Applied Investment Management (AIM) Program

AIM Class of 2011 Equity Fund Reports
Date: **April 30, 2010,** ***Location:*** **Chicago Road Show**
Spring 2010

Student Presenter	Company Name	Ticker	Price	Page No.
David Hermanny	Banco Santander	STD	$13.35	2
Timothy Hildebrand	Valassis Communications, Inc.	VCI	$30.44	5
Luke Darkow	Oppenheimer	OPY	$28.13	8
Jose Munoz	Fuel Systems Solutions	FSYS	$33.30	11
Michael Muratore	The Gymboree Corporation	GYMB	$54.00	14
Mark Rutherford	Calgon Carbon Corp	CCC	$17.56	17
Christina Starkey	Chunghwa Telecom	CHT	$19.64	20
Peter Stucki	Stanley	SXE	$31.67	23

The following seniors in the Class of 2010 served as mentors to juniors:

Ticker	Senior Mentor(s)
STD	Sarah Clasing, Sarah Finneran
VCI	Ross Michler
OPY	Michael Rice, Ross Michler
FSYS	Michael Klenn
GYMB	Amy Klemme
CCC	Sarah Clasing, Josue Lopez
CHT	Sarah Finneran, Willie Boucher, Ross Michler
SXE	Corbin Weyer

Banco Santander, S.A. (STD)
April 30, 2010

David Hermanny — International Financial Services

Banco Santander, S.A. (NYSE: STD) provides various financial products and services in Spain and other European countries that include the U.K., Portugal, and German, as well as Latin America, and the United States. Its operations include four major segments: Retail Banking (85% of revenue), Global Wholesale Banking (12%), Asset Management (1.3%), and Insurance (1.7%). Retail Banking offers traditional deposit products plus international and domestic interbank deposits; and loan products and services, such as auto and personal loans, mortgages, and leasing. Furthermore, this segment offers credit cards, automated cash dispensers, savings books updaters, telephone banking, and electronic and Internet banking. The Global Wholesale Banking segment provides its clients with corporate banking, treasury, and investment banking services. Its products and services include commercial financing, funds, trade finance, transactional products, custody services, corporate finance, structured finance, and capital structuring. This segment also participates in the trading and distribution of equities. The Asset Management and Insurance segments are involved in the design and management of mutual fund, pension funds, and insurance products. As of December 31, 2009, the company had 5,871 branch offices in Continental Europe; 1,322 branches in the United Kingdom; 5,745 branches in Latin America; and 722 branches in Spain. Banco Santander was founded in 1857 and is headquartered in Madrid, Spain.

Price ($): (4/22/2010)	13.28	Beta:	1.33	FY: Aug.	2009A	2010E	2011E
Price Target ($):	18.44	WACC:	5.61%	Net Revenue (Mil)	54,915	57,662	60,545
52WK H-L ($):	7.98-17.89	L-Term Rev. Gr Rate Est:	5.00%	% Growth:	5.00%	5.00%	5.00%
Market Cap (mil):	116.11B	L-Term EPS Gr Rate Est:	15.00%	Net Interest Margin:	2.75	3.30	3.96
Float (mil):	8.41B	Financial Leverage:	14.03	Pretax Margin	0.33	0.36	0.4
ST Interest (%):	1.02%	ROA:	0.83	EPS:	$1.46	$1.60	$1.84
Avg. Daily Vol (mil):	5.368	ROE:	14.17	P/E:	9.42	10	10
Dividend/share:	0.32	Tier 1 Capital Ratio	10.10%	BVPS:	11.96	12.1	12.342
Yield (%):	6.24%	Credit Provisions/Loans	2.62	P/B:	1.29	1.48	1.71

Recommendation

With the largest market capitalization of any continental European bank ($116.11B), STD has grown primarily via acquisitions to become a global force in the banking industry. The firm's exposure to emerging market growth in Latin America, particularly Brazil, and aggressive market penetration in the U.K. provide investors with favorable growth prospects. Since doubling its retail branches in the U.K. since 2007 to over 1400 and increasing its customer base to over 25 million, STD has rapidly attained a 12% market share to become the U.K's third largest bank in terms of deposits. In Brazil, STD's current accounts have grown at an annualized rate of 6% per year to reach 80 million accounts in 2009. Additionally, credit card issuances in Brazil have increased since 2003 at an annualized growth rate of 19%, attaining a 2009 total of over 125 million. However, share price growth faces some immediate headwinds in the form of Spanish sovereign debt concern, higher domestic loan losses, and pending financial regulation reform. Attributable to concern over Spanish government debt, STD shares have been trading significantly below market trends. As share prices of comparable financial services firms have increased in line with the overall markets in 2010, STD's stock has dropped by 21.5% YTD. Nevertheless, given its internationally balanced revenue stream (69% of revenue generated outside of Spain) and high net interest margin (2.75% versus 1.73% competitor average), markets appear to be overreacting to the risk European sovereign debt trouble poses to STD. Accordingly, STD appears to be an appealing value play and it is recommended it be added to the IAIM Fund with a price target of $16.

Investment Thesis

- **Acquisition Growth.** STD has expanded rapidly by acquiring the likes of Abbey, Alliance & Leicester, and Bradford & Bingley in the U.K. and the U.S. bank, Sovereign. Furthermore, as

evidence of management's commitment to acquisition growth, STD has placed a bid on 318 U.K. branches put up for sale by RBS – potentially expanding the bank's market share in the U.K.

- **Latin American/Brazil Growth.** In 2009, 24% of STD's net profit came from its Brazilian lines of business and that number is projected to increase to 34% by 2013. STD also has a large presence in the emerging economies of Chile and Mexico with both countries attributing 6% to the firm's net profit in 2009.
- **Sovereign Debt Risk Overreaction:** As a whole, markets have been discounting Spanish financials due to concerns over Spain's sovereign debt situation. However, relative to its domestic rival BBVA, STD's geographically diversified revenue sources put the firm in a better position to withstand a downturn in the Spanish economy as a result of a decrease in Spanish credit demand. Also, Spain's labeling as one of "PIIGS" is particularly unjustified given the country's significantly narrower CDS spread and lower government debt level (55% of GDP) compared to Greece, whose debt level exceeds 100% of their GDP.

Valuation

Applying a conservative 1.35x multiple (1.5x, 5-year average) to a 2010 estimated Book Value per share of $12.11 yields an intrinsic value of $16.35 per share. Additionally, applying a 9.5x multiple to a $1.60 2010 EPS estimate yields an intrinsic value of $15.16. Weighting the P/B and P/E valuations 70% and 30%, respectively, a price target of $16 per share was determined, representing a 20.4% upside to STD's current $13.28 market price. Projected earnings growth is driven by an expectation of emerging market growth, continued European market penetration, and alleviating sovereign debt concern. With STD paying a 6.25% dividend, this appears to be an attractive investment opportunity.

Risks

- **Spanish Sovereign Debt.** STD currently holds €20 billion of Spanish sovereign debt. Additionally, the Spanish government's proposed austerity measures could lead to a prolonged period of lower GDP growth resulting in banks being hurt by weak credit demand and shrinking loan books. With STD generating 31% of revenues from its Spanish lines of business, the bank's profits would suffer should conditions relating to government debt worsen.
- **Financial Regulation Reform.** International banking regulators have proposed increasing banks' capital requirements, potentially reducing STD's lending activity. Furthermore, a bank tax to fund any future bailouts for banks whose failure would place the broader economy at risk, has gained considerable support in the U.S. and Europe. Other regulation proposals include limits on proprietary trading and increased consumer protection laws.
- **Loan Portfolio Losses.** STD's loan portfolio of its riskiest outstanding loans has an exposure at around 40€ billion (€15 billion developer loans, €25 billion in Spanish consumer) – and real estate assets are provisioned at 35%. With unemployment in Spain rising to near 20% and distressed real estate loans souring, STD could encounter significant losses in its Spanish loan portfolio. However, the bank is in a strong position to absorb any future losses given its 2.26% credit provision for outstanding loans and a Total Risk-Based Capital Ratio of 14.2% compared to a 12.9% competitor average.

