Siena Market Line
3rd week of April 2016

Air Methods Corporation

NASDAQ: AIRM

Analyst: Marianne Staudt
Sector: Services

BUY

Price Target: $44.04

Key Statistics as of 4/3/2016

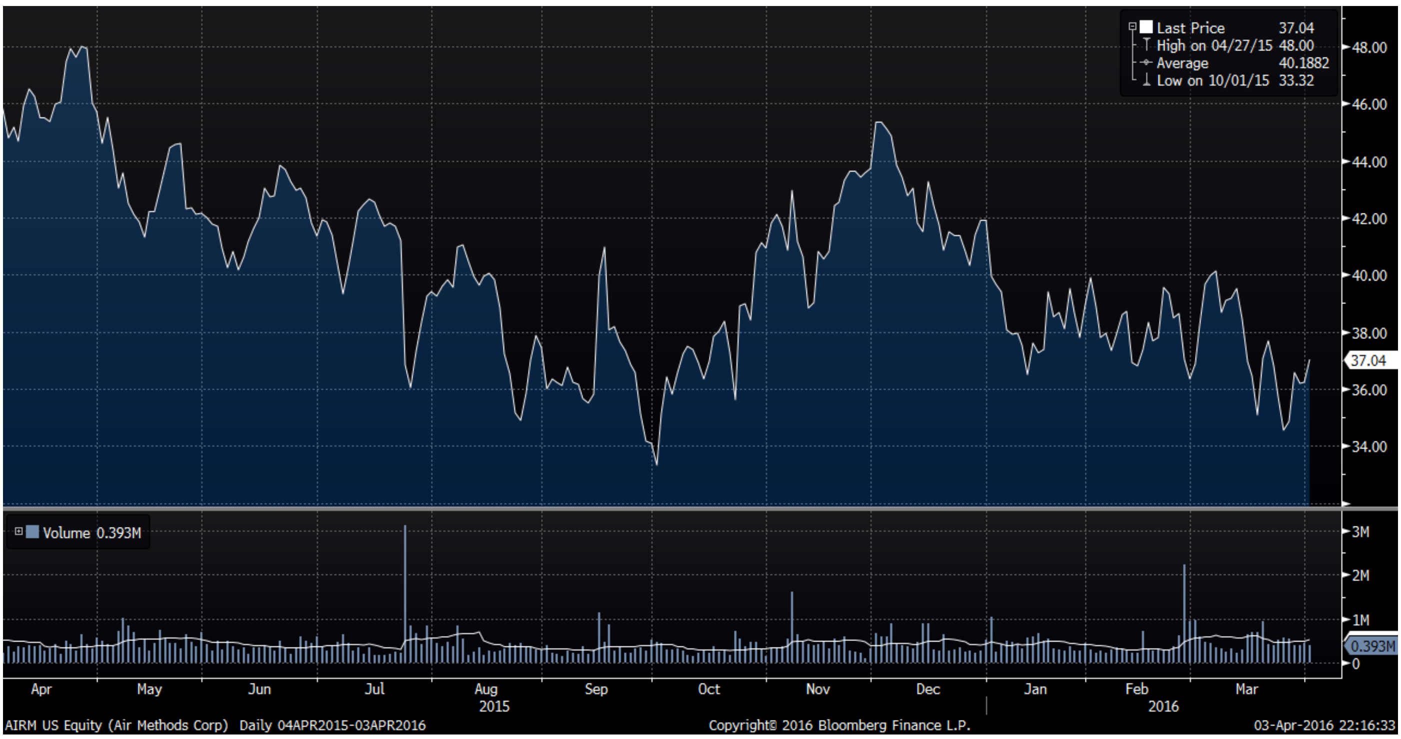
Market Price:	$37.04
Industry:	Air Services
Market Cap:	$1.39B
52-Week Range:	$32.81-48.91
Levered Beta:	1.38

Thesis Points:

- Air Methods is experience rapid organic as well as inorganic growth, coupled with improving margins.
- Acquisitions will drive growth in the future.
- Air Methods has the resources and capabilities to remain competitive and increase their market share.

Company Description:

Air Methods Corp. (AIRM) is the largest provider of air medical emergency transportation services in the US with 29% market share. Together, with its subsidiaries, it provides air medical emergency transport services and systems in the United States. The company operates in the Air Medical Services (AMS), Tourism, and United Rotorcraft (UR) segments. It was founded in 1982 and is headquartered in Englewood, Colorado.



