Applied Investment Management (AIM) Program

AIM Fund Investment Advisory Board Meeting

January 30, 2009

Location: Weasler Auditorium Time: 1:00 – 3:00 PM

AIM Equity Fund Presentations

Student Presenter	Company Name	Ticker	Price	Page No.
Connor Lawrie	MTS Systems Corp.	MTSC	$25.94	2
Philip Benedict	Pioneer Drilling Company	PDC	$5.11	5
Timothy Kellen	Allianz SE	AZ	$7.91	8
Andrew Knapp	Nash Finch Company	NAFC	$42.34	11
Brian Finnie	Cornell Companies, Inc.	CRN	$14.67	14
Katherine Wycklendt	BT Group plc	BT	$15.29	17
William Lunkes	Alkermes Inc.	ALKS	$10.71	20
Jason Rector	Dycom Industries	DY	$6.90	23
Stanley Nunoo	Lufkin Industries	LUFK	$35.04	26
Caitlin Gerdes	Computer Programs & Systems Inc.	CPSI	$22.65	29

MTS Systems Corp.
MTSC
Price: $25.94 ($21.12-43.88)
Fiscal Year Ends: September 30

January 26, 2009 | Connor Lawrie
Russell 2000 Index: $444.36 ($371.26-$764.38) | Industrial Materials Sector

MTS Systems Corporation (MTSC) operates through two business segments: the Sensors segment (20% of revenue) and the Test segment (80%). The Sensors segment provides application-specific sensors which measure the pressure, position, and rate of change of high- performance machinery that require close calibration. This segment serves a wide variety of industries including industrial, transportation, power generation, and biotech. The Test segment offers a combined platform that supports physical testing applications to transportation, aerospace, infrastructure, and biomedical markets. The Company's testing hardware and software solutions help customers accelerate and improve their design, development, and manufacturing processes and are used for determining the mechanical behavior of materials, products, and structures. MTSC has 22 domestic and 9 overseas field offices that provide sales and support. The company provides its products and services in the United States (32%), Europe (33%), Asia (31%), and other (4%). MTS had 1,575 employees and revenue of $460 million for the fiscal year ended September 30, 2008.

Recommendation

MTSC's products and services are an essential part of its customers' R&D and quality assurance processes. The test applications and sensors allow for product innovation and improved efficiency. Despite decreased capital budgets of its customer base, MTSC reported higher levels of quote activity, which reflects continued interest in new commercial applications as well as the company's core products. MTSC has had only one order cancellation; however, some projects are being deferred to later in 2009. For Q1 2009, revenue increased 9%, net income rose by 17%, and EPS increased 21%. While backlog decreased 7% to $218 million, management feels confident the current backlog will give the company a good start to Q2 2009. Over the last four years, MTSC has proven its financial performance with a ROIC above 20%, revenue CAGR of 8% and an EPS CAGR of 20%. According to Global Information Inc., the sensor market is about $6.1 billion in revenue and is growing about 5% per year. The company serves a diverse set of industries and geographic regions. MTSC is well positioned for continued growth with new product offerings, new geographic markets and a growing revenue stream from service and replacement parts. Because of its diversified end markets, proven financial performance and strong capital position, it is recommended that MTSC be added to the Small Cap AIM Portfolio at a target price of $32.30.

Key Statistics	Jan. 26, 2009
Market Cap	$439.11M
Shares Outstanding	16.928M
Ave. Volume (3 month)	137,416
Beta	1.14
EPS (TTM)	$2.82
2009 Estimated EPS	$2.45
P/E (TTM)	9.20
WACC	11.11%
Debt/Assets	6.68%
ROE	24.93%
ROA	13.08%
Gross Margin	41.31%
Operating Margin	13.41%
Dividend Yield	2.30%
Analyst Coverage	4
Target Price	$32.30

Source: Bloomberg

Investment Thesis

- **Diversified End Markets and Geographic Regions.** 70% of MTSC's revenue comes from outside the United States. Currently, MTSC holds a 15% share of the sensors market, 18% share of the test applications for the ground vehicle market, 20% share of test applications for the infrastructure market, and 40% share of test applications for the aerospace market. MTSC has

significant investment assets in emerging economies, which are expected to grow faster than markets in more developed economies.

- **Acquisition of SANS.** SANS (a Chinese test company with $30 million in annual revenue) will accelerate MTSC's presence in China and other regional markets like India. SANS has an existing sales and service organization that will enable MTSC to provide its product line throughout the region. For Q1 2009, SANS has helped offset declining revenue in weaker markets. The acquisition price of $45 million was paid for by a combination of cash and drawing on the company's credit facility.
- **Strong Balance Sheet.** As of Q1 2009, MTSC's balance sheet had no long-term debt and $105 million of cash. This positions the company well in the current environment where liquidity is essential and credit availability is scarce.
- **High ROIC.** Over the last five years, MTSC has produced ROIC above 20%. Even with flat to declining revenue in 2009, the company should be capable of generating high returns on invested capital and strong free cash flow.

Valuation

Based on a 5 year DCF analysis with a computed WACC of 11.11% and a terminal growth rate of 3%, an intrinsic value of $32.30 was obtained for MTSC. A sensitivity analysis that adjusts both the long-term growth rate (2%-4%) and the WACC (10.10%-12.10%) generates a price range of $25.60-$43.30. MTSC is currently trading at 9.2x TTM EPS of $2.82. A P/E multiple of 14.0x 2009 EPS estimates yielded an intrinsic value of $34.00. Taking into account both valuation metrics, a price target is set at $32.30. With the stock currently trading around $26, the $32.30 price target would yield about a 25% return. Also, MTSC currently has a dividend yield of 2.30%.

Risks

- **Tightening Capital Budgets.** MTSC's business relies on its customers' R&D and other capital expenditures for its test and sensor products. Due to the current economic environment, companies have decreased R&D, CapEx, and tightened inventory management. A prolonged economic recession could have adverse affects on demand for MTSC's products and the long-term viability of the company.
- **Test and Sensor Technology.** MTSC's success is dependent on its ability to continually provide new technology both through new application releases and upgrades to existing applications. MTSC holds several patents and trade secrets, but introduction of new technology from a competitor could make MTSC's products and services obsolete.
- **Integration Risk.** Thus far, the integration of the newly acquired SANS has been successful. Problems could arise with assimilating the operations and personnel of the China-based business or retaining key vendors and customers.
- **Ground Vehicle Business.** Approximately 55% of the company's test revenue comes from the ground vehicle industry. While this segment's revenue fell off considerably, the company notes long-term demand from new, fuel-efficient vehicles still remains strong.

Management

Laura B. Hamilton has been President and CEO since January 2008, and from June 2007 she was President and COO. Prior to assuming these positions, Ms. Hamilton was VP of the Material Testing, Aerospace and Manufacturing operations. She came to the company from Quest Diagnostics. Susan E. Knight is the company's CFO and has held the position since 2001. Prior to joining the company, Ms. Knight served as CFO at Honeywell Corporation's Home and Building Control Global business from 1995 to 2001.

Ownership

% of Shares Held by Insiders:	2%
% of Shares Held by Institutional & Mutual Fund Owners:	87%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Mairs & Power Inc.	1,606,187	9.49%
Barclays Global Investor UK	1,323,392	7.82%
Royce & Associates Inc.	1,042,387	6.16%
Goldman Sachs Group Inc.	658,152	3.89%
Bank of America Corp.	642,676	3.80%

Source: Bloomberg

Pioneer Drilling Company
PDC
Price: $5.11 (4.65-20.75)
Fiscal Year Ends: December 31

January 23, 2009 Philip Benedict
Russell 2000 Index: $441.45 (371.30-764.38) Energy Sector

Pioneer Drilling Company provides contract land drilling and production services to independent and major oil and gas exploration and production (E&P) companies. PDC generates 71% of revenues and 68% of EBITDA from its Drilling Services division and the remaining from Production Services. PDC's fleet of 70 drilling rigs is primarily located in East (22), South (17), and North (10) Texas with additional operations in Utah (6), North Dakota (6), and internationally in Columbia (5); the remaining 4 are currently cold stacked. PDC's production equipment includes 74 workover rigs, 59 wireline units and $15MM of fishing and rental tools located domestically. PDC has been steadily growing its drilling fleet through acquisitions, construction of new rigs and refurbishment of older ones. PDC added 34 rigs through acquisitions and has constructed over 25 rigs since 1999. In 2007, PDC acquired WEDGE Group and Competition Wireline, transforming from a pure land driller into a multi-national energy services firm. PDC was incorporated in 1979, employs 2,100 workers and is headquartered in San Antonio, Texas.

Recommendation

PDC is a fundamentally solid company that has been unduly punished by the market. While the macroeconomic environment and precipitous decline in oil and natural gas prices have altered PDC's near-term prospects and expectations, the company remains in a financially sound position. PDC is poised to take advantage of an industry upswing with strong future growth prospects both domestically and internationally. The low relative market valuation provides a high margin of safety. Company fundamentals remain strong and the market is valuing PDC for a near doomsday scenario. Due to PDC's solid financial position, seasoned management team, strong growth prospects and long-term industry fundamentals, it is recommended that the AIM Fund establish a position in PDC with a target price of $15.

Key Statistics	Jan. 23, 2009
Market Cap	$225.44M
Shares Outstanding	49.998M
Ave. Volume (3 month)	400,000
Beta	1.38
EPS (TTM)	$1.44
2009 Estimated EPS	$0.485
P/E (TTM)	3.55
PEG Ratio	.19
WACC	11.34%
Debt/Assets	0.35
ROE	15.93%
ROA	10.05%
Gross Margin	31.37%
Operating Margin	24.15%
Net Margin	13.89%
Analyst Coverage	10
Target Price	$15.00

Source: Bloomberg

Investment Thesis

- **Strong Financial Position.** PDC has $17.3MM in cash, $603.1MM in net property and equipment, has drawn $273.5MM on a LOC due 2013 with $188.2MM in additional borrowing capacity. EBIT/Interest expense was 11.15 last quarter.
- **Quality Rig Fleet**. Over 80% of PDC's drilling rigs have been built new, upgraded or refurbished in the past six years; 39% of the fleet is less than eight years old. The average age of the company's workover rigs is 1.5 years and 3 years for wireline units, respectively. The new equipment minimizes downtime and maintenance expenses, is preferred by customers and increases the efficiency and safety of operations.
- **International Growth.** In 2007, PDC expanded into the Columbian market; operations currently include 5 rigs with 100% utilization rates contributing 3% of revenues. Drilling margins are 20-

25% higher than domestic and with a continued stable government the company expects continued future foreign investment and E&P spending. Management continues to examine and monitor the South American market seeking to make opportunistic investments and expansion as it deems fit.