Management

Emilio Botin-Sanz has served as the Chairman of the Board since August 16, 2001 and has been an Executive Member of the Board since July 4, 1960. He also works as Non-Executive Director at Shinsei Bank Ltd. Alfredo Saenz Abad has served as the CEO of STD since July 11, 1994. Abad worked as CEO and Non-Executive Vice-Chairman of Compania Espanola de Petroleos and Non-Executive Director of France Telecom Espana prior to joining Santander. The Third and Forth Vice Chairmen of the Board are Matias Inciarte and Manuel Serrano. The average age of STD's executives is 69 years.

Ownership

% of Shares Held by All Insider and 5% Owners:	2.18%
% of Shares Held by Institutional & Mutual Fund Owners:	2.00%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Fisher Investments	29,068,859	0.36
FMR LLC	21,275,779	0.26
Fidelity Diversified International Fund	18,450,547	0.23
Wells Fargo & Company	16,074,348	0.20
Dimensional Fund Advisors LP	10,798,288	0.13

Source: Yahoo! Finance

Valassis Communications, Inc. (VCI)
April 30, 2010

Tim Hildebrand — Media Sector

Valassis Communications (NYSE: VCI) is one of the nation's leading media and marketing service companies, offering reach to over 15,000 advertisers. VCI leverages its trademarked RedPlum portfolio of products to deliver value to more than 100 million shoppers on a weekly basis. They accomplish this through various multi-media products and platforms, such as mailbox, newspaper, doorstep, in store and online. VCI currently operates in four segments: shared mail (57.0% of revenue), neighborhood targeted (19.8%), free-standing inserts (16.1%), and international, digital media & services (7.1%). In 2007, VCI acquired ADVO, Inc., now known as Valassis Direct Mail, Inc. Reported as Shared Mail, this segment combines individual print advertisements of various clients into a single shared mail package delivered primarily through USPS. The neighborhood-targeted segment includes products that are targeted at a specific area or demographic, such as newspaper inserts, newspaper polybag advertising, door hangers, and run of press advertisement. The international, digital media and services segment includes all other lines of business not included in the separately reported segments. Valassis was founded in 1970 and is headquartered in Livonia, Michigan.

Price ($): (4/22/10)	30.08	Beta:	1.40	FY: Aug	2009A	2010E	2011E
Price Target ($):	36.00	WACC	9.38%	Revenue (Mil)	2,244.3	2,289.1	2,380.7
52WK H-L ($):	2.71-30.65	L-Term Rev. Gr Rate Est:	2%	% Growth	2.50%	2.00%	4.00%
Market Cap (mil):	1,490.00	L-Term EPS Gr Rate Est:	2%	Gross Margin	24.53%	27.00%	27.15%
Float (mil):	48.60	Debt/Equity:	1033.8%	Operating Margin	8.16%	10.00%	10.32%
Short Interest (%):	7.9%	ROA:	3.7%	EPS (Cal)	$1.36A	$1.62E	$1.81E
Avg. Daily Vol:	712,000	ROE:	129.3%	FCF/Share	$3.36	$2.83	$3.01
Dividend ($):	0.00			P/E (Cal)	18.4	26.0	16.9
Yield (%):	0.0%			EV/EBITDA	9.28x	7.87	8.83

Recommendation

VCI operated with a 2.5% YoY sales growth rate in 2009. The firm's free-standing insert business has a strong economic moat because of long-term contracts and only receives aggressive pricing from its major competitor, News America Marketing. These contracts currently average over two years in duration, while a majority of competitors do not enjoy the benefits of contracts, but sell inserts on a day-to-day basis. Although VCI has experienced hardships from the recession and a decrease in corporate advertising, management has worked hard to implement a cost structure that has helped improve gross margins 2.5% YoY. Furthermore, net income in 2009 was $66.8 M compared to a net loss of $209.7 M in 2008, driven by improving margins and SG&A cuts. Thanks to their shared mail segment, VCI was able to minimize revenue losses amidst one of the deepest recessions in history by distributing coupons to clients. In 2009, VCI saw an increased coupon distribution and redemption due to the consumers' saving-focused buying behavior. With the belief that this mind frame will continue, even as the economy rebounds, VCI should remain well positioned heading into the future. Therefore, due to its strong management team, competitive positioning and favorable growth prospects, it is recommended that VCI be added to the AIM Equity Fund with a target price of $36.00, offering a potential upside of 19%.

Investment Thesis

- **ADVO Acquisition.** On March 2, 2007, VCI purchased ADVO, Inc. for approximately $1.2 billion. This strategic acquisition provided several key synergies, such as revenue diversification, enhanced distribution, cost savings, improved margins via leveraging of underutilized postage and longer-term revenue growth opportunities. Since ADVO has been acquired, VCI has seen a strong 2.3% increase in gross margin from their 2008 results and looks to continue this growth to bring gross margin back to its historical average of 28%. Not only will the acquisition optimize

postage activities and eliminate unprofitable distribution, but cross-selling shared-mail to advertisers and distributing free-standing inserts represent attractive opportunities for VCI. These opportunities include a decrease in the cost of goods sold as a percentage of revenue, as the Shared Mail segment reports an operating margin of 6.6%, compared to an average of 3.5% throughout the remaining segments.

- **Consumer Spending Habits.** With the recent recession, consumers have switched to more savings-oriented habits. Thus, VCI saw a strong increase in coupon redemptions over the past year of 3.2 billion coupons, a 23% YoY increase. Because of the severity of the recent recession and an anticipated mild recovery, consumers will most likely hold to their current behaviors. As a result, as companies regain liquidity and increase capital spending, they will likely put heavy advertising efforts into coupon distributions, hoping to drive consumers to their stores and increase product sales through discounts.
- **Differentiated Products.** VCI has utilized a propriety targeting process that recognizes relevant geographies, identifies consumer media usage and blends products to offerings to reach consumers with the most relevant multi-media channel. The company has a unique ability to combine their shared mail network with newspaper-delivered distribution, which will differentiate them in the Free-Standing Inserts industry even as newspaper circulation continues to decline. VCI's ability to tailor marketing schemes to a particular demographic has become more appreciated by companies looking to increase consumer satisfaction.

Valuation

With a TTM P/E of 20.82x, VCI currently trades at a discount to the industry average of 27.44x. Applying a conservative 17x multiple to the estimate 2010 EPS of 1.62, as well as a 1.3 PEG ratio with an implied CAGR of 12%, produces a relative valuation of $33.41. A 6-year DCF analysis with a WACC of 8.4% and terminal growth rate of 1.5% yields an intrinsic value range of $24-48. Using an equal weighting of each valuation technique, and taking into consideration management growth assumptions and the firm's competitive position in differentiated marketing products, a stock price of $36 was established for VCI, offering upside potential of 19%. The firm currently pays no dividend.

Risks

- **Substantial Indebtedness.** In 2007, VCI acquired ADVO through debt financing, increasing its LT Debt as a percentage of Total Assets from 32.4% in 2006 to 57.6% in 2009. This leverage could have a material effect on future opportunities and hinder their ability to obtain more capital. It may also halt the banks' willingness to refinance, reducing available cash flow for capital expenditures, and placing a disadvantage on the company relative to their competitors, as well as making VCI more susceptible to further downturns in the economy. VCI has seen their financial leverage climb 94% YoY.
- **Third Party Reliance.** The Shared Mail segment is delivered through USPS and the postage is their largest expense. The ability of USPS to deliver mail on a timely basis could adversely affect overall operations. Also, VCI is subject to USPS postal rate changes, which have grown at a 3.1% CAGR since 2006. VCI currently has one long-term contract with a single supplier for approximately 58% of their paper requirements. The remaining 42% is subject to variable market prices for paper. Paper costs have historically experienced significant fluctuations, growing approximately 10% over the last year.