Thesis

Air Methods is a top-of-class company. It is the largest air medical transport company in the world, and with its market share hovering around 30%, it still has room for growth. The company is experiencing rapid growth, through both volume increases and acquisitions. Additionally, it has managed to consistently improve its margins year to year. Air methods commitment to growth and acquisitions will drive future expansion and success. Air Methods has the resources and capabilities to remain competitive and drive both firm and shareholder value in the future.

Business Model

Air Methods Corp. operates in three air transportation business segments; Air Medical Services (AMS), Tourism, and United Rotorcraft (UR). The AMS segment makes up the largest portion, 86%, of Air Methods revenues and provides air medical transportation services to both the general population as an independent service and to hospitals and other institutions under exclusive operating agreements. As of December 31, 2015, this segment's aircraft fleet consisted of almost 500 aircrafts; 321 company owned, 92 leased, and 54 owned by AMS customers and operated by the company under contracts. The tourism segment is the second largest segment, and makes up 12% of revenue. It provides aerial tours and charter flights of the Grand Canyon and the Hawaiian Islands. It operates 65 helicopters and 2 fixed winged aircrafts. The UR segment designs, manufactures , installs, and certifies aircraft interiors and other aerospace and medical transport products, as well as offer quality assurance and certification services. It makes up only 2% of Air Method's total revenue.

Industry Outlook

The airline industry is pretty much controlled by a few major players, and has very high barriers to entry. However, air emergency medical transport services is a niche market within the airline industry that the major incumbent players will not take advantage of. Air Methods is the largest provider of air medical transportation services in the $4 billion US market. It is uniquely positioned to take advantage of this niche market within the airline industry, and if it keeps up its performance, is likely to continue to grow and seize market share. Air Methods has a very strong advantage in that it serves a niche, market that major commercial airlines stay away from die to its relative unpredictability [compared to their business]. Air Methods is situated in a growing market; the ambulance-services industry is forecasted to grow at a CAGR of 3.2% over the next five years, due in large part to the aging population. Over the past three years, Air Methods revenue growth has averaged 15.1%, above the air industry's top line growth of 12.6%. With the percentage of Americans in the senior age group expected to grow from the current level of 14.1% to 19.3% over the next five years and the macro environment favorable for air, this growth is likely to continue moving forward.

Tourism Acquisitions

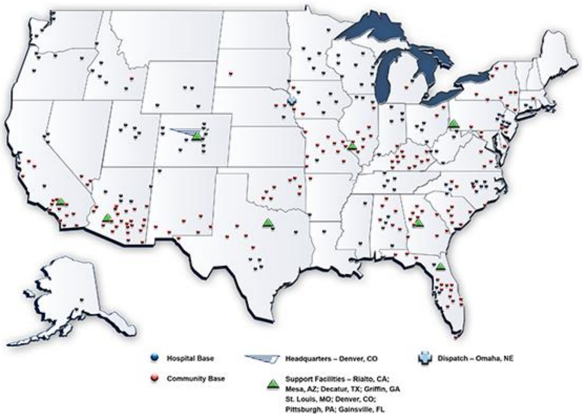
While the tourism business is relatively small, representing just 12% of revenue, it is a growing business segment. In December 2012 Air Methods acquired Sundance Helicopters, a flight service company with 30 copters, for $44M. Sundance provides scenic flights from Vegas to the Grand Canyon, the Strip, and the Hoover Dam. The investment has paid for itself, as the company's tour numbers grew by 10 percent the following year, and continue to grow. McCarran officials said Sundance carried 190,870 passengers in 2013. This success encouraged Air Methods consider further expansion and acquisition. A year later, in December 2013, Air Methods acquired Blue Hawaiian, which is now the largest tour operator in Hawaii with 27 copters. Both acquisitions have increased revenue, and the tourism segment brought in nearly $128M in 2015. While the revenue realized from the tourism business is substantially lower than that brought in by medical services, the acquisitions have additional benefits. The aircrafts used by both Sundance and Blue Hawaiian are a common fleet also used in the AMS segment of the business. This allows the flight crew to overlap, allowing AMS pilots to have four times the flight hours for year. This creates operational synergies and purchasing power and demonstrates the Air Methods management is committed to keeping costs down and running a lean business model.

Avenues for Growth

In 2015, Air Methods acquired 33 aircrafts, totaling nearly $127M, representing the highest level of aircraft purchases in the company's history. This investment makes the Air Methods fleet among the youngest in the country, at an average age of 10 years. Although the initial investment in new copters was steep, it will pay off, as this young fleet will realize lower maintenance expenses year to year.