- **Complimentary Business Segments.** Production Services is a less cyclical cash and earnings source compared to drilling. This should provide PDC with market diversification and strong margins. Domestic production margins were approximately 45% in 2008.

Valuation

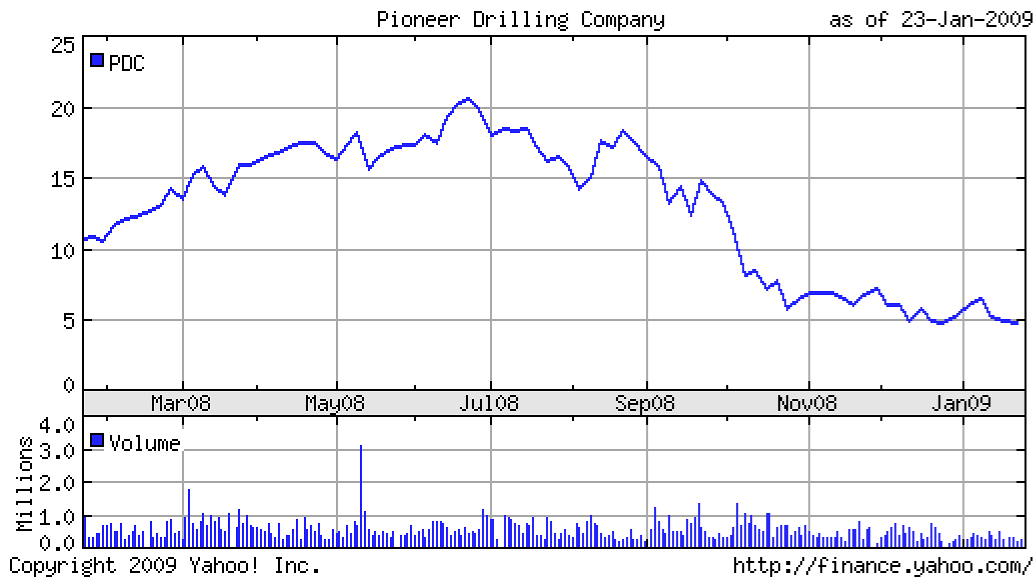
PDC is currently trading at .48 price-to-book ratio, .49 forward price-to-sales ratio, 3.57 EV-to-forward EBITDA, and 3.5 forward price-to-EBIT. This compares to peer group median values of 0.71 price-to-book ratio, 0.70 forward price-to-sales ratio, and 3.99 EV-to-forward EBITDA, respectively. A 5-year DCF model with a WACC of 11.32% and terminal growth rate of 2% yielded a value range of $12-$17. Over a five year period from 2004-2008, Henry Hub natural gas prices have averaged $7.33 and WTI oil has averaged $66.04; spot Henry Hub prices are currently $4.73 and WTI spot crude is at $45.47. Based upon these analyses, a price target of $15 per share has been determined for PDC.

Risks

- **Capital Budget Reductions.** The credit environment, global recession and decline in oil and gas prices have significantly reduced capital and CapEx budgets for operators. Management expects utilization rates to average 65-75% in FY09 compared to 96% in Q308.
- **Margin Compression.** The precipitous drop in energy prices has caused operators to cancel projects and decrease production. The current oversupply of rigs means PDC will see lower dayrates going forward. Gross margin was 31.37% last quarter.
- **Contract Risk.** PDC has 56% of drilling contracts rolling over in the next six months. Currently five of six rigs in the western Oklahoma region are cold stacked. PDC could begin moving rigs into the Latin American market if there is continued weakness in domestic markets; however, the borrowing base is collateralized by its U.S. assets which could limit this activity.
- **Natural Gas Concentration.** PDC's drilling activities are concentrated on natural gas which requires drilling at greater depths than oil. Consequently, PDC is more sensitive to changes in natural gas prices. Additionally, the deeper drilling gas rigs are larger and more expensive to relocate than oil rigs; PDC may be forced to cold stack rigs if it is too costly to relocate them. Domestic gas rig count declined by 421 to 1,185 from 1,606 since September 2008.
- **International Risk.** PDC does not hedge its currency risk and is subject to government and political risks associated in operating in Columbia. The 100% Columbian utilization rate is expected to contract significantly.

Management

PDC has a seasoned management team with an average industry experience of over 25 years. President and CEO Stacy Locke joined Pioneer in 1995 and previously worked as an investment banker and exploration geologist. Production Services management has an average of 20 years industry experience with high growth firms. Management has been net buyers of common stock recently.



Ownership

% of Shares Held by Insiders:	0.77%
% of Shares Held by Institutional & Mutual Fund Owners:	99.23%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Third Avenue Management LLC	5,863,123	11.73%
Dimensional Fund Advisors	3,751,840	7.51%
Barclays Global Investors UK	3,542,795	7.09%
Keeley Asset Management Corp.	3,465,000	6.93%
Vanguard Group	2,066,579	4.13%

Source: Bloomberg

Allianz SE (ADR)
AZ
Price: \$7.91 (\$5.53-21.25)
Fiscal Year Ends: December 31

January 22, 2009 — Tim Kellen
iShares MSCI EAFE Index: \$43.71 (35.53-78.77) — International Financial Services

German based Allianz SE (AZ) is a global leader in the financial services industry, operating in over 70 countries and serving over 80 million customers. Founded in 1890, the company operates in four segments including Property & Casualty, Life/Health, Asset Management, and Banking. Respectively, these segments composed 68.74%, 29.37%, 8.19%, and 0.43% of 2007 operating profits. The company's P&C products include auto, general liability, property, and credit insurance, while the Life/Health segment offers annuity, term, and endowment insurance. Allianz's main markets include Germany, the United States, and Western Europe, although most of its growth is currently being generated in Eastern Europe and Asia. Allianz SE's American Depository Receipts trade in New York, with one ADS equivalent to 10 shares of Allianz SE common stock.

Recommendation

Given the current environment facing the global financial sector, insurance companies appear to be a safe haven in a time when banks are facing market pressures from increased write-offs, the poor performance of global financial markets, and shaken investor confidence. Among insurers, Allianz SE provides a defensive play for the International AIM financial services sector, given its focus on property & casualty insurance, where operating profits grew at a 21.3% CAGR between 2003 and 2007, and its strong, reputable asset management business, where profits grew at a 13.7% CAGR during the same period. Additionally, AZ completed its sale of Dresdner Bank in early January, which reduces the company's exposure to the banking related elements of the financial crisis. This sale will allow the company to focus on its core insurance and asset management operations, and will leave the company well positioned to grow its business as the financial turmoil subsides. Given the current underweight positions of the International AIM portfolio in the financial services sector and the European region, it is recommended that Allianz SE be added to the IAIM portfolio, with a target price of \$9.16, representing an upside of over 15%.

Key Statistics	January 22, 2009
Market Cap	\$35.8B
Shares Outstanding	4.5B
Ave. Volume (3 month)	1,676,657
EPS (TTM)	€8.60
2009 Estimated EPS	€11.68
P/E (TTM)	11.15
P/E Forward	5.26
Debt/Assets	38.6%
ROA	0.13%
ROE	3.08%
5 Yr. Ave. ROE	12.34%
Operating Margin	6.22%
Dividend Yield	10.92%
Combined Ratio	96.2%
Analyst Coverage	45
Target Price	\$9.16

Source: Bloomberg

Investment Thesis

- **P&C Proving Defensive.** Despite turmoil in the financial markets, gross premiums written by Allianz's Property & Casualty business grew by 1.3% on a nominal basis during 3Q08. This segment should remain resilient going forward, as the upwards claims pressure from falling commodity prices should subside. In addition, despite the negative effects of credit insurance and crop insurance claims, the company had a combined ratio of 96.2%, which exceeds the industry average of 99.3%, indicating AZ's effectiveness at managing costs.

- **Strong Underlying Asset Management Business.** Allianz's asset management segment, which includes PIMCO, is well positioned in a difficult market environment. Despite extreme volatility in the financial markets, the company had net inflows of €39 billion during the first nine months of 2008, which offset the adverse effects of the financial markets and allowed the company to maintain its total AUM at €754 billion. Although profits have declined, Allianz's reputation as a fixed income manager will provide the firm a level of stability in the near term and the ability to be opportunistic as profitable opportunities arise.
- **Completed Divestiture of Dresdner.** On January 12, 2009, Allianz SE completed its sale of Dresdner to Commerzbank. This transaction has significantly reduced the company's exposure to toxic assets and essentially eliminates the firm's less profitable banking operations. Although AZ maintains a 14% stake in Commerzbank, the sale will allow the company to focus on its more profitable property & casualty insurance and asset management segments.

Valuation

Based upon Allianz's 20 closest competitors by market cap in the GICS Insurance Sector, a multiples valuation method was used to obtain a fair value estimate for Allianz. Given the industry average P/B of 1.16x and P/TB of 2.18x, and adjusting for the AZ's historical discount, fair values of $8.73 and $12.17 were obtained. This compares to the analysis of forward P/E multiples, with 2009 EPS scenarios ranging from 10% above consensus to 20% below consensus, which provided a range of $7.43 to $10.22. Weighting the fair values for the likelihood of earnings scenarios and adjusting for the current distortion of P/E multiples, a target price of $9.16 was obtained for Allianz SE. This represents a potential upside of over 15% over AZ's $7.91 closing price on January 22.