Management

Alan F. Schultz has served as the President and CEO of VCI since 1998. He also serves on the Board of Directors. Previously he served as the firm's Executive Vice President and COO from 1996 to 1998 and Executive Vice President of Sales and Marketing from 1992 to 1996. Robert L. Recchia has served as Executive Vice President and CFO since 1991 and has been with the company since.

Ownership

% of Shares Held by All Insider and 5% Owners:	1%
% of Shares Held by Institutional & Mutual Fund Owners:	91%

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
Peninsula Capital Advisors, LLC	3,800,000	7.74
Barrow, Hanley Mewhinney & Strauss, Inc.	3,788,804	7.71
Vanguard Group, Inc.	2,911,549	5.93
Alydar Partners, LLC	2,863,495	5.83
Sankaty Advisors, LLC	1,875,506	3.82

Source: Bloomberg

Oppenheimer Holdings Inc. (OPY)
April 30, 2010

Luke Darkow Financial Services

Oppenheimer Holdings Inc. (NYSE: OPY) is one of the leading middle market investment banks and full service investment dealers in the United States. OPY operates in a multitude of segments including private client services (55% of revenue), capital markets operations (38%), asset management (6%), and trust and mortgage services (1%). Following the January 2008 acquisition of Canadian Imperial Bank's (CIB) US and international investment banking and capital markets operations, OPY gained an increased international and domestic market presence. Subsequently, the company established three foreign subsidiaries: Oppenheimer EU, Oppenheimer Asia, and Oppenheimer Israel, and refers to the three as the New Capital Markets Business. Oppenheimer has been committed to helping its clients achieve their financial goals for over 125 years. Currently OPY is headquartered in New York City and employs about 3,600 people.

Banking/Financial Services

Price ($): (3/30/10)	$ 28.07	Beta:	1.37
Price Target ($):	$ 36.00	WACC	5.3%
52WK H-L ($):	34-9	L-Term Rev. Gr Rate Est:	8.37%
Market Cap (mil):	374.50	L-Term EPS Gr Rate Est:	14.34%
Float (mil):	9.69	Financial Leverage	4.88
Short Interest (%):	3.44%	ROA:	1.0%
Avg. Daily Vol (mil):	0.435	ROE:	4.4%
Dividend ($):	0.44	Tier 1 Capital Ratio	13.5%
Yield (%):	1.57%	Credit Provisions/Loans	0.00%

FY: Aug	2009A	2010E	2011E
Revenue (Mil)	991.43	1,053.76	1,146.58
% Growth	7.75%	6.29%	8.81%
Net Interest Mar;	1.06%	0.91%	2.00%
Pretax Margin	3.51%	6.15%	6.95%
EPS (Cal)	1.47	2.44	2.75
P/E (Cal)	17.44	15	15
BVPS	$34.2	$35.9	$36.6
P/B	0.97	0.99	1.00

Recommendation

Oppenheimer successfully navigated the harsh economic environment with total revenues growing at a CAGR of 8.42% from 2007 to 2009. As the economy recovers, OPY will benefit from increasing trading volume, investment banking activity, and client assets under management. At OPY's current market position, with the stock trading sideways in the range of $26-$28 per share, the long term growth story is being undervalued. As the result of the recent acquisition of Canadian Imperial Bank's US and international capital markets operations, OPY's capital markets business has experienced revenue growth of approximately 140% since 2007. This acquisition expands OPY's presence into the UK, Israel, and Asia, while also strengthening the company's US capital markets foothold. A strong balance sheet, with a tangible common equity ratio of 13.5% in 2009 cushioned OPY against potential losses, and will continue to provide financial flexibility for the company going forward. Given an exceptional capital structure, and the future domestic and international growth potential from the CIB acquisition, it is recommended that OPY be added to the AIM Equity Fund with a target price of $36, representing a potential upside of 30%.

Investment Thesis

- **Improving Market Conditions.** OPY's strong private client services franchise, which equates to 55% of total revenue, has seen substantial growth in total client assets under management of 38% from 2008 to 2009. This increase is attributable to the bull market of the second half of 2009. As OPY's client assets under management continue to grow at a projected normalized rate of 5-10%, revenue from advisory fees will be positively impacted. Additionally, investment banking revenue has ample room for improvement as middle market companies continue to face restricted access to the capital markets, illustrated by an 87% decline in OPY's M&A deal flow from 2008 to 2009. As the economy continues to rebound and confidence is restored, investment banking revenue for Oppenheimer should increase at a CAGR of 8% over the next 2 years as deal flow returns to normalized levels.
- **Integration of CIB Capital Markets Operations.** In 2008, the newly acquired CIB capital markets operations generated roughly $115M in revenue accounting for about 12% of OPY's

total revenue. As this operation returns to pre-acquisition revenue levels of around $400M over the next 5 years, which would account for 27% of projected future revenue, a CAGR of 5% attributable to total revenue growth is attainable. Management has also stressed cost cutting initiatives, and has downsized the operation to recognize synergies. This lean approach endorsed by management will contribute to OPY's bottom line growth.

- **Rising Interest Rates.** With the Fed planning to raise rates and exit from historically loose monetary policy by Q4 2010 or Q1 2011, the rates that OPY is able to charge on margin lending to clients will be positively impacted. OPY's interest revenue decreased by 67% from 2007-2009 as the Fed began cutting interest rates. This positive correlation to changes in interest rates will help OPY's interest revenue potentially increase 40% to 50% returning to normalized levels.

Valuation

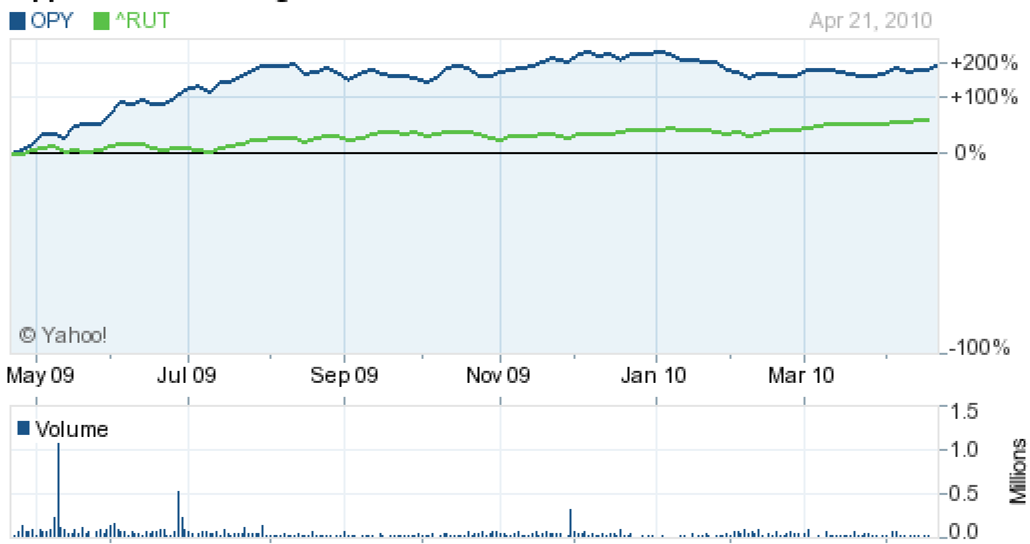
To derive an intrinsic value for OPY, a variety of valuation techniques were utilized. An excess returns valuation was performed, which yielded a base case intrinsic value of $33.93. The key assumption included in the excess returns valuation was an improving ROE driven by strong top line growth and increased leverage. A discount rate of 12.85% was applied which includes a 50 basis point management control premium. A relative valuation technique was utilized as well, taking a weighted average of OPY's historical P/TBV of 1.90x and a peer average P/TBV of 1.86x. Applying the calculated P/TBV of 1.89x to a projected tangible book value per share of $22.03, yielded an intrinsic value of $41.60. Taking both valuation techniques into consideration a target price of $36 has been established for OPY. The firm also pays a quarterly dividend of $0.11, yielding 1.57%.

