pending Rate Cases**. El Paso has expedited a New Mexico rate case filing with a hearing to occur on November 4. This specific rate case should have a 4Q 09' decision with the firm receiving approval for a $12.7M request in rate increases. A 2010 filing is also scheduled with the state of New Mexico to allow the firm to incorporate a phase of its development of the Newman Power Generation Station into their rate structure. Two rate cases will be filed in Texas during December 2009 and September 2011 to increase rates on July 2010 and March 2012. These rates will attempt to absorb the capital costs associated with the Newman Power Generation Station.
- **Share Buyback Potential.** EE buys back common stock in lieu of a dividend to increase shareholder value. The firm has not purchased any shares since the 1Q of 2008. The firm currently has $121M in cash and is expected to repurchase shares before the second half of 2010. As of June 30, 2009 the firm had the ability to purchase an additional 1.52M shares of common stock under their 2007 repurchase plan.

Valuation

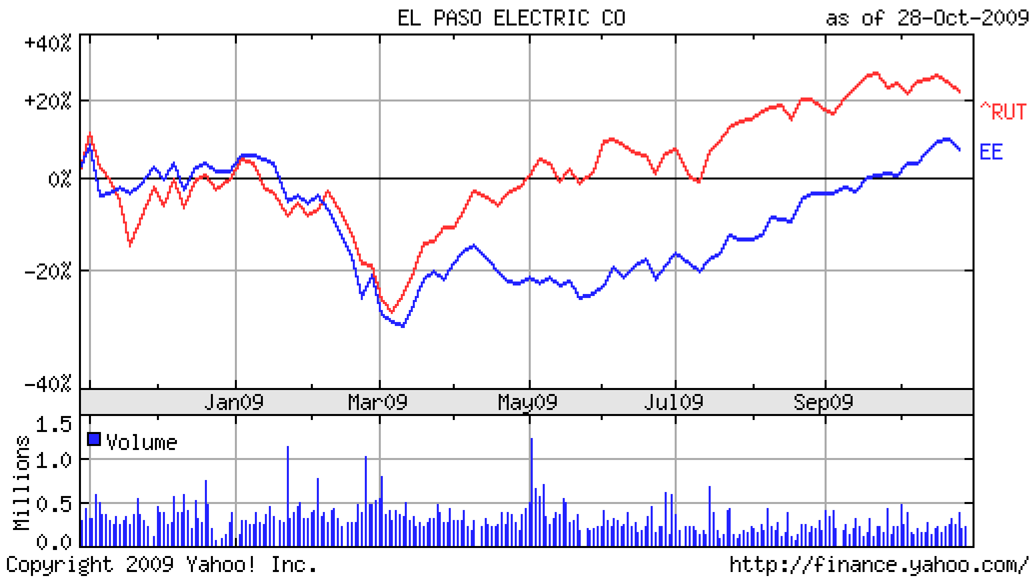
EE is currently trading at 11.8x TTM EPS of $1.58. A conservative historical P/E of 12 times an estimated 2011 EPS estimate of $1.79, yields a $21.50 price target. Based on a 5 year DCF analysis with a computed WACC of 5.44% and a terminal growth rate of 3%, an intrinsic value of $23.90 was obtained for EE. A sensitivity analysis that adjusts both the long-term growth rate (2.50-3.50%) and the WACC (4.94%-5.94%) generates a price range of $19.50-43.20. Given the price targets displayed by the sensitivity analysis and DCF model, a price target of $24 was set. With the stock currently trading around $19, the $24 price target would return in excess of 25%.

Risks

- **Palo Verde Station.** El Paso Electric has 15.8% ownership stake in the Palo Verde Nuclear Power Station located in Wintersburg, Arizona. Facility ownership is spread across six other utilities. Given EE's large disproportionate investment in the facility, the firm is subject to regulatory surprises and potential unplanned outages which could result in a negative impact on earnings.
- **Capacity.** Of total electric capacity 22% is generated through power purchase agreements. To control capacity El Paso Electric entered into a twenty year contract with SPS in 2006. SPS has the right within the contract to terminate the agreement early. As a result of a negative regulatory environment within the state of Texas regarding transactions under the contract, SPS terminated the contract on September 30, 2009. El Paso Electric will now have to find a strategic utility to receive additional capacity from which could affect earnings given the current economic environment.
- **Regional Economic Environment.** El Paso Electric serves a very narrow territory with a large customer base consisting of low income families. On an annual basis within the region, the average income in the El Paso territory is 30% less than the state average. Given current economic conditions, the firm is subject to a larger amount of delinquent payments.