Risks

- **Solvency Ratio.** Allianz targets a solvency ratio between 150% and 170%. During its 3Q08 conference call, management forecasted that proforma solvency would be 167% following the Dresdner disposition. However, given the effect of market events on the value of the disposition and concessions made to complete the transaction, the solvency ratio is closer to 150%. If the solvency ratio falls below 150%, the company may choose to suspend or cut its dividend.
- **Pricing Pressure.** The insurance industry is highly competitive, which can lead to significant pricing pressures, especially in the P&C segment. An inability to maintain sound underwriting practices could lead to a higher loss ratio, which would negatively affect Allianz's future financial performance.
- **Investment Uncertainties.** As part of the Dresdner disposition, Allianz obtained a 14% stake in Commerzbank and recently invested $2.5 billion in Hartford Financial Group. Given current market conditions, these two investments could have significant downside risks, which could lead to substantial write-downs for Allianz.
- **Financial Market Turmoil and Credit Exposure.** With its primary focus on insurance and asset management, the company is exposed to the equity and fixed income markets. Continued turmoil will have negative effects on the investment portfolios of the insurance segments and the returns of the asset management segment. Additionally, AZ has 7% exposure to ABS in its investment portfolios.

Management

Allianz is led by Michael Diekmann who has been Chairman of the Board of Management since 2003. He previously served as a member of the Board of Management from 1998 to 2003 and as CEO Allianz Insurance Management Asia-Pacific from 1996 to 1998. He has been with the firm since 1988 and has a wide range of experience at Allianz ranging from the sales side of the business to the development of Allianz's Asian operations.

Ownership

% of Shares Held by Insiders:	0.0%
% of Shares Held by Institutional & Mutual Fund Owners:	37.2%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Fidelity Management & Research	34,074,270	0.75%
AXA	18,682,741	0.41%
Lazard Asset Management LLC	7,321,532	0.16%
Dimensional Fund Advisors Inc	3,844,404	0.08%
Philadelphia International Advisors LP	3,410,428	0.08%

Source: Bloomberg

Nash Finch Company
NAFC
Price: $42.34 ($30.08-$47.63)
Fiscal Year Ends: December 31

January 23, 2008
Russell 2000 Index: 444.36 (371.30-764.38)

Andrew Knapp
Consumer Services Sector

Nash Finch Company (NAFC) operates as a food distribution company in the United States. Its operations consist of three segments: Food Distribution, Military, and Retail. The Food Distribution segment (60% of revenue) sells and distributes various nationally branded and private label grocery products and perishable food products, primarily meat to grocery stores located in 26 states across the United States. The Military segment (28%) is known as Military Distributors of Virginia (MDV) and distributes grocery products to the United States military commissaries and exchanges. The Retail segment (12%) operates 57 corporate-owned stores throughout the United States. These conventional grocery stores offer various products and services, such as fresh meat counters, delicatessens, bakeries and also provide services such as check cashing, fax services, and money transfers. Nash Finch Company was founded in 1885, incorporated in 1921, and is headquartered in Minneapolis, Minnesota.

Recommendation

NAFC is a major player in the roughly $400 billion food distribution industry. The industry is characterized by low margins and high turnover and NAFC's large competitors include Sysco Corporation (SYY) and United Natural Foods Inc. (UNFI). NAFC has established itself as top player in the industry after failing to generate positive earnings in 2006. Their recent success is the result of strategic changes brought about by management and improved operations in its military segment. Management has restored the company's focus around efficiency and expansion, both considered to be keys to survival within the industry. Operating margins (1.84%) and net profit margins (0.86%) have been restored to competitive levels. NAFC is also currently pursuing potential targets for acquisition while producing organic growth of 4.2% (YoY). Overall, NAFC's position in the market and its ability to generate positive margins in a difficult economic environment make it a relatively attractive holding. Considering the company's current position in its industry, its fundamentals, and its long term prospects, a per share target price of $49 was established. With a potential upside of 16%, it is recommended that Nash Finch Company be added to the AIM portfolio.

Key Statistics	Jan. 23, 2008
Market Cap	$549.94M
Shares Outstanding	12.80M
Avg. Volume (3 month)	186,798
Adjusted Beta	.75
EPS (TTM)	$2.97
2009 Estimated EPS	$3.31
P/E (TTM)	14.26
PEG Ratio	.86
WACC	9.31%
Debt/Assets	0.31
ROE	12.71%
ROA	4.07%
Dividend Yield	1.69%
Operating Margin	1.84%
Net Margin	0.86%
Analyst Coverage	2
Target Price	$49.00

Source: Bloomberg

Investment Thesis

- **Strategic Initiatives.** New management was sought after abysmal FY2006 operating results and it has been the goal of CEO Alec Covington to instill a set of strategic initiatives to revive the company by setting a foundation for improved efficiency. Since 2006, the company's financials have reflected this leadership with seven straight quarters of positive earnings and competitive margins.
- **Consistent Segment Growth.** Q3 revenues were up 5.1% led by growth in the military segment. Distribution saw top-line growth of 3.7%, retail was up 3%, and the military segment picked up

considerable momentum through its expanding operations, increasing by 9.1%. Given the current economic environment, this consistent growth across all three operating segments is a strong sign going forward for NAFC.

- **Strong Balance Sheet.** NAFC has maintained a strong balance sheet by reducing financial leverage and producing strong cash flows. NAFC has sufficient liquidity and credit availability, which management considers comforting given the difficult financial environment. The company believes it is currently in an advantageous position relative to its peers and expects to take advantage of acquisition opportunities going forward.

Valuation

NAFC is currently trading at 14.26x TTM EPS of $2.97. The company's historical P/E average of 15.88x was applied to 2009 EPS estimate of $3.31 and results in a value of $52.56. Additionally, a 10 year DCF analysis was performed using a conservative WACC of 9.31% and a terminal growth rate of 3%. This valuation yielded an intrinsic value of $48.49. A sensitivity analysis adjusting for assumptions in WACC and long-term growth revealed a price range of $36.44-$68.46. Considering each of the valuation metrics and company guidance, a $49.00 price target was established, implying a potential16% upside.

Terminal Growth Rate

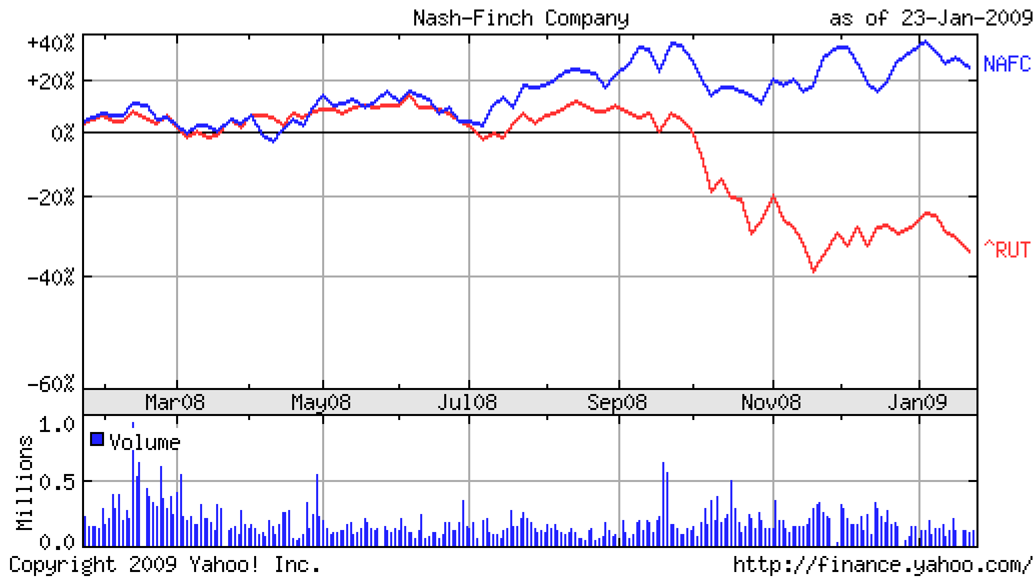
WACC		2.00%	2.50%	3.00%	3.50%	4.00%
	7%	$75.05	$80.62	$87.49	$96.16	$107.45
	8%	$56.78	$60.00	$63.83	$68.46	$74.17
	9%	$44.22	$46.20	$48.49	$51.17	$54.36
	10%	$35.17	$36.44	$37.87	$39.52	$41.43
	11%	$28.40	$29.23	$30.17	$31.22	$32.42

Risks

- **Customer Retention.** NAFC attempts to lock their customers into long-term contracts. While 37% of its distribution revenues in FY07 were derived from such agreements, the residual business is subject to fluctuations and the loss of major customers could negatively impact NAFC's profitability.
- **Military Adjustments.** Due to the nature of the contracts, the military segment's customers have the right to cancel a contract at any time, which is risky considering the 10 largest customers represented 45% of 2007 MDV sales. Any changes to the current commissary system in terms of reductions or consolidations would negatively affect the company's ability to grow its operations in this lucrative space.
- **Competition.** The food distribution industry is extremely competitive. NAFC competes on all levels, ranging from locally owned businesses to large national chains. In order to maintain its position as a key player in the industry, the company must focus on continually widening margins and seeking economies of scale through its expanding operations.

Management

William Voss currently serves as the Chairman of Nash Finch and has been a director since 1998. He has previously served in similar positions within the industry and has past experience in private equity. Alec Covington, 51, has been the company's President and CEO since May 2006. Prior to joining Nash Finch, Covington served as President and CEO of Tree Life, Inc., a specialty foods distributor. Covington is also a Director and has extensive experience working within the food distribution industry. Robert Dimond is the company's CFO.



Ownership

% of Shares Held by Insiders:	2%
% of Shares Held by Institutional & Mutual Fund Owners:	98%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
T. Rowe Price	1,290,000	10.08%
Goldman Sachs	1,058,721	8.27%
Vanguard Group	1,028,983	8.04%
State Street	911,976	7.13%
Dimensional Fund Advisors	880,981	6.88%

Source: Bloomberg

Cornell Companies, Inc.
CRN
Price: $14.67 ($13.46-28.45)
Fiscal Year Ends: December 31

January 26, 2009 Brian Finnie
Russell 2000 Index: $444.36 (371.30-764.38) Business Services

Cornell Companies, Inc (CRN) is a private provider of detention, correction, education, and rehabilitation services outsourced by federal, state, and other governmental agencies. Residential and non-residential programs are offered for adults and juveniles through the company's three divisions: Adult Secure Services (51% of 2007 revenue), Abraxas Youth and Family Services (30%), and Adult Community-Based Services (19%). Cornell generates revenue either per diem (74% of 2007 revenue), through take-or-pay and management contracts (18.6%), cost plus reimbursement (4.7%), or fee for service (2.1%). The company's 71 facilities, located in 15 states, are operated by 4,037 employees and provide a total service capacity of 20,200 'clients'. Cornell Companies, Inc., headquartered in Houston, TX, was founded in 1991 and went public in 1996.