Risks

- **Debt and Equity Trading Pricing Pressure.** OPY has experienced and will likely continue to experience pricing pressure from institutional clients to reduce commissions. Additionally, pricing pressure from retail clients will persist as many discount brokers continue to provide competition by attracting customers with very low commissions typically in the high single digits.
- **Changing Regulatory Environment.** With Congress on the verge of passing sweeping financial reform, OPY's revenues could be adversely affected. Specifically, a potential ban on proprietary trading has the potential to negatively affect or eliminate OPY's principal trading activities. Currently principal trading activities account for 11% of total revenue.
- **High Concentration of Class B Voting Shares** Mr. Albert Lowenthal, the Chairman and CEO of OPY, owns 96% of the class B voting shares. This concentration of Class B voting power may have the effect of delaying or preventing a change in control of the company, and could cause a conflict of interest among other stockholders in matters regarding the election of board members and various significant company transactions. Because of Mr. Lowenthal's substantial holdings of OPY's Class B voting shares, a control premium of 50 basis points was factored into the excess returns valuation.

Management

Mr. Albert Lowenthal, Chairman and CEO, has held both positions since 1985. Previously, Mr. Lowenthal acted as President of Cowen Securities. Incentive based compensation accounts for 65% to 95% of total executive compensation, and along with insider holdings totaling 26% of shares outstanding, management interests are aligned with shareholders. The firm has been very active in hiring new talent at upper level management positions as well, stealing human capital away from previous industry leaders impaired by the fallout of the financial crisis.



Ownership

% of Shares Held by All Insider and 5% Owners:	26%
% of Shares Held by Institutional & Mutual Fund Owners:	41%

Top 5 Shareholders

Holder	Shares	% Out
GMT CAPITAL CORP	890,112	6.72
River Road Asset Management	705,730	5.33
AIC Limited	479,265	3.62
Private Capital Management	476,551	3.60
Mackenzie Financial Corp	437,607	3.30

Fuel System Solutions, Inc. (FSYS)
April 30, 2010

Jose Munoz Consumer Goods

Fuel Systems Solutions, Inc. (NASDAQ:FSYS) designs, manufactures and supplies alternative fuel components and systems for use in the transportation and industrial markets. Its components and systems control the pressure and flow of gaseous alternative fuels, such as propane and natural gas used in internal combustion engines. The Company also provides engineering and systems integration services to address its individual customer requirements for product performance, durability and physical configuration. FSYS supplies its products and systems to the market place through a global distribution network of over 360 distributors and dealers in more than 70 countries and more than 100 original equipment manufacturers (OEMs). The Company operates in two business segments, IMPCO (industrial segment, 10.5% of 2009 revenue) and BRC operations (transportation segment, 89.5% of 2009 revenue). FSYS was founded in 1958 and is headquartered in New York, NY.

Price ($): (3/30/10)	33.00	Beta:	1.66	FY: Aug	2009A	2010E	2011E
Price Target ($):	41.00	WACC	13.83%	Revenue (Mil)	452.33	520.17	582.59
52WK H-L ($):	13- 52.53	L-Term Rev. Gr Rate Est:	10%	% Growth	18.19%	15.00%	12.00%
Market Cap (mil):	549.61	L-Term EPS Gr Rate Est:	15%	Gross Margin	32.84%	33.00%	33.00%
Float (mil):	14.26	Debt/Equity:	7.98%	Operating Margin	17.75%	18.00%	18.00%
Short Interest (%):	7.89%	ROA:	14.59%	EPS (Cal)	2.69A	$3.08	$3.45
Avg. Daily Vol (mil):	0.99	ROE:	25.1%	FCF/Share	($0.71)	$2.28	$2.73
Dividend ($):	0	PEG:	0.61	P/E (Cal)	11.39	13.30	11.87
Yield (%):	0	Price/Book	2.26	EV/EBITDA	7.56	6.39	5.71

Recommendation

Over the past few years the alternative fuel industry has grown due to increasing oil prices that motivate consumers to look for alternative fuel solutions. Because of this, natural gas vehicles have experienced a 28.9% CAGR over the last ten years. Also, governments including: Italy, India, Pakistan, Venezuela and the U.S. have started to promote the use of these new forms of energy, like natural gas and propane. Through the use of economic incentives or with new regulations, governments are actively promoting an increase in the demand of alternative fuel used in the transportation and industrial markets. According to management, industry energy demand is expected to grow 50% and natural gas consumption 60% between 2005 and 2030. Out of the 24.6M vehicles running on either propane or natural gas, FSYS has placed systems and components in over 5.5M of these vehicles worldwide. FSYS' revenues and EPS have grown at a 5 year CAGR of 21% and 45%, respectively. The firm's operating margin has grown from 12% in FY08 to 17.8% in FY09, while gross margin expanded from 28.9% in FY08 to 32.8% in FY09. FSYS' strong financial performance and expansion opportunities in the EU and other emerging markets will allow them to satisfy the ever increasing demand for alternative fuel systems. It is recommended that FSYS be added to the AIM Fund with target price of $41, an upside return potential of nearly 24%.

Investment Thesis

- **Worldwide expansion**. FSYS is expanding in Europe and Latin America with 2009 YoY sales growth of 121% and 44%, respectively. The EU, where FSYS maintains a 50% market share for alternative fuel vehicles, established a target to replace 20% of liquid fueled vehicles with gaseous fuels by 2020. If this target is obtained, it could translate into $5B in incremental revenue for FSYS. In Venezuela, FSYS is ideally positioned after their acquisition of the Tomasetto Achille and GFI brands in 2009. The Venezuelan government has established a target of 40% of new vehicles sold to run on natural gas starting in 2010, which translates into a potential market of 160 thousand vehicles per year. In 2009 FSYS launched its U.S. automotive alternative fuel division, looking to pursue aggressive expansion in its activities in the automotive alternative fuel

transportation market. There is significant room for growth in the U.S. since in April 2010, a newly passed Federal rule calls for a 35.5 miles-per-gallon average within six years, up nearly 10 mpg from previous standards.

- **Shift to DOEM model**. FSYS is in the process of shifting its product mix from aftermarket kits to Delayed OEM (DOEM). Under this model, FSYS receives vehicles directly from automotive OEMs, installs its proprietary propane or natural gas fuel systems, and delivers completed bi-fuel vehicles directly to the dealership network. This shift has already shown favorable results in the transportation segment in 2009, with volumes for the DOEM conversion increasing to 184,000 for the full year compared to 58,000 conversions in 2008. Also, this model has the capacity of a better absorption of costs. Since the DOEM model has been put into action, gross margins have improved from 24% to 32%. Further growth in the DOEM model should result in further gross margin expansion for the firm.
- **Increase in the price of oil.** If oil prices continue to rise, this should translate into an increase in the demand for alternative fuel vehicles since natural gas costs 30% less than gasoline and propane 40% less. According to the U.S. Transportation Department and Environmental Protection Agency, car owners would save more than $3,000 over the lives of their vehicles through better gas mileage if they ran on natural gas. This saving should motivate automakers to expand their portfolios of alternative fuel vehicles.

Valuation

Based on a 5 year DCF analysis with a WACC of 13.83% and a 15% sales growth in 2010, an intrinsic value of $39.60 was calculated. A sensitivity analysis accounted for variations in WACC and the terminal growth rate, providing a price range between $34.58 and $47.41. A P/E multiple approach was also used. Over the past two years the stock has traded at an average P/E of 20. Using a conservative P/E multiple of 14x an intrinsic value of $43.17 was computed. Taking these into account, a price target of $41 was set with a potential upside of 24%. The company pays no dividend.