Management

David W. Stevens was named Chief Executive Officer of El Paso Electric in November 2008. Previously, he served as president and chief executive officer for Cascade Natural Gas Corporation in Seattle, Washington. Prior to that, he was president and chief operating officer for Houston-based Panhandle Energy, a subsidiary of Southern Union Company.



Ownership

% of Shares Held by Insiders:	9%
% of Shares Held by Institutional & Mutual Fund Owners:	91%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
T. Rowe Price Associates	3,614,000	8.17%
Gamco Investors Incorporated	3,460,200	7.82%
Barclays Global Investors UK	3,143,206	7.11%
Goldman Sachs Group Inc.	2,569,895	5.81%
Advisory Research Incorporated	2,187,238	4.94%

Source: Bloomberg

Forestar Group Inc.
FOR
Price: $14.76 ($2.93-18.39)
Fiscal Year Ends: December 31

November 3, 2009 | Ryan Rusch
Russell 2000: $586.99 (586.76-597.26) | 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 79%.

Key Statistics	Oct. 30, 2009
Market Cap	$542.53M
Shares Outstanding	35.86M
Ave. Volume (3 month)	327,411
Adjusted Beta	1.33
EPS (TTM)	$0.09
2009 Estimated EPS	$1.79
P/B (TTM)	1.07
P/FCF (TTM)	6.54
Dividend Yield	0%
Debt/Assets	29.37%
ROE	2.72%
ROA	1.51%
Gross Margin	63.38%
Operating Margin	22.42%
Analyst Coverage	2
Target Price	$23.00

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.

- **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. Furthermore, FOR has leasing opportunities still available both in the commercial (56% acres available) and residential areas (67% 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, empty nester/active adult housing, condominiums 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.
- **Commercial Groundwater Development.** The second largest reserve of freshwater on earth is groundwater, which comprises nearly 40% of all the fresh water used in the U.S. FOR currently has interest in a total of 1.7 million acres of groundwater reserves of which 45% is nonparticipating royalty interest. Ideally located, FOR's reserves acres are scattered across Texas, Louisiana, Georgia and Alabama.

Valuation

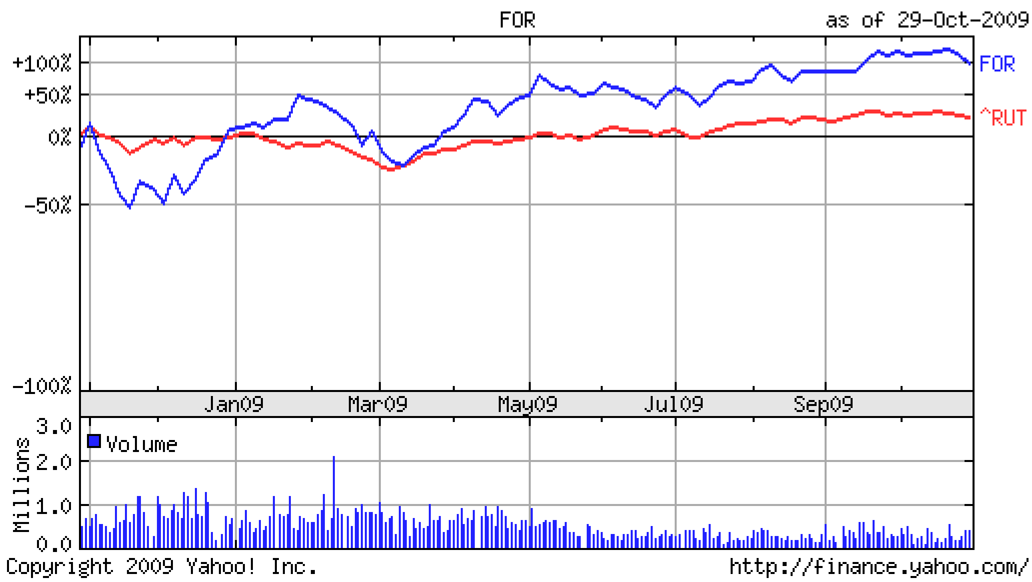
A Net Asset Valuation of each property segment was conducted to value FOR. Using a conservative estimation of the per share value of FOR's 230,280 acres of undeveloped land yielded a $14-18 per share estimated value. Accounting for a significant discount in residential and commercial real estate, a NAV 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 1.07x compared to the peer group average of 2.33x. Based on these assumptions, an intrinsic value of $26.50 was established, which would yield an impressive 79% 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