Recommendation

Cornell Companies is in a position to take advantage of the increasing need for corrections facilities, particularly as governmental agencies face budget shortfalls. Federal inmates and detainees have grown at a 4% CAGR over the past 16 years, while the private providers' share of federal prisoners has grown from 10% in 2000 to 15.3% in 2007. As private operators typically spend 10-15% less than public operators and are capable of adding beds more rapidly, high quality and cost-efficient programs enable taxpayers to save money. CRN also benefits from high barriers to entry in the $65 billion U.S. prison market, as the government's requests for proposals typically require previous experience. CRN's recession resistant nature and positive momentum after surpassing earnings estimates and raising their earnings guidance in the first three quarters of 2008 indicate continued success. It is recommended that CRN be added to the AIM Small-Cap Equity portfolio with a target price of $16, providing an upside of at least 10% from the current price.

Key Statistics	January 26th, 2009
Market Cap	$216.49M
Shares Outstanding	14.757M
Ave. Volume (3 month)	115,884
Beta	.75
Revenue (TTM)	377.37
2009 Estimated EPS	$1.635
P/E (Forward)	10.43
PEG Ratio	1.04
WACC	10.39%
Debt/Assets	.507
ROE	6.24%
Gross Margin	23.99%
Operating Margin	12.48%
Analyst Coverage	3
Target Price	$16.00

Source: Bloomberg

Investment Thesis

- **Strong Supply Demands Balance**. With the Federal Bureau of Prisons operating at 137% of capacity and most states' Department of Corrections operating at 110% of capacity, it is evident that there is a need for additional corrections facilities. In the next two years it is estimated that 67,000 beds will be needed at the state and federal levels, while between government and private providers only 30,000 beds will be installed. The 37,000 shortfall in beds provides an approximate $650 million revenue opportunity.
- **Capacity Expansion**. With the bed supply shortfall, CRN is in the process of increasing its Adult Secure Services Division's capacity. By early 1Q09 1,600 new beds are to be installed at its Walnut Grove and Great Plains facilities which should provide an additional $25-30 million in annual revenue. By 2Q09 the company expects to complete a 700 bed expansion at its D. Ray

James facility which should generate $11-13 million in annual revenue. Additionally, last year Cornell won a contract for a 1,250 bed male facility in Hudson, CO which is expected to be operational by 4Q09 and should provide annual revenue of $20-25 million.

- **Increased Utilization.** As the company expands its Adult Secure Services Division facilities it is also focused on increasing utilization in its two other divisions, Abraxas and Community-Based Services. The company is shifting its Abraxas revenue mix towards more intensive youth programs with higher margins. This move is expected to increase the division's operating margins to over 21%, which should increase the company's operating margin by 3%. Presently, Abraxas also has four substantially underutilized facilities due to staff training. The company anticipates better utilization of those facilities going forward which should add 1,800 beds over the next three years and approximately $110-$125 million in annual revenue.

Valuation

The $16 price target is supported by a DCF valuation and P/E analysis. A 5-year DCF yielding $16.12 per share was computed using a 2.5% terminal growth rate, 9.65% WACC, average revenue growth of 10.7% and peak operating margins of 24%. Additionally, the $16 price target assumes a very conservative 10x F2009E consensus EPS multiple, well below its peer group's present 14x multiple. The $16 price target offers a 10% upside on the stock.

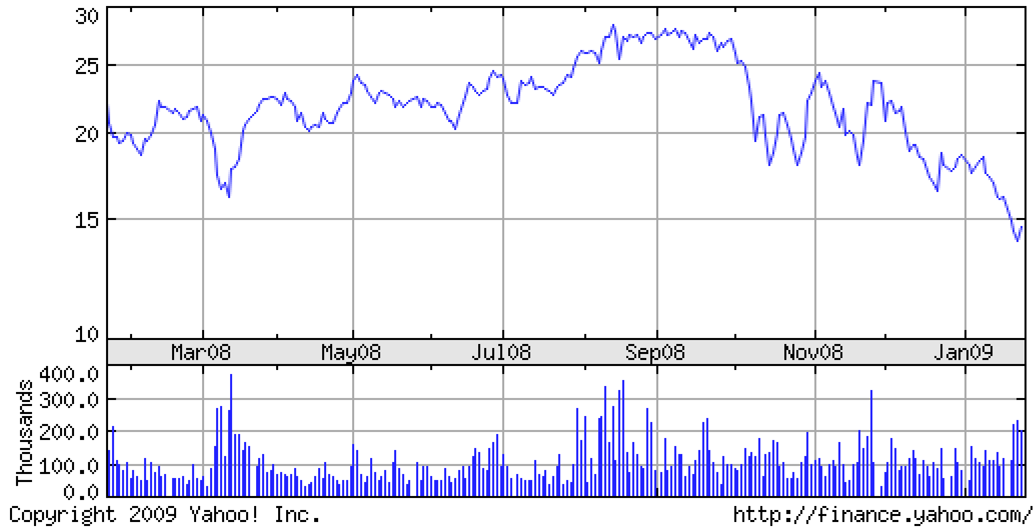
		Terminal Growth Rate				
	$ 16.12	2.0%	2.5%	3.0%	3.5%	4.0%
WACC	12%	$ 8.08	$ 8.17	$ 8.26	$ 8.36	$ 8.45
	11%	$ 11.03	$ 11.14	$ 11.24	$ 11.35	$ 11.45
	10%	$ 14.58	$ 14.71	$ 14.83	$ 14.95	$ 15.07
	9%	$ 18.94	$ 19.08	$ 19.22	$ 19.36	$ 19.50
	8%	$ 24.39	$ 24.55	$ 24.72	$ 24.88	$ 25.05

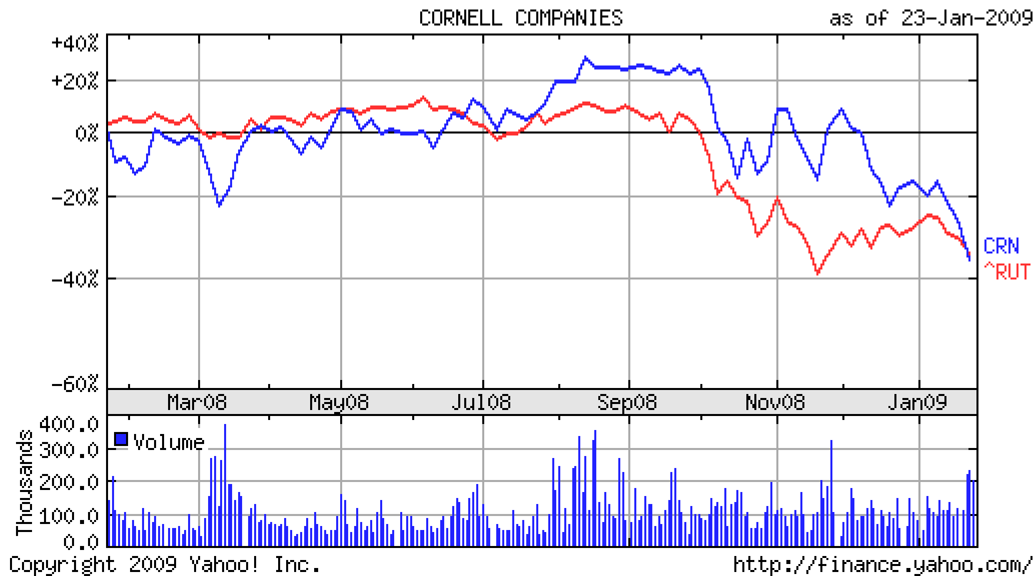
Risks

- **Dependence on Large Government Clients.** As a provider of corrections services, CRN naturally is dependent upon large government clients. In 2007, the Federal Bureau of Prisons represented 34% of revenue while states' Department of Corrections represented 21% of revenue.
- **Opposition to Privatization.** Historically, the outsourcing of corrections services to private providers has faced public opposition over safety and humanitarian concerns. However, the documentation of lower costs along with equal or higher quality service has contributed to a growing acceptance of outsourcing.
- **Short-term contracts.** With the constantly changing budget needs of federal and state governments, elected officials typically avoid long term contracts. As such, the majority of contracts are typically of 1-3 years in length.
- **Lawsuits.** Cornell is subject to lawsuits arising from its position as providing outsourced corrections services. Presently there are two lawsuits outstanding related to the use of strip searches at two of Cornell's facilities.

Management

Mr. James Hyman is the CEO, Chairman, and President of Cornell Companies. He has 20 years of business leadership experience across a variety of industries such as financial services and consulting. Mr. John Nieser, the Senior Vice President, Chief Financial Officer, and Treasurer of Cornell, has 20 years of financial management experience including prior experience as the Controller for GE Aero. Cornell Companies' Senior Vice President of the Adult Corrections Division has 29 years of experience in federal corrections.





Ownership

% of Shares Held by Insiders:	5%
% of Shares Held by Institutional & Mutual Fund Owners:	95%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Wynnefield Capital	2,518,119	17.06%
Dimensional Fund Advisors, Inc.	1,173,896	7.95%
Albert Fried & Co. LLC	934,123	6.35%
Bank of America Corporation	865,136	5.86%
North Star Entities	769,958	5.22%

Source: Bloomberg

BT Group plc
BT
Price: $15.29 ($14.83 - 52.55)
Fiscal Year Ends: March 31

November 14, 2008 Katie Wycklendt
iShares MSCI EAFE Index: $38.25 (35.53 – 78.77) International Telecom Sector

BT Group plc (BT) provides telecommunications solutions to a diverse base of customers globally. BT's services include networked information technology; local, national, and international communication; broadband; and fixed/ mobile integrated telecom. Among the firm's 16 million customers are individual consumers, governmental bodies, small and medium-sized businesses, and large multinational corporations. The firm operates in four segments: BT Retail (40% of net revenue), BT Global Services (38% of net revenue), BT Wholesale (18% of net revenue), and Openreach (4% of net revenue). The retail segment is concentrated in the UK and Ireland, while Global Services focuses on corporate, carrier, and government accounts worldwide. The wholesale segment provides broadband, voice and data, and outsourcing to communications companies. Finally, Openreach is concerned with establishing the "first mile" of connectivity to local telephone exchanges in the UK. BT was incorporated on March 30, 2001 and is headquartered in London, England. The company currently has 111,900 employees and operates in 170 countries. Its stock is listed on the LSE and the NYSE; 1 ADS represents 10 ordinary shares.