Maintenance expense per flight hour for tourism is expected to decrease 12% in 2016.

Additionally, In March 2015, Air Methods signed an agreement for the purchase of 200 helicopters, one of the



largest orders ever made in the industry's history. The deliverables began in 2016, with a 10 year contract term. These helicopters will allow Air Methods to increase its presence, and market share, in areas where it remains underpenetrated.

As a result of this expansion, the company is expected to increase revenue by $70 million in 2016. While this large purchase comes at a cost, the contract is subject to early termination should the demand for ambulance services decrease, although, as aforementioned, the opposite is expected. This early termination right decreases Air Method's operating risk over the upcoming period.

Organic Growth

Tourism generated 10% organic revenue growth in 2015 fueled by an increase of approximately 7% in passenger volume and price increase. Moving forward, management budgets slightly above 7% growth in passengers served within tourism operations in 2016. Air Methods also plans on growing revenues organically through hospital based conversions, new base openings, same-base request and related transport growth, and increasing its net revenue per transport.

Inorganic Growth

In addition to growing organically through increased volume and higher prices, Air Methods is also experiencing pursuing growth enhancing accretive acquisitions. In January 2016, it closed the acquisition of Tri-State Care Flight, a regional Air Medical Services provider, with a $222.5M price tag. This acquisition is supposed to have a large upwards impact on earnings. It is expected to be accretive to EPS by $0.20 in 2016 and $0.30 in 2017. Additionally, the Tri-State acquistition should have a positive effect on net revenue per transport, because they do longer range trips. Due in large part to the acquisition, total community-based transport are expected to increase by 20%. Air Methods is also dedicated to growing its tourism business by exploring adjacencies in this space and potential expansion of the company's existing air tourism business.

Share Repurchases

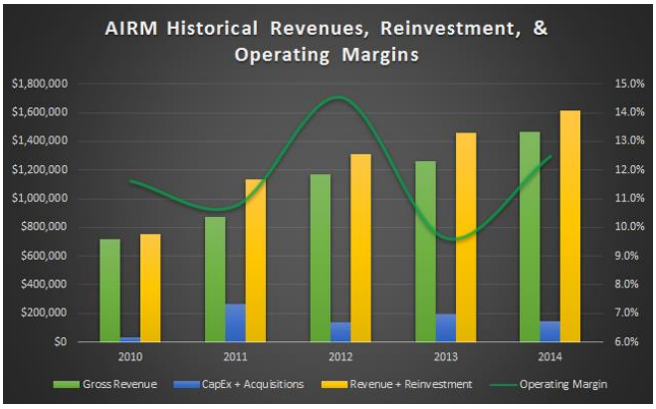
In the fourth quarter of 2015 and first quarter of 2016 to-date, AIR methods completed $26 million in share repurchases at an average share price of $40.47. This demonstrates that not only does management recognize that their company is undervalued, but that they are committed to returning capital to their shareholders. In their 2015 Q4 earnings, management announced that they will continue to improve shareholder value by continuing to repurchase shares opportunistically. Air Methods has an additional $174M of share repurchases authorized. Air methods board and management team are working with financial advisors to consider all potentially value enhancing opportunities for Air Methods shareholders.

Risk Management

One of the largest influences on Air Methods margins and bottom line is the price of jet fuel. Presently, wholesale Jet-A is running nearly $0.46 below prior year average levels. Therefore, Air Methods has anticipated greater fuel expense in 2016, as it would be irresponsible to assume prices will remain at these historically low levels. In order to protect itself from the risks associated with fuel price increases, Air Methods has hedged nearly all of its anticipated 2016 fuel needs, protecting it from wholesale fuel cost per gallon above $1.19. [Current jet fuel price is around $0.94 per gallon].

Financials

In 2015, all three of Air Method's operating segments achieved improvement in both revenue and earnings. Air Method realized a 10% increase in income from operations on revenue growth of 8% for the year, demonstrating improved margins.



Air Methods generates very strong margins and cash flow, which have allowed it to invest heavily in upgrading its fleet and buying out aircraft leases on attractive terms.