Risks

- **Cut of Italian incentives**. Sales in Italy accounted for almost a third of total revenue in 2009. The Italian government in early 2009 provided significantly increased economic incentives for the purchase of new duel fuel vehicles before December 31, 2009. These incentives were not extended for 2010. While the incentives increased demand for the post-production OEM conversions in Italy, the demand was also stimulated by the lower price of natural gas compared to gasoline in Italy and elsewhere in Europe.
- **Fluctuation in oil prices**. Sales in recent years have been favorably impacted by changes in consumer demand prompted by rising oil prices and concern over potential future large increases in oil prices. Conversely, when oil prices decrease and remain low or continue to decrease, it may result in a decline of the demand for the company's products.
- **Currency fluctuations**. Non-U.S. operations accounted for approximately 91.1% of the company's revenue. Therefore, gains and losses on the conversion of foreign currency denominated expenses into U.S. dollars could cause fluctuations in the results of operations, and fluctuating exchange rates could cause significantly reduced revenue and/or gross margins from non-U.S. dollar-denominated international revenue.

Management

Mariano Costamagna has been CEO of Fuel Systems Solutions Inc. since January 1, 2005. He co-founded MTM (part of BRC operations) in 1977 and has been its Principal Executive Officer since its inception. He has more than 35 years of experience in the industry. Matthew Beale has been CFO since May 2009. He has extensive international corporate finance, banking and consulting experience including 11 years at JPMorgan and Citigroup, based in London and Milan and served as its Vice President from 2000 to 2004.

Ownership

% of Shares Held by All Insider and 5% Owners:	24%
% of Shares Held by Institutional & Mutual Fund Owners:	75%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Variable Insurance Products FD	1,345,217	7.64
Rainier Investment Management	999,605	5.68
SAM Sustainable Asset Management	566,770	3.22
Vanguard Group, Inc.	564,453	3.21
Invesco Ltd.	534,280	3.03

Source: Yahoo! Finance

The Gymboree Corporation (GYMB)
April 30, 2010

Michael Muratore Consumer Services

Founded in 1976 and headquartered in San Francisco, CA, the Gymboree Corporation is a specialty retailer providing children's apparel, accessories, and play programs throughout the United States, Canada, and Puerto Rico. GYMB operates through two main segments: Retail Stores and Gymboree Play & Music, accounting for 98% and 2% of FY09 revenues, respectively. As of January 30, 2010, GYMB operated approximately 950 stores, located predominately in malls, under the trade names of Gymboree, Gymboree Outlet, Janie and Jack, and Crazy 8. Additionally, 34 stores are located in Canada and 3 are operated in Puerto Rico.

Price ($): (4/23/10)	53.17	Beta:	1.15		FY: Jan	2009A	2010E	2011E
Price Target ($):	60	WACC	10.92%		Revenue (Mil)	1,014.91	1,136.70	1,261.72
52WK H-L ($):	31-55	L-Term Rev. Gr Rate Est:	10.5%		% Growth	11.25%	12.00%	11.00%
Market Cap (mil):	1,540	L-Term EPS Gr Rate Est:	10%		Gross Margin	47.29%	47.15%	47.15%
Float (mil):	28.05	Debt/Equity:	N/A		Operating Margin	16.12%	13.55%	13.55%
Short Interest (%):	10.1%	ROA:	17.7%		EPS (Cal)	$3.55	$3.99E	$4.43E
Avg. Daily Vol (mil):	0.741	ROE:	26.4%		FCF/Share	$3.10	$3.81	$4.58
Dividend ($):	0.00				P/E (Cal)	15.5A	14.3E	13.5E
Yield (%):	0.0%				EV/EBITDA	4.42x	5.79	5.35

Recommendation

The economic recovery aiding the return of the consumer will positively impact specialty retailers, such as Gymboree. GYMB employs a niche strategy in the retail market, as one of a few companies specializing in quality apparel for babies and young children. Gymboree is well positioned to take advantage of an increase in consumer discretionary spending. GYMB has a pristine financial position and Free Cash Flow/Revenue grew by 3% from FY08 to FY09. This growth rate is expected to continue into 2010, with an estimated Free Cash Flow/Revenue ratio of 10%. EPS growth is projected to average 10.5% per year for the next five years and Free Cash Flow/Share is expected to grow at an average of 16% over the next five years. GYMB's ROA and ROE of 17.7% and 26.4%, respectively, are superior to its peers which have an average ROA of 6.3% and ROE of 10.9%. Furthermore, GYMB is offering its shareholders a stock repurchase program - in 2009 the firm repurchased over 600,000 shares of common stock. Due to Gymboree's unique position within the specialty retailer industry, coupled with the company's strong financial position, it is recommended that GYMB be added to the AIM Equity Portfolio, with a price target of $60, offering a 16% upside.

Investment Thesis

- **Return of the consumer.** As the economic recovery gains momentum, consumer spending should continue to strengthen, as evidenced by favorable recent Consumer Confidence and Consumer Sentiment surveys. The Consumer Confidence Index, which has remained close to 50 over the past nine months, was reported in March at 52.50. This is a substantial improvement from the 26.9 figure reported in March 2009. These survey results provide evidence that consumers' attitudes are improving, which is a positive sign for specialty retailers, such as GYMB, that rely heavily on consumer discretionary spending. As consumers increase spending on discretionary items, such as clothing and accessories for their children, Gymboree's revenues will increase.
- **Global expansion.** In FY 2010, Gymboree will undergo unprecedented expansion initiatives, opening 100 to 125 new stores in the United States. Additionally, management continues to strive to be a global brand for children's apparel and accessories. GYMB also has announced that the company will expand into new global markets, including Australia and the Middle East. GYMB

recently signed a franchising agreement with a Lebanese retail company, Azadea Group. This relationship will support expansion into Dubai, Lebanon, Egypt, Qatar, Bahrain, and Jordan.

- **Array of attractive demographics.** GYMB boasts a unique exposure to a range of income demographics, allowing for the firm to capitalize on its many different brands. This brand variety allows Gymboree to position itself to access a wide variety of consumers across multiple income levels, and stands to benefit from an increase in spending across multiple demographics. Few, if any, of GYMB's competitors have this type of expansive brand variety, generally operating from one chain of store.

Valuation

GYMB is currently trading at 15.16x TTM EPS of $3.55. A conservative historical P/E average of 15.5x applied to a 2010 earnings estimate of $3.99 yields a price target of $62. Based upon a 5 year DCF analysis with a computed WACC of 10.92% and a terminal growth rate of 3%, an intrinsic value of $58 was obtained. A sensitivity analysis that adjusts both the long-term growth rate (2.50 - 4.00%) and the WACC (10.42 - 11.42%) generates a price range of $53.83 - $60.18. Considering the PE multiple analysis and the DCF, a target price of $60 was obtained, providing potential upside of 16%.

Risks

- **Anticipation of current fashion trends.** As with any apparel retailer, it is essential that management anticipates ever-changing consumer demand. Given the competitive nature of the retail market, it is essential that Gymboree stay on the cutting edge of fashion trends, especially as the company expands into international markets. An inability to successfully anticipate these trends would adversely affect GYMB's financial performance.
- **Expanding managerial relationships**. Gymboree recently entered into a multi-year franchise agreement with Azadea Group Limited in an attempt to launch the Gymboree retail brand in the Middle East. GYMB will need to gain an understanding of differences in global managerial attitudes. The success of the Middle East expansion plan will depend on the management of Azadea Group, as well as Gymboree's ability to integrate and work alongside the group.
- **Limited distribution.** GYMB's utilization of one distribution center will put pressure on its expansion initiatives. As store expansion continues, GYMB may be forced to build other distribution centers, especially as the company extends its global presence.

Management

Matthew K. McCauley has served as CEO and Chairman of Gymboree since 2005, and immediately provided significant improvements to the company. He has retail experience was gained from previous managerial roles at Payless Shoes and Gap. Mr. McCauley joined the Gymboree in July 2001 as Director of Allocation and was named Vice President of Planning and Allocation in 2003, Senior Vice President and General Manager in February 2005, and President in June 2005.