Recommendation

BT Group is a well-diversified telecommunications firm with a knowledgeable executive team. When implemented in a strategy focused on cost management, these tools position the company to emerge healthy from global recession. BT has increasingly tied resource efficiency to improving customer service, focusing on "right 1st time activities" that have reduced the number of service calls and allowed for faster repair times. As a result, management is approaching its target EBITDA margin of 15% (from 11% currently). The company has also demonstrated an ability to make strategic acquisitions and manage a heavy debt load, issuing new debt in 2007 so as to delay further refinancing in this time of difficult credit. Finally, BT Global has shown significant growth internationally, including 19% revenue growth in Americas and 66% in Asia Pacific. Nonetheless, the company trades at only 60% of its industry P/E ratio and just half of its industry EV/EBITDA multiple. Given the undervaluation shown in even the most growth-conservative DCF model, as well as the need for both telecom holdings and UK-based companies in the portfolio, BT is recommended for addition to the International AIM Equity Portfolio at a price target of $32.00.

Key Statistics	Jan. 15, 2008
Market Cap	$11,770.59M
Shares Outstanding	774.274M
Ave. Volume (3 month)	306,085
Adjusted Beta	0.918
EPS (TTM)	$2.57
2009 Estimated EPS	$2.50
P/E (TTM)	5.36
PEG Ratio	0.85
WACC	9.2%
Debt/Assets	0.386
ROE	36.01%
ROA	6.49%
Gross Margin	58.47%
Operating Margin	14.02%
Analyst Coverage	3
Target Price	$32.00

Source: Bloomberg

Investment Thesis

- **Diverse Platform of Services.** BT Group is well-diversified relative to competitors with respect to geographical presence, service offerings, and customer base. Revenues for 2008 were 37% from major corporations, 13% from other businesses, 24% from consumers, and 26% from wholesale/other carriers. BT's diversity protects against the impact of underperformance in any one segment and ensures an ability to absorb of a variety of strategic acquisition opportunities.

- **Focus on Widening Margins.** Management is highly focused on improving margins. As revenues come under pressure from price competition, limiting costs will be the key to bottom line growth. In the current market, BT has sought savings through labor force reduction, announcing the elimination of 10,000 laborers in November 2008. The cuts are largely directed at non-employee laborers from agencies and contractors, so as to limit severance cost impact.
- **Long-term Service Contract Growth.** BT Group has been an early and rapid mover in the transition to long-term contracts for retail service recently undertaken in Europe. In 2008, over 25% of voice customers had signed long-term contracts, up 100% from 2007.
- **Conservative Growth Outlooks Shows Undervaluation.** Undervaluation relative to peers could suggest a sluggish growth outlook for BT Group. However, adjusting DCF assumptions to a worst-case scenario of only 3% revenue growth still results in a target value of $20.00, significantly above trading price. This worst-case scenario represents a 30% premium on the current ADS price.

Valuation

BT currently trades at $15.29, or 6.12x forward EPS. With comparable companies trading at 10.67x the same figure, the forward EPS multiple gives BT an implied per ADS value of $26.66. The current enterprise value represents 2.54x forward EBITDA, versus 5.02x for the peer group. This industry multiple results in a BT per ADS value of $46.90. Finally, a ten-year DCF, using a WACC of 9.2% and terminal growth of 2.5%, implies an ADS value of $48.33. Given the range of estimated ADS values and the uncertainty as to the timeline of economic recovery, $32 is an appropriately conservative target price.

Risks

- **Defined Benefit Pension Obligations.** BT has £108.0 million of defined benefit obligations on its 2008 balance sheet. While there is currently an £869.0 million surplus of assets over liabilities, these numbers are subject to much fluctuation due to market performance and actuarial assumptions. A 1-year change in mortality results adds in £1.4 billion liability. Labor unions, while willing to compromise in the past, could stall negotiations of new contract terms. As a result, the company began 10 years of £280.0 million annual deficiency payments in 2007.
- **Difficulty Integrating in Global Services.** Since 2007, several companies have been acquired by the Global Services segment, including Frontline Technologies, i2i Enterprise Private Limited, and Net 2S. While 5% of the revenue growth in this segment has been inorganic, the bottom line has suffered due to difficulty integrating. Restructuring plans are forthcoming, but additional costs in the near term may be significant to achieve long-term efficiency.
- **Saturated Market in the United Kingdom.** The British retail market is highly competitive. While BT is the largest player in the broadband market, its market share is only 35%. Furthermore, broadband penetration is already at 65%, lagging PC penetration by only 10 percentage points. Finally, the Ofcom regulatory body has authority to limit competitive strength by placing additional regulations on firms deemed to have “significant market power” (SMP).
- **Write-offs in Global Services.** BT Group announced a £340.0 million charge to its global services division during January. Management cited a change in outlook on the segment’s long term contracts, which are complex and involve complicated accounting. The impact of the recession on multinational clients caused the value of these contracts to come into question.

Management

Michael Rake is now serving his second year as Chairman of the Board. He previously acted as chairman of KPMG International, where he began his career in 1972. In light of his contributions to the accounting profession, he was knighted in 2007. Ian Livingston, a chartered accountant, will assume the CEO position in 2009. He transfers internally from his role overseeing BT’s retail business. Prior to joining BT in 2002, he served five years as finance director of Dixons Group.

Ownership

% of Shares Held by Insiders:	0.00%
% of Shares Held by Institutional & Mutual Fund Owners:	1.55%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Renaissance Technologies Corp	2,717,400	0.35%
Philadelphia International Adv	1,239,305	0.16%
Citigroup Incorporated	1,091,912	0.14%
Deutsche Bank AG	855,138	0.11%
State Street Corp	734,759	0.09%

Source: Bloomberg

Alkermes Inc
ALKS
Price: $10.71 ($5.55-$17.05)
Fiscal Year Ends: March 31

January 25, 2009 William Lunkes
Russell 2000 Index: $444.36 ($371.30-$764.38) Healthcare Sector

Alkermes is a leader in the development of pharmaceutical products based on sophisticated drug delivery technologies. Currently, the company manufactures two drugs: Risperdal Consta and Vivitrol. First, Risperdal treats schizophrenia through an injection that maintains proper medicine levels in the patient over an extended period of time. Next, Vivitrol is an injectable medicine that is used to treat alcohol addiction. Both drugs employ a proprietary technology called Medisorb that is responsible for the delivery and maintenance of the drug after it has been administered. Currently, the company has six drugs in its pipeline. Three of the pipeline drugs are in phase three or further while the remaining drugs are in phases one and two respectively. The company is located in Cambridge, MA and has 610 employees.

Recommendation

Alkermes is one of the few profitable pharmaceutical companies operating in the AIM Equity Fund's universe. Some of the main factors attributing to the company's success were proprietary technology gained through the Medisorb acquisition in 1996, as well as by using collaborative partnerships to develop costly drugs. The company has been able to produce two drugs, both of which use Medisorb technology to deliver the dosage. Using this technology, the company produces the only approved long-acting antipsychotic drug available in the US. This drug had global sales of roughly $1.2B and accounted for 51% of the company's 2008 revenue. Additionally, the company has six drugs in its pipeline, with one drug waiting final approval and two others in phase three trials. Currently the healthcare sector of the AIM Equity fund holds one pharmaceutical company. While we would like to add another to the portfolio, we feel that current market conditions are not favorable to specialty pharmaceuticals. As a result, we will not attempt to add this stock, rather we wish to add it to our watch list. Should market conditions improve, this stock will be reevaluated for potential inclusion.

Key Statistics	Jan. 25, 2009
Market Cap	$1.02B
Shares Outstanding	94.93M
Ave. Volume (3 month)	1,041,730
Adjusted Beta	1.267
EPS (TTM)	$1.62
2009 Estimated EPS	$1.47
P/E (TTM)	267.75
PEG Ratio	.19
WACC	10.34%
Debt/Assets	24.43
Debt/Equity	52.51
ROE	65.64%
ROA	27.26%
Gross Margin	83.10%
Operating Margin	6.34%
Target Price	$14.50

Source: Bloomberg

Investment Thesis

- **Drug Delivery System.** Alkermes uses a drug delivery system known as Medisorb Naltrexone in the pharmaceuticals it produces. Through the use of this technology, patients being treated for schizophrenia and alcohol addiction no longer need to take their medicine in the form of a daily pill. Rather, patients only need a single injection. The Medisorb delivers the injected medicine on a consistent basis throughout the effective life of the drug. This method is more consistent than pills, which are not as effective at delivering a stable dose.
- **Collaborative Partnerships**. The company has partnered with some of the largest pharmaceutical companies to develop new drugs. The company has or had partnerships with Johnson and Johnson, Janssen-Cilag, Amylin Pharmaceuticals, Eli Lilly, and Cephalon. By

partnering with these companies, Alkermes can engage in the development of drugs that would otherwise be too risky or expensive.

- **Strong Pipeline.** Currently, the company has six drugs in the pipeline. Most importantly, ALKS has almost completed the development of new forms of flagship products Risperdal Consta and Vivitrol. The new Risperdal Consta drug is in phase four of clinical trials awaiting FDA approval and will treat bipolar disorder. The Vivitrol drug will treat opioid dependency, and results from phase three trials are expected in Q2 2009. Additionally Exenatide, the company's once weekly type II diabetes injectable drug, is in phase three of trials. Initial reports are favorable for the drug. Exenatide is on schedule and is due to reach the market by 2010.
- **Risperdal Consta Franchise.** This product is the only long-acting antipsychotic drug approved in the United States. The drug is approved in 85 countries and marketed in 60. Partnered with JNJ, the drug generated sales of roughly $1.2B in 2008, with 10% going to Alkermes. In the short term, the outlook remains very favorable for this drug because its two main competitors received non-favorable reviews from the FDA.