	2010	2011	2012	2013	2014
EBITDA	**$146.5**	**$189.7**	**$254.2**	**$201.6**	**$264.5**
Margin	*26.1%*	*28.7%*	*29.9%*	*22.9%*	*26.3%*
Discretionary Free Cash Flow	**$106.4**	**$116.4**	**$152.7**	**$148.1**	**$181.4**
Margin	*18.9%*	*17.6%*	*17.9%*	*16.8%*	*18.1%*
Aircraft Purchases	(13.7)	(21.5)	(27.0)	(62.4)	(119.8)
Lease Buyouts	(21.4)	(35.2)	(65.7)	(57.5)	(28.8)
Return on Invested Capital	8.7%	7.7%	11.5%	7.5%	10.3%

Additionally, EBITDA from continuing operations increased 9% from 2014, after around $3.5M of incremental expenses associated with acquisitions, accidents, and severance.

In 2015, Air Methods took on an additional $74M in debt, related to the acquisition of hospital programs ($65M), new aircraft additions ($127M), and the buyout of aircraft leases ($18M). Because this debt is being used to finance growth activities, it will lower Air Method's WACC, therefore increasing ROIC/WACC and creating value. Additionally, the company has the ability to take on additional debt to fund future growth;

It has $180M of availability under delayed draw term loans and $100M of availability from its revolving line of credit. Its Peg ratio of less than 1 demonstrates that even with the high levels of growth expected, Air Methods still appears to be undervalued.

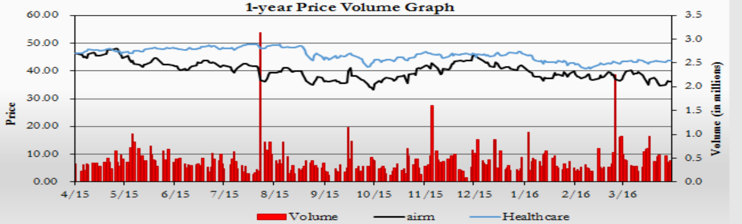
Conclusion

Air Methods has a ton of potential, and has several factors that are driving future growth. With a current price hovering around $37, and a 1 year target price of $44.04, Air Methods offers a return of 18.91%, with a probability of price increase of 91%, making it a BUY

Air Methods Corp. (airm) — CENTER FOR GLOBAL FINANCIAL STUDIES — NEUTRAL

Analysis by Marianne Staudt	Current Price:	$37.04	Intrinsic Value	$39.91	Target 1 year Return: 18.91%
4/16/2016	Divident Yield:	0.0%	Target Price	$44.04	Probability of Price Increase: 91%

1-year Price Volume Graph



Description

Air Methods Corporation, together with its subsidiaries, provides air medical emergency transport services and systems in the United States.

General Information

Sector	Healthcare
Industry	Healthcare Providers and Services
Last Guidance	November 3, 2015
Next earnings date	May 8, 2016
Estimated Country Risk Premium	5.52%
Effective Tax rate	40%
Effective Operating Tax rate	27%

Market Data

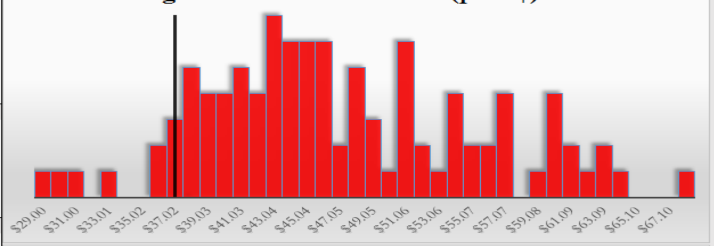
Market Capitalization	$1,436.35
Daily volume (mil)	0.39
Shares outstanding (mil)	38.78
Diluted shares outstanding (mil)	39.42
% shares held by institutions	55%
% shares held by investments Managers	108%
% shares held by hedge funds	6%
% shares held by insiders	8.82%
Short interest	29.05%
Days to cover short interest	24.02
52 week high	$48.91
52-week low	$32.81
Levered Beta	1.38
Volatility	38.09%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
12/31/2014	1.30%	11.24%
3/31/2015	1.35%	-3.82%
6/30/2015	-0.80%	0.08%
9/30/2015	7.52%	19.53%
12/31/2015	2.03%	-3.67%
Mean	2.28%	4.67%
Standard error	1.4%	4.6%

Peers

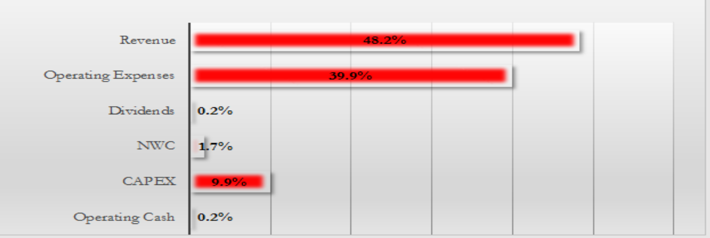
Target Price Distribution--P(price↑)=91%