Ownership

% Shares Held By Insiders	4.55%
% Shares Held By Institutional and Mutual Fund Holders	> 90 %

Top Shareholders

Holder	Shares	% Outstanding
Vanguard Group, Inc.	1,418,689	4.82%
Buckingham Capital Management	1,277,625	4.34%
BlackRock Fund	1,254,381	4.26%
Fidelity	1,210,598	4.11%
Vaughan, Nelson, Scarborough, and McCullough L.P.	1,075,075	3.65%

Source: Bloomberg

Calgon Carbon Corporation (CCC)
April 30, 2010

Mark Rutherford — Industrial Materials

Calgon Carbon Corporation (NYSE: CCC) is a global manufacturer and supplier of Activated Carbon (AC) and innovative purification systems. CCC is the largest provider of reactivated carbon in the world and boasts over 700 marketable products used for water, air and food purification. For fiscal year 2009, 62.3% of revenues were derived in the North America, 25.5% originated in Europe while Asia accounted for 6.6% of revenues. CCC operates three business segments: Activated Carbon, Equipment, and Consumer. AC and reactivated carbon, which is used extensively by municipal water providers and coal-fired power plants, uses bituminous coal to remove organic compounds from liquids and gases – this segment accounted for 87.1% of revenue in 2009. The Equipment segment generates revenue from purification systems including UV water purification and Advanced Ion Exchange Separation (ISEP). For fiscal year 2009, the Equipment segment generated 10.7% of revenue. The Consumer division accounts for the remaining 2.2% of revenues. CCC was founded in 1942 in Pittsburgh, PA and currently owns 329 patents and six production facilities in the Unites States, two in Europe and one in China.

Price ($): 4/21/2010	17.53		Beta	0.77		FY: Dec	2009A	2010E	2011E
Price Target ($):	21.25		WACC	8.55		Revenue (Mil):	411.9	473.7	554.2
52 WK H-L ($):	10.9-19.3		L-Term Rev. Gr Rate Est:	12%		% Growth	2.91%	15.00%	17.00%
Market Cap (mil):	987.40		L-Term EPS Gr Rate Est:	12%		Gross Margin	35.3%	37.0%	38.0%
Float (mil):	55.20		Debt/Equity	N/A		Operating Margin	13.0%	16.8%	18.0%
Short Interest (%):	11.50		ROA	9.60%		EPS (Cal)	0.69	0.85	1.07
Avg. Daily Vol (mil):	0.66		ROE	13.98%		FCF/Sh	-0.38	0.28	0.50
Dividend	0.00					P/E (Cal)	23.20	21.10	15.80
Yield (%):	0.00					EV/EBITDA	12.2x	9.0x	7.0x

Recommendation

CCC is in a position to take advantage of positive secular trends in the AC market due to increasing environmental regulatory requirements. U.S. demand for AC is roughly 400 to 450 million pounds per year and this is expected to increase by 37% in 2010 due to incremental demand from state mercury (Hg) rules. There are 16 states that have set Hg emission limits and another 10 states are expected to finalize their mercury rules in 2010 and 2011. On average, states are requiring a 70-90% emission reduction with deadlines ranging from 2007 to 2018. CCC's top line has grown at a 9.1% CAGR over the past five years, while margins have expanded significantly. Gross margin improved YoY from 33.5% to 35.8% in 2009 accompanied by a Q4 gross margin of 42.2%, which expanded from 32.5% in Q4:08. Margin expansion is attributable to price increases in 2009 and improved manufacturing performance due to equipment maintenance in Q2:09. During 2009, net income increased by 24% YoY compared to a 136% YoY increase in 2008. Besides organic growth, CCC has completed three acquisitions in 2010, which should be accretive in the first year. CCC ended 2009 with no debt on its balance sheet and $38 million or $0.70 per share of unrestricted cash. With improving margins, expanding capacity and positive secular trends, it is recommended that CCC be added to the AIM Equity Fund with a target of $21.25, which provides upside potential of 21.2%.

Investment Thesis

- **Upcoming Regulatory Compliance.** The AC market is growing quickly due to increasing state and federal regulations. The EPA is seeking to reduce Hg emissions by 70% over the next 8 years using maximum available control technology (MACT) instead of cap and trade. In addition to EPA support, a report issued in October of 2009 by the GAO stated that MACT standards could reduce Hg emissions by 90% while only increasing the average customer bills by

$0.10 per month. Currently there are 491 coal-fired power plants in the U.S. and only 14 are using AC leaving plenty of opportunity for growth. In 2010, the EPA is expected to give visibility regarding federal Hg emission laws, which could roughly triple domestic demand bringing it to 1.2B lbs. per year. Regulations in Canada are expected to increase AC demand by 50M lbs. per year beginning in 2011. Starting in 2012, the Disinfectant Byproduct Rule takes effect and management expects this to increase AC demand by over 55M lbs. annually. Finally, the Equipment segment is expected to grow by 30% going forward as municipalities purchase UV Light Systems to comply with the Enhanced Surface Water Treatment (LT2) rule by 2012. The LT2 rule pertains to microbial contaminants such as cryptosporidium and E. coli.

- **Acquisition Accretion and New Contracts.** CCC recently completed three acquisitions, which are accretive in 2010 and should add over $50M in revenues. CCC increased their ownership of Mitsubishi Chemical Corp. from 49% to 80% as of March 2010, which will allow them to further penetrate the Japanese market. Japan has the second-largest national market for AC in the world. The Equipment segment may also benefit from UV equipment sales to municipalities including: Miami, Cincinnati and Vancouver.
- **Activated Carbon Shortage.** CCC has only one major competitor in the United States and Chinese AC imports have declined due to anti-dumping tariffs. This niche market provides CCC with a unique opportunity to capitalize on any shortages. To accommodate any future shortages CCC has proven its ability to increase capacity**.** In April of 2009, CCC activated the idle B-line production facility, which can produce 70M lbs. of AC annually.

Valuation

CCC is currently trading at 20.1x forward EPS estimates of $0.85. A historical P/E average of 24x a 2010 EPS estimate of $0.85 yields a $20.40 price target. Legitimate peer comparables are currently trading at 20.6x forward EPS, but CCC deserves a premium due its better margins and unique position in the AC market. For 2010, CCC is trading at 9.0x EV/EBITDA compared to its peers, which trade at 9.4x. Based on a five year DCF analysis with a computed WACC of 8.55% and a terminal growth rate of 3%, an intrinsic value of $21.46 was obtained. A sensitivity analysis that adjusts both the long-term growth rate (2-4%) and the WACC (6.55-10.55%) generates a price range of $17.31-27.56. After considering relative multiples and the DCF analysis a target price of $21.25 was established offering upside of 21.2%. The firm does not pay a dividend.

Risks

- **New Legislation.** CCC is exposed to federal and state regulations regarding air and water purification. New emissions laws are expected to favor CCC, but any relaxation of emissions standards would negatively affect future earnings.
- **Changes to Anti-Dumping Tariffs.** In April of 2007 the Department of Commerce imposed anti-dumping tariffs for AC coming from China. Prices and margins have dramatically increased as a result of these tariffs. Any changes to these tariffs going forward will have a significant impact on AC prices and margins.
- **Commodity Price Fluctuation.** The two main inputs for AC are Bituminous coal and natural gas. Fluctuations in the raw material prices of these inputs are an inherit risk to the business.

Management

John Stanik, who has been with the company since 1991 is the active Chairman, President and CEO. Mr Stanik has exhaustive technical knowledge from managing manufacturing operations worldwide and boasts 16 years of engineering experience prior to joining CCC. The CFO, Mr. Leroy Ball, joined CCC in 2000 and was appointed to the Board of Directors in 2002. On average, each member of the management team has been with CCC for over 20 years and has consistently innovated in order to drive growth and profitability.