Valuation

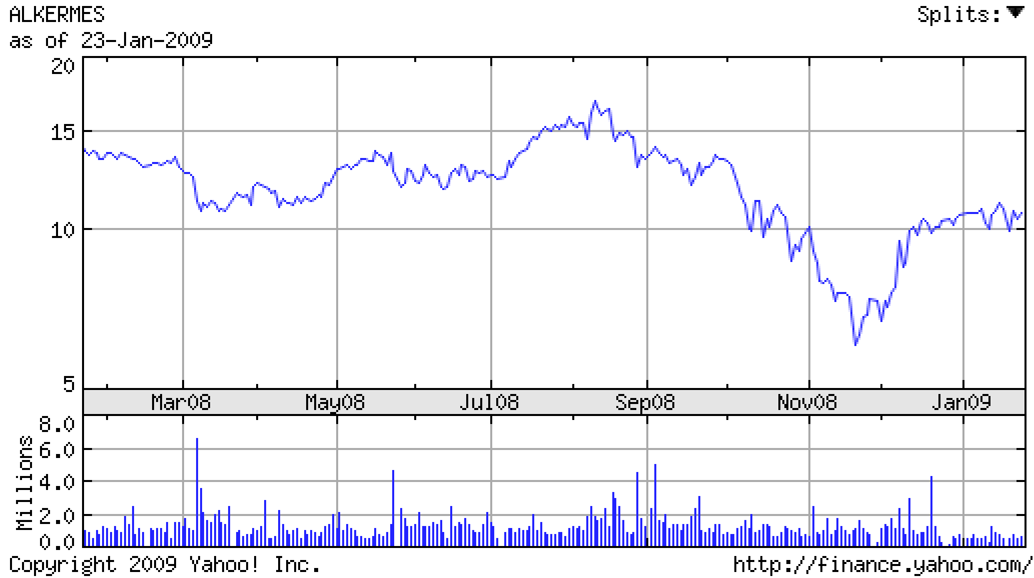
In order to value ALKS, an enterprise value to EBITDA multiple was used as opposed to a traditional DCF or another cash flow model. This is due to the uncertain nature of the timing of the revenue stream for companies within the pharmaceutical industry. Using both a FYE 2008 EV/EBITDA as well as a TTM multiple, a price range of $14.02 - $15.95 was established. Taking this into consideration compared to the peer group, a $14.50 price target is reasonable.

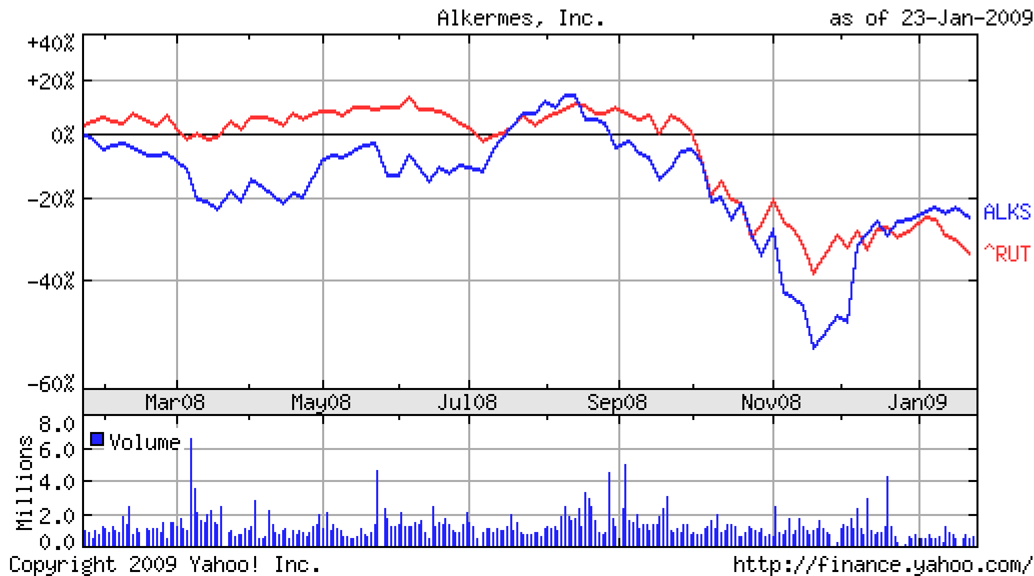
Risks

- **Manufacturing Process.** Producing pharmaceuticals is a very complex process. Any equipment failure, vendor, or operator error could severely delay the production of a drug and become very costly. Additionally, an improperly mixed drug could trigger an expensive recall.
- **Patent Protection.** ALKS is well known for its drug delivery technology and it is a vital aspect of the business. Losing a patent would put the company at a major disadvantage as companies would no longer be forced to work in a collaborative manner with ALKS to obtain its delivery technology. Additionally, the company must protect its trade secrets to maintain competitive advantage.
- **Collaborative Partnerships.** The company heavily relies on partnerships for various services including: clinical trials, funding, raw materials, marketing, and sales. Many of these contracts can be terminated without reason. Should the company lose a critical partner, its ability to make and distribute a drug would be significantly diminished.
- **Government Regulation.** Due to the nature of the company's product, it is subject to government regulation and testing to ensure product safety. Should a crucial ingredient be deemed dangerous or a drug fail a clinical trial, the company could suffer. Additionally, the FDA and foreign regulatory bodies might not approve the product.

Management

David Broecker has served as President of Alkermes since 2001 and CEO since 2007. Prior to being named the CEO, he served as the company's COO. Mr. Broecker has over 20 years of experience in the pharmaceutical industry and held multiple different positions during 14 years at Eli Lilly.





Ownership

% of Shares Held by Insiders:	2.69%
% of Shares Held by Institutional & Mutual Fund Owners:	113%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Fidelity Management	13,431,501	14.15%
Wellington Management	12,363,087	13.02%
Federated Investments	10,897,673	11.48%
DE Shaw and Comp.	8,054,979	8.48%
Barclays Global Inv.	5,636,878	5.94%

Source: Bloomberg

Dycom Industries
DY
Price: $6.90 ($4.80-24.35)
Fiscal Year Ends: July 31st

January 25th, 2009 Jason Rector
Russell 2000 Index 441.45 (371.30-764.38) Telecommunications Sector

Dycom Industries (DY) provides specialty contracting services including engineering, construction, maintenance, and installation of copper, coaxial, and fiber-optic cable systems for communication carriers. The company also has a small segment that conducts underground locating services. Most of the company's contracts with its top ten customers are multi-year contracts. Dycom serves customers in 48 states through 30 operating subsidiaries. They have recently begun operations in Canada; however, this is currently limited to a few locations. The company, which has approximately 10,800 employees in over 450 locations, is headquartered in Palm Beach Gardens, FL.

Recommendation

Dycom is the leading provider of specialty contracting services to telecommunications and cable companies. DY has stable cash flows through multi-year contracts with some of the biggest companies in these industries. Verizon, AT&T, Comcast, Time Warner, and Embarq are their top customers which represent 64.6% of DY's revenues. The firm's revenues from these companies increased 2.8% organically year-over-year. Overall, telecommunications companies make up 47% of revenue, while cable makes up 31.8%. Intense competition for customers will continue to drive the need for companies like Verizon and AT&T to request Dycom's services. These phone companies will need to improve their networks in the coming years in order to compete with the new technologies and offerings of cable companies. DY's management has already taken into consideration the effects of the current recession on their fiscal 2009 numbers (EPS of $0.02-$0.07 for Q2F09). They have already put in place some cost saving initiatives in order to reduce general and administrative expenses and capital expenditures for 2009. Dycom also has stopped their share repurchase program for the time being in order to evaluate the economy and their level of business (an effort that should save $20 million of cash). Even with the state of the economy, communications companies are still upgrading their networks as contracts are typically multi-year in nature. Finally, DY's solid financial position, with $45 million of cash on hand, a significant amount of unused credit ($113million), and solid liquidity ratios (EBIT coverage ratio of 4X, current ratio of 3.0) makes the company an attractive investment at their current valuation.

Key Statistics	January, 25th, 2009
Market Cap	$292.52M
Shares Outstanding	39.36M
Ave. Volume (3 month)	448,267
Beta	1.22
EPS (TTM)	$0.69
EBIT Int. Coverage	4.01
P/E (TTM)	10.77
PEG Ratio	0.78
WACC	11.13%
Debt/Assets	22.37%
ROE	4.88%
ROA	2.75%
Gross Margin	17.48%
Operating Margin	4.27%
Analyst Coverage	5
Target Price	$12

Source: Bloomberg

Investment Thesis

- **Highly Competitive Communications Industry.** AT&T will likely have to update their networks in order to keep up with Verizon's recent upgrade. Since AT&T is already a customer and Dycom installed Verizon's network, it is likely that Dycom will obtain that contract. This is a great example of the competition that will help drive DY's business. With over 450 locations

nationwide, Dycom is the logical choice for all the large nationwide telephone and cable providers.
- **Strong Balance Sheet**. Being in the midst of an economic recession, a solid financial position is a must for any company. Dycom currently has nearly $50 million in cash and has a new $195 million credit facility (of which $113 million is currently available for use after paying off the existing facility). The new credit line was opened in October of 2008, in the midst of the current recession and the beginning of tighter lending standards.
- **Industry Expertise and Strong Customer Relationships.** The company has grabbed hold of this specialized segment of the industry. Dycom has seen an average revenue growth rate of 15% over the past five years. Even during the current recession they saw 1QF09 revenue growth of 3.7% sequentially with 1.3% organic growth during their most recent quarter. Dycom's management noted that they have recently been able to gain new contracts through negotiation instead of price bids.

Valuation

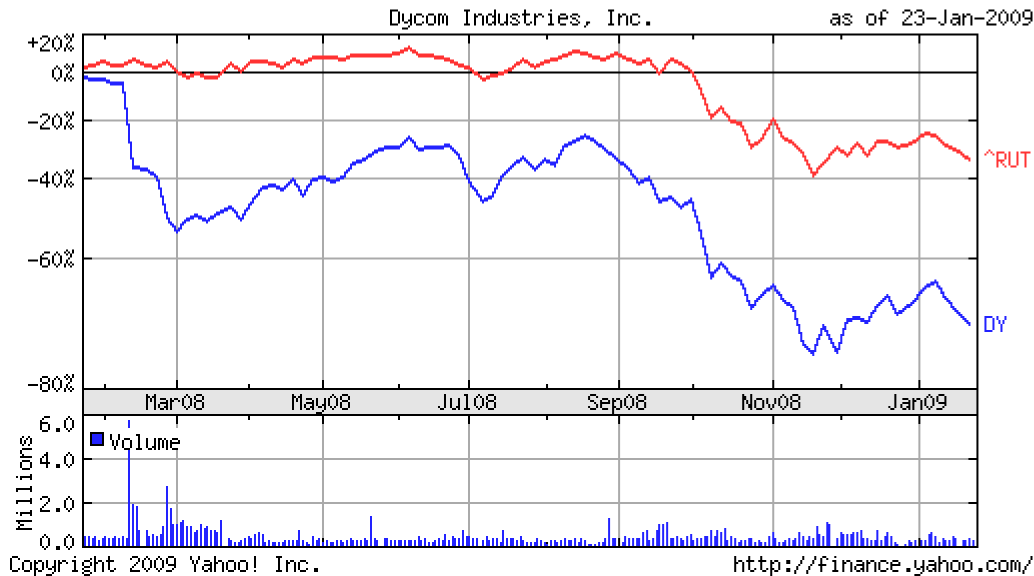
A ten year DCF model with conservative revenue projections for 2009 and 2010 (8%), a WACC of 11.13%, and a long term growth rate of 3% produced an intrinsic value of $14 per share. It is worth noting that capital expenditures were decreased for 2009 and 2010 as indicated by company guidance ($30 and $40 million respectively). An EV/EBITDA multiple approach using a multiple of 4 and the street's consensus fiscal 2009 EBITDA numbers found an intrinsic value of $10 per share. The target price for this security is the average between these two methods of valuation, $12 per share.

Risks

- **Drawn Out Recession.** The company is prepared for recessionary pressures to be put on their business as it is possible that companies will cut their expenditures or put them off to another period. Their strong financial position will allow DY to make it through the projected recession, but if the downturn drags on for longer than management plans for, it could be detrimental to business.
- **Dependence on Large Clients.** The top five clients make up approximately 64% of Dycom's revenues. DY currently has a good position in the industry with the services they provide and their national exposure, but a loss of a large customer could significantly affect the financial health of the company.
- **Growing Wireless Industry.** The recent trend of providers and customers towards wireless telecommunications services does not fit Dycom's current business model. Wireless applications could displace the wire line systems that Dycom installs, meaning they would be able to update equipment and network without the need of Dycom's services. Also, in this case there would be no materials needed to be replaced because of obsolescence or damage.
- **Contracting Margins and Pricing Pressures.** Many times the company with the lowest price receives a contract. This can cause price wars between competing firms in Dycom's industry (mainly MTZ, MYRG, and PWR). Also, cost of sales due to higher gas prices (50 bps) and general & administrative expenses due to increased legal fees caused their margins to contract during fiscal year 2008.

Management

Steven Nielsen has served as chairman and CEO since 1999. He has steered DY through economic downturns in the past with little damage done to the company. In 2006 Nielsen was not allowed a bonus because of weaker performance during that fiscal year, this shows good corporate governance on behalf of Dycom.



Ownership

% of Shares Held by Insiders:	1.93%
% of Shares Held by Institutional & Mutual Fund Owners:	94.88%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Fidelity Management	4,266,530	10.41%
Jeffrey Gendell	4,018,099	10.21%
Barclays Global Investors	3,475,547	8.83%
Buckhead Capital Management	1,880,619	4.78%
Vanguard Group	1,273,522	3.23%

Source: Bloomberg

Lufkin Industries
LUFK
Price: $35.04 ($31.37-$95.23)
Fiscal Year Ends: December 31

January 26, 2009
Russell 2000 Index: 444.36 (371.30-764.38)

Stanley Nunoo
Energy Sector

Lufkin Industries Inc. (LUFK) is a leading global provider of industrial applications and oilfield service equipment. LUFK operates through three business lines: Oilfield Service (66.5%), the Power Transmission segment (26.5%) and the Trailer segment (6.9%). The Oilfield Services segment manufactures and services pumping units and provides analytical testing services to ensure pumping efficiency. The Power Transmission segment manufactures and designs gearboxes for industrial applications and the Trailer segment manufactures highway trailers for the freight trucking industry. LUFK was founded in 1902 and is headquartered in Lufkin, Texas. The company has operations worldwide with satellite locations in Canada (5.6%), Europe (8.2%) and Latin America (13.9%) and has 2,700 full-time employees.

Recommendation

Despite the substantial decline in energy prices, LUFK is strategically positioned to continue growing while improving market penetration in the oil & gas utility industry. In 2008, LUFK benefited from a period where there was a dramatic increase in the domestic demand for pumping units. By the end of 2008, the U.S. oil-related rig count increased 30% YoY. Increases in domestic production rigs over the past five years helped lead to a 21.3% growth in net revenue and 18.5% CAGR in net earnings. Market acceptance for LUFK's products and services, a year of rising oil prices, and increased unconventional shale plays in the Bakken Shale region all played integral roles in the company's performance and helped increase the firm's backlog to $280 million in Q3 of 2008, representing 28% sequential and 135% YoY increases. Even though there is a significant amount of near-term commodity price volatility, management remains optimistic about 2009 production and sees backlog revenue visibility through the first five months of 2009. In addition, the on-site foundry system that LUFK utilizes in order to manufacture its products has been instrumental in the vertical integration process which allows LUFK to provide low-cost products to its customers. This helped drive margin expansion (28% gross margin and 18% operating margin in 2007) while allowing the firm to gain market share over its main competitors: Citation Corp., CE Franklin and INTERMET. Due to the recent sell-off that has been seen in the commodity market and the near-term price uncertainty with oil, it is recommended that LUFK be watched in the future for potential addition to the AIM Fund.

Key Statistics	Jan. 26, 2009
Market Cap	$500.47M
Shares Outstanding	14.86M
Ave. Volume (3 month)	276,236
Beta	1.24
EPS (TTM)	$5.42
2009 Estimated EPS	$5.04
P/E (TTM)	6.22
PEG Ratio	0.42
WACC	12.92%
Debt/Assets	0.00
ROE	20.82%
ROA	15.96%
Gross Margin	27.86%
Operating Margin	17.97%
Analyst Coverage	4
Dividend Yield	2.97%
Target Price	$52.00

Source: Bloomberg

Investment Thesis

- **Superior Segment Performance.** LUFK's Power Transmission segment provides the firm with greater market diversification and growth potential in areas apart from just oil and natural gas. Due to the nature of this segment's business, it is not as closely tied to the volatility of oil and gas prices and offers LUFK opportunities in both general industrial applications (i.e. mining, metal

processing, tire production, sugar mills and hydroelectric generation systems) and alternative energy plays. In Q3 of 2008, revenue from this segment grew 17.4% YoY to $48 million while the backlog for this segment increased 12% from its 2007 figures. In the absence of the Trailer segment, management is confident in the diversified outreach of the Power Transmission segment to continue to work in the company's favor and lead to a stronger bottom line.

- **Dependability.** LUFK has a global network of oilfield operating services that are geared toward minimizing the downtime of its customer s' operating cycles. The expert knowledge of the firm's technicians is well diversified, allowing them to service/repair all makes of equipment, apart from just the Lufkin brand. Also, the firm's global locations allow service technicians to be able to provide on-site services within 24 hours of request at any location worldwide.
- **Sound Capital Resources.** With no debt and $110.2 million of cash on its balance sheet, LUFK is an excellent financial position. The firm also has an untapped revolving line of credit of $40 million. Management is confident that the cash flows from operations will be able to fund its operations, dividend payments and any foreseeable company acquisitions in the future.

Valuation

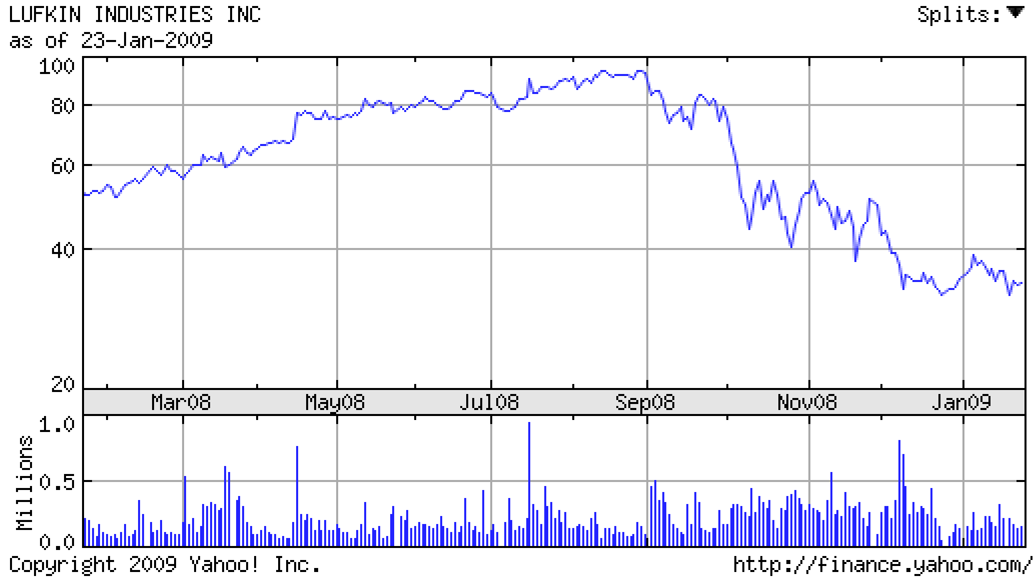
A 5-year DCF valuation with a calculated WACC of 12.92% and a terminal growth rate of 3.0% led to an intrinsic value of $51.91. Adjusting for best and worst case scenarios with the long-term growth rate ranging from 2.5% - 4.5% and a WACC ranging from 11.0% - 15.0% yielded a price range of $25.05 - $62.63. Based on a 2009 EV/EBITDA multiple of 4.29x in-line with management expectations a price target of $56.87 was obtained. A P/E multiple of 11.7x 2009 EPS estimates yielded an intrinsic value of $59.31. Taking into consideration the current volatility that has been seen in regards to the price of oil and natural gas, a conservative target price has been set at $52. With the stock currently trading at $33.69, the $52 price target present a 54% return. LUFK also has a dividend yield of 2.97%.