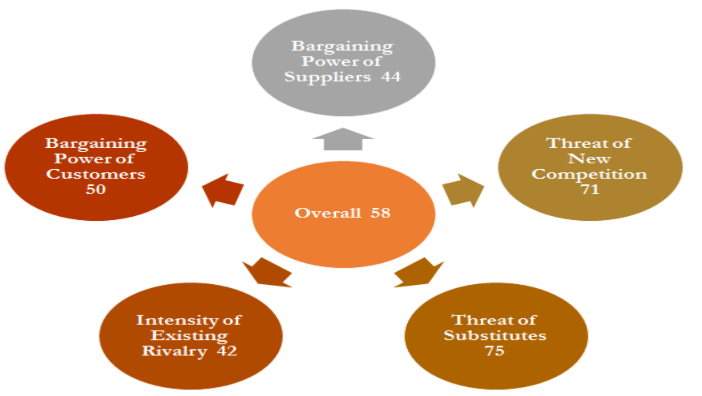
Management	Position	Total compensations growth	Total return to shareholders
Todd, Aaron	Chief Executive Officer, Dir	36.8% per annum over 5y	13.8% per annum over 5y
Carman, Trent	Chief Financial Officer and	32.36% per annum over 5y	13.8% per annum over 5y
Gordon, Crystal	Chief Legal Officer, Senior	59.24% per annum over 3y	12.72% per annum over 3y
Doerr, David	Executive Vice President of	84.13% per annum over 1y	-24.42% per annum over 1y
Allen, Michael	President of Domestic Air Me	40.52% per annum over 5y	13.8% per annum over 5y
McCall, Dennis	Director of Operations	N/M	N/M

Profitability	airm (LTM)	airm (5 years historical average)	Industry (LTM)
ROIC	13.8%	15.47%	10.76%
NOPAT Margin	18%	15.76%	5.3%
Revenue/Invested Capital	0.79	0.98	2.02
ROE	19.0%	21.56%	15.52%
Adjusted net margin	16%	14.04%	4.7%
Revenue/Adjusted Book Value	1.18	1.54	3.29
Invested Funds	**airm (LTM)**	**airm (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	0.4%	0.6%	16%
Estimated Operating Cash/Total Capital	0.4%	0.6%	N/A
Non-cash working Capital/Total Capital	24.3%	21.4%	2%
Invested Capital/Total Capital	100.5%	100.4%	79%
Capital Structure	**airm (LTM)**	**airm (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.49	0.47	0.58
Cost of Existing Debt	3.44%	3.75%	4.33%
Estimated Cost of new Borrowing	2.98%	3.29%	4.33%
CGFS Risk Rating	3.44%	BBB	A
Unlevered Beta (LTM)	3.27%	0.95	0.71
WACC	3.44%	7.52%	6.20%

Sensitivity Attribution Analysis



Porter's 5 forces (scores are out of 100)



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	8.1%	17.6%	1.72
12/31/2016	14.7%	10.4%	1.06
12/31/2017	6.0%	10.6%	1.04
12/31/2018	5.7%	10.7%	1.03
12/31/2019	5.3%	10.7%	1.06
12/31/2020	5.0%	10.7%	1.09
12/31/2021	4.7%	10.8%	1.11
12/31/2022	4.3%	10.8%	1.15
12/31/2023	4.0%	10.8%	1.17
12/31/2024	3.7%	10.8%	1.20
12/31/2025	3.3%	10.8%	1.23
Continuing Period	3.0%	10.7%	1.26

Period	Invested Capital	Net Claims	Price per share
Base Year	$635.23	$820.24	$40.31
12/31/2016	$961.27	$902.13	$45.28
12/31/2017	$1,075.31	$907.97	$50.77
12/31/2018	$1,247.82	$851.26	$56.59
12/31/2019	$1,380.02	$786.08	$62.55
12/31/2020	$1,573.88	$711.75	$68.65
12/31/2021	$1,793.88	$626.84	$74.90
12/31/2022	$1,954.05	$537.87	$81.26
12/31/2023	$2,060.67	$430.28	$87.72
12/31/2024	$2,165.83	$311.30	$94.24
12/31/2025	$2,268.78	$180.83	$100.80
Continuing Period			