Ownership

% of Shares Held by All Insider and 5% Owners:	8%
% of Shares Held by Institutional & Mutual Fund Owners:	92%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
BlackRock Institutional Trust Company	3,947,527	7.0
Wells Capital Management	3,496,595	6.2
Invesco PowerShares Capital Management	2,969,797	5.3
Vanguard Group, Inc.	2,413,031	4.3
Cramer Rosenthal McGlynn, LLC	2,341,417	4.2

Source: Yahoo! Finance

Chunghwa Telecom Co., Ltd. (CHT)

April 30, 2010

Christina Starkey | International Telecomm

Chunghwa Telecom (NYSE: CHT) is the largest telecommunications service provider in Taiwan offering principal services including fixed line services (47.2% FY2009 revenues), cellular services (12.4%), and Internet and data services (40.3%). In FY 2009, the Taiwanese market accounted for 97.3% of revenue, while international operations in China and Vietnam accounted for the remaining 2.7%. CHT operates in two customer markets: home and personal users (74.8%) as well as corporate users (25.2%). The company also engages in the distribution and sales of 3G cellular phones for use on its cellular network to customers through its directly-owned stores and also through third-party retailers. Headquartered in Taipei, Taiwan, CHT was founded in 1996 as a government owned enterprise and was privatized in 2005.

Price ($): (4/14/10)	19.76	Beta:	0.58	FY: Dec	2009A	2010E	2011E
Price Target ($):	23.50	WACC	12.4%	Revenue (Mil)	5,574.18	6,357.83	6,675.72
52WK H-L ($):	22.10-17.36	L-Term Rev. Gr Rate Est:	22%	% Growth	-5.95%	14.06%	5.00%
Market Cap (mil):	19,160.90	L-Term EPS Gr Rate Est:	22%	Gross Margin	47.17%	49.00%	49.00%
Float (mil):	969.68	Debt/Equity:	0.0%	Operating Margin	23.78%	25.60%	25.60%
Short Interest (%):	0.09%	ROA:	9.57%	EPS (Cal)	1.40	1.63	1.71
Avg. Daily Vol (mil):	665,690	ROE:	11.30%	FCF/Share	$1.54	$1.60	$2.41
Dividend ($):	0.28			P/E (Cal)	12.48	14.5	15.5
Yield (%):	5.9%			EV/EBITDA	9.82	10.50	11.00

Recommendation

CHT has established itself as the market leader in Taiwan in the areas of broadband access service and wireless subscribers with market shares of 83.8% and 35.2%, respectively. In FY2009, CHT's Information and Communication Technologies (ICT) solutions business network supported over 95% of the transactions performed by Taiwan's brokers, the Taiwan Stock Exchange, and the Taiwan Future Exchange. CHT is able to achieve its dominant market share through management's vision to broaden its revenue stream while continuing to produce innovative products and services. Also, CHT has been and will continue to leverage its strong balance sheet to capitalize on the growing digital convergence trend. The company has $2.1 billion in cash assets ($2.26 cash per share) and has a Free Cash Flow Share of $1.54. Given the firms stronghold on the market and the trend in wireless revenue growth, it is recommended that CHT be added to the International AIM Equity Fund with a target price of $23.50, which offers a potential upside of 19.96%. The firm also pays a 5.9% dividend.

Investment Thesis

- **Overseas Opportunities in China and Southeast Asia.** As CHT expands from a pure telecommunications access provider to the ICT space, management targets a 25% increase in ICT revenue by the end of 2010. The company has already begun exploring ICT business opportunities in both mainland China and overseas emerging markets, particularly in Southeast Asia. CHT has formed a joint venture with the Xiamen government to operate call center business in China. CHT has signed an agreement with Viettel to offer ICT services in Vietnam. Considering the YoY GDP rates predicted for China (11.8%) and Vietnam (5.8%), these market opportunities will increase CHT's revenues.
- **Changing Consumer Trends.** Due to the increasing shift in smartphone usage in Taiwan and the improving Average Revenue Per User (ARPU), an opportunity exists for CHT to continue increasing their margins. The company's ARPU will increase from $20.70 to about $44.58, due to the improvement in smart phone sales like the Apple iPhone OS and HTC's Android. CHT already maintains solid gross (47.17%) and operating margins (28.43%), with their operating margins being above the industry average of 26%.

- **Network Technology Expansion.** While continuously developing its 3G capabilities, CHT has also completed a 50-50 joint venture between Nokia Corp. and Siemens AG to begin trial runs of 4G technologies. The deployment of this advanced technology platform is critical for CHT's operations and ability to retain a competitive edge. The company has the financial capacity to focus on future opportunities driven by R&D and CAPEX because of its strong balance sheet. CHT has a 0% Debt/Equity Ratio, which leaves more flexibility to implement its growth and R&D initiatives through debt financing. Since the telecommunications industry is a highly capital-intensive business, having the resources to maintain and improve the network is vital.

Valuation

CHT is currently trading at 12.5x TTM EPS of $1.40. Applying a conservative 14.5x multiple to the estimated 2010 EPS of $1.62 produces a relative valuation of $23.57. Based on a 5 year DCF analysis with a computed WACC of 12.42% (including country risk) and a terminal growth rate of 3.0%, an intrinsic value of $23.50 was obtained for CHT. A sensitivity analysis that adjusts both the long-term growth rate from 2% to 4% and the WACC from 10% to 14% generates a feasible price range of $18.97-36.05. Therefore, a target price was set at $23.50. With the stock currently trading around $19.76, the $23.50 price target would yield a 19.96% return and a 5.9% dividend yield.

Risks

- **Government Regulation.** As a telecommunications service provider in Taiwan, CHT is subject to extensive regulation. The National Communications Commission (NCC) has designated CHT as the primary provider of fixed line and cellular services, and as a result, the firm is subject to special additional requirements imposed by the NCC. The high amount of regulation inherent in the telecomm industry could limit CHT's flexibility to respond to market conditions and competition.
- **Increasing Competition.** The NCC announced in 2009 that it would continue to reduce the tariffs for mobile telephone service rates (down 5.87%) and fixed-network communication services fees (down 5.69%). The lowering of rates and ongoing liberalization of the Taiwanese telecommunications industry could adversely affect CHT's growth and profitability.
- **Rapid Technology Changes.** The Taiwanese telecommunications industry has been characterized by rapid increases in the diversity and sophistication of the technologies and services offered. CHT will constantly need to upgrade their technologies and services in order to respond to competitive industry conditions and customer requirements which could affect debt levels and current margins.

Management

Dr. Shyue-Ching Lu, Chairman and CEO, has an extensive background in the Taiwanese telecommunications industry previously holding director positions in the Ministry of Transportation and the Deputy Director General of the Directorate General of Telecommunications. Dr. Lu's experience in telecommunications regulation will allow him to provide expertise in these industry-wide challenges. Working with Dr. Lu, is the newly appointed CFO, Dr. Shu Yeh, who has 19 years of in-depth experience in the fields of accounting, finance, and capital markets.

Ownership

% of Shares Held by All Insider and 5% Owners:	<1%
% of Shares Held by Institutional & Mutual Fund Owners:	>90%

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
Blackrock Fund Advisors – Blackrock Fund	34,025,904	3.51
Blackrock Fund Advisors – iShares MSCI EM Index	22,415,602	2.31
Mondrian Investment Partners, Ltd.	11,773,441	1.12
Franklin Resources Incorporated	4,475,559	0.46%
Deutsche Bank AG	4,092,017	0.42%

Source: Bloomberg

Stanley, Inc (SXE)
April 30, 2010

Peter Stucki | Software

Stanley, Inc. (NYSE: SXE) provides information technology services and solutions to the U.S. defense, intelligence, and federal civilian government agencies. SXE supports and services their essential needs at any point in the process through five service areas which include systems engineering, enterprise integration, operational logistics, business process outsourcing, and advanced engineering and technology. While having 300 active contracts with 54 federal government agencies, SXE's two largest contracts individually account for 10% of total revenue. These contracts regard the provision of passport processing and support services for the Department of State and production engineering and integration services for the Navy. SXE obtains its revenue growth both by adding new customers, gaining new task orders, and extending or adding new contracts with existing clients, and through strategic acquisitions (6 since 2000). SXE was founded in 1966 and is currently headquartered in Arlington, Virginia with 45 locations throughout the U.S.