Risks

- **Suspended Trailer Segment.** In response to the steep decline in the trucking industry, on January 14th, 2008 LUFK announced that it will suspend its participation in the commercial trailer markets and focus more on the core energy markets. This sector has been historically cyclical with the general conditions of the economy. Even though this segment accounted for only 7.0% of total 2007 revenues, the inability of LUFK other segments being able to "pick up the slack" would have a negative effect on future profitability.
- **Oil Prices & CapEx Spending.** Sales from the Oilfield Services segment accounts for 66.5% of the firm's total revenue. With oil prices currently hovering in the low $40/bbl range there will undoubtedly be more declines in CapEx spending from many of LUFK's mid-level E&P customers. This raises questions about LUFK's ability to maintain profitability with current oil prices below customers' economic threshold of $60-$70/bbl.

Management

Lufkin Industries is led by President and CEO John F. Glick. Mr. Glick has been a senior officer of the company since 1994 and has spent time serving as the General Manager for Lufkin's Oil field and Power Transmission Division. Both he and the current CFO C.L. Boone have played an instrumental role in helping the firm to continue to gain market share in the oil & gas utility industry.



Ownership

% of Shares Held by Insiders:	3.85%
% of Shares Held by Institutional & Mutual Fund Owners:	91.88%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Eagle Asset Management	1,434,121	9.65%
Barclays Global Investors UK Holdings Ltd.	1,004,987	6.77%
NFJ Investment	791,100	5.33%
Keeley Asset Management	724,000	4.87%
Allianz Global Investors of America L.P.	716,100	4.82%

Source: Bloomberg

Computer Programs & Systems Inc.
CPSI
Price: $22.65 ($17.07-31.00)
Fiscal Year Ends: December 31

January 26, 2009 Caitlin Gerdes
Russell 2000: 444.36 (371.30-764.38) Business Services Sector

Computer Programs & Systems Inc.(CPSI) is a leading healthcare information technology company that designs, markets, installs and supports computerized information technology systems for small and midsize hospitals (300 or fewer beds). Their products and services provide solutions in the areas of patient management, financial management, patient care and clinical, and enterprise and office automation. CPSI's revenue is derived by three segments: Support & Maintenance (44.2% Q3 revenue), System Sales (35.4%) and Business Management Services (20.4%). The company employs 863 trained personnel at their offices in Mobile and Lanett, Alabama. CPSI was founded in 1979 and is headquartered in Mobile, Alabama; they have grown to serve over 640 hospital customers across 46 states and the District of Columbia.

Recommendation

CPSI is well positioned to capitalize on the increasing demand to create strong information technology infrastructure within hospitals across the United States. Over the past few years, management has helped to penetrate nearly 65% of the clinical market and 40% of the point of care market. They also boast a strong cash position of $12.5M (Q308), which has been used to increase shareholder wealth through a quarterly dividend of $0.36 (6.36% yield). Over the past five years, management has been able to grow revenue and net income at a CAGR of 8.3% and 3.9%, respectively. Despite weakening credit conditions, management has seen little change in the sales cycle (DSO 45 days) as most clients receive financing without accessing the traditional credit markets. CPSI maintains a competitive advantage as evidenced when it received the Certificate Commission for Healthcare Information Technology (CCHIT) for their inpatient electronic medical record (EMR) product in 2007. Therefore, because of CPSI's proven ability to gain market share and expand its offerings during a time when information technology is becoming necessary across the healthcare system, it is recommended that CPSI be added to the AIM Fund with a target price of $30, presenting a 32% upside.

Key Statistics	Jan. 26, 2008
Market Cap	$246.54M
Shares Outstanding	10.88M
Ave. Volume (3 month)	157,605
Beta	.92
EPS (TTM)	$1.35
2009 Estimated EPS	$1.55
P/E (TTM)	16.78
PEG Ratio	1.16
WACC	10.47%
ROE	33.51%
ROA	26.27%
Gross Margin	43.80%
Operating Margin	20.21%
Dividend Yield	6.36%
Analyst Coverage	10
Target Price	$30.00

Source: Bloomberg

Investment Thesis

- **American Recovery and Reinvestment Plan.** The U.S. House of Representatives recently introduced an economic stimulus bill for vote that would provide over $20 billion for health information technology initiatives. As a part of this bill, competitive grant programs will be created to foster growth of healthcare IT, as well as increase reimbursement for Medicare and Medicaid providers that utilize certified electronic health records.
- **Increasing Healthcare Expenditures**. According to the Centers for Medicare and Medicaid Services, the U.S. is projected to spend $4.14 trillion on healthcare by 2016, representing an estimated 19.6% of U.S. gross domestic product. Hospital services, which currently include

information technology, represent 31% of healthcare expenditures. In order for hospitals to operate in an efficient manner and satisfy the needs of their patients, they will look to employ digital technology on an enterprise-wide basis. CPSI will be able to capitalize on this increase spending as hospitals will use EMR systems.

- **Defined Target Market.** CPSI defines its target market as acute care community hospitals with 300 or fewer beds and small specialty hospitals. According to the American Hospital Association, there are approximately 4,900 hospitals within CPSI's target market. As of Q308, the company had penetrated 65% of the clinical market and 40% of the point of care market. The company is well positioned to continue to capitalize on this small target market since these hospitals are more apt to employ an enterprise-wide system versus larger hospitals that struggle to implement them.
- **Enterprise-Wide, Fully Integrated Application.** Unlike its competitors, CPSI has created a product that includes the computer hardware, peripherals, forms and supplies used in the comprehensive network. Once the customer purchases the product, CPSI personnel convert the data to digital without the interruption of the employees of the hospital. The system utilizes one central database where information is stored and used by all of the software applications.

Valuation

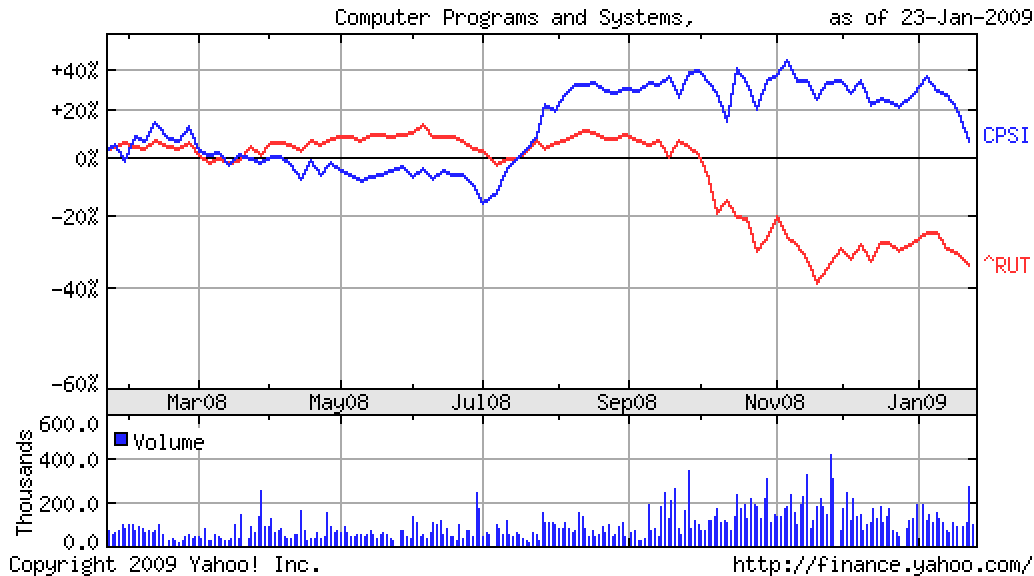
CPSI is currently trading at 16.8x TTM EPS of $1.35. A conservative historical P/E average of 19 times the 2009 EPS estimate of $1.55 resulted in a $29.45 price target. Based on a 10 year DCF analysis with a WACC of 10.47% and a terminal growth rate of 3%, an intrinsic value of $30.77 was obtained for CPSI. A sensitivity analysis that adjusts both the long-term growth rate (2-4%) and the WACC (9.00-12.00%) generates a price range of $23.66-47.84. A price target of $30 is set on CPSI. With the stock currently trading around $22, the $30 price target would yield a 32% return.

Risks

- **Stall in Legislation.** If the American Recovery and Reinvestment Plan experiences delay in being passed by congress, many community hospitals will not receive support to help start information technology initiatives. As a result, CPSI could be adversely affected.
- **Change in Medicare & Medicaid.** Medicare funding and reimbursements fluctuate year to year, and the anticipated growth in healthcare costs, will continue to be scrutinized as the federal government will attempt to control the costs and growth of the program. The Deficit Reduction Act of 2005, which included cuts of $6.4 billion and $4.7 billion from Medicare and Medicaid, respectively, from 2006-2010 could continue to hurt hospitals that accept these programs.
- **Heightened Competition.** As a result of a stronger emphasis being put on digital healthcare in the U.S. by President Barack Obama, there has been increased competition in the healthcare services industry. Some of these companies, including McKesson Corporation and Siemens Corporation, are significantly larger than CPSI.
- **Government regulation.** State and federal laws regulate the confidentiality of patient records under which they may be released. As a result, CPSI may be forced to implement new security measures compliant with HIPAA that would also require them to update their software applications of existing customers to comply with these laws. This could significantly affect the operating costs of the company.

Management

J. Boyd Douglas has served as President and CEO since May 2006 and was elected as a director in 2002. He first began his career with the company in August 1988 as a Financial Software Support Representative. Despite having a relatively younger management team, the senior management team has an average tenure in excess of 15 years.



Ownership

% of Shares Held by Insiders:	15%
% of Shares Held by Institutional & Mutual Fund Owners:	80%

Source: Bloomberg

Top 5 Shareholders

Holder Name	Shares Held	Percent of Share Outstanding
Barclays Global Investors	923,711	8.49%
Kayne Anderson Investors	747,782	6.87%
Muscat M Kenny	540,487	4.97%
Investment Counselor of Maryland	495,600	4.55%
Franklin Templeton Portfolio Advisors	479,676	4.41%

Source: Bloomberg