Price ($): (4/23/10)	31.58	Beta:	0.87	FY: Aug	2009A	2010E	2011E
Price Target ($):	43	WACC	9.37%	Revenue ($Mil)	779.7	875.9	945.5
52WK H-L ($):	33-22	L-Term Rev. Gr Rate Est:	2.00%	% Growth	29.01%	12.34%	8.00%
Market Cap (mil):	760.4	L-Term EPS Gr Rate Est:	0.50%	Gross Margin	16.20%	15.20%	16.00%
Float (mil):	18.18	Debt/Equity:	15.88%	Operating Margin	7.70%	7.70%	7.50%
Short Interest (%):	3.5%	ROA:	7.36%	EPS ($Cal)	1.63A	1.72E	1.88E
Avg. Daily Vol (mil):	0.16	ROE:	16.99%	FCF/Share	$2.69	$2.50	$3.14
Dividend ($):	0.00			P/E (Cal)	19.4	18.4	16.8
Yield (%):	0.00			EV/EBITDA	11.7	11.5	9.6

Recommendation

During fiscal 2009, SXE secured 13 contracts worth $645.5 million, which is up from 2008's 13 contracts that were worth $625.3 million. Within the first month of fiscal 2010, SXE has already generated $286 million from two new contracts, which already places it in line to surpass 2009's numbers. Since 72% of SXE's revenues come from of the Department of Defense, the new budget increase of $9 billion to the Department of Defense will likely result in revenue increases for SXE in the upcoming year. Furthermore, SXE has won 95% of the competitively awarded contracts over a 3-year period ending in 2009. Based on a target price of $41, which offers a potential upside of 30%, it is recommended that SXE be added to the AIM Equity Fund.

Investment Thesis

- **Client Relationship and Established History.** Attributing to senior management's current relationship with the various departments of the federal government, all major contracts have been renewed at least once, along with new customers being added each year. In addition, several members of management have served in the armed forces, which provide them with significant knowledge of these organizations, thus boosting their relationships within the various departments. Already in 2010 alone, due to management's positive relations and 15 year history with the State Department and U.S. Army, SXE has announced $286 million in contracts.
- **Passport Control.** With Stanley's contract from the U.S. Department of Homeland Security regarding border security and passport control, originating in 2008 and its renewal in 2009, revenues have grown by 26% and 17%, respectively. As this contract accounts for 10% of SXE's total revenue, it is their single largest contract. In addition to customs and border protection budgets doubling in the past five years, it is anticipated that passport issuance growth could lead to a renewal of the contract, which would increase incremental revenues in this area growing by 20% again next year**.**

- **Grounded with Safeguards.** Since SXE's sole customer is the U.S. government, revenue stability is more easily achieved compared to companies who target the private market. In addition, SXE's wide array of expertise, which is derived from their six acquisitions in the past ten years, gives them a diversified approach to their services offered. This allows SXE to spread contract risk across a variety of different areas in the U.S. government.

Valuation

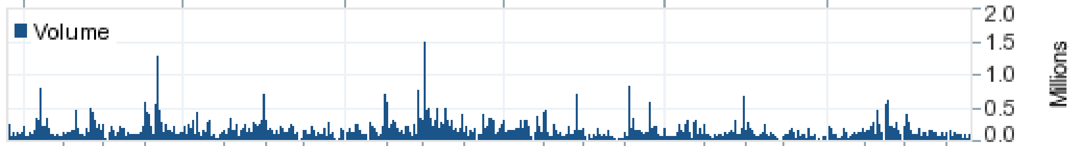
Using a five-year DCF, a WACC of 9.37%, revenue growth of 8%, and a terminal growth rate of 2%, an intrinsic value of $43.80 was computed. A sensitivity analysis with the terminal growth rate between 1-3% and WACC between 8.4% -10.4%, a price range of $36.83 - $55.91 was determined. A P/S of 1x and P/E of 22x multiples approach were also computed to yield a price of $35.85. Based on a weighted average of the DCF and multiples approach, a price target of $41 with a possible 30% upside was derived. The firm does not pay a dividend.

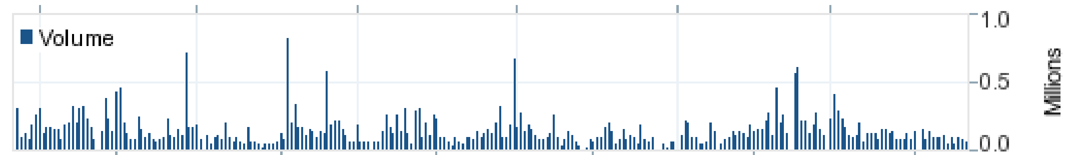
Risks

- **Federal budget cuts.** With the U.S. federal budget deficit increasing from $400 billion to $1.75 trillion over the past year, the federal government has a need to cut its budget, which would result in lower spending. Since all of SXE's revenues come from U.S. government contracts, its revenues could drop. Even though SXE is diversified between various government departments, depending on which departments cut their budgets, SXE's revenues could still sink. Another issue with regard to SXE's lack of diversification is that 63% of SXE's revenues come from their top ten contracts. Depending on how many of these contracts would be affected by the potential budget cuts, SXE's revenues could potentially fall.
- **Convenience Termination.** Stated in federal government contracts is a clause that states that any government department is allowed to terminate existing contracts, with short notice, for convenience. This is an ongoing risk that SXE has to work with. Currently, SXE has an excellent reputation in regards to quality and thoroughness with their clients. This reputation has been maintained for many years now, as the 15 years of contracts with the Department of Defense and the U.S. Army can attest to.

Management

Philip Nolan, Stanley's president since 1996, CEO since 2002, and Chairman since 2006, has led Stanley through six acquisitions since 2000. He has served in various areas such as corporate secretary, treasurer, general manager, and vice president of operations. Mr. Nolan joined Stanley in 1989 after retiring from the U.S. Navy after 7 years of service, where he was Deputy Program Manager for Weapons Integration for the Submarine Launched Tomahawk Program. Brian Clark, who has been Chief Financial Officer of Stanley since 2006 and Executive Vice President since 2007, was recently Vice President of Titan, where he managed the company's mergers and acquisitions program. He has also worked for Arthur Andersen LLP as senior manager of assurance and business advisory services, where he participated in three IPO's and completed over 25 mergers and acquisitions.





Ownership

% of Shares Held by All Insider and 5% Owners:	32%
% of Shares Held by Institutional & Mutual Fund Owners:	58%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Evercore Trust Co.	2,959,992	12.29
Philip Nolan	2,167,273	9.00
Baron Funds	2,089,200	8.68
William Karlson	1,232,696	5.12
Times Square Capital Management	1,091,500	4.53

Source: Yahoo! Finance

Thank you for taking the time today and participating in the AIM ‘road show’ in Chicago. These student presentations are an important element of the applied learning experience in the AIM program. The students conduct fundamental equity research and present their recommendations in written and oral format – with the goal of adding their stock to the AIM Equity Fund. Your comments and advice add considerably to their educational experience and is greatly appreciated. Today, each student will spend about 5-7 minutes presenting their formal recommendation, which is then followed by about 8-10 minutes of Q & A. Again, thank you for your interest and participation.

We would also like to thank and recognize Marquette University’s Team Chicago, especially Brian Liedlich, for hosting this special AIM Investment Advisory Meeting today. Below please see the itinerary for the day.

Itinerary
11:00 am – Session 1
Noon – Lunch break
12:15 pm – Session 2

For more information about AIM please contact